

SUMMARY

BY ALYSSA BURNETTE

Alibaba

By Duncan Clark



Summary of Alibaba by Duncan Clark

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Learn about the online retail store taking China by storm.

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Introduction

It's no surprise that American shoppers think of Amazon as their one-stop shop for everything. With the benefit of one-day Prime shipping and instant access to movies and music through Amazon Prime, Amazon is a tremendous part of many people's lives. It's something we use every day, so it's understandable that millions of American consumers view Amazon as their number-one online retailer. So, given this mass admiration for Amazon, you might easily assume that, on any list of America's most popular online shops, Amazon would be ranked number one. But would it surprise you to know that, when this book was written in 2016, Amazon was actually the twelfth most popular online retailer in America? By contrast, Alibaba-- a shop you might never have heard of-- ranks as the number one online retailer in China. So, over the course of this summary, we'll learn what makes Alibaba so successful and what strategies enabled this shop to dominate the Chinese market.



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Let's Learn About the Chinese Market

What does your local mall look like? Chances are, even if you live in Nowhere, USA, you still have a local mall, even if it's tiny. Depending on where you live, it might be two or three stories tall and serve as home to a variety of popular chain stores including Belk, Bath & Body Works, Claire's, and Aeropostale. This is significant because, although this is par for the course in pretty much every American town, the set-up is radically different in China. This is due in part to the prevalence of legal restrictions that previously prevented the construction and operation of malls in China. But it's also because China observes a strict hierarchy when it comes to consumer's trends and shopping patterns.

In a book that focuses on online retail, it might seem odd to begin with a discussion about the structure of malls and stores that you can physically walk into. But this information is relevant to our story because it helps us to begin with an understanding about the Chinese economy and the shopping habits of Chinese people. Chinese-born Jack Ma, the founder of Alibaba, understood that knowing his market was crucial to his success. And it is this intimate knowledge of his target demographic that enabled Jack Ma to rock the online retail world. But before we dive in to learning about his success strategies, it's important to start by understanding the economic principles that informed his success. And that starts with a close examination of the Chinese economy and the shopping habits of Jack's customers.

The first thing you should know is that, when it comes to learning about shopping habits, China is massively ahead of the curve. In fact, they're so good at it that American companies should really take a lesson from China's playbook. That's because Chinese marketing analysts have studied consumers' buying habits so thoroughly that they use this research to inform the layout of their malls. For example, you're unlikely to find a home-goods shop in a Chinese mall or a store that sells decorative supplies such as bedding, throw pillows, and other household necessities. Chinese malls also don't follow the Western structure of two-three story buildings. Instead, a

more common Chinese mall design would comprise up to six stories, with the most popular and most expensive retailers located on the lower floors. That's because Chinese entrepreneurs know two things: what their consumers prefer to buy and where they prefer to hang out. And because malls were slow to enter the Chinese economy, they've become a popular hangout for teens who are drawn to the latest fashions and trends.

So, if you put the stores most likely to be frequented by kids at an accessible level-- the main two-three floors of the mall-- and keep them stocked with the next big craze, it follows naturally that you'll attract more foot traffic and be able to convert those shoppers into buying customers. Pretty smart, right? Another significant difference can be found in the dichotomy between retail and wholesale in China and the US. For example, Western businesses distinguish between retail and wholesale because of the prevalence of corporate buyers. And because Chinese sellers are free from the restrictions imposed by corporate buyers, each brand is free to establish its own rules for product pricing, store policies, and order fulfilment. Likewise, Chinese brands are free to act as their own retailers and make their own rules. For them, their location in a department store is simply a blank space that each store can personalize individually, in much the same way as you might if you're renting an apartment. As you can imagine, this illustrates a significant difference between the Chinese and Western models of shopping. But this is only one example of the distinctions that set the Chinese retail world apart.



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China's Relationship With Online Shopping

How many online purchases do you make every month? Think about your Amazon orders, your online Pizza deliveries, the impulse buys you make because of targeted Instagram ads... You might not know the figures off the top of your head, but economists make their living by analyzing our shopping habits. And the data might surprise you! Because according to a recent study conducted by international statistics website Statista, 1.8 billion shop online as of 2018. And although that data measures the population of online shoppers worldwide, a percentage breakdown indicates that not only does China account for more than half of the world's online shoppers, there are more active online shoppers than there are people alive in America!

Likewise, a study conducted by financial website Oberlo concluded that Alibaba and its subsidiary site Taobao rank as the world's two largest online marketplaces, with Taobao grossing a GMV of \$515 billion. Similarly, Alibaba holds a shocking monopoly, dominating over 80% of all online retail interactions in China. Statistics have also indicated that Chinese shoppers make a whopping 8.4 online purchases per month compared to 5.2 in the United States. So, what makes the difference? What gives China an upper hand in the world of online shopping? The author posits that one significant factor is China's superior technological advancements. Because China is an incredibly tech-savvy country, Chinese retailers can orchestrate significant economic change in a much shorter period of time than countries who are less technologically advanced. Even if these countries-- like the US-- possess strong economies, the fact that they have developed gradually over time means that they can't handle massive spurts of change overnight. And that's especially true when those massive growth spurts occur online.

This technology discrepancy between countries can help us understand the popularity of Chinese e-retailers such as Alibaba and Taobao. Their popularity has arisen partly because China's technological advances enable these online shops to utilize platforms like Tmall. Tmall enables over 135,000 online retailers-- both those who are local to China and their foreign

counterparts-- to collaborate in one hub that gives them access to 600 million Chinese shoppers. And because it offers both maximum accessibility and an incredible variety, it works! Every single one of those 600 million users have, at one time or another, been converted to paying customers on either Alibaba or Taobao or both. So, as you can see from these examples, Jack Ma's technological prowess and understanding of his culture played a powerful role in Alibaba's early success. But those weren't the only factors that made Alibaba a digital sensation.

