

**NEW
REPORT**

RAKUTEN 2014

ResearchFARM

www.researchfarm.co.uk

Retail Analysts

RAKUTEN 2014: ON COURSE TO BECOME A GENUINE GLOBAL PLAYER?

WHO LEADS THE JAPANESE E COMMERCE MARKET, AMAZON OR RAKUTEN?

WHAT IS SPECIAL ABOUT THE RAKUTEN ECOSYSTEM?
WHAT IS RAKUTEN ICHIBA?

WILL RAKUTEN BECOME GENUINE GLOBAL
PLAYERS ON PAR WITH AMAZON AND EBAY?

July 2014

INSIDE:
Key questions
answered +
table of contents

Introduction

Japan is the only major ecommerce market where a home grown incumbent, Rakuten, achieves higher gross merchandise sales (GMS) than Amazon, on both Amazon Retail and its marketplace combined. (The other market is China, but Amazon's laggard position in the country is not due to Alibaba's inherent competitiveness and business model, but an unlevel playing field and CP intervention skewing the market home grown players.)

How has Rakuten made domestic leadership and holding off Amazon possible? We believe that there are learnings that can be copied into other markets and that in time new local champions could emerge to knock Amazon off its perch in the France, Germany or the UK.

Irrespective of the industry, leading loyalty players could learn from Rakuten's disruptions of global e-commerce. The key competitive edge in its unique business model with a diverse portfolio of businesses is the Rakuten Super Points loyalty scheme which generates loyalty and stickiness for both consumers and merchants and drives significant cross shopping effects. The super points look likely to develop into the first truly global scheme on a vertical basis including consumer finance, retail, travel, streaming content, sport etc and also horizontally across markets (Japan, USA, Germany, France, UK etc).

Rakuten Ichiba's focus upon quality ensures that only reputable businesses are allowed to trade carrying extremely little risk of poor products and elevating Rakuten as the premium marketplace. Clearly conveying these qualities throughout its global expansion is essential if it is to have an impact in the global e-commerce space. Therefore, Rakuten offers something different to its rivals but these strengths can also be viewed as weaknesses.

The principle of quality merchants and products prevents Rakuten having the scale of Amazon and eBay as it is far more picky about who can sell on the site. This is a major drawback in Rakuten's quest to become a global leader as it arguably needs a vast network of merchants to drive network effects and rival the big two.

This report probes into these matters and much more in great detail to provide a fascinating insight into this impressive yet relatively unknown e-commerce company whose innovative ideas, energetic expansion and strong adherence to its principles is to be admired. The great question is whether Rakuten will build as much brand awareness as Amazon and eBay have with consumers.



Key Questions Answered

Japan:

- Who leads the Japanese e-commerce market, Amazon or Rakuten and on which KPIs should leadership be measured and established?
- What is special about the Rakuten Ecosystem? What is Rakuten Ichiba? What are Rakuten's USPs? Why are Super points, the loyalty scheme, so important for Rakuten? How much of Rakuten's total domestic e-commerce is accounted for by Ichiba's GMS?
- How has Abenomics affected Rakuten's performance in Japan and abroad? What are the contradictions inherent in Rakuten's business model? Is Rakuten only relevant in the Japanese context or can the model be globalised?

Foreign expansion:

- Will Rakuten become genuine global players on par with Amazon and eBay? Will Rakuten compete effectively with Amazon and eBay in the US? What are the hurdles Rakuten face when aggressively launching into more mature western markets? Can they be overcome?
- What has been Rakuten's approach to overseas expansion? What type of companies have Rakuten acquired in the last few years? Does the company have a proven track record in turning around struggling businesses?
- Which part(s) of the world represents the biggest opportunity for Rakuten? What countries is the company targeting next? How has Rakuten approached the important issue of logistics, particularly abroad?

3P sellers:

- Should 3P sellers list on Rakuten? What are the main draws to the marketplace? What are the risks? Why does Rakuten have far fewer merchants than its rivals? Will the unified platform bring the expected benefits?
- Why is Rakuten's ecosystem much better than that of other marketplaces, who do not compete with their 3P sellers (Books and the content business excluded, where Rakuten act as a seller)?
- Rakuten has never had the problem of being seen as an auction house or better flea market on which major brands would be unwilling to list as they are worried about branding and pricing integrity. But will Rakuten's premium positioning assert itself over the much broader range and network effects of the likes of eBay and Amazon? Can a pure marketplace provider, without proprietary selling, really function with only 42k 3P sellers?

