FEB 25
Rachel Wolff

Alibaba's sluggish growth heralds larger problems

Article

The news: Alibaba reported lower revenues for Q3 2022 (ended December 31, 2021) than analysts expected, per the company's earnings release.

- Alibaba's **quarterly revenues totaled RMB242.58 billion ($37.59 billion)**, a 10% increase year over year and its slowest growth since the company went public in 2014.

How we got here: Alibaba has been a major target of Beijing's crackdown on Big Tech, which has forced the company to move cautiously.

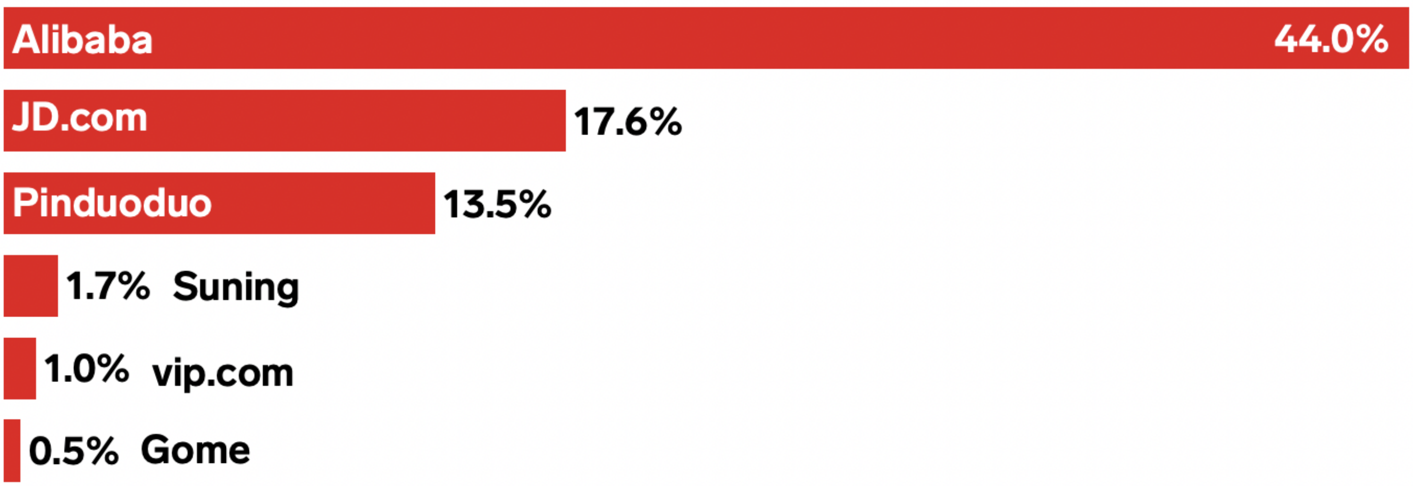
- Regulators slapped an **RMB18.23 billion ($2.83 billion) fine** on the company in April 2021 after an antitrust investigation determined that Alibaba wielded its market position to hurt both merchants and consumers.
- Alibaba also missed out on a huge potential payday last year after new regulations forced **Ant Group**, which it owns a 33% stake in, to withdraw its plans for an IPO.
- Forthcoming restrictions on the use of algorithms will further hinder growth as it becomes more difficult to drive engagement and offer personalized recommendations.

On the other hand: Alibaba can't blame its weak performance on government intervention alone. The company has struggled in recent years to innovate and create new revenue streams, leaving the door open for companies like **Pinduoduo** and **JD.com** to build market share.

- JD.com reported **net revenues of RMB218.7 billion ($33.89 billion)** for its quarter ended September 30, 2021, higher than **Alibaba's RMB200.69 billion ($31.10 billion)** for the same period.
- But Alibaba still has the upper hand when it comes to total audience: Alibaba's platforms **attracted 1.28 billion annual active customers** in 2021, with Chinese shoppers accounting for more than two-thirds (979 million) of that number. JD.com reported **552.2 million annual active accounts** for the 12 months that ended in September 2021.

Top 6 Companies in China, Ranked by Retail Ecommerce Sales Share, 2022

% of total retail ecommerce sales



Note: includes products or services ordered using the internet via any device, regardless of the method of payment or fulfillment; excludes Hong Kong; excludes travel and event tickets, payments (such as bill pay, taxes, or money transfers), food services and drinking place sales, gambling, and other vice goods sales
Source: eMarketer, December 2021

1062604885726 eMarketer | InsiderIntelligence.com

Attempts to diversify: In a 2018 interview with The Information, Alibaba CEO **Daniel Zhang** said, "If, five years from now, Alibaba doesn't have a new main business, we must have made a very big mistake." Yet despite the company's best efforts, it still makes most of its money from its ecommerce division.

- In 2018, Alibaba purchased **Ele.me**, a food delivery app, and spent hundreds of millions of dollars to steal market share away from **Meituan**, the largest food delivery platform in China. But Meituan still dominates the market: As of early 2021, **Meituan had 67.3% market share by transaction value**, **compared with Ele.me's 26.9%**, per Qianzhan Industry Research Institute.
- Alibaba also attempted to copy **Amazon's** success with **AWS** by launching its own cloud services. While the company is **the world's fourth-largest cloud provider**, according to

Canalys, its cloud business accounts for **only 10.9% of its overall revenues** and has yet to turn a profit.

Looking ahead: The biggest problem facing Alibaba in the coming year is weakening consumer demand. Despite strong economic growth in 2021, economic uncertainty related to problems in China's property sector and its "zero tolerance" policy regarding the pandemic have led consumers to spend less.

- Both JD.com and Pinduoduo have increased their market penetration by offering goods at cheaper prices and entering underserved markets. However, Alibaba's massive user base means its only option for expansion is to convince existing customers to spend more—a tricky proposition in an uncertain economy.