

On the Development of Alibaba.com

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요약 (ABSTRACT)

Alibaba.com has developed very fast and created a miracle in the international e-business community since it was established just three years ago. The paper at first introduces its rapid development from its establishment, the construction of its websites and its e-products and e-services, its mode of operation and corporate culture. Secondly it analyses the reasons why it has not only survived, but also developed very fast and begun to make profits despite the cut-throat competition in the e-business community in the tough e-environment in China. Then it displays and analyzes its competitive edges and the challenges it is confronted with. Finally it predicts its promising future.

Key Word : Alibaba, B2B, Websites, SMEs, Import, Export, Market, Members

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1. Introduction

With the fast popularization of the Internet at the end of 1990s, the Internet-based economy has been mushrooming. Alibaba was established in 1999 and a B2B service platform was constructed. Within only three years, the number of its customers or members has increased to as many as 1.2 million (See Figure 1). The international e-business community are amazed at the miracle of its rapid development.

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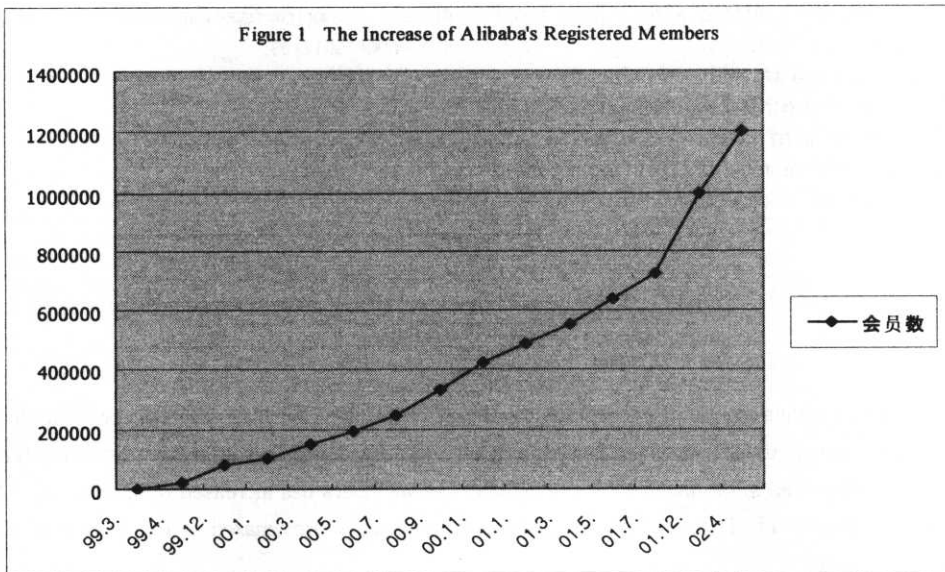
2. The Short History of Alibaba's Development

Mr. Jack Ma, CEO and his 18 colleagues bought the domain name from a Canadian and established

Alibaba.com on March 10, 1999. The story of Alibaba and the forty thieves is well-known and "alibaba" is easy to pronounce and remember. It symbolizes fortune and wealth.. The domain name has become an intangible asset for the company later and its value has kept increasing at the rate of RMB100 yuan every day.

Table 1 Outline of Alibaba.com's History of Development

- March 1999 Alibaba.com was established.
- April, 1999 Alibaba set out the mode of operation on the basis of B2B services, worked out the strategies to make use of the international capital to cultivate and develop the domestic e-market, and to develop the export market for China's small and medium-sized enterprises (SMEs) abroad.
- July, 1999 Alibaba's China Holdings Corporation was established in Hong Kong
- Aug. 1999 Alibaba got venture capital amounting to USD5million from The Goldman Sachs Group.
- Sept., 1999 Alibaba's Hangzhou Research and Development Center was established.
- Oct. 1999 Alibaba participated in Guangzhou Trade Fair successfully.



Source: www.alibaba.com and Alibaba's brochure.