Mobile:

- Why has Rakuten emphasised the importance of mobile? What is the significance of the acquisition of Viber? Is Japan's m-commerce a model for m-commerce developments elsewhere?
- How is Rakuten innovating in payment?

Features & Benefits

FEATURES

- In depth look at online retailing in Japan and Rakuten's ecosystem, an overview of Rakuten's activities over the last 5 years.
- Detailed statistics including Gross Merchandise Sales, revenues, net income, margins and customer accounts with a comparative analysis against Amazon, based on Amazon Best Seller tracker insights on Japan, such as average price points, number of orders, etc.
- Evaluation of business principles around international expansion and ecosystem creation and harnessing network effects.
- A thorough assessment of Rakuten's outlook including case studies and recommendations.

BENEFITS

- Understand Rakuten's business model and why the Japanese company is a radically different proposition to Amazon, eBay and Alibaba. Learn about premium positioning and driving loyalty as well as sales event creation.
- Help merchants in the decision making process on whether to join Rakuten's marketplace, understand threats and risks as well as opportunities and benefits.
- Gain insights into Rakuten's innovative thinking and be inspired to incorporate elements into your own growth strategy.
- Find out about growth opportunities for Rakuten and identify the key threats to the company.

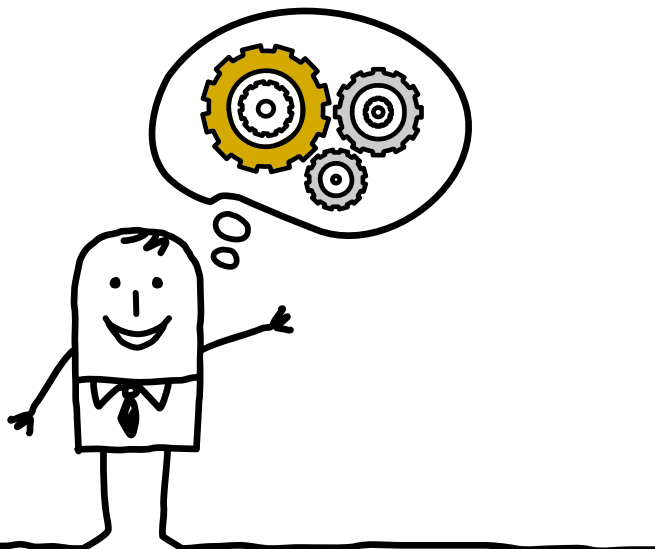


Table Of Contents (1/3)

Executive summary: Rakuten 2014	p13
The core of the business model: the marketplace	p21
Strengths of marketplaces: The model	p22
Strengths of marketplaces: the data benefits, monetisation	p23
Strengths of marketplaces: the data benefits, pricing power	p24
Strengths of marketplaces: pricing power, beneficial cash flow	p25
Strengths of marketplaces: beneficial cash flow, unlimited range	p26
Strengths of marketplaces: unlimited range, perfect OSA	p27
Strengths of marketplaces: network effects	p28
Context – Japan	p29
Japan: Demographics - How to tackle an ageing and shrinking population	p30
Japan: Demographics - What social reforms are needed?	p31
Japan: Economy – from the lost decades to Abenomics, Real GDP growth	p32
Japan: Corporate - Role of small firms, financial discipline, clean image	p33
Japan: Corporate - Issues facing Japanese companies, Rakuten bucking the trend	p34
Japan: Corporate - How tensions with China are affecting Japanese performance	p35
Online Retailing in Japan	p36
Online retailing: Internet penetration, e-commerce, m-commerce, konbini	p37
Online retailing: Konbini, payment methods, understanding Japanese consumers	p38
Online retailing: Competitive landscape, demographics dictating shopping habits	p39
Online retailing: How will a tax rise affect spending habits?	p40
Introduction: Rakuten's business model	p41
Rakuten: Philosophy and historical milestones	p42
Rakuten: Rakuten Ecosystem, membership	p43
Rakuten: Rakuten Ichiba – the shop centric marketplace	p44
Rakuten: The mechanics behind Ichiba	p45
Rakuten: Super Points, Rakuten Card and Rakuten Edy	p46
Rakuten: Rakuten Ichiba towards a global vision	p47
Recent Key Developments	p48
April - May 2013: MasterPass and Daily Grommet	p49
June 2013: Logistics and Energy	p50
August - Nov 2013: Further acquisitions, Fulfilment centre, Spanish expansion	p51
November 2013: Sporting success	p52
February 2014: Viber, vi-vi-vi.com, European R&D centre	p53
April - May 2014: Mastercard tie-up	p54
May 2014: Addition of Alipay, Q1 results, Taiwanese credit card, wuaki.tv smart TVs	p55
May 2014: Rakuten CAFÉ opens in Tokyo	p56
May 2014: Rakuten Box locker scheme launched and SessionM	p57
May - June 2014: DC Storm and attribution	p58
Financials, KPI and Benchmarks	p59
Gross Merchandise Sales: total & e-commerce sales in Yen, 2007 - 13, declining influence of e-comm?	p60
Gross Merchandise Sales: total & e-commerce sales in €, 2007 - 13, Abenomics distorting results	p61
Rakuten: Net income, margins in Yen, € 2007 - 13, a healthier outlook than competitors?	p62

