

# UNLOCKING OPPORTUNITY FOR SMEs



HOW BIG DATA OFFERS  
A COMPETITIVE EDGE  
IN CROSS-BORDER TRADE

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# UNLOCKING OPPORTUNITY FOR SMES

How big data offers a competitive edge in cross-border trade

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# EXECUTIVE SUMMARY

## BUSINESS ENVIRONMENT

### **SMEs are critical to the global economy but account for little cross-border trade**

- Internet penetration reached about 3.5 billion people in 2016, with China and India accounting for 720 million and 460 million respectively<sup>1</sup>.
- China's total cross-border e-commerce trade, including exports and imports, grew 28.6% in 2015, to US\$776 billion from US\$603 billion in 2014. Nearly 90% of the 2015 volume was in business-to-business (B2B) transactions, the remainder in business-to-consumer (B2C) transactions.
- Worldwide e-commerce forecasts are bright, with B2B e-commerce volume expected to reach \$6.7 trillion by 2020. The US is poised to follow suit and account for over \$1 trillion in B2B e-commerce by then.
- SMEs worldwide number between 420 million and 510 million; they account for about 95% of all companies, around 50% of global gross domestic product and about 70% of job creation; yet they account for only roughly 20% of cross-border trade, while large global companies generate about 80%.

## CHALLENGES

### **Foster confidence, trust and trade by developing credit history tools**

- Numerous barriers, including distance, language, culture, scale and unfamiliar business practices obstruct cross-border trade between SME buyers and sellers.
- Risk-averse SMEs face a knowledge vacuum which undermines trust.
- Fear of trusting unknown suppliers is a major problem for SMEs, curbing growth and opportunity.
- Transaction security is the No. 1 concern of SMEs when sourcing online; other concerns include a lack of confidence in the technology, lack of quality and affordable infrastructure, a skills shortage, service trade barriers, high costs and poor access to financing.
- Credit.alibaba.com was launched in early 2016 with the input of data and know-how from more than 25 financial institutions and global credit reporting agencies; a milestone in the growth of SME credit reporting in China.

1. Please refer to the main text for footnotes on data references

## TRADE ASSURANCE

### Alibaba's free, data-driven trade facilitation service

Trade Assurance, launched in May 2015, combines One Touch business processing know-how with Alibaba.com data analytics.

- Trade Assurance protects buyers; it minimizes a buyer's risk by guaranteeing money back in the event of a supplier's failure to meet the terms of the order contract, including delivery delays, quality and quantity discrepancies or other processing problems.
- Trade Assurance applies a credit-rating system that incentivizes suppliers to produce and deliver high-quality goods on time and according to the buyers' specifications.
- Credit scoring helps SMEs to connect, build trust and get easier access to financial services.
- Trade Assurance helps to protect buyers' intellectual property (IP).
- With One Touch, Trade Assurance provides business-processing services to help SMEs with cross-border trade, including customs clearance, goods inspection, tax refunds, logistics, payments, etc.
- Trade Assurance uses big data to create credit histories for SMEs which are used to help finance trade and for SMEs to get financing. Higher credit ratings are important for building long-term business relationships, and for deals that are larger and/or more sophisticated in nature.
- Trade Assurance is underwritten by Alibaba.com for which the risk is minimal because of the accuracy of its big data analytics used to generate SME sellers' credit ratings.

## **BENEFITS OF BIG DATA**

### **Empowering SMEs to grow internationally, facilitating international success**

- Alibaba.com has over 1 million suppliers and 100 million buyers worldwide, with more than 70% of China-based suppliers using Trade Assurance.
- The model helps SMEs focus on their core competencies, democratizes the credit-rating process for inclusive financing, and offers data support for research and resource planning.
- E-commerce will drive SME business internationally, helping to create hundreds of millions of jobs.
- China's cross-border e-commerce is growing at about 30% a year, spurring growth internationally.
- Industry 5.0, the next stage of industrial development that goes back to Industry 1.0 in the late 18th century, could be the period that sees a full rollout of Trade Assurance to global suppliers, offering a level playing field for SMEs the world over – part of the global inclusion that Alibaba.com is championing through its “Buy Globally, Sell Globally” initiative.



# INTRODUCTION



The idea for this white paper is to show that by building trust, you build trade. This may seem obvious, but for small to medium-sized enterprises (SMEs), it is normally easier said than done when distance, language and culture lie between the two parties involved. Alibaba.com's achievement is to build a platform that bridges the gap. It does so using a service called Trade Assurance which is underpinned by Alibaba.com's big data capacity.

Trade Assurance is free and essentially removes risk from a deal, while facilitating logistics, insurance, inspection, shipping etc. This builds confidence which in turn leads to trust. And with trust you get more trade. The risk is passed to Alibaba.com.

The importance of this should not be underestimated. Globally, SMEs represent the vast majority of individual businesses and account for most of the jobs worldwide<sup>2</sup>. Yet more than 80% of cross-border trade is dominated by relatively large global enterprises. By creating confidence and making cross-border trade easier, the potential for SMEs is huge – it enables small businesses to improve lives and help people fulfill their aspirations.

Trust and trade are central themes of this paper, underscored by the importance and

value of big data – or, to be more precise, sophisticated intelligence gathering and data analytics on global scale. Big data analysis drives Trade Assurance; it tells Alibaba.com about the parties involved and the level of risk involved. It connects businesses, generating leads and quotations quicker than ever with request for quotation, or RFQ, business matching services. Alibaba.com's mobile apps also leverage big data to offer both buyers and suppliers practical information and data on product and market trends, industry events and news.

Alibaba's big data solutions give SMEs much-needed access to financing services typically reserved by large multinationals. Trade data is used to measure risk from which credit scores for the SMEs concerned can be created. This is valuable because it provides a credit record for financing purposes.

In the past, SMEs in China and many other developing markets did not have a credit history – and therefore were unable to get financing from banks and other traditional financial institutions. Now, big data and Trade Assurance help facilitate more inclusive financing. It's no longer the domain of big companies; SMEs can more readily get access to it.

Besides building trust, eliminating risk and enabling SMEs to build credit ratings, big data helps both buyers and sellers research and plan future business. This includes help with sourcing the most suitable insurance, inspection, shipping and other logistics services.

Yet big data isn't always seen in such a positive context. Data privacy and security issues now loom large in peoples' minds and pose an existential threat to businesses. The importance of these issues is reflected in cybersecurity laws that many nations have in place to protect individual, business and national interests.

The reality is that big data is an essential resource that's here to stay. Its usage is set to grow exponentially in coming years. The future will be full of challenges for companies with long-term aspirations as they develop a core philosophy that's ethical and adheres to best practices while remaining competitive.

This paper will highlight the value of big data as a way to build trust to support e-commerce, trade, growth and job creation, thereby improving lives. While viewed through the lens of Alibaba.com, the themes are clearly not unique to one company, but part of a greater ecosystem that fosters cross-border trade between SMEs, involving a multitude of companies and players.

The paper draws on input from senior executives from Alibaba.com, OneTouch and numerous third-parties, SMEs and thought leaders from around the world, and for the first time features data drawn from Alibaba.com.



An abstract graphic featuring a semi-transparent grey circle and a thick brown ring, resembling a stylized '3' or a circular path, set against a black background.

# **A DATA REVOLUTION**

## Stepping back

Step back to the late nineties and early 2000s – Asia was emerging from financial crisis, China was on the cusp of World Trade Organization entry<sup>3</sup>, India, Indonesia, Thailand, Philippines and Indochina were all at different stages of opening up, and the volume of foreign direct investment was rising. The dotcom bubble had just gone pop. No one had heard of big data.

In Asia it marked the start of a period of dramatic change fueled by a very rapid increase in Internet penetration, particularly in China. At the time there were just over 20 million Internet users in China, a number that grew to 460 million<sup>4</sup> within a decade.

Nascent Internet awareness gave rise to fresh creative forces and business opportunities. For up-and-coming businesses unencumbered by old legacy infrastructure, a clear vision and a willingness to turn traditional business models on their head, the benefits of the Internet in emerging Asia were clear. It allowed for new technologies and experimentation without the burden of excessive regulation.

The growth and development since then speak for themselves. Internet penetration globally since 2000 has risen from little over 400 million users to about 3.5 billion in 2016. China and India now account for around 720 million and 460 million users respectively<sup>5</sup>.

In terms of e-commerce development, websites back then were little more than information display platforms. Now they are highly sophisticated interfaces that act as a doorway to hitherto inaccessible markets and products. They also accumulate vast amounts of data about their users, such as spending habits, hobbies, work and other lifestyle traits. This behavioral information helps to provide a rich tailor-made user experience. The powerful data analytics also help drive new Internet of Things technologies, e-commerce, artificial intelligence and other communications.

