TRANSCRIPT

The TaoBao Effect: Turning Observation into Innovation and Mobilisation

Host:

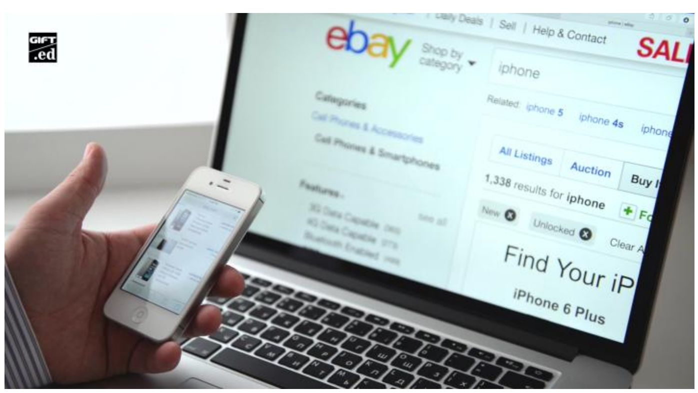
Opportunities for innovation are abundant but seizing them depends entirely on our ability to perceive them in the first place. Thus, observation is the critical first step in the innovation process, allowing us to identify gaps, understand needs, and envision new possibilities.

At Alibaba, one of the world's largest e-commerce giants, keen observation and a deep understanding of the local market dynamics paved the way for one of its many transformative innovations, including the formation of Taobao, China's largest online marketplace.

Let’s hear more about these innovations from one of Alibaba’s top former executives, Brian Wong. Brian previously served as Special Assistant to the Chairman of Alibaba Group, Jack Ma, and is the author of the bestselling book “The Tao of Alibaba”.

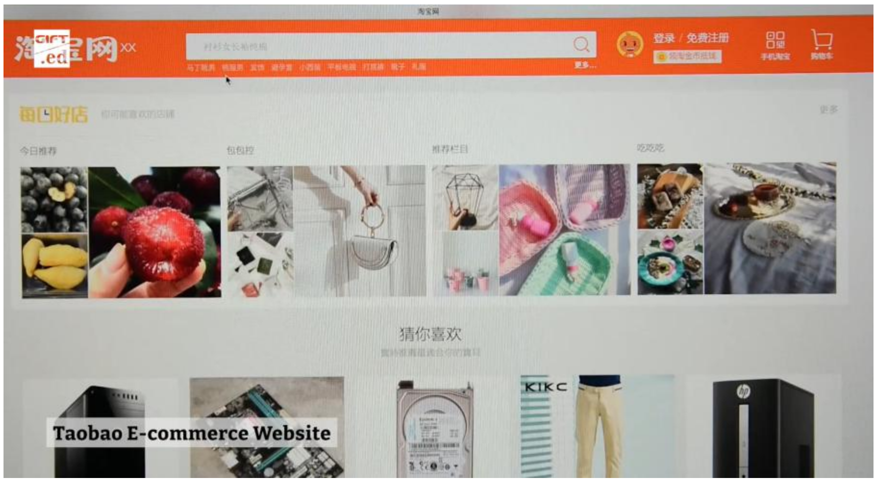
Brian A. Wong:

So one example I'd like to share is around a company called Taobao, which is the retail marketplace that we created in 2003. Not unlike eBay, and actually, eBay at the time was entering China with very aggressive, very successful entry in terms of capturing the market that existed at the time. It was still very early, but what eBay did was to take their model from the US, Silicon Valley specifically, and apply it to the China market.



You know, very clean, simple UI that was really geared towards just promoting the transactions that required or that people were trying to do online. But I think Jack and the team observed this. They studied it, and they went about it very differently.

If you looked at the Taobao website versus eBay, eBay was very clean and slick and simple, and Taobao was just a mess. It just had, you know, all these pictures all over the place. It had things jumping around, and it just looked crowded, and it looked messy. And a lot of people thought that was a recipe for failure.



But what Jack and the team said is that the Chinese consumer, if you go to a marketplace, there's a lot of noise, there's a lot of lights, there's a lot of just stuff going on. But people want liveliness, they want energy. They feel like if you go to a marketplace, you should have that kind of chaos, because that is what represents vibrancy. And so, they went through that approach, and a lot of people say that the success of Taobao in some ways was because it was built for the local market.