Table Of Contents (2/3)

Rakuten Ichiba: Revenue, Ichiba sales revenue in Yen, 2007 - 2013, making its mark in Japan	p63
Rakuten Ichiba: Revenue, Ichiba sales revenue in €, 2007 - 2013	p64
Rakuten Ichiba: Transactions and unique buyers 2008 - 13, the power of the loyalty scheme	p65
Rakuten: Ichiba GMS per user, annual members 2008 - 2013, what drives the high GMS figures?	p66
Rakuten: GMS per merchant, Ichiba as % of domestic e-commerce GMS	p67
Rakuten: number of 3P merchants 2012 - Q1 14	p68
Rakuten: Fee structure, commissions UK, US	p69
Rakuten: Range issues and getting global network effects going	p70
Comparison Amazon & Rakuten, who leads the market?	p71
Amazon: Int'l sales in €m 2008 - 13, total, Japan, in Yen 2011-13, who leads the market?	p72
Amazon and Rakuten: Japanese sales revenue in Yen 2011-2013, GMS comparisons	p73
Amazon: Active Customer accounts 2009 - 2013, Analysis	p74
Amazon: Average quarterly spend 11 - 13, Japan in Yen, Rakuten GMS	p75
Amazon: 1P Sales by geography in \$m, average price, total units, customers, frequency	p76
Comparison: Amazon vs Rakuten, who is number one in Japan?	p77
Comparison: Amazon vs Rakuten, a defense of Amazon's business model	p78
Rakuten's strategy	p79
Strategy: Global operations and exporting the marketplace model	p80
Strategy: International acquisitions – Kobo	p81
Strategy: International acquisitions - Wuaki, Viki and Viber	p82
Strategy: Marketplace model as a USP, global unification	p83
Strategy: getting the domestic logistics network right to succeed globally, global logistics	p84
Strategy: Rakuten bank, expansion into the States	p85
Strategy: Viber, the vehicle for expansion	p86
Loyalty strategy: the power of points, cross-use ratio	p87
Loyalty strategy: the power of the points, Amazon Prime threat, click and collect	p88
Rakuten's overseas operations – the EU	p89
France: the priceminister acquisition, bolstered by ADS	p90
France: High competition, logistics strategy for the EU	p91
France: Differentiating from Amazon, moving away from c2c	p92
Germany: the tradoria acquisition, tough competition	p93
Germany: slow 3P recruitment	p94
Germany: aggressive growth plans	p95
Spain: ambitious targets, Wuaki link up	p96
Spain: a very different expansion strategy	p97
UK: the acquisition of play.com, repositioning and closing 1P	p98
UK: social media innovations and targeting a leadership position in UK e-retail	p99
Overseas operations – emerging markets	p100
Thailand: all about m-commerce	p101
China, India: payment partnership after baidu failure, India plans	p102
Brazil: a market showing much promise	p103
USA & Japan – the biggest opportunities?	p104
Japan: Synergy, supporting local communities	p105
USA: attempting to crack the hardest nut	p106

Table Of Contents (3/3)

Outlook

p107

- Outlook: What stands in Rakuten's way to become number one? p108
- Outlook: focusing on quality over quantity, overcoming contradictions p109
- Outlook: overcoming contradictions, challenges from within p110
- Outlook: What areas is Rakuten getting right? p111
- Outlook: How to challenge Amazon and eBay globally, domestic difficulties p112
- Outlook: Tax rises, regulations, future of e-commerce p113
- Outlook: Promising future but doubts on becoming number one remain p114

