

Alibaba sets its cloud free

Article

The news: Alibaba, China's biggest ecommerce and technology company, is spinning out its **\$12 billion** cloud business as part of a wider restructuring plan.

CEO **Daniel Zhang** surprised the market last week by detailing Alibaba's groundbreaking [six-way shakeup announcement](#). He said the standalone cloud platform could grow to someday even surpass Alibaba in size if it attracted the right external financing.

A sudden shift: The move to divest a once highly profitable cloud computing business and vital cog to its online retail and fulfillment business—not unlike **Amazon's Amazon Web Services (AWS)**—comes months after [Alibaba committed \\$1 billion toward global expansion](#).

- Alibaba's decision is confounding, especially because it has spent tens billions of dollars over a decade to expand the position of a service some business analysts are valuing at upward of **\$30 billion**.
- **Alibaba Cloud** came in as the third-largest cloud provider in the world behind Amazon Web Services (AWS) and **Microsoft** in 2021, according to Gartner, per [TechCrunch](#).
- Regulatory scrutiny by Beijing in 2020—as well government blowback from a software flaw resulting in [China's largest cybersecurity data leak](#)—could have dampened longer-term interest in the service.

Possible reasons for giving up cloud aspirations: Zhang said the cloud spinoff was intended to simplify the structure and respond to market needs.

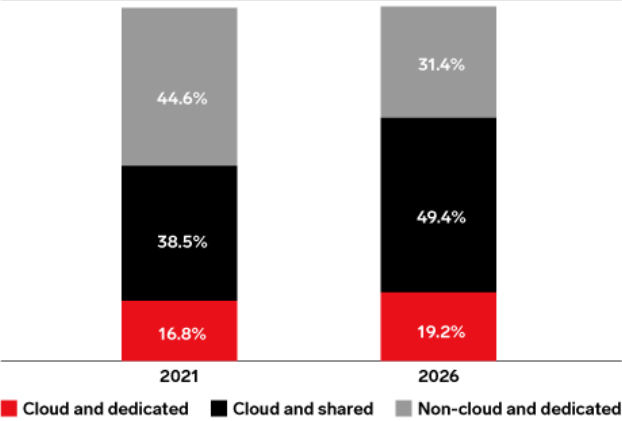
- **Pressure from Beijing could have played a role in Alibaba's decision to abandon cloud.** Splitting Big Tech giants into smaller businesses and selling off contentious properties makes them less susceptible to regulatory scrutiny.
- **Divesting and selling individual business units will also be easier** and require less regulatory oversight.

Our take: It seems Alibaba has to choose which aspects of its business to focus on, and as integral as cloud has been, it could be seen as a problematic business going forward.

While the spinoff benefits shareholders, it also raises concerns about Alibaba's future valuation and potential government influence.

Cloud Infrastructure Spending Share Worldwide,
by Segment, 2021 & 2026

% of total



Note: cloud infrastructure spending in 2021=\$73.9 billion and in 2026=\$133.7 billion
Source: International Data Corporation (IDC), "Worldwide Quarterly Enterprise Infrastructure Tracker: Buyer and Cloud Deployment" as cited in press release, March 31, 2022
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