

# STRATEGY FOR RAKUTEN TO ENTER VIETNAMESE E-COMMERCE MARKET

35112313-9 DAO THUY DUONG  
GENERAL MANAGEMENT AND BUSINESS STRATEGY

C.E. PROF. KOJI AIBA

D.E. PROF. SEIICHI FUJITA D.E. PROF. MASAOKI HIRANO

## Summary

The global e-commerce market has become so attractive that even Google-the biggest search engine company official admitted in that it wants to be Amazon- the world's biggest e-commerce firm. Born in the world's "dot-com bubble", Rakuten was one of pioneers in Japanese e-commerce market. From a small start-up, the company became a giant firm, with more than 3500 employees( non-consolidated)and a market capitalization of 108,255 million Yen ( end of 2012). Since 2005, it started to get involved in oversea expansion activities, focused on its e-commerce businesses to bring its "Shopping is entertainment" spirit to many countries all over the world, which requires a lot of market researches to understand local markets . This thesis will help Rakuten do it by examining the feasibility of Vietnam as a new market to enter through analyzing Vietnamese e-commerce market as well as opportunities and threats it may encounter. The research will reach a conclusion that Vietnam is a potential market for Rakuten, and suggest a suitable entry mode , business model and marketing strategy to position its brand in Vietnam.

This thesis consists of 5 chapters. Chapter 1 analyzes Rakuten's businesses and its oversea expansion strategy to understand the business and find out its strengths. Though Rakuten successfully stepped into many online businesses in Japan, its strength still remains in e-commerce business which accounted for 41% of net sales and even outperformed Amazon and Yahoo! in 2011, thanks to a unique B2B2C model. This is also the main business Rakuten brought to oversea markets with the target to reach 27 countries. However, it has not successfully made its name in global market yet despite of keeping pouring a lot of investment to restructure

companies it bought overseas.

Next, chapter 2 provides an overview of the Vietnamese market by PEST analysis. The analysis shows that Vietnam can be a very potential market for Rakuten with political stability, fast growing economy, big population and government supports, especially in IT-related fields. However, on the other hand, doing business in Vietnam still has difficulties such as: long procedure of getting permits, poor transport infrastructure, road systems, which may require a long-term strategy, lot of time and initial investment at first.

To understand the Vietnamese market in details, chapter 3 focuses on the Vietnamese e-commerce market in terms of growth, market players, characteristics and trends. Besides opportunities such as fast growth rate of Internet users, the market with no leader, the Vietnamese e-commerce market is a challenge for Rakuten because of: low non-cash rate in online shopping payment, difficulty in logistics and delivery. The key word for Rakuten to win in this market is creating TRUST in payment and delivery service.

In order to reduce risks and learn from Rakuten's lessons in the past, chapter 4 reviews the case of Rakuten in China and Thailand. From 2 cases, we can learn the importance of entry mode, level of localization, appropriate marketing strategy. In addition, providing a good delivery and payment service are important factors to gain local customers' trust.

Finally, chapter 5 are the author's recommendations for Rakuten to enter the Vietnamese e-commerce market. To become the market leader, Rakuten needs a long-term strategy with 3 stages: branding, growth and maturity. M&A is the best entry mode for Rakuten to implement this strategy and reduce risks, and the most potential target to do M&A in Vietnam is Vatgia.com- one of the biggest online shopping sites in Vietnam. In order to improve Vatgia's current payment and delivery system and brand "Rakuten", Rakuten will invest heavily into online system, technology, facilities and advertising at stage 1, target big and medium-sized sellers, especially the ones who sell Japanese goods, to differentiate products, guarantee and control goods and services' quality. From stage 2, Rakuten can reduce the amount of investment and increase the number of smaller sellers with good service quality. After these 2 stages, Rakuten can expect a high net profit and strong brand awareness in stage 3.

Nevertheless, the thesis has several limits. Because M&A is involved in the entry plan, the success of the business plan depends on the other party as well. In case that Rakuten can not succeed in M&A in the first

time, it should wait for other opportunities to come rather than risking its money. Also, because e-commerce is a fast-changing industry, the business conditions at the time Rakuten decides to enter may be different from the current situations. To increase the chance of winning, Rakuten should spend time and money on more in-depth market researches to get more precise information, and make the right decision at the right time to enter the market.

AY 2013

STRATEGY FOR RAKUTEN TO ENTER VIETNAMESE  
E-COMMERCE MARKET

DAO THUY DUONG

Master of Business Administration

35112313-9

GRADUATE SCHOOL OF COMMERCE

WASEDA UNIVERSITY

C.E.

PROF. AIBA KOJI

D.E.

PROF. HIRANO MASAOKI

PROF. FUJITA SEIICHI

<b>INTRODUCTION</b> .....	<b>1</b>
SECTION 1. BACKGROUND .....	1
SECTION 2. OBJECTIVE .....	2
SECTION 3. FOCUS AND RESEARCH METHODOLOGY .....	2
SECTION 4. FLOW OF THESIS .....	2
<b>CHAPTER 1: OVERVIEW OF RAKUTEN 'S BUSINESS</b> .....	<b>4</b>
SECTION 1. HISTORY AND MILESTONE.....	4
SECTION 2. RAKUTEN 'S BUSINESSES .....	6
1.2.1 <i>E-commerce business</i> .....	6
1.2.2 <i>Other businesses</i> .....	8
SECTION 3. RAKUTEN 'S OVERSEA EXPANSION .....	9
SECTION 4. CHAPTER SUMMARY .....	11
<b>CHAPTER 2: BUSINESS OPPORTUNITIES IN VIETNAM</b> .....	<b>13</b>
INTRODUCTION:.....	13
SECTION 1. POLITICAL ANALYSIS .....	13
SECTION 2. ECONOMY.....	16
SECTION 3. SOCIETY.....	19
SECTION 4. TECHNOLOGY.....	21
SECTION 5. CHAPTER SUMMARY .....	23
<b>CHAPTER 3: ANALYSIS OF VIETNAMESE E-COMMERCE MARKET</b> .....	<b>24</b>
INTRODUCTION .....	24
SECTION 1. OVERVIEW OF E-COMMERCE MARKET IN VIETNAM.....	24
3.1.1 <i>Market size</i> .....	24
3.1.1 <i>Vietnamese online shoppers' characteristics</i> .....	27
SECTION 2. TRENDS AND CHARACTERISTICS OF E-COMMERCE MARKET IN VIETNAM ..	28
3.2.1 <i>Market players</i> .....	28
3.2.2 <i>Payment</i> .....	32
3.2.3 <i>Delivery</i> .....	33
3.2.4 <i>Facebook shops</i> .....	34
3.2.5 <i>Internet providers started their own shopping sites.</i> .....	35
SECTION 3. CHAPTER SUMMARY .....	37
<b>CHAPTER 4 CASE STUDIES ON RAKUTEN'S OVERSEA EXPANSION</b> .....	<b>39</b>
INTRODUCTION .....	39
SECTION 1. RAKUTEN IN CHINA .....	39
4.1.1 <i>Entry mode</i> .....	39
4.1.2 <i>Business model and business growth.</i> .....	40
4.1.3 <i>Reasons for failure</i> .....	41
SECTION 2. RAKUTEN IN THAILAND .....	42
4.2.1 <i>Entry mode</i> .....	42
4.2.2 <i>Business model and business growth.</i> .....	43
4.2.3 <i>Key success factors</i> .....	44
SECTION 3. CHAPTER SUMMARY .....	45
<b>CHAPTER 5 RECOMMENDATIONS ON ENTRY MODE AND MARKETING STRATEGY</b> .....	<b>46</b>
INTRODUCTION .....	46
SECTION 1. SWOT ANALYSIS OF RAKUTEN IN VIETNAMESE MARKET .....	46
SECTION 2. SEGMENTING BY BUSINESS MODEL.....	47

