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Site Linking Global Buyers, China Factories, Plans IPO

By LORETTA CHAO
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HANGZHOU, China -- A few years ago, Jane Ivanov of Indianapolis was pregnant for the first time and frustrated. Amid the array of clothing available to expectant women, there was one thing she couldn't find: sexy lingerie. Sensing an opportunity, the business-school graduate and her husband pooled \$50,000 from their savings and credit-card borrowings to start a maternity-lingerie brand called Eve Alexander. All she needed was the manufacturer.

For that, she turned to Alibaba.com¹, then a little-known Chinese Web site that has become a significant gateway for global trade. On the site, which connects small manufacturers in China and elsewhere with potential customers, Ms. Ivanov found a supplier in Hong Kong that could make the bras she wanted.

Now, she spends her days taking care of her two children and her nights fulfilling hundreds of catalog orders and arranging shipments to retailers, including more than 100 maternity boutiques, hospitals and online stores, most recently Target.com².



Jack Ma

For almost a decade, Alibaba.com Corp., led by founder Jack Ma, has been positioning itself at the virtual nexus between China's manufacturing juggernaut and buyers around the world who want its low-cost goods. Charging manufacturers to promote their products and services to customers on its site with English-language listings, it now dominates China's business-to-business market. World-wide, it is the most visited import/export site, according to Web-site tracker Alexa.com³. Alibaba is about to take a major new step.

Today, Alibaba Group, its parent company, which is 39%-owned by **Yahoo** Inc., is expected to officially announce the initial public offering of Alibaba.com to Hong Kong retail investors. The IPO is expected to be the biggest ever by a Chinese Internet company, raising as much as \$1.3 billion, with trading in Hong Kong set to begin early next month. With a collection of online businesses, Alibaba Group has made headlines as one of the few Chinese Internet companies with a global profile.

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Mr. Ma has expanded Alibaba Group to include Taobao.com⁴, an online auction site that has overtaken **eBay** Inc. as the market-share leader in China, and online payment and software operations. Two recent additions to the group are Alimama, an online marketplace for Web publishers and advertisers, and Koubei, a classifieds site of which Alibaba Group owns 53%. These other operations aren't part of the IPO.

In 2005, Yahoo paid \$1 billion for its stake in Alibaba, and it turned over control of Yahoo's Chinese operations to Mr. Ma.

Based in the eastern city of Hangzhou, near Shanghai, Alibaba.com gets the bulk of its revenue from small and midsize Chinese manufacturers who pay to join the site. The company helps them post listings that include descriptions of their products, contact information and, in some cases, videos showcasing the suppliers' factories. Buyers also can post their requests for products in the "buying leads" section. Yu Xuehui, owner of heater manufacturer Ningbo Jasun Electrical Appliance Co., says Alibaba helped take his business to a new level. While he had to rely on outside firms to sell his products in the past, and mostly did domestic orders, he now has relationships with clients around the world. "I knew I wanted to export but had nowhere to start," Mr. Yu says. Since joining the site six years ago, he says his annual revenue has increased by \$1.3 million.



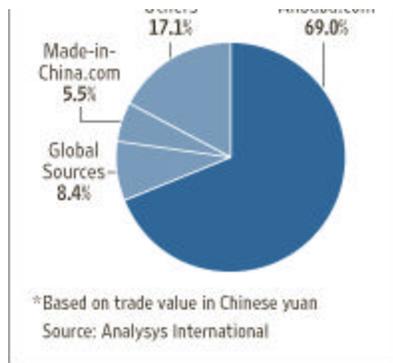
Alibaba.com's annual Alifest brings clients together

According to a copy of the preliminary IPO prospectus reviewed by The Wall Street Journal, Alibaba's revenue in the year's first half was 957.72 million yuan (\$127.6 million), 61% more than the same period last year. It has about 24.6 million registered users, and, since it began charging for some services a few years ago, has amassed more than 255,000 paying members. Net profit this year is expected to more than triple, to \$83 million.

But as Alibaba has expanded, so has its exposure to problems from counterfeiting to product safety. In its preliminary prospectus, Alibaba acknowledges that in providing a way for importers and manufacturers to communicate online, it risks listing tainted products and counterfeits. "We anticipate...that certain items listed on our marketplaces infringe third-party [intellectual property] rights or that suppliers list products and services that are substandard or potentially controversial," it says.

The nonprofit International Anticounterfeiting Coalition says it considers Alibaba to be a platform for counterfeits. One of its members, Rob Holmes, CEO of IPCybercrime.com LLC, a private investigator that specializes in helping brand owners identify violations of intellectual-property rights, says Alibaba is "a major thorn in the side" of his clients. Manufacturers peddling counterfeit products use the "buying leads" section as a way to find customers, Mr. Holmes says.

Another problem: Some suppliers who have legitimate contracts with apparel brands covertly produce unauthorized lots of the products and sell them on Alibaba, Mr. Holmes says. "I would say about a third of the product on Alibaba is gray market, easily," he



says.

The company declined to comment because it is in the quiet period before its IPO. But Alibaba says on its Web site that it regularly cooperates with intellectual-property-rights owners, industry associations and government agencies to fight against violators. "Alibaba.com respects intellectual property rights and we expect our users to do the same," the statement says. In general, it is the responsibility of Alibaba users, and not the company itself, to comply with intellectual-property-rights laws.

According to a Goldman Sachs report, the company takes down nearly 100 listings per month in response to patent and copyright complaints. Goldman is a lead underwriter of the IPO, along with Morgan Stanley.

Alibaba was founded in 1999 by Mr. Ma, a former English teacher from Hangzhou, and the company has grown to more than 6,000 employees.

Thousands of small- and midsize business owners recently came to a gathering called Alifest, an annual bazaar arranged by Alibaba to bring its clients together. Sebastien Breteau, CEO of Asia Inspection, says he lists his services on Alibaba.com so that buyers can pay to have their manufacturers inspected for safety and compliance or for quality control.

Meanwhile, Ms. Ivanov is expanding her brand to include other maternity apparel. "Because of Alibaba, housewives can make something of themselves," she says.

--Jason Dean contributed to this article.

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