GLOBAL BUSINESS STRATEGY(BUS 7070) Case Studies

For this assignment, following APA style, answer as comprehensively as possible the questions after each case summary.

Based on your reading of the case identify the main issues of the case and answer the questions in your own words. To better understand the case, you may also research the Internet, journals, and library reference materials and provide an up to date analysis.

Case Study Analysis #1: Australia and New Zealand: Doing Business with Indonesia

(*Due date: 2015 Dec 12, Minimum 2pages required for all questions in Case Study # 1 as per APA format with not more than 10% Plagiarism****)***

Please refer to Australia and New Zealand: Doing Business with Indonesia Case Study on **page 106** and answer the following questions:

1) Using this case and the cultural dimensions explored in this chapter, discuss some of the ways in which citizens of Australia and New Zealand are members of cultures very different from any other in Asia.
2) In what respects is the Indonesian archipelago unique in Asia?
3) What characteristics of Indonesian workplaces are referred to in this profile?
4) How does the population appear to be socially stratified?
5) What are some business opportunities in Indonesia for foreign direct investment?

Case Study Analysis #2: MTV Networks: The Arabian Challenge

(*Due date: 2015 Dec 12, Minimum 2pages required for all questions in Case Study # 2 as per APA format with not more than 10% Plagiarism****)***

Please refer to MTV Networks: The Arabian Challenge Case Study on **page PC2-9** and answer the following questions:

1) Experts felt that one of the biggest challenges faced by MTV while launching MTV Arabia was the prevalent culture in the Arab world. Discuss the Arab culture. How is it expected to pose a challenge to MTV?
2) Critically analyze MTV's strategy in the Middle East. Comment on its entry strategy and also its strategy of providing mixed content to the market. Do you think MTV will be able to succeed in this market?

Case Study Analysis #3: Alibaba in 2011: Competing in China and Beyond

(*Due date: 2015 Dec 14, Minimum 2pages required for all questions in Case Study # 3 as per APA format with not more than 10% Plagiarism****)***

Please refer to Alibaba in 2011: Competing in China and Beyond Case Study on **page PC3-1** and answer the following questions:

1) Critically analyze the factors that led to Alibaba sustaining its leadership position in the Chinese e-commerce market.
2) Discuss the rationale behind Ma establishing Taobao.com. What are the factors that led to Taobao's success as compared to eBay in the Chinese online auctions market? With Baidu's entry into the e-commerce market, discuss the challenges that Alibaba faces with regard to sustaining its position in the growing e-commerce market in China.
3) Critically examine Alibaba's business model. Do you think it is sustainable? After having captured the Chinese e-commerce market, what steps should Alibaba take to expand globally?

Case Study Analysis #4: Kelly's Assignment in Japan.

(*Due date: 2015 Dec 14, Minimum 2pages required for all questions in Case Study # 4 as per APA format with not more than 10% Plagiarism****)***

Please refer to Kelly's Assignment in Japan Case Study on **page 295** and answer the following questions:

1) Explain the clashes in culture, customs, and expectations that occurred in this situation.
2) What stage of culture shock is Kelly's family experiencing?
3) Turn back the clock to when Kelly was offered the position in Tokyo. What, if anything, should have been done differently, and by whom?
4) You are Kelly. What should you do now?

Internet Resources

Visit the Deresky Companion Website at www.pearsonhighered.com/deresky for this chapter's Internet resources.

CASE STUDY

Australia and New Zealand: Doing Business with Indonesia

There are thousands of Australians, both individually and as members of organizations, who share trade and education with Indonesia as do New Zealanders. Yet, though geographically part of Asia, citizens of Australia and New Zealand are members of cultures very different from any other in Asia.

As increasingly they seek to trade in Asia, so also do they need to learn to manage such differences; and doing business in Indonesia is a good example. Travelling time by air from Perth, Western Australia, to Indonesia is slightly less than four hours, yet the cultural distance is immeasurable.

In January 2007, the Jakarta Post reported GDP growth had risen to over 5%. Consumer consumption drives the economy but exports are thriving, and therein lay opportunities for Australia and New Zealand.

Indonesia is a country of more than 17,000 islands and the world's largest Muslim nation. In her lecture, Dr. Joan Hardjonoof Monash University discussed the historical and geographic contexts of modern Indonesia. She spoke of the many clusters of islands worldwide that have come together as nation states—for example, the Philippines and some island groups in the Pacific—but described the Indonesian archipelago as in a class of its own.

It is unique in terms of extent and diversity. For example, Java and Bali have fertile volcanic soils, while elsewhere the land is rich in mineral resources such as oil, natural gas, and coal. Climatic conditions vary from island to island. Some regions experience annual heavy rains and floods, while others suffer regularly from droughts that often lead to famines.

With a population of more than 230 million people, Indonesia is the fourth most populous country in the world, but there is a great imbalance in population distribution within the archipelago. Settlement has always been greatest on the island of Java, and today about 60% of the Indonesian population lives there.

National ties are strong, as revealed by the great response from within Indonesia to the recent natural disasters in Aceh and Nias. Unfortunately, there are still very obvious socio-economic disparities in all regions of the country. At the top of the social structure are wealthy elites, below them an increasingly demanding middle class, and at the bottom an impoverished majority.

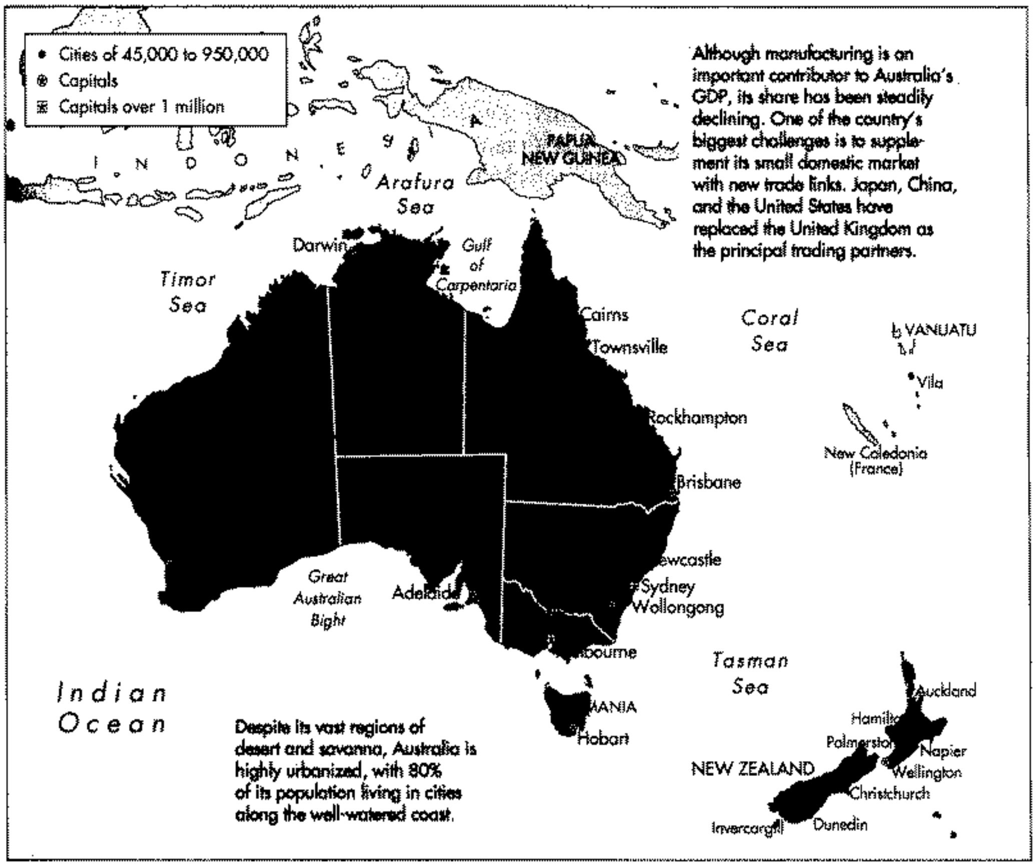
As Indonesia has become more integrated with ASEAN, North Asian trading partners have become more important: but well-to-do Indonesians now travel the world. Globalization has been the buzzword of international business for many years. International markets have split up into unified trade zones; individual marketplaces, particularly in the developing countries, are exposed to transnational pressures.

Some Asian countries are pulling back from perceived threats of international contagion, but Indonesia continues to open up its markets to world enterprise. However, Australians and New Zealanders cannot expect to do business with Indonesians just because they are neighbors. They have to learn the moves.

Business opportunities in Indonesia include agribusiness; the automotive industry; business and financial services; construction and infrastructure; information and communication technology; e-commerce; education and training; environmental products and services; food and beverages; fresh produce; health and medical provisions; mining and mineral services; oil and petroleum drilling, transport and storage; and science and technology.

Taking advantage of these opportunities requires skillful negotiation. One of the biggest challenges of working in a foreign country is learning how to operate in a different cultural setting. International managers tell endless stories of cross-cultural breakdowns, missed appointments, problems over differences in management style, lost orders or down time on production

MAP 3.4 Australia and New Zealand



lines, labor problems between foreign management and local staff, and many other examples of miscommunication. Many could have been avoided or at least mitigated had the expatriate managers and their local counterparts been better prepared for differences in work patterns.

Some cross-cultural behavior, such as patience and courtesy, is no more than good manners. It applies to all interpersonal communication; but in Indonesia, as in the rest of Asia, there is more need to develop a long-term relationship to produce a profit than there is in Australia or New Zealand. Relationships rely on shared expectations—for example, about how first contacts should be made, how appointments should be set and kept, how deals should be closed, how time should be managed (including the Indonesian concept of "jam karet," or "rubber time," that infuriates punctuality-conscious Westerners).

Sensible but inexperienced international managers seek information that more seasoned veterans can provide. They might be colleagues, business associates, friends, or paid consultants, but in any case most people are eager to give advice. On the other hand, even managers with a highly developed global outlook may have too generalist a viewpoint on international business. They may overlook the need for a local perspective in each host country.

Indonesia is one of those countries in which a foreign manager's home office priorities of task over relationship, of corporate rather than human priorities, may not be the most effective ways to achieve productivity and effectiveness. Indonesian managers usually place more value on harmony, understanding, and mutual respect. It may be sometimes that this emphasis outweighs the importance of job performance and productivity.

On the one hand, there are a number of concerns for Indonesian managers working with their Western counterparts. For example, they believe Westerners should make an effort to adjust to the culture, taboos, and language of their Indonesian colleagues. Foreign managers should avoid bad language that might set a bad example for the workers. They should give instructions slowly and clearly in Standard English and should ask for a paraphrase to ensure understanding.

They should be willing to consider individual cases and cultural needs (e.g., prayer times or other religious obligations, time off for cemetery visits before Ramadan, weddings, funerals, etc.).

On the other hand, Indonesian managers should be willing to make many adjustments to working in an international company. Important areas where Western management techniques are most successful include strategic planning and timetable deadlines, efficiency and punctuality, handling conflict, and taking responsibility.

Sensitivity to the needs of employees is a management area that is seldom stressed in most Western business cultures where efficiency, productivity, and effectiveness take priority. For example, when somebody loses their self-control through anger, distress, or confusion, Javanese will usually advise the need to *"eling"* (in translation, not to allow oneself to be overwhelmed by feelings and mixed-up thoughts but to regain self-control). Self-control is of high value to Javanese, maybe of the highest. This value is not unique to Indonesia. It is shared by the indigenous peoples of South Asia, the Himalayan Range and Central Asia, East Asia, Southeast Asia, and Africa; Oceania, the Caribbean, and South America; and Northern America and the Arctic: hence a common cultural emphasis on the art of making and wearing masks to represent hidden emotions. Regardless of the cultures they come from, masks convey the essential emotions.[1]

Thus situations can arise in business contexts where hiding true feelings and keeping up appearances may take precedence over solving a problem.

Maintaining the harmony of the office by giving the outward appearance that there is nothing wrong is a fairly common situation in traditional Indonesian offices. Bad news may not be communicated to the boss and situations that seem insurmountable to an employee may simply be ignored.[2] Since this behavior is not generally accepted to be part of Western culture—though certainly it exists there—Western managers need to spend more time observing and listening to their Indonesian employees than they would back home.

Another reason why such attentiveness is important is that Indonesian business relationships are paternal or maternal. Workers expect their supervisors to look after their interests rather as parents do for their children; and their supervisors understand and accept this responsibility. Furthermore, the tension involved in being the bearer of bad news to one's boss is felt very keenly by Indonesian employees, and this needs to be taken into account by supervisors and managers. The English language injunction is "Don't shoot the messenger," but some Indonesian workers seem to expect a firing squad when they have to report failure. Therefore, Western managers should make clear that they want and expect subordinates to come to them with questions or problems and that the response will be non-judgmental and self-controlled. Faces should be without masks; they should not portray negative emotions of anger, confrontation, or aggression. Managers in Indonesia are expected to always be polite and to keep smiling, no matter how angry they may be inside.

Nevertheless, cross-cultural sensitivity works—or should work—both ways. Foreign managers should understand Indonesian culture and business customs, and Indonesian managers should be given clearly to understand what foreign managers will expect from them.

Case Questions

1. Using this case and the cultural dimensions explored in this chapter, discuss some of the ways in which citizens of Australia and New Zealand are members of cultures very different from any other in Asia.
2. In what respects is the Indonesian archipelago unique in Asia?
3. What characteristics of Indonesian workplaces are referred to in this profile?
4. How does the population appear to be socially stratified?
5. What are some business opportunities in Indonesia for foreign direct investment?

1. *Rupa-Pratirupa, Man & Mask*, February 20–April 12,1998, Matighar, Indira Gandhi National Centre for the Arts, http://ignca.nic.in/

2. George B. Whitfield, 2006, Executive Orientation Services of Jakarta (EOS).

Sources:

Joan Hardjono, 05/08/2005, Herb Feith Lecture, "Can Indonesia Hold?" Centre of Southeast Asian Studies and Faculty of Arts, Monash University, in association with ABC Radio Australia and the Melbourne Institute of Asian Languages & Societies, University of Melbourne: http://www.abc.net.au/ra/news/infocus/s1429967.htm

Javanese mystical movements, January 2007, http://www.xs4all.nl/~wichm/javmys1.html

Phil King, December 2006, "Facing disaster: The 27 May earthquake shook a kingdom, not just a city," *Inside Indonesia*, http://www.insideindonesia.org/

Rupa-Pratirupa, Man & Mask, February 20–April 12, 1998, Matighar, Indira Gandhi National Centre for the Arts, http://ignca.nic.in/ex_0032.htm.

Stephen Schwartz, January 2007, "Maintain momentum to overcome challenges," *Jakarta Post*, Patrick Underwood, 23/11/2006, "Asia Update," Meat & Livestock Australia Limited (MLA) http://www.mla.com.au/; *Inside Indonesia*, http://www.insideindonesia.org/edit80/p11-12mahony.html

Western Australia Department of Industry and Resources: Export and Trade, http://www.doir.wa.gov.au/exportandtrade/F3130D5AECA54ACF8ABBBBA831766203.asp

George B. Whitfield, 2006, Executive Orientation Services of Jakarta (EOS).