SECTION 3. POSITIONING.....	49
SECTION 4. ENTRY MODE .....	51
5.4.1 Entry options .....	51
5.4.2 Vatgia.com.....	53
5.4.3 Aha.vn.....	55
SECTION 5. STAGES FOR BRANDING AND MARKETING STRATEGY .....	58
5.5.1 Stage 1.....	58
5.5.2 Stage 2.....	60
5.5.3 Stage 3.....	60
SECTION 6. FINANCIAL FORECAST.....	60
5.6.1 Acquisition cost.....	61
5.6.2 Sales and revenue forecast. ....	61
5.6.3 Cost estimation.....	64
5.6.3 Profit & Loss .....	68
SECTION 7. CHAPTER SUMMARY.....	69
SECTION 8. LIMITS OF THE RESEARCH .....	70
SECTION 9. CONCLUSION.....	71
<b>REFERENCES.....</b>	<b>73</b>
<b>BOOKS .....</b>	<b>73</b>
<b>COMPANY AND ORGANIZATION'S REPORTS.....</b>	<b>73</b>
<b>INTERNET ARTICLES .....</b>	<b>74</b>
<b>APPENDIX.....</b>	<b>76</b>
Appendix 1: Number of sellers on Vatgia.com after acquisition. ....	76
Appendix 2: Revenue of Rakuten- Vatgia in Vietnam .....	77

#### TABLE OF FIGURES, PICTURES, EXHIBITS

Figure 1: Rakuten Ichiba 's financial performance. ....	6
Figure 2: Rakuten Ichiba 's number of merchants.....	7
Figure 3: Quarterly Marketplace GMS Overseas companies.....	10
Figure 4:Vietnam's political stability .....	14
Figure 5: Key indicators of Vietnamese economy in 2012 .....	16
Figure 6: Growth rate of Vietnamese economy's nominal GDP from 2000 to 2012.....	17
Figure 7: Ratio of 3 sectors in Vietnamese economy's GDP (2012).....	17
Figure 8: comparison table of income per capita among 4 ASEAN countries from 1990 to 2010.....	18
Figure 9: ranking of Vietnam in terms of "ease of doing business (DB) .....	19
Figure 10: Vietnam's population pyramid (2012.....	20
Figure 11: Competitiveness of Vietnam 's infrastructure .....	22
Figure 12:Percentage of households with computers in Vietnam .....	23
Figure 13: Forecast on Growth of Annual disposable income and consumer expenditure in Vietnam ( million USD) .....	26
Figure 14: Internet user growth in several Asian countries from 2000-2009.....	26
Figure 15: Usage frequency of doing online business of Vietnamese internet users .....	27
Figure 16: Type of products bought online by Vietnamese customers. ....	28
Figure 17: Classification of online shopping sites in Vietnam.....	29
Figure 18: Market share of "Groupon" players in Vietnam Market.....	31
Figure 19: Payment Modes of Vietnamese online shoppers .....	32

Figure 20: Number of postal outlets in Vietnam from 2008 to 2010 .....	34
Figure 21: market share of ISP in Vietnam .....	36
Figure 22: Most popular shopping website types .....	48
Figure 23: Rakuten-Vatgia's number of sellers. ....	62
Figure 24: Rakuten-Vatgia's revenue from sales( prediction) .....	63
Figure 25: Rakuten-Vatgia's revenue from sales( prediction) .....	64
Figure 26: Rakuten-Vatgia's total revenue( prediction) .....	64
Figure 27: Estimated cost of sales.....	65
Figure 28: Estimated salary .....	66
Figure 29: Estimated advertising and marketing cost .....	67
Figure 30: Estimated online processing fee .....	68
Figure 31: Prediction of Rakuten-Vatgia's Profit and Loss .....	68
Figure 32: Rakuten-Vatgia's net profit in first 5 years .....	69
Picture 1:Rakuten's oversea presence .....	9
Picture 2: Logo of Lekutian .....	40
Picture 3: Tarard.com website's homepage in June 2013 .....	42
Picture 4: Hiroshi Mikitani and CEOs of Tarad.....	44
Picture 5: Vatgia.com's home page .....	53
Picture 6: Aha.vn's homepage .....	55
Picture 7: Denthan.com' s Homepage .....	56
Picture 8: A seller( named Pico)'s page on Denthan.vn .....	57

# INTRODUCTION

## Section 1. BACKGROUND

Since the "dot com" bubble in 1997, Internet has been bringing to entrepreneurs not only many opportunities to start businesses more easily and less costly, but also great chances to create new values and services for customers. Internet shopping, e-commerce (electronic-commerce) are some of new services which totally change the traditional way of shopping, make it more convenient and fun for customers. While in the United States, Amazon or E-bay are familiar names for internet shoppers, in Japan, Rakuten was a pioneer who introduced this brand-new services to customers.

Having said that, Rakuten is not just a well-known local brand, it has been putting a lot of efforts into global expansion to achieve the goal of becoming "the world's number one Internet service company". Along with M&A activities in developed markets like United States or European countries, Rakuten is paying attention to emerging markets in Asia such as China, Thailand, Indonesia which have big population and potential for growth of Internet-related services.

Located in South East Asia, Vietnam is "one of the fastest growing economies" in the world according to World Bank. While many countries suffered from crisis during transition period of economy or East Asian crisis in 1997, Vietnam has still maintained a healthy growth rate of GDP as well as remarkable increase of income per capita, thanks to "Doi Moi" since 1986-the reform plan of Vietnamese government. Therefore, in recent years, Vietnam has been an attractive destination for foreign firms and foreign investors.

Furthermore, with a young population and a big number of Internet users who are tech-savvy, Vietnam is a promising land for Internet-related service companies. Besides online newspaper, social networking, Internet shopping has become a popular trend to Vietnamese "netizens". However, currently, Amazon, the world's biggest online shopping site has not come to Vietnam yet. This leaves a space for a big player to come in and take the leading role in e-commerce market.

To summarize, with the fast growing economy and potential market for Internet-related services, Vietnam could be a good target for Rakuten on the way to achieve their goal. These are also



main reasons why Vietnam has been chosen as the research target of this thesis.

## Section 2. OBJECTIVE

This thesis's objective is examining the feasibility of Vietnam as a new market for Rakuten to enter through analyzing Vietnamese e-commerce market as well as Rakuten's global expansion strategies and opportunities and threats it may encounter. The thesis will reach a conclusion that Vietnam is a potential market for Rakuten, and suggest a suitable entry mode, business model and marketing strategies for it to position its brand in Vietnamese e-commerce market.

## Section 3. FOCUS AND RESEARCH METHODOLOGY

This thesis will mainly utilize information obtained through desk research such as company's open-to-public information, homepage, annual financial reports, and reports, data from organization such as World Bank or General Statistics Office of Vietnam through the Internet. The author also conducted several interviews with Vietnamese and Japanese employees (sales, HR personnel, marketer and engineer) of Rakuten and participated in Rakuten's internship and seminars in Tokyo to better understand the company's strategy and business models.

## Section 4. FLOW OF THESIS

The thesis consists of 5 chapters.

\*Introduction

### **1. Chapter 1: Rakuten's business**

In chapter 1, the thesis will give an overview of Rakuten's business and focus on Rakuten's strength in e-commerce.

### **2. Chapter 2: PEST Analysis of Vietnam**

Based on PEST analysis, the chapter will provide general information on political information, economy, society and technology which Rakuten should be aware of before entering Vietnam.

### **3. Chapter 3: E-commerce market in Vietnam**

This chapter will take a closer look at current situation, trend and growth of Vietnamese e-commerce to identify whether Rakuten has business opportunities in Vietnam or not, and what difficulties it may encounter.

#### **4. Chapter 4: Case studies on Rakuten's oversea expansion**

First, the chapter will review the failure of Rakuten in China and its case in Thailand to find out similar possible problems it may encounter in Vietnam and see whether its business model in Thailand could be applied into Vietnamese market or not.

#### **5.Chaper 5: Recommendations on entry mode and marketing strategy**

Based on chapter 4's options, this chapter will recommend the most appropriate business model for Rakuten to enter Vietnam and suggest marketing strategies and some other recommendations to brand Rakuten and gain profits.