- Spring, 2000 The cooperation agreement with Softbank Corporation was concluded, leading to the introduction of venture capital amounting to USD20 million. Alibaba' headquarters was established in Shanghai. Mr. Masayoshi Son, President and CEO of SOFTBANK Corp. became Chief Consultant in Alibaba.
- April, 2000 Peter Sutherland, founding Director-General of the World Trade Organization became Special Consultant at Alibaba.
- May, 2000 Mr. John Wu, inventor of Yahoo's search engine, became Chief of Technology Officer.
- Sept. 2000 Alibaba' headquarters moved from Shanghai to Hangzhou and Zhejiang Internet Technology Research Center moved to Alibaba.
- 2000 Jack Ma visited India, Singapore for the promotion of Alibaba. Alibaba.com was rated as the best B2B website by *Forbes* and Far Eastern Economic Review. Jack Ma's picture appeared on the front cover of *Forbes*.
- Jan. 2001 Mr. Savio Kwan became Chief of Operation Officer.
- June 2001 *Brands* is put into operation.
- Sept. 2001 *TrustPass* System was put into operation and the mutual trust and confidence between buyers and sellers have been reinforces greatly.
- 2001 Alibaba was rated again as the best B2B website by Forbes and selected as a successful case in the MBA program of Harvard University. Jack Ma was recognized as Future Leader and Business Leader respectively by World Economy Forum 2001 and American Asian Business Association.
- Dec. 2001 The number of Alibaba's registered members from 202 countries reached 1million, the greatest number among all the B2B websites in the world.
- Jan. 2002 Jack Ma, declared that Alibaba had begun to make profits.
- April 2002 The number of Alibaba's registered members reached 1.2 million.

Source : www.alibaba.com and Alibaba's brochure.

3. Reasons for Alibaba.com's Rapid Development

As Figure 1 and Table 1 above indicate, Alibaba weathered the bad year 2001 for e-business in China and has been developing very fast since its establishment. On the basis of careful observation and analysis, the following reasons are found:

3.1 Efficient platform with a huge mount of information

Alibaba.com is a very large e-market and every day there are more than 2000 pieces of business information available to the businessmen, covering 27 industries and over 1000 classified products. At *My Trade Activity*, all the businessmen can be engaged in business activities, such as

buying, selling, cooperating and acting as an agent by making use of the related information, which can bring profits to them. The information is free of charge for all its registered members.

At *China Suppliers* the detailed information concerning the Chinese exporters is provided, including their contact information, so that the information concerning products' demand and supply is circulating very fast on the Internet. Exporters and importers have to pay for the information at *China Suppliers, Brands and Big Buyers*. The amount of information available at *Alibaba.com* is 40 times as large as that at *United Nation's Conference on Trade & Development*. The number of customers has been constantly on the increase. Therefore, only at *Alibaba.com* is there is such a huge amount of information available for exporters and importers at home and abroad so that they can reduce their costs and conclude their transactions with great efficiency. *Alibaba.com* has become their ideal and only preference on the Internet for business opportunities.

3.2 Simple and friendly Interface

The customers at *Alibaba.com* feel that its interface is very easy to operate because simplicity is one of the values of *Alibaba*. Once a customer enters the website of *alibaba.com*, the map of the website will be in sight and all the detailed directions to its e-services and to its payment will be available to both its buyers and sellers. At *Hotline*, questions from customers can get timely answers and at each of its columns *FAQs* (Frequently-asked questions) tells its customers the functions of the column and how to make use of the column. The simplicity and the friendliness of the interface of *alibaba.com* appeal to its customers and constitutes one of its competitive edges.

3.3 E-community with self- services and interaction

Alibaba.com provides its customers with self-services in the e-community so that its buyers and sellers can search for the related business information for themselves and conclude transactions. For example, at *Product Catalog*, its registered members can create and revise their products catalogues and at *My Company*, exporters can create their own websites and display their products with illustrations and photos and their own websites are connected with *Alibaba.com's Company List*, so that they may take the initiative to help themselves by providing precise, timely and detailed information about themselves and promoting the sales of their products.

By the end of April 2002, the number of *Alibaba.com's* members from 202 countries and regions had reached as many as 1.2million and a huge e-community had been established. *Service Center* and *Industry Column* at *Alibaba Club* (virtual community) introduce to its registered members a large variety of services and tell them how to use them and provide them with consulting services related to their specific industries. In addition, the registered members can air their opinions on economy and trade, exchange their experience concerning e-business and

knowledge about international trade. When they have questions, they can leave a message there and get replies.. Therefore ,Alibaba.com has been an e-platform where its members can not only meet and help themselves, but also help one another..