World Bank, http://0-siteresources.worldbank.org.library.vu.edu.au/INTINDONESIA/Resources/htm

Source: Adapted from Helen Deresky and Elizabeth Christopher, "Australia and New Zealand as Part of Asia: Doing Business with Indonesia," *International Management: Managing across Borders and Cultures*, Pearson Education Australia, 2008. Used with permission.

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Case 4 MTV Networks: The Arabian Challenge

"[. . .] MTV has a penchant for airing controversial material and making a mockery of convention. And of course, it's an American brand. . . . The challenge, therefore, is transforming a notoriously risqué channel into a Middle Eastern-friendly platform for music and creativity without stripping MTV of its edge. It isn't without some irony that a channel known for angering religious, political, and conservative communities is operating in and catering to a region renowned for reacting (and sometimes overreacting) negatively to controversial content."[1]

–Dana El Baltaji,
Special Projects Manager, Trends magazine in Dubai, in 2008.

"In many ways (MTV Arabia) is the epitome of our localization strategy. It's a different audience (in the Middle East) but this is what we do—we reflect culture and we respect culture. The programming mix on this one is going to be a little more local than normal."[2]

–William H. Roedy,
Vice Chairman for MTV Networks and President MTVI Network International, in 2007.

A LITMUS TEST FOR MTV'S LOCALIZATION STRATEGY

MTV Networks (MTVN) launched MTV Arabia on November 17, 2007, in partnership with Arabian Television Network[3] (ATN) as part of its global expansion strategy. According to analysts, MTV's presence in the Middle East would provide the region with an international music brand. Until then the Middle East did not have an international music brand though it had clusters of local music channels. On its part, the region promised to offer tremendous growth opportunities to MTVN.

Analysts felt that MTV Arabia was MTVN's most ambitious and challenging venture. The Middle East offered huge growth potential to MTVN given its huge youth populace. However, according to analysts, MTV's success in the Middle East was contingent upon a tactical balancing between delivery of international quality music and the culturally sensitive environment prevalent in the region. Some analysts felt that the channel was well equipped to achieve this considering MTVN's extensive experience in the global market and its ability to provide localized content without diluting what MTV stood for.

Author Information:
This case was written by **Debapratim Purkayastha,** ICMR. It was compiled from published sources, and is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation.

To ensure that its programs won over the hearts of the Arabs and adhered to the local taste and culture without diluting MTV's global brand, MTV Arabia designed a much localized Arabic version of its international music and reality shows. In this connection, Patrick Samaha (Samaha), General Manager of MTV Arabia, said, "We've created programs that are an Arabic version of MTV programs. It is the first time that programs like this will really reflect the youth culture here, but we've been mindful all the way about respecting the local culture."[4]

According to the company, the launch of MTV Arabia was also expected to act as a culturally unifying force by propelling Arabic music to the global forefront, and vice versa. While launching MTV Arabia, William H. Roedy, Vice Chairman for MTV Networks and President of MTV International, said, "Tonight's [November 16, 2007] MTV Arabia launch show celebrates one of the most important landmarks in MTV's 25-year history. MTV Arabia will reach the largest potential audience of any MTV channel outside the United States. MTV is proud to celebrate the voice of the Arab youth and through our global network we can showcase what this rich and diverse culture is all about to new audiences around the world."[5]

BACKGROUND NOTE

MTV (short for Music Television), which pioneered the concept of a cable music channel, was launched on August 1, 1981, and marked the commencement of the cable TV revolution. It was promoted by Warner Amex Satellite Entertainment Company, a joint venture between Warner Communications and American Express. In 1984, the company was renamed MTV Networks (MTVN) with its operations confined to the US.

At the time of its launch, the MTV channel primarily catered to those in the 12 to 24 age group, airing heavy-metal and rap music. However, over the years, it also launched many sister channels such as VH-1 (short for Video Hits One) which

[1] Dana El Baltaji, "I Want My MTV," www.arabmediasociety.com, May 11, 2008.
[2] Lynne Roberts, "MTV Set for Middle East Launch," www.arabianbusiness.com, October 17, 2007.
[3] Arabian Television Network (ATN) is a Dubai, United Arab Emirates–based broadcast media company, part of the Arab Media Group's Arabian Broadcasting Network (ABN). ABN is a part of the Arab Media Group (AMG). As of 2007, AMG was the largest media group in the UAE, with approximately 1,500 employees. It was an unit of TECOM Investments that was controlled by Dubai's ruler.
[4] Jolanta Chudy, "MTV's Arab Net Thinking Locally," www.hollywoodreporter.com, November 6, 2007.
[5] "Akon and Ludacris Dazzle the Desert in their Middle East Debuts to Celebrate the Launch of MTV Arabia," www.dubaicityguide.com, November 16, 2007.

was formed in 1985 to play light popular music; Rhythm and Blues (R&B), jazz, country music, and classics targeted at the 18 to 35 age group; and Nickelodeon,[6] which was launched in 1977 keeping children as its target segment. While these sister channels of MTVN continued playing different varieties of music, the core channel MTV began to diversify in 1990. Besides playing music, it also started airing non-music reality shows. *The Real World* and *MTV Fear* were some of the popular reality shows aired. Animated cartoon series were also introduced, the most popular of them being *Beavis and Butthead*.

In 1986, MTVN was acquired by Viacom Inc. (Refer to Exhibit I for a note on Viacom.) Thereafter, in 1987, MTVN launched its first overseas channel in Europe, and this marked the beginning of MTV's global expansion. The international arm of MTVN was known as MTVI. In addition to MTV, MTVI managed a bouquet of channels such as VH-1 and Nickelodeon.

By the mid-1990s MTVI realized that to become a successful brand globally, it had to adapt to local conditions. Hence it adopted a strategy of "Think Globally, Act Locally." Thereafter, MTVI became the first international TV network to offer channels such as MTV Australia, MTV Asia, MTV India, MTV China, MTV Germany, etc. in local languages with localized content.[7] To penetrate any new market, MTVI initially tied up with a local music channel and in the course of time, it acquired the local company in that region. For instance, in the early 2000s, MTVI entered the Australian market by setting up a joint venture between Austereo (a national commercial radio network in the country) and MTVN. Later on, it acquired Austereo to become MTV Australia.

Initially, some analysts were doubtful as to how far MTVN's global expansion would be successful, given the latent and overt anti-American sentiments in various parts of

EXHIBIT I **Note on Viacom Inc.**

Viacom was established as a public company in 1971. In 1985, it acquired a 65 percent stake in MTV Networks, which included MTV, VH-1, and Nickelodeon, and purchased the remaining interest in 1986. In 1991, Viacom completed its purchase of MTV Europe by acquiring a 50 percent stake from British Telecommunications and other parties. In 1994, the Viacom Entertainment Group was formed through a merger with Paramount Communications Inc. In 2000, CBS Corporation, a major media network in the U.S., merged with Viacom, as a result of which TNN (re-named as Spike TV in 2003) and CMT (Country Music Television) joined the MTV Networks. The BET (Black Entertainment Television) channel was acquired by Viacom in 2001. In the early 2000s, Viacom launched many channels worldwide under MTV Networks and BET.

In 2005, Viacom Corporation split into Viacom Inc. and CBS Corporation. In 2006, Viacom Inc. was one of the world's leading media companies operating in the Cable and Satellite Television Networks (C&S) and film production divisions.

VIACOM INC. BRANDS*
Cable Networks & Digital Media

- MTV Networks (Comedy Central, CMT, LOGO, MTV, MTV 2, MTV U, MTV Networks Digital Suite, **MTV International**, MTV Networks Online, Nickelodeon, Nick @ Nite, The N, Noggin, Spike, TV Land, VH-1)
- BET Networks presents the best in Black media and entertainment featuring traditional and digital platforms. Brands including BET, BET J, BET Gospel, BET Hip Hop, BET.com, BET Mobile, BET Event Productions, and BET International deliver relevant and insightful content to consumers of Black culture in more than 84 million households.

Entertainment (Film & Music Publishing)
- Paramount Pictures
- Paramount Home Entertainment
- DreamWorks SKG
- Famous Music

*The list is not exhaustive
Source: www.viacom.com

[6] Nickelodeon primarily caters to children in age group 7–11, but along with this it also airs weekend programs in TEENick catering to children in age group 12–17 and also weekday morning programs aimed at children in age group 2–6 and a late-night segment known as Nick at Nite aimed at general audiences.

[7] Dirk Smillie, "Tuning in First Global TV Generation," *The Christian Science Monitor*, June 4, 1997.

the world. However, the channel did not face too many difficulties. Commenting on this, Roedy said, "We've had very little resistance once we explain that we're not in the business of exporting American culture."[8] According to some analysts, Roedy was instrumental in taking MTVI across many countries worldwide. To gain an entry into difficult markets such as China, Israel, and Cuba, Roedy even met the political leaders of those countries to explain the network's initiatives to them.

Overall, despite the initial hiccups, the channel's global expansion strategy proved successful. Thus, by following a policy of having a global presence with a local outlook, by mid-2006, MTVI catered to an audience of more than 1 billion and expanded its presence in 179 countries across Europe, Asia, Latin America, and Australia.[9] It operated more than 130 channels in over 25 languages and it comprised MTV Networks Europe (MTVN Europe), MTV Networks Asia-Pacific (MTVN Asia-Pacific), and MTV Networks Latin America (MTVN Latin America). In addition to this, it operated some broadband services and more than 130 websites.[10]

According to analysts, a noteworthy reason behind MTV's global success was that the channel adopted a decentralized structure and gave commercial and creative autonomy to the local staff. This policy of minimal interference in local operations led to innovation and rapid expansion. Commenting on this, Roedy said, "Something we decided early on was to not export just one product for the world but to generate a very different experience for our brands depending on the local cultures."[11]

MTV's impressive growth globally contributed significantly to the revenues of its holding company Viacom over the years and it also became Viacom's core network. As of the end of 2007, MTVI had more than 140 channels around the world catering to a potential 1.5 billion viewers globally.[12] In the U.S. alone, it reached 87.6 million homes.[13] Its Emerging Markets group was the network's fastest growing business segment.[14] For the year ending 2008, Viacom's total revenues (including cable network and entertainment divisions) were US$14,625 million. Out of this, the revenue from Media Network channels (which includes MTVN) was US$8,756 million (Refer to Exhibit II for selected financials of Viacom).

EXHIBIT II Selected Financials of Viacom

(US$, million)	2008	2007	2006
Revenues	14,625	13,423	11,361
Operating Income	2,523	2,936	2,767
Net Earnings	1,251	1,838	1,592
From Media Networks			
Revenue	8,756	8,101	7,241
Operating Income	2,729	3,048	2,904

Source: Adapted from http://www.viacom.com/news/News_Docs/78157ACL.PDF

PREPARING FOR THE LAUNCH

With the growing popularity of MTV, there was a mushrooming of many similar channels across the world. Though the Arab media was late in adopting this concept, some European and U.S. channels had started offering such programs in this region, analysts pointed out. In the mid-1990s, some Arab music channels also entered the fray. Some of these channels were influenced by MTV. By the mid-2000s, there were a number of Arab music channels (refer to Exhibit III for a note on major music channels in Saudi Arabia). These channels relied heavily on Arab artists but also aired international numbers by entering into agreements with production houses and other TV networks. MTV was available in the region through a special deal with Showtime Arabia.[15] As part of the deal, Showtime aired Nickelodeon and MTV in English with Arabic subtitles.[16] The channel catered to the middle and upper classes, who had been exposed to the West and had an interest in Western entertainment. Analysts felt that MTV was popular with a section of the audience in the region who were waiting eagerly for its launch there.

The first announcement that MTVI was preparing to launch MTV Arabia came in August 2006. During MTV's 25[17] anniversary of its first US channel, the company said that it was on the lookout for local partners in the Middle East and would provide the audience in the region content that would be very different from that offered by popular Arab music channels. Dean Possenniskie, Vice President and General Manager for Emerging Markets, MTVI, said, "[MTV is] very interested in the [Arab satellite channel] market and realizes how important it is. . . . Hopefully [we] will be in the market in the next 24 months . . . it all depends on finding the right local partners."[18] By the end of the year, it was announced that MTVI would launch the channel in the region in partnership with Arabian Television Network (ATN), which was a part of the Arabian Broadcasting Network (ABN).[19]

MTVI's venturing into the Middle East was a result of the combined efforts of innovative and enthusiastic personalities such as Roedy, Bhavneet Singh,[20] Senior Vice President and

[8] Kerry Capell, Catherine Belton, Tom Lowry, Manjeet Kripalani, Brian Bremner, and Dexter Roberts, "MTV's World," *BusinessWeek*, February 18, 2002.
[9] www.viacom.com/cable.jhtml.
[10] MTVI operated more than 130 websites of its international channels while MTVN, totally, operated more than 150 websites, which included online representations of channels broadcast in the US.
[11] Brad Nemer, "How MTV Channels Innovation," *BusinessWeek*, November 6, 2006.
[12] Tamara Walid, "Finally Got My MTV," www.arabianbusiness.com, November 22, 2007.
[13] Ibid.
[14] "Arab Media Group and MTV Networks International to Launch Nickelodeon Arabia in 2008," www.media.ameinfo.com, October 20, 2007.
[15] Showtime Arabia is one of the leading subscription-based television networks in the Middle East. It is partly owned by Viacom.
[16] Zeid Nasser, "Showtime braces for impact of free-to-air MTV Arabia & Arabic Nickelodeon," http://mediame.com, October 16, 2007.
[17] "Arab Satellite TV Channels Rapidly Expanding," www.xrdarabia.org, November 14, 2007.
[18] Faisal Abbas, "MTV Eyes Middle East Market," www.asharq-e.com, August 8, 2006.
[19] "Arabian Television Network Partners with MTV to Launch MTV Arabia," http://mediame.com, December 27, 2006.
[20] On April 23, 2007, Bhavneet Singh was promoted to Senior Vice President and Managing Director of MTVNI's Emerging Markets group.

EXHIBIT III Music and Entertainment Channels in Saudi Arabia*

As of early 2008, there are 370 Arabic satellite TV networks broadcasting in the Middle East. This is an increase of 270 percent since 2004.[17] Among these, 56 belong to private companies, 54 are music channels, and 38 are state owned. Most of these are headquartered in United Arab Emirates (22 percent), Saudi Arabia (15 percent), and Egypt (11 percent). In Saudi Arabia alone, there are more than 200 free-to-air satcasters and 50 music channels in the region. Some of the important music and entertainment channels are:

Mazzika, which offers a variety of music and light entertainment programs.

Melody Hits, which is a music channel airing Arabic and international music videos.