Commenting on Alibaba.com, Ren Geng, Senior Director of International Business, Alibaba Wholesale Marketplaces, says: “We made three major contributions: first, we’ve trained a large number of e-commerce

3. China joined the World Trade Organization on Dec. 11, 2001

4. <http://www.internetlivestats.com/internet-users/china/>

5. <http://www.internetlivestats.com/internet-users-by-country/>

specialists, including many of our senior executives; second, we helped boost the development of China's Internet industry as a whole; and third, we really helped a large number of SMEs to grow through our educational program."

During the past decade, China's overall trade surged rapidly with e-commerce making an ever-growing contribution. China's total cross-border e-commerce trade, including exports and imports, grew 28.6% in 2015, to US\$776 billion from US\$603 billion in 2014. About 90% of the 2015 volume was in business-to-business (B2B) transactions, the remainder in business-to-consumer (B2C) transactions<sup>6</sup>.

"The trend is continued growth, and e-commerce is going to be a central part of it," Ren Geng adds.

## Big Data – volume, velocity and variety

Over the past 10 years, the growth in data collection and usage has grown exponentially. Big data is the umbrella-term used to describe vast amounts of data collected, but it is in the so-called three Vs of big data – volume, velocity and variety<sup>7</sup> – where the real value lies, particularly in the fast-moving world of e-commerce. All three need to go together to create great analytics value, something often obscured by excessive emphasis on the rate of data proliferation.

Volume provides scale, depth and veracity, while velocity is critical for timely and accurate decision-making. The ability to integrate more sources of data – new, old, big, small, structured, unstructured, social media, behavioral, legacy and so on – is the "variety" element that's so valuable.

6. <https://www.digitalcommerce360.com/2016/12/28/b2b-e-commerce-bolsters-chinas-exports/>

7. <http://sloanreview.mit.edu/article/variety-not-volume-is-driving-big-data-initiatives/>

Data companies are now going beyond that, finding ways to analyze unstructured data, such as graphics, photos, documents and so forth, thereby combining quantitative metrics with qualitative content. And, of course, social media feeds into that a rich stream of content by offering a closer look into people's lives, activities and preferences.

So it is that consumer buying habits, preferences and related transaction data can be analyzed, and used to make recommendations and engage with them – and their friends. The result is a better user experience and data that not only adds value, but has its own intrinsic value.

“Information is a powerful asset for any company. Small and medium businesses need to think more broadly about how they can use big data to create personalized solutions for their customers and ultimately, increase sales,” says Bob Black, Chief Executive Officer, StarTrack, part of the Australia Post Group. “Data-driven insights are vital for all businesses – helping to attract and retain customers, enhance customer experience and improve operational efficiency.”

“For Alibaba.com, a growing proportion of transactions are done on mobile devices,” Ren Geng says. “This means that more than ever, speed is of the essence when placing an order and for order delivery. Turnaround times are shortening and real-time data analytics are essential for quick accurate decision-making.”



# THE SME CHALLENGE: LIFE BEFORE CREDIT RATINGS



## The credit-rating industry

In early 2016, Alibaba.com launched a new corporate credit-reporting platform, credit.alibaba.com. Applying data from Alibaba.com and more than 25 local and international financial institutions, as well as inputs from global credit reporting firms, the platform created a series of lending-related services for SMEs. While far from a big bang moment – credit reporting had evolved over the preceding decade – the launch was nonetheless a milestone in the development of credit ratings for SMEs in China. It also demonstrated the market finding a solution to a problem in order to make finance and credit more inclusive for small businesses.

SMEs' lack of credit history was a problem that became very evident following China's WTO entry. It was a problem accentuated by the rapid development and levels of investment, when the role of SMEs in China's economic miracle became more conspicuous.

The importance of SMEs to any economy is critical. As the major source of employment and wealth creation, they are the lifeblood for all economies. They represent more than 95%

of firms around the world and generate about 50% of global GDP. They number between 420 million and 510 million overall, of which an estimated 310 million are in emerging markets, according to data from World Bank Group<sup>8</sup>.

Yet, for small businesses in emerging markets based far from commercial centers, it can be difficult to grow credibility and be viewed alongside larger more well-established players, when prospective customers are already distrustful. For SMEs, the trust issue can be a domestic one too. For example, Chinese banks under pressure to keep non-performing loans down often prefer to lend to state-owned enterprises rather than SMEs that lack a credit history. The resulting distortion in capital allocation is detrimental to both the economy and SMEs. This at a time in China when SMEs account for more than 70% of employment<sup>9</sup>.

The need for SMEs to build up credit profiles and have reliable credit scores or ratings is clear. Credit ratings are an essential feature of business, which in the past in developed

8. <http://documents.worldbank.org/curated/en/386141468331458415/pdf/713150WP0Box370rillion0and0counting.pdf>

9. <http://english.mofcom.gov.cn/aarticle/zm/201205/20120508136044.html>

economies came from extended bank-customer relationships and credit-rating tools.

China's own rating agencies typically support the growth of its capital market, leaving scores of the country's SMEs overlooked by traditional institutional frameworks.

SMEs need credit ratings as measures of business reliability and working practice. The local agencies did not provide the answer to either small businesses seeking funds or other businesses looking for partners or investment opportunities.

After China's WTO entry, foreign investment began to pour in and, with it, foreign businesses looking for partners, suppliers and

other opportunities. With them came money, technology and intellectual property. Driven by pent-up ambition and entrepreneurship, Chinese companies of all shapes and sizes sought to seize the moment, along with some of that foreign cash.

#### **Top Barriers to Sourcing Goods Online**

1. Transaction security
2. High freight costs
3. Alternative suppliers  
(products not unique)
4. Insecure payment system
5. Concern about information leakage
6. Vendor/platform not trustworthy

## SMEs poor loan candidates

“Financial access is the lifeblood that facilitates a business as a startup, then operate and grow. While this may sound like common knowledge, access to finance – something easily taken for granted – is actually not so common,” says Li Duoquan, Senior Director of Value-added Business, Alibaba Wholesale Marketplaces.

The world over, SMEs are poor loan candidates because they have shorter life cycles, often have unreliable financial records and lack significant property or other forms of collateral. No matter where the small business is located, be it China, India, UK, US or anywhere else, lending to SMEs is seen to be more risky than lending to a listed company or government entity.

Li Duo Quan adds: “Cross-border trade comes with a long delivery cycle, making the SMEs involved less attractive to banks for lending. Previously, the banks did not know the credit and transaction history of these SMEs, and therefore required them to offer collateral, such as a house, factory, equipment etc. This wasn’t convenient and most SMEs did not have enough collateral to offer.”

In developing markets, such as China and India, the traditional old bank-business relationships familiar in developed economies are hampered by poor infrastructure and underdeveloped business practices. Such practices include accounts that are poorly recorded and quite often fraudulent, therefore offering little clarity on business performance and barely any incentive to lend. For banks, lending to a state-owned enterprise comes with at least the tacit understanding that the government will guarantee the loan.

China's rapid growth as a manufacturing center since opening up 30-plus years ago spawned countless small businesses and factories, transforming the country into the world's manufacturing center. The past 20 years saw the development of supply chains and a dramatic rise in the level of sophistication in the manufacturing process.

A tremendous growth story for sure, but one where SMEs increasingly found themselves lacking sufficient scale in the trading process on one hand, and lacking the leverage based on a good credit rating to obtain financing to grow their business on the other.

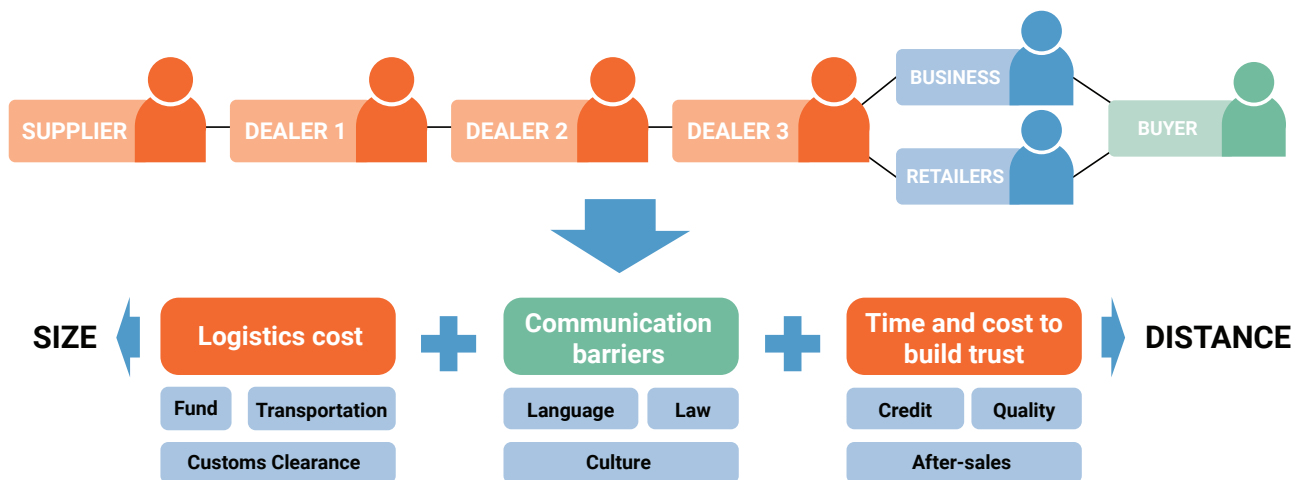
Besides this financing challenge, SMEs lacked the capabilities and expertise to manage each stage of the supply chain – sourcing, customs clearance, inspection, taxation, foreign exchange, insurance, trade finance, risk management and other processing requirements for different jurisdictions. A business process solution was needed too.



