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ALIBABA.COM

China is a place where miracles are made.

- Jack Ma, founder and chairman of Alibaba Group¹

On 6 November 2007, Alibaba.com debuted on the Hong Kong Stock Exchange, raising US\$1.5 billion to become the world's biggest internet offering since Google's initial public offering ("IPO") in 2004. A frenzied purchase of the stock pushed prices up by 193% on the first trading day, making it the fourth-largest first-day gain in Hong Kong's stock exchange in three years. The closing price of US\$5.09² per share valued Alibaba.com at about US\$25.6 billion, making it the fifth-largest among global internet companies and the largest in Asia outside Japan. It also made the company's stocks among the most expensive in Hong Kong,³ trading at 306 times the projected 2007 earnings of US\$83.6 million.⁴ In contrast, Yahoo, a globally recognised dotcom brand that held a 39% stake in pre-IPO Alibaba.com, and Japan's Softbank, which owned 29.3% of Alibaba.com prior to the IPO, traded at only around 60 times their projected earnings. In other words, shareholders had displayed extreme optimism about Alibaba.com's earning prospect by paying a significant premium to own the company's shares.

Barely a week after the IPO, Alibaba.com was already reported to be in talks with Softbank to set up a joint venture in early 2008 in Japan. Although the Japanese telecom giant disclosed no details regarding the venture, it was likely that Alibaba.com would expand its service to mobile users in Japan, a market that had been impenetrable to the Chinese e-commerce company.⁵ On the home turf, parent company Alibaba Group had already proven its mettle by topping EachNet, an older rival backed by global leader eBay.⁶ Founder and chairman Jack Ma had made it his aim to make the Alibaba Group one of three largest internet companies in

¹ Kwong, R and Mitchell, T (7 November 2007) "Alibaba Shares Soar on First Day of Trading", *Financial Times (Asia Edition)*.

² US\$1 = HK\$7.76425 on 6 November 2007.

³ Kwong, R and Mitchell, T (7 November 2007) "Alibaba Shares Soar on First Day of Trading", *Financial Times (Asia Edition)*.

⁴ US\$1 = Rmb 7.4638 on 6 November 2007.

⁵ Kwong, R. (14 November 2007) "Softbank and Alibaba in Talks", *Financial Times (Asia Edition)*.

⁶ Liu, B. (17 April 2007) "US Giant eBay Loses Ground to Taobao", *China Daily*.

Ricky Lai prepared this case under the supervision of Prof Ali Farhoomand for class discussion. This case is not intended to show effective or ineffective handling of decision or business processes.

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the world and a Fortune-500 company.⁷ Could the IPO be the first step to Alibaba.com's global market dominance, or would it be overtaken just as quickly as it rose to regional pre-eminence?

Internet and E-Commerce in China

The world's most populous nation had 162 million internet users as of June 2007.⁸ Although the Chinese internet-using population was second only to the US,⁹ China's internet penetration rate of 12.3% significantly trailed that of the US, Japan and South Korea, whose penetration rates were above 65%.¹⁰ Nevertheless, with the penetration rate growing at around three percentage points annually [see **Exhibit 1**], China was expected to experience even more rapid growth in the scale of penetration, having crossed the critical threshold of 10% and heading into the steep phase of the s-curve.¹¹

Similarly, e-commerce was still in its infancy in China. Official figures estimated that only 25.5% of internet users in China had engaged in online shopping, whereas the figure was 71% in the US. The utilisation rate of online sales and marketing was also very low, standing at a mere 4.3% compared to 15% in the US. The only exception to the trend was the rate of online stock transactions, which was 14.1%, narrowly beating the US's 13%. The official explanation was the frenzy over the financial market in China that had begun around 2006.¹²

Chinese internet media market researcher iResearch Consulting Group valued the Chinese online shopping market at US\$1.5 billion in the first quarter of 2007. The online shopping market comprised the customer-to-customer and business-to-customer segments, with the former accounting for US\$1.3 billion or 89.7% of the market in China. Overall, the Chinese online shopping market recorded a 14.8% rise in the first quarter of 2007 over the preceding quarter and a massive 64.1% jump over the previous year [see **Exhibit 2**].¹³ By comparison, the online business-to-business ("B2B") market was much bigger, valued at US\$65.7 billion in the second quarter of 2007, increasing 10.4% quarter-on-quarter and a staggering 69.8% year-on-year [see **Exhibit 3**].¹⁴

SMEs in China

Small- and medium-sized enterprises ("SMEs") had been a key driving force in the booming Chinese economy. In 2004, SMEs contributed 68.8% to the nation's gross industrial output (in current prices).¹⁵ iResearch estimated that the number of SMEs in China would rise from

⁷ Macartney, J. (7 November 2007) "Workaholic's Road to Fortune 'Like Riding on a Blind Tiger'", *The Times*, London.

⁸ China Internet Network Information Center (2007) "The Latest Statistics", <http://www.cnnic.net.cn/en/index/00/index.htm> (accessed 19 November 2007).

⁹ CIA (2007) "The World Fact Book", <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2153rank.html> (accessed 19 November 2007).

¹⁰ China Internet Network Information Center (2007) "The 20th CNNIC Statistical Survey Report on the Internet Development in China", <http://www.cnnic.net.cn/download/2007/20thCNNICreport-en.pdf> (accessed 19 November 2007).

¹¹ China Internet Network Information Center (2007) "The 20th CNNIC Statistical Survey Report on the Internet Development in China", <http://www.cnnic.net.cn/download/2007/20thCNNICreport-en.pdf> (accessed 19 November 2007).

¹² China Internet Network Information Center (2007) "The 20th CNNIC Statistical Survey Report on the Internet Development in China", <http://www.cnnic.net.cn/download/2007/20thCNNICreport-en.pdf> (accessed 19 November 2007).

¹³ iResearch Inc (18 June 2007) "China's Online Shopping Market Worth Rmb 10.8 Billion in Q1 of 2007", http://www.iresearchgroup.com.cn/html/Consulting/Online_Shopping/DetailNews_id_65929.html (accessed 20 November 2007).

¹⁴ iResearch Inc (5 November 2007) "China's B2B E-Commerce Market Reached Rmb 489.1 Billion in Q2 of 2007", http://www.iresearchgroup.com.cn/html/consulting/B2B/DetailNews_id_72299.html (accessed 20 November 2007).

¹⁵ National Statistics Bureau of China (2006) "China Statistical Yearbook", Chapter 14-1.

31.5 million in 2006 to 50 million in 2012 [see **Exhibit 4**].¹⁶ Out of these 31.5 million Chinese SMEs, a mere 8.8 million or 28% utilised third-party B2B e-commerce platforms. With the Chinese government's "11th Five-Year Planning for the Development of E-Commerce" encouraging SMEs to use third-party e-commerce platforms, however, the numbers were expected to rise to 41 million and 82% in 2012 [see **Exhibit 5**].¹⁷ The implication was that e-commerce had plenty of room for growth in China, at least among SMEs, where the market was expected to almost quadruple between 2007 and 2012.