MBC, headquartered in Dubai, which is a pan-Arab news and entertainment television channel. MBC 2 is a non-stop premium movie channel. MBC 3 is a children's channel and it broadcasts famous animated kids' shows, including exclusive translated titles and live action and animated feature films. It also airs family shows and family movies for younger audiences as well as the adult audience. MBC 4 broadcasts specifically American programs.

Nojoom, which is a music channel airing Arabic and international music videos.

Rotana TV network, which broadcasts Arabic music and films. It has six channels under its wings—Mousica, Rotana Clip, Rotana Tarab, Rotana Khalijiyya, Rotana Cinema, and Rotana Zaman. The channels are dedicated to Arabic pop music; Arabic classical music, interactive games; Gulf music, cinema, featuring the biggest and latest blockbuster releases; and old classical movies.

Saudi Arabian TV, which features live coverage of Ramadan, Hajj, and Eid prayers. It also shows popular movies and news programs.

Shada channel—a part of the Al Majd Group—which is a channel totally devoted to Islamic songs (Anasheed).

Wanasah TV channel, which broadcasts music videos and some variety programs. All its programs are in Arabic.

Panorama FM, which is a music radio channel in Arabic.

Radio Rotana FM, which broadcasts customized programs and the latest Arabic hits fifteen days ahead of any of its competitors due to an exclusive deal with Rotana Music.

Radio Fann FM, which broadcasts a mix of the latest Arabic, English, and International music hits, along with hourly news broadcasts and various customized programs.

Al-Ikhbariya channel, which broadcasts news and current affairs.

*The list is not exhaustive.
Source: Compiled from various sources.

Managing Director of MTV Networks International MTVNI Emerging Markets group, and Abdullatif Al Sayegh, CEO and Chairman of ABN.

Analysts felt that it would have been very difficult for a Western company like MTVI to venture into the highly regulated and complex business arena of the Middle East on its own. In this regard, Singh said, "A market such as the Middle East, however, also brings a level of complexity in the way business is done and regulatory challenges which mean it takes a western media company a long time to get its head around it."[21] Hence, it entered the Middle East by tying up with a local partner, the Arab Media Group (AMG), an established player in the Arab media industry with eight radio stations and three daily newspapers. The channel MTV Arabia was formed as a result of a licensing arrangement between MTV and AMG. MTV would earn an estimated US$10 million annually in licensing fees from AMG for 10 years.[22]

On the other hand, an alliance with MTV was a winning deal for AMG too as it could access the former's world class resources to enhance its visibility in the Arab media as well as across the globe. "We found it very good to start our TV business with MTV Arabia because it's a great name to start with. Great team, great people; they provided us with a lot of resources. We believe that MTV is the beginning of a new era in television in this part of the world,"[23] said Sayegh.

However, the tie-up with a local partner was not enough to guarantee the success of MTV's launch in the Middle East

[21] Andrew Edgecliffe-Johnson, "MTV Tunes in to a Local Audience," www.us.ft.com, October 26, 2007.

[22] Sarah Raper Larenaudie, "MTV's Arab Prizefight," www.time.com, November 2, 2007.

[23] Tamara Walid, "Finally Got my MTV," www.arabianbusiness.com, November 22, 2007.

given the conflict between the explicit hip-hop music culture portrayed by MTV and the conservative social culture prevalent in the Middle East. Hence, before launching the channel, Samaha conducted an extensive survey of the region to understand what people wanted. The survey team targeted people in the 18–24 age group and travelled around the region to schools and universities canvassing opinions. They also spoke to the elderly and figures of authority to assure them that they were there to entertain people within the limits of Arab traditions and had no intention of showing disrespect to the local culture. On this Samaha commented, "We also spoke to the governments, leaders, and parents and said, 'Don't worry, it will be nice,' so they know what's going on,"[24] said Samaha.

Accordingly, MTV Arabia's programming team decided to air MTVN's globally successful music shows but with a local flavor that would suit the Arab mindset and this laid the foundation for a planned launch of MTV in Arabia. The launch team comprised a mix of Saudis, Palestinians, Emiratis, Iraqis, and Lebanese.[25] "MTV first launched in 1981 when cable television was in its infancy. Since then we've grown into the world's largest TV network by becoming part of the fabric of youth culture, and by respecting audience diversity and different cultures. We're delighted to be launching MTV Arabia and looking forward to working with our partners to provide the best youth programming,"[26] said Singh.

MTV commissioned ad agencies TBWA\Raad and Fortune Promoseven to handle the launch of the channel in the Middle East.[27] "We're targeting normal Arabs. We're not targeting educated, private school people. Those are Arab society's niche. They are not more than 10 percent of the population. We are trying to appeal to the masses,"[28] said Samer Al Marzouqi, channel manager, MTV Arabia.

MTV ENTERS THE MIDDLE EAST

MTV Arabia was considered by experts as the biggest launch in MTVI's history in terms of potential audience at launch.[29] An exclusive, star-studded preview event marked the launch of MTV in the Middle East. The launch featured performances by eminent stars such as Akon, Ludacris, and Karl Wolf along with local hip hop group Desert Heat. The channel was formally launched on November 17, 2007, as a 24-hour, free-to-air television channel, having a target audience in Saudi Arabia, Egypt, United Arab Emirates, Lebanon, Bahrain, Jordan, Kuwait, Oman, Qatar, Yemen, Palestine, and Syria. MTVa.com, an Arabic and English language website, complemented the channel and provided users with a wide range of online community and interactive elements.

In line with its mixed-content strategy, MTV Arabia was to showcase 60 percent international music and 40 percent Arabic music, along with the local version of the channel's popular international non-music shows. About 45 percent of MTV Arabia's content was to be produced locally, with the rest translated. In this regard, Roedy commented, "The key is that the packaging, attitude, and obviously the language, should reflect the country. There is already great music there."[30] The channel's programming was to have a mix of music videos, music-based programming, general lifestyle and animated programs, reality shows, comedy and dramatic series, news specials, interviews, and documentaries. Besides international MTV shows, MTV Arabia was also to design new shows in Arabic to cater to pan-Arab youth audiences.

The company also said that the channel could act as a cultural unifying force in a region known for its political tensions. "The launch of MTV's 60th channel is a chance to correct misconceptions of the region. . . . This part of the world has been associated with stresses and tensions . . . the one thing music can do is act as a unifying cultural force across regions,"[31] Roedy said.

RATIONALE BEHIND THE VENTURE

Favorable demographics had been one of the key rationales behind MTV's commercial launch in the Middle East. About 65 percent of the Arab population consisted of youth under the age of 25, and the launch of MTV Arabia would provide MTV an opportunity to cater to a 190 million audience.[32] Further, though the Arab market was crowded with more than 50 channels, none of them provided a global platform to export the musical talent of the local youth. In this regard, Sayegh said, "Through our network, we now have more platforms to talk to our youth and in ways that have never been done before in the Middle East." Since young people "represent 65% of the population in the Middle East, it's time they were heard. . . . Understanding the next generation is a key priority."[33] MTV being an international brand, it had global reach and this became its key selling proposition for gaining critical mass in the Arab music world. Singh commented, "The fact that there has been no real youth platform, no real brand out there for the kids, makes us [feel] there is an opportunity for us."[34]

Moreover, the Middle East had the potential to offer MTV not only lucrative ad revenues but also numerous media such as mobiles and the Internet to reach its end consumers. Singh said, "There are 37 million mobile subscribers in the wider Middle East, which is phenomenal and the average revenue per user is comparable to Western Europe. We believe that's where the future is—the ability to watch content wherever and however

[24] Matt Pomroy, "The Revolution Will Be Televised," www.arabianbusiness.com, November 15, 2007.
[25] Sarah Raper Larenaudie, "MTV's Arab Prizefight," www.time.com, November 2, 2007.
[26] "Arabian Television Network Partners with MTV to Launch MTV Arabia," www.mediame.com, December 27, 2006.
[27] Iain Akerman, "MTV Hires Two Agencies for Launch of MTV Arabiya," www.brandrepublic.com, May 23, 2007.
[28] Dana El Baltaji, "I Want My MTV," www.arabmediasociety.com, May 2008.
[29] Irene Lew, "MTVNI Ups Singh," www.worldscreen.com, April 30, 2008.
[30] Lynne Roberts, "MTV Set for Middle East Launch," www.arabianbusiness.com, October 17, 2007.
[31] Simeon Kerr and Peter Aspden, "MTV Arabia Beams 'Bling' to Gulf," www.ft.com, November 17, 2007.
[32] "MTV Arabia to launch November 17," www.mediame.com, October 28, 2007.
[33] Ali Jaafar, "MTV Arabia Announces Lineup," www.variety.com, October 28, 2007.
[34] Von Andrew Edgecliffe Johnson, "MTV Tunes in to a Local Audience," www.ftd.de, October 26, 2007.

you want. We want to provide Middle East youth with the opportunity to watch MTV on mobile, on broadband, and on television. We're in discussions with mobile operators in the UAE, Kuwait, and Egypt, to look at how to distribute MTV content. There's been a huge amount of interest in that."[35] Products such as MTV Overdrive, in which the user could download the video at broadband speed, and MTV Flux, in which the online users could create their own TV channel, were expected to help in luring the various Internet service providers in the region to MTV and to become major sources of its revenue.

The existence of various communication media with mass reach was expected to act as a catalyst in augmenting the channel's penetration rate in the Arabic region. In times to come, if the channel validated its success in the Middle East, it would become a major revenue contributor to the MTV group.

KEY CHALLENGES AND SUCCESS STRATEGY

MTV was known for airing sexually explicit and provocative programmes. In other words, it carried with it an image of open Western culture. This explicit Western culture projected by MTV went contrary to the socially conservative culture of the Middle East and could be a key bottleneck to the channel's acceptance in the Arab region, according to analysts. "As a brand, one would think that MTV is the ultimate example of what the religious, conservative cultures of the Middle East would most revile about Western pop culture,"[36] according to leading brand portal Brandchannel.com. Adapting content to suit local tastes too could prove challenging because of many different countries comprising the region. What was acceptable in Dubai may not be acceptable in other parts of Saudi Arabia; what was acceptable in Egypt may not be acceptable in Jeddah (in Saudi Arabia). Analysts felt that the company also had to maintain what it stood for and too much localization could dilute its brand. And to complicate matters, there were strong anti-American sentiments prevalent among a large section of the population. Issues such as the U.S. invasion of Iraq and its support for archenemy Israel had left many Arabs angry.

However, the channel seemed well prepared to overcome such impediments to its growth plans in the Arab market. Though MTV Arabia would air its popular international programs, the network said that music videos and reality shows like "Hip Hop Na" and "Pimp My Ride" would be appropriately edited to ensure their alignment with the cultural ethos prevailing in the Middle East. Commenting on this, Sayegh said, "When we come to people's homes, we want to earn their respect."[37] He explained that there would be "culturally sensitive editors going through content of the programming."[38] In short, the channel expected to respect the local culture without diluting its brand. The channel aimed to prove that despite being a global brand, it would be a channel for the Arabs and made by Arabs—by people just like them.

Analysts said that MTVN's entry into the Middle East, which already had more than 50 local music channels operating, would be marked by stiff competition. In other words, unlike its past forays into India and Europe, MTV would not be entering a virgin music industry when it came to the Middle East. If on the one hand, the existence of a youth population was a business opportunity for MTVN, the same favorable demographic factor had also led to the explosion of dozens of local music channels which had a better understanding of the local audience's taste and could pose a formidable threat to MTVN's growth in the Middle East.

Also channels such as Rotana and Melody, which had already created a niche for themselves in the region, could pose a big competitive threat to MTVN. These channels had been functioning taking into account the tastes of the youth and had been able to attract a huge chunk of their target segment by offering creative concepts like games that allowed viewers to be part of the action from home along with interesting programs, music videos, and various artist albums and concerts. Moreover, some popular Arab music stars had already signed exclusive deals with some local channels. The challenge for MTV would be to not only find the right content but also ways to connect and captivate the Arabian youth, who were habituated to log on to any number of sites and enjoy music channels and videos according to their whims and fancies.

However, MTV Arabia was confident of scoring over its competitors and posting an impressive growth in the years to come. To overcome competition, the channel planned to project itself as unique and different from the existing lot. It proposed to establish itself as a platform wherefrom the Arab youth could voice their local concerns as well as advertise their music talent. For instance, MTV Arabia's flagship show "Hip Hop Na" would audition the best local hip-hop acts in seven different Middle Eastern cities. Thereafter, the winner from each city would get a chance to record a track for a compilation CD produced by FredWreck.[39]

In a nutshell, MTV Arabia would not only provide entertainment but would also leverage on its global reach to advertise the musical talent of Arab youths. In this connection, Samaha said, "We are not only a music channel, we are an entertainment channel where young Arabs will get a voice."[40] He added, "MTV Arabia is a fresh take on MTV the brand, made by Arabs for Arab youth, and is dedicated to their self-expression. We've done extensive research to listen to our audiences, and MTV Arabia will be the first free-to-air channel to celebrate young people and their lives and talents from across this dynamic, vibrant region. We'll also offer audiences a window to the world of global youth culture, bringing top international entertainment to the region and showcasing the Arab region in the context of what's happening around the world. Through MTV's global network, we'll also be able to export Arabic music and culture to the international stage."[41]

[35] "MTV Arabia to Be Launched Soon," www.oceancreep.com, October 8, 2007.

[36] "Will the MTV Brand Change the Middle East?" www.brandchannel.com, December 3, 2007.

[37] "MTV Aims to Win over Middle East," www.cnn.com, November 19, 2007.

[38] "MTV Aims to Win over Middle East," www.cnn.com, November 19, 2007.

[39] FredWreck is a Palestinian-born hip-hop producer who has worked under some of the eminent record labels such as Dogghouse Records, Virgin Records, etc. He has also worked with many distinguished rap stars such as 50 Cent and Snoop Dogg.

[40] "MTV Looks to Conquer Middle East Market," www.aol.in, November 18, 2007.

[41] "MTV Arabia to Launch November 17," www.middleeastevents.com, October 27, 2007.

EXHIBIT IV **Local Productions Aired on MTV Arabia**

The flagship local show:

Hip Hop Na, a twelve-episode series which followed auditions to uncover the best local hip hop acts in four different Middle Eastern cities.

Music Related Shows:

Waslati, viewers with webcams become VJs and introduced three of their favorite videos.

Baqbeeq, a music trivia show with a twist, where interesting and hilarious bits of trivia pop up through the most popular videos in the world.

Introducing Block goes behind the scenes in the music industry, with exclusive interviews and performances by the biggest international and Arab stars.

Other Programs:

Al Helm, based on MTV's ***MADE*** format, follows the journey of aspiring teenagers looking to fulfill their dreams with the help of an MTV Arabia-supplied "coach."

Al Hara tours the Middle East's street scene, and features previously unknown artists displaying innovative talent in skills like beat-boxing, break-dancing, or magic acts. The show is based on MTV's international program format, ***Barrio 19***.