An abstract graphic featuring a large, dark brown number '5' in the background. Overlaid on this is a semi-transparent grey circle, and within that, a smaller, semi-transparent dark brown circle. The text 'A KNOWLEDGE VACUUM' is written in a bold, orange, sans-serif font, positioned to the left of the circles.

# A KNOWLEDGE VACUUM

### Traditional merchants: A combination of trade and service



### A buyer-seller disconnect

While SME manufacturers and sellers in China faced a series of problems beyond their expertise, so did their overseas customers. There was and, in many markets, still is a disconnect between buyers and sellers. The challenge for both foreign and local SMEs lies in identifying a reliable partner with which to work. Due diligence is critical.

For foreign businesses, due diligence is no small task. For those in search of a manufacturing partner, low-cost manufacturing hubs, such as China and India, are obvious places to start. But what then? Language, culture and distance get in the way, while the aforementioned unreliable

bookkeeping doesn't help. China is one country, but its size means it's not one market. It's a collection of local markets, each with its own practices, traditions and methods of doing business; a situation mirrored across Southeast Asia and India.

As well, it's not unusual for SMEs to be here one day and gone the next. And while those that keep going may offer value in terms of price, risks such as counterfeits, quality issues, labour rights, working conditions and environmental issues needed to be considered.

A knowledge vacuum exists. And, given the speed and competitiveness of business today, there's rarely time or money to learn.

## Building confidence for SMEs

Caution or fear of putting trust in an unknown entity is a major problem for SMEs, one that goes right to the heart of their business. It's understandable too – such decisions can make or break a business. The knowledge vacuum stifles trade and hurts all the parties involved.

To compound the problem, SME owners from overseas who actually do their homework on conducting business in China and other developing economies learn that contract details normally matter less than the personal relationships. Such relationships require time and money to develop, often with dinners, karaoke and other bonding activities fueled by copious amounts of baijiu.

With research they would learn too that it's best to avoid quick deals and that in China you only need two companies to have a price war – not a good basis for a long-term relationship. There are countless books with tips on doing such business, many of which haven't kept up with the times and have fallen into cliché, but what is clear is that the need for due diligence is paramount.

This is hardly a revelation. For many business people, being wary about trusting SMEs thousands of miles away with valuable intellectual property (IP), money, timelines etc. is basic common sense. Many learned the hard way, experiencing problems in cross-border trade before switching to use Alibaba.com and tapping the benefits of big data.



Given that the transaction sizes are often small – on Alibaba.com, about a third of transactions are for less than \$1,000<sup>10</sup> – in pre-big data days, managing affordable and effective due diligence was a tremendous challenge.

“I had a bad experience in the past. I ordered a thousand tins from my previous supplier and we were only able to use 700,” says Johnny Harris, Managing Director at UK-based T-tox, a loose-leaf and matcha fitness tea specialist. He says at the time, when he wasn’t using Alibaba.com, he had no way of guaranteeing the quality of the goods he was buying. “So when they arrived dented, when the seal on the inside of the lid didn’t fit quite right, I had a lot of issues. I lost money on that.”

Joe Revell, Director and Co-founder of Garçon Wines, a specialist bottling and home-delivery wine company, comments: “It’s vital that we get the products delivered in time. [For small businesses] it is quite a risk to pay quite a large amount of money to a Chinese factory.” His comment is echoed by many.

Alibaba.com recognized the knowledge gap affecting SME suppliers, buyers and bank lenders was simply because of a shortage of reliable information. This is where Alibaba.com now provides a solution.

10. Source: Alibaba.com. Note: this amount appears underwhelming until it’s multiplied by hundreds of thousands, which is what happens daily.



# **USING BIG DATA TO REMOVE RISK AND CREATE CONFIDENCE**

## Moving to Big Data

Just as big data is a valuable tool for SME buyers looking to source products, so it is with SME manufacturers in China that seek financing and visibility in the market place. For manufacturers, access to finance for investment is important in order to produce and deliver quality products to schedule. But because China does not have a well-established system of credit rating or any other measure for SMEs by which to make clear objective decisions, banks are reluctant to lend.

“Larger companies make ideal candidates for loans from most banks compared to companies with four or five employees,” says Li Duoquan, Senior Director of Value-added Business, Alibaba Wholesale Marketplaces, reflecting on how banks would previously lend to large companies – state-owned, listed and private – with a credit history, but rarely to SMEs.

In the 1990s, rapid innovation shaped the face of e-commerce. The ability to apply criteria filters to help search for products such as books, receive personalized recommendations and review purchases helped make Amazon’s e-commerce model popular among consumers. Meanwhile, eBay gave individuals a way to open their own online stores thereby opening new types of markets for millions of new netizens.

The dotcom crash of 2000 put a damper on e-commerce for a while, with some sites that had bet too heavily on Americans’ desire to buy online forced into closure. But the world of commerce would never go back to the way it had been. In 2004, the Payment Card Industry Security Standards Council was formed to ensure online businesses complied with financial transaction security requirements. This added security helped make online shopping more appealing even to those previously wary of it.

In 2008, amid the worsening economic situation at home and global financial crisis, Alibaba.com saw a need to ramp up its efforts to support its 32 million members at the time. This led to a major upgrade, one that helped move Alibaba.com into the early stages of big data usage. This was a major development back then, and is the norm now.

Alibaba.com's efforts centered on developing a program to help not only buyers and sellers, but also the intermediaries that play a key part in any transaction. Using big data analytics, it went beyond being a matchmaker between buyers and sellers to becoming a bridge between its members and the banks. It worked initially with selected banks in the coastal province of Zhejiang in China before spreading to other provinces.

Alibaba.com's use of big data and its tie-up with selected banks now provides a means for SMEs to get financing based on a meaningful credit rating – a rating that's also visible to B2B buyers, thereby making their choices easier.

## Finding credible suppliers

Alibaba.com research into what motivates those buyers to source and purchase online shows that they consider having a good variety of products to be particularly important. Of course, they look for product quality and low pricing too. However, a secure and convenient payment system, along with effective order tracking management, is also very important.

Just as trust in the seller is important, so is trust in the transaction-processing system. More than half those surveyed cited transaction security as a primary concern. It means the platform through which the payment is made and deal processed needs to be absolutely secure. It also means the various touchpoints along the way to completing a transaction, all of which can create delays and additional costs if not handled properly – inspections, insurance, shipping etc. – need to operate transparently and smoothly.

Commenting on the challenges faced by SMEs in terms of processing deals, a recent OECD report notes that barriers to access and use of digital technologies usually include a combination of a lack of high-quality and affordable infrastructure, a lack of trust in digital technologies and a shortage of skills<sup>11</sup>.

In India, for example, the skills deficit includes a lack of expertise in peripheral activities, such as managing inventory, handling invoicing and providing consumer insights. There are concerns and confidence issues with the technology, and with the contractual and payment processes.

From a technology standpoint, across the developing markets the main requirement for e-commerce – the one that’s increasingly used – is a smartphone. By extension, there’s a need for an e-commerce app and related solutions. Given the size of transactions and the modest scale of many SMEs,

smartphone usage illustrates how mobile devices and greater Internet access have resulted in far greater financial inclusion during the past decade.

Just as with the SME credit ratings, in the absence of alternatives, a combination of the market and technology found a solution; trust and reliance on digital technology have grown. Traditional bricks-and-mortar financial services have been leapfrogged.

11. “Key Issues for Digital Transformation in the G20,” page 36, OECD (January 2017)



# HELPING SMES GET STARTED

## Eliminating risk

The speed of technological change is both dramatic and empowering, yet for Alibaba.com – a data company – its primary tool for building trust is data. Identifying the correlation between removing risk and building trust was the easy part; the challenge for Alibaba.com was to do it without exposure to substantial financial loss.

In 2011, Shenzhen One-Touch Enterprise Service Limited, a business-process outsourcing company specializing in all facets of the cross-border transaction process, was acquired by Alibaba.com. It enabled Alibaba.com to combine its data and analytics capabilities with the cross-border business processing expertise of One Touch.

The combination of data analytics on a vast scale with the business processing led to the creation of Trade Assurance, a system that eliminates risk for buyers and sellers and passes all the risk to Alibaba.com. Big data analysis allows Alibaba.com to get a very close understanding of the parties involved, helping it to determine how much assurance to offer and in turn minimizing its own risk. Alongside this,

SMEs can benefit from the business-processing expertise of One Touch to help address a shortage of skills and experience in certain aspects of cross-border trade.

