

Chinese Entrepreneurship in the Internet Age: Lessons from Alibaba.com

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Abstract—The story of Alibaba demonstrates a credible example of how a small start-up company can eventually make it big in the global economy through the Internet. This case study does not attempt to present Alibaba as a perfect formula; rather, it discusses the strategies carried out by the firm and, in the process, culls out the important lessons that can guide start-ups and aspiring entrepreneurs in the complex world of online trading. Similar to the interesting and exotic Asian cuisine that continuously evolves from the diversity of Asia's people and their unique culture and personality, Alibaba has successfully transformed itself over the years, adapting to the changes in and demands of online business-to-business (B2B) commerce.

Keywords—Entrepreneurship, Electronic Commerce, Leadership, Business Model, Small and Medium Enterprises (SME)

I. HISTORY AND GROWTH OF ALIBABA

ALIBABA.com was founded by Jack Ma in 1998. It was not simply found through a straightforward “recipe.” Instead, it took various forms and changes, and is still continuously evolving even up to this day. Its story is as unique as the story of the man behind it.

A. Following Alibaba's history from the story of the man who built it

Ma was born in September 10, 1964 up in Hangzhou, China. He was 12 years old when he became interested in learning English. The backdrop of the Chinese Cultural Revolution and Ma's eagerness to learn what goes on beyond the confines of his neighborhood convinced him of his own exciting future. It does not mean that he abhorred his life in Hangzhou. He actually grew up knowing that China was the “richest and happiest nation in the world” [1]. The change in thinking did not happen overnight. It was not a story of a man deciding to take the quicker route by simply packing his bags and leaving for the big city.

Ma took his own sweet time learning on his own,

practicing his English, and devoting volunteer work as a tour guide for a hotel at West Lake, a tourist area in Hangzhou. For Ma, the work meant a forty-minute biking trip every workday. He patiently kept this routine for eight years [2].

In 1979, Ma met an Australian family. The friendship and regular correspondence led to Ma's month-long stay in Australia in 1985. What he saw and experienced in Australia confirmed what was slowly taking place in his mind: there is indeed a bigger world out there, a world that he can explore and beckon to his own liking.

However, it was not an easy ascent to his dreams. For one, he was still struggling with his education and career. It was as if failures enjoyed knocking on his door. He flunked his entrance examinations at Hangzhou Teachers University, not once but twice. After graduation, he ended up in a teaching job that paid him RMB100- RMB120 (about \$12-\$15) a month. He stayed with this job for five years. However, even with teaching experience, it was still difficult to find a job. He even applied for a secretarial job at Kentucky Fried Chicken but he was rejected.

In 1995, he became part of a business delegation (as an interpreter) to Seattle and that was when, through a friend, he discovered the Internet. In his own words, “We searched the word beer on Yahoo and discovered that there was no data about China. We decided to launch a website and registered the name China Pages” [2].

With borrowed \$2,000 and knowing nothing about computers, he established the company, which later competed with China Telecom (CT). They were later offered a joint venture by CT, but the deal did not last long. By his own admission, “it was like an elephant and an ant” [2]. Ma eventually quit from the venture and went to Beijing to promote e-commerce through a government group.

His appetite for e-commerce has grown by the time he gathered 18 friends in his apartment in 1999. From that meeting, \$60,000 was raised to start Alibaba, the name picked by Ma because of its popularity. The rest, as they say, is history.

B. Corporate structure of Alibaba

Figs. 1 and 2 illustrate the corporate structure of Alibaba before and after the restructuring in September 2006. Seventeen percent of Alibaba.com Limited is now owned by

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public shareholders. The rest of the shares are owned by the parent company, Alibaba.com Corporation, its employees, and consultants.

