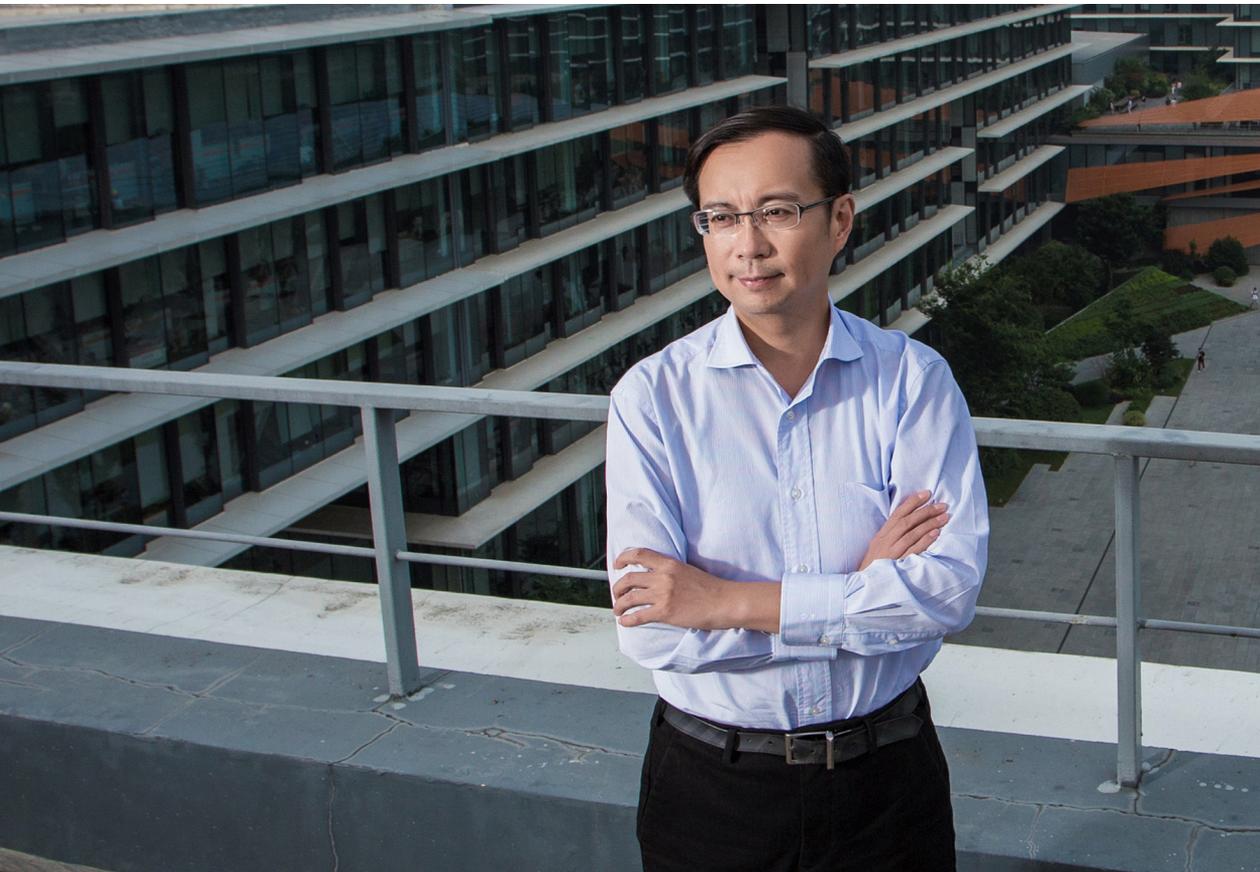


September 2019

McKinsey Quarterly

Speak softly, make tough decisions: An interview with Alibaba Group chairman and CEO Daniel Zhang

The chairman and CEO of China's e-commerce giant describes Alibaba's approach to innovation and how he balances analytics and instinct to push himself to spot hidden opportunities.



While visionary founder Jack Ma has provided Alibaba Group's most public presence during the company's journey from apartment start-up to global e-commerce powerhouse, current chairman and CEO Daniel Zhang can be credited with many of the company's game-changing successes. Nonetheless, the pair present as opposites—Zhang, with calm and collected cogitation, in the face of Ma's restless dynamism—a duality that drew attention when Ma nominated Zhang last year to succeed him as company chairman in September 2019.

Zhang, known on Alibaba's Hangzhou campus by a nickname that translates to "the free and unfettered one," had hitherto eschewed the spotlight, but his instinct for innovation proved instrumental in Alibaba's rise to become the world's most valuable e-commerce company in 2017. Among Zhang's initiatives is Alibaba's annual 24-hour sales promotion, known as the "11.11 Global Shopping Festival," or "Double 11" for short, which notched gross merchandizing volume of \$30.8 billion in just 24 hours in 2018. Zhang was also at the forefront of Alibaba's drive to become a mobile-first business: more than 90 percent of sales on Alibaba's China e-commerce sites are now made via mobile device. More recently, the Shanghai native spearheaded the launch of Freshippo (known as "Hema" in Chinese) grocery stores, which combine a high-end, in-store experience centered on fresh foods with rapid e-commerce home delivery and a robot-staffed restaurant option.¹

In this interview, Zhang talks with McKinsey's Daniel Zipser about Alibaba's approach to innovation, the power of purpose at Alibaba, and how Zhang balances analytics and instinct to guide his own decision making and push himself to spot hidden opportunities. The following is an edited version of their conversation.