Alibaba.com's Trade Assurance program launched in China in May 2015 – an integrated trade service platform offering a single window to handle everything in the supply chain for SME buyers and suppliers<sup>12</sup>. Trade Assurance is free and for buyers essentially removes risk from a deal, while facilitating an order's logistics, insurance, inspection, shipping etc. This builds confidence which in turn leads to trust. And with trust you get more trade.

Within months of its launch, over 50,000 suppliers had signed up for the service, reflecting both the scale of the market and the appetite for risk-aversion. There are now more than one million suppliers on Alibaba.com serving more than 100 million buyers. These numbers continue to rise, with more than 70% of Alibaba.com's suppliers in China now using Trade Assurance.

12. Reference on Trade Assurance: <http://www.alibabagroup.com/en/news/article?news=p150520>

## What is Trade Assurance?

So what exactly is Trade Assurance? In short, it's Alibaba.com's order-protection service, one that's free and protects the buyer should the transaction fail to complete as agreed.

Trade Assurance facilitates trade. Alibaba.com takes on the risk for both buyers and sellers by agreeing to reach into its own pockets to pay them back in the event of a default. However, it also collects, analyzes and leverages data to support online transactions. As a result it enhances confidence on both sides to make commerce easier.

Alibaba.com collects data about suppliers and buyers operating within its ecosystem, and with this is able to build a credit picture of them. The picture includes their trade record in making payments, delivering on time, quality issues, logistics etc. By pulling all this information together, it's possible to develop a credit score – or trade assurance limit – for individual suppliers. The higher

the credit limit, the more a buyer will be protected, and the more business the supplier will likely get.

"Alibaba's Trade Assurance brought commercial ease and safety coupled with assurance on the quality of goods traded among the SMEs, increasing the confidence of those SMEs trading without any middlemen or agencies," says Bhushan Patil, President of PayTM, India's largest mobile e-commerce website. "The program helped genuine SME sellers and buyers find each other easily and offered data showcasing historical trade behavior and patterns, increasing the trade volumes which would otherwise have been smaller due to a lack of trust and information."

Data garnered over time provides invaluable information for buyers. Importantly, however, it can showcase a supplier's strengths in a numeric language that can be readily understood by all.



## Trade Assurance facilitates logistics

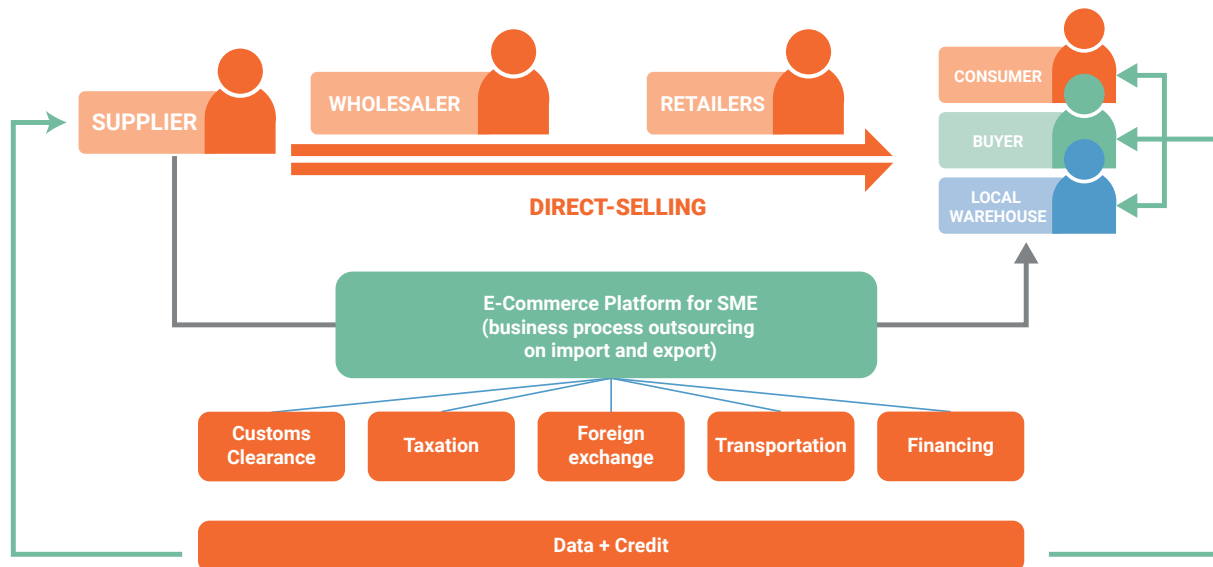
Besides applying data and algorithms to help buyers and sellers find each other, “One Touch saves SMEs from the trouble of dealing with the complicated trading process,” says Ren Geng, Senior Director of International Business, Alibaba Wholesale Marketplaces.

The value of Trade Assurance is evidenced by the fact that 60% of the buyers using it have less than three years’ experience in foreign trade. It enables them to conduct business with both limited experience and peace of mind. SMEs tend to have just a few staff – 70% of them have less than 10 staff – meaning they don’t have the resources to do all the related logistics and paperwork associated with international trade. Trade Assurance handles this making the time-consuming and expensive relationship building no longer necessary.

Trade data collected since the launch of Trade Assurance shows that some 60% of buyers source infrequently or sporadically (some as little as once annually), and often with an individual order value of less than \$1,000. So there’s a high amount of “turnover” and jumping around between suppliers. The tendency is for buyers to look for new suppliers each quarter, with trading companies and distributors being the most active. Trade Assurance makes switching suppliers easy and reduces associated costs and uncertainty around potential suppliers’ capabilities.

**“Internet + foreign trade” is the new opportunity for traditional businesses.**

Separating commodity transaction and delivery service, SMEs gain access to more scalable business processing and transparent credit services.



## Key features of Trade Assurance

- Trade Assurance assesses every participating supplier and assigns them what's called a Trade Assurance Limit to cover buyers. The assessment is based on a supplier's trade history and qualifications.
- The buyer makes a deposit or pre-payment to a designated supplier's virtual account held through Alibaba.com with Citibank. In the event of the supplier not keeping to the shipping time or pre-shipment product requirements agreed in the contract, the buyer's money is protected.
- In the event of a buyer's claim for a refund under such circumstances not being settled within 15 days, Alibaba.com will provide a full refund of the Trade Assurance protected amount.
- Buyers get more visibility into sellers' transactional history and credibility. Applying the concept of "the power of influence," buyers are encouraged to make their voice heard. If the supplier breaches any terms of a contract, based on a third-party inspector's report, Alibaba may reduce the level of their Trade Assurance Limit. Such breaches have a direct monetary and therefore business impact. Bad supplier experiences can be shared through the Alibaba.com feedback system.
- Therefore, this includes protecting intellectual property – IP breaches or losses will hit the supplier's credit score, so there's a clear incentive to ensure IP is kept secure.

**Trade Assurance facts:**

- Total Trade Assurance offered to suppliers on Alibaba.com: US\$4.2 billion
- Maximum Trade Assurance amount for a supplier: US\$850,000
- Largest Trade Assurance contract size: US\$56 million
- Fastest turnaround time for a Trade Assurance transaction: 57 minutes

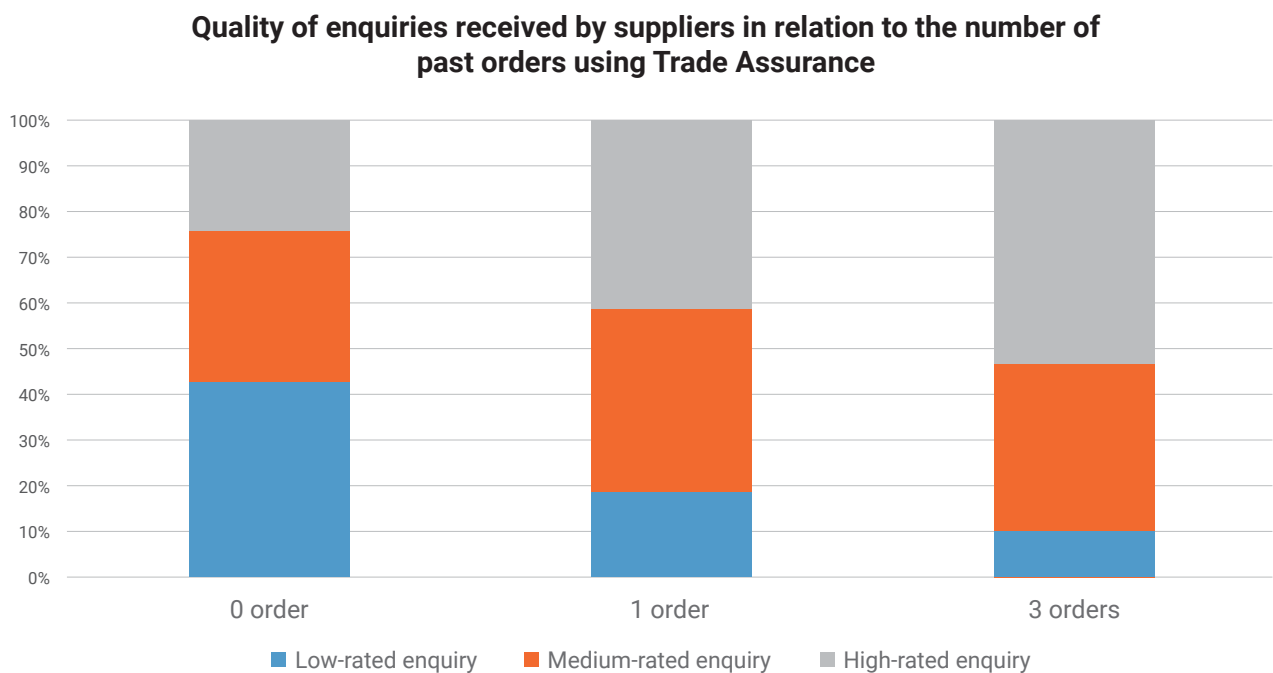
*Source: Alibaba.com (May 2015 to March 2017)*