In ***Akher Takka***, based on MTV's hit format, ***Boiling Point***, actors antagonize stressed-out "victims" who can win a cash prize if they manage to keep their cool in extremely annoying situations.

Source: Compiled from various sources.

Also, the programming line-up would feature more local content (refer to Exhibit IV for a note on local production program to be aired on MTV Arabia) in comparison to other localized MTV ventures. There would be a localized version of popular shows such as "MADE" (al Helm) and "Boiling Point" (Akher Takka), which would constitute 40 percent of the content to be aired on MTV Arabia.

The company also said it did not expect anti-American sentiments to affect its chances in the region. MTV said that it expected to win over the target segment with content relevant to them. Moreover, it said that its research before the launch had shown that the majority of respondents thought that MTV was a European or Indian brand.[42]

THE ROAD AHEAD

MTVN catered to a huge market segment of nearly 2 billion people worldwide and was expected to provide a global platform for Arabic music and culture. It had influenced young people all over the world and given them a voice and it would try to do the same in the Middle East. An Arabic category was already added in MTV Europe Music Awards 2007, giving Arabic music the much-needed global platform.

The MTV-AMG combine would not only provide entertainment to the region but would also take up social issues and try to contribute to Arab society, according to the network. In this regard, Sayegh commented, "We are going to encourage education and look for solutions to problems such as unemployment. These are all causes on our agenda."[43]

MTVN, along with AMG, planned to expand its operations in the Middle East. It had already announced the launch of Nickelodeon Arabia in 2008. It would be the first free-to-air channel for children in Arabic. Roedy commented, "Adding the voices of Arab children to our worldwide Nickelodeon family is a significant milestone in our history, and advances our ambitious strategy to build a portfolio of integrated kids businesses across the region. The Middle East is a dynamic, thriving market with vast growth opportunities, and we look forward to launching even more MTVNI brands and businesses through our successful partnership with AMG."[44] Singh added, "The launch of Nickelodeon Arabia is a part of our wider, ongoing multi-platform strategy encompassing consumer products, digital media, hotels and theme parks, which we hope will establish Nickelodeon as the premier destination for kids in the region."[45]

Thus far, MTVN's model of entering a market in partnership with a local partner and following a localization strategy had worked well for the company. Analysts felt that only time would tell whether the company would succeed in the Middle East. But Singh had a rather philosophical take on what success meant. To him, the venture would be a success when people in the smallest cities of the Middle East came up to him and professed their love for MTV. "After all, it's not about how many eyeballs you reach, it's about how many people relate to you," he said.[46]

[42] Adam Sherwin, "MTV Arabia to Feature Regional Talent and Tone Down Network's Risque Content," www.business.timesonline.co.uk, November 16, 2007.

[43] Simeon Kerr and Peter Aspden, "MTV Arabia Beams 'Bling' to Gulf," www.ft.com, November 17, 2007.

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[45] Stuart Kemp, "MTV, Arab Media to Launch Nickelodeon Arabia," www.hollywoodreporter.com, October 17, 2007.

[46] Tamara Walid, "Finally Got My MTV," www.arabianbusiness.com, November 22, 2007.

Case Questions

1. Experts felt that one of the biggest challenges faced by MTV while launching MTV Arabia was the prevalent culture in the Arab world. Discuss the Arab culture. What challenges does the culture pose to MTV?
2. Critically analyze MTV's strategy in the Middle East. Comment on its entry strategy and also its strategy of providing mixed content to the market. Do you think MTV will be able to succeed in this market?
3. Follow up on this case as of the time of your reading it. How successful has MTV been in this market to date? What, if anything, do you think MTV should have done differently? What should the company do now?

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PART III: COMPREHENSIVE CASES

Case 5 *Alibaba in 2011: Competing in China & Beyond*

"Alibaba has a first-mover advantage that makes it very hard for competitors to chip away at their lead in the market."[i]

–Dick Wei,
Analyst, J.P. Morgan Securities Inc.,[1] *in 2007.*

"For us, the goal has been to build a company that lasts 102 years and a company that changes China. We're only six years old, so while other people may call us a success, we still do not consider ourselves successful yet. We have a long way to go and the intense competition is what keeps us sharp. The success we've had so far has not made us lose our edge."[ii]

–Jack Ma,
Founder and CEO of Alibaba.com, in 2006.

"If there's a company outside of America that can introduce a new business model to the world, it's Alibaba."[iii]

–Masayoshi Son,
Founder and CEO, Softbank Corporation,[2] *Japan, in 2005.*

INTRODUCTION

On November 11, 2011, Bloomberg[3] reported that China's leading e-commerce company, Alibaba Group (Alibaba), in association with Softbank Corporation (Softbank), The Blackstone Group[4] (Blackstone), and Bain Capital[5] (Bain), was considering making a bid for Yahoo! Inc.[6] (Yahoo!). While Jack Ma (Ma), founder and CEO of Alibaba, expressed an interest in buying back Yahoo!'s 40 percent stake in Alibaba, Softbank wanted to buy Yahoo!'s 35 percent stake in Yahoo! Japan. Blackstone and Bain were reported to be participating in the bid to buy Yahoo!'s remaining operations in the US.[iv]

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This case was written by ***Hadiya Faheem,*** under the direction of ***Debapratim Purkayastha,*** IBS Hyderabad. It was compiled from published sources, and is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation.

Alibaba had several Internet businesses focused on various e-commerce business models such as Business-to-Business[7] (B2B), Consumer-to-Consumer[8] (C2C), and Business-to-Consumer[9] (B2C). It also had a presence in the intensely competitive web search market. In 2010, the company had also launched a transaction-based wholesale platform, AliExpress, for Chinese merchants to sell goods to foreign buyers. Being one of the first companies to enter the Chinese Internet industry, Alibaba played a major role in bringing about an Internet revolution in the country (refer to *Exhibit I* for a brief note on the Internet market in China). Alibaba was launched with the vision of serving the small and medium enterprises (SMEs) in China and across the world. As of 2011, it had 69 million registered users spread across more than 240 countries.[v]

According to the Hangzhou-based, e-commerce–information provider China e-Business Research Center, Alibaba had been the clear market leader in the Chinese e-commerce market with a market share of 63.5 percent for the FY 2010.[vi] However, the company lagged behind in the Chinese online search engine market despite having acquired Yahoo! China's operations in 2005. The Chinese search engine market was dominated by players such as Baidu.com, Inc.[10] (Baidu) and Google Inc.[11] (Google) with market shares of 77.7 percent and 18.3 percent, respectively, in Q3 of 2011, according to iResearch Consulting Group[12] (iResearch).[vii] In August 2010, Alibaba had acquired Sogou, a search engine of Chinese portal Sohu.com, in a bid to increase its dominance in the Chinese web search market. It also had ambitious plans of investing US$ 157 million in its shopping search engine eTao

[1] J.P. Morgan Securities Inc., New York City, New York, USA is the non-banking subsidiary of JPMorgan Chase. It focuses on activities related to investment banking.

[2] Softbank Corporation, headquartered in Tokyo, Japan, is a leading Japanese telecommunications and media company. It has investments in e-commerce, financial services, Internet infrastructure, IT-related distribution services, publishing and marketing, and technology services.

[3] Bloomberg is a U.S.-based financial news reporting company.

[4] The Blackstone Group is an asset management and financial services company.

[5] Bain Capital is a Boston-based private-equity firm.

[6] Yahoo! Inc., headquartered in Sunnyvale, California, USA, is an online portal with a network of websites—news, search engine, entertainment, e-commerce, etc. Its primary source of revenues is through online advertising, but it also offers commercial services such as online marketing, etc.

[7] B2B or Business-to-Business e-commerce is trading between two businesses using the Internet.

[8] C2C or Consumer-to-Consumer e-commerce is trading between two consumers through the Internet.

[9] B2C or Business-to-Consumer e-commerce relates to business transactions between a company and a customer using the Internet.

[10] Baidu.com, headquartered in Beijing, China, is a leading Chinese search engine.

[11] Google Inc., headquartered in Mountain View, California, USA, is one of the leading Internet companies in the world.

[12] iResearch Consulting Group is a market research company based in China. It offers companies market research services related to e-commerce, the Internet, online games, etc.

EXHIBIT I Internet Market in China

According to a China Internet Network Information Center[13] (CNNIC) report in June 2010, China had 363.8 million broadband users.[viii] As of mid-2011, China was the world's largest Internet market in the world. According to DCCI, the number of Internet users in China had reached 508 million by the end of 2011.[ix] The Internet users in China comprised only a meager portion of the country's population of 1.3 billion, which meant that there was a huge potential for future growth. China was important for Internet companies not only because of its large market size but also for its vast talent pool.

Apart from the main business activities of Internet companies such as online search, online auctions, online communications, and online advertising, special features like blogging and SMS (Short Messaging Service) were also gaining popularity in China. Blogging was a popular feature, especially among Chinese youth. They were attracted to blogs[14] and the Bulletin Board System[15] (BBS) because of the freedom they offered to them to express their opinions and get to know those of others. These blogs were posted on a variety of topics, like what clothes to buy, what music to listen to, and what movies to watch, product reviews, comparison of products and advertisements, etc. Analysts opined that people expressed their likes and dislikes more strongly in blogs than they would otherwise. Blogs also generated a huge amount of information about customer choices and customer feedback throughout the country, which could be of great use for companies and the government. SMS was another popular practice in China, generating heavy revenue for Internet portals. According to Gartner Inc.[16] (Gartner), messaging via cell phones and hand-held devices was a common practice in China and local Internet companies like Sina Corporation, Sohu.com Inc., and NetEase.com, Inc. received a good amount of revenue from the SMSs delivered through their portals.[x]

Despite the huge opportunities it offered, the Chinese Internet market was not without its challenges. The political environment in China had a bearing on the existence and performance of Internet companies in China. The Chinese Internet market was strictly regulated by the government. The government imposed a censorship on pornographic content and content related to controversial topics like Tiananmen Square[17], Taiwan independence[18], the Dalai Lama[19], etc. According to media reports, the Chinese government employed around 30,000 people to ensure that such restricted content did not spread in the Chinese Internet space.

In addition to complying with the government rules, it was important for Internet companies in China to know how to successfully launch a Chinese language website or design a search engine that would suit the complex Chinese language. The Chinese language makes extensive use of pictograms[20] and ideograms[21]. The characters are written without spaces between them, which made it hard to distinguish one word or phrase from the next. Due to all these political, cultural, and linguistic factors, many international Internet companies had to seek local help to understand the Chinese consumers and deal with the local nuances. Industry experts felt that many domestic Internet companies had managed to gain popularity and market share because of their familiarity with the local environment and customers. Because of their intimate knowledge of the local language, culture, and dealings with the government, the local players had an edge over their foreign counterparts in the Chinese Internet market.

Source: Compiled from various sources.

[13] The China Internet Network Information Center (CNNIC) is the state network information center of China, founded as a non-profit organization in June 1997. The Computer Network Information Center of the Chinese Academy of Sciences runs CNNIC. CNNIC looks after everything related to the Internet in China like domain names registration, IP addresses, relevant researches, surveys and information services, and international liaison and policy research.

[14] A blog is a user-generated website where entries are made in journal style and displayed in chronological order.

[15] A Bulletin Board System allows users to dial into the system over a phone and using a terminal program, perform functions such as downloading software and data, uploading data, reading news, and exchanging messages with other users.

[16] Gartner Inc. is a U.S.-based business consulting firm established in 1979. It delivers technology-related insights to around 10,000 clients around the world.

[17] Between April 15, 1989, and June 4, 1989, there were protests in China against the Communist Party of China government. The protests, which were centered at Tiananmen Square in Beijing, were led by students, intellectuals, and labor activists. On June 4, 1989, the Chinese government dispersed the mobs at Tiananmen Square using military force, which led to the deaths of hundreds of protesters. The incident came to be known as the "Tiananmen Square massacre."

[18] For years, the Taiwan independence movement was opposed by China, which described it as a separatist movement that would divide the nation and people. The pro-independence groups described it as a nationalist movement.

[19] The literal meaning of "Dalai Lama" is "spiritual leader." The Dalai Lama is considered the supreme head of Tibetan Buddhism. The 14th Dalai Lama demanded greater autonomy for Tibet, which is under Chinese control.

[20] A pictogram is a character that represents an object, a concept, or an activity through a picture.

[21] An ideogram is a character that represents an idea.

in order to gain a strong foothold in the online shopping market in China.[xi]

The company was also making efforts to increase its global footprint. In June 2010, Alibaba acquired Vendio Services Inc.[22] (Vendio). The site was linked to Alibaba's network of suppliers and buyers. To fuel its global growth, in August 2010, Alibaba acquired Auctiva[23] to reach U.S. businesses and connect with buyers and suppliers outside China.

In December 2011, Alibaba announced that it was testing a social-networking product. This was part of its efforts to expand outside its e-commerce platforms to seek different streams of revenues. Industry experts felt Alibaba was devising strategies to fuel its growth and, with the acquisition of Yahoo!'s stake, it would gain a stronger foothold in China since Internet penetration and e-commerce were rapidly growing in China.

BACKGROUND NOTE

Jack Ma (Ma), founder of Alibaba, was born in Hangzhou, a city in China's Zhejiang province, in 1964. At the age of twelve, Ma developed a fascination for the English language. He began learning English by listening to the Voice of America[24] and acting as a free guide to foreigners who visited Hangzhou. Another event that changed Ma was when he traveled to Australia to visit a friend in 1985. He had grown up believing that the world outside China was a terrible place to live in. He was taught that China was the richest country in the world and that the Chinese were the most contented people in the world. According to Ma, "Everything I'd learned in China was that China was the richest country in the world. When I arrived in Australia, I realized it's totally different. I started to think you have to use your own mind to judge, to think."[xii]

In 1988, Ma earned a degree in English from the Hangzhou Teacher's Institute and began teaching English and international trade at the Hangzhou Electronic and Engineering Institute. In 1992, he founded an English translation agency in Hangzhou and soon built up a good reputation for his language skills.

In 1995, Ma was sent to Malibu, near Los Angeles, by a Chinese businessman. Ma was to mediate in a dispute between the businessman and his American counterpart who had not put in the money he had promised into the man's firm. Ma approached the American ready to mediate but to his shock, he was locked up for a couple of days in the American's house. Ma was released only after he promised the American that he would start an Internet company in China in association with him. Though this joint venture never actually happened, Ma was able to leave. The same year, Ma went to Seattle with a trade delegation as an interpreter. This was to become a turning point in his life. During the visit, a friend introduced him to the Internet. Ma typed in "beer" in the search engine. It yielded results like German beer, Japanese beer, and American beer. Nothing called Chinese beer came up. He then typed in "China" and "beer" but this gave no results. This made Ma decide to start a company to bring information regarding Chinese companies to the Internet. After returning to Hangzhou, Ma resigned from his teaching job, borrowed US$ 2,000 from his relatives, and launched China Pages, China's first commercial website, in 1995. About launching this website, Ma said, "At 9:30 we launched the home page, and by 12:30 I had six e-mails. I said, 'Whoa! Interesting!' If I could help Chinese companies list on the Internet and help foreigners find their websites, that might be a good thing."[xiii] The website contained a list of companies operating in China. The Hong Kong media called Ma the "father of the Chinese Internet" and credited him with bringing about an Internet revolution in China.

