

# Power of the PLATFORM

Alibaba claims to be the world's largest retail commerce company and that statement is true as long as the determination of size is based on the metric of Alibaba's choosing.

Walmart is generally regarded as the world's largest retailer and for good reason. It easily outdistances competitors with annual revenues of nearly \$486 billion and a footprint of 11,600 stores and Web sites operating in 28 countries. It has a massive workforce of more than two million employees and profit of \$13.6 billion. By comparison, Alibaba is downright puny with revenues of only \$22.9 billion. By that measure, it can't even claim to be the largest retailer in China. That distinction falls to rival JD.com, a company in which Walmart acquired a 12.1 percent ownership stake, with revenues of \$37.5 billion.

Alibaba's claim of dominance stems from its use of gross merchandise volume, or GMV, to describe its scale. The company's GMV last year was a staggering \$547 billion compared to JD.com's GMV of \$95 billion. Neither Walmart nor Amazon use the GMV metric in their financial results because their operating model and approach to financial reporting is different from Alibaba and JD.com. The Chinese competitors function as platforms, Alibaba more so than JD.com, who facilitate commerce between buyers and sellers. That's why Alibaba refers to itself as a "retail commerce company" rather than a retailer since it isn't the actual seller of product.

Amazon straddles both worlds in that it is a first party seller, like Walmart, but also generates considerable GMV because more than half of the items it sells worldwide are from third party sellers. Amazon earns a fee on each of those sales and those fees are reflected in the company's financial results, however Amazon doesn't share a GMV figure like its Chinese rivals. Doing so would provide a more accurate representation of the company's true impact on the overall retail market.

The fees earned on services provided to platform users to generate GMV can be substantial. For example, Alibaba produced a profit of \$6 billion on revenue of \$23 billion

last year, while Walmart produced retail sales the old fashioned way — buying, distributing and executing transactions in physical stores — to generate a rate of profitability significantly less than Alibaba's. Amazon's profit is less than half of Alibaba's.

Alibaba is a dominant force in China and founder Jack Ma has said the company will surpass GMV of \$1 trillion in the next three years. Meanwhile, competitors are looking to find their footing. Amazon doesn't disclose results for China, but its international division, which accounts for 32 percent (\$43.9 billion) of total revenues, had an operating loss of \$1.3 billion last year, double the prior year's loss of \$700 million. JD.com, the company Walmart has been steadily investing in since first disclosing a 5.9 percent ownership interest last June, has lost money each of the last five years.

Walmart operates 439 locations in China but when discussing the performance of the business tends to use broad statements or provide percent change figures, which lack context because it doesn't disclose sales figures. Despite the lack of visibility, Walmart is making interesting moves in China that are potentially more significant than anything it has done domestically with the acquisition of Jet.com or other niche players. Most notably, the investments in JD.com that began last year when Walmart struck a deal to have JD.com take over its e-commerce operations gave Walmart and Sam's Club access to the JD.com platform and a massive distribution network. JD.com is a little like the Walmart of China in that regard since it has invested huge sums since 2007 to develop a network of 256 warehouses in 54 cities encompassing 60 million square feet. JD.com also operates 6,906 smaller delivery stations and has a joint venture with a crowdsource delivery company called New Dada that offers one hour delivery from 80 Walmart stores. Alone, Walmart and JD.com have their challenges, but together the companies offer a unique collection of capabilities that give Chinese consumers a viable option to Alibaba and could pose a real threat to Jack Ma's \$1 trillion GMV aspirations. **RL**

## BATTLE OF THE BUSINESS MODELS

	 Alibaba Group <small>(FY ended 3/31/17)</small>	 amazon <small>(FY ended 12/31/16)</small>	 Walmart <small>(FY ended 1/31/17)</small>	 JD.COM <small>(FY ended 12/31/16)</small>
<b>Annual Revenues</b>	\$22.9B	\$136B	\$485.9B	\$37,465B
<b>Percent Change</b>	56%	27%	0.7%	43.5%
<b>Net Income</b>	\$5,989B	\$2,371B	\$13.643B	(-\$549M)
<b>Percent Change</b>	(-42%)	296%	(-7.15%)	58.2%
<b>Cash and Equivalents</b>	\$21.3B	\$19.3B	\$6.8B	\$2.8B
<b>Number of Employees</b>	50,092	341,400	2,300,000,000	120,622

SOURCE: Company Reports