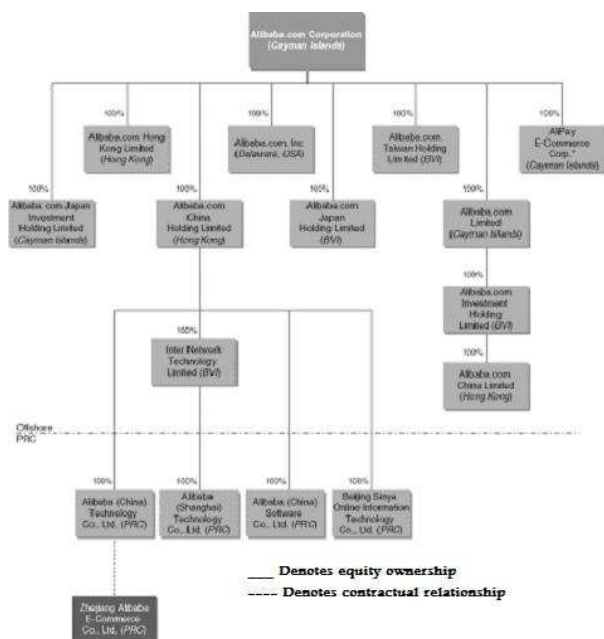


Fig. 1: Corporate Structure of Alibaba.com [3]

The restructuring, among other contributing factors, produced positive results in terms of customer base and revenues. There was about 305,000 paying users in 2007 compared with 219,000 paying users in 2006—an increase of about 39.26%. Revenues for 2007 reached about RMB2.2 billion from RMB1.4 billion in 2006, registering an increase of about 57.14% [4].

C. Alibaba Group of Companies

Alibaba.com is the flagship company of Alibaba Group. The company enables millions of buyers and suppliers to conduct business through the Internet and offers different platforms for different types of users. For instance, www.alibaba.com is designed for importers and exporters, whereas the Chinese platform, www.1688.com, is meant for domestic trade in China. Collectively, the Group deals with more than 53 million registered users in more than 240 countries and regions [4]. The table below shows the companies under the Group.

TABLE I ALIBABA GROUP OF COMPANIES [5]

Company name	Description
Alibaba.com	The site connects small- and medium-sized buyers and suppliers.

	It mainly focuses on global imports and exports. It deals with about 25 million members from over 200 countries and regions.
Taobao.com	Taobao.com is an online shop designed for consumers in China (with about 40 million registered users). It is similar to eBay because it allows transactions between individual consumers and sellers.
Alipay.com	Alipay.com is an online service that provides a secure venue where buyers and sellers can settle payments. It minimizes risks in online payment transactions because funds are held by domestic PRC banks (who offer escrow services).
Yahoo! China	Similar to its mother group, Yahoo!China provides email service in the Chinese language. It also provides information on finance, sports, lifestyle, and entertainment, and advertising services.
Alisoft.com	Alisoft.com develops and markets business and information management software that are useful for SMEs. It also has a special messaging feature called “TradeManager.”
Alimama.com	Alimama.com is an advertising platform where web publishers connect with advertisers, allowing them to generate revenue through website traffic and sales generated through advertisements.
Koubei.com	Koubei.com is a platform for classified ads, discussion forums, and other goods and services. It has about two million registered users.

II. JACK MA AND HIS THOUGHT LEADERSHIP

Many are still wondering about the kind of power Ma possesses. He was observed to have been talking fast and animatedly in a session of the World Economic Forum in September 2010 that “the translators couldn’t keep up with him and they kept tagging in-and-out because he exhausted them so quickly” [6]. It is tempting to categorize him as some kind of techie guru or a brilliant businessman with a keen instinct for profit but he is, on the surface, just a regular

guy who believes in simple principles.

