



NEW REPORT

Zalando and Rocket Internet 2013

There is no other company in the EU, that has grown from zero to €1.0bn in sales and a \$3.0b valuation in just four years – on the path towards profitability and exit?

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September 2013

Is Zalando the better Asos?

Zalando is the fastest growing business in the retail sector currently and striking fear in the hearts of its competitors.

Arguably if one started a retail company from scratch today, one would design a business such as Zalando, a pureplay whose balance sheet is not loaded with a costly store estate and where much of the decision making is as data driven as possible.

No German start up has grown as rapidly since the day of the dot com hype as Zalando, none has received so much investment and seed capital, more than €600.0m to 2012. Zalando could become the first Samwer backed start up that will float on the stock exchange. No brand image has been pushed as aggressively in such a short time frame as Zalando's, helping the pureplay to brand recognition values unheard of for a 4 year old company. 95% of all German consumers feel familiar with Zalando, this is on a par with Daimler Benz, which has a history of 125 years behind it, a tried and tested business model and product and global recognition.

That said, so far and probably not surprisingly, since the company was only founded in 2008, the business model is not proven. The company is still loss-making, something Zalando shares in common with many other online retailers in their start up phase. And to be fair most companies in the online sector have taken between 5-8 years before they reported their first meaningful profits.

The company and business model is an unashamed copy of the US retailer Zappos, the US pureplayer who made online footwear retailing work and has been part of Amazon for a couple of years now. That said, Zalando seems to have copied none of the quirkiness and the great values of the original around the working culture or customer focus.

The Samwer brothers, the most notorious and also most successful start up entrepreneurs in the EU are behind the venture through their Rocket Internet incubator. For the company builder Rocket launching new businesses is all about copy and paste and all about execution. Arguably there is no innovation as such – only models that are tried and tested elsewhere receive funding and seed capital and are then rolled out aggressively. As there is no patent on business models, this approach works – even in, arguably, risk averse Europe.



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- What are Zalando's KPIs? Where are the other Zalando clones (Dafiti, Jabong, Lamoda, Zalora etc) in terms of sales and profits? What are the costs of returns for Zalando?
- What are the major opportunities for Zalando? Private labels? Logistics? What is the advertising and marketing strategy? Is all the value in Zalando in IT?
- Who are the major competitors in the UK, France, China, India? Have Zalando had to seriously compete with an online pureplay yet, or are they just evading strong players? What are the major threats? Will there be a copycat copying the copycat?
- What can the company do about the returns rate? What is driving this high rate? It is not open invoice, though this certainly contributes.
- When will Zalando float on the stock exchange?

Rocket Internet

- How fast are the Samwers in rolling out new businesses? Can they launch a completely new venture in a new market in under a month?
- Why is it so important for the Samwers to be the market leader in any given territory? Are 50-80% market shares realistic and obtainable?
- Will emerging markets turn out to be a gold mine or the demise of Rocket Internet? Who is right about the online potential of emerging markets, Bezos or the Samwers?
- Are the Samwers benefiting from a German reputation as being detail obsessed and excellent at business model execution or is this just hype? Is a copy and paste business empire an innovation in itself?
- Will the whole Rocket Internet empire prove to have created long lasting sustainable businesses and value in future or is it only a vehicle to make a few early investors and the Samwers very rich?
- What are the 7 major threats for Rocket Internet? Why has the company such a complex relationship with Silicon Valley? And why is there no Silicon valley in the EU?



FEATURES

- Data on Zalando and Rocket Internet businesses from public and confidential investor sources, as published in the German media, from COGS to profits
- In depth analysis of strategy and modus operandi of the Samwers, giving insights into what is going to happen next with Zalando and the other clothing e-retailers launched by Rocket across the globe
- Deep dive analysis of the specific German context the business operates in, in regards to the market, the logistics set up, return rates, payment options and suggested solutions how to tackle these problems
- In-depth analysis of Zalando's bold chase of growth, exclusive insight into Zalando's unique business model and latest evolutions from buying clubs to private label and luxury

BENEFITS

- Understand what a massive threat the Samwers have become to established clothing players both on and offline
- Learn about the strengths and weaknesses in the respective business models employed by Rocket Internet, find out what might work in Germany and France but not necessarily in India and why
- Discover why speed in roll out and execution has become such a decisive asset in online retailing, why data driven decision making feeds the online boom further and why marketing is so crucial to the success of online clothing retailing
- Appreciate the benefits of a business strategy that relies on copy and paste rather than genuine innovation and how to minimise risk in an expansion strategy
- For fashion producers: clothing manufacturers are given the necessary tools to assess the real size of Zalando's operations and decide whether it makes sense to partner up and to launch new product developments such as private labels with the pureplay
- For clothing retailers: the report provides competitive analysis into strengths, weaknesses, opportunities and threats of Zalando and Zalando equivalents in emerging markets by providing hard, difficult to obtain data and in depth insight
- Benchmark your performance against the fastest growing clothing retailer

TABLE OF CONTENTS (1/4)

Executive summary	p12
Introduction and timeline	p20
Zalando: the humble beginnings in 2008, internationalisation, subsidiaries	p21
Zalando: the shareholder structure 2013	p22
Zalando: humble beginnings in 2008, 2009 progress, extending ranges, geographies in 2010	p23
Zalando: 2011 laying the grounds for logistics, annual sales of €500m	p24
Zalando: Kinnevik releases first official Zalando sales data in February 2012	p25
Zalando: more markets and fulfillment centres in 2012, the outlet store in Berlin	p26
Zalando: 2013 m-commerce push, luxury and private label, Emeza and Kiomi	p27
Key recent developments	p28
August: Bestseller buys 10% Zalando stake of Rocket Internet	p29
August: Zalando valuation at more than €3.0bn	p30
June, July: Rocket Internet and Lazada raise significant new funds	p31
February, May: Zalando breaches the €1.0bn in sales mark, potential logistics sites	p32
October 2012: Kinnevik becomes second biggest shareholder	p33
September: Fund raising for Erfurt and Moenchengladbach, the centre for foreign markets	p34
August 2012: JP Morgan comes onboard	p35
Financials, KPIs, Benchmarks	p36
Zalando: Net Sales, Net Income, Growth, Margin 2008-2012, strong Q1 2013	p37
Zalando: margin development, among Germany's top 20 clothing retailers, losses	p38
Zalando: returns on average and in Germany, France, equity ratio, start up losses	p39
Zalando: other KPIs, estimated average basket value and basket size	p40
Zalando: logistics – financing and strategy	p41
Zalando: logistics – the geographical set up, subsidies	p42
Zalando – the returns quotas	p43
Returns: free deliveries and returns, the “online retailer as pawnshop”	p45
Returns: the EU consumer rights directive, little change expected, the costs per parcel	p46
Returns: German return rates, the legacy of mail order and strong consumer protection laws	p47
Returns: what Zalando will do about returns, the situation abroad	p48
Returns: the future plans to get the situation under control, same day prime copy offer?	p50
Zalando – private label development and marketing	p51
Zalando: Private label development, Pier one, zlabels	p52
Zalando: zign, mint & berry, stupps, mai piu senza, twintip, youturn, even & odd	p53
Zalando: Taupage, Anna Field, Magnificent and Fullstop	p54
Zalando: marketing for equity swap, brand familiarity, affiliate programme on steroids	p55
Zalando: the marketing strategy	p56
Zalando: data driven decision making and execution	p57

TABLE OF CONTENTS (2/4)

Dafiti – Zalando clone in Brazil	p58
Dafiti: Brazilian dreams, strong growth from a standing start and ... massive losses	p59
Dafiti: positive margin in 2014? Obstacles, import taxes, no service infrastructure	p60
Dafiti: big Rocket bet on Brazil, Payleven, Dafiti a €2.0bn company by 2016?	p61
Jabong – Zalando clone in India	p62
Jabong: applying the principle to India, aggressive growth and marketing spend	p63
Jabong: missing internal targets, logistics problems	p64
Lamoda, Zalora – Zalando clones in Russia and South East Asia	p65
Lamoda: from €45m to €1.5bn in 4 years? The investors	p66
Lamoda: Presence in only 10 cities, mostly local competition so far	p67
Zalora: the Samwers in South East Asia, from €9.0m to €120m in a year?	p68
Zalora: the Samwers confidential data and plans for Zalora as published by Spiegel	p69
Zalora: Rocket data as published by Spiegel, gross revenues, CGS, Expenses, EBIT, EBITDA	p70
Zalora: Gross revenues, CGS, Expenses, EBIT, EBITDA, 2012	p71
Zalora: Gross revenues, CGS, Expenses, EBIT, EBITDA, plans for 2013 to 2017	p72
Threats to Zalando's business model from overreach to the competitor set	p73
Threats: taking on IKEA and Zara? Difference between private label and vertical integration	p74
Threats: the fear of the copycat of being copied	p75
Threats: no serious competition yet in many markets, result of strategic decision	p76
Threats: hiring the right people? the competitor set from Asos to Vancl.com	p77
Asos: the most serious rival – and a profitable player	p78
Asos: Primark trial widened out, strong Asos performance in 2013	p79
Asos: the Kate Bostock departure, signaling a cultural rift?	p80
Moonbasa: a Chinese player looking to internationalise	p81
Myntra: leading in India, fighting off the Samwers' Jabong	p82
Myntra: private label and curated shopping	p83
Vancl: the Chinese pureplay, on a shopping spree after the abandoned \$1.0bn IPO	p84
Zalando Outlook	p85
Zalando Outlook: path to profitability and exit, the private label opportunity	p86
Zalando Outlook: a marketplace option? Floating on the stock exchange	p87
Zalando Outlook: sorting out returns for a financial return	p88
Zalando clones outlook: big promises and aggressive growth plans for sales and margins	p89
Zalando clones: data published by Spiegel, run rate gross revenue projections, monthly	p90
Zalando clones: Rocket data published by Spiegel, gross revenue projections, annual	p91
Rocket Internet	p92

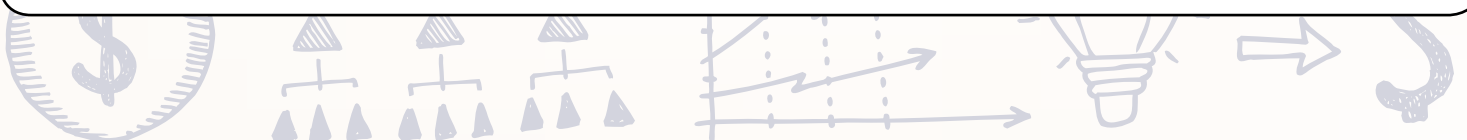


TABLE OF CONTENTS (3/4)

Rocket Internet: innovation or risk adverse copy and paste?	p93
Rocket Internet: the business model, VC or company builder?	p94
Rocket Internet: the investors and Rocket's KPIs	p95
Financials, KPIs, Benchmarks Rocket internet companies	p96
Rocket Internet: 2012, sales by company, from Dafiti to Jumia	p97
Rocket Internet: rapid execution, from copy and paste to internationalisation	p98
Strategy	p99
Strategy: decision matrix, ROI expectations, company targets, internal benchmarks	p100
Strategy: the credibility deficit, 4 weeks from decision to roll out	p101
Strategy: the importance of being number one, fast growth, 50% - 80% market share	p102
Strategy: cost control, CTO, online market share grab	p103
Strategy: the instincts of Bezos versus the Samwers about emerging markets	p104
Lazada & Payleven	p105
Lazada: Amazon clone for South East Asia	p106
Payleven: the square clone	p107
Jumia & Zando: building up ecommerce in Africa	p108
Threats to the business model	p109
Threats: 7 major threats	p110
Threats: brain drain, the funding conundrum, burning through €50m each month	p111
Threats: logistics, market entry strategy	p112
Threats: losing in China, erratic management decisions, serious competition	p113



TABLE OF CONTENTS (4/4)

The credibility deficit **p114**

Strategy: what Rocket Internet has paid out so far	p115
Rocket Internet: the complex relationship with Silicon Valley	p116
Rocket Internet: Long term value creation, German professionalism? Roll out in 2 weeks	p117

Outlook **p118**

Rocket Internet Outlook: €800m from emerging markets this year?	p119
---	------

Sources **p120**

Table 1: Zalando: the shareholder structure 2013	p22
---	-----

Table 2: Zalando: Net Sales, Net Income, Growth, Margin 2008-2012	p39
--	-----

Table 3: Zalora: Rocket data as published by Spiegel, gross revenues, CGS, Expenses, EBIT, EBITDA	p70
--	-----

Table 4: Zalora: Gross revenues, CGS, Expenses, EBIT, EBITDA, 2012	p71
---	-----

Table 5: Zalora: Gross revenues, CGS, Expenses, EBIT, EBITDA, plans for 2013 to 2017	p72
---	-----

Table 6: Zalando clones: data published by Spiegel, run rate gross revenue projections, monthly	p90
--	-----

Table 7: Zalando clones: Rocket data published by Spiegel, gross revenue projections, annual	p91
---	-----

Chart 1: Zalando: the shareholder structure 2013	p22
---	-----

Chart 2: Returns: the costs per parcel in €	p46
--	-----

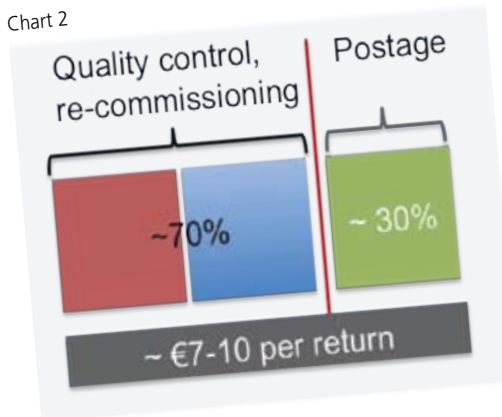
Chart 3: Rocket Internet: 2012, sales by company, from Dafiti to Jumia in SEK m	p97
--	-----

Chart 4: Rocket Internet: 2012, sales by company, from Dafiti to Jumia in €m	p97
---	-----

SAMPLE PAGES

Returns: the EU consumer rights directive, little change expected, the costs per parcel

Chart 2



Return quotas in footwear and clothing are much higher than in other online sectors, as fit and feel are significant factors in clothing and footwear. The issue becomes problematic for a fashion player, when shoppers order a T-shirt in different sizes, styles and colours and only keep the ones that fit and return the rest. In most cases the retailer needs to reimburse customers in full, even though the most common problem with returns is that clothes and even shoes have been tried out and worn. However according to the law, shoppers have the right to do exactly this i.e. try out clothing.

According to the law there is a threshold of €40, over which retailers have to offer free returns (not below). That said, many retailers are not following this rule.

per item. Around 70% of the costs are coming from quality control and re-commissioning into the warehouses, only 30% are due to postage. **Returns to the German Zalando warehouses from abroad will incur higher costs.**

The EU consumer rights directive will probably not change much in this respect, when it comes into force at the end of 2013, when consumers will have to pay the return shipping themselves. As a certain standard around free shipping and returns has been established, any retailer starting to charge for postage would lose many of its customers to the competition.

Zalando: the marketing strategy

The company is outstanding in marketing (see for example the video above), building brand awareness and generating sales leads from these activities. Once customers have been acquired - most often through TV advertising, as this still generates the best response rates and widest reach, the next step involves extending the customer life time value.

Zalando does this by making excellent use of customer data and also by tracking the success and KPIs of every single advertising and email campaign, algorithm driven recommendation, SEOs and click through rates, any customer interaction (from payment to returns and so on) to make sure that any lead gets exploited as much as possible.

As the Samwars have the necessary financial muscle, they can milk the yield curve generated by their huge upfront marketing expenditure: the higher the initial investment, the higher the buzz created, the longer the tail on which their investment pays off. Once an awareness campaign reaches its peak, it will then naturally level off at a certain threshold, the goal is to reach the highest peak possible to raise the payback levels over time accordingly.



Watch the video:

<http://www.youtube.com/watch?v=XHpWoAmVQm8>

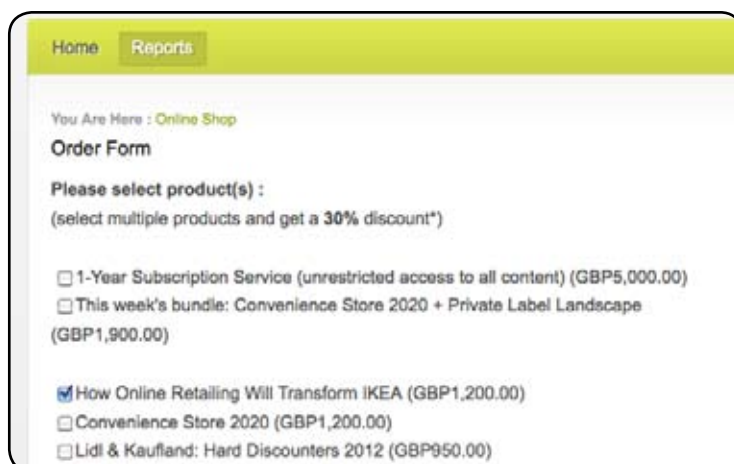
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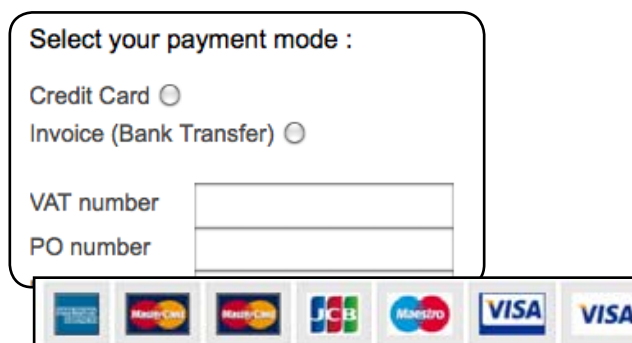
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