Another example from that era was eBay did not allow buyers and sellers to communicate directly. They basically were in the middle of that transaction because there was a commission that the business model was to generate revenue through these transactions. But what Taobao actually allowed was for a live chat between buyer and seller.

And why is that? If you go to a Chinese market, especially the street markets, what you'll notice is people are always bargaining. They're squabbling, they're trying to get the best price. There's a lot of conversation going on before somebody buys something. That is a process.

So by creating this messaging tool between buyer and seller, it actually replicated what consumers were used to in terms of a marketplace. And, yes, it did create a direct contact between buyer and seller. But that's where Taobao's business model was unique. It wasn't about a take or commission from the transaction. It was actually generated through other means, which was advertising and whatnot. And that proved to be very successful for Taobao.

Taobao's Effect on Rural China: A Platform for New Industry

The Taobao village phenomenon was exactly that. Recognising that there was a phenomenon happening that we were not aware of, thanks to the innovation and the tools that we had provided, and then helping to scale that and share it beyond the standard sort of market that we envisioned. And the idea was to help small businesses get online, make them part of the formal economy.

But when it came to the rural community at the time, there were 600 million people that were still living outside of cities. We actually discovered this phenomenon was happening on its own.

There were young people that were returning to the villages and building e-commerce businesses, and they were transforming these farm areas into vibrant economic centres. Either they were selling their local produce, but in many cases, they were creating entirely new industries off the back of e-commerce.

Source: Department of Commerce of Jiangsu Province

One example I talk about in the book is in a village called Shaji, which in Jiangsu province is a company that went from farming, but the land was not very arable. Then they went into pig farming. So they were raising pigs to sell, but weren't very successful as well. Then they went into recycling plastic.

I don't know if a lot of people realise, but at one point, a lot of the developed world's plastic garbage was sent to China for processing. So it became one big dumping ground. And what would happen at this village is the people would then sort through the plastic in order to recycle it. And that town became so polluted as a result of this industry that the stream water was all black, and the skies were always grey because they were burning this stuff or processing it.

So this young man actually returned from the city where he had been working for a short time and came back to the village and decided to actually create his own e-commerce business, focused on DIY furniture. He had done some research. He looked at what the demand was. He visited Ikea, which was a model.

He said, maybe we got to do this and create this business here locally, have some friends help, procure the materials, package it, and then sell it online. Over a period of two, three years, that went from just one guy doing this and started to experience great success, to hundreds of businesses that were created in this village that were either selling or supporting the sale of this DIY furniture, to the point where you had people not only staying in the villages and taking these jobs, but people coming to the village to actually work in these industries.

So it blossomed into this huge e-commerce business, which turned into hundreds of millions of US dollar sort of revenue. And you had many of these examples, like Shaji, happening around villages. And so we discovered this through our research department and realised that this was a phenomenon.

And what Alibaba decided to do upon realising this is that there was a tool for job creation in rural areas. We developed a whole training program where we'd go out to other villages and share best practices. We would support them through subsidies of logistics services that could then be used to help get those regions started. And then eventually they became self-sustaining.

I think it was 2009, there were probably seven of these Taobao villages, we call them. By 2021, there were over 7000 of these villages doing billions of dollars in US revenue and creating, at that time, I think, ten to twelve million jobs in these areas.

So when we talk about doing good for society, but also creating good business, I think that for us, this was a very good example of how we were addressing a problem, which was job creation, wealth disparity, and empowerment of people, youth, women, those who would not have been working otherwise vis-à-vis this technological phenomenon.

Host:

Much of Alibaba's success is deeply rooted in its ability to keenly observe and understand the nuances of its market. By paying close attention to consumer behaviour and local market dynamics, Alibaba was able to create tailored solutions that resonated deeply with its audience.

These keen observations also enabled Alibaba to compete with, and eventually overtake, global competitors like Ebay. By optimising their products to suit local preferences and being acutely aware of cultural nuances, they were able to outpace companies that failed to adapt to the local context.

The rural Taobao phenomenon is also a testament to how observing and responding to grassroots innovations can lead to profound societal impact. By empowering rural entrepreneurs and fostering local e-commerce ecosystems, Alibaba not only drove business success but also contributed significantly to job creation and economic development in underserved areas.