Yahoo! move will impact China's e-commerce

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Plans by Yahoo! to invest $1 billion for a 35-percent to 40-percent stake in Chinese B2B and auction firm Alibaba.com will change the competitive landscape in China's e-commerce market, analysts told United Press International.

The plans, confirmed Thursday, contain three critical elements, said industry insiders in Beijing:

-- the motivations of Softbank as a major investor in both Yahoo! and Alibaba.com;

-- what each of the parties stands to gain by partnering in the burgeoning vast potential of China's digital economy, and

-- the impact on the competition, particularly eBay.

"I think a key driver of the deal is Softbank's role as a connected party," said Duncan Clark, a managing director at BDA, an Internet and telecom consultancy. "Softbank is engaged in a vicious and very expensive fight with NTT in Japan for Softbank BB (broadband). Releasing cash from Alibaba, and freeing it from having to lead future rounds of investment, is very handy in this sense."

Since the story first broke on Sunday, Western and Chinese media reports have cited sources "familiar with the talks" saying the tech-centered Japanese capital-investment firm has played an important role in coordinating the discussions between Yahoo! and Alibaba.

Neither company will comment on the specifics of such speculation, but Softbank has invested $20 million in Alibaba over the last five years and also is the largest single outside shareholder in Yahoo!.

In its annual regulatory filing at the end of 2004, Yahoo! reported that Softbank owned roughly a third of its European and Korean units. Softbank also controls the largest stake in Yahoo! Japan, while Yahoo! holds about a third of that financial investment.

"By investing a billion dollars for a big stake in Alibaba, most of the Yahoo proceeds will go to Softbank as the largest shareholder," Clark noted.

An article in state-run Chinese media this week said negotiations between the two firms are nearing final stages, with the focus on details including contract conditions and prices.

That deal apparently was sealed Thursday. Yahoo! will have a 35-percent voting stake on Alibaba's board of directors while taking a 40-percent share of the firm. United Press International could not ascertain the 5-percent difference or where the money went by publication time.

Last month UPI reported that Alibaba, in Hangzhou, planned on hosting an e-commerce seminar in September, which now seems likely to chart a significant part of the future course for e-commerce in China.

That depends largely on the second element of the deal, namely the strengths and weaknesses each party brings to the relationship.

China's e-commerce market will top 620 billion yuan (more than $76.5 billion) in 2005, according to estimates given this week by Analysys International, a market research firm in Beijing.

"It is good timing for Yahoo! to make such move," Edward Yu, AI's chief executive officer, told UPI. "For years, Yahoo's China business took the back seat to the company's benchmark performance in the United States and Europe. The deal gives Yahoo! reach to Alibaba's 5 million Chinese small and medium businesses, (which) search for trading deals on their platform. This will help Yahoo! to cross-sell its business products and services to an established client base."

Yu added that the deal "gives Yahoo! a very solid launch pad into China's fast growing e-commerce and P2P auction market, profiting from the country's economic growth and expanding trading volume."

Alibaba was founded as a business-to-business platform between Chinese producers and foreign buyers by Jack Ma, a former English teacher turned tech entrepreneur. Ma, renowned for both his flair and endurance in e-commerce, claims his firm is the biggest B2B Web site in the world, and its auction site, Taobao.com, is the largest in Asia.

"Alibaba can hope to gain benefits from Yahoo's search and advertising capabilities for their existing paying users in China by the agreement," Clark said.

"Yahoo! is the owner of Overture and is able to drive ads for China based suppliers," he added, citing the profitability of paid searches.

Alibaba representatives told reporters Thursday the firm had revenues of $68 million last year, more than double its $30 million in 2003.

"Yahoo! can look to Jack Ma to integrate the two companies' businesses (and) provide the inspiration for a cross-border culture that has proved so elusive to Yahoo! and others," Clark said. "Foreign media companies need mainland citizens acting as legal persons for their China sites, due to ICP (Internet content provider) license restrictions. Jack can play that role, but also can be perceived as more than 'hired help' reporting to head office. He has the street credibility, charm and chutzpah that puts him on a par with the portal pioneers such as Ding Lei and Charles Zhang."

Regarding the overall competitive environment and development of e-commerce in China, Clark said the move by Yahoo! "raises the stakes for eBay in China, as it now faces a well-funded competitor that can draw on resources from other parts of the world."

He said the Yahoo! investment in Alibaba comes at a bad time for eBay, "given that they had been talking up the China card to investors as a key driver of future growth prospects."

Clark said eBay "had already raised eyebrows with the size of the war chest dedicated to marketing eBay in China -- $100 million, including ad spots on national TV, buses, et cetera -- which is hardly the 'viral' model that made them successful in America."