

**NEW
REPORT**

ALIBABA 2014

ResearchFARM

www.researchfarm.co.uk

Retail Analysts

**ON TRACK TO BECOME ONE OF THE
WORLD'S MOST VALUABLE COMPANIES**

Alibaba.com

Global trade starts here.™

WILL ALIBABA BECOME THE BIGGEST COMPANY IN THE WORLD?

WILL IT DEVELOP INTO A QUASI MONOPOLY IN CHINA?

WILL ALIBABA BE ABLE TO COMPETE IN THE US
THROUGH 11MAIN AND ITS OTHER VENTURES?

WHAT IS THE MAIN DRAW FOR 3P SELLERS DECIDING
TO JOIN ONE OF ALIBABA'S MARKETPLACES?

INSIDE:

Key questions
answered +
table of contents

June 2014

Introduction

As they are being manufactured in China, most consumer products can be bought on Alibaba's marketplaces at discounts of between 30-90% compared to Amazon and eBay (if one is ready to leave the issue of counterfeits aside for a moment). Viewed from this perspective, Alibaba has a lot of disruptive potential in global ecommerce and could become a threat to eBay and Amazon.

Price competitiveness is not the only reason why Alibaba could become a threat to the established western players. Alibaba has tied the manufacturers in China closely to its ecosystem already, through Alipay and the logistic offering, and these companies may trust Alibaba more than any American platform. In

any case the more integrated Chinese manufacturers are with Alibaba the higher their switching costs. (A 3P seller presence on one marketplace does of course not preclude appearance on another. The issue for manufacturers who list on all marketplaces is then managing price parity between websites and countries. Quite a challenge)

The second big opportunity for Alibaba is facilitating cross border commerce into China and changing Chinese society from a manufacturing

country into a consumer society. Alibaba is doing this through Tmall and its C2C marketplaces and is making great strides to enable more western brands to sell directly to Chinese consumers.

The question is then whether Alibaba should be seen more of a conduit out of China or a conduit into China. We argue that to realise its full potential, the business needs to be both and raise synergy and cross platform effects to the greatest extent possible. We believe that the two big opportunities post IPO lie in driving these two business arms further, i.e. cutting out western middlemen and letting western consumers go to Chinese manufacturers directly (its Aliexpress business) as well as enabling Chinese consumers to buy straight from the west (through Tmall) and taking better care of the last mile in China.

The growth story investors will buy into is growth in China's consumer society and Alibaba as the platform through which this happens and can be tapped into.



Key Questions Answered

- Will Alibaba become the biggest company in the world?
- Will Alibaba be able to compete in the US through 11main and its other ventures? Or is Alibaba rather a vehicle to revolutionise retail in the as yet underserved emerging markets, the Brics and Africa?
- Is Alibaba's rise a bigger risk to Li & Fung and global supply chains, or a serious challenge to Amazon and eBay, or actually all of retail's value chain from sourcing to the last mile?
- Will it develop into a quasi monopoly in China? Are there any tendencies suggesting such an outcome?
- How far is the Communist party involved in the business?
- Is Alibaba a bigger catalyst for change towards a consumer society than the CP?
- Why is mobile so important in China? What about reviews, SEO and email marketing, why don't they work in China? Why is trust so central in China's ecommerce environment?
- Is Alibaba just a copy of various existing business models in the West or has it integrated real innovations into its ecosystem?
- Is the data and preferential access to hundreds of millions of Chinese customers and millions of manufacturers the biggest asset the company has? Or is there something else? What innovations could be translated into a western context?
- What will happen with Alipay? And what is the future for the company's banking and finance arm?
- What will happen with the logistics roll out and FBA equivalent both in China, South-East Asia, the US (shoprunner) and emerging markets?
- What is the main draw for 3P sellers deciding to join one of Alibaba's marketplaces?
- Should Alibaba be understood as more of a conduit into China (to sell to Chinese shoppers) or a conduit from China to the world (guaranteeing market access to China's massive manufacturing sector)?
- What are the hurdles Alibaba will face when aggressively launching into more mature western markets? Can they be overcome?

Features & Benefits

FEATURES

- In depth look into the Chinese e-commerce market and Alibaba's ecosystem
- Detailed statistics about net sales, revenues, margins, active customer and seller accounts
- Includes data points on Alibaba's basket sizes, spend, number of items ordered
- Evaluation of business principles around international expansion and ecosystem creation and harnessing network effects
- Heavy recommendation focus, recommendations to FMCG and retailers over a ten year horizon
- Includes data insights mined from our Amazon best seller tracker series, benchmarking Amazon best sellers in China with Alibaba's proposition

BENEFITS

- Understand how Alibaba will perform, what will change and why internationalisation is so vital for Alibaba post IPO
- Leverage key insights for your own growth strategy, when Alibaba's platforms become a competitive threat in your market
- Strategic recommendations to enable decision making, whether to join Alibaba's ecosystem or whether to remain on the sidelines
- Prepare for the future of retail, where Alibaba will sit at the heart of a massive ecosystem in China, creating a multitude of new winners and losers
- Grasp which manufacturers and retailers have to fear a new competitor and identify the opportunity for those who want to join the ecosystem
- Understand the Alibaba threat and opportunity from a strategy standpoint and a numbers perspective, find out how big Alibaba will become over the next decade
- Find out about growth opportunities for and with Alibaba and identify key threats to the company