In 1998, Ma moved to Beijing to work for the Chinese Ministry of Foreign Trade and Economic Cooperation (MOFTEC) as the Head of the Information Department of the China International Electronic Commerce Center[25] (CIECC). He designed a website for MOFTEC. This became the first government website in China.

ALIBABA IN ITS INITIAL YEARS

In 1998, Ma left MOFTEC and returned to Hangzhou to fulfill his dream of establishing his own e-commerce company. He said, "I realized that you can never expect a government company to grow. So I left to set up my own."[xiv] Ma gathered 18 people in his apartment to explain his vision to them. He warned his colleagues who wanted to join him that his venture was a risky one and that they would be paid only Renminbi[26] (RMB) 500 every month. He gave them three days to think it over. He was touched when, finally, all 18 of them decided to follow him to Hangzhou. Ma and his colleagues put in some money. This money, which came up to US$ 60,000, was used to start Alibaba from Ma's apartment in Hangzhou in March 1999. Asked why Alibaba had been chosen as the name, Ma said, "The name [Alibaba], taken from the Arabian Nights, was chosen because it's universally well known and is easy to spell."[xv]

In August 1999, the Chinese Bureau of Industrial and Commercial Administration registered Alibaba as a computer company since the company's business could not be classified under any other category. Because of the strict IPO regulations in Beijing, Alibaba was registered in Hong Kong. At the same time, Ma started looking out for potential investors for the venture. But since the business model was new, the investors initially did not believe in the venture.

However, by September 1999, a few venture capitalists approached Ma, attracted by the novel concept of the business. Ma told them frankly that launching Alibaba was a risky proposition and that he expected it to make hardly any profits during the initial years. Some of the prospective investors were still eager to lend. Ma said, "I told them at the very first meeting, 'Don't push us. We know what we are doing.'"[xvi] Initially, Ma rejected offers from 38 venture capitalists. Later, he accepted an offer from a group of investors including The Goldman Sachs

[22] Vendio Services Inc. is a U.S.-based e-commerce site. As of June 2010, it hosted services for 80,000 small businesses in the U.S.

[23] Auctiva offered listing and marketing tools to vendors on e-commerce sites.

[24] Started in 1942, Voice of America is an international radio and television broadcasting service of the U.S. government.

[25] China International Electronic Commerce Center (CIECC) was founded in 1996 to build and operate a secure network for government communications and commerce. It provided services related to e-commerce and e-government that are used by government agencies in China.

[26] Renminbi is the currency of the mainland of the People's Republic of China. Its principal unit is called the Yuan. As of December 4, 2011, US$ 1 was approximately equal to RMB 6.32.

Group Inc.[27] (Goldman Sachs), Fidelity Investments,[28] Investor AB,[29] Templeton Dragon Fund Inc.,[30] and Transpac Industrial Holdings Limited[31] and was able to raise US$ 5 million from them in October 1999.[xvii] In January 2000, Ma successfully persuaded Softbank to invest US$ 20 million in his venture.[xviii] Softbank was, at that time, the largest global investor in Internet businesses, owning stakes in hundreds of Internet companies such as Yahoo!, Chinadotcom Corporation[32] (CDC), etc. In return, Peter Sutherland, Chairman of Goldman Sachs, and Masayoshi Son (Son), CEO of Softbank, were made members of Alibaba's board of advisors. In 2000, Ma moved the company's headquarters from Hangzhou to a new building in Shanghai.

Alibaba concentrated on small and medium-sized Chinese firms that aspired to go global but found it very expensive to do so. Ma aimed at connecting these Chinese manufacturers with small and medium-sized buyers from across the world. Ma said, "We want to help SMEs from all over the world grow their business and benefit from cross-border trade. Alibaba.com is like the World Trade Organization for SMEs."[xix] Alibaba's mission was "to help small and medium enterprises (SMEs) grow." Commenting on its focus on SMEs, Ma said, "SMEs are the future of Asia, and the future of China. Many people believe in big companies, saying we should get more money from big companies, we should do transactions with them, et cetera. But I disagree. Asia is Asia. China is China. Unfortunately, in Asia, the market is too fragmented that we have no standard. There is no standard for e-commerce, SMEs, or B2B. Our job is to establish the standard. We cannot create beautiful PowerPoints, but we know how to listen to our customers."[xx]

During the late 1990s and early 2000s, the Internet had not yet become too popular in China and banks were not networked. Credit card usage was limited and providing logistics service in the country was difficult, to say the least. In this scenario, Alibaba thought it wisest to limit its business model to connecting buyers and suppliers. Suppliers were allowed to list their products on the website while buyers could post their requests on the bulletin boards. Deals were struck through e-mails or offline messages. The services were offered for free and no other value-added services were offered. Ma believed that Alibaba was still in its infancy stage and had to build a loyal customer base before it started charging for its services.

Initially, Alibaba had two websites—www.alibaba.com, an English website for international B2B trade, and www.china.alibaba.com for B2B trade in China. However, the company soon noticed that despite Japan being China's biggest trading associate, the online business carried out from that country was less compared to enterprises from the U.S., South Korea, India, and Europe. Alibaba therefore launched www.alibaba.co.jp, a Japanese site for Japanese traders, in 2002. According to Ma, "Chinese and Japanese entrepreneurs have a digital ditch on the Internet. We want to help them stride this ditch with Alibaba Japan Website."[xxi] Also, the Japanese preferred to use the site in Japanese. David Wei (Wei), CEO, Alibaba, said, "They prefer to use the Japanese language as their commercial language, and with China and Japan as each other's second-largest trading partner, there was a big demand."[xxii]

Ma found that SMEs were hesitant about using the Internet, as they assumed that it would require some expertise in computer use. Ma ensured that Alibaba's websites were simple and easy to browse through. He considered himself a non-technical person, and this, he believed, helped him keep the websites more user-friendly. According to Ma, "I use my computer for two things, e-mail and surfing the Web. Most of our customers are not high-tech people, so we have always tried to make the technology invisible. When a member goes on Alibaba.com to find a supplier, we want the website to be very simple and user-friendly. We have a great engineering team, but their job is to make sure everything passes the 'Jack test.' If I can understand our website, then I am sure our customers can too."[xxiii] In May 2000, Ma brought in John Wu (Wu), the creator of the Yahoo! search engine, and appointed him as the Chief Technology Officer of Alibaba.

Another major concern for Ma was that many SMEs distrusted the idea of online payments. Ma managed to convince them about the safety of the practice by stressing the fact that Alibaba's system for online transactions was managed in partnership with a leading bank in China.

By the end of the first year in business, Alibaba had become the largest online global trading website in Asia, with about 200,000 members from 194 countries (70 percent of the members were Chinese), and approximately 1,000 new members joining every day.[xxiv] On the whole, the websites were receiving about 1,500 new subscribers every day.[xxv] Nearly half the requests were from companies based in the U.S., Europe, and India, while the remaining were from Greater China. In March 2000, Alibaba started catering to the European market and also planned to expand its operations in North and South America, Japan, etc. Buyers from any country could locate and strike deals with sellers in any country or countries across the world.

Alibaba aimed to have a global presence and expand in the U.S. and hence the company's R&D was mainly done at Silicon Valley. It did not spend any money on marketing its website—its membership was the result of the exceptional services that it offered to its customers.

During the early 2000s, the huge manufacturing potential of Asia, especially of China, and the rising popularity of Alibaba attracted a number of other companies to start e-commerce ventures in China. In the early 2000s, Hutchison Whampoa Limited[33] launched a web portal called "www.tom.com." A group of businessmen from Hong Kong partnered with America's B2B major

[27] The Goldman Sachs Group Inc., headquartered in New York City, New York, USA, is a leading investment banking, securities, and investment management firm.

[28] Fidelity Investments, headquartered in Boston, Massachusetts, USA is an investment products and services company.

[29] Investor AB, headquartered in Stockholm, Sweden, is an investment company whose key products include core equity, private equity, operating and financial investments.

[30] Templeton Dragon Fund Inc., headquartered in Fort Lauderdale, Florida, USA, is a non-diversified, closed-ended investment company.

[31] Transpac Industrial Holdings Limited, headquartered in Singapore, is an investment holding company providing venture capital to private companies.

[32] Chinadotcom Corporation, headquartered in Hong Kong, China, is a leading provider of business solutions, enterprise software solutions, and mobile and Internet applications.

[33] Hutchison Whampoa Limited, headquartered in Hong Kong, China, is a diversified conglomerate with business interests in ports and related services; telecommunications; property and hotels; retail and energy; etc.

Commerce One.[34] Hong Kong–based Global Sources Limited[35] (Global Sources) and San Francisco–based MeetChina.com (MeetChina) also announced their plans to enter the Chinese e-commerce market. MeetChina planned an aggressive expansion in Asia. While some of these firms concentrated on particular industries, others such as Commerce One and Ariba[36] concentrated on big businesses in Europe and the U.S.

Ma refused to worry about the rising competition. Instead, he set to work to make plans to provide various products targeting the SMEs in various countries. He made several efforts to differentiate Alibaba from others by providing innovative features like wireless access to its services in partnership with Motorola Inc.[37] (Motorola). To attract more users, Alibaba also started offering additional services for registered members (registration was free) such as e-mail, etc.

In March 2000, when the dotcom bubble[38] burst, a number of dotcom and e-commerce companies filed for bankruptcy. A vast majority of dotcom companies could not withstand the sharp fall in revenues from Internet advertising. Web-based retailers failed to gauge the infrastructure they required to carry on with their retailing activities on the Internet and so many companies were forced to shut down their businesses. Commerce One was also affected and it filed for bankruptcy in October 2004.[39] A few companies such as Ariba merged with FreeMarkets Inc.,[40] a leading B2B in June 2004.[41] Alibaba, however, was able to withstand the dotcom crash since its business was not dependent on advertising revenues.

To deal with the dotcom crash, Alibaba reformulated its strategies. By September 2000, Ma was left with hardly any revenues and so had no choice but to curb his expansion plans. He told his employees that Alibaba would be in trouble if it did not adopt the right strategies. He announced three B2C strategies. These were:

- "Back to China," under which Alibaba would concentrate mainly on improving its business in China rather than focusing on global markets.
- "Back to Central," under which the headquarters was moved back from Shanghai to Hangzhou.
- "Back to the Coast," under which Alibaba would concentrate on improving its presence in the coastal areas, the richest region of China.

In July 2000, Alibaba started selling its advertising space. However, the revenues generated were very limited. Alibaba also began selling reports and statistics on various sellers. For the year 2000, Alibaba's revenues were just US$ 1 million and the company had not made any profits.[xxvi] According to Ma, "The year 2000 was a difficult year. Our team was young—only a year old. We saw things were still going up, but knew it would surely go down. We didn't know how deep the fall would be, how bad it would be. Besides which, we had virtually no revenue."[xxvii]

In early 2001, Alibaba started offering a customized online marketplace for its members called "Alibabies" for a premium. However, this generated only a small amount of revenue—US$0.3 million a year.[xxviii] Several analysts were quick to write off Alibaba. They expressed doubts about its survival in the long run in light of the dotcom crash. The increasing competition from other B2B companies targeting the Chinese B2B markets was also building up tremendous pressure on Alibaba to merge or to fall. In the same year, Ma brought in Savio Kwan (Kwan), general manager of GE's China equipment division, as Chief Operating Officer of Alibaba with the aim of turning around the company. Kwan said, "We need to ground [Alibaba] in reality and make it into a business."[xxix]

In late 2001, Alibaba began charging its members for its services. The fee was US$ 3,000 per year for a membership in "China Supplier"— an online community for qualified Chinese exporters who were verified by third-party credit agencies. In mid-2002, the membership fee was increased to US$ 8,000.

By March 2002, Alibaba's members had touched the one million mark (refer to *Exhibit II* for different types of membership). In 2002, Ma set a target of US$ 1 profit for Alibaba. Commenting on this, Ma said, "We said, 'Let's make one dollar in profits for the whole year. We spend five million US dollars, we should make at least one back. If we spend 10 million, we should still earn one dollar.' So, we spent the whole year trying to make one dollar. When we set the target, everyone said I was stupid. But the whole company had a clear target throughout the year. The young people in the company had never had experience making money. Even if we say we are going to make 10 million dollars, how are we going to make it? But the one dollar target is something we could make if we just saved electricity, for example."[xxx]

In March 2002, Alibaba set a TrustPass membership fee of US$ 299 for companies wanting to join Alibaba, after which they were verified and authenticated. However, this fee did not deter companies from joining; about 200 Chinese companies were registering themselves every day.

BUSINESS PORTFOLIO

Despite its struggles, by the year 2000, the Alibaba Group had emerged as the largest e-commerce company in China and was

[34] Commerce One, headquartered in Westbury, New York, USA, was an e-commerce solutions provider and a leading marketplace for B2B transactions.

[35] Global Sources Limited, headquartered in Hong Kong, China, is a leading B2B media company.

[36] Ariba, headquartered in Sunnyvale, California, USA, is a provider of Intranet and e-commerce solutions. The Ariba B2B Commerce Platform allows online transactions between buyers and suppliers.

[37] Motorola Inc., headquartered in Schaumburg, Illinois, USA, is an electronics and telecom goods company.

[38] The increase in popularity of the Internet fueled the growth of dotcom companies—firms that provided products and services related to or by using the Internet. They grew rapidly in number between 1995 and 2000 as many individuals started their own companies. Most of these companies offered similar products and services. The uncontrolled proliferation of such companies ended with the bubble busting in March 2000, leading to the closure of many of these companies.

[39] Commerce One was later acquired by Perfect Commerce in February 2006. Perfect Commerce is one of the largest providers of On-Demand Supplier Relationship Management (SRM) solutions.

[40] FreeMarkets Inc., headquartered in Pittsburgh, Pennsylvania, USA, is a leading e-commerce company.

[41] The merged entity was called Ariba Inc. and since then has been a leading provider of Spend Management solutions to help companies analyze, understand, and manage their corporate spending.

EXHIBIT 11 **Types of Membership at Alibaba.com**

- **Free Membership:** Free members were offered basic services, free of cost. Sellers registered under this category could post products they wanted to sell, search for buyers, and contact them. Buyers were allowed to post buying leads and send inquiries to the suppliers. However, Chinese companies had to join as "Gold Supplier" members in order to become a seller.
- **TrustPass Membership:** It consisted of supplier members from outside Hong Kong, Macau, and Mainland China. TrustPass Membership was a paid service where the member had to pay US$ 299. The member would be authenticated and verified by a third-party credit reporting agency.[xxxi] The supplier would then be able to display a TrustPass icon symbolizing credibility to online buyers. However, this facility was available to Chinese companies only if they were "Gold Suppliers." TrustPass members were allowed to have their own websites that contained information about the company, its products, etc.
- **Gold Supplier:** This membership was primarily for export-oriented suppliers. It consisted of premium suppliers from Hong Kong, Macau, and Mainland China. The process of authentication and verification was more rigorous for such membership. The suppliers were classified into 27 industries which enabled buyers to locate the companies conveniently. The member would display the TrustPass icon and a Gold Supplier icon to symbolize the highest level of seller qualification. Some of the advantages that such members enjoyed were listing of products on Alibaba's home page and unrestricted access to buyers' trade leads.