3.4 Trading with integrity and credit

According to the survey conducted on the Internet in September 2001 among its members, 90% of Alibaba's members think integrity and credit are their greatest concern over their transactions on the Internet. They are worried if they can get returns or rewards after they have spent time and money on e-business, namely if their e-business partners are trustworthy. Consequently, many businessmen have located their products online they have been in the market for, but they do not dare to conclude the transactions.

In order to relieve its members of their worry and anxiety, conspicuous slogans appears on the first page of Alibaba.com, such as "Business results from integrity and integrity comes from you and me", "Integrity is man's quality and credit is the source of business. " In September, 2001, Alibaba.com began to collaborate with such well-known institutions as ACP, Hua Xai and D & B and created *TrustPass System*, which is a credit management system to assess and confirm its customers' business credit, covering its authentication and verification, certificates and awards, business partners' recommendation, feedback and alibaba's activities. It has created credit files for its customers. Its members can be well-informed of their business partners' financial status and integrity by visiting *TrustPass*, which has recorded all its business transactions at Alibaba.com. Since March 10, 2002, all the new members at chinese.alibaba.com have had to pay RMB2000 yuan for the feedback concerning trading opportunities at *TrustPass*, which has greatly reinforced its members' confidence and trust in e-business.

3.5 B2B service mode of operation suitable for China's conditions

In reality, Alibaba.com provides small and medium-sized enterprises (SMEs) in China with only e-services. This B2B service mode of operation is suitable for China's conditions. In recent years, China's trade volume has been increasing steadily. China's total trade volume reached USD509.768 billion, ranking No. 4 in the world. China's SMEs have made great contributions in its trade growth. They are small in size, are lacking in business information and their channels of export are narrow. They are eager to open the international market for their products, but they can not afford to cover the high costs of travels abroad, advertisements and other charges for the establishment of offices overseas. So do the SMEs in other Asian countries. In order to meet their needs, Alibaba.com has adopted B2B service mode of operation suitable for their conditions to help the SMEs to reduce their costs by advertising their products, cultivating their brands and concluding contracts on the Internet.

So far Alibaba has not provided the enterprises with the platform for direct transactions online because China's software and hardware for e-business are not sufficiently prepared for direct e-transactions. It will take a considerably long period of time before the flow of information, commodities and cash can be unified on the Internet. The survey conducted in September 2001 indicates that most of Alibaba's members or SMEs tend to conduct negotiations and conclude their transactions offline after they have obtained their required information online. Therefore, Alibaba has become market-oriented and manages to meet its customers' needs by gathering, editing and classifying business information and facilitating the exchange of information online.

3.6 Practical and personalized services

All the business information is classified and edited by professionals at Alibaba so that the information at Alibaba is of high quality and high value-added. Garbage and false business information is reduced to the minimum. Its professional editors provide over 1million customers with personalized, specialized and classified information. At present, 70% of the import and export companies in China turn to Alibaba to search for domestic suppliers. The big retailers abroad, such as Walmart and Kingfisher have benefited from Alibaba.com's e-business platform most. Alibaba.com's e-products free of charge are by no means of inferior quality. Those e-products available at Alibaba.com have been used on trial basis for three months before they are put into operation.

3.7 Active promotion at home and abroad

While Alibaba makes use of the capital at the international market to cultivate China's e-business market, it is actively engaged in the promotion of the market at home and abroad by establishing offices not only in Beijing, Shanghai, Qingdao, Ningbo, Wenzhou, Suzhou, Xiamen, Shenzhen and Shunde in mainland China, but also in Silicon Valley in the USA, London in UK, South Korea and Hong Kong abroad. Among its registered members, those from overseas account for half. Most of them are SMEs not only from China, but also from other Asian countries and Europe. The US Department of Commerce has recommended Alilbaba.com to the SMEs in the USA.

3.8 Team work, teaching and learning

At Alibaba every employee wears a values badge. Team work, teaching and learning are two most important values for them. The badge says: " Team work enables ordinary people to achieve extraordinary results. It is all about learning. Teaching is the best way to learn. By helping our team we help ourselves." Because of the above values, few employees have left Alibaba and moved to other companies or institutions, though young IT employees tend to change jobs

frequently. Because of its team work, it appeals to talented people. The inventor of Yahoo.com's search engine John Wu has become its Chief of Technology Officer and he has brought state-of-the-art technology to Alibaba. Mr. Savio Kwan's participation has made its management internationalized. Joe Soph Tsai, holder of PH. D. of Law from Yale University has become its Chief of Financial Officer.