The rising popularity of e-commerce among SMEs in China was fuelled by several challenges in the traditional trade environment, including:

- Limited geographic presence restricting SMEs' ability to develop customer and supplier relationships beyond their immediate vicinity
- Fragmentation of suppliers and buyers, which made it difficult to find and communicate with suitable trading partners
- Limited communication channels and information sources through which to market and promote products and services or to find new markets and suppliers
- Relatively small scale of operation limiting SMEs' resources for sales and marketing
- Absence of efficient mechanisms for evaluating trustworthiness of trading partners.¹⁸

Alibaba.com

History

Alibaba's first online marketplace was launched as Alibaba Online in December 1998. Originally, the China-based website operated as a bulletin board service for businesses to post buy and sell trade leads. In June 1999, Ma and 18 other founders formed the parent company, Alibaba Group, inaugurating its website in simplified Chinese to serve the Chinese mainland market. Three months later, a major operating subsidiary in China, Alibaba China, was established to carry out the business of operating B2B marketplaces. Within months, three more sites were launched: an English site for international users, a Korean site for Korean users and a traditional Chinese site for Chinese users outside China. In October 2000, Alibaba launched the Gold Supplier membership scheme to serve Chinese exporters, followed in August 2001 by the launch of International TrustPass, a membership service catering to exporters outside China. China TrustPass was launched in March 2002 to serve SMEs engaged in domestic trade.

In September 2006, to facilitate the IPO of its B2B business, Alibaba underwent a restructuring of its B2B arm, Alibaba.com [see **Exhibit 6**]. The principal company emerging from the restructuring, Alibaba.com Limited, became 17% owned by public shareholders, with the remaining shares of the company held by the parent company, employees and consultants.

Jack Ma

Lead founder and chairman of Alibaba Group, Jack Ma was a native of Hangzhou, located about 100 miles southwest of Shanghai, where the company's headquarters resided. Growing up during China's Cultural Revolution, Ma became interested in learning English at the age of

¹⁶ iResearch Inc (6 June 2007) "China SME Number to Reach 50 Million in 2012", <http://www.iresearchgroup.com.cn/Consulting/others/DetailNews.asp?id=65361> (accessed 22 November 2007).

¹⁷ iResearch Inc (12 July 2007) "B2B E-Commerce Should Start with Interest of SMEs", http://www.iresearchgroup.com.cn/html/Consulting/B2B/DetailNews_id_67225.html (accessed 22 November 2007).

¹⁸ Alibaba.com (2007) "Global Offering Prospectus", pp. 74–75.

12. For eight years, he rode 40 minutes every morning on his bicycle to a hotel near the West Lake and practised his English by giving free tour guides to foreigners. In spite of that, he failed his university entrance examinations twice before being accepted to a teachers' university.¹⁹ The low-paying teaching job that ensued did not interest Ma, and in 1995 he found himself employed by the Chinese government to settle a dispute between a Chinese firm and its US partner. Purportedly, Ma was held captive by the US partner at gunpoint for two days before he regained his freedom by agreeing to become a partner in an internet start-up in China, even though he had no concept of the internet at all.²⁰

Although he never carried out his end of the deal, Ma came into his first contact with a computer and the internet in Seattle and was surprised to find nothing when he searched for "beer" and "China". He then returned to China, borrowed US\$2,000 and started a company and website called China Pages. The website shared a strikingly similar ideology with Alibaba.com: to list Chinese companies on the internet and help foreigners find their websites. Eventually, China Telecom would buy out Ma's stake and force him to return to civil service to promote e-commerce. Always on the lookout to fulfil his dream of setting up his own e-commerce company, Ma stepped out of the civil service again in 1998 and resumed work on his vision to connect Chinese companies to the world through the internet. This vision was realised in December that year with the launch of Alibaba Online.

Business Model

Principally a B2B e-commerce company, Alibaba.com was the largest online B2B company in China, based on the number of registered users and market share by revenue at the end of the second quarter of 2007.²¹ The international marketplace was served by their English-language website, Alibaba.com, which focused on global importers and exporters. The Chinese marketplace was served by their Chinese-language interface, Alibaba.com.cn, which focused on suppliers and buyers trading domestically in China.

The two B2B marketplaces provided a platform to facilitate e-commerce between business sellers, whom Alibaba.com referred to as "suppliers", and wholesale buyers [see **Exhibit 7** for Alibaba.com's value proposition]. Suppliers and buyers would use the marketplaces to establish their presence online, identify potential trading partners and conduct business with each other. Suppliers and some buyers would use the marketplaces to host their company profiles and catalogues in standardised formats known as "storefronts" and post "listings" such as products, services and trade leads. Users could view storefronts and listings in over 30 industry categories and nearly 5,000 product categories by either searching for keywords or browsing through the online industry directory [see **Exhibit 8** for a typical trading process]. For many suppliers, their storefront or listing was their only presence on the internet. As of 30 June 2007, there were over 2.4 million storefronts. In the first half of 2007, users posted a monthly average of 2.9 million new listings on the marketplaces.

Through active listings, enquiry exchanges, instant messaging, discussion forums and other user-friendly community features, suppliers and buyers formed large, interactive online communities on Alibaba.com's marketplaces. In June 2007, Alibaba.com registered over 540,000 peak simultaneous online users of TradeManager, an instant messaging tool for trade communications. The two marketplaces collectively hosted over 200 online forums and over 4.2 million registered users.

¹⁹ Fannin, R. (January 2008) "How I Did It—Jack Ma Alibaba.com", *Inc.*, Vol. 30, Iss. 1, p. 105.

²⁰ Chandler, C. (10 December 2007) "China's Web King", *Fortune*, p. 172.

²¹ iResearch Inc (5 November 2007) "Alibaba IPO Financial Research Report", http://www.iresearchgroup.com.cn/html/Consulting/B2B/Free_classid_id_1076.html (accessed 11 December 2007).

To enhance the breadth and depth of the marketplaces, Alibaba.com offered basic features and services to all registered users free of charge. Revenue was generated from suppliers who purchased services, primarily membership packages that provided priority placement of storefronts and listings in the industry directory and search results. These paying members generated additional revenue by subscribing to value-added services, including purchases of additional keywords to improve ranking in search results and premium placement on Alibaba.com's web pages for enhanced exposure and visibility.

Results

Alibaba.com experienced significant growth in its user base and revenue from 2004 to mid-2007.²²

	End of 2004	End of 2005	Year-on-year	End of 2006	Year-on-year
Total registered users	6.0 million	11.0 million	+82.6%	19.8 million	+80.2%
International marketplace	1.2 million	1.9 million	+67.2%	3.1 million	+59.8%
China marketplace	4.8 million	9.0 million	+86.3%	16.6 million	+84.6%

Figure 1: Growth in the Number of Alibaba.com's Registered Users

For the international marketplace, as of the end of June 2007, about 17.7% of users were based in the US, followed by 8.7% from the European Union (excluding the UK), 8.2% from India, 6.2% from the UK and 2.7% from Canada.

For the Chinese marketplace, as of the end of June 2007, Guangdong led in the regional breakdown of registered users with a 21.5% share, followed by Zhejiang with 8.5%, Jiangsu with 6.6%, Shandong with 5.3% and Shanghai with 4.6%.

