

Opinion: Alibaba's first mall shows that O2O is a real business model

7 Comments



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(https://www.facebook.com/dialog/share?app_id=206930646126140&display=popup&href=https://www.techinasia.com/2017/09/14/opinion-alibabas-mall-shows-o2o-real-business-model&title=Opinion%3A%20Alibaba%E2%80%99s%20first%20mall%20shows%20that%20O2O%20is%20a%20real%20business%20model)

Ong Kai Kiat is a professional freelance writer who enjoys the process of discovering and collating new trends and insights for an article. He adds value to society through his articles. You can create a community post just like Kai Kiat here ([/create/article](#)).



Alibaba founder Jack Ma. Photo credit: Alibaba.

With a single stroke, Jack Ma ended Alibaba's asset-light operating model. *Tech Wire Asia* (<http://techwireasia.com/2017/09/alibaba-brings-back-old-school-retail-first-physical-mall/#KUQXVKxR83wMYthx.97>) reported last week that the Alibaba founder is building a shopping mall called More Mall in his hometown of Hangzhou, set to open its doors in April 2018. It will reportedly be a five-story mall which will only house Alibaba brands such as the Tmall and Taobao marketplaces along with its Hema grocery business. Unlike traditional malls, this tech giant-controlled mall will have virtual fitting and makeup rooms, among other things.

A French journalist (<https://quizzclub.com/questions/who-wrote-the-more-things-change-the-more-they-stay-the-same/answer/?answer=81155&AnswerIsConfirmed=True>) made the observation 168 years ago that "the more things change, the more they stay the same." In today's context, it is ironic that the premier ecommerce giant of our time, having changed the shopping habits of several generations of Chinese, is now building its own physical shopping mall. But a deeper look shows that the move comes as ecommerce growth is expected to slow from 37 percent in 2015 to 19 percent in 2017 (<http://www.reuters.com/article/us-alibaba-retail-breakingviews/alibaba-rewrites-its-e-commerce-playbook-idUSKBN1A50HR>). This is also a milestone marking the maturity of the online-to-offline (O2O) business model.

Physical place for socializing and experiences



If Alibaba doesn't go offline, it will miss out on a large part of the retail pie: 80 percent of China's US\$4.9 trillion retail market (<https://www.forbes.com/sites/ywang/2017/08/27/betting-on-brick-and-mortar-alibabas-billion-dollar-retail-experiment/#7c510ac82590>) is offline. On the other hand, the Chinese media (<https://jingdaily.com/from-o2o-to-palaces-of-experience-how-chinas-malls-adapt-to-a-digital-world/>) has discovered that reasons behind going to a shopping mall has changed from, say, needing to get groceries to socializing, dining out, and then maybe getting some shopping done. As a result, Chinese shopping malls have evolved to include art exhibitions, live entertainment, as well as music and fashion shows to create experiences for shoppers to escape their daily stresses.



Photo credit: Grab (<https://www.grab.com/sg/blog/fifty/>).

Beyond the retail space, we can see evidence of these social dynamics in Singapore through our transportation options. One of the allures of riding a taxi to work is the possibility of meeting an awesome stranger on the way. Young eligible bachelors who drive Porsches are known to join GrabHitch not because of the side income, but to meet The One (<http://www.businesstimes.com.sg/life-culture/disrupted/grabhitch-an-express-tinder>).

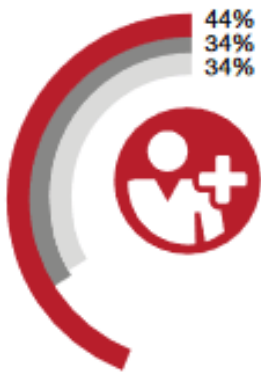
If you put things in this social context, then it is clear that 80 percent of purchases are not just about finding the best laptop and having it delivered to your doorstep. It is about the chat with the sales guy before you pay for it.

Online discovery, offline showroom

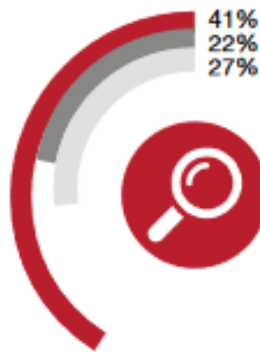
Another interesting aspect of Alibaba's offline move is that its physical space is dedicated to its own online brands. This plays into the "showrooming" effect that has popped up in China, where consumers visit shops to find the best perfume, for example, only to purchase it online once they know exactly what they want.

PwC (<https://www.pwccn.com/en/consulting/consulting-delivering-o2o-jun2015.pdf>) noted that 86 percent of Chinese are likely to participate in showrooming, compared to 68 percent of the global population, and 91 percent of them cited lower prices as the reason, followed by convenience. Only 64 percent of Chinese have done the reverse, dubbed "webrooming," where consumers search for products online but buy it offline, which allows them to try out products first and get them immediately after.

