Alibaba: Connecting low-income rural entrepreneurs with urban consumer markets

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Case Study
One of the biggest challenges faced by entrepreneurs who live in low-income, rural communities face is lack of access to organized consumer markets, often due to poor infrastructure. The growth of e-commerce in emerging economies, however, is now creating opportunities to connect such entrepreneurs to customers. Alibaba’s Shaji village initiative is a case in point. Alibaba’s e-commerce platform has allowed village-based furniture makers to connect with higher-income consumers in urban markets, and under the company’s guidance, Shaji village entrepreneurs have even begun to build recognizable furniture brands among urban consumers.

Impact of the inclusive business initiative

The Shaji project has had a profound, positive impact on the incomes of local manufacturers in rural communities by providing them access to urban markets. Previously, sales channels to urban areas were controlled by middlemen, who ate up most of the profit that villagers might have earned.

The growth of the furniture industry in these rural areas, thanks to the e-commerce channel, has also had a broader impact on rural communities. The sudden burst in demand for products, once the channel was established, meant that local furniture manufacturers needed to ramp up the scale of their operations. As a result, they began to employ migrant workers from other areas. Their business growth in turn caused a ripple effect for other businesses in the area: Rental housing, restaurants and businesses that support the furniture business, such as transport and logistics companies, have all experienced a boom since the e-commerce channel was established.

To implement the Shaji initiative, Alibaba clustered many furniture businesses from a single rural locality as one seller, and then promoted their product specializations individually under that umbrella. The absence of a single strong brand name has turned out to be an advantage, as the whole community of village entrepreneurs has developed a collective reputation as “Shaji furniture.” As a result, all the participants in the program have enjoyed the benefits of being associated with Shaji, and the overall living standards of the wider community have risen through dispersed income growth.

Alibaba’s leaders realized that the success of the project’s model hinged on the formation of a critical mass of online store clusters, specializing in different products. As a result the company is expanding the kind of industries it targets and the role it plays in identifying, cultivating and promoting these clusters.

To manage top leadership’s expectations from the beginning: In 2006, a few small entrepreneurs in Shaji village launched online storefronts to market their products to urban consumers. Alibaba’s local managers saw an opportunity for the company and conducted a detailed study of the new breed of online shops, analyzing their growth and revenues. They found that the size of the business overall was insignificant in comparison to the rest of Alibaba’s endeavors; they also found that the new sector was not growing rapidly, though they felt it had great potential to do so. Knowing this, they realized that any investment in building this small trend into a complete business line would likely be opposed by Alibaba’s top management and its board.

Barriers to scale

Cultural hurdles: Alibaba found it hard to persuade local villagers, already engaged in the furniture business, to take their business online. Some felt the venture did not make business sense; others lacked the entrepreneurial spirit to increase their output along with rising demand.

Organizational hurdles: Even though the Shaji project has expanded rapidly, it continues to be a very small portion of Alibaba’s overall revenues and initially suffered from low visibility within the wider organization.

Strategies for success
Hence team members to begin with categorized the project as a corporate social responsibility initiative in order to obtain initial leadership buy-in and manage expectations. Moreover, the team informed the board that early stages of the project would not be focused on profits, but instead would concentrate on building capability in rural markets with an eye toward longer-term success. Accordingly, the team was provided the necessary time, resources and decision-making autonomy to promote the initiative.

In the beginning, team members focused heavily on training rural entrepreneurs to manage their online shop-fronts effectively. Doing so helped the entrepreneurs generate more business and also eliminate the cost of working through the traditional middlemen. With the project’s increasing success, Alibaba’s leadership has become more confident that the rural segment will soon become an important part of its business portfolio and has accordingly allocated more resources to scaling similar projects in other low-income rural communities.

Engaging government partners on multiple levels: The Shaji initiative’s potential impact on rural low-income communities attracted government interest early on. Governments at the state and local levels believed that Alibaba’s concept could become a whole new economic growth model, and readily provided support to encourage villagers to participate in the venture. State-owned banks, for example, offered rural entrepreneurs affordable financing options. State and local governments also offered favorable taxation policies to participants, and jointly funded various research efforts with Alibaba to learn more about the opportunities that the initiative could open up for the region.

Tapping into informal social institutions in rural communities: One of the reasons for the Shaji model’s success with local furniture makers has been the social structure that exists in rural China. The community at Shaji was very closely knit, with most villagers either related to each other or knowing each other very closely. As a result, the online sales channel concept spread rapidly through word of mouth, and created a snowball effect for business growth.

“Whether it’s on the Internet or not, a transaction must benefit both sides, or it will not occur. The total transaction cost should be low enough to involve all the poor in trading so that they as well as the companies providing these products and services can benefit from the transactions. This is what I mean by inclusive growth, with all trading partners growing from transactions.”

–Liang Chunxiao, vice president, Alibaba
Company information

Alibaba is China’s largest e-commerce company. It is located in Hangzhou and offers web technology platforms specializing in providing business-to-business, business-to-consumer, and consumer-to-consumer e-commerce solutions. Transactions on the B2C platform reached RMB 100 billion (US$16 billion) in 2011, and continue to grow fast. Alibaba (B2B) earned sales revenues of about RMB 6.4 billion (US$1 billion) in 2011.

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