	End of 2004	End of 2005	Year-on-year	End of 2006	Year-on-year
Total paying members	77,922	141,614	+81.7%	219,098	+54.7%
International marketplace	11,450	19,983	+74.5%	29,525	+47.8%
China marketplace	66,472	121,631	+83.0%	189,573	+55.9%

Figure 2: Growth in the Number of Alibaba.com's Paying Members

Revenue increased at a staggering cumulative annual growth rate of 94.8% from US\$48.3 million at the end of 2004 to US\$183.2 million at the end of 2006. According to Alibaba.com's detailed financial data [see **Exhibit 9**], the international marketplace had been steadily contributing slightly above 70% of revenue while the Chinese marketplace brought in just short of 30%. Specifically, Alibaba.com derived around 71% of its revenue from Gold Supplier members of the international marketplace, who paid at least US\$5,373.60 per year for a standard package and at least US\$8,060.40 for a premium package. Alibaba.com indicated that it would merge the two tiers of membership beginning November 2007, with the new rate starting at US\$6,717.00 per year.²³

Strengths

Alibaba.com believed they had certain competitive strengths to merit such moves as the membership scheme merger, which would effectively produce more revenue.

First, Alibaba.com had built a premier brand in the e-commerce domain, boasting the highest traffic among all online B2B marketplaces. According to internet statistics compiler Alexa.com, Alibaba.com was the most visited site in the e-commerce and international

²² Alibaba.com (2007) "Global Offering Prospectus", p. 102.

²³ Alibaba.com (2007) "Global Offering Prospectus", p. 24.

business and trade categories,²⁴ in addition to being the largest online B2B company in China. Alibaba.com attracted suppliers on the strength of the large number of potential buyers that used the marketplaces, which in turn attracted more buyers to sign up with Alibaba.com. The breadth and depth of Alibaba.com's marketplaces were difficult to replicate, thus creating an effective barrier to new entrants and a virtually insurmountable lead over competitors.

Second, Alibaba.com focused exclusively on the highly lucrative SME sector. Providing tools and solutions tailored to SMEs, Alibaba.com was confident in the value proposition of their service offerings. For example, Alibaba.com provided trust ratings for suppliers and buyers, thus facilitating the process of selecting potential trading partners. The fixed subscription fee model also gave budget certainty to SMEs, which were often budget-sensitive and averse to ad-hoc expenditures. Users and subscribers had responded positively, leading to the formation of interactive communities at the online marketplaces. Alibaba.com had also installed staff dedicated to enhancing the community experience of users to build up loyalty to and trust in the brand.

Third, Alibaba.com was confident about its sales force and customer service support in attracting and retaining users, especially those who paid for subscriptions. As of mid-2007, Alibaba.com maintained over 1,900 full-time field salespeople in 30 cities across China, over 800 telephone salespeople and over 400 full-time customer service employees, all of whom were grouped into teams in direct daily contact with current and prospective customers. The customer service arm provided customer feedback to the sales force which, in turn, made use of the findings and worked with the product development team to deliver services that more closely met customers' needs. For example, a number of services available to Alibaba.com users, such as email and instant messaging, had initially been proposed by customers and later developed by Alibaba.com.

Strategy

Alibaba.com's mission statement was “讓天下沒有難做的生意” (“to make it easy to do business anywhere”).²⁵ To accomplish this mission, Alibaba.com had set forth a multi-pronged strategy to make its online marketplaces more effective for SMEs around the world.

First, Alibaba.com aimed to increase the size of the marketplaces through the expansion of its user base and active listings. The company believed that the breadth and quality of users and listings were critical to the success of the marketplaces. To that end, Alibaba.com would continue to leverage the networking aspect of its online marketplaces, its leading market position and the “Alibaba” brand name to increase its user base worldwide. It also planned to conduct targeted marketing to potential users in specific industries and geographic locations.

Second, Alibaba.com planned to enhance community experiences to further improve user loyalty and activity through continued development and introduction of new features and tools. Specifically, it planned to invest further in the existing instant messaging service, online forums and other communication services. Alibaba.com also planned to continue organising regular meetings, training and offline events for registered users and paying members to further build up the sense of community.

Third, Alibaba.com was keen to monetise its user base after providing years of free service to the majority of its members. The company would strive not only to convert more users into paying members, but also to generate more revenue from existing paying members through

²⁴ Alexa.com (January 2008) “Browse: E-Commerce”, <http://www.alexa.com/browse?&CategoryID=298214> and “Browse: International Business and Trade”, <http://www.alexa.com/browse?&CategoryID=42647> (accessed 2 January 2008).

²⁵ Alibaba.com (2007) “Global Offering Prospectus”, p. 80.

sales of value-added services, such as additional keyword listing and premium listing placement.

Fourth, Alibaba.com planned to selectively expand its sales and customer service capabilities into international markets, either directly or through third-party agents, to acquire more paying members and sell premium services outside China. The company had already taken the first step by offering Gold Supplier membership packages to Hong Kong suppliers in 2007. Alibaba.com was already in talks with Japanese telecommunications giant Softbank on a joint venture to tap the Japanese market, for which significant upgrades to Alibaba.com's Japanese language website were already in the pipeline.

Fifth, Alibaba.com believed that its online marketplace platform could be extended beyond pure trade marketing to address users' daily business processes, such as customer relationship management and internal operations. It aimed to enhance the loyalty of its users by providing business applications through the marketplace platform and becoming an integral part of users' business operations. For example, it launched an internet-based business management application called Alisoft Export Edition, developed by sister company Alisoft, to users based in China.

Finally, Alibaba.com was set to expand its business through acquisitions, investments, licensing arrangements and partnerships. The underlying objectives would be to expand user and revenue base, widen geographic coverage, enhance content and service offerings, advance its technology and strengthen its talent pool. Alibaba.com also considered leveraging its relationship with parent company Alibaba Group to seek cross-selling, cross-marketing and licensing arrangements and other opportunities.

Competition from Global Sources

Despite Alibaba.com's dominance in the online B2B market in China, the company was not immune to competition from both domestic and international competitors [see **Exhibit 10**]. Chief among competitors with Alibaba.com's international marketplace was international B2B giant Global Sources, whose online directory was bolstered by the many other B2B services it offered, such as print business directories and exhibitions.

Founded in Hong Kong in 1971 as a monthly trade magazine for consumer products made in Asia for export to Western markets, Global Sources claimed to have a community of over 647,000 buyers and 160,000 suppliers as of the end of September 2007.²⁶ Global Sources also boasted the following:

- It enabled suppliers to sell to hard-to-reach buyers in over 230 countries
- It delivered information on two million products annually
- It operated 14 online marketplaces that delivered more than 23 million sales leads annually
- It published 13 monthly magazines and over 100 sourcing research reports per year
- It organised nine trade-specific exhibitions that ran 22 times a year across seven cities.

In mainland China, Global Sources had over 2,000 staff in 44 locations and a community of over one million registered online users and magazine readers of its Chinese-language media.