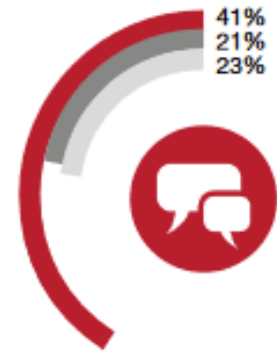
Whether it is showrooming or webrooming, having a physical mall would help Alibaba capture the whole market.



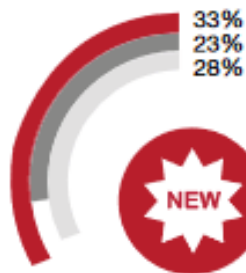
Followed favourite brands or retailers



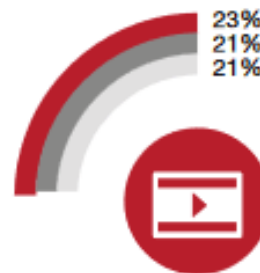
Researched a brand



Commented on an experience



Discovered new brand



Viewed videos about the brand/product



Source: PwC China (<https://www.pwccn.com/en/consulting/consulting-delivering-o2o-jun2015.pdf>).

China is now ahead of the curve

When China was still opening up in the late 1990s, they would send government officials to programs dubbed “Mayors’ Class” at Singaporean universities for lessons. Today, with China ahead of the world in terms of ecommerce and payments, perhaps it is time for us to take an “Entrepreneur Class” there instead.

For businesses, the best way of learning from the Chinese would be to expand into the vast Chinese market. Traditional businesses such as property developers (e.g. CapitaLand) have expanded there and gained a foothold for themselves. Of course, it is challenging to expand into an unknown area. One way of mitigating the risk would be to leverage an international network of accountants, such as 3E Accounting.

Follow the leader

O2O is at least two years old in Singapore. In a 2015 conference, IMDA (<https://www.imda.gov.sg/infocomm-and-media-news/buzz-central/2015/3/shopping-for-online-to-offline-opportunities>) encouraged the setup of physical shops to complement digital versions. Of course, people back then were skeptical if this new trend would take off in the real world. There is no lack of ecommerce companies in Singapore with the likes of Carousell and Reebonz but none of them have built an innovative physical space to complement their online offerings. It takes a global leader to take the lead before the rest of the pack follows.

But a global leader doesn't have to be a giant; Alibaba itself started small in the 1990s. SME founders in Singapore can always take on an SME loan (<https://smeloan.sg/sme-financing-guide>) to innovate and show the world that it can be done. Before that, though, they must understand what consumers really want and how they actually buy products.

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Editing by Putra Muskita

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O2O is not restricted to China. With higher capital flow backing O2O, it will start showing meaningful impact in other countries as well. Jack Ma is know to spot an emerging trend, before many others; n this is a classic example.

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Nikhil Varma (<https://www.techinasia.com/profile/nikhil-varma-3>) 3d ago (</talk/opinion-alibabas-mall-shows-o2o-real-business-model#comments-426214-314772>)
Hey Kai, such an insightful article. Thanks for sharing.

It amazes me how the tide is shifting! Few years back, the though of an online behemoth opening a physical store seemed improbable.

Things have changed, and that too at a fast rate for a complete strategic shift in decision making.

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Dennis Keller (<https://www.techinasia.com/profile/dennis-keller-2>) 4d ago (</talk/opinion-alibabas-mall-shows-o2o-real-business-model#comments-426214-314742>)
Interesting and to me this makes a lot of sense.From personal experience: we have been following this business model in Indonesia with ROOMOOMO (<https://app.roomoomo.com/sale-events>) since 2016 – being a primary online luxury fashion retailer, we find that through offline presence (in our case through pop-up events in different cities), we can not only make the items more accessible, but also convert offline customers to online customers later on. Important here is of course to have technology that brings these two worlds together well (e.g. having customers register an account, or having the offline sale process through the online platform etc.)Excited to see if other small players will now follow suit more, and how it plays out at large for Alibaba.

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Nikhil Varma (<https://www.techinasia.com/profile/nikhil-varma-3>) 3d ago (</talk/opinion-alibabas-mall-shows-o2o-real-business-model#comments-426214-314771>)
Hi Dennis, very interesting indeed. Considering you are a online only platform, offline presence in the form of pop up events is equally important to compliment the business model!

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Tyrone Hutton (<https://www.techinasia.com/profile/tyrone-hutton>) 4d ago (</talk/opinion-alibabas-mall-shows-o2o-real-business-model#comments-426214-314739>)
GREAT ARTICLE. THE WORLD IS CHANGING AND STAYING THE SAME...

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