\* Conclusion

## CHAPTER 1: OVERVIEW OF RAKUTEN 'S BUSINESS

Rakuten is called " Japanese Amazon" because it is the leading online shopping site in Japanese domestic market. Since the day it was established, Rakuten has been expanding into various businesses such as Travel , Banking and Finance. Furthermore, Rakuten's aiming to create "Rakuten ecosystem" which takes advantage of synergy of its businesses and, become a globally well-known company. This chapter will give a brief overview on Rakuten's businesses and its oversea expansion to find out Rakuten's strongest business.

### Section 1. HISTORY AND MILESTONE<sup>1</sup>

Rakuten was established in 1997 , with the starting point as a online shopping site. 1997 is also the starting year of the so-called "dot-com bubble" or "Internet bubble" all over the world, which led to rapid growth of Internet -related fields. However, in Japan, according to Hiroshi Mikitani<sup>2</sup>, was still "an era where everyone seemed to be telling us that people will never buy things on the Internet".

At first, there were only 6 members and 13 merchants, and the first service of Rakuten which was launched in 1997 was "Rakuten Ichiba<sup>3</sup>", the Internet shopping mall. Rakuten's important milestones are shown in the table below

---

<sup>1</sup> <http://global.rakuten.com/corp/about/history.html>

<sup>2</sup> Hiroshi Mikitani( born 1963) is a co-founder of Rakuten, currently is Rakuten's chairman, Head of Rakuten's E-commerce and Banking Business Units and Head of Development Business

<sup>3</sup> Ichiba means Market in Japanese

**Table 1: Rakuten's milestones**

*(source: Rakuten's homepage)*

Year	Milestones
2000	1.Establishment of Rakuten University for internal education and training within the company 2.Rakuten goes public through an IPO 3. Acquirement of Infoseek Japan K.K -a search engine
2001	"Rakuten books" and "Rakuten travel" was launched
2005	Synergy of credit cards and e-commerce services.
2008	Expansion of business oversea: "Taiwan Rakuten Ichiba"
2009	Enforcing "Rakuten ecosystem"(synergy of Rakuten's business in various fields: shopping, banking, finance, travel and so on)
2012	Entering e-book business( "Kobo" -e-book reader tablet) and official start of "Englishnization" (English communication inside the company)

## Section 2. RAKUTEN 'S BUSINESSES <sup>4</sup>

### 1.2.1 E-commerce business

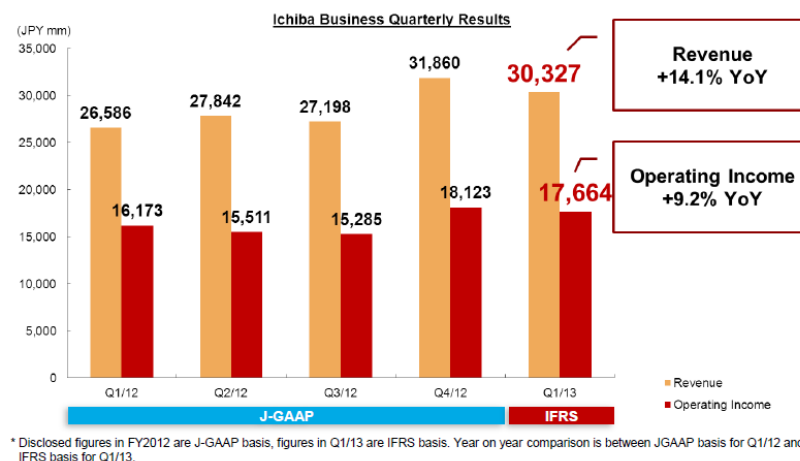
This is the first business of Rakuten and so far the strongest business. According to the company's annual report in 2011, "Rakuten Ichiba" ranked first in terms of Business-to-Customer Gross merchandise sales, followed by Amazon and Yahoo! Shopping. Moreover, besides B2B or B2C, Rakuten Ichiba also offers C2C model such as Rakuten Auction. Net sales of e-commerce business accounted for 41.6 % of total net sales.

In addition, according to Rakuten's report of fiscal year 2013- first quarter results, compared to performance of Rakuten Ichiba in quarter 1 last year, this year's revenue has increased by 14.1% and operating revenue rose by 9.2%. In addition, the number of merchants on Rakuten Ichiba grew by 2001 in the same period and reached 41145 merchants this year's first quarter. Because Japan is already a developed market for e-commerce, these figures show a very healthy and stable growth of Rakuten Ichiba.

**Figure 1: Rakuten Ichiba 's financial performance.**

*(source :Rakuten's financial report, First Quarter of Fiscal year 2013))*

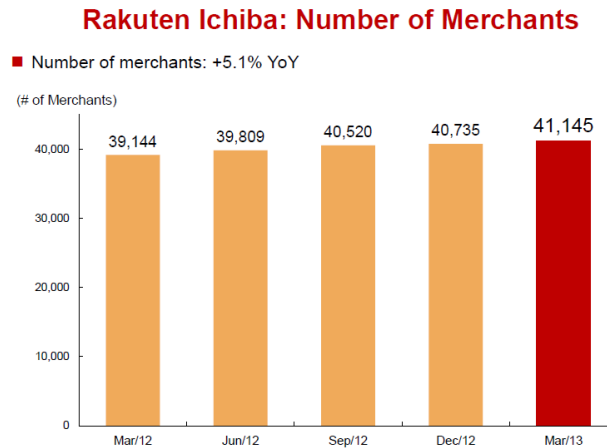
### Rakuten Ichiba Results



<sup>4</sup> Rakuten, Inc. Annual Report. Fiscal Year Ended December 31, 2010

**Figure 2: Rakuten Ichiba 's number of merchants**

(source :Rakuten's financial report, First Quarter of Fiscal year 2013))



Regarding business model, according to RNG research<sup>5</sup>, Rakuten's operating expenses/revenue is 64% on average during 4 years 2007-2011 while this number of Amazon is 19%. The reason is that Rakuten uses a different business model. Vendors and store owners can create their own shops in Rakuten Ichiba, but Rakuten does not ship or carry any merchandise, while Amazon has invested heavily in their delivery system to make it fast, and any shipment from Amazon comes with an Amazon-labeled box.

More precisely, Rakuten's business model is "B2B2C", meaning that it will deal with sellers who will contact directly with customers. Rakuten pays even more attention to "hitoke"( human factors) than "monoke ( product factors) in Rakuten Ichiba's pages. For its business customers, each shop owner will be given a web-site where a Rakuten E-commerce consultant will help them to post information about sellers, decorate and design it with attractive layouts, create Facebook pages, and put links to these pages on the seller's site. E-commerce consulting service created add value for business customers and generates profit for Rakuten. Moreover, Rakuten's business customers can

---

<sup>5</sup> RNG Research : <http://connected.retailnetgroup.com/index.php/2012/10/26/amazon-gives-rakuten-trouble-in-japan/> ( retrieved 2013/05/02)

have bigger business opportunities on Rakuten Ichiba because Rakuten has more than " 78% of all Japanese web users registered for its market place" and " control 30% of the e-commerce market in Japan"<sup>6</sup>

Also, for its individual customers, Rakuten provides customers with an ecosystem to make shopping easier and more fun with a large number of registered stores, quick payment system, Point card systems, and special promotion campaigns.

Besides its B2B2C model, Rakuten also runs its own books and media selling site( CDs, DVDs), meaning that it selects, procures, receives orders, and ships them to customers. The reason why Rakuten chose books and media for its own business is that :it saw the big demand for this category and books ; those products are non-perishable, and it takes less time for Rakuten's workers to categorize and pack these products in its warehouse.

With success in e-commerce business, Rakuten achieved 7th position in Forbes's the World 's most innovative companies"<sup>7</sup> in 2012 , while Google ranked 24th and Apple ranked 26th.

### 1.2.2. Other businesses

To enforce Rakuten ecosystem where customers need only one account to pay for all business, Rakuten has developed various businesses. In terms of the numbers of issued cards in 2010, Rakuten also ranked first , followed by Suica and Pismo. Other successful businesses of Rakuten are Online travel and Online Golf Reservation (both ranked first in Japan, in terms of gross booking transaction volume ). In addition, Rakuten entered professional sport business with its own baseball team "Rakuten Eagles", which has created a great advertising effect for Rakuten brand. Other less well-known businesses are match-making services and portal, media services ( using its Rakuten toolbar to get advertising revenue).