Global Sources clearly posed a threat to Alibaba.com because its revenue source was shifting online, as evidenced by its 2006 annual report demonstrating that online businesses generated over 40% of total revenue.

	Revenue (US\$ million)	% of total
Online	64.4	41.2
Print	48.7	31.1
Exhibitions	42.1	26.9
Miscellaneous	1.3	0.8
Total	156.5	

Figure 3: Contributors to Global Sources' 2006 Revenue²⁷

The growth strategy of Global Sources was built around four key foundations:²⁸

- Market penetration, which comprised: increasing revenue from exhibitions by selling more booths and increasing the average revenue per booth; cross-selling to clients not using online, print or shows, particularly the large number of new clients patronising only exhibitions; and expanding the online customer base by offering new services and pricing packages for the new Global Sources Online 2.0.
- New product development: Global Sources had actively increased online marketplaces, magazines and exhibitions. In 2007, it added 11 new online marketplaces, monthly publications and trade shows and announced eight new exhibitions to be launched in 2008 and 2009.
- Expansion into China's domestic B2B market: domestic trade in China had been an attractive growth market and was synergistic with Global Sources' existing media serving China's export and import sectors. Global Sources launched new exhibitions in China in the hopes of attracting volume buyers as attendees. To complement these exhibitions and other vertical, industry-focused markets, it launched China Global Sources Online to enable international suppliers to sell to China's domestic B2B market.
- Acquisitions and alliances: Global Sources, like Alibaba.com, was on the lookout for complementary businesses, technologies and products that would help it to achieve and maintain leading positions in the markets it served. In 2007, in support of its plans to expand online business within China, Global Sources acquired the business and website assets of a Beijing-based online media company, Blue Bamboo China Ventures.

Given the similarities between the current positioning and growth strategies of Alibaba.com and Global Sources, competition between the two companies for the vast and growing Chinese market was bound to intensify.

Other Competition and Constraints

Competitors of Alibaba.com's China marketplace included domestic B2B e-commerce platforms such as HC360.com, the website operated by HC International. Being a generalised e-commerce platform, Alibaba.com also had to contend with specialised platforms that focused on vertical coverage of specific industries, such as ChinaChemNet, which catered to the chemical industry in China. Because Alibaba.com had founded its success on the breadth of its horizontal coverage of industries, it would be tremendously difficult for it to pursue vertical coverage of a specific industry without upsetting its basic business model. In addition, there was indirect competition from other marketing service providers, such as internet search engines, and traditional trading channels, including exhibitions, trade magazines, classified advertisements and outdoor advertising.

²⁶ Global Sources (2007) "Investor Relations Factsheet", <http://www.corporate.globalsources.com/IRS/IRFACT.HTM> (accessed 22 January 2008).

²⁷ Global Sources (2006) "Annual Report", pp. 24–25.

²⁸ Global Sources (2007) "Investor Relations Factsheet", <http://www.corporate.globalsources.com/IRS/IRFACT.HTM> (accessed 22 January 2008).

As Alibaba.com served mostly Chinese SMEs, it was also captive to the same problems that impeded offline commerce, ranging from China's credit and foreign exchange controls to the deficient national distribution network. Many procedures involved in a successful business deal, such as financing and shipping, were simply beyond Alibaba.com's scope. Coupled with the concerns about fraud, privacy and trust that discouraged businesses from adopting the internet as a medium of commerce, Alibaba.com faced a number of issues that arose with online commerce.

Internally, Alibaba.com's executives regarded the charismatic and visionary founder and chairman Jack Ma as the company's cornerstone since its infancy. However, Ma had previously indicated that his plan had always been not to hold onto the company indefinitely, but to eventually exit to make room for the next generation of leadership. Despite the fact that many senior executives and potential future leaders of Alibaba.com were handpicked by Ma, questions remained over the issue of succession, especially with Ma's departure looming on the horizon.

At the end of 2007, Alibaba.com revealed a reshuffling of its senior management, with several executives going on study sabbaticals outside China. Some industry watchers believed the move was a precursor to taking the company global by equipping its Chinese executives with international experience. Such speculation was heightened by reports that Alibaba.com had encountered difficulties in recruiting international business talent.²⁹

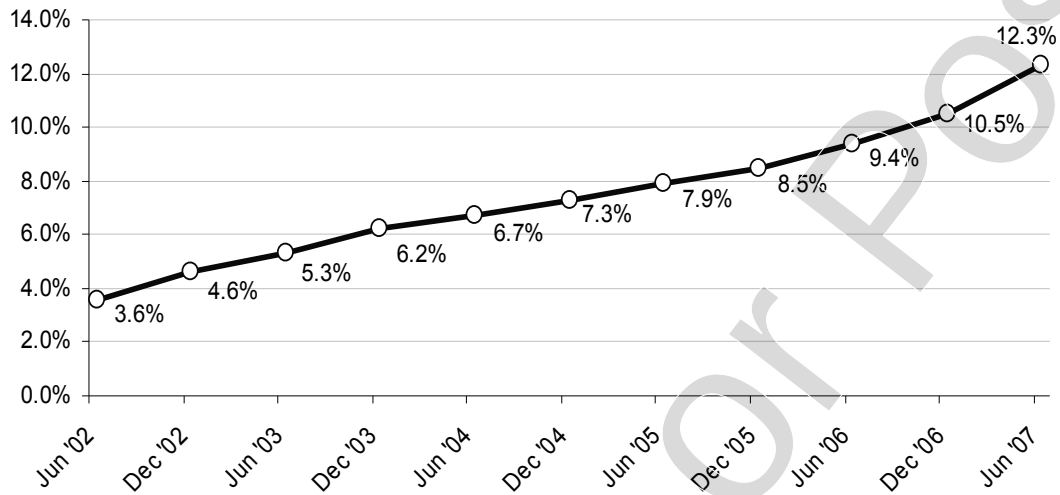
The Way Forward

Four months into a record-breaking IPO that significantly raised both the capital and profile of the company, Alibaba.com's share price had slipped to around half of the launch value in late January 2008. Could it be that investor optimism about Alibaba.com was slipping? How could Alibaba.com best utilise the proceeds from the IPO to scale new heights in the B2B e-commerce industry and beyond?³⁰ Would it be able to emerge from the shadows of its totemic founder and mature into an international conglomerate? Would Alibaba.com thrive under a rising Chinese economy, or would it be as fleeting as a tale of "One Thousand and One Nights"?