A. Three core guiding principles of Alibaba

Jack Ma is an icon of new Chinese entrepreneurs. There are three core guiding principles for Ma to steer the Alibaba group during the tough and smooth economic times:

1. *Technology is not Alibaba's core competency.* Ma has repeatedly shared that "technology is not Alibaba's core competency, rather, it is the company's culture" [6]. Ma has always been candid about how he is not really a "techie" guy. The dotcom culture has become so pervasive that many people, particularly those in the IT business, would not even dare admit to not being techno-savvy. Ma, on the other hand, seems even proud to admit that he does not know much about technology, even admitting that he "can't write code and the most he can do is send and receive emails" [6]. This openness paints a picture of a bold leader who knows and enjoys his stuff but does not lose sleep over it if something goes awfully wrong.
2. *Customers come first, employees next.* Ma emphasizes that if he were to rank the company's priorities, shareholders come next only to their most important clients: customers and employees. According to Ma, shareholders are the first ones who scamper out the door with just the slightest indication of stock prices going down [6]. On the other hand, customers are the sources of the company's revenues; hence, it is to them that the company owes unparalleled loyalty. In addition, he sees employees as people who courageously stay even if the goings get rough.
3. *Small is beautiful.* This principle may seem ironic for a businessman who owns one of the largest e-commerce businesses in the world. However, Ma is a staunch believer of the cause of small and medium enterprises (SMEs). He underlined this when he said [7]: "Companies like Wal-Mart, these big-size buyers, killed a lot of SME buyers. But now most of the SME buyers and sellers started to do business throughout the world because of the internet. So I think the world has moved. I strongly believe small is beautiful". Looking at Alibaba's extensive network of SME users, it is apparent that Ma "walks the talk." Having struggled his way to the top, Ma understands what it means to be small. After all, Alibaba itself came into being so that small Chinese businessmen can reach out to the global market. Ma has definitely built an extensive e-commerce business, but he remains committed to his code: small is beautiful.

B. Story behind the name

As narrated by Ma himself, he dreamt of having an international company, so he picked a name that is known to

many nations. "Alibaba is easy to spell, and people everywhere associate that with 'Open, Sesame,' the command that Ali Baba used to open doors to hidden treasures in One Thousand and One Nights" (Fannin, 2008). In the popular adventure tale Ali Baba and the Forty Thieves, the character of Ali Baba represents the ideology that honesty and goodness in a man can bring him good fortune.

When it comes to business, the name certainly generates strong brand recall, and the success of Alibaba proves that choosing the right name for one's enterprise is crucial.

III. JACK MA AND HIS THOUGHT LEADERSHIP

In 10 short years, Alibaba.com has grown into a premier e-commerce brand and a vibrant online marketplace for businesses from around the world. Alibaba.com is prospering from a business model dedicated to serving a vital, but disadvantaged, segment of China's economy: SMEs. Fewer than 1 million of the nation's 42 million small and medium-sized enterprises have Internet capability. Alibaba offers simple and efficient Internet solutions for such companies.

A. Value proposition of and trading process in Alibaba

Alibaba's primary business goal is to provide efficient B2B e-commerce solutions to SMEs in China and the rest of the world. One of its useful features is a tool that can establish trust ratings for suppliers and buyers. This feature is important in a system where there is no physical interaction. Affordable subscription fees are also customized to the limited budget of SMEs, helping them grow their businesses with the usual marketing and advertising costs. Illustrations of Alibaba's value proposition and the trading process are in Figs. 2 and 3, respectively.

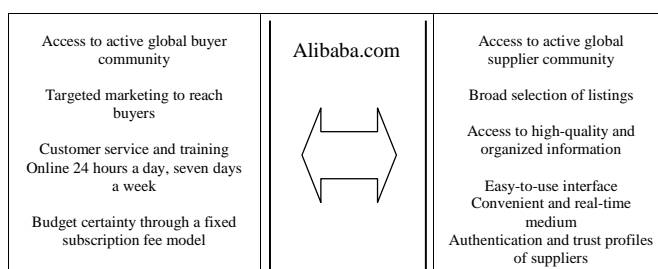


Fig. 2: Value Proposition of Alibaba [7]