---

<sup>6</sup>Business Insider

<http://www.businessinsider.com/how-japans-biggest-e-commerce-company-plans-to-take-over-the-world-2012-3> ( retrieved 2012/06/05)

<sup>7</sup> <http://www.forbes.com/innovative-companies/list/>( retrieved on 2013/05/02)

### Section 3. RAKUTEN 'S OVERSEA EXPANSION

**Picture 1: Rakuten's oversea presence<sup>8</sup>**

*(source :Rakuten 's homepage)*



Looking at the above map, we can see that Rakuten is currently expanding its business to Europe, US, and Asia, especially BRICs markets to achieve its goal to become "the world's biggest Internet service company". Mikitani set a medium-term goal to increase the number of countries where Rakuten has business to 27, with the ratio of oversea transaction value accounting for 70% of total transaction value.

Rakuten first expanded its business in Taiwan in 2008 with establishment of "Taiwan Rakuten Ichiba" and later expanded to other Asian market like: Korea, Thailand, Indonesia. In China , Rakuten partnered with Baidu, the famous Chinese search engine, to form a subsidiary in China. However, it finally decided to close the business..

In the United States, Rakuten acquired Buy.com for 250 million USD<sup>9</sup>, one of the leading U.S e-commerce companies to take advantage of its customer base and brand, as well as the direct selling without inventories model.

In Europe, Rakuten acquired Priceminister, the second largest e-commerce site in France for

---

<sup>8</sup> <http://global.rakuten.com/careers/business/global/strategy.html> (retrieved on 2013/06/10)

<sup>9</sup> <http://www.oeregister.com/articles/buy-383728-rakuten-company.html> ( retrieved on 2013/05/02)

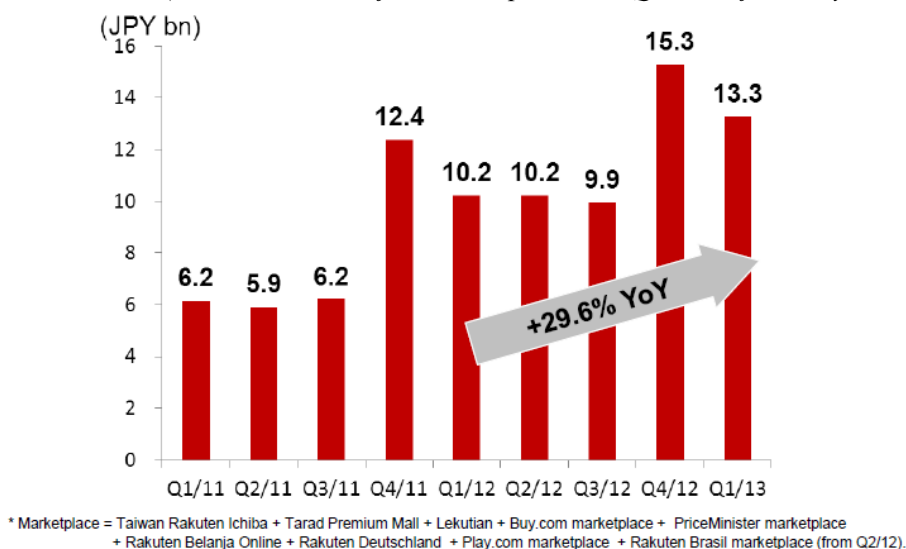


about 200 million Euro to pave its way to Europe<sup>10</sup>. Moreover, Rakuten paid about 39.3 million USD to buy Play.com<sup>11</sup> which "has 14 million registered users, one of the largest online retailer in UK, because Hiroshi Mikitani thinks that UK is one the "most mature e-commerce market in Europe".

The figure below reflects Rakuten's current e-commerce business's performance in oversea markets in first quarter of fiscal year 2013. The total GMS<sup>12</sup> in all markets increased by 29.6%, and exceeded 13 billion Japanese Yen. Among of them , European sites show rapid increase in terms of merchants products and members.

**Figure 3: Quarterly Marketplace GMS Overseas companies**

(source :Rakuten's financial report, First Quarter of Fiscal year 2013))



Based on above information, we can see that Rakuten's oversea expansion across different countries is quite consistent with several characteristics:

- + All Rakuten' oversea businesses are e-commerce which is the strongest and most profitable of

<sup>10</sup> <http://techcrunch.com/2010/06/17/rakuten-to-acquire-frances-priceminister-for-approximately-e200-million/>( retrieved on 2013/05/02)

<sup>11</sup> <http://www.bbc.co.uk/news/business-15004271>(retrieved on 2013/05/02)

<sup>12</sup> GMS: Gross Merchandise Sales or total sales for merchandise sold( usually used for online retailing sites)

Rakuten.

- + In most of these cases, Rakuten tried to acquire local online shopping sites to take advantage of its big customer base and database, as well as its understanding of local markets and brand recognition.
- + Rakuten tends to target the second largest online shopping sites as its acquirees if it can afford, so that it will be easier for them to compete with the number one player in the market.
- + Rakuten mainly focused on two directions for expansion : first, to developed or big countries like China, America, or England; secondly, to developing countries where e-commerce market has a potential to grow and Japanese brands are well recognized such as Thailand, Taiwan.
- + Also, as Rakuten stated, although its business model may be different across countries at first, in the end ,it will try to apply its "B2B2C" business models to oversea markets.

However, oversea M&A activities have significant effects on Rakuten's financial results , because according to Rakuten's report for the fiscal year ended December 31st, 2012, there was an "extraordinary loss of 28571 million Yen"<sup>13</sup> from business organizational restructuring of Play.com in UK, and impairment of goodwill of Buy.com in US due to switch in business model.

#### Section 4. CHAPTER SUMMARY

Thanks to success in e-commerce business, especially Rakuten Ichiba's business in Japan, Rakuten is growing very fast. Despite the fact that Rakuten put a lot of efforts to enlarge the "Rakuten ecosystem" by entering various businesses, its strength still remains in "Rakuten Ichiba". That is the reason why Rakuten tried to strengthen its brand on e-commerce, by opening e-commerce sites oversea, and acquiring local online shopping sites. Nevertheless, it has not successfully made its name in global market yet. On the other hand, because of emphasis on "Speed"

---

<sup>13</sup> <http://www.businesswire.com/news/home/20130213006584/en/Rakuten-Reports-Consolidated-Financial-Results-Fiscal-Year> (retrieved on 2013/05/02)

( one of Rakuten-shugi<sup>14</sup>), Rakuten made a lot of quick decision in acquiring foreign firms without careful investigations. As a consequence, it has suffered big loss from oversea restructuring activities.

---

<sup>14</sup> Rakuten Shugi- Rakuten's 5 principles for success:1/ Always improve, Always Advance.2/Passionately Professional.3/Hypothesize-Practice-Validate-Shikumika.4/Maximize Customer Satisfaction.5/Speed!Speed!Speed!

## CHAPTER 2: BUSINESS OPPORTUNITIES IN VIETNAM

### INTRODUCTION:

Vietnam is a developing country, located in South East Asia with over 90 million people, and one of members of ASEAN. With rapid growth of economy in recent year, Vietnam is considered as a promising and attractive market for foreign firms with its open economy. This chapter will utilize PEST analysis to analyze Vietnam from four different aspects, to examine whether Vietnam is a potential market for Rakuten, and what potential opportunities and hindrances exist in doing business in Vietnam.

### Section 1. POLITICAL ANALYSIS

Vietnam gained independence in 1975 and has enjoyed nearly forty years of freedom with political stability. According to Phillippe Delalande, a French economist and researcher who published several books on Vietnam after spending several years on working and researching there, political stability is "the main factor that has helped Vietnam pursue its economic development policy"<sup>15</sup>. Since 1990, other countries in the same South East Asia region with Vietnam( for example: Myanmar, Thailand) have gone through some major political crisis (except for Singapore), however, unlike them, Vietnam has still maintained its political stability well, which is a big advantage for Vietnam to implement economical renewal and attract foreign investors.