Wei Qiang, Founder and CEO of One Touch, and now part of Alibaba.com, says overseas buyers can find basic information about a company, its legal representatives, transaction record, financial situation business network and credit rating.

“The credit rating reflects a supplier’s trading history,” says Wei Qiang. “The amount of Trade Assurance that a supplier can get is not only related to their credit rating, but is also related to the scale of its business. For example, a small-scale company with a good track record may get a high credit rating, but its Trade Assurance ceiling may be relatively low. Buyers will take both factors into consideration when choosing a supplier.”

In the event of a default, the buyer typically files a complaint to Alibaba.com. “We have a team dedicated to handling Trade Assurance order disputes, which puts added pressure on sellers to act ethically,” adds Wei Qiang. “Since sellers benefit a lot from the Alibaba.com system, they naturally behave themselves in order to continue to benefit from it. We seldom see defaults. Most issues are solved between buyers and sellers in their own private discussions.”

## Suppliers with Trade Assurance attract better deals



Data collected shows clearly that SME buyers are more willing to trade with suppliers that have Trade Assurance. As well, those with Trade Assurance are found to receive more attractive enquiries in terms of size, sophistication and value. These better quality enquiries account for the bulk of the 60% of tailor-made items produced and sold via Alibaba.com – the remaining 40% are off-the-shelf.

### How does the credit report benefit the buyer?

- The report helps to discretely identify and compare potential suppliers
- It also helps buyers to understand possible transaction partners, helping to build a clear and realistic portrait of the suppliers
  - Product descriptions are often similar on the platform, despite there being different suppliers. With Trade Assurance it's possible to identify the actual supplier
  - Trade Assurance helps buyers assess the production capability, supply capacity, company strengths etc.
- It filters suppliers by rating levels
- It tracks the credit of long-term suppliers – changes over time, especially if and when order issues arise
- For financing, buyers can apply for bank credit when trading with a growing number of suppliers

Supplier credit ratings are of greater importance for buyers seeking a long-term relationship. For short-term relationships, buyers are more focused on the product quality. Quality is of course important at all times, but for short-term deals, it carries more weight than some of the other factors that go into long-term relationships, such as detailed company information.

Suppliers who qualify for the Trade Assurance program will have a Trade Assurance icon displayed on their Alibaba.com virtual storefronts. To provide greater transparency, storefronts also display the total number of transactions and the total value of deals the supplier has completed in the past 12 months.

Jaron Turner, Founder of Taské LLC, based in Ohio, US, says: "Taské has benefited greatly from access to quality suppliers. Having the ability to evaluate suppliers through Trade Assurance has created a level of confidence for my company. This has also made the process safer and more secure for my business."

Alibaba.com also provides transparency on how often and how quickly qualified suppliers respond to customers. Response and delivery turnaround times are important, especially now that more transactions are handled via mobile devices and there's an expectation of ever-faster delivery times.

Klemen Drole is Chief Information Officer at Lazada Group, a Southeast Asian e-commerce company acquired by Alibaba Group in early 2016. He says: "Lazada utilizes big data technology to help merchants improve their content and make their products easier to find by the customer. It also provides valuable performance and seller clustering information so that small sellers can position themselves to the best of their means on the platform by taking advantage of tools and knowledge otherwise available to only big companies."

Lisa McAuley, Chief Executive Officer, Export Council of Australia, notes: "Big data can reduce the time, costs and resources necessary for SMEs to access information on new or potential customers and partners. By efficiently structuring and analyzing the vast amount of data readily available to businesses today, SMEs with limited resources can more effectively tailor their offerings, better understand their customers, and potentially uncover new market opportunities."

## Converting data into trust

Before Alibaba.com's acquisition of One Touch and the resultant launch of Trade Assurance built on data-based credit ratings, B2B e-commerce platforms were just information platforms. The information was written by the sellers themselves, and the buyers had no idea whether it was true or false. So the information was of limited value.

The credit ratings now generated by Alibaba.com are timely, objective, accurate and transparent. They are data-generated and devoid of spin and distortion. They are based on transaction data. At a time when trust and confidence globally are at a low ebb, one thing that people can feel sure about is the integrity of the data and related credit ratings. They level the playing field for small businesses.

"Our data makes it much easier and cheaper to build trust between buyers and sellers. We give sellers credit ratings and provide Trade Assurance, both very reassuring to buyers," says One Touch's Wei Qiang. "We not only do the rating, but we also use direct financial tools to offer assurance. What gives us the confidence to do that is the quality of the data."

Malee Choklumlerd, Director-General, Department of International Trade Promotion at Thailand Ministry of Commerce, comments: "Big Data is one of the defining tools. It encourages the inclusion of SMEs in the modern ecosystem, giving them access to valuable and necessary sets of information that leads to wise data-driven decisions."

## How Trade Assurance Facilitates Safe Trade

### Trade Assurance - Guarantee and Endorsement for Buyers and Suppliers



In the era of big data, size matters – the greater the scale, the greater the value of the data. With billions of dollars' worth of transactions each year, along with page views and user touchpoints on mobile devices running into the millions each day, Alibaba.com brings unprecedented scale to e-commerce.



The integrity of the data is critical. All data companies need to be extremely mindful about privacy issues and data protection, but in the world of e-commerce there's also a need to prevent fraudulent credit ratings. For this, besides the internal security systems already in place, the nature of the transactions also helps provide security.

"Fraudulent activity, such as buying 'likes', which is widespread on the Internet, is not common in cross-border trade because of the complicated processes involved, such as customs clearance, taxation, goods inspections and so forth, all under strict government supervision," says Ren Geng, Senior Director of International Business, Alibaba Wholesale Marketplaces. "For each step, companies need to follow strict procedures. This makes fraud difficult and costly, and therefore makes the data when the transaction is complete all the more valuable."

Dave Chan, Vice President of Digital Innovation & Business Intelligence at event organizer UBM Asia, comments: "For many of our events, the range of potential SME trade partners are vast. In order to provide efficient sourcing and product distribution, we invest heavily in big data in partnership with Alibaba, where SMEs at our events can assess the credit and quality of potential partners before, during and after the event experience."

Malee Choklumlerd from Thailand Ministry of Commerce adds: "The evaluation system of credit scoring compels SMEs to evolve continuously. As they build their identity, trust, and credibility through this controlling scale, their competitiveness is consequently improved."

## **INTERVIEW WITH WEI QIANG, FOUNDER AND CEO, SHENZHEN ONE-TOUCH ENTERPRISE SERVICE LIMITED**

I founded One Touch in November 2001, just as China joined the WTO. It was one of many new trade-focused SMEs to emerge in China at the time, most of which lacked experience in cross-border trade. I saw opportunity in their challenges and established One Touch to help.

One Touch is a business process outsourcing company covering all aspects of the trading process, such as customs clearance, goods inspection, foreign exchange, tax refunds, logistics and payments among other things.

My aim back then was to enable SMEs to outsource the tedious trading processes with “one touch” – the click of a mouse – so they could focus on their unique areas of expertise, such as product development and customer service.

Nearly a decade later, after seeing the huge advances in the Internet I saw another way for One Touch to add value – by tapping the field of data. Since Alibaba Group’s acquisition of One Touch in 2014, the data One Touch has systematically accumulated from all points of trading process has become an essential part of Alibaba’s cross-border trading ecosystem.

The data enables Alibaba to create credit ratings and provide Trade Assurance to SMEs, thereby helping to address two big problems for SMEs: building trust and obtaining finance.

Before Trade Assurance, for SME buyers and sellers to build trust was time-consuming and costly. I saw that out of ten conversations, only two were about the actual business while the other eight were essentially trust-building exercises. Back then, each successful transaction involved endless air travel, hotels, exhibitions, factory visits and face-to-face meetings. Likewise, the lack of credit made it difficult for SMEs to get loans from banks. They were required to provide substantial collateral – something that was not only inconvenient, but also out of reach for many.