Alibaba evaluates its employees' performance once a season. Their promotion and demotion are based on the evaluation. Before an employee is promoted, he/she must be trained in management. After a trial period of employment, an employee will become an owner of shares at Alibaba. The share ownership system and evaluation system have contributed to Alibaba's unity and groupism among its employees.

3.9 Perseverance, focus and creativeness

2001 was a depressing year for e-business in China, but Alibaba not only survived, but also developed very fast because of its rapid adjustment strategy and perseverance. Though the times changed and its e-products changed, yet its focus on B2B service mode of operation for SMEs has never changed. It quickly adjusted its e-services to the needs of the SMEs and to the demand of the market and created new products. Its perseverance, focus and creativeness have helped to retain its customers and to reinforce the customers' devotion and loyalty and to maintain its competitive edge.

4. Alibaba' tomorrow—opportunities and challenges

4.1 Opportunities

With the rapid development of the Internet in China, the e-environment of software and hardware for Alibaba has been improving steadily. The number of the computers with access to the Internet and the number of Internet users in China had been shooting up to as many as 12.54million and 3.370 million respectively by the end of 2001. According to the Minister of Information of China, Mr. Wu Jichuan's speech on May 29, 2002 in Shanghai ((www.zaobao.com.sg May 30, 2002), by 2005 15% of the Chinese population or about nearly 0.2 billion Chinese will be able to use the internet. Since March 1999, the charge of the Internet services has been reduced several times, which has made them more financially affordable to the Chinese, especially to the young with little or no income. China has been connected online with its major business partners such as Japan, the USA, South Korea, Germany, France, UK, Australia and Canada. Computer and English are compulsory courses in colleges, high school or even in elementary schools and kindergartens. Computer application tests and English tests must be taken before academic or

professional promotion. Since 1996, thirteen national and departmental regulations and rules regarding the Internet and e-business have been promulgated.

With China's WTO accession, in three years all the SMEs in China will enjoy the right to be engaged in import and export. Alibaba is located in Hangzhou, the capital of Zhejiang Province, which is one of the provinces whose economies have been developing most rapidly in China. There are more than 3000 specialized physical markets in Zhejiang and its SMEs are well developed. They are all Alibaba's potential customers. Compared with its competitors abroad, Alibaba enjoys the advantages of low costs. Its rent in China is only 10% of that in the USA and its employee's salary is for only 5%-10% of that in the USA.

4.2 Challenges

Its e-environment is far from satisfactory. So far there has been no law regarding e-business in China. As a result, 60% of the Chinese users' computers have been attacked and invaded by hackers or viruses. Advertisements for fake or substandard products are prevalent online. A reliable unified system of online flow of information, cash and products has yet to be established. All these will diminish people's confidence and trust in e-business.

China's telecommunication has been monopolized. 40% of the Internet users complain about the too high charges for Internet services and 38.4% of them are dissatisfied with the slow speed of the Internet.

Most of the business decision makers with high incomes in the Chinese enterprises are over 40. Because of historical reasons, their English and computer skills are poor and some of them are even English and computer illiterates. Most of the Internet users in China are young students or young employees and they have very low salaries or have no income at all. All these will adversely affect e-business development in China.

Alibaba is confronted with fierce competition from a large number of strong competitors at home and abroad, such as Chinapages.com, Global Sources and Meetchina.com.

5. Conclusin

Alibaba's efficient platform with a huge mount of information; simple and friendly Interface; e-community with self-services and interaction; TrustPass System; B2B service mode of operation; practical and personalized services; active promotion at home and abroad; values of team work, teaching and learning, perseverance, focus and creativeness have contributed to the miracle of its rapid development. But the immature e-environment in China and the cut-throat competition at home and abroad will hinders it from making great profits in the short run. Only by making utmost efforts to call for more members, aggressively develop the e-markets for buyers and sellers,

provide its customers with updated and efficient e-services can Alibaba become one of the leading e-business players in the world.

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