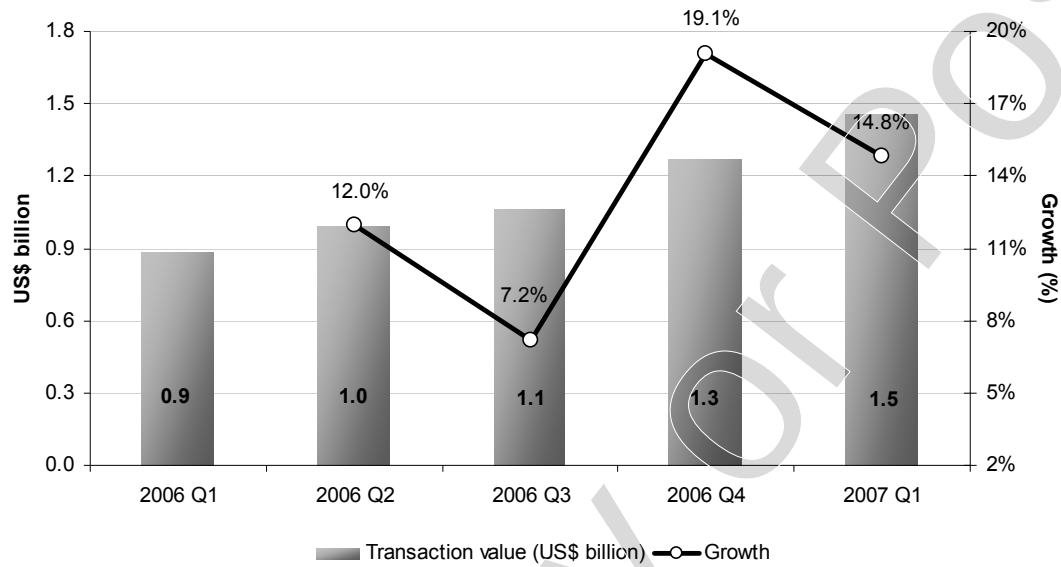
²⁹ So, S. (29 January 2008) "Alibaba Reshuffle a Precursor to Global Expansion", *South China Morning Post*.

³⁰ Alibaba.com stated its intention to allocate the net proceeds from the IPO as follows: 60% for strategic acquisitions and business development initiatives, 20% to increase the existing businesses both in China and internationally, 10% to purchase computer equipment and development of new technologies and 10% to fund working capital and for general corporate purposes. Source: Alibaba.com (2007) "Global Offering Prospectus", p. 130.

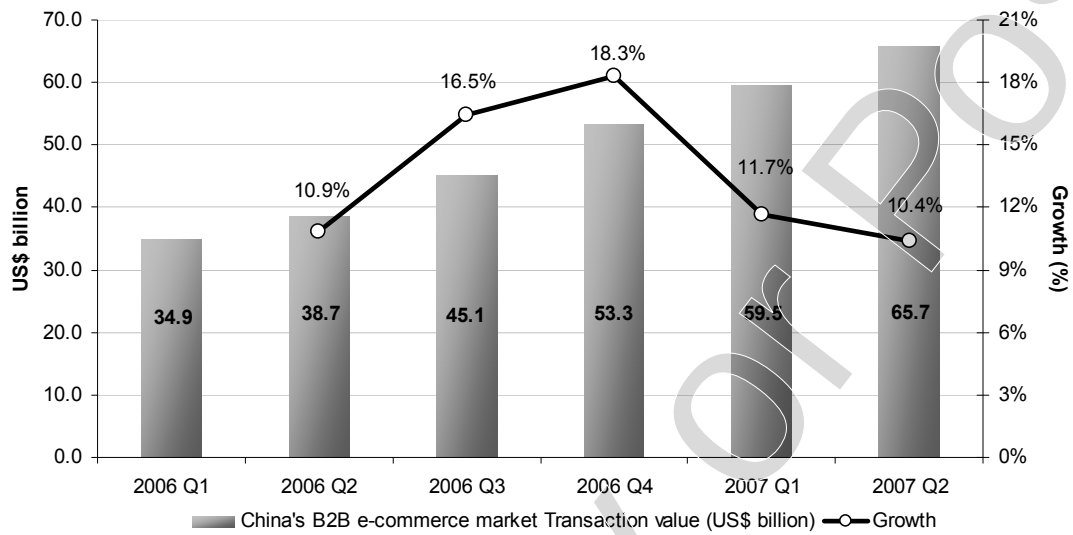
EXHIBIT 1: CHINA'S INTERNET PENETRATION RATE



Source: China Internet Network Information Center (2007) "The 20th CNNIC Statistical Survey Report on the Internet Development in China", <http://www.cnnic.net.cn/download/2007/20thCNNICreport-en.pdf> (accessed 19 November 2007).

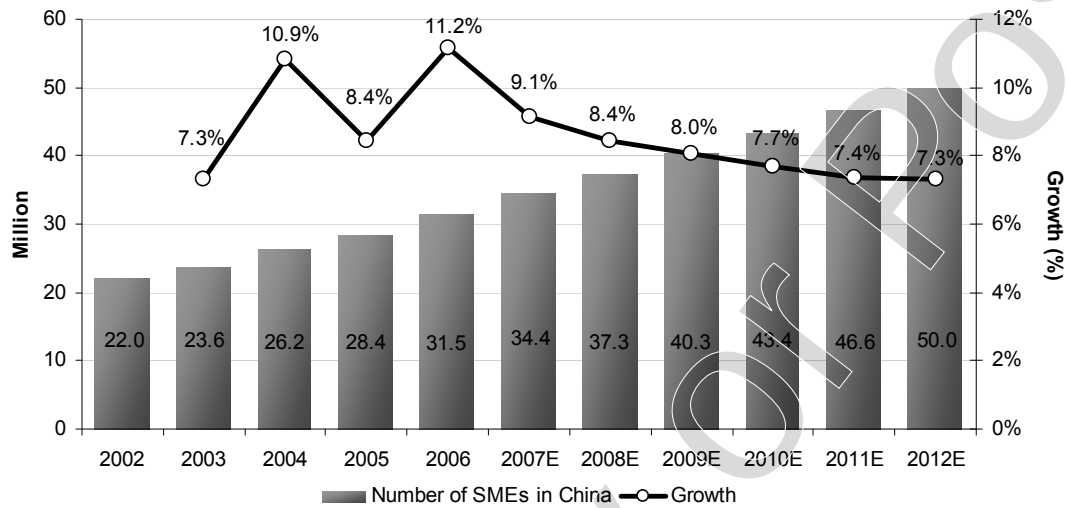
EXHIBIT 2: GROWTH OF THE CHINESE ONLINE SHOPPING MARKET

Source: iResearch Inc (18 June 2007) "China's Online Shopping Market Worth Rmb 10.8 billion in Q1 of 2007", http://www.iresearchgroup.com.cn/html/Consulting/Online_Shopping/DetailNews_id_65929.html (accessed 20 November 2007).