Vietnam has adapted Socialism for a long time, and is one of a few remaining Socialist countries in the world, along with China, Venezuela, Cuba...The State is the central organization and "the pillar of the political system"<sup>16</sup>. The Communist Party is the only one party in the country which represents the interest of the whole nation. Establishment of other political parties in Vietnam are not allowed, or prohibited by the Constitution. This only-one-party Vietnamese Communist Party also is

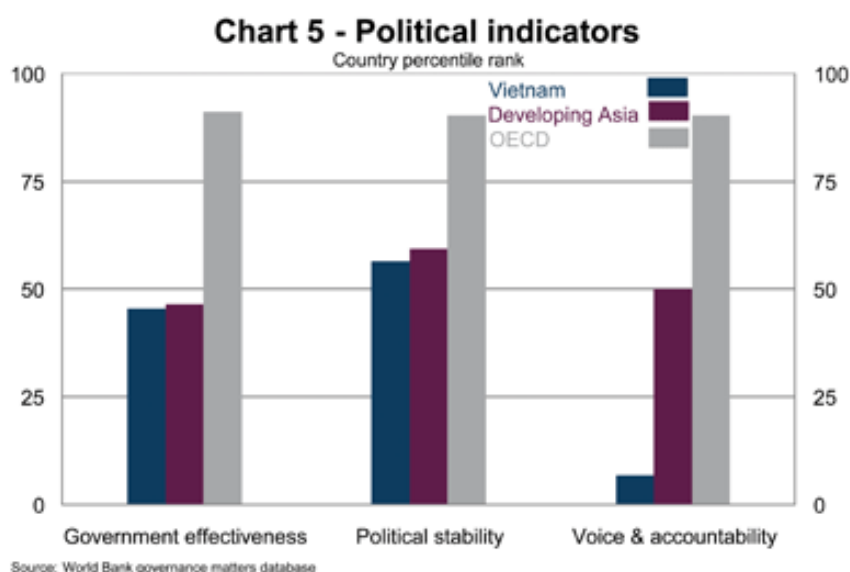
---

<sup>15</sup> <http://english.vov.vn/Politics/Political-stability-is-Vietnams-advantage/115316.vov>( retrieved on 2012/05/03)

<sup>16</sup> <http://vietnamembassy-usa.org/vietnam/politics>( retrieved on 2012/05/03)

an important factor to ensure the high degree of political stability in Vietnam, almost in line with the average number of developing countries in Asia, as shown in the table below. Furthermore, according to this World Bank's data, Vietnamese government effectiveness indicator is almost equal to the average regional indicator, though it is still lower than OECD countries' average figure.

**Figure 4: Vietnam's political stability<sup>17</sup>**



Next, regarding external relations with other countries, Vietnam, as a member of ASEAN and the country of current ASEAN General Secretary, has played an active role in promoting cooperation among ASEAN countries, which created more business opportunities for Vietnamese firms. One of those big opportunities is AFTA (ASEAN Free Trade Area) which was established to reduce tariff for country members in the area, increase competitiveness of ASEAN countries' products in world market, eliminate non-tariff barriers and attract Foreign Direct Investment (FDI) into ASEAN countries.<sup>18</sup>

Regarding the relation with Japan, Vietnam has established diplomatic relation with Japan since 1973 and since then, Vietnam and Japan signed several economic partnership agreement to

<sup>17</sup> <http://www.efic.gov.au/country/countryprofiles/Pages/Vietnam.aspx> (retrieved on 2012/05/03)

<sup>18</sup> <http://www.asean.org/communities/asean-economic-community/category/asean-free-trade-area-afta-council>(retrieved on 2012/05/03)

make it easier for Japan firms to enter Vietnamese market. In this year, 2013, Japan and Vietnam have celebrated 40 years of diplomatic relations by many events, especially the visit of prime Minister Shinzo Abe to Vietnam in January.<sup>19</sup> Also, Japan has been the largest ODA (Official Development Assistance) provider to Vietnam with a total of more than 1.8 trillion Japanese Yen for 20 years.<sup>20</sup>

On the other hand, Vietnam is getting involved in territorial disputes with China. Though China is one of Vietnam's neighbors, the two nations shared "a long and complicated history of territorial disputes" besides sovereignty issues and the situation has been getting more serious since 2011 when a Chinese patrol boat cut a Vietnamese ship's cables. Also, due to bad reputation on low quality and toxic contents of Chinese goods, Vietnam consumers now started to turn their back to Chinese products.

In short, Vietnam is considered as a politically stable country with well-established relations with ASEAN and Japan, which can provide Rakuten with advantages to enter Vietnamese market and opportunities to expand their businesses into other ASEAN markets as well.

---

<sup>19</sup> Ministry of Foreign Affairs of Japan

<http://www.mofa.go.jp/region/asia-paci/vietnam/> (retrieved on 2013/06/05)

<sup>20</sup> JICA- Japan International Cooperation Agency

## Section 2. ECONOMY

**Figure 5: Key indicators of Vietnamese economy in 2012**

*( source: General Statistics Office of Vietnam and International Monetary Fund)*

GDP	136 billion USD
GDP per capita PPP	3547 USD <sup>21</sup>
Inflation rate	7.5%
Unemployment rate	1.99%
Exports	114.6 billion USD
Imports	114.3 billion USD
FDI ( Foreign Direct Investment)	16.3 billion USD

First, in terms of GDP, Vietnamese economy's GDP had constantly increased from 2000 to 2012, and the figure in 2012 was estimated to grow by 5.03% in comparison with 2011<sup>22</sup>. In 2008, as part of global economy, Vietnamese economy achieved lower growth rate than previous years due to global financial crisis. Although it may take a bit more time for Vietnamese economy to totally recover from that crisis, Vietnamese economy 's GDP has been rising in 4 years from 2008 to 2012, which shows good signs of rapid recovery.

---

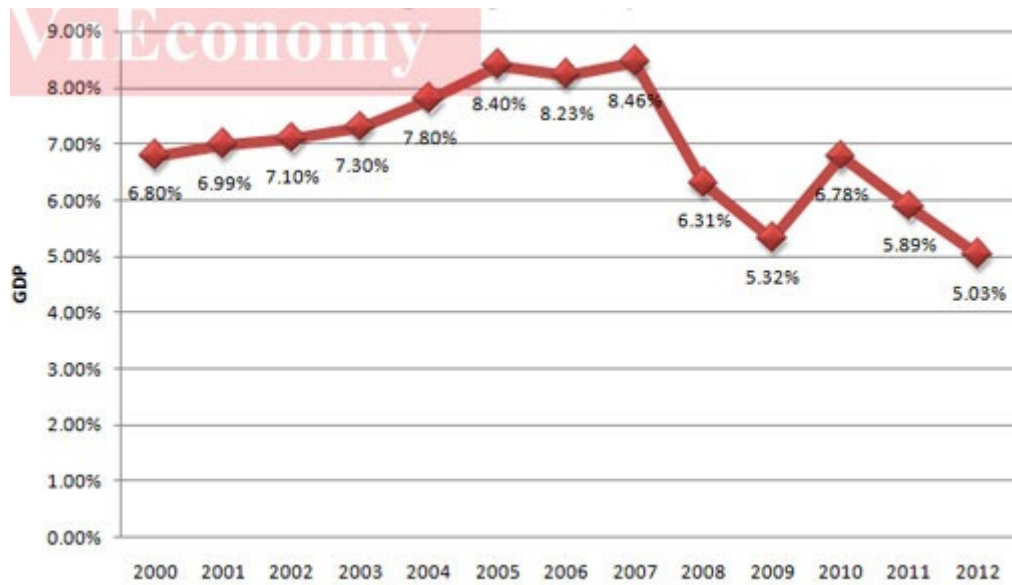
<sup>21</sup> International Monetary Fund

<http://www.imf.org/external/pubs/ft/weo/2013/01/weodata/weorept.aspx?pr.x=106&pr.y=11&sy=2011&ey=2018&scsm=1&ssd=1&sort=country&ds=.&br=1&c=582&s=NGDPD%2CNGDPDPC%2CPPPGDP%2CPPPPC%2CLUR&grp=0&a=> (retrieved on 2013/06/12)

<sup>22</sup> [http://www.gso.gov.vn/default\\_en.aspx?tabid=508&ItemID=13500](http://www.gso.gov.vn/default_en.aspx?tabid=508&ItemID=13500) General Statistics of Vietnam (retrieved on 2013/03/05)

**Figure 6: Growth rate of Vietnamese economy's nominal GDP from 2000 to 2012**

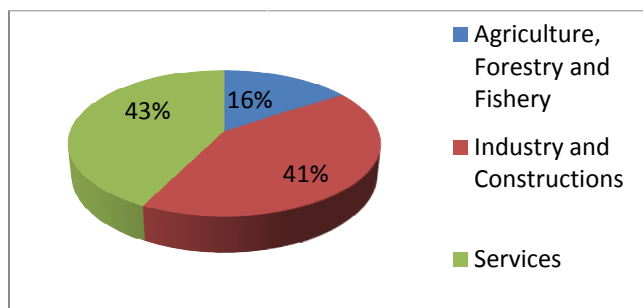
*(Source :General Statistics Office of Vietnam)*



Also, according to the General Statistics Office of Vietnam, among 3 sectors which are agriculture, industry and service, service has the highest growth which is 6.42% and accounts for nearly 43% of GDP.

