

# Matéria

# Matéria

## Mobile

### **Alibaba Makes Its Move Against Android**

- **China's e-commerce kingpin pushes into the mobile OS market**
- **Its chairman says the nation's "mobile Internet has arrived"**

Jack Ma, the founder of Chinese e-commerce giant **Alibaba Group**, has made a career of taking on big-name rivals from the U.S. As the company has grown since its 1999 founding into a hybrid of **Amazon.com** and **EBay** and become a leader in business-to-business sales, only **Google** has gotten the better of Ma. In September, Alibaba accused the search giant of scotching the debut of a smartphone using its homemade



operating system just hours before its big coming-out party in Shanghai, prompting Android seller **Acer** to drop its partnership with Alibaba. The U.S. search company says the Chinese company's system "is based on the Android platform and takes advantage of all the hard work that has gone into that platform," as Google developer Andy Rubin wrote online at the time.

On May 10, Ma officially stepped down as chief executive officer, part of his plan to focus on longer-term strategy while handing day-to-day responsibilities to company veteran Jonathan Lu. Ma remains executive chairman, though, and his fight with Google isn't over. In April, Alibaba announced deals with five lower-profile Chinese smartphone makers, including **G'Five** and **Zopo**, to sell devices using its operating system. The company maintains that its OS has always been a distinct creation. "Google is not the judge," says Chief Technology Officer Wang Jian. "Let the market and the consumer decide." Vendors who sell goods on Alibaba websites Taobao Marketplace and Tmall.com will be able to manage their online operations from apps built into the new mobile system, he says.

Despite last fall's setback, Alibaba is in a strong position to eat into Android's Chinese market share, which stands at more than 80 percent according to market researcher IDC. Sales on Taobao and Tmall reached 1 trillion yuan (\$163 billion) last year, exceeding 2 percent of China's gross domestic product. Alibaba earnings rose to \$642.2 million in the last quarter of 2012, more than double those from the year before, according to an SEC filing by **Yahoo!**, which owns about 24 percent of the company. Morgan Stanley estimates

Alibaba's profits may reach \$2.18 billion in 2013. A public offering later this year or next could value it at about \$62.5 billion, the median of eight estimates by investment banks and research firms since February, according to data compiled by Bloomberg.

Still, Chinese online habits are changing. Next year more Chinese will access the Internet via mobile devices than through PCs, says Will Tao, an analyst with IResearch. Smartphone shipments in China jumped by 135 percent, to 213 million, last year, and by 2017 will grow to 460 million, IDC says. "Many of us have not even figured out what the Internet on the PC is, and mobile Internet has arrived," Ma told tens of thousands of Alibaba employees gathered in the Hangzhou headquarters for the ceremony marking his last day as CEO. Before his speech, Ma, decked out in a silver lamé jacket and backed by a rock band, belted renditions of Chinese songs *I Love You China* and *Friends*.

Ma will likely continue to guide Alibaba's strategy as it tries to adapt and avoid being outflanked by **Baidu**, China's top search and digital-map company. Then there's **Tencent Holdings**, which operates the ubiquitous Chinese instant-messaging service QQ, as well as WeChat, a free app that allows its more than 300 million users to send text, image, and audio messages. "Jack Ma understands that Tencent wants to become his major rival in e-commerce and has the money to do it," says Michael Clendenin, managing director of market researcher RedTech Advisors, noting that Tencent could use WeChat's popularity to lure shoppers away from Alibaba's online payment system and vendors. Ma, he says, "has

got to find a way to counter WeChat."

Alibaba is trying to move in on its rivals, too. On May 10 the company announced the \$294 million acquisition of a roughly 28 percent stake in Beijing-based mapping company **AutoNavi Holdings**, and last month it agreed to pay \$586 million for about 18 percent of Weibo, the 500 million-user Twitter-like service owned by **Sina Corp.**, with an option to increase its stake to 30 percent. Since Alibaba's early days, "we have always been innovating," incoming CEO Lu told reporters in Hangzhou on May 10. "Innovation has upheld our business and our future." —*Bruce Einhorn, with Lulu Chen*

*The bottom line* As Alibaba's profits soar, the e-commerce company is trying to reinforce its position by pushing into the mobile OS market

## Matéria