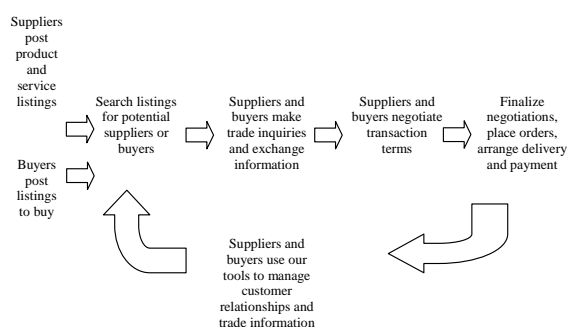


Fig. 3: Alibaba Trading Process [7]

B. Factors toward growth

Eight factors have contributed to the growth of Alibaba. They are:

1. *Enhancing the power of networking in B2B marketplaces.* According to Alexa.com, the number of users in Alibaba (international and China) made the platform the most-visited website in the world in two business categories—“E-Commerce” and “International Business and Trade”—based on user traffic for the three months ending on June 30, 2007 [4]. The company is creating and maximizing a “network effect” that helps attract users and expand business.
2. *Building a powerful brand.* The Alibaba brand has definitely become a household name. The name has achieved global recall mainly through word-of-mouth. Increasing awareness of the Alibaba brand further strengthens the company’s power to build a larger customer base and earn higher revenues.
3. *Focusing on the SMEs.* Alibaba’s focus on SMEs is an effective business strategy. This is based on the old saying, “There is strength in numbers.” By focusing on small businesses that would otherwise be left on their own, the company has created a solid “institution” that genuinely appreciates the situation of SMEs.
4. *Importance of building communities.* Most Alibaba users do not really have opportunities to meet face-to-face, but the platform has features that provide two-way and genuine interaction between buyers and sellers. They become “real people” who can talk through instant messaging, forums, and blogs.
5. *Strong sales and customer service teams.* Alibaba is now found in thirty cities across China and Hong Kong (they also have offices in Switzerland, United States, and India). Their sales and customer service teams now have more than 1,900 sales employees, 800 call center personnel, and more than 400 customer service employees.
6. *Continuing technology innovation.* Alibaba has a team of dedicated product development experts who never

rest on their laurels. They are always motivated to improve users’ experience through a relentless search for better and more innovative technology platforms.

7. *Competent management team and commitment to corporate culture.* The leaders behind Alibaba have strong backgrounds in e-commerce, Internet, technology, and sourcing industries. They also encourage their employees to embrace entrepreneurship, integrity, and passion in their work. Every Alibaba employee is trained in customer satisfaction, the core of Alibaba’s business.
8. *Diversification and strong relationship with the parent group.* The expansion of Alibaba Group naturally led to the establishment of other e-based businesses. Alibaba now has other subsidiaries and affiliates, such as Taobao, Alipay, Yahoo! China, Alisoft, Koubei, and Alimama. These groups are working together to match the needs of different customer segments.

IV. FINANCING AND FUNDING OF ALIBABA

The shareholders of Alibaba.com Limited authorized a share repurchase program at their Annual General Meeting on May 14, 2010. Under the program, the company will repurchase 504,404,419 shares representing 10% of the issued share capital of the company, as shown in Figure 5 [9]. The plan to offer stocks to the public seems the right step because it is generating much needed funds for the company. Going public may well be a business strategy that other e-commerce businesses can adopt.

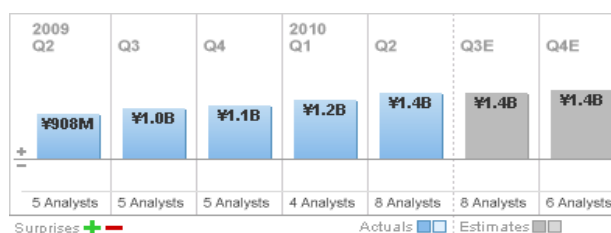


Fig. 4: Alibaba.com Limited’s Quarterly Revenues (2009–2010 Q2) [10]

Microsoft made an offer to buy Yahoo! in January 2008 at \$44.6 billion, but this offer was later rejected by Yahoo’s board. Alibaba, which runs Yahoo! China may have to negotiate for management control if Microsoft will make another offer. Yahoo! owns around 39% of Alibaba so Yahoo! is the largest shareholder, and this position gives Yahoo! an advantage in accessing the B2B platform of Alibaba. Recent pronouncements from Alibaba indicate a desire to buy its 39% stake back so it can have full control of the management.

