

What Jack Ma Has Left Undone at Alibaba

● Before he steps away in 2019, the founder must create a business model for his successor to build on

When Jack Ma founded Alibaba Group Holding Ltd. 19 years ago, he created more than just a company that would become a global e-commerce giant. Over the past two decades, he proved that the Chinese could embrace technology and e-commerce as much as Western counterparts. Along the way, Ma became a role model to entrepreneurs in China, inspiring startups and helping build a tech industry that rivals Silicon Valley.

Ma will hand over the reins as chairman to Chief Executive Officer Daniel Zhang in September 2019 and stay on the board until Alibaba's 2020 annual shareholder meeting, the company announced on Sept. 10. The succession plan will combine Alibaba's two biggest roles for the first time since Ma gave up his CEO title in 2013 to focus on being chairman and grooming his lieutenants, including Zhang, who joined the company's Taobao marketplace in 2007 as chief financial officer.

"Since he took over as CEO," Ma wrote in a 1,000-word open letter announcing the moves, Zhang "has demonstrated his superb talent, business acumen and determined leadership. Under his stewardship, Alibaba has seen consistent and sustainable growth for 13 consecutive quarters." Yet, while Ma has named a management successor, he hasn't put in place a new business model for Zhang to build upon.

In quarterly reports and ad hoc speeches, much is made of the future of China's retail economy, the power of technology to lift the masses, and Alibaba's goal of building a platform to connect finance, shopping, content, delivery, and cloud services. The company spent a lot of time in the earnings release and investor call that covered the June quarter explaining all the reasons various line items were exceptions to the overall solid story of China's premier e-commerce company. But new businesses aren't delivering stable profit. Operating margin has fallen to 21 percent from almost 50 percent at the end of 2013.

Although the company is huge in e-commerce, it's still driven by a marketing model that forces

sellers to constantly outbid one another for access to potential buyers. Unlike Amazon.com Inc., which makes money by buying and reselling goods, Alibaba's business model is essentially to sell ads. That works when turnover is brisk but is strained when things slow and rivals come knocking.

Alibaba's marketplace business—acting merely as the middleman—is founded on a shaky promotions model that's ripe for upset if sellers one day decide they're tired of paying escalating fees just to sit at the table.

▼ Ma (left) with Zhang in Hangzhou, China, in 2015



Then there's Ant Financial Services Group, the Alibaba affiliate that offers a payment system for consumers and businesses, as well as a portfolio of loans and investment products. The world is in a tizzy about what the online financial provider could or might be in the future. The reality is that right now it's an investee company—Alibaba owns more than a third—delivering unstable profits. Ant Financial also faces massive regulatory risk, because the Chinese government could cut in at any time. And it's up against unrelenting competition from Tencent Holdings Ltd. and numerous upstarts.

The final plank of Alibaba's platform—content and cloud—has yet to show it can be profitable, and there's little sign that things will improve anytime soon. Alibaba has spent billions of dollars trying to make or acquire video content, and it's trying very hard to replicate Amazon's success in selling cloud services. But losses continue, and significant revenue growth hasn't yet translated into any kind of economies of scale.

The result is a no man's land for Alibaba's business. The old model is struggling while a new one simply doesn't exist. As Ma prepares for his departure, with dreams of a Bill Gates-like retirement filled with philanthropy and pedagogy, it's worth noting that the period after the Microsoft Corp. co-founder left was a lost decade. Steve Ballmer failed to capture the next big thing (mobile) and desperately hung on to the dying old thing (PCs), resulting in a disastrous run for the stock.

Fans of Ballmer may note that he had to tread carefully in the aftermath of a dramatic antitrust lawsuit. That's the kind of regulatory cloud Ma will be leaving to Zhang a year from now. There's no indication that anyone at Alibaba knows the risks they will face or what strategy they will have to deal with it.

In the Sept. 10 open letter, Ma talked about the need to move on, the strength of the Alibaba Partnership, and the decade of thought he put into his succession plan. "This transition demonstrates that Alibaba has stepped up to the next level of corporate governance from a company that relies on individuals, to one built on systems of organizational excellence and a culture of talent development," he wrote. The word "future" appears just once. Before moving on to pursue "new dreams," Ma could spend more time planning Alibaba's next success. —*Tim Culpan, Bloomberg Opinion*