Data solved these obstacles. With data at its core, Trade Assurance ensures that suppliers honor important contractual obligations, reducing transaction costs, fostering trust and eliminating ambiguity.

For suppliers, the availability of genuine trade data also means that SMEs can show their creditworthiness to banks and get better access to loans and financial products which can now be approved within minutes.

Although risk can never be completely removed from trade, Alibaba.com absorbs the risk for Trade Assurance users, thusly facilitating transactions that might otherwise have been abandoned by diligent SMEs. I think this is the ultimate form of credit system, because we not only do the rating, but also take on the risk to offer assurance. What gives us the confidence to do that is the data we have.

The data is highly accurate because it's gathered in the complicated process of cross-border trade. Each step involves procedures under strict government regulation. This makes the data very valuable. It's a model that can be easily exported to other parts of the world.

An abstract graphic consisting of several overlapping circles and rings. A large, semi-transparent grey circle is positioned behind the text. To its right, there are two overlapping brown rings, one above the other. The text is in a bold, orange, sans-serif font.

# **A BOOST FOR SMES AROUND THE WORLD**

## SMEs can focus on their core business

The explosive growth in e-commerce worldwide over the past 10-15 years has created new business models and instigated fundamental change in the way international trade is conducted. The removal of barriers to such trade means that small businesses can now reach global markets. Scale is no longer a requirement; regional offices are no longer essential. Costly intermediaries can for the most part be jettisoned and global supply chains shortened.

Saving time and money on sourcing, due diligence, insurance, logistics and so forth enables SMEs to focus on what they do best: adding value through research, design, marketing, talent development etc. It means a micro-multinational can now conduct global trade from a bedroom with a smartphone. This is happening and it's creating jobs.

China is projected to become the world's largest cross-border e-commerce market by

2020<sup>13</sup>. Despite the recent global financial crisis and subsequent sluggish growth in international trade, China's cross-border e-commerce has maintained a growth rate of about 30% a year. From 2008 to 2016, trade volume grew from CNY 800 billion (around US\$123 billion) to about CNY 6.5 trillion (around US\$1 trillion)<sup>14</sup>.

Commenting on the broader outlook, Senior Director of International Business at Alibaba Wholesale Marketplaces, Ren Geng says: "At present, Alibaba.com users are located mainly in developed countries thanks to the high Internet penetration in those markets. We've seen online transactions in these markets develop to a level at which small-scale orders become the mainstream. In many developing countries, such as the BRIC countries and of Southeast Asia, Africa and so forth, there is still huge room for Internet penetration to increase. This means great growth potential for e-commerce."

13. Source: China Internet Watch <http://www.intracen.org/news/Cracking-Chinas-e-commerce-market/>

14. "E-Commerce in China: Opportunities for Asian Firms," AliResearch (October 2016)

While noting that transactions in these developing markets are still in the process of moving from offline to online, meaning that orders tend to be large-scale, Mr. Ren adds: “After five or ten years, as the Internet matures in these markets, transactions may also turn from large- to small- scale.”

China will be the biggest market because of its population size and the early adoption of e-commerce. Yet, to be the world’s largest in cross-border e-commerce requires overseas transactions, markets and business partners. As China’s market grows, so will other markets.

The number of suppliers from outside of mainland China is destined to grow. Rising labor costs in parts of Asia, demographic changes, maturing of global e-commerce and the topsy-turvy economics mean that over the next 10-20 years, jobs and suppliers will move away from mainland China. So the onus is very much on the global ecosystem, not just the one for China.

## Democratizing the credit-rating process for inclusive financing

Trade Assurance and data-driven credit ratings for suppliers have democratized international business, allowing entrepreneurs and small businesses the world over to develop ideas and build products in a way that's affordable with minimal risk.

True to Alibaba.com's vision, the e-commerce ecosystem helps the little guy, be it in China's hinterland, India or Middle America. International trade is no longer the preserve of multinationals or those based in wealthy coastal regions or urban centers. It's now open to all.

### Unsecured SME loans based on trade data

- Maximum loan given in 2016: RMB 10 million
- Quickest turnaround time for getting a loan: 3 minutes
- In 2016, unsecured loans were offered to more than 30,000 SMEs in China

Source: Alibaba.com (2016)

Trade Assurance has created a greater willingness among banks to lend. Wei Qiang, Founder and CEO of One Touch, observes: “Now our data can be converted into credit. When data shows that an SME is credible, we [Alibaba.com] will provide a guarantee to the bank on its behalf. We take the risk, which gives confidence to the banks and therefore makes financing easier.”

Li Duoquan, Vice-President of Value-added Business, Alibaba Wholesale Marketplaces, says: “We believe that a good company, regardless of scale or size, has an equal right to benefit from financial services. By being available and affordable to less advantaged companies, the inclusive financing we provide plays a key role in reducing poverty and boosting prosperity globally.”

Prosperity refers to more than GDP growth; it means something from which ordinary people on the street can tangibly benefit. Alibaba.com is committed to seeing the growth in prosperity overwhelmingly benefit the entrepreneurs with limited capital, and helping to establish and cultivate markets from the bottom up.

“Alibaba.com is a firm believer in globalization. But if you ask me about my vision, I would say it really starts small,” says Li Duoquan. “We can help small businesses through converting the massive amount of data we have gathered into meaningful actionable information to assess the level of risk, if any. Through this type of financial inclusion, we hope to help SMEs flourish in international trade.”



Professor Francis Lui from the Department of Economics at the Hong Kong University of Science and Technology, comments: “By advocating the use of big data for assessing the credit-worthiness of SMEs, Alibaba.com will help to remove an obstacle that has been blocking the development of the most vigorous sector in the economy. Over time, this will prove to be an effective solution to the difficult global problem of 1% versus 99%.”

## India – a key growth market

India is a growth market where the Trade Assurance model would make a real difference. It's embracing technology on a scale not seen before, including a big push towards cashless transactions. And with the diversity, scale, population size and level of development, SMEs in India would clearly benefit from a credit-rating system.

"SMEs, the backbone of Indian economy, remain underserved by formal Indian bank lending due to multiple factors, the primary ones being underreported income and poor accounting practices," says Sanjay Thakur, National Manager – Product & Strategy, Small & Medium Enterprise, Kotak Mahindra Bank. But this is changing: "Credit bureaus and other institutions in India are rapidly generating massive databases and credit histories, which are helping banks to grow and lend more to SMEs."

Technical and infrastructure problems exist. Despite the country ranks as the lowest in Asia for Internet speed, there have been major improvements in the telecom infrastructure, with the growth of 3G and 4G, which will accelerate Internet penetration in rural communities.

Logistical, regulatory and tax issues also present a challenge for SMEs, but this is where business-process outsourcing companies play a role, eliminating the need for SMEs to have specialist know-how in order to get through the paperwork.

"In the past, SME financing was limited and offered through conventional methods by some banks. Today, in the new age of data and technology, SME financing is becoming very easy with commercial banks and NBFCs (non-banking financial companies) using credit data," notes Apurva Chandra, Principal Secretary (Industries), Government of Maharashtra. "By further extending the credit offerings and system supported by data and technology via e-commerce platforms, SMEs will get new channels of funding and capital, especially those in the rural areas."

The Indian government recognizes the country's untapped potential in the B2B e-commerce market and had allowed 100% foreign direct investment in the sector. As well, the launch of the United Payments Interface by the Reserve Bank of India not only helps transform mobile banking, it benefits the e-commerce industry by reducing the number of failed transactions in the current payment systems.

"The MSME (micro-, small- and medium-sized enterprise) sector is fraught with issues related to financial inclusion, availability of credit and collateral adequacy, typically emanating from informal business models centered on avoidance of taxes and duties. This creates deep financial asymmetry and risk aversion among lenders," says Manish Jaiswal, Business Head, CRISIL SME Ratings in India.

"Big data provides deeper insight to improve credit quality and faster decision capability, which in turn helps Indian banks to grow SME portfolios," says Sanjay Thakur of Kotak Mahindra Bank. "The evolution of big data analytics has started generating surrogates which can supplement conventional credit parameters."

Another impediment to e-commerce in India is online fraud. It's estimated that the average loss due to fraud is as much as 5% of annual revenues. Yet with big data usage on e-commerce platforms, the actual transaction process can make fraud very difficult.

The upside for Indian suppliers and buyers is huge. The country's B2B e-commerce market is expected to reach \$700 billion by 2020, up from \$300 billion in 2014 \*.

\* "E-commerce in India: A Game Changer for the Economy," Confederation of Indian Industry (April 2016)

## United States to see job growth

The United States has a well-established and growing e-commerce market. For cross-border B2B e-commerce, the US accounts for more transactions on Alibaba.com than any other country. Right now, the country is primarily a buyer, but over time, this will evolve – SMEs in the US, like those in other countries, will find opportunities to leverage the Alibaba.com platform and its tools to supply products to a global market.