Source: www.alibaba.com

one of the leading players in the international e-commerce market. Alibaba was the flagship company of the Alibaba Group with marketing and sales offices across Beijing, Seoul, Silicon Valley, London, Japan, and Latin America. Alibaba's business portfolio included the following:

Alibaba China: Launched in 1999, Alibaba China (www.china.alibaba.com) was a website in the Chinese language serving domestic B2B trade in China. As of November 2011, it had a registered user base of 50 million paying an annual subscription fee for posting their products on the website.[xxxii] The authenticity of the members was verified by a third-party credit-reporting agency.

Alibaba International: Launched in 1999, Alibaba International (www.alibaba.com) was an English website which connected a number of Chinese SMEs with a number of businesses worldwide. It had 18 million registered users from around 200 countries as of April 2011.[xxxiii]

Taobao: Taobao (www.taobao.com) was launched in May 2003. It was China's most popular C2C trading site. As of June 2011, Taobao had more than 800 million product listings with 370 million registered users and more than 60 million page views per day.[xxxiv] According to Ma, Taobao had garnered a market share of 80 percent for the FY 2010.[xxxv] In 2011, Alibaba Group reorganized Taobao into three separate companies—Taobao Marketplace, Taobao Mall, and eTao—in a bid to capture Chinese e-commerce consumer opportunities. Taobao Mall was Alibaba's B2C platform. For the Q2 of 2011, the site recorded a 48.5 percent market share in China's B2B online retail market, according to iResearch.[xxxvi] In November 2010, Taobao Mall launched Tmall.com as an independent web domain.

AliPay: Launched in 2004, AliPay was an online payment solution that enabled the users to carry out online money transactions easily, quickly, and safely. As of September 2011, AliPay had over 600 million registered accounts with around 11 million daily transactions.[xxxvii]

Yahoo! China: Yahoo! China (www.yahoo.com.cn) was China's third most popular search engine after Baidu and Google. It was started in October 2005 after Yahoo! merged its China operations with Alibaba in August 2005. Alibaba had the exclusive rights to use the Yahoo! brand and technologies in China.

Alisoft: In January 2007, Alibaba launched Alisoft, a software services company that catered to the needs of several SMEs in China. Alisoft allowed customers to use various services such as customer relationship management (CRM), marketing information management, sales force management, inventory management, and financial tools. Other services provided were e-mail, information management, inquiries, bookkeeping, and invoicing. Alisoft also provided an instant communication tool called "Aliwangwang," which was offered to users as TradeManager[42] on Taobao. As of January 2007, Alisoft had operations in Shanghai and Hangzhou. In July 2009, Alisoft was merged with Alibaba Group R&D Institute.

Alimama: In November 20, 2007, Alibaba launched Alimama, an online advertising exchange company. The company allowed advertisers and publishers on the web to trade advertising inventory online. It was intended to serve the more than one million SMEs in China that accounted for 80 percent of web traffic in China.[xxxviii] In 2008, Alimama was integrated with Taobao.

[42] TradeManager is an instant communication tool that is offered to buyers and sellers for interaction.

THE COMPETITION

B2B Market

Alibaba was launched at a time when the Chinese Internet industry was in its infancy. Considering the growth potential of the budding e-commerce market, other players like Global Sources and MeetChina were launched in 1999. These players were expected to intensify competition in the emerging B2B market. Global Sources had an advantage over Alibaba because of its search technology and detailed information about the products listed on its site. Moreover, in 1999 the company had an employee strength of 1,600 people with several salespeople across the world to build its supplier community. There was also the threat of many new players entering this space. In order to gain a strong foothold in the B2B market, Ma announced that Alibaba would not charge any transaction fees. Commenting on Ma's strategy, Craig Pepples, CEO, Global Sources, said, "Some players are focusing on building as much 'community' as possible in a short period of time, usually by giving things away. The problem with this approach is . . . the free sites have very little depth. What customers need is detailed [information] and the tools to slice, dice, and compare."[xxxix] Unfazed by the competition, Ma said that he was unaware of his competitors' existence. Ma said, "The world is changing so fast, you don't know what each other is thinking about, you don't even know what you are thinking yourselves. How do you know who are your competitors?"[xl]

Despite several attempts made by Alibaba's competitors to carve out a place for themselves in the rapidly growing B2B market, they failed to make a mark, largely because of Alibaba's dominance in that market. Alibaba, on the other hand, continued to enjoy phenomenal growth. According to Q3 2011 China B2B Market data released by iResearch in 2011, the size of the B2B market in China had reached RMB 3.48 billion in the third quarter of 2011. Alibaba was the market leader in the Chinese B2B market with a market share of 53.8 percent (refer to Table I for market shares of B2B players in China).

TABLE I Market Shares of B2B Players in China (Q3 2011)

Players	Market Share (in %)
Alibaba	53.8
Global Sources	11.6
Made-in-China.com	3.8
HC360	4.3
Dhgate	3.2
Mysteel	1.7
Global Market	1.6
Toocle.com	1.2
Others	18.7

Source: Adapted from "Market Scale of China B2B Ecommerce Increases to 3.48 Billion Yuan in Q3 2011," www.iresearchchina.com, November 11, 2011.

C2C and B2C Market

Alibaba's increasing popularity and the burgeoning Chinese e-commerce market attracted several foreign competitors to China (refer to *Exhibit III* for a discussion of the e-commerce market in China). In 2002, U.S.-based eBay Inc.[43] (eBay) entered China by acquiring a 33 percent equity stake in the Shanghai-based e-commerce website EachNet.com[44] (EachNet), at an investment of US$ 30 million. eBay launched its Chinese site based on its business model in the U.S. By 2002, it had emerged as one of the leading online auction sites in China with 3.5 million registered users.[xli] By 2003, eBay had cornered a 79 percent market share in the Chinese online auction market.[xlii]

eBay's success in China and the good prospects offered by the budding e-commerce market, spurred Ma on to team up again with Son to start a rival website to compete with eBay. Ma raised funds of up to US$ 56 million from Softbank. His decision to team up with Son was due to Son's experience in defeating eBay in Japan by collaborating with Yahoo! Japan. Subsequently, eBay had to move out of Japan in 2002. Ma, in association with his experienced employees, drafted a plan for launching a consumer auction website in his apartment in Hangzhou. Finally, they came up with the idea of launching Taobao, which means "digging for treasure."

In May 2003, Ma launched Taobao as a wholly-owned subsidiary of Alibaba. Taobao aimed to create an online trading platform for both B2C and C2C models. Taobao differentiated itself from rival eBay by allowing free listings on its website. eBay, on the other hand, charged for listings on its website so as to ensure quality. According to Ma, Taobao would have to build up a loyal customer base before it could start charging for its services.

Analysts were uncertain about Taobao's success since the C2C market was still in its infancy in China. On the other hand, Ma was confident and cited the fact that EachNet had only five million users among the 82 million-odd Internet users in China (refer to *Exhibit IV* for the growing Internet usage in China). Ma said, "We launched Taobao not to make money, but because in the U.S., eBay gets a lot of its revenue from small businesses. We knew that some day, eBay would come in our direction."[xliii]

To gain a strong foothold in the Chinese e-commerce market and combat competition from Taobao, eBay bought the remaining equity stake in EachNet for US$ 150 million in July 2003. The website was called eBay EachNet.[45] Yibo Shao, one of the founders of EachNet who remained with eBay, believed that there could only be one big consumer auction site in China and predicted that eBay would win the race against Taobao. Soon after, Ma announced his plans to invest another US$ 12 million in Taobao. He said that it would be unwise to wait until the market

[43] eBay Inc., headquartered in San Jose, California, USA, is the world's largest online auction company. In addition to providing online auction markets, eBay also has an online payment service called PayPal and a communications business under Skype, which offers Voice-over-Internet Protocol (VoIP) services.

[44] Founded in August 1999 by Chinese entrepreneurs Bo Shao and Haiyin Tan, EachNet was a major electronic commerce company based in China. It was later acquired by eBay in July 2003.

[45] eBay EachNet is a subsidiary of eBay Inc. in China.

EXHIBIT III e-Commerce Market in China

Though the concept of e-commerce was introduced in China in 1993, it took some time for it to catch on. But once it did, e-commerce in China began to grow at a frantic pace. For instance, the market scale for e-commerce in China grew from RMB 120 billion in 2001 to RMB 680 billion in 2005.[46] In comparison to the overall e-commerce market, the C2C market was smaller but had kept pace with the growth in the overall market.

The e-commerce market was a surging market in China. According to iResearch, the online shopping market had reached RMB 197.5 billion for the third quarter of 2011. Despite huge opportunities, the Chinese e-commerce market was not without its challenges. It was influenced by government regulations, logistics, and payment systems. The Chinese government enforced regulations related to Internet access, content regulation, encryption, and domain name.

The government also set certain provisions related to Internet access. There was a four-tier system for accessing the Internet. The first tier consisted of the Ministry of Information Industry[47] (MII) that acted as the main gateway for transmission of information to and from the World Wide Web. The MII operated an international gateway at the top of this system. The second tier comprised four government-owned Internet Service Providers (ISPs), which were called the interconnected networks. The third tier comprised privately owned ISPs that were linked through the interconnected networks to the Internet. The final tier included the Internet users. The users could gain access to the Internet either through the government or privately owned ISPs. Internet users were instructed to register themselves with local public security authorities as part of Internet security regulations.

The regulations related to security involved censoring the content and preventing dissemination of sensitive information relating to the Chinese economy. Under this regulation, all Internet companies were obliged to censor sensitive content.

Domain regulations required e-commerce companies to register their domain names with the CNNIC. The encryption regulation forced e-commerce companies to obtain approval from the National Commission on Encryption Code Regulations (NCECR), an encryption regulation agency, for using Chinese products and encrypted imported products.

Payment systems were another problem as Chinese consumers were used to paying cash rather than using credit cards. The consumers raised doubts over the security of the payment systems, the quality of the purchased products, and after-sales service.

An inefficient logistics system was considered as another major constraint in the development of e-commerce. This was due to the underdeveloped transportation systems, inadequate use of technology, and inconsistent distribution systems, which resulted in an unreliable logistics system.

Source: Compiled from various sources.

matured and hinted at using the money on building infrastructure, recruitment, and an online credit system for the customers.

Analysts observed that the growth in the Chinese e-commerce market was hampered due to the absence of the trust factor between buyers and sellers while trading online. Buyers refused to send money to sellers before they had received the goods while sellers were unwilling to ship the goods until they had received payment. To counter this problem, Alibaba launched an online payment platform called "AliPay" based on the lines of eBay's payment system, Paypal, in 2004. AliPay was an escrow[48]-based payment solution that allowed customers to safely and quickly send and receive money online. Once a deal had been finalized, the buyer paid the money through AliPay. The money was held in an AliPay account and was sent to the seller only after the buyer informed AliPay about the receipt of the product. Alibaba partnered with a number of Chinese banks such as China Merchants Bank, Agricultural Bank of China, etc. to provide AliPay services.

[46] "China E-commerce Profit Model Report, 2006–2007," www.researchinchina.com, January 2007.

[47] MII has the authority to regulate the software and communications industry and is accountable for the manufacture of electronic and information products. It is also responsible for information dissemination related to the Chinese economy.

[48] Escrow is a financial instrument held by a third party on behalf of the other two parties in a transaction. The funds are held by the escrow service until it receives the appropriate written or oral instructions or until obligations have been fulfilled (source: www.dictionary.com).

EXHIBIT IV Growing Internet Usage in China

Year	Users	% of Population Using the Internet
2000	22,500,000	1.7
2001	33,700,000	2.6
2002	59,100,000	4.6
2003	69,000,000	5.4
2004	94,000,000	7.3
2005	103,000,000	7.9
2006	137,000,000	10.4
2007	162,000,000	12.3
2008	253,000,000	19
2009	384,000,000	28.7
2010	420,000,000	31.6

Source: Adapted from "China Internet Usage Stats and Telecommunications Market Report," www.internetworldstats.com, March 30, 2011.

Alibaba devised an aggressive promotional strategy for Taobao in order to compete with eBay EachNet. Taobao advertised itself online by placing ads on the websites and through billboards at major city centers. All these promotional strategies were ignored by eBay EachNet. In the first quarter of 2004, eBay EachNet garnered a 90 percent market share in the Chinese online C2C market against Taobao's 9 percent. By the fourth quarter of 2004, Taobao's market share had jumped to 41 percent while eBay EachNet's had declined to 53 percent.[xliv] While eBay EachNet had about 10 million users,[xlv] Taobao quickly gained four million users[xlvi] in 2004. Further, Taobao's easy-to-use features on the website attracted a number of users and resulted in users shifting to it. Taobao provided additional features like e-mail and chat facilities to users on its site. It also allowed the buyers to call the sellers before buying a product while eBay EachNet concealed the seller's identity until the end of the auction and allowed communication only through offline messages that could be left on the site. Another reason cited for users shifting to Taobao was the difficulty they faced while using the new eBay website that was created after it fully acquired EachNet. The number of product listings decreased from 780,000 to 250,000 after the website was changed.[xlvii] Further, the lack of a secure online payment system like AliPay hindered eBay EachNet's growth.

In 2005, eBay EachNet's market share slipped further to 29.1 percent compared to Taobao's 67.3 percent.[xlviii] Taobao was ahead of eBay EachNet on various counts. Some of the parameters included the number of page views per user, which was 10.7 for Taobao and 7.4 for eBay EachNet in August 2005. At the same time, Taobao's listings generated a Gross Merchandise Volume[49] (GMV) of US$ 120 million compared to eBay EachNet's GMV of US$ 90 million.[xlix] Porter Erisman, Vice President, International Marketing, Alibaba, said in 2006, "The real source of eBay's woes in Asia is its inability to understand local market conditions in this part of the world."[l]

According to Ma, eBay's business model might work well in other countries of the world but it would face difficulties in China because the Chinese consumers and their preferences were very different from those in other countries. Commenting on the rivalry with eBay, Ma said, "Taobao didn't win the first battle, but eBay lost it. eBay may be a shark in the ocean, but I am a crocodile in the Yangtze River. If we fight in the ocean, we lose—but if we fight in the river, we win."[li]

In October 2005, Ma announced a new strategy to phase out eBay EachNet from China—the services at Taobao would be offered free of charge for three consecutive years. Challenging eBay EachNet to follow its strategy, Ma said, "We call on eBay to do what's right for this phase of China's e-commerce development and make your services free for buyers and sellers in China. Cutting prices is not enough—it's time to make your services free and affordable for all of China's entrepreneurs and consumers."[lii] In response, eBay issued a statement saying that free was not a business model and the fact that Taobao was providing its services for free was proof of eBay EachNet's success in China.