The Quarterly: *What strikes you as notable about Chinese consumers, and how are they evolving?*

Daniel Zhang: What we see from our digital platforms is that they are very diverse. Because of the internet, they know what's popular—not only in China but all around the world. They also have strong beliefs. Generation Z, for example, doesn't believe only in so-called big brands; they prefer unique things and new brands from their own generation. That's [a big part of] their lifestyle. The other important thing is that they tend to spend more. China is famous for being a high-savings-rate society, but the younger generation are more willing to improve their lifestyle through spending, and that presents huge opportunities.

The Quarterly: *Speaking of consumer spending, Double 11, the online shopping festival that happens on November 11 each year, generated more than \$30 billion in gross merchandise volume in 2018. What was your vision when you launched the event back in 2009?*

Daniel Zhang: Tmall [Tmall.com] is now the largest online B2C business in the world, but at the time, it was tiny compared with Taobao [Taobao Marketplace]. So we

¹ See Uptin Saiidi, "Inside Alibaba's new kind of superstore: Robots, apps and overhead conveyor belts," CNBC, August 30, 2018, cnbc.com.

wanted people to remember us. The idea was to bring together all the merchants on Tmall and create a common event where we could work together to serve our mutual customers with the best service, the best products. We never dreamed it would become such a fantastic event ten years later, and that really reflects the power of ecosystems.

But if you ask me about the idea on day one, I have to say it came from a sense of, “How can we make people remember us?” and “How can we survive?” From there, it came from trying new things. Going forward, it will continue to be about innovation. We will look to promote not only online sales but also brick-and-mortar stores. Double 11 is a day focused on consumers, and they seek online as well as offline experiences. That’s a very obvious trend we see and will pursue as we continue to make Double 11 the best day of the year for consumers.

The Quarterly: *Say more about innovation and technology at Alibaba—and, in particular, the role of artificial intelligence [AI].*

Daniel Zhang: We are always trying new things—always innovating services and using technology to give consumers new experiences. For example, people in China are now largely used to the convenience of mobile wallets, so we have pushed to promote facial recognition as confirmation for digital payments. Feedback tells us young Chinese consumers love the convenience of this; it’s a fantastic consumer experience.

We had been working on AI for many years, but, to be honest, we didn’t even realize what we were doing was AI. We are a data-driven company. We create value from the data generated by real activity of users and merchants; we use data as fuel for our marketplaces to help merchants better serve their customers. That is our logic, and we have been working on this for many years.

Technology and data empower our whole business—not only on the sales side and marketplace side but also in the back-end office, in customer service, in every single area. This is how we work. So when people say “AI,” we laugh and say that, to us, it’s “Alibaba intelligence” because data and technology power everything we do.

The Quarterly: *How would you describe Alibaba’s purpose, and how does your business model support it?*

Daniel Zhang: Alibaba has been a mission- and vision-driven company from day one. Jack Ma, along with 17 other early cofounders, set a great mission: to make it easy to do business anywhere. Our mission drives our business strategy, which is empowering our business partners.

Even though our business is always evolving, the mission remains unchanged. For example, we are not only helping big brands and retailers—we also help small and medium businesses grow. We believe small is beautiful; we want to help new businesses and entrepreneurs be more successful. That’s always been our philosophy. In this digital era, when we talk about Alibaba’s future, we focus on helping our

Daniel Zhang

General manager, Taobao Mall
(subsequently rebranded as Tmall.com)
(Aug 2008–June 2011)

Education

Earned a BA in finance from
Shanghai University of Finance
and Economics

CFO, Taobao Marketplace
(Aug 2007–June 2011)

Career highlights

Alibaba Group
Chairman and CEO
(Sept 2019–present)

Shanda Interactive Entertainment
CFO
(Aug 2005–Aug 2007)

CEO and director
(May 2015–Sept 2019)

Fast facts

Responsible for launching
Alibaba's "Double 11" Singles Day
event—now the world's most
successful retail promotion

COO
(Sept 2013–May 2015)

President, Tmall.com
(June 2011–Sept 2013)

business partners win through successful digital transformation, rather than about how we can make ourselves even stronger. When small businesses can grow faster and grow healthier, it will benefit the whole society.

As the Chinese economy transforms into a consumption-driven economy, Alibaba has a huge opportunity to understand consumers' changing needs. We help connect the whole world with China to facilitate easy trading and access to the world's largest consumer market.