**Figure 7: Ratio of 3 sectors in Vietnamese economy's GDP (2012)**

*(Source of Data :General Statistics Office of Vietnam)*



These are the results of a long transitional process which was launched in 1986, called "Doi



Moi"( means "reform").<sup>23</sup> This renewal campaign aimed to change Vietnam from one of the poorest countries with low income, centrally planned economy to become a middle-income country with open market economy. As a result, after more than a decade of implementation, Vietnam now is considered as a **lower middle income country**, with income per capita of Vietnam growing by 12.5 times from 98 USD in 1990 to 1224 USD in 2010, which is one of the highest growth rate among ASEAN countries, as we can see in the table below. However, this figure is still lower than the other countries in South East Asia.

**Figure 8: comparison table of income per capita among 4 ASEAN countries from 1990 to 2010<sup>24</sup>**

*(source: World Bank data)*

Country	Income per capita In1990(USD)	Income per capita in 2010(USD)	Growth rate(%)
Vietnam	98	1224	12.5
Singapore	11841	41987	3.5
Indonesia	620	2950	4.8
Thailand	1495	4613	3.1

Regarding exports and imports, most of exported goods are heavy industrial and mineral goods because these are labor-intensive industries and labor cost is quite cheap in Vietnam. Another reason is that Vietnam is very rich in natural resources, including crude oil, gas and other mineral resources. The biggest importers for these goods are European countries with 20.3 billion USD in 2012. Also, 2012 is the first year since 1993 Vietnam experienced trade surplus of 284 million USD. Most of imported goods are machinery, equipment for manufacturing, and though Vietnam and China's diplomatic relation are currently not good, China still maintained its position as the largest market for importation with 28.9 billion USD, and Japan ranked fourth with 11.7 billion USD.

About investment and start-up activities in Vietnam, Vietnamese government has put a lot of

<sup>23</sup> Vietnam development report 2012: market economy for a middle-income Vietnam.

<sup>24</sup> World Bank data

efforts in attracting foreign investors and encouraged doing business in Vietnam. However, according to World Bank and IFC ( International Finance Corporation)'s data in 2013<sup>25</sup>, Vietnam still ranks low (99th) in terms of "ease of doing business", mostly because of long procedure (10 steps while OECD and other East Asia Pacific's figure are 5 and 7 respectively ), difficulties in getting electricity, and protecting investors.

**Figure 9: ranking of Vietnam in terms of "ease of doing business (DB)**

( source: *Doing Business site by World Bank and IFC*)

TOPIC RANKINGS	DB 2013 Rank	DB 2012 Rank	Change in Rank
<a href="#">Starting a Business</a>	108	109	↑ 1
<a href="#">Dealing with Construction Permits</a>	28	27	↓ -1
<a href="#">Getting Electricity</a>	155	157	↑ 2
<a href="#">Registering Property</a>	48	48	No change
<a href="#">Getting Credit</a>	40	38	↓ -2
<a href="#">Protecting Investors</a>	169	167	↓ -2
<a href="#">Paying Taxes</a>	138	153	↑ 15
<a href="#">Trading Across Borders</a>	74	74	No change
<a href="#">Enforcing Contracts</a>	44	41	↓ -3
<a href="#">Resolving Insolvency</a>	149	145	↓ -4

### Section 3. SOCIETY

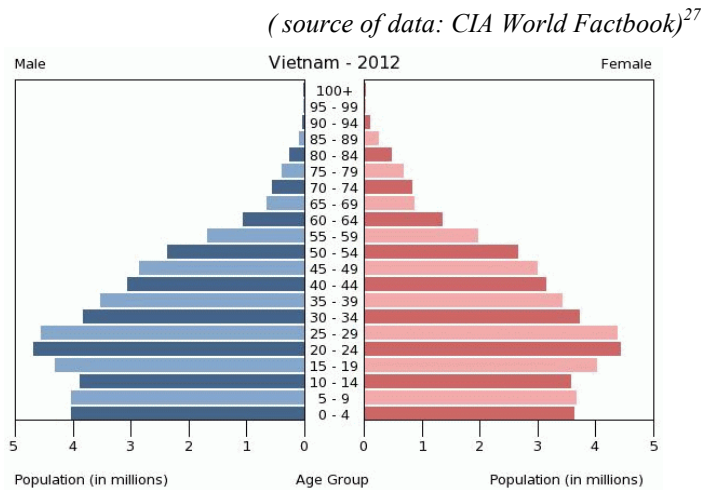
Vietnam's population reached 90.6 million people in June, 2013, increased by 1.07% in comparison with 2011's figure, which made Vietnam become the world's 13rd largest population<sup>26</sup> and the 3rd largest population in ASEAN, after Indonesia and Philippines. Moreover, the birth rate reached 2.05 babies per women in 2012. As a result, Vietnam has young population with: 24.9% are people under 15; 63.1% are people from 15-54 and only 12% are people above 54 years old. With a large number of people in working age and cheap labor cost, Vietnam has been chosen by many

<sup>25</sup> <http://www.doingbusiness.org/data/exploreeconomies/vietnam/> ( Retrieved on 2013/06/13)

<sup>26</sup> [http://www.geohive.com/earth/population\\_now.aspx](http://www.geohive.com/earth/population_now.aspx) ( retrieved on 2013/06/13)

foreign firms, especially manufacturers in labor-intensive industries, who want to outsource oversea. Below are Vietnam's population pyramid which clearly shows the age structure and young population of Vietnam

**Figure 10: Vietnam's population pyramid (2012)**



However, young population requires large investment of government on education such as building schools, providing facilities and equipments for education. According to the population and housing census in 2009, literacy rate for people who were over 15 years old is 94%<sup>28</sup>. However, though Vietnam has more than 215 universities, Vietnamese education ministry is still facing a lot of problems on how to improve education quality, teaching staffs' quality or how to attract more students to go to vocational schools. The reason why people want their children to go to universities instead of vocational schools is that: in Vietnam, people tend to think that only bachelor degree holders can get good jobs, and blue-collars workers are considered inferior to white-collar workers. Therefore, there is a fact that Vietnam is lacking of skilled labors for manufacturing activities.

Next, regarding languages, religions and ethnicity, Vietnam has in total 54 ethnic groups and 15 672 million people are religious followers ( accounts for 18.25% of the population), the rest are

<sup>27</sup> [http://www.indexmundi.com/vietnam/age\\_structure.html](http://www.indexmundi.com/vietnam/age_structure.html) ( retrieved on 2013/06/13)

<sup>28</sup> [http://www.gso.gov.vn/default\\_en.aspx?tabid=599&ItemID=9788](http://www.gso.gov.vn/default_en.aspx?tabid=599&ItemID=9788) ( retrieved on 2013/06/13)

atheist or non-believers. Among 54 ethnic groups, The Kinh ethnic group accounts for 85.7 % of the population (2009), and the Kinh's language is also the only official Vietnamese language. Therefore, compared to other ASEAN countries like Philippines, Indonesia or Singapore where many languages co-exist and are used in mass media, language is not a big problem in doing business in Vietnam.