Clearly, Alibaba is generating funds through revenues

from its online businesses and shareholding. However, it may have to review its strategies, particularly on up to what extent it can offer shareholders stakes in the company.

V. WEBSITE DESIGN OF ALIBABA

The Alibaba website (see Figure 5) is simply structured and clean looking. It has three main categories, namely, products, suppliers, and buyers. It allows users to have their accounts and manage their transactions through a drop-down menu with the heading, "My Alibaba."

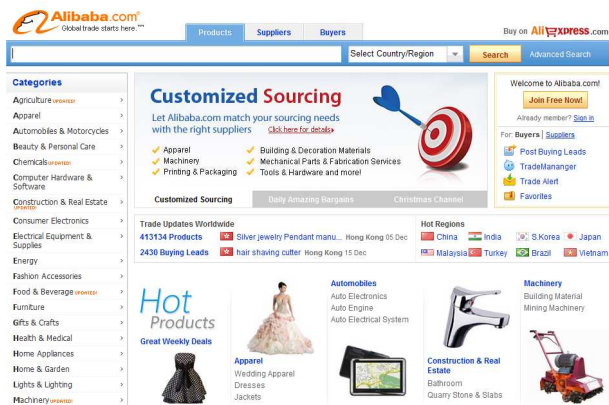


Fig. 5: Alibaba Website [5]

The listings display a wide range of products and services offered by Alibaba's users:

- *Basic features for buyers.* The website features several services for buyers. First, buyers can search through an extensive database of suppliers and listings specific to their needs. Second, registered buyers can subscribe to trade alerts that send buyer updates on their selected suppliers and listings. The subscription can be customized using appropriate keywords. Third, they can request for quotations and other information from potential suppliers by posting "buy" listings. A buyer can customize his buy listings and include specific keywords.
- *Basic features for suppliers.* With Alibaba's features, suppliers can practically have their own "mini-websites." First, registered suppliers can develop a storefront that can carry their company profiles, contact information, and a virtual showroom of their products and services. Second, they can also post product and service listings for free. The listings can show selling leads or product descriptions and photographs.
- *Customer relationship management.* Registered users can use available account management tools to manage their profiles, identification information, and online stores and listings. This function has a feature that allows users who have online accounts with Alipay to pay goods or

services bought through the site.

- *Communication.* Registered users can communicate with trading partners in real time through TradeManager, Alibaba's instant messaging tool.
- *Online forums, user groups, and blogs.* Alibaba also hosts online forums and user groups to foster interaction among its registered users. Registered users can also create their individual blogs.
- *Services and products for paying members.* Alibaba assists global importers and exporters to do business minus the staggering fees and overhead costs. It has different membership packages suitable for different users and the features and services they require.

VI. COMPETITIVENESS OF ALIBABA

Alibaba has become a globally competitive brand. Its competitiveness can be traced to several reasons:

- *Supporting China's economy through SMEs.* Alibaba's competitiveness is deeply rooted in its strong commitment to assist SMEs in B2B e-commerce. Its approach is extensively contributing to the growth of China's economy; as SMEs grow and expand their coverage, China's economy also grows.
- *Testing out and expanding in new markets; marketing through freebies.* The company, gaining confidence in its B2B platform, "has launched local versions of its B2B service in Japan, South Korea, and India" (Einhorn, 2009). It is also offering "freebies" to attract more customers and users. For instance, Alisoft is distributing free copies of ShopkeeperTM, a package that includes accounting, inventory management, and customer resource management tools.
- *Aggressive people-based sales approach.* Whereas others are closing shops, Alibaba and Ma are expanding worldwide. [11] reported that Alibaba was set to spend \$30 million in 2009 for marketing campaigns and the setting up of small offices in the United States and United Kingdom. The company was also said to have planned to hire 5,000 more employees in 2009, raising the head count of its workforce to 17,000.
- *Technology that allows users to sleep (with peace of mind).* The company is continuously developing high-level and complex systems that improve online transactions by putting in place adequate security measures. For example, the TrustPass of Alibaba gives the security that online customers demand. Alibaba also has an anti-fraud and anti-spam technology. The technology can detect and monitor fraudulent activities and filter spam messages. The IT team of the company is always working on ways to maintain and improve the accuracy and effectiveness of such technologies through

machine-learning capability and customizable rules.

In the digital economy, ideas are more highly valued than innovative technology.

VII. COMPETITION AND CONSTRAINTS

As in all businesses, certain constraints can either impede growth or be considered as stepping stones for greater heights. The following are brief discussions on possible constraints to Alibaba's further growth:

- *Horizontal coverage limits possibilities for vertical power.* Competitors, such as the HC360.com of HC International, include other e-commerce platforms. Alibaba is a general type of e-commerce platform so it focuses on the horizontal coverage of specific industries. For Alibaba, it is impractical to consider vertical coverage for various industries without risking its business model. Its strength lies in its extensive horizontal coverage of industries so it does not make sense to expand in areas that are better left to competitors. It also deals with indirect competition from other service providers, such as Internet search engines and traditional trading venues (e.g., trade magazines, shows, and exhibits).
- *Focus on SMEs also brings inherent problems.* As in most countries, the SME sector is prone to specific types of business malignancies. Alibaba.com is not immune to these. Chinese SMEs also deal with problems on credit and foreign exchange control, financing, deficient distribution networks, and shipping. These are mostly beyond the control of online platforms, even by platforms as big as Alibaba. Moreover, traditional businesses still consider online transactions with some doubt; they are still concerned about fraud and privacy issues.
- *Competition from similar platforms.* Alibaba is indeed big but it is still fighting a war with other competitors. Global Sources is among its closest rivals. Global Sources was originally a monthly trade magazine, but it eventually evolved into a widely-visited online business directory. It is said to have more than 647,000 buyers and 160,000 suppliers by the end of September 2007. It also operates 14 online marketplaces that deliver more than 23 million sales leads annually [10].
- *Leadership and management issues.* There is no argument that Ma and his management team are some of the best minds that this world ever produced. However, as in all organizations, Alibaba also deals with issues on succession and leadership. It needs to continue strengthening its ranks because e-commerce players are getting more aggressive each day. It also has to continue nurturing its talents to avoid mass exodus or even

intellectual piracy.

VIII. LESSONS AND INSIGHTS

The Alibaba experience offers important business lessons and insights. The following have been discussed earlier.

- *Enhancing the power of networking in B2B marketplaces.* Building networks is crucial in maintaining business success.
- *Building a powerful brand.* A powerful brand name is important to name recall and long-term success.
- *Focusing on SMEs.* Helping small businesses contributes to a stronger company and domestic economy.
- *Importance of building communities.* Buyers and sellers need to establish relationships, and e-commerce should provide venues for genuine interaction.
- *Strong sales and customer service teams.* Customer satisfaction should be the key driving force.
- *Continuing technology innovation.* Technology should continuously be improved.
- *Competent management team and commitment to corporate culture.* Companies should be committed, and happy employees deliver productive results.
- *Diversification and strong relationship with the parent group.* Businesses should always innovate and diversify but remain loyal to their roots.

Alibaba has made it possible for small businesses to thrive and for China to own a permanent and significant place in the history of e-commerce. Jack Ma has indeed cooked a "dish" that not only transformed traditional business "ingredients" but also tested new paradigms and "recipes."

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