In fact, it might surprise you to learn that online shopping wasn't always so popular in China. Despite China's reputation for superior technological advances, many people were reluctant to accept online shopping when Jack Ma first launched his business in the early 1990s. At that time, the internet was in its infancy, but Jack recognized that the internet was a budding gold mine for business opportunities. So, in 1995, he created one of China's very first internet businesses: Hangzhou Haibo Network Consulting. Jack understood that the internet would enable businesses to quickly connect with prospective customers, he thought he could make a fortune by helping businessmen develop websites. He also believed that he could expand China's trade opportunities by using the internet to develop business partnerships with American customers.

But his idea didn't take off as well or as quickly as he'd hoped. Most businesses were reluctant to accept the internet and they certainly didn't believe that they needed to invest in a website. Fortunately, however, amidst all the businesses who said no to his idea, there was one who said yes. And when a hotel hired Jack to create their website, Jack's theory was quickly proven right. Overnight, this Chinese hotel saw a massive influx of international customers-- and it was all thanks to Jack's web design skills! Tourists from all over the world decided to stay at this hotel because they were able to find the hotel's website online! This early success enabled Jack to convince prospective customers that online shopping was a profitable new trend.



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What Made Alibaba Successful?

After trying his luck with a web design business, Jack was interested in expanding his horizons. Instead of convincing his customers to make their fortunes in online retail, Jack wanted to try it himself. And that's how, in February of 1999, Alibaba-- one of China's first online stores-- was born. From day one, Jack knew that he wanted his company to be successful enough to compete with Amazon. He also knew that he needed a few key ingredients to create such a successful business. The first and most important ingredient was a commitment to superior customer service. Because online shopping was so new, Jack knew that customers would have to feel pretty special if they were going to make a habit of shopping online. So, he decided that every aspect of his company would be governed by a "customers first" philosophy.

The next step was to make Alibaba accessible and competitive by presenting the platform as a great opportunity for other online retailers. Having seen the success of Amazon, Jack knew that if he wanted his business to take off, he needed to partner with other merchants and provide them with a convenient online platform for distributing their wares. So, he started by providing a standard amount of free services for every merchant who wants to use Alibaba as their storefront. For example, if a small business wants to sell their products on Alibaba, they can do so for free. This is an awesome deal for small business owners who are trying to make a name for themselves! It's unsurprising that more than 9 million sellers have taken advantage of this fantastic opportunity. But Alibaba also offers options for sellers who want to pay a small fee.

This option is similar to the "cost per click" advertising services that Facebook offers its users. Merchants who want to put their products in the spotlight can select a budget and pay to have their products advertised on Alibaba so they reach a wider audience. For example, let's say that you own a small custom design shop. You provide handmade designs for t-shirts, coffee mugs, and a variety of other products. Because you're just starting out, you have a very small budget for advertising. But if you want to sell your

designs on Alibaba, you can set a budget limit-- let's say \$30-- and promote your products on their site for a certain period of time. With this arrangement, you only pay when people actually click on your ad. So, that \$30 can stretch for quite a while and you can be certain that your product is being shown to real, interested customers. Therefore, this advertising system guarantees that you can promote your product at an affordable budget and target your ideal customers. And with those two factors, it's pretty likely that you're going to sell your product to someone at some point!

So, as you can imagine, this affordable and user-friendly advertising option has made Alibaba very attractive to potential sellers. But now that we know why sellers love Alibaba, let's take a look at the factors that make it attractive to customers. Earlier in this chapter, we talked about Jack Ma's "customers first" mentality. Now we're going to take a closer look at what that really means. One reason customers love Alibaba is its unique interactive shopping experience. An interactive shopping experience can make all the difference in the world for someone who's hesitant about online shopping. After all, if you've ever waited to buy something in a store instead, it was probably because you had concerns like, "What if it doesn't really fit?" or "Maybe I should see it in person first." Alibaba's interactive shopping experience aims to minimize those concerns by allowing buyers and sellers to connect online via webcam. When you talk to a seller in real time via webcam, you can see their face, see their product, and ask questions about the product you're buying. Unsurprisingly, this helps many customers to feel better about their shopping experience!

But that's not the only benefit of Alibaba's customer service policies. The site also employs a multitude of customer service experts who perform routine site maintenance, make sure everything is working properly, and connect with customers to ensure their satisfaction. They also block sellers who cheat their customers or violate Alibaba's policies in any way. These customer-centric policies helped Alibaba to quickly dominate the Chinese market, overtaking major sellers like Amazon and eBay. Today, Alibaba's hold on the Chinese online shopping market remains unparalleled.



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Final Summary

Today, online shopping is a common aspect of everyday life around the world. The accessibility of apps and iPhones mean that we have limitless shopping opportunities at our fingertips and we take advantage of that. We regularly order takeout, groceries, and taxis from our phones via online shopping without ever giving it a second thought. But in the early 1990s, when the internet was in its infancy, online shopping was a foreign concept to everyone. Chinese entrepreneur Jack Ma believed the internet was a gold mine of new opportunities, but it took a lot of time and effort before he was able to convince other businessmen to accept the internet.

But when the internet finally caught on and Chinese customers felt more comfortable with the concept of online shopping, Jack was ready to take the market by storm. He invented Alibaba, an online shopping platform that was designed to rival Amazon and eBay. And he did it perfectly. Alibaba was founded with a customer-centric mentality that inspired Jack to develop exceptional customer service practices. He also made his site user-friendly and affordable for sellers who wanted to host their products on his site. The combination of these two features made Alibaba an unparalleled access that continues to dominate the Chinese online shopping market to this day.



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