In May 2006, Ma announced the launch of B2C services on Taobao. By then, Taobao had already begun to outshine eBay EachNet by gaining more than 20 million users. According to Ma, the B2C services were launched with the aim of removing the middleman concept by directly connecting large sellers with consumers. For this, Taobao had already tied up with companies such as Motorola, the Haier Group, Nokia Corporation, Adidas Group, etc., and was aggressively planning to expand its product offerings. Taobao expected a large number of Alibaba's members to join its program along with leading global companies.

Sensing the need for the support of a local company to control its declining market share, eBay EachNet entered into

[49] Gross Merchandise Volume refers to the total value derived from closed listings in the online trading market.

a joint venture (JV) with TOM Online Inc.[50] (TOM Online) to form TOM eBay in December 2006. Subsequently, the company also stopped charging its sellers listing fees and decided that free was indeed a business model. Despite all these efforts, TOM eBay continued to lose market share. According to Analysys International,[51] TOM eBay's market share plummeted from 16 percent in the first quarter of 2007 to 7.2 percent in the second quarter of 2007.[liii] In sharp contrast, Taobao reported a market share of 82.95 percent in the second quarter of 2007 compared to its 74 percent market share in the first quarter of 2007.[liv]

Industry observers opined that foreign companies failed to make a mark in China because of their lack of understanding of the language and culture. Shaun Rein, Managing Director, China Market Research Group (CMR),[52] said, "Alibaba and Taobao have been much more successful in China than their competitors because they were able to cater their services specifically for the China market. eBay, on the other hand, tried to bring what worked in the United States. But many other global-brand companies, like eBay or Google, run into this problem when they enter China: They simply do not adjust to local realities enough."[lv]

By the end of 2008, Taobao had 98 million registered users, according to Alibaba.[lvi] In comparison, eBay recorded 86.3 million users for the same period, according to iResearch.[lvii] According to industry analysts, Taobao had successfully captured the C2C market in China with a 90.5 percent market share for the Q3 of 2011 (refer to Table II for market shares of C2C players in China).

Alibaba's B2C platform, Taobao Mall, was also ahead of all competitors in the Chinese B2C market. According to iResearch, Taobao Mall recorded a market share of 50.9 percent for the Q3 of 2011 (refer to Table III for market shares of B2C players for the Q3 of 2011).

TABLE II Market Shares of C2C Players in China (Q3 2011)

Players	Market Share (in %)
Taobao	90.5
Paipai	8.9
Eachnet.com	0.6

Source: Adapted from "Market Scale of Q3 2011 China Online Shopping Market Surges to 200 Billion Yuan," www.iresearchchina.com, November 1, 2011.

TABLE III Market Shares of B2C Players in China (Q3 2011)

Players	Market Share (in %)
Taobao Mall	50.9
360 buy	18.6
Suning	3.4
Amazon	2.9
Vancl	2.3
Dangdang	2.2
Icson	1.4
Newegg	1.4
Coo8	1.3
M18	0.8
Redbaby	0.4
Others	14.4

Source: Adapted from "Market Scale of Q3 2011 China Online Shopping Market Surges to 200 Billion Yuan," www.iresearchchina.com, November 1, 2011.

Web Search Market

After having conquered the lucrative e-commerce market, Alibaba aimed to enter the lucrative Chinese online search market, considered the most popular Internet business. The Chinese web search market was dominated by the strong local company, Baidu, which had mastered the Internet search market in the local language. Even the international leader in the search market, Google, could not crack the Chinese web search market. According to certain estimates by iResearch, around 49 percent of the C2C users visited a search engine before visiting C2C sites.[lviii]

In August 2005, Alibaba struck a deal to acquire the operations of Yahoo! in China. Alibaba acquired Yahoo! China's main website www.cn.yahoo.com and search engines including www.yisou.com and www.3721.com. Yahoo! invested US$ 1 billion on acquiring an equity stake of 40 percent in Alibaba. This was the largest investment by a foreign company in an e-commerce business in China. With this deal, Alibaba expected to gain a strong foothold in the web search market while having its presence in the B2B, B2C, and C2C e-commerce segments, as well as the online payments segments through its online payment solution, AliPay. Ma said, "With the addition of Yahoo! China to Alibaba.com's business, we're expanding our services to provide a leading search offering to China's Internet users."[lix] According to analysts, by defeating its arch-rival eBay and with Yahoo! China's acquisition, Alibaba had become the dominant player in the Chinese Internet market.

In addition to having a presence in the web search market, Alibaba's announcement that it would acquire Yahoo! China came after Baidu had launched an IPO in the U.S. According to Ma, the addition of Yahoo!'s Chinese operations would allow Alibaba to expand in the rapidly growing Chinese search engine market. Further, Ma aimed to use Yahoo!'s search engine to direct customers to its online commerce sites that linked foreign buyers with Chinese wholesalers. Alibaba aimed to expand its search engine by leveraging on its huge customer base coming from its B2B, B2C, and C2C sites.

In August 2005, Ma stopped the operations of Yisou, a search engine built by Zhou Hongyi (Zhou), former President,

[50] TOM Online Inc., headquartered in Beijing, China was a leading internet company in China.

[51] Analysys International, headquartered in Beijing, China, is a leading advisor of technology, media, and telecom industries in China.

[52] China Market Research Group is a market research company based in Shanghai. It provides companies with data, strategic recommendations, and analyses that help companies understand consumer behavior and evaluate opportunities for long-term growth (Source: www.researchcmr.com).

Yahoo! China. The search engine offered search facilities to users in addition to the Yahoo! China portal. In the same year, Ma also stopped using 3721, a search engine bought by Zhou in 2003. With all these changes, Ma developed a simple search page that was quite in contrast to the portal-like features offered by Yahoo! China, in order to make Yahoo! China the number one search engine in China. However, this looked an uphill task as Yahoo! China continued to lose market share. Contrary to Ma's beliefs, Yahoo! China's acquisition did not help Alibaba gain a larger portion of the pie in the web search market since it was already dominated by strong players such as Baidu and Google. According to an internal research study by Yahoo! China, Baidu was the most favored choice among college students, and Google and Yahoo! China were preferred by affluent and business-oriented customers.

According to estimates by iResearch in 2006, Baidu and Google were the two most popular search engines with market shares of 46.5 percent and 26.9 percent, respectively, while Yahoo! China had a share of just about 15.6 percent.[lx] However, Ma dismissed competition from Google and said, "For the search engine, I think Google is very powerful. But it is not that powerful in China now."[lxi] Commenting on his strategy to defeat Google, Ma said, "We win eBay, buy Yahoo! and stop Google. That is for fun. Competition is for fun."[lxii]

In September 2006, Ma adopted a new homepage strategy by promoting Yahoo! China's home page as a separate search engine page. Commenting on Ma's strategy, Zhou said, "Now he [Ma] has completely flipped back and wants to rebuild Yahoo! China into a portal. As a result, there's no search strategy. He continues to lose market share. There's brand ambiguity. No one's sure whether it's a search engine or a portal."[lxiii]

Ma opined that Yahoo! China would have to leverage on its understanding of the Chinese consumers and chart its own path in the online search market. Describing Yahoo! China's future course of action, Ma said, "If you follow Google's way, you will always be a follower ... We have to make the Yahoo! search engine more human, more interactive ... something for the 1.3 billion people in China who aren't technology-oriented, who don't know how to ask the right questions to a search engine—for people who are like me."[lxiv]

In January 2007, Ma announced his new strategy to reorganize the Yahoo! China portal into a business-oriented search engine. As part of its new strategy, Yahoo! China's search results were to be directed more toward corporate or business-oriented websites. Describing the new strategy, Ma said, "We don't want those not interested in business or making money. They can go to Baidu. Our main focus is the high-end. We don't need to compare ourselves with Baidu in market share."[lxv] Ma was confident that the new strategy would help Yahoo! China gain leadership and succeed in the highly competitive Chinese Internet market. Industry experts felt that by positioning itself in the high-end segment, Yahoo! China would be on a different platform when compared to Baidu. But it would have to compete with Google, a dominant player in that segment. Baidu too was reported to have initiated efforts to woo the high-end customers.

However, Yahoo! China continued to lose market share to Baidu and Google. But Ma had no plans to give up since the

TABLE IV Market Shares of Players in Online Search Market in China (Q3 2011)

Players	Market Shares (In %)
Baidu	77.7
Google	18.3
Sougou	2.1
Soso	1.4
Others	0.49

Source: Adapted from "China's Search Engine Market Update for Q3 2011," www.chinainternetwatch.com, November 21, 2011.

Chinese web search market had reached RMB 811.7 million in the third quarter of 2007.[lxvi] Yahoo! China's market share fell from 1 percent in 2008 to 0.3 percent in 2009 while Baidu recorded a 76 percent market share and Google garnered a market share of 19 percent.[lxvii]

In order to gain a strong foothold in the rapidly growing Chinese web search market, Alibaba bought a 16 percent stake in Sogou.com in August 2010. With the acquisition of the stake in Sohou, Ma aimed to tap the potential in US$ 1 billion worth of online search market in China.[lxviii] However, Baidu continued with its dominance in the Chinese web search market with a market share of 77.7 percent for the Q3 of 2011 (refer to Table IV for market shares of players in online search market in China).

In October 2011, Alibaba launched an online shopping search engine called eTao. This was a bid to combat competition from Baidu and also to maintain Alibaba's control in the lucrative B2C market in China.

ANOTHER IPO AT ALIBABA?

In June 2011, Ma expressed his desire to raise an IPO for the Alibaba Group. In a letter to his employees, Ma said, "We won't rule out the possibility of taking Alibaba Group public in the future, as a way to reward our employees and shareholders who support and continue to believe in us."[lxix] Earlier in October 2007, Alibaba went public on the Hong Kong stock exchange by launching an IPO (refer to *Exhibit V* for Alibaba's IPO in 2007).

In September 2011, Alibaba also announced its plans to spin off and raise an IPO for its Internet application service provider, HiChina Group Ltd. (HiChina). The *International Financing Review*[53] reported that Alibaba expected to raise between US$ 200 million and US$ 300 million from HiChina's IPO.[lxx]

OUTLOOK

For the year ended December 31, 2010, Alibaba's revenues grew by 43.4 percent to RMB 5.55 billion as compared with revenues of RMB 3.87 billion for the FY ended December 31, 2009 (refer to *Exhibit VI* for Alibaba.com's three-year financials).[lxxi] The revenue growth was attributed to

[53] The *International Financing Review* is the world's leading source of information related to capital markets for the investment banking community.

EXHIBIT V **Alibaba's IPO in 2007**

In October 2007, Alibaba Group's Chinese website, Alibaba.com, went public on the Hong Kong stock exchange by launching an IPO. The IPO was arranged (underwritten) by Deutsche Bank AG[54] (Deutsche Bank), Goldman Sachs, and Morgan Stanley[55] (Morgan Stanley).[56] Over 85 percent of the shares in the IPO were marked for institutional investors. The IPO received a very good response from both individual and institutional investors and the individual portion was oversubscribed by 257 times. The response prompted a reallocation of the individual-investor portion to 25 percent, up from the initial 15 percent. The company raised US$ 1.5 billion from the IPO, the second largest IPO after Google, which had raised US$ 1.7 billion in 2004.[57] Alibaba sold a 17 percent stake consisting of 858.9 million shares at US$ 1.75 per share. Alibaba's shares opened at HK$ 30 on the first day of trading, almost double the price of their IPO of HK$ 13.5, and reached HK$ 39.55, a raise of nearly 200 percent at close. The share closing at HK$ 39.55 gave Alibaba a market value of US$ 25.7 billion. The IPO was the most expensive trading stock at the Hong Kong stock exchange, where shares were valued at HK$ 17.5 billion.[58] The shares of Alibaba traded almost 155 times the estimated earnings of the company for the next year. In comparison, the shares of Google were trading at 36 times of the estimated profits for the next year during the same period.[59]

With this IPO, Ma aimed to position Alibaba's business model on a global scale. According to Ma, "This is a golden opportunity, one we probably won't see again for another 20 years. Sure we could just be like an easy guy and enjoy life. But by going public now, we have a chance to be a focus of attention—not just from China but from the rest of the world—to say, 'Hey, ecommerce in China can make money; it can help China get to the next stage.' When the time comes, you have to grab it."[60] Ma had announced that around 60 percent of the earnings raised through the IPO would be spent on acquisitions and enhancing its technologies, another 20 percent on the development of its Chinese and international sites. The remaining was expected to be used as working capital. Ma announced that using the IPO proceeds, the company would expand in Europe considering the growth potential in the European market. According to Wei, "With more than 20 million SMEs, Europe is a very important market for us."[61]

Even though the Alibaba IPO was hugely successful, analysts and industry observers criticized it, saying it had been valued too high. Some others opined that Alibaba could justify the high valuation if it could increase its revenues by making its customers pay for its services. Commenting on the high valuation, Rafe Xu, an analyst at Sinopac Securities Asia Ltd., a financial services company, said, "It's a high valuation but if Alibaba can use its leadership position in the e-commerce market to get more Chinese businesses to pay for its services, it will justify it. They have a lot of work to do."[62] However, the investors justified the price considering the huge growth outlook for the company. Ma also justified the pricing by showing the post-IPO performance of its shares on the stock market. The other senior executives of the company defended the higher valuation in view of the huge future growth potential of the company. Some analysts even attributed the spectacular success of the Alibaba IPO to the rise in the demand for the Chinese companies' shares.

According to certain estimates by Goldman Sachs, the IPO was expected to boost Alibaba's earnings to US$ 166 million with profits estimated at RMB 1.02 billion in 2008.[63] However, they were also of the view that Alibaba had to tap a huge customer base since only a percent of the 24.6 million registered users it had were paying members. The rest were using the services free of charge. With this IPO, Alibaba aimed to focus on increasing its community of users while providing enhanced services to customers who were paying a premium in the range of RMB 2,800 to 60,000. The company had announced its ambitious plans to tap the Asian markets like India and Japan.

Source: Compiled from various sources.

the increasing number of paying members at Alibaba's online trading platform.

With the growth in revenues and paying members, Alibaba was touted to be one of the biggest Internet companies in China in 2011. However, its image took a beating when the company reported a series of frauds that took place through its e-commerce site, in February 2011. It was reported that some of the vendors had offered small electronic items to buyers at attractive prices. The payments were settled using less reliable methods. According to John Spelich (Spelich), the company's Hong Kong–based spokesman, the employees at Alibaba either intentionally or negligently evaded verification and authentication measures. Industry analysts felt that the fraud cases could hurt the reputation of Alibaba and hamper its ability to attract

[54] Deutsche Bank AG, headquartered in Frankfurt, Germany, is an international financial institution whose main products include banking and insurance.