In relation to culture, because of a long history of being colonized by Chinese people, Vietnamese culture was significantly influenced by Chinese culture, for example : the tradition of using Chinese Lunar Calendar and celebrate Chinese new year and Mid-Autumn Festival. However, nowadays, as a result of globalization, Americanization and Korean wave, Vietnamese young people tend to idolize and dress like Korean movie and music stars, favor Starbucks coffee and KFC, Lotteria 's fast food and listen to Korean and American songs. Additionally, reading Japanese manga and watching anime.

#### Section 4. TECHNOLOGY

First, regarding infrastructure, according to "Vietnam Infrastructure Report Quarter 1, 2013" of Business Monitor International , weaknesses of Vietnam's infrastructure lay in dominance of state-owned companies in this field. For example, in utilities sector, EVN (Electricity of Vietnam) is the only one player who supplies electricity to the whole country, therefore, though power outage has remained as a big issue for years, it is difficult to improve the current situation unless Vietnamese government allows other players to join the market. Furthermore, the quality of road and other infrastructure is still low ranked in comparison with other countries. Most of them are in bad condition, poor-equipped, or require reconstruction. Below are overall ranking of Vietnam's infrastructure in 3 years from 2009 to 2012. This is one of biggest hindrance to logistics and transport activities in Vietnam.

**Figure 11: Competitiveness of Vietnam 's infrastructure**

(source : *Business Monitor International's report on Vietnam infrastructure Q1 2013*)

	Rank/133 in 2009/10*	Rank/139 in 2010/11**	Rank/142 in 2011/12***	Rank/144 in 2012/13****
Quality of Roads	102	117	123	120
Quality of Railroad Infrastructure	58	59	71	68
Quality of Port Infrastructure	99	97	111	113
Quality of Air Transport Infrastructure	84	88	95	94
Quality of Overall Infrastructure	111	123	123	119

\*Rank out of 133 countries in 2009/10. \*\* Rank out of 139 countries in 2010/11. \*\*\* Rank out of 142 countries in 2011/12. \*\*\*\*Rank out of 144 countries in 2012/13. Source: World Economic Forum, Global Competitiveness Report 2009/10, 2010/11, 2011/12 and 2012/13

Nevertheless, Vietnam has received a lot of foreign investment of the world's biggest infrastructure company into construction. In 2011, the total value of FDI projects invested in transport -construction, and utilities accounted for 8.79% and 18.28% the total value of FDI projects. The report of Business Monitor International also shows optimistic forecast on the growth of transport and construction in the future.

Secondly, Vietnamese government is also paying attention to the development of information and communication to catch up with other countries in the same area. By 2020, Vietnam' science and technology field will "reach the advanced and modern level of ASEAN region and that of the world"<sup>29</sup> and the value of hi-tech products and hi-tech application products will "account for 45% of GDP". To achieve this goal, Vietnamese government planned to spend more budget on state-funded research projects, at a increase rate of 15-20% per year. Besides state budget, information and communication has been receiving a lot of FDI investment with the total value of 897.4 million USD (2011). This is a great opportunity for foreign firms to invest into Information and Technology business in Vietnam because Vietnamese government is willing to provide support for foreign investors to boost growth of this industry.

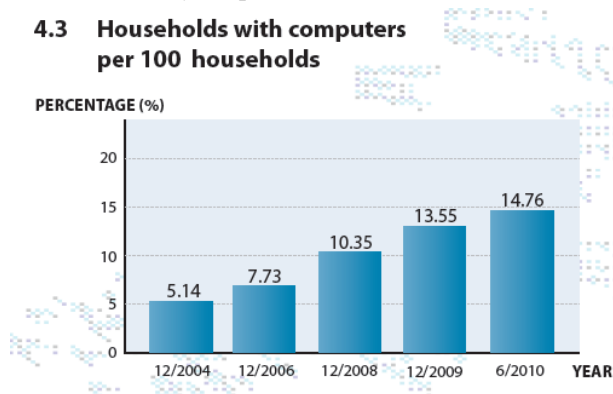
Thirdly, computers have changed Vietnamese people's life in many ways. According to the report of Vietnamese ministry of Information and Communication in 2010, though the percentage of

<sup>29</sup> Vietnam's ministry of science and technology

households with computers is still low (14.76%), it rose by nearly 3 times in 6 years and this figure is estimated to grow much more in next 5 years. In addition, at school, children are taught basic programming lessons from 4th grade , and at junior high school most of students know how to use Microsoft Word.

**Figure 12:Percentage of households with computers in Vietnam**

*( source of Data: General Statistics Office & the result of the nationwide survey on universal status of telephone, Internet, and audiovisual services in 2010)*



Section 5. CHAPTER SUMMARY

Vietnam can be a very potential market for Rakuten with political stability, fast growing economy and big population. In addition, Vietnam has established a good relationship with Japan in many fields, such as economic partnership agreements, and Japanese investors have been getting involved in many business activities in Vietnam, especially in manufacturing, and information and technology. Therefore, entering Vietnam with IT services and Japanese branded quality will be certainly a big merit to Rakuten. However, on the other hand, Rakuten should be aware of several difficulties in doing business in Vietnam such as : long procedure of getting permits, transport infrastructure, road systems are not in good conditions, which may require a long-term strategy, lot of time and initial investment at first.

## **CHAPTER 3: ANALYSIS OF VIETNAMESE E-COMMERCE MARKET**

### INTRODUCTION

As mentioned in chapter 1, e-commerce is the strongest business of Rakuten because it is the field that Rakuten has most experience. Though nowadays, Rakuten has spread its wing to many different businesses in domestic market, in overseas, Rakuten is only known for its e-commerce business, as Rakuten wants to make the most use of its strength to expand globally. Therefore, this chapter will take a closer look at the Vietnamese e-commerce market to find out the market size, market segments, current trends and potential to grow, of this sector in Vietnam.

### Section 1. OVERVIEW OF E-COMMERCE MARKET IN VIETNAM

#### 3.1.1 Market size

Vietnam's population has reached over 90 million people in 2013 and this is 1.8 times more than Korea's population and 3.9 times more than Taiwan's population, in terms of comparing to some Rakuten's current overseas markets. Among this population, Vietnam has more than 31 million Internet users which makes up more than 35% of the population<sup>30</sup>, and higher than the average number of world Internet penetration (33%) according to the data of 2012.

Regarding the number of people making online purchase and shopping/selling activities, first, according to the survey<sup>31</sup> conducted on 2940 Internet users in 6 biggest cities in Vietnam in 2010 by Cimigo - a market research company, there are 5 main online activities done by Vietnamese internet users (categorized by purpose of activities) which are:

- +information gathering such as reading books, searching for jobs, research
- +online entertainment, for example: listening to music or playing online games.

---

<sup>30</sup> Ministry of Information and Communication

[http://www.thongkeinternet.vn/jsp/thuebao/table\\_dt.jsp](http://www.thongkeinternet.vn/jsp/thuebao/table_dt.jsp) (retrieved on 2013/06/17)

<sup>31</sup> Cimigo, Vietnam NetCitizen Report-Internet Usage and Development in Vietnam, March 2010

+ online communication : for example : chatting, sending SMS or emails.

+blogging and social networking: facebooking, twittering

+online business: online shopping, auction, e-banking

Information gathering are the most popular activities online as people are living in an information era with 93% Internet users want to go online to read newspaper or search for news. However, there are only about 38% people did online shopping/selling or auction activities in the past, which is still relatively small in comparison with other activities. Furthermore, this survey was conducted in 6 biggest cities in Vietnam where online shopping is more convenient for people (because the infrastructure in Vietnam is not well-developed, people live in rural areas can not receive/deliver online purchased goods fast and easily) ,so the actual ratio of people making purchase online throughout Vietnam may be lower. Assuming that this rate is 1/3 for the whole country, there will be around **10 million people** who can be potential sellers/buyers of Rakuten's e-commerce business according to the 2010's data.

