

Alibaba's rise: Success and setbacks

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In this April 21, 2013 photo, Jack Ma, chairman of the world's largest e-commerce group Alibaba, poses during a show at the annual Summit of China Green Companies in Kunming, in southwestern China's Yunnan province. Even before Alibaba went online, the founder talked about making the fledgling e-commerce company a global player. (AP Photo)

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At Alibaba Group's first staff meeting in 1999, a video shot by an

employee shows Jack Ma rallying a workforce of 17 of his friends. They met in a cement-floored apartment in Hangzhou, a city southwest of Shanghai, at a time when few Chinese were online. Ma was an English teacher with no training in business or computers.

"Our competitors are not in China but in Silicon Valley," says Ma in the video, which is included in a documentary about the company, "Crocodile in the Yangtze," made by a former Alibaba vice president, Porter Erisman. "We can beat government agencies and big, famous companies because of our innovative spirit."

Such Silicon Valley-style bluster was new to China, but Ma delivered. Over the next 15 years, he helped propel Alibaba through technical and financial challenges and a battle with eBay Inc. to become the world's biggest online bazaar. The company is now planning to list in the U.S. and analysts say its initial public offering this year may raise up to \$20 billion.

Last year, 231 million customers spent \$248 billion with merchants on Alibaba's platforms, more than Amazon.com Inc. and eBay combined.

Along the way, Alibaba had to develop e-commerce infrastructure its Western counterparts took for granted. Few Chinese used credit cards, so it created Alipay, a payments system that helped online sales win acceptance by allowing wary customers to receive goods before releasing money to sellers. The company worked with shippers to improve their reliability and held trade shows to persuade entrepreneurs to go online.

"Alibaba really created the e-commerce market in China," said Edward Yu, president of research firm Analysys International.

Today, the company's main platforms are its original business-to-business service Alibaba.com, consumer-to-consumer site Taobao and

TMall for brands to sell to consumers.

Alibaba has expanded into personal finance, games, video and other services. In March, it was one of 10 companies picked by Beijing to set up China's first privately financed banks since the 1949 communist revolution. It is dipping a toe abroad, with a \$215 million investment in March in Tango, a California-based mobile message service, and plans to launch a U.S. e-commerce site.

Alibaba's IPO paperwork says revenue, mostly fees from merchants, rose 57 percent in the final nine months of last year. Alibaba kept more than 43 cents of each dollar as net income.

In a Silicon Valley-style innovation, Alibaba cultivated a hardworking but playful corporate culture that was a novelty in China's state-dominated economy. An annual employee talent show grew into Alifest, a raucous event held in a soccer stadium before an audience of thousands. Ma takes part by singing Chinese pop songs.



In this March 17, 2014 photo, people walk past a company logo at the headquarters of Alibaba Group in Hangzhou, in eastern China's Zhejiang province. Even before Alibaba went online, its founder talked about making the fledgling e-commerce company a global player. (AP Photo)

"Alibaba allowed people to shape their own destiny instead of working for a state-owned company or the government bureaucracy," said Erisman.

The early years were a roller-coaster of successes and setbacks. In 1999, Alibaba raised \$5 million from investors including Goldman Sachs and then \$20 million from Japan's Softbank. Plans called for raising more through a stock market offering, but the Internet bubble burst in 2000 and interest in tech shares evaporated.

"We suffered much more than any other Internet company," Ma told the BBC in 2001.

The next year, Alibaba faced its biggest threat when eBay acquired EachNet, a company that had 80 percent of China's small consumer e-commerce market.

Ma fought back by launching consumer site Taobao and Alipay. He promised Taobao would be free for three years, undercutting eBay's fee-based model. In a guerrilla move to offset eBay's bigger advertising budget, Alibaba employees posted thousands of messages on Internet bulletin boards directing users to Taobao.

In 2004, then-CEO Meg Whitman said eBay expected China to be its

biggest market in 10 to 15 years. In 2006, eBay gave up and turned over its China operation to a local partner.

Taobao has given tens of thousands of small Chinese entrepreneurs their first foothold in e-commerce, trading used furniture, hand-knitted sweaters and other goods.

In the northwestern city of Urumqi, Jin Junhui started a business on Taobao in 2005 selling dates and raisins for which the region is famous. Sales in 2008 hit 500,000 yuan (\$80,000) and doubled the next year.

"Taobao has changed my life," said Jin, 32. "Now I have two employees and more free time to do what I like."

Alibaba's rise has been marked by Ma's emphasis on the company's long-term interests, even when that clashed with shareholders.

That strained ties with Yahoo Inc., which provided much-needed cash when it paid \$1 billion for 40 percent of Alibaba in 2005. The relationship soured in squabbles over strategy but Yahoo profited. Alibaba bought back half for \$7.1 billion in 2011 and Yahoo stands to make billions more in the IPO.

Alibaba also faced criticism in 2011 when it spun off Alipay but failed to tell Yahoo and other shareholders immediately. Ma said the move was necessary because Beijing would only license an electronic payment service wholly owned by Chinese citizens.

Ma stepped down as CEO in May 2013, but stayed on as executive chairman and also announced an overhaul to make Alibaba more responsive.

The changes come as Alibaba faces a challenge to its dominance amid

upheaval in China's Internet market, where users are shifting to going online via smartphone and tablet.

In e-commerce, Alibaba faces competition from Jingdong.com, which has one-tenth of its market share but a strong reputation for service. Jingdong.com received a \$215 million investment in March from games portal Tencent Holdings Ltd., which also owns a stake in an operator of logistics centers.

"Two years ago, I think Alibaba was quite successful. It had no competitor," said Yu of Analysys International. "But today things are quite different. Tencent definitely is a formidable power to challenge Alibaba's business."

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