The Quarterly: *You are often described as reserved, soft spoken, and detail oriented. How do you see yourself as a leader, and how has your leadership style evolved?*

Daniel Zhang: I don't think I'm a reserved guy, actually. People may tag me based on my background as an auditor, and I always say that maybe I picked the wrong first job. Obviously, though, that first job gave me a lot of opportunities to learn the basic skills and have access to many clients in different industries. I consider myself very lucky to be engaged in the digital landscape and to be part of such a fantastic company in Alibaba.

In terms of my leadership style, I'm very nice to people. I tend to give people opportunities to try their own ideas, but I'm very tough once a decision has been made. Once I make up my mind, I want my teams to go ahead and get concrete

results. That's why people at Alibaba always say it's very difficult to deal with me in business meetings, because [in that context] I am always trying to get to the substance of the matter and drive people to make progress.

So my leadership style is that, yes, while I speak softly, I always make the tough decisions. I think the most important thing [for a leader] is to lead the whole team forward. They need direction, and they need clear guidance. Leaders have to make the tough decisions, even if it may not be the perfect decision. At the same time, I also try to learn from our young people—the people born after 1990, 1995. Learning about their lifestyle and preferences helps give me a lot of new ideas and inspires innovation.

The Quarterly: *How much of your process for making tough decisions is intuition compared with data analysis?*

Daniel Zhang: It's a combination. Our advantage is having huge amounts of data, and my team does a fantastic job in providing me with daily analysis. But as a leader, you have to see something which others cannot, and often that comes down to focusing on customer pain points.

Four years ago, I had the idea for the Freshippo retail stores, which have since become very popular. My original thinking was that traditional e-commerce's hub-and-spoke model could not deliver fresh products on time and on demand. It's not like you can deliver fresh fish to a customer's home while she is still in the office. We had to rearchitect the business model and address that particular pain point, and that process led to the origin of Freshippo.

Pain points mean opportunity. And that's why, every year, I do a self-evaluation process during Chinese New Year. I ask myself, "How many new ideas, how many new businesses did I initiate last year?" I don't focus my self-evaluation on the performance of the existing businesses: this is about the new opportunities. Today they may be new ideas—very tiny, very small—but they may become much bigger in the future. Maybe they will become a main business for Alibaba.

The Quarterly: *Among those ideas, there will inevitably be failures as well. How do you handle failure as a leader, and how does Alibaba approach the topic as an institution?*

Daniel Zhang: We give our people a lot of space to try new things. It means you have to accept mistakes. The vast majority of innovations will result in failure; you have to acknowledge that. But the key is, can we learn from the failures?

For example, five or six years ago, we tried a new thing. It was a digital social-messaging platform called Laiwang. We started the business, invested heavily, sent some of our best people, but it failed. We didn't create a new experience for consumers that differentiated from what they could already get in the market.

That experience served as a critical lesson that informed our thinking when we created DingTalk, a cloud-based, SaaS [software-as-a-service]-based work-

collaboration platform. The tool is a direct result of Laiwang's failure because the team realized that people have too many contacts on their social networks. Users wanted an alternative messaging platform dedicated to work relationships and communication. DingTalk's success is another example of a pain point inspiring a new service. It's an example of valuable lessons we can harvest from failure.

The Quarterly: *What motivates you, personally, as a leader? What drives you when you get up in the morning?*

Daniel Zhang: First, it's about having fun. That's the most important thing. I work with many young people in our line of business—the digital landscape is a brand-new frontier for society—and the experience of new things is not only fun, but it also makes you feel younger. I always say to my friends, to my team, that the key thing to ask yourself is, “Do you still have curiosity about the world?” If you are curious about the world, then you will find something different, then you will find new opportunities, and you will move ahead.

The Quarterly: *Finally, you've worked alongside Alibaba founder Jack Ma for several years now. What's it like working with him, and what have you learned as a result?*

Daniel Zhang: We work very well together. Since joining Alibaba 12 years ago, I've worked very closely with him. While we have totally different personalities, we complement each other well. Jack is a visionary. He thinks about not only today and tomorrow but five and ten years from now, and that is what makes Alibaba different. I learned from him the importance of looking at the big picture. You need to have your feet planted on the ground and move forward solidly, but you also need to be forward looking. We look at opportunities not only for today but, more importantly, opportunities for the next generation and the coming decades. Q

Daniel Zhang is the chairman and CEO of Alibaba Group. This interview was conducted by **Daniel Zipser**, a senior partner in McKinsey's Shenzhen office.

Copyright © 2019 McKinsey & Company. All rights reserved.

Related thinking

For more from our ongoing series of interviews on the Chinese consumer, see the following, on McKinsey.com:

- “How China's largest online travel agency connects the world: An interview with Ctrip CEO Jane Sun”
- “How a cosmetics giant reaches Chinese consumers: An interview with Shiseido CEO Masahiko Uotani”
- “Catering to China's diverse appetites: An interview with Kang Shi Fu CEO James Wei”

For more on Singles Day, see “What Singles Day can tell us about how retail is changing in China,” on McKinsey.com.