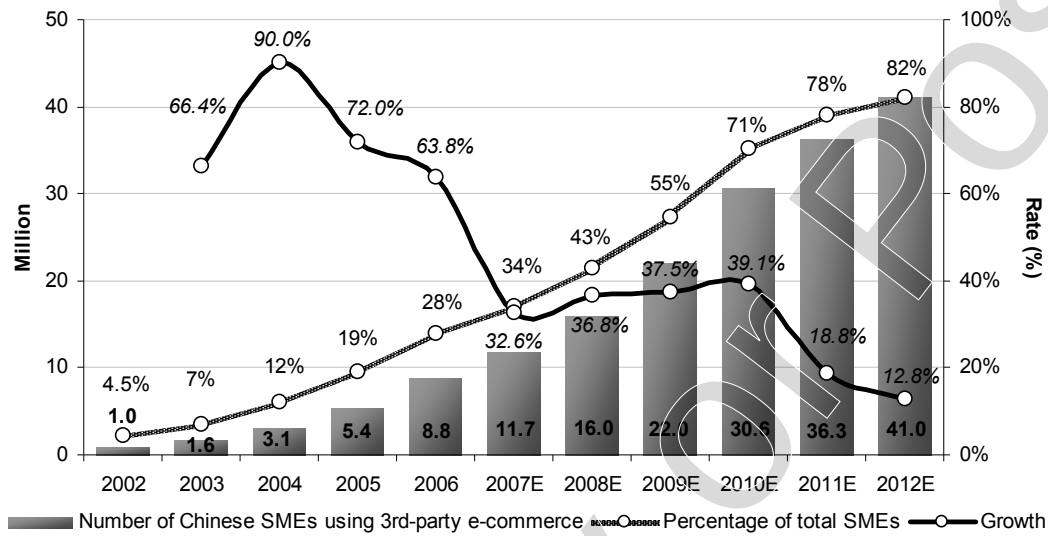
EXHIBIT 3: GROWTH OF THE CHINESE B2B E-COMMERCE MARKET

Source: iResearch Inc (5 November 2007) "China's B2B E-Commerce Market Reached Rmb 489.1 billion in Q2 of 2007", http://www.iresearchgroup.com.cn/html/consulting/B2B/DetailNews_id_72299.html (accessed 20 November 2007).

