



# Case: Alibaba

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- Jack Ma (Ma Yun) born in 1964 in Hangzhou, Zhejiang Province, China.
  - Richest man in China (18 in World)
  - failed the university entrance exam three times
  - 1988 graduated from Hangzhou Normal University in English
- In 1999, Jack Ma founded the website Alibaba.com, a business-to-business portal to connect Chinese manufacturers with overseas buyers.
- provides consumer-to-consumer, business-to-consumer and business-to-business sales services via web portals. It also provides electronic payment services, a shopping search engine and data-centric cloud computing services.
- In 2012, two of Alibaba's portals handled 1.1 trillion yuan (\$170 billion) in sales.
- Alibaba's market value was measured as US\$231 billion at its historic initial public offering (IPO) on September 19, 2014.
  - <http://en.wikipedia.org/wiki/Baidu>
  - [http://en.wikipedia.org/wiki/Jack\\_Ma](http://en.wikipedia.org/wiki/Jack_Ma)
  - <http://www.bloomberg.com/news/articles/2014-11-09/ma-says-alibaba-shareholders-should-feel-love-not-no-3>
  - <http://www.bloomberg.com/bw/articles/2012-06-14/jack-ma-is-the-loneliest-billionaire-in-china>
  - <http://www.economist.com/news/leaders/21573981-chinas-e-commerce-giant-could-generate-enormous-wealthprovided-countrys-rulers-leave-it>



# The famous IPO

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- Before the IPO: **“The world’s greatest bazaar”**
  - “Since then, Alibaba has come to dominate internet retailing in China, which will soon be the biggest e-commerce market in the world. It has moved beyond its original remit of connecting businesses to each other to ventures that let companies sell directly to the public (Tmall) and enable members of the public to sell to each other (Taobao). Between them, Taobao and Tmall processed 1.1 trillion yuan (\$170 billion) in transactions last year, more goods than passed through Amazon and eBay combined”
  - <http://www.economist.com/news/briefing/21573980-alibaba-trailblazing-chinese-internet-giant-will-soon-go-public-worlds-greatest-bazaar>
- **“An Insider’s Account of the Yahoo-Alibaba Deal;”** Harvard Business Review; August 6, 2014.
  - <https://hbr.org/2014/08/an-insiders-account-of-the-yahoo-alibaba-deal>
- During the IPO: **Alibaba Claims Title For Largest Global IPO Ever With Extra Share Sales;** Forbes; September 30, 2014.
  - <http://www.forbes.com/sites/ryanmac/2014/09/22/alibaba-claims-title-for-largest-global-ipo-ever-with-extra-share-sales/>
- After the IPO: **“Finding Alibaba: How Jerry Yang Made The Most Lucrative Bet In Silicon Valley History”**
  - “When the official history of Silicon Valley is (re)written, it will be hard to judge which of Yang’s achievements is bigger: starting Yahoo or betting early on Jack Ma, chairman and CEO of Alibaba.”
  - <http://www.forbes.com/sites/parmyolson/2014/09/30/how-jerry-yang-made-the-most-lucrative-bet-in-tech-history/>



# All's not well that ends not well.

- “Yahoo investors say ‘good riddance’ to Alibaba spinoff ;” Sept 29, 2015
  - <http://www.marketwatch.com/story/yahoo-investors-say-good-riddance-to-alibaba-spinoff-2015-09-29>



# The Alibaba phenomenon; China's e-commerce giant could generate enormous wealth—provided the country's rulers leave it alone

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- Alibaba's story so far has been one of canny innovation and a clear focus on how to win competitive advantage in China.
- “EBay may be a shark in the ocean,” Mr Ma once said, “but I am a crocodile in the Yangzi river. If we fight in the ocean, we lose; but if we fight in the river, we win.”
- The crocodile of the Yangzi, as he became known, started the company in 1999 with Alibaba.com, a business-to-business portal connecting small Chinese manufacturers with buyers overseas.
- Its next invention, **Taobao**, a consumer-to-consumer portal not unlike eBay, features nearly a billion products and is one of the 20 most-visited websites globally.
- **Tmall**, a newish business-to-consumer portal that is a bit like Amazon, helps global brands such as Disney and Levi's reach China's middle classes.
  
- Alibaba could grow even faster. By 2020 China's e-commerce market is forecast to be bigger than the existing markets in America, Britain, Japan, Germany and France combined.
- And although it is not about to challenge Amazon in America, Alibaba is expanding globally by capturing the spending of Chinese overseas and by moving into emerging economies.
- In this the firm is helped by **Alipay**, its novel online-payments system that relies on escrow (releasing money to sellers only once their buyers are happy with the goods received). This builds trust in societies where the rule of law is weak.

# Data is power (and it is also money)

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- Perhaps Alibaba's greatest untapped resource is its customer data. Its sites account for over 60% of the parcels delivered in China.
- It knows more than anyone about the spending habits and creditworthiness of the Chinese middle class, plus millions of Chinese merchants.
- **Alifinance** is already a big micro-lender to small firms; it now plans to expand lending to ordinary consumers.
  - In effect, it is helping liberalize Chinese finance.
  - China's big state banks, which channel cheap capital to state-owned enterprises, have long neglected everyone else.
  - The firm is using its online platforms to deliver insurance products too, and more such innovations are on the way.
- Alibaba thus sits at the heart of “bamboo capitalism”—the sprawling tangle of private-sector firms that are more efficient than China's state-owned enterprises.
- Risks:
  - 1. Governance needs to become even more transparent
  - 2. Foreign governments may try to restrict Alibaba
  - 3. Chinese politics: state banks already lobbying against Alibaba and the massive data base is frightening to the government.

## Recent stories

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- “Alibaba says Singles' Day sales surpass last year's \$9.3 billion total;” Yahoo; Reuters; Nov. 11, 2015
  - <http://news.yahoo.com/alibaba-says-singles-day-sales-surpass-last-years-074621123--sector.html>

# Yahoo decides against spinning off Alibaba

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- **Yahoo reverses course on plan to spin off Alibaba stake**
  - Reuters; 9 Dec 2015; By Deborah M. Todd and Anya George Tharakan
  - <http://news.yahoo.com/yahoo-scraps-plan-spin-off-alibaba-stake-120934952--finance.html>
- Yahoo Inc shelved plans to spin off its stake in Chinese e-commerce giant Alibaba Group Holding Ltd on Wednesday, under pressure from activist investors worried about billions of dollars in taxes, and said instead it is looking at creating a separate company to hold the rest of its assets.
- The decision, following three days of board deliberations last week, is an explicit rejection of Chief Executive Marissa Mayer's plan to spin off the Alibaba stake and may cloud her focus on reviving Yahoo's core business of selling ads on its popular news and sports websites.
- .....
- The new publicly traded company will house Yahoo's Internet business and its 35 percent stake in Yahoo Japan, worth about \$8.5 billion at current exchange rates.
- Its Alibaba stake, worth more than **\$30 billion**, accounts for the bulk of Yahoo's current market value of **\$32 billion**



# Potential questions

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- Alibaba began as a website to enable business to business sales and then added business to consumer sales. Now it is entering the search business. Why would they do that?
- Alibaba has thrived by understanding both the mechanisms of online retailing and some of the cultural differences that characterize those markets. What are some cultural issues that they addressed?
- What is Alibaba's recipe for extending its market outside of Asia?
- How do you assess the risks faced by Alibaba? What would you do to reduce some of that risk?