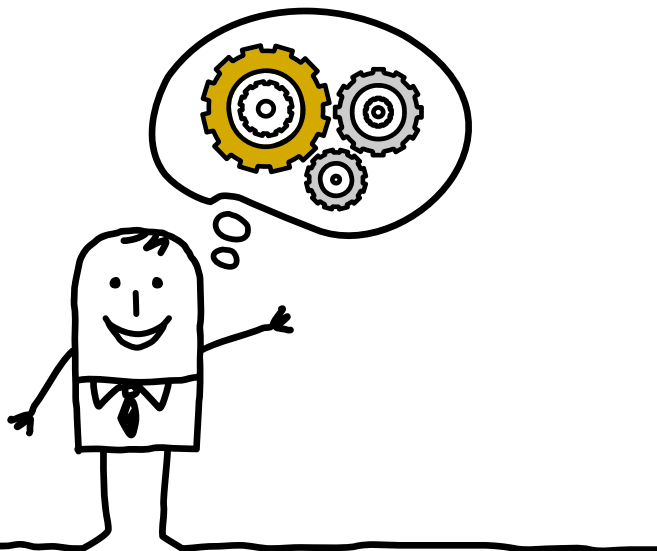


Table Of Contents (1/3)

Executive summary: Alibaba 2014 – Retailing in China	p14
The core of the business model: the marketplace	p21
Strengths of marketplaces: The model	p22
Strengths of marketplaces: the data benefits, monetisation	p23
Strengths of marketplaces: the data benefits, pricing power	p24
Strengths of marketplaces: pricing power, beneficial cash flow	p25
Strengths of marketplaces: beneficial cash flow, unlimited range	p26
Strengths of marketplaces: unlimited range, perfect OSA	p27
Strengths of marketplaces: network effects	p28
Context – China	p29
China: if you could sell every Chinese a toothbrush, ...	p30
China: demographic profile, from abject poverty to a booming luxury sector	p31
China: credit boom post 2009, real estate bubble? rebalancing the economic model	p32
China: politics, endemic systemic corruption	p33
China: risks, erosion of trust, future direction of travel	p34
China: the 2013 reforms	p35
China: GDP 2006 - 13 in yuan, volumes and growth slowdown	p36
China: GDP 2006 - 13, in US\$, versus USA, the golden era is over	p37
Online Retailing in China – on track to become the world's leading market	p38
China: retail jumping over an evolutionary stage – going straight to online?	p39
China: becoming the biggest online market globally, sizes in US\$, forecast 2013-18	p40
China: ecommerce evolving from C2C to B2C, sizes, forecast 2013-18, growth	p41
China: JD.com, Alibaba's closest competitor, the Tencent linkup	p42
China: Walmart's Yihaodian	p43
Alibaba.com	p44
Introduction: Alibaba – historic overview	p45
Introduction: Alibaba – ownership and revenue structure	p46
Introduction: Alibaba's marketplaces, price competitiveness and building trust	p47
Alibaba: The network effects on the marketplaces	p48
Alibaba: list of marketplaces, description, key metrics	p49
Introduction: Alibaba – 1688.com, blocking search engines, earning ad revenue	p50
Recent key developments	p51
May 2014: acquiring a 10.4% stake in SingPost	p52
May 2014: designs on SE Asian e-commerce	p52
May 2014: facilitating cross border commerce into China	p53
May 2014: launching the IPO	p54
April 2014: investment into video, the Youku Tudou acquisition	p55
April 2014: Grocery offer relaunch, aggregating orders	p56
April 2014: Grocery offer relaunch, 400% growth, challenging Yihaodian	p57

Table Of Contents (2/3)

March 2014: Alibaba invests in b&m department stores, offline to online	p58
December 2013: Alibaba invests in Haier, consumer electronics & logistics	p59
December 2013: Haier's customised online sales	p60
November 2013: singles day records – Alibaba's invention	p61
November 2013: singles day records – sheer scale, the data	p62
November 2013: singles day records, offline promotions and non retail spend	p63
November 2013: Alipay ownership restructuring, targeting tourism, financial services	p64
October 2013: Alibaba invests in app search engine	p65
July 2013: Alibaba's web TV	p66

Financials, KPIs, Benchmarks **p67**

Alibaba: facts and figures, quarterly GMV in RMB, US\$, growth, active buyers	p68
Alibaba: facts and figures, buyers vs. total internet users, Alibaba vs. China ecomm 2013	p69
Facts and figures: Analysis, order volumes	p70
Alibaba: facts and figures, revenues by segment, in RMB and US\$, 2012/13	p71
Alibaba: facts and figures, net income in RMB and US\$, margin 2012/13	p72
Alibaba: facts and figures, Analysis	p73
Alibaba: facts and figures, GMV revenues, fee equivalent 2013	p74
Alibaba: revenue growth outpacing costs, cashflow generation	p75