In the bigger picture, because Alibaba.com is still relatively new, buyer-seller imbalances will even out over time, not least because demand for goods sourced from the US will grow as consumer tastes change along with their ability to buy foreign products. There will be a recalibration of the SME trade balance between the US and China. A shrinking workforce, rising salaries and changing lifestyles in China make this inevitable.

“I’ve been using Alibaba.com for over a decade. It helps small business owners like myself with services such as Trade Assurance, as it allows me to trust that I’m protected when working with a supplier,” says Calrissian Whitaker, Founder of US-based innovation-in-business advisor Inovasii. “In addition, I appreciate being able to use the various tools on Alibaba.com to find the right supplier.”

Alibaba.com has supported millions of buyers and sellers to trade on their ecosystem. The US is a major digital economy and the digital sector is increasingly a major source of employment

and new business. As the digital economy booms amid global economic slowdown, the double-digit growth of online is a promising sign for the future of e-commerce.

Using Trade Assurance, US-based SMEs have peace of mind on product quality standards and delivery. They also have it with regard to intellectual property. Trade Assurance gives them far greater IP protection than has ever been possible before. It’s been a bone of contention in the past, but it’s no longer a problem for buyers. Never has IP been protected so closely.

These points are important, because the US is China’s largest trading partner and vice versa. Both benefit very clearly from the increased trade and the ease with which it’s done.

It’s clear too that the sophistication, accuracy and speed of the credit-rating system – one that is essentially self-policing – won’t just be for developing markets. It will take root in developed economies as well.

## Data-driven sourcing on mobile

Following these trends, the Alibaba.com mobile app team launched “Alibaba Insights” in 2016. Alibaba Insights is the first B2B mobile big data platform that provides users with trade information, industry news and data-generated content. For example, before sourcing, users have the ability to view top-selling products and retail prices on B2C platforms such as eBay and Amazon by product category. They are then provided with links to manufacturers listed on Alibaba.com that make similar products. This is helpful because online retailers can get a sense of their margin. In addition, Alibaba Insights allows users to filter top-selling products by country, offering key market trends to entrepreneurs around the world.

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Ren Geng, Senior Director of International Business, Alibaba Wholesale Marketplaces, notes: “To really make it easy to do business anywhere, we had to do more than provide our buyers with a mobile app platform to purchase products. So we rolled out an entire suite of big data tools that aim to inform buyers around the world of recent industry trends and pricing information. And that was just phase one, we can still offer so much more.”

Alibaba.com identified a key gap in sourcing trends between buying segments. It found that SMEs are frequently very interested in working with suppliers that have specific capabilities in terms of quantity, quality and customization. The request for quotation (RFQ) and One-Click sourcing functions harness data from hundreds of thousands of transactions and apply a smart-matching process that simplifies the search for the right supplier. All of this allows businesses to focus on their core competencies.



# **ECONOMIC AND SOCIAL BENEFITS**

## Innovative cross-culture business

The social and environmental impact of the democratization of credit ratings for SMEs is real. At a stroke, the credit-rating system has hugely simplified the sourcing and due diligence process. It's better than what went before because an objective, data-based score eliminates any judgmental or "face" related issues. It's cleaner, easier and is a genuinely innovative cross-culture solution for doing business internationally. It also has the added value of being demonstrably reliable.

Trade Assurance also encourages better work processes – work conditions, adherence to labor laws, good practice on environmental impact and so forth. The distillation process that allows the best companies to rise to the top and become more visible leads to an overall upgrade in what they can produce – for example, a migration from cheap consumer electronics to high-tech circuit boards.

Besides creating jobs and helping to foster greater cohesion within society, supporting local SMEs helps reduce the need for a people to move to a big city for work. Since 2000, China's urban population has grown by about 360 million – 59% of the population compared to 36% at the turn of the century<sup>15</sup> – as people from the countryside have moved to the cities, sometimes taking their families with them, but often not. The ramifications of this on family structures, the growth of megacities, work conditions and so-called left-behind children are profound. Trade Assurance and Alibaba.com offer an alternative to leaving home, while still offering a means to find a better quality of life.

15. <http://www.worldometers.info/world-population/china-population/>

## Removing trade barriers helps everyone

“Before, large empires and companies monopolized information and knowledge. Now, with information barriers falling around the world, knowledge is unleashed meaning that SMEs can leverage big data like any big company,” says Tim Harcourt, JW Neville Fellow at the UNSW Business School, Australia. “Not surprisingly for Australian SMEs, this allows them to engage consumers in Asia as the power of proximity replaces the tyranny of distance. Twenty-first century globalization and the democratization of data means that for SMEs the world really has become their oyster.”

It’s not just the SMEs buying and selling that benefit, support industries will benefit too, such as insurance, inspections, trade finance, shipping and logistics. All are drivers of employment and opportunity wherever B2B e-commerce is happening.

In 2015 in China, about 113 million people were employed in businesses driven by the country’s digital economy, according to report by Boston Consulting Group and AliResearch<sup>16</sup>. Jobs that did not exist until a few years ago now employ millions.

The report notes Ma Junsheng, Head of the State Postal Bureau, the industry regulator, as saying that, thanks to the e-commerce boom, China’s logistics industry has been creating an average of 200,000 new jobs a year in recent years.

The idea of trusting and trading with someone on the other side of the world without ever meeting or knowing them, without even speaking their language, let alone understanding their culture and background, would have been vaguely preposterous 20 years ago. That’s changed thanks to big data. Trust between strangers is increasingly the norm. The benefits of that go well beyond business.

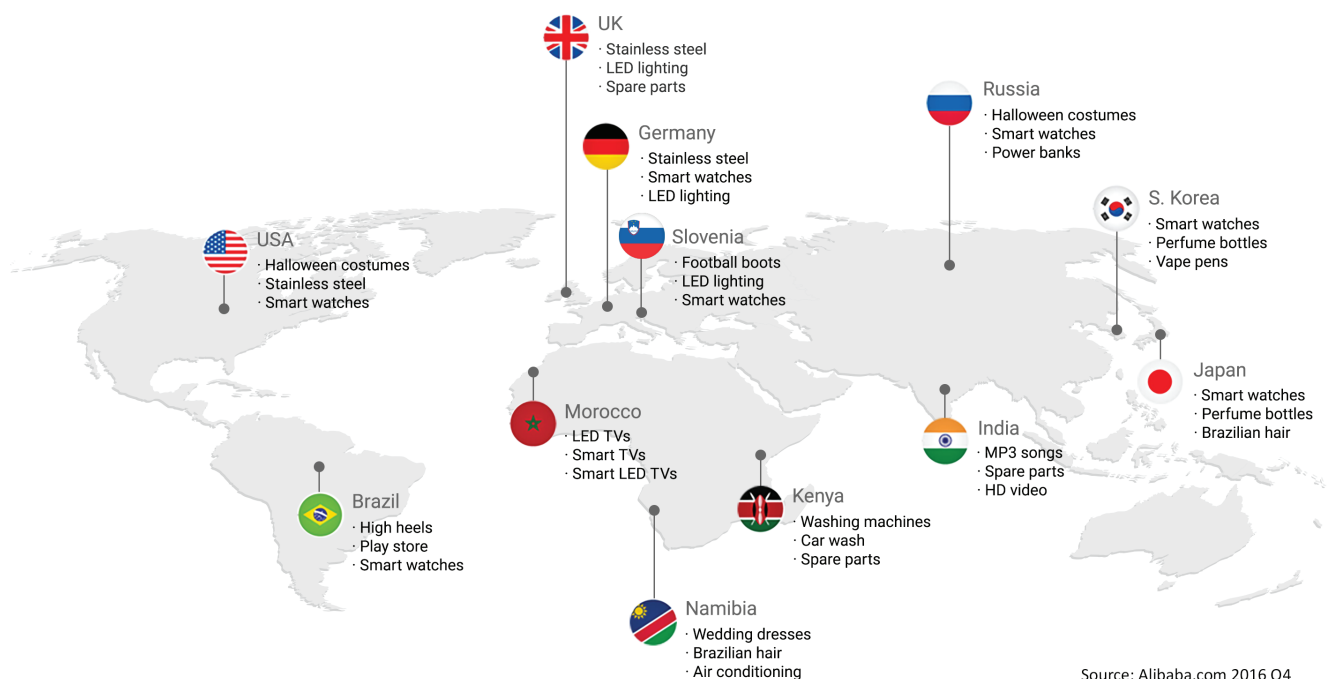
16. “迈向2035：4亿数字经济就业的未来”(“Towards 2035: The Future Digital Economy To Create 400 Million Jobs”), Boston Consulting Group and AliResearch, part of Alibaba Group (January 2017)



## Did you know...

The US and Russia share a passion for Halloween costumes. For both countries, the top 3 most searched for items include Halloween regalia. (Stainless steel and smart watches rank as the top 2 items for the US.)

