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Executive Search & Board Advisory

4 BUSINESS LESSONS FROM ALIBABA



Is Alibaba the disruptor of the retail industry in China?

On September 19th, 2014 history was made by Alibaba. It had the largest IPO of all time, opening on the New York Stock Exchange with the market capitalisation of USD\$ 230 billion on the day. By March 7th, 2018 Alibaba's market capitalisation has reached USD\$ 480 billion and it has become one of the top 10 largest public companies in the world.

Even though many people hold the opinion that Alibaba is the Amazon of China, they are quite different in many ways. Unlike Amazon who owns various warehouses throughout different regions in the world, Alibaba originally focused on being a platform for suppliers to sell products in bulk at wholesale prices to small or medium-sized businesses worldwide through its website Alibaba.com.

Today, Alibaba Group has become one of the largest companies in China providing consumer-to-consumer (C2C), business-to-consumer (B2C) and business-to-business (B2B) sales and various other services via e-commerce websites as well as offline portals.

In just a few years, the explosive development of the e-commerce industry in China has led to the revolutionary transformation of how traditional retailers do business. As of 2017, the

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Gross Merchandise Volume (GMV) of China's online shopping and mobile phone shopping reached AUD\$ 1.2 trillion and AUD\$ 1 trillion respectively.

Undoubtedly Alibaba has played a crucial role in shaking up the traditional retail sector. The e-commerce giants like Alibaba in China are bucking the trend by investing in brick-and-mortar stores. They noticed that although more consumers are becoming accustomed to shopping from their online platforms, a reasonable proportion of spending still takes place in brick-and-mortar stores.

Over the past year, Alibaba has aggressively acquired sizable Chinese retailers of different types. It has formed partnerships with supermarket retailer Bailian Group, high-end retailer Yintai Group, electronics retailer Suning Commercial Group, and invested USD\$ 2.87 billion for a major stake in Sun Art Retail Group, the hypermarket operator running two recognised banners Auchan and RT-Mart. It is believed that Alibaba has invested at least USD\$ 13 billion in the acquisition of traditional retailers in the past four years. With what it calls the "new retail" model, Alibaba is likely to bring dramatic changes to China's retail landscape by combining its e-commerce platform with traditional retail physical infrastructure.

Leveraging the strength of online platform and traditional retailers, Alibaba is expanding its retail empire through the "new retail" model to create a brand new shopping experience for customers and disrupt the traditional logistics operations of brands by using the latest technologies, such as big data and artificial intelligence.

Business Lessons from Alibaba

Alibaba's success is no secret. From its humble beginnings in Jack Ma's Hangzhou apartment in 1999, the company has evolved and grown into an e-commerce empire known internationally. It is now reshaping the retail industry not just in China but the whole world with more cutting-edge technologies and data-driven services. Here are some of the lessons that any company can learn from its success story.

1. Vision and Persistence

Alibaba was founded with the vision to champion small businesses and it firmly believed that the internet would enable small enterprises to grow and compete more effectively in the domestic and global economies. The simple and clear vision focuses Alibaba on providing services to small enterprises, cumulatively creating value that would not have been possible individually. Together, they represent a complete e-commerce ecosystem.

Success is no overnight phenomenon. The idea of Alibaba was rejected by 23 out of 24 of prospective investors. No one could see e-commerce as a viable business. However, the persistence of the founders paid off by successfully raising the capital that the venture required. Alibaba generated no profit for the first three years, but they never lost sight of their vision.

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Alibaba was also extremely challenged to process the payments in different currencies. Most of the banks rejected to partner with Alibaba to make the process smooth which instead led to the successful introduction of its payment transfer system Alipay.

2. Customer-centric

On many occasions, Jack Ma has stated “In Alibaba, customers are first, employees second, and shareholders are third.” On the day of the Alibaba’s IPO, Jack Ma invited eight customers to ring the opening bell at the New York Stock Exchange. In fact, putting customers first has driven Alibaba’s phenomenal success so far.

Always keeping an eye on customers’ evolving needs, Alibaba dares to challenge the traditional transaction patterns and explores new ways to create more value for customers. For example, to better support its customers business growth, Alibaba has built a computational network that is the world’s fastest cloud-based “streaming processing” platform, through which Alibaba is able to draw extensive data on shopping habits not only from shopping websites but also geo-location apps, financial services, social media and scores of other sources to help better serve customers and drive efficient merchant operations.

3. Innovation

Rather than position itself simply as a pure e-commerce company, Alibaba keeps striving for excellent service quality by innovating and introducing the most advanced technologies to develop more positive purchasing experience for both buyers and sellers.

Alibaba integrates comprehensive data resources that cover almost every aspect of customers’ daily lives through the acquisition of software companies in other domains (e.g. map, weather, taxi, music, and travel). To date, it has expanded its core business to many different domains, such as advertising services, logistics network, financial services, automation, and mobile terminal services.

"Being innovative means you look at today from a viewpoint of tomorrow. We need to look at today's China from a viewpoint of the world, and look at ourselves from the viewpoint of those outside this industry. When you think this way, you will do things in a different way," Ma said.

4. Sensitivity to Business Opportunity

Alibaba excels at identifying and seizing unique business opportunities, thereby positioning itself as a leader in developing customer loyalty.

In China, November 11 has become a special festival during recent years. With four “1s”, this date was named as Bachelor’s Day. On this day, young people celebrate their single status or simply have fun with friends. As the date falls between Chinese National Day and Christmas, most customers typically avoid shopping during that period. However, Alibaba has successfully transformed it from “Singles Day” to “Shopping Day”.

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Created in 2009 as an “Anti-Valentine’s Day,” the “Double 11 Global Shopping Festival” is now bigger than Black Friday and Cyber Monday, combined. The annual event kicks off on midnight of November 11 and runs for 24 hours featuring steep discounts that are driven by the main Alibaba-owned platform. Encompassing a live-broadcast gala, virtual games, and an interactive fashion show, the 24-hour event has become a global extravaganza selling everything from American sneakers to Japanese rice cookers and Australian prawns. During the 24 hours of “Double 11” in 2017, Alibaba generated a sales record of USD\$ 25.3 billion in gross merchandise volume, which beat its record of USD\$ 18 billion in 2016.

With a very humble beginning from the small apartment of Jack Ma, Alibaba has become one of the most successful companies in the world. The rise of Alibaba should never be contributed to its luck or good timing, but to the values it holds on vision and persistence, customer-centric, innovation and sensitivity to business opportunity.

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