Taobao.com **p76**

Taobao: buyer and seller interaction, defeating eBay, size in US\$	p77
Taobao: the counterfeit problem	p78
Taobao: more similar to eBay or to google?	p79

Tmall **p80**

Tmall: the marketplace for brands, fee model, sizes in US\$	p81
Tmall: extremely promotional, similar to Amazon 3P	p82

Alipay **p83**

Alipay: overcoming lack of trust, 50% of all online payment in China	p84
Alipay: conflict around ownership structure	p85
Alipay: the importance of Alipay to Alibaba, how it works – unlike PayPal	p86
Alipay: the logistics angle, integration	p87

Financial services **p88**

Yu'e Bao: the money market account for young Chinese shoppers	p89
Alipay: Alifinance, beginning to monetise the big data on sellers, more integration	p90

The Tencent rivalry **p91**

Tencent: winning hands down on mobile phones	p92
Tencent: WeChat payments, why traditional online marketing doesn't work in China	p93
Mobile strategy: go fishing where the fish are	p94

Table Of Contents (3/3)

Strategy – it's all about the risks	p95
Risks: 1) losing trust, and how to overcome the distrust barrier	p96
Risks: 2) Counterfeits – the solution will need to come from the state	p97
Risks: 3) mobile – staying relevant, shopping versus social networking	p98
Risks: 4) mobile payments – Alipay's value to Alibaba	p99
Risks: 5) legislation and regulation from the PRC, hacking	p100
Risks: 6) China's IT infrastructure, servers located in China	p101
Opportunity 1: Conduit from China to the world	p102
Alibaba: changing China into a consumer society – the bull case	p103
Alibaba: IPO – cash mountain, buying back Yahoo's stake, acquisition spree?	p104
Aliexpress: connecting Chinese sellers to the world	p105
Alibaba: coming to EU and US? Chinese manufacturers integrated into ecosystem	p106
Alibaba: CP's platform to guarantee market access for Chinese factories?	p107
Alibaba: coming to Europe and the US? Significant hurdles remain	p108
Alibaba: how far involved is the CP in the company?	p109
Opportunity 2: Conduit for the world into China	p110
Opportunity: facilitating cross border commerce into China	p111
May 2014: the shoprunner deal, integration with Cainiao and Alipay	p112
Alibaba: shopping on western websites doubles year on year in China	p113
Alibaba: 3P sellers specialising in western brands, Alipay's new business model	p114
Cainiao: process flow, special agreement with Chinese customs	p115
Alibaba: low fees attracting 3P sellers to its ecosystem	p116
Outlook	p117
Outlook: on track to become one of the world's most valuable companies	p118
Outlook: the rise of Chinese consumers, but will it transfer well abroad?	p119
Outlook: targeting low-trust, emerging economies, changing China	p120
Amazon China: average price per category	p121
Sources	p122

Testimonials - Our Clients Say It Best



«Research Farm publishes great reports every year, and each report brings a unique perspective compared to any other information available elsewhere: the analyses go deep, they are supported with data, but what I most value is that each report is built around a 'clear story', contains proprietary insights and even sometimes innovative projections into the future which help us to think out of the box.»

Global Channel Category sales
Nestle waters

«For us the ResearchFarm reports are so useful. The information provided give us the opportunity to increase our knowledge about the retail industry and its key trends.»

Rafael Florez - CEO GS1 Columbia

«The discounters reports were and still are very helpful as we got lots of detailed information and figures we haven't found anywhere else. This has helped us to progress with our plans of expansion in the US and convince people internally of the market potential.»

Marketing Manager - Bonifaz-Kohler

«On DLF's (Danish Association of Fast Moving Consumer Goods Manufacturers) New Years Conference we had the great pleasure to hear ResearchFarm speak about future trends in on-line grocery retailing. The feed back from the conference participants was very positive as they gave ResearchFarm's presentation the highest score of all speakers, finding the analysis about the key success factors of chosen EU and US online retailers both very interesting and inspiring. We can therefore give ResearchFarm our best recommendation.»

Dagligvareleverandørerne

Danish Association of Fast Moving Consumer Goods Manufacturers

+ press quotes

Bloomberg
LINEAIRES
Le magazine de la distribution alimentaire


THE TIMES
The **RetailBulletin:**
The Complete Retail News Resource

FINANCIAL
TIMES
Retail Times
be inspired

 **just-food**
LSA

Get This Report On Your Desk Today



£1,500 excl. VAT

- 121 pages of insights
- Delivered as a PDF file within 24H
- Payment via credit card or invoice
- Order on our website, by email or by phone

THREE EASY WAYS TO ORDER

1. ONLINE

store.researchfarm.co.uk

2. EMAIL

sales@researchfarm.co.uk

3. PHONE

+44 (0)207 193 3099

You can pay via a bank transfer or with a credit card.



OUR RECENT REPORTS

- Amazon 2014 - GBP1,999
- Omnichannel 2014 - GBP1,999

(visit our website to download the brochures for these two reports)