### Top 3 Most Searched for Items on [Alibaba.com](https://www.alibaba.com) by Country (Q4 2016)



This table draws on search and transaction data from Alibaba.com. This is a very small sample of the type of data insights that SMEs can leverage to plan for their own business, identify new opportunities and capitalize on consumer trends.

## Empowering entrepreneurs worldwide

Indonesia is one country in Asia that's poised for dramatic economic growth in the coming decades, owing to its favorable demographic and the fact it's still very much a developing market. Like China and India, it's in a sense lucky to lack outmoded infrastructure, so it can leapfrog the old systems and processes into a new era.

SMEs in Indonesia account for nearly 60% of GDP and are responsible for over 95% of employment<sup>17</sup>. But the development of cross-border trade for Indonesian SMEs remains in its infancy.

Indonesia's traditional financial services tend to address the needs of middle-income people or higher and often collateral is required when borrowing. So many people and SMEs struggle to get access to the financial system, thereby limiting their growth potential. This is changing, however, with

big data and the digitization of commerce helping some SMEs to grow at double-digit rates. E-commerce and Fintech companies are starting to come up with their own credit-rating algorithms.

"We recognize the power of data to better understand customer buying behavior and to streamline our supply-chain to meet their demands," says Liky Sutikno, Chairman of the Indonesia Chamber of Commerce in China. "But there is no credible widespread standard for a consumer or SME credit-rating system in Indonesia yet."

Using a warung, a small kiosk in rural Indonesia, as an example of e-commerce in a very simple form, Sutikno says: "Many warung in the past only sold daily necessities. By bringing mobile e-commerce to them, the kiosk can become an e-kiosk where customers can order more things, such as a

17. <https://www.icsb.org/declaration-of-human-entrepreneurship-in-jakarta-indonesia/>

bike. A customer pays upfront to the warung, which then collects some more customer orders. The kiosk then submits one larger bulk order and reduces the vendor delivery costs. The savings are passed to customers. It's simple but it works well."

The other side of this transaction is that when the bike delivery is made, the empty truck can be used to take locally made or grown goods back into the cities at low cost. It's an approach that has helped alleviate poverty in many areas.

"We hope it can transform the way we do business and help even out the wealth distribution by equalizing access to the markets for everyone and not just big businesses, and help reduce the Gini ratio<sup>18</sup>," says Sutikno.

18. Also referred to as the Gini coefficient, the Gini ratio is a measure of wealth distribution within a country, and is typically used as a measure of inequality.

# 10

**THE FUTURE**

## Industry 5.0 on the horizon

It took about 130 years to go from Industry 1.0 (machinery, around 1780) to Industry 2.0 (electricity, early 1900s) and then about 70 years to reach Industry 3.0 (computers, 1970s). The most recent step forward to Industry 4.0 (the Internet of Things) took about 35 years. At this rate Industry 5.0 will be underway by around 2020.

Perhaps Industry 5.0 will be the period that sees a full rollout to Trade Assurance to global suppliers, and a level playing field for SMEs the world over – part of the global inclusion that Alibaba.com is championing through its “Buy Globally, Sell Globally” initiative.

In Asia, SMEs in the so-called Tiger economies of Singapore, Taiwan and Malaysia were early movers. More recently, however, China has been the main driver of growth. China’s growth post-WTO entry

benefits developing regions in Asia and beyond – including Africa. That’s set to continue, although other countries will likely take a greater share down the line.

With Internet penetration in China still just over 50%, the untapped potential remains huge. That potential is arguably greater in India, where internet penetration is less than 40% and growing fast. India’s B2C e-commerce sector was worth US\$45 billion in 2016, up 75% from 2015.

Markets across Asia and in other parts of the world stand to benefit in the form of job creation and spur economic development in countries that have not yet seen the fruits of globalization.

## Digital business creating growth and opportunities

Information technologies continue to revolutionize retail, entertainment, finance, manufacturing and other industries. By 2035, China's digital economy will reach US\$16 trillion, with 415 million jobs created accumulatively<sup>19</sup>. That compares with US\$1.4 trillion in 2015<sup>20</sup>. Worldwide e-commerce forecasts are bright, with B2B e-commerce volume to reach US\$6.7 trillion by 2020. The US is poised to follow suit and account for over US\$1 trillion in B2B e-commerce by then<sup>21</sup>.

"If not for the robust growth of the Internet and the sharing economy, China would have been under unprecedented employment pressure, weighed down by slowing GDP growth," says Zhang Yansheng, Director of the National Development and Reform Commission's Institute for International Economics Research. "Digital businesses are not taking jobs away from traditional sectors; they are creating new jobs."

In an industry where buying and selling globally is quickly becoming the norm, data has the ability to break down misconceptions, take away fear of the unknown and enable SMEs and small manufacturers to flourish. B2B online sales are expected to account for around 27% of total global manufacturing trade<sup>22</sup>. SMEs suppliers in India, Southeast Asia, Middle East, Africa and parts of Eastern Europe are set to benefit in the near term.

B2B online relationships are expected to grow from one-to-many to many-to-many, as marketplaces become more common and cross-industry public platforms, such as Alibaba, gain B2B prominence. A transition to seller-driven platforms is also likely, as online relationships become less about procurement and more about selling.


19. 迈向2035：4亿数字经济就业的未来("Towards 2035: The Future Digital Economy To Create 400 Million Jobs"), Boston Consulting Group and AliResearch, part of Alibaba Group (January 2017)

20. <https://www2.frost.com/news/press-releases/global-b2b-e-commerce-market-will-reach-67-trillion-usd-2020-finds-frost-sullivan/>

21. <https://www.forrester.com/report/US+B2B+eCommerce+Will+Be+Twice+The+Size+Of+B2C+eCommerce+By+2020/-/E-RES122366>

22. "Future of B2B Online Retailing," Frost & Sullivan (April 2015)

SMEs in the more developed markets of Western Europe and North America will also benefit from this new, far more inclusive form of globalization. For them, data will facilitate business, allowing for just-in-time delivery of the latest designs to meet customer needs. The faster, leaner supply chains will mean less inventory and less wastage.

A large, stylized graphic in the background. It features the number '11' in a dark brown, sans-serif font. A large, semi-transparent grey circle is positioned behind the text, centered horizontally and partially overlapping the '11'.

# CONCLUSION



The impact on global business of clever and timely analysis of vast quantities of data is hard to overstate. It has led to a dramatic ramp-up in cross-border trade among smaller companies, creating wealth and new opportunities, as well as improving lives.

Twenty years ago, more than four-fifths of cross-border trade was done by relatively few very large companies. SMEs barely got a look-in. Since then, with greater Internet penetration worldwide, the spread and affordability of technology, more widespread financial inclusion and much faster supply chains, the whole dynamic has changed.

Using big data analytics combined with business-processing expertise to address the challenge of building trust and reducing risk is what Alibaba.com is doing with the creation of Trade Assurance. It has helped create a new entrepreneurial class. We now have the acronym MMNC, or micro-multinational company, a type of business inconceivable a couple of decades ago.

Now an individual with a smart idea and a smartphone can source goods, create a product and trade internationally without even leaving the house. All thanks to big data.

The aim of Alibaba.com is to champion big data application to facilitate the growth of SMEs worldwide. It is our hope that both private and public sectors capitalize on the opportunities presented by game-changing technologies, and provide the infrastructure, education and institutions needed to level the playing field to benefit SMEs in global trade.



# ACKNOWLEDGEMENTS

Sincere thanks to all the industry experts who contributed their insights and expertise for this white paper. In particular, we would like to thank:

**Bob Black**, *StarTrack Australia*

**Dave Chan**, *UBM Asia*

**Apurva Chandra**, *Government of Maharashtra, India*

**Malee Choklumlert**, *Department of International Trade Promotion, Ministry of Commerce, Thailand*

**Klemen Drole**, *Lazada Group, part of Alibaba Group*

**Tim Harcourt**, *UNSW Business School, Australia*

**Johnny Harris**, *T-tox & Adeptio Fitness, UK*

**Manish Jaiswal**, *CRISIL Limited, India*

**Francis Lui**, *Department of Economics, Hong Kong University of Science and Technology*

**Li Duoquan**, *Alibaba Wholesale Marketplaces*

**Lisa McAuley**, *Export Council of Australia*

**Bhushan Patil**, *PayTM, India*

**Ren Geng**, *Alibaba Wholesale Marketplaces*

**Joe Revell**, *Garçon Wines, UK*

**Liky Sutikno**, *Indonesia Chamber of Commerce in China*

**Sanjay Thakur**, *Kotak Mahindra Bank, India*

**Jaron Turner**, *Taske, LLC, USA*

**Wei Qiang**, *Shenzhen One-Touch Enterprise Service Limited, part of Alibaba Wholesale Marketplaces*

**Calrissian Whitaker**, *Inovasii, USA*

## Thanks to the Alibaba team contributing to the white paper, in particular:

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## Thank you to FleishmanHillard Hong Kong for its support on research and content development:

James Dyson, Olivia Cao