Sources

p115

- Table 1: Gross Merchandise Sales: total sales and e-commerce sales in Yen, 2007 - 13 p60
- Table 2: Gross Merchandise Sales: total sales and e-commerce sales in €, 2007 - 13 p61
- Table 3: Rakuten: Net income, margins in Yen, € 2007 - 13 p62
- Table 4: Rakuten Ichiba: Revenue and Ichiba sales revenue in Yen, 2007 - 2013 p63
- Table 5: Rakuten Ichiba: Revenue and Ichiba sales revenue in €, 2007 - 2013 p64
- Table 6: Rakuten Ichiba: Transactions, quarterly frequency, number of buyers 2008 - 13 p65
- Table 7: Rakuten: GMS per user, per quarter, in Yen, € annual members 2008 - 13 p66
- Table 8: Rakuten: number of merchants, per quarter 2012 - Q1 14 p68
- Table 9 & 10: Amazon: Int'l sales in €m 2008 - 13, total, Japan, in Yen 2011 - 13 p72
- Table 11: Amazon: Active Customer accounts 2009 - 13, total, Japan p74
- Table 12: Amazon: Average quarterly spend 11 - 13, in Yen, Rakuten GMS in Yen, € p75
- Table 13: Amazon: 1P Sales by geography in \$m, average price, total units, customers, frequency p76

- Chart 1: Strengths of marketplaces: The model p22
- Chart 2: Japan Real GDP growth p32
- Chart 3: Rakuten Ecosystem and services p43
- Chart 4: Rakuten Ichiba – the shop centric marketplace p44
- Chart 5: Super Points, Rakuten Card and Rakuten Edy p46
- Chart 6: Sales revenue in Japan (¥), Amazon vs Rakuten 2011 - 13 p73

Rakuten: Super Points, Rakuten Card and Rakuten Edy

Chart 5



Rakuten's Super Points reward system, founded in 2002, connects all of the company's services to the members and encourages customer loyalty and cross shopping. It is the most popular loyalty based rewards system in Japan and provides value to the customers. The customers can use the points gained on a transaction on other services like travel. One point equates to JPY 100, although there are often promotion campaigns that enable shoppers to earn two or three times the number of points than usual. Domestic companies on board with Super Points include airlines JAL and ANA and credit card company JCB.

Rakuten Card and Rakuten Edy are credit card and e-money products respectively, which allow customers to earn Super points when shopping offline. This creates a highly convenient settlement tool that combines both online and offline transactions benefiting consumers and Rakuten, who can spread the brand offline as well.

In 2013, Rakuten Card shopping transaction value hit ¥2.6 trillion (€20 billion), a 42% rise from 2012. Even if one assumed that the entire domestic e-commerce GMS of Rakuten (¥1.7btr) was transacted via the Rakuten card, which of course it is not, then Ichiba would only account for 65% transactions. This shows how far divorced from the original marketplace Rakuten's finance business has become already.

Testimonials - Our Clients Say It Best



«Research Farm publishes great reports every year, and each report brings a unique perspective compared to any other information available elsewhere: the analyses go deep, they are supported with data, but what I most value is that each report is built around a 'clear story', contains proprietary insights and even sometimes innovative projections into the future which help us to think out of the box.»

Global Channel Category sales
Nestle waters

«For us the ResearchFarm reports are so useful. The information provided give us the opportunity to increase our knowledge about the retail industry and its key trends.»

Rafael Florez - CEO GS1 Columbia

«The discounters reports were and still are very helpful as we got lots of detailed information and figures we haven't found anywhere else. This has helped us to progress with our plans of expansion in the US and convince people internally of the market potential.»

Marketing Manager - Bonifaz-Kohler

«On DLF's (Danish Association of Fast Moving Consumer Goods Manufacturers) New Years Conference we had the great pleasure to hear ResearchFarm speak about future trends in on-line grocery retailing. The feed back from the conference participants was very positive as they gave ResearchFarm's presentation the highest score of all speakers, finding the analysis about the key success factors of chosen EU and US online retailers both very interesting and inspiring. We can therefore give ResearchFarm our best recommendation.»

Dagligvareleverandørerne

Danish Association of Fast Moving Consumer Goods Manufacturers

+ press quotes

Bloomberg
LINEAIRES
Le magazine de la distribution alimentaire


THE TIMES
The **RetailBulletin:**
The Complete Retail News Resource

FINANCIAL
TIMES
Retail Times
be inspired

 **just-food**
LSA

Get This Report On Your Desk Today



£990 excl. VAT

- 116 pages of insights
- Delivered as a PDF file within 24H
- Payment via credit card or invoice
- Order on our website, by email or by phone

THREE EASY WAYS TO ORDER

1. ONLINE

store.researchfarm.co.uk

2. EMAIL

sales@researchfarm.co.uk

3. PHONE

+44 (0)207 193 3099

You can pay via a bank transfer or with a credit card.



OUR RECENT REPORTS

- Amazon 2014 - GBP1,999
- Omnichannel 2014 - GBP1,999

(visit our website to download the brochures for these two reports)