[55] Morgan Stanley, headquartered in New York City, New York, USA, is a leading investment banking and financial services corporation in the world.

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EXHIBIT VI Alibaba.com's Three Year Financials (RMB in Thousands)

For the Year Ended December 31,	2008	2009	2010
Revenue			
International marketplace	1,883,966	2,406,804	3,238,243
China marketplace	1,094,059	1,414,897	1,893,899
Others	26,102	53,027	425,444
Total revenue	3,004,127	3,874,728	5,557,586
Cost of revenue	(400,651)	(534,438)	(931,016)
Gross profit	2,603,476	3,340,290	4,626,570
Sales and marketing expenses	(1,108,129)	(1,623,845)	(2,050,561)
Product development expenses	(214,038)	(384,333)	(580,173)
General and administrative expenses	(322,246)	(409,708)	(568,324)
Other operating income, net	182,637	150,566	109,026
Profit from operations	1,141,700	1,072,970	1,536,538
Finance income, net	239,207	140,941	176,398
Share of losses of associated companies and a jointly controlled entity, net of tax:	(16,087)	(37,492)	(6,479)
Profit before income taxes	1,364,820	1,176,419	1,706,457
Income tax charges	(210,317)	(163,393)	(236,445)
Profit for the year	1,154,503	1,013,026	1,470,012
Other comprehensive income/(expense)			
Net fair value gains/(losses) on available-for-sale investments	—	222	5,640
Currency translation differences	(24,650)	247	(21,533)
Total comprehensive income	1,129,853	1,013,495	1,454,119
Profit/(loss) for the year attributable to			
Equity owners of our Company	1,154,503	1,013,026	1,469,464
Non-controlling interests	—	—	548
Profit for the year	1,154,503	1,013,026	1,470,012
Total comprehensive income/(expense) attributable to			
Equity owners of our Company	1,129,853	1,013,495	1,453,571
Non-controlling interests	—	—	548
Total comprehensive income	1,129,853	1,013,495	1,454,119
Dividend per share	—	20 cents	22 cents
Special cash dividend (HK$)			
Earnings per share, basic and diluted (RMB)	22.85 cents	22 cents	29 cents
Earnings per share, basic and diluted (HK$) (Note 1)	26 cents	23 cents	33 cents

Note 1: The translation of Renminbi amounts into Hong Kong dollars has been made at the rate of RMB0.8714 to HK$1.0000 (2009: RMB0.8812 to HK$1.0000). No representation is made that the Renminbi amounts have been, could have been or could be converted into Hong Kong dollars or vice versa, at that rate, or at any rates or at all.

Source: "Alibaba Annual Report 2010," http://img.alibaba.com/ir/download/201104/2010_AnnualReport_ENG.pdf and "Alibaba Annual Report 2009," http://img.alibaba.com/ir/download/201102/e1688_AR.pdf.

global players. It was also reported that the fraud had led to a loss of US$ 1 billion in market value.[lxxii] Some experts opined that the fraudulent listings on Alibaba's online trading platform had led to a decrease in the number of members at the company.

On the other hand, the company remained positive about its prospects. According to Spelich, "We are the same company today that our customers have known for the last 11 years, and the whole point of the announcement earlier this week was to demonstrate our sacrosanct commitment to integrity. We believe, over time, our customers will understand that."[lxxiii] The company said that it was taking measures to boost the quality of services, check its sellers on-site, and offer an escrow service to protect its buyers and sellers through AliExpress, an online trading platform for small-quantity orders.

By the end of June 2011, the number of Internet users in China had reached 508 million, according to Data Center for China Internet[64] (DCCI). It was reported that the Internet users in China would reach 551 million by 2012.[lxxiv] Given the attractiveness of the Chinese Internet market, analysts opined that Internet companies that could crack the market would be rewarded handsomely. The growth outlook remained positive for Alibaba considering the potential of Internet market in China, experts felt.

While experts remained positive about Alibaba's future, it posted a 12 percent increase in net profit and recorded revenues of RMB 1.602 million or US$ 250.4 million for the third quarter ended September 30, 2011.[lxxv] Analysts attributed these results to a weak macroeconomic climate that resulted in slower customer additions. Alibaba reported that "The third quarter of 2011 presented a picture filled with challenges arising from the weaknesses in the U.S. economy and the debt troubles in the euro zone, which have threatened to spin out of control."[lxxvi]

[64] Data Center for China Internet offers data on the Chinese Internet, advertising, search engine, e-commerce, digital entertainment, and web services market.

Alibaba's chief executive, Jonathan Lu, vouched for the fact that despite the troubles in the external environment, the company would continue with its focus on upgrading its business model and building trustworthy and quality e-commerce platforms.

As of November 2011, the company was also making efforts to increase the revenue per user by planning to offer value-added services such as extra ways to advertise on the site. Industry experts felt that with the acquisition of 40 percent of Yahoo!'s stake in Alibaba, Ma would take the company forward.

Suggested Questions for Discussion

1. Critically analyze the factors that led to Alibaba sustaining its leadership position in the Chinese e-commerce market.
2. Discuss the rationale behind Ma establishing Taobao.com. What are the factors that led to Taobao's success as compared to eBay in the Chinese online auctions market?
3. Though Alibaba was the market leader in the Chinese e-commerce market, it failed to make a mark in the lucrative Chinese web search market. Do you think Alibaba's strategy of launching eTao, an online shopping search engine, would help it combat competition with Baidu? Why (not)? Do you think Alibaba's decision to acquire its 40 percent stake in Yahoo! China would help it gain some momentum in the Chinese web search market? Why (not)?
4. Critically examine Alibaba's business model. Do you think it is sustainable? After having captured the Chinese e-commerce market, what steps should Alibaba take to expand globally?

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Experiential Exercise

This can be done in groups or individually. After the exercise, discuss your proposals with the rest of the class.

You are the expatriate general manager of a British company's subsidiary in Brazil, an automobile component parts manufacturer. You and your family have been in Brazil for seven years, and now you are being reassigned and replaced with another expatriate—Ian Fleming. Ian is bringing his family—Helen, an instructor in computer science, who hopes to find a position; a son, age twelve; and a daughter, age fourteen. None of them has lived abroad before. Ian has asked you what he and his family should expect in the new assignment. Remembering all the problems you and your family experienced in the first couple of years of your assignment in Brazil, you want to facilitate their adjustment and have decided to do two things:

1. Write a letter to Ian, telling him what to expect, both on the job and in the community. Tell him about some of the cross-cultural conflicts he may run into with his coworkers and employees, and how he should handle them.
2. Set up some arrangements and support systems for the family and design a support package for them, with a letter to each family member telling them what to expect.

Internet Resources

Visit the Deresky Companion Website at www.pearsonhighered.com/deresky for this chapter's Internet resources.

CASE STUDY

Kelly's Assignment in Japan

Well, it's my job that brought us here in the first place ... I am going to have to make a decision to stick with this assignment and hope I can work things out, or to return to the United States and probably lose my promised promotion after this assignment—maybe even my job.

As she surveyed the teeming traffic of downtown Tokyo from her office window, Kelly tried to assess the situation her family was in, how her job was going, and what could have been done to lead to a better situation four months ago when she was offered the job.

As a program manager for a startup Internet services company, she had been given the opportunity to head up the sales and marketing department in Tokyo. Her boss said that "the sky's the limit" as far as her being able to climb the corporate ladder if she was successful in Tokyo. She explained that she did not speak Japanese and that she knew nothing about Japan. But he said he had confidence in her since she had done such a great job in Boston and in recent short assignments to London and Munich. Moreover, the company offered her a very attractive compensation package that included a higher salary, bonuses, a relocation allowance, a rent-free apartment in Tokyo, and an education allowance for their two children, Lisa and Sam, to attend private schools. She was told she had two days to decide, and that they wanted her in Tokyo in three weeks because they wanted her to prepare and present a proposal for a new account opportunity there as soon as possible. Her boss said they would hire a relocation company to handle the move for her.

That night Kelly excitedly discussed the opportunity with her husband, Joe. He was glad for her and thought it would be an exciting experience for the whole family. However, he was concerned about his own job and what the move would do to his career. She told him that her boss had said that Joe would probably find something or get transferred there, but that her boss did seem unconcerned about that. In the end, Joe felt that Kelly should have this opportunity, and he agreed to the move. He talked to his boss about a transfer and was told that they would look into that and get back to him. However, he knew that his company was having layoffs because of the economic decline that was taking its toll on profits. The problem was that Kelly had to make a decision before he could fully explore his options, so Kelly and Joe decided to go ahead with the plans. To sweeten the deal, Kelly's company had offered to buy her house in Boston since the housing market decline had her concerned about whether she could sell without taking a loss.

After the long trip, they arrived at their apartment in Tokyo; they were tired but excited, but did not anticipate that the apartment would be so tiny, given the very high rent that the company was paying for it. Kelly realized at once that they had included way too much in their move of personal belongings to be able to fit into this apartment. Undaunted, they planned to spend the weekend sightseeing and looked forward to some travel. Japan was beautiful in the spring and they were anxious to see the area.

On Monday, Kelly took a cab to the office. She had emailed requesting a staff meeting at 9 a.m. She knew that her immediate staff would include seven Japanese, two Americans, and two Germans—all men. Her assistant, Peter, to whom she had not yet spoken, was an American who had also just arrived, coming from an assignment in London. He greeted her at the elevator, looking surprised, and they proceeded to the conference room, where everyone was awaiting "the new boss." Kelly exchanged the usual handshake greetings with the Westerners, and then bowed to the Japanese; an awkward silence and exchange took place, with the Japanese looking embarrassed. While she attempted a greeting in her limited Japanese that she had studied on the plane, she was relieved to find that the Japanese spoke English, but they seemed very quiet and hesitant. Peter then told her that they all thought that "Kelly" was a man, and they all attempted a laugh.

After that, Kelly decided that she would just meet with Peter, and postpone the general meeting until the next day. She asked them to each prepare a short presentation for her on their ideas for the new account. While the Americans and Germans said they would have it ready, the Japanese seemed reluctant to commit themselves.

Meanwhile, at home Joe was looking into the schools for the children and also trying to make some contacts to look for a job. Travelling, getting information, and shopping for groceries proved bewildering, but they decided that they would soon get acquainted with local customs.

At the office the next day, Kelly received a short presentation from the Westerners on the staff, but when it came to the Japanese they indicated that they had not yet had a chance to meet with their groups and other contacts in order to come to their decisions. Kelly asked them why they had not told her the day before that they needed more time, and when could they be ready. They seemed unwilling to give a direct answer and kept their eyes lowered. In an attempt to lighten the atmosphere and get to know her staff, Kelly then began chatting casually and asked several of them about their families. The Americans chatted on about their children's achievements, the Germans talked about their family positions, and the Japanese went silent, seemingly very confused and offended.

Still attempting to get everyone's ideas for an initial proposal to the potential new client, Kelly later asked one of the Americans who had been there for some time what he thought was the problem and delay in getting presentations from the Japanese. He told her that they did not like to do individual presentations, but rather wanted to gain consensus among themselves and their contacts and present a group presentation. Having learned her lesson, but feeling irritated, she asked him to intervene and have the presentations ready for the next week. When that time came, the rest of the presentations were made by the Japanese, but, oddly, they seemed to be addressed primarily to Peter. Later, Kelly decided to finalize her own presentation to put forth a proposal for the client, which she set up for the following week.

At home, Joe said that he had not heard anything from his company in Boston and asked Kelly to again contact her company to request some networking in Tokyo that might lead to job opportunities for him. Kelly said she would do that, but that there didn't seem to be any one person "back home" who was keeping up with her situation or giving any support about that or about her job.

The children, meanwhile, complained that, although their schools were meant to be bilingual English-Japanese, a majority of the children were Japanese and did not speak English; Lisa and Sam felt confused and left out. They were disoriented by the different customs, classes, and foods for lunch. At home they complained that there was no back yard to go out to play, and that they could not get their programs on the television, or understand the Japanese programs.

Back at the office, Kelly worked with her staff to finalize the proposal, but noticed a strained atmosphere. Peter told her that some of them would drop by a local bar for a drink after work, which helped the whole group to relax together. However, she felt that she could not do that, nor that she would be accepted as a female.

The next week, as arranged, Kelly and Peter went to the offices of the client; she knew that a lot was riding on getting this big new contract. She had asked Peter to let them know ahead of time that she is a woman, yet the introductions still seemed strained. She planned to get straight down to business, so when the client company's CEO handed her his business card, she put it in her pocket without a glance, and did not give him her card. Again she noticed some shock and embarrassment all around. (She found out much later that a business card is very important to a Japanese businessman because it conveys all his accomplishments and position without having to say it himself.) Flustered, she tried to make light of the situation, patted him on the back, and asked him what his first name was, saying, rather loudly, that hers' was Kelly. He went quiet again, backed away from her, and, with his head bowed, whispered "Michio." He glanced around at his Japanese colleagues rather nervously.

After a period of silence, Michio pointed to the table of refreshments, and indicated that they sit and eat; however, Kelly was anxious to present her power-point slides and went to the end of the table where the equipment was and asked Peter to set up the slides. As she proceeded to go through the proposal, telling them what her company could do for them, she paused and asked for questions. However, when Michio and his two colleagues asked questions, they directed them to Peter, not to her. In fact, they made little eye contact with her at all. She tried to remain cool, but insisted on answering the questions herself. In the end, she sat down and asked Michio what he thought of the proposal. He bowed politely and said "very good" and that he would discuss it with his colleagues and get back to her. However, Kelly did not hear from them, and after a couple of weeks she asked Peter to follow up with them. He did that, but reported that they were not going to pursue the contract. Frustrated, she said, "Well, why did Michio say that it looked very good, then?" She knew that it was a very competitive proposal and felt that something other than the proposed contract was to blame for the loss of the contract.

Disillusioned, but determined not to give up without success in the assignment, Kelly took a cab to go home and think about it, but the driver misunderstood her and went the wrong way and got stuck in traffic. She felt discouraged and wished that she had some female American friends to whom she could confide her problems.

When Kelly got home, Peter was angrily trying to fix dinner, complaining about the small appliances and not being able to understand the food packages or how to prepare the food. He said he needed something else to do, but that there did not seem to be a job on the horizon for him. He was also concerned about continuing to live in such a high-cost city on only one salary.

Kelly went to the other room to see the children; they were fighting and complaining that they had nothing to do and wanted to go home. Kelly felt that the three months that they had been there was not a fair trial, and was wondering what to do. She wished she had had more time to prepare for this assignment, and whenever she contacted the home office no one seemed able to advise her.

Case Questions

1. Explain the clashes in culture, customs, and expectations that occurred in this situation.
2. What stage of culture shock is Kelly's family experiencing?
3. Turn back the clock to when Kelly was offered the position in Tokyo. What, if anything, should have been done differently, and by whom?
4. You are Kelly. What should you do now?