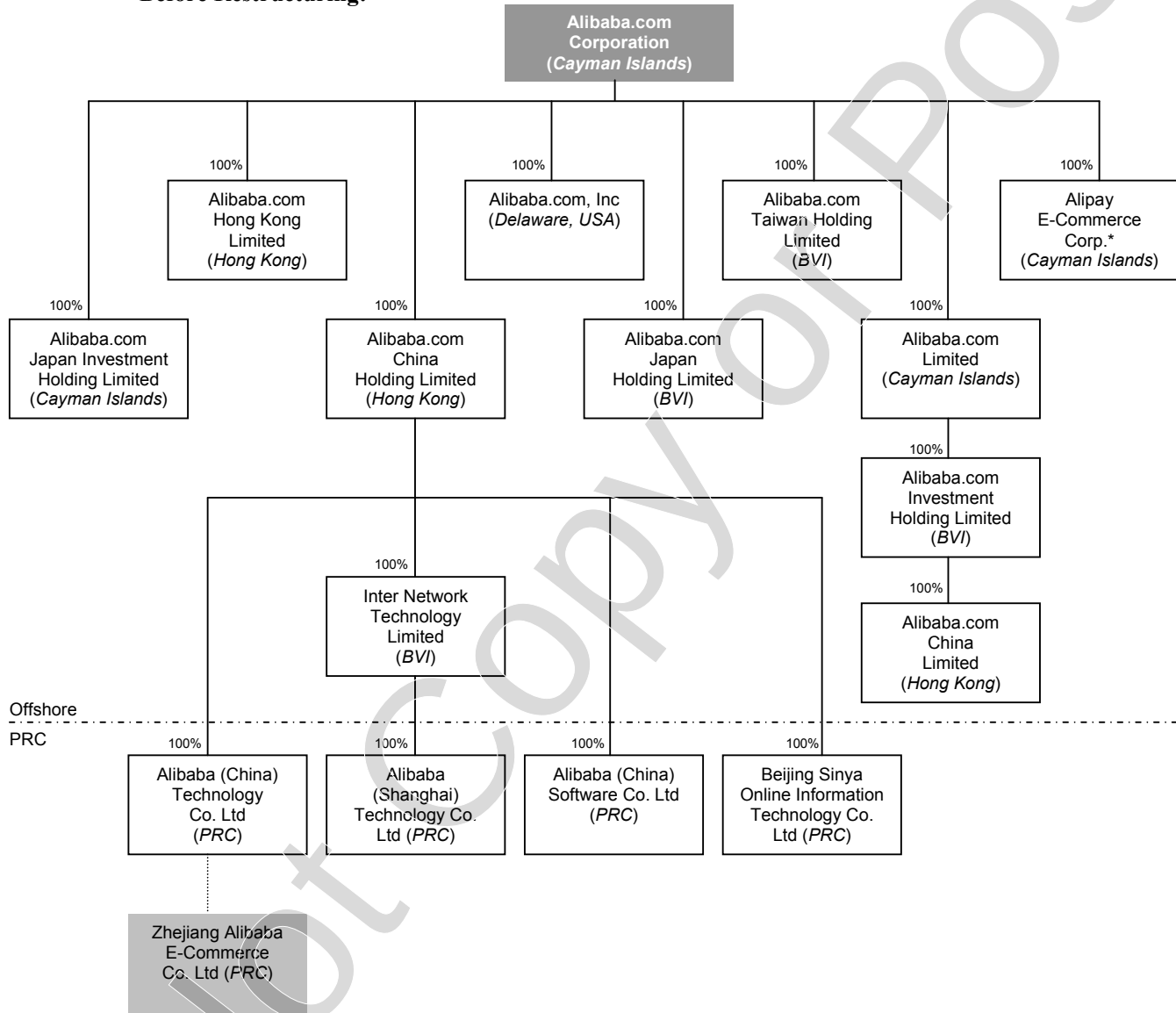
EXHIBIT 4: GROWTH OF CHINESE SMES

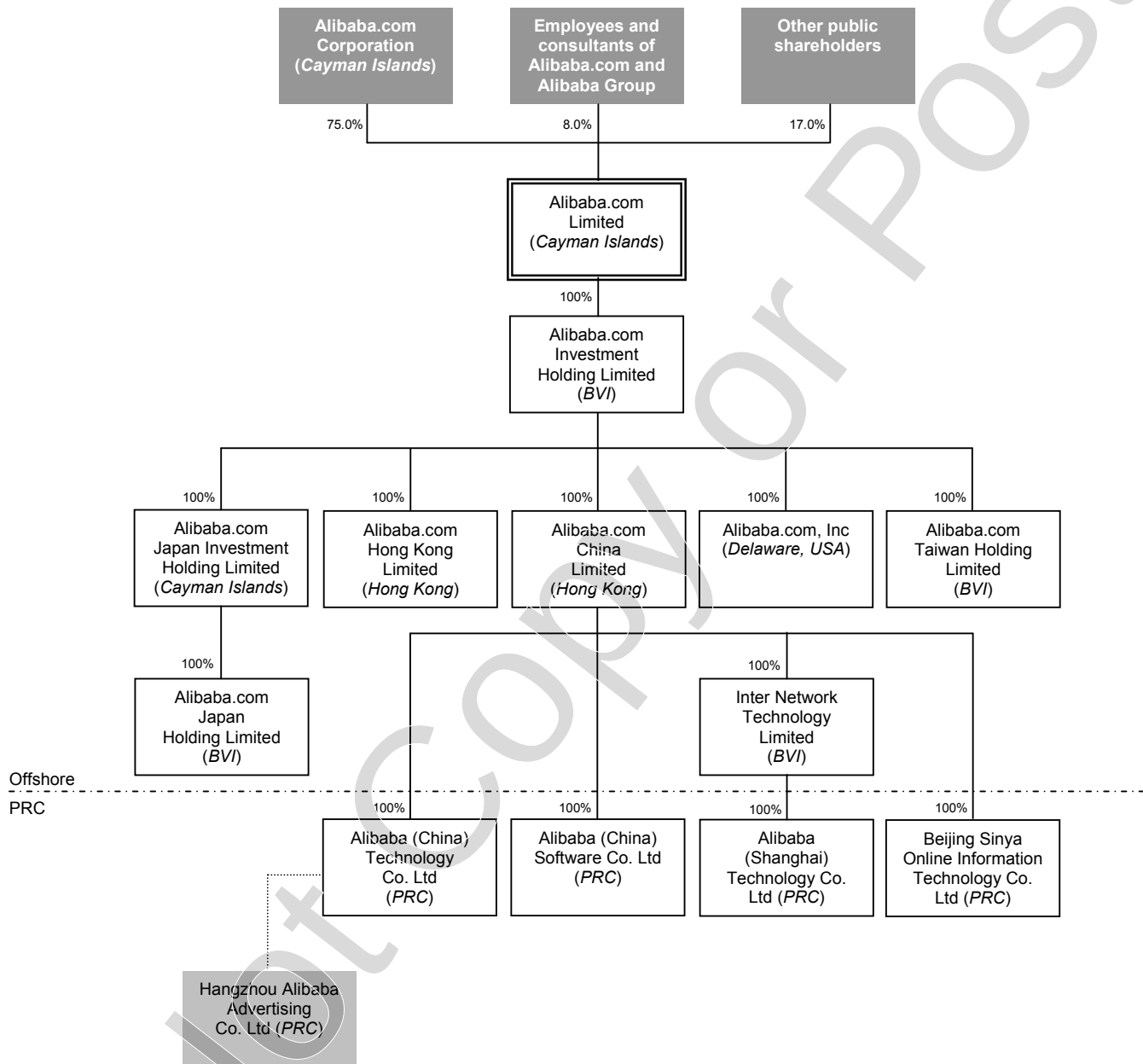


Source: iResearch Inc (6 June 2007) "China SME Number to Reach 50 Million in 2012", <http://www.iresearchgroup.com.cn/Consulting/others/DetailNews.asp?id=65361> (accessed 22 November 2007).

EXHIBIT 5: USAGE OF THIRD-PARTY E-COMMERCE AMONG CHINESE SMES

Source: iResearch Inc (12 July 2007) "B2B E-Commerce Should Start with Interest of SMEs", http://www.iresearchgroup.com.cn/html/Consulting/B2B/DetailNews_id_67225.html (accessed 22 November 2007).

EXHIBIT 6: CORPORATE STRUCTURE OF ALIBABA.COM BEFORE AND AFTER RESTRUCTURING**Before Restructuring:**

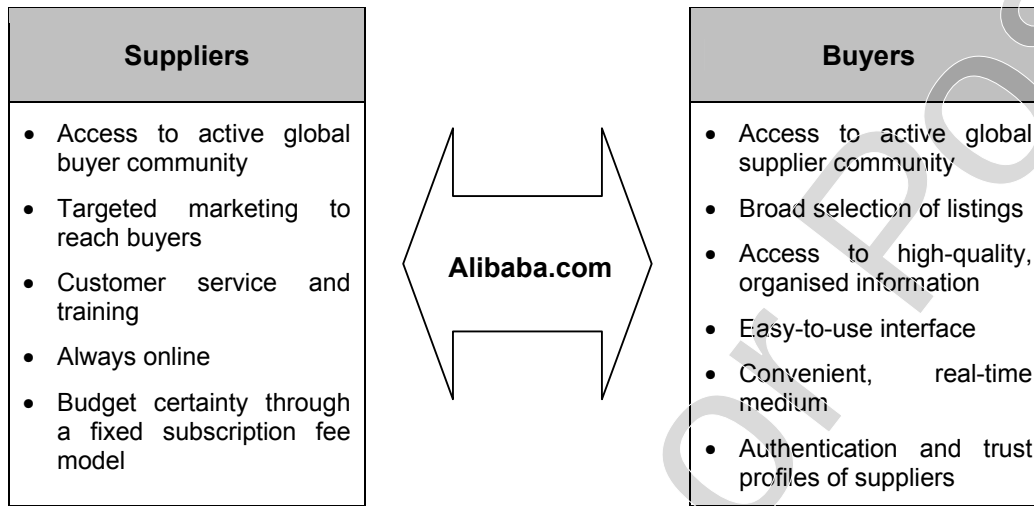
After Restructuring:**Notes:**

— Denotes equity ownership

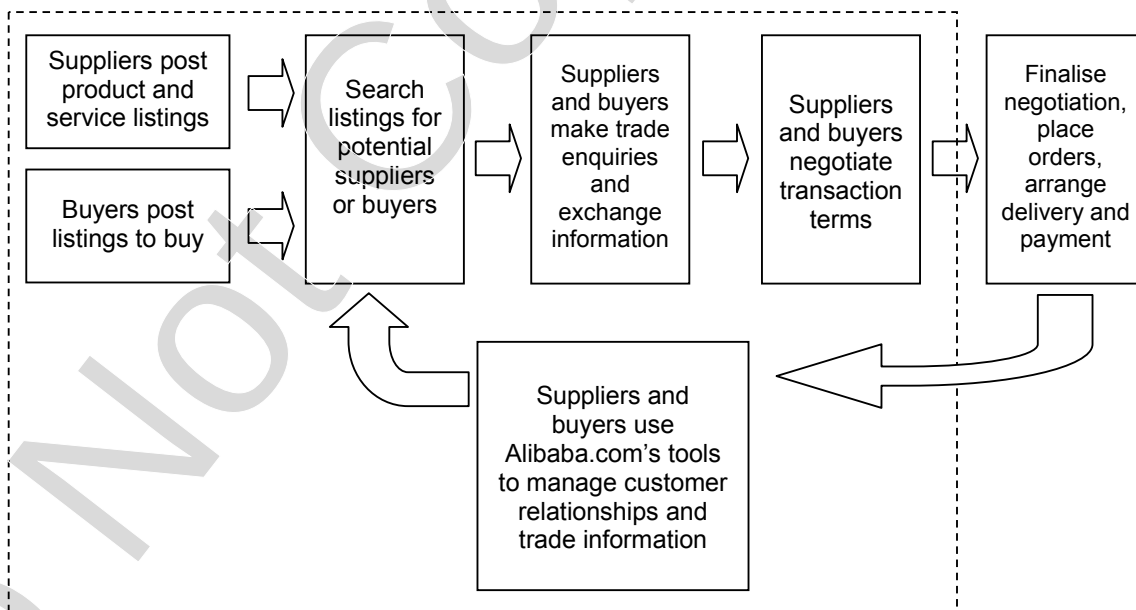
..... Denotes contractual relationship

* Formerly known as Alibaba.com E-Commerce Corp.

Source: Alibaba.com (2007) "Global Offering Prospectus", pp. 63–64.

EXHIBIT 7: ALIBABA.COM'S VALUE PROPOSITION

Source: Alibaba.com (2007) "Global Offering Prospectus", p. 78.

EXHIBIT 8: TYPICAL TRADING PROCESS ON THE ALIBABA.COM MARKETPLACE

Source: Alibaba.com (2007) "Global Offering Prospectus", p. 83.

EXHIBIT 9: FINANCIAL DATA OF ALIBABA.COM (2004–2007)

	Year ending 31 December						Six months ending 30 June			
	2004	% of revenue	2005	% of revenue	2006	% of revenue	2006	% of revenue	2007	% of revenue
	Amount		Amount		Amount		Amount		Amount	
	(unaudited)									
	(in thousands of Rmb, except percentages)									
Revenue										
International marketplace	254,765	70.9	527,227	71.4	991,869	72.7	431,481	72.7	695,398	72.6
China marketplace	104,670	29.1	211,070	28.6	371,993	27.3	162,156	27.3	260,965	27.3
Others	–	–	–	–	–	–	–	–	1,353	0.1
Total	359,435	100.0	738,297	100.0	1,363,862	100.0	593,637	100.0	957,716	100.0
Cost of revenue ⁽¹⁾	(62,569)	(17.4)	(126,509)	(17.1)	(237,625)	(17.4)	(109,131)	(18.4)	(122,717)	(12.8)
Gross profit	296,866	82.6	611,788	82.9	1,126,237	82.6	484,506	81.6	834,999	87.2
Sales & marketing expenses ⁽¹⁾⁽²⁾	(194,773)	(54.2)	(393,950)	(53.4)	(610,198)	(44.8)	(269,034)	(50.3)	(307,428)	(32.1)
Product development expenses ⁽¹⁾⁽²⁾	(19,151)	(5.4)	(35,678)	(4.8)	(105,486)	(7.7)	(47,256)	(8.0)	(58,278)	(6.1)
General and admin expenses ⁽¹⁾⁽²⁾	(57,639)	(16.0)	(101,082)	(13.7)	(159,969)	(11.7)	(59,820)	(10.1)	(88,432)	(9.2)
Other operating (loss) income, net	(426)	(0.1)	14,465	1.9	17,645	1.3	800	0.1	1,190	0.1
Profit from operation	24,877	6.9	95,543	12.9	268,229	19.7	79,196	13.3	382,051	39.9
Interest income	3,591	1.0	7,876	1.1	23,159	1.7	10,340	1.7	17,699	1.8
Profit before income taxes	28,468	7.9	103,419	14.0	291,388	21.4	89,536	15.1	399,750	41.7
Income tax credits (charges)	45,393	12.6	(32,965)	(4.5)	(71,450)	(5.3)	(28,253)	(4.8)	(104,543)	(10.9)
Profit for the year/period attributable to equity owners	73,861	20.5	70,454	9.5	219,938	16.1	61,283	10.3	295,207	30.8

Notes:

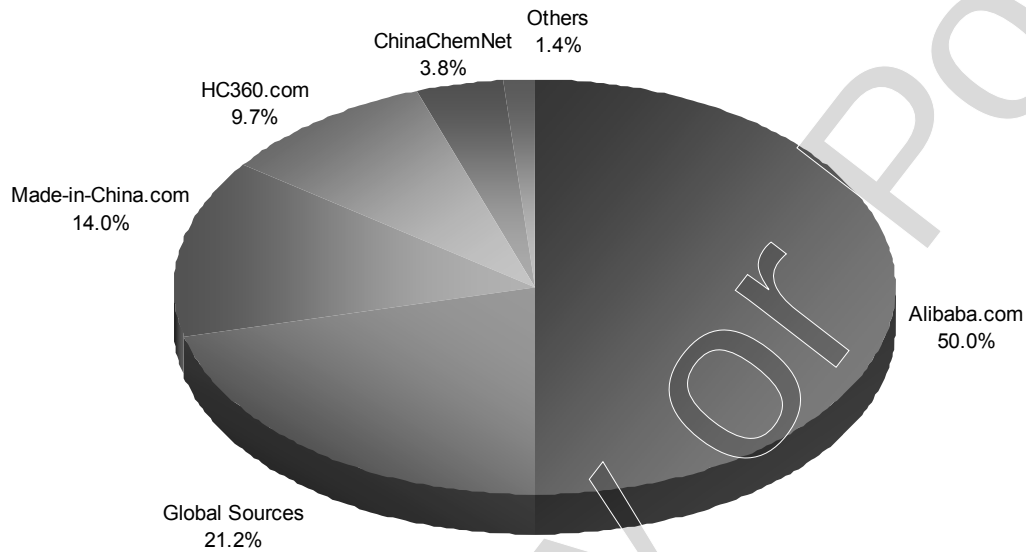
(1) Includes share-based compensation expenses, which are allocated as follows:

	Year ending 31 December						Six months ending 30 June			
	2004	% of revenue	2005	% of revenue	2006	% of revenue	2006	% of revenue	2007	% of revenue
	Amount		Amount		Amount		Amount		Amount	
	(unaudited)									
	(in thousands of Rmb, except percentages)									
Cost of revenue	1,936	0.5	8,766	1.2	23,335	1.7	13,258	2.2	6,207	0.7
Sales & marketing expenses	5,259	1.5	26,920	3.6	50,068	3.7	21,975	3.7	21,517	2.2
Product development expenses	1,382.0	0.4	5,126.0	0.7	16,344.0	1.2	7,727.0	1.3	6,582	0.7
General and admin expenses	2,838	0.8	8,079	1.1	24,157	1.8	10,442	1.8	20,183	2.1
Total share-based compensation expenses	11,415	3.2	48,891	6.6	113,904	8.4	53,402	9.0	54,489	5.7

(2) Includes expenses of Alibaba Group not related to the B2B business as follows:

	Year ending 31 December						Six months ending 30 June			
	2004	% of revenue	2005	% of revenue	2006	% of revenue	2006	% of revenue	2007	% of revenue
	Amount		Amount		Amount		Amount		Amount	
	(unaudited)									
	(in thousands of Rmb, except percentages)									
Sales & marketing expenses	–	–	35,959	4.9	83,186	6.1	58,661	9.9	–	–
Product development expenses	–	–	1,414	0.2	6,748	0.5	3,705	0.6	–	–
General and admin expenses	9,594	2.7	29,972	4.0	47,573	3.5	18,818	3.2	–	–
Total	9,594	2.7	67,345	9.1	137,507	10.1	81,184	13.7	–	–

Source: Alibaba.com (2007) "Global Offering Prospectus", pp. 102–103.

EXHIBIT 10: MARKET SHARE OF CHINA'S ONLINE E-COMMERCE MARKET BY REVENUE

Source: iResearch Inc (5 November 2007) "China's B2B E-Commerce Market Reached Rmb 489.1 Billion in Q2 of 2007", http://www.iresearchgroup.com.cn/html/consulting/B2B/DetailNews_id_72299.html (accessed 20 November 2007).