Furthermore, according to the latest market research report of PWC<sup>32</sup>, Vietnamese e-commerce market has much potential to grow in the future as the Vietnam e-commerce market value ( gross merchandised value ) was approximately **300 million USD in 2011** and it is projected to reach **2.8 billion USD in 2015**, which is equal to 75% growth rate each year for four years. This projection might sound huge, but it could be possible looking at several factors:

+ Increase of Vietnamese people's annual disposable income and consumer expenditure are forecast to rise by 1.5 times in 2013. Based on data reported on previous year in 2009,2010 and 2011, Euro Monitor International share the same optimistic view with PWC about growth of Vietnamese consumers' expenditure in 2013. As income increases, consumers' expenditure grows and is estimated to reach nearly 91billion USD in 2013.

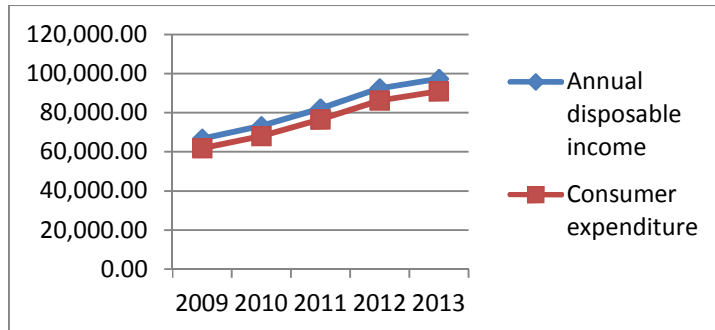
---

<sup>32</sup> PWC, Vietnam news brief, Strategy Function , " E-commerce- a largely untapped opportunity in Vietnam",February 2013



**Figure 13: Forecast on Growth of Annual disposable income and consumer expenditure in Vietnam ( million USD)**

(source: Euro Monitor International<sup>33</sup>)

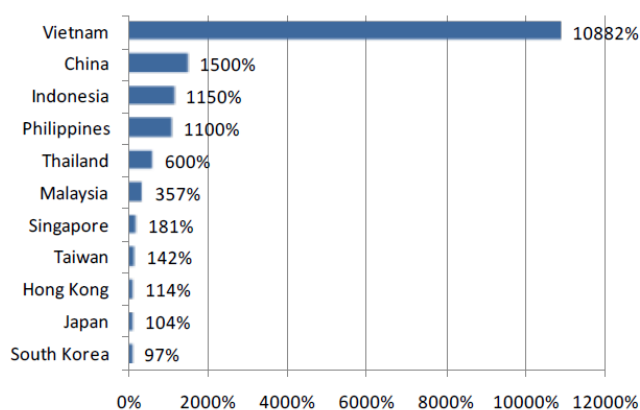


+ Increase of Internet users and time spending on online activities: the same survey from Cimigo released that Vietnamese people spent only around 43 minutes per day on surfing the Internet in 2008, but this number is tripled in 2011 with approximately 130 minutes per day on weekend and 139 minutes per week day. This shows the tendency of shifting from offline activities to online activities.

Additionally, from 2000 to 2009, the number of Internet users in Vietnam grew remarkably fast at a rate of 10882% , and 1500% growth rate of China is far behind it.

**Figure 14: Internet user growth in several Asian countries from 2000-2009**

(source of data: Internet World Stats)



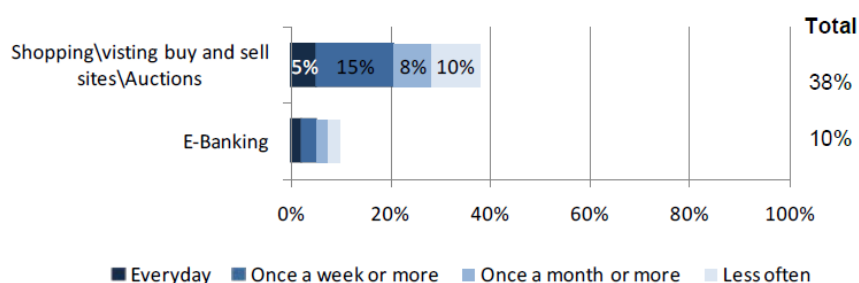
<sup>33</sup> <http://www.euromonitor.com/vietnam/country-factfile> ( retrieved on 2013/06/17)

### 3.1.1 Vietnamese online shoppers' characteristics

+ First, in terms of usage frequency, from the result of the same survey, we can realize that most of people who did shopping/selling activities online answered they shopped/sold once a week or more (15% of total respondents) . This is quite a positive result because Vietnam e-commerce market is still at the very first stage, compared to other countries, but people 's frequency of online shopping is not low.

**Figure 15: Usage frequency of doing online business of Vietnamese internet users**

(source: Cimigo's Vietnam Netcitizens Report)



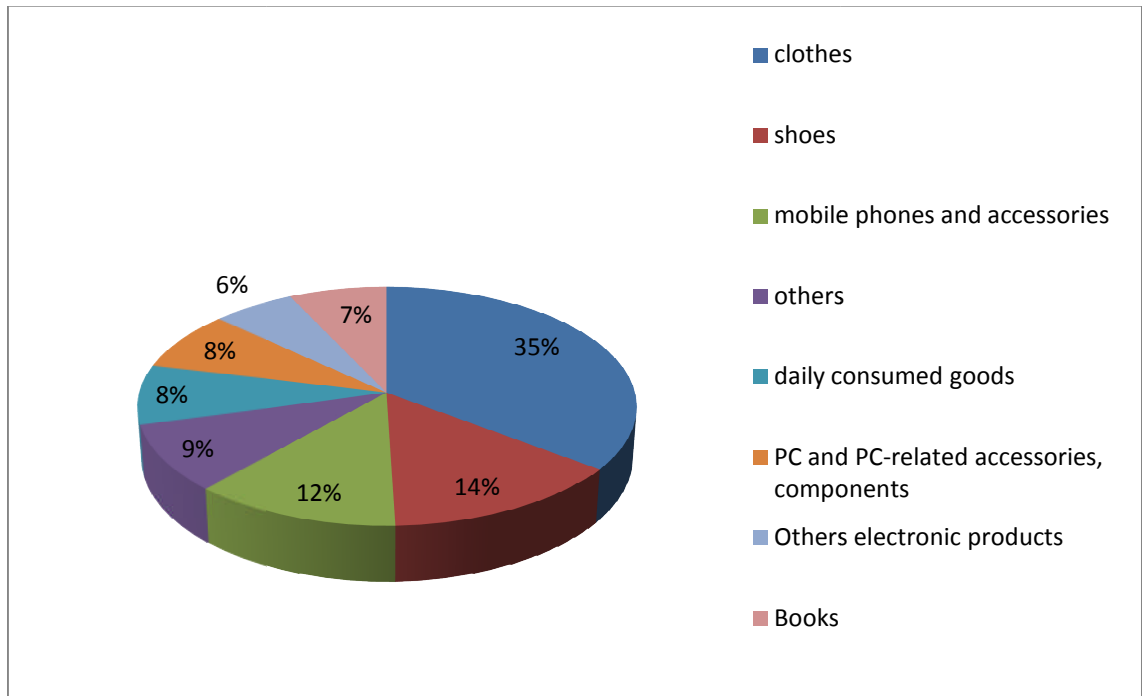
+ Secondly, regarding demographics of people who did online shopping : according to a report by Mastercard in the first quarter of 2013 <sup>34</sup>, most of Vietnamese online shoppers are female (69.7%) and people whose ages range from 35-44 years old(78.2%). In Vietnam, at these ages, people have higher and more stable income and usually in Vietnam, they are married people with 1-2 kids , with more spending. However, this data only includes people who made payment through Mastercard , while in fact, online payment is not so popular in Vietnam.

+ Thirdly, products purchased online by Vietnamese customers are very diverse. According to a report by Kanta, a media company, at Vietnam e-commerce conference in 2010 , the most popular goods are clothes which composes 35% of the online bought items. Following this are shoes with 14%, PC , electronic goods and mobile phones are also prevailing items bought by Vietnamese people, probably because online shoppers can buy them at cheaper price with more variety.

<sup>34</sup> Master Card, report on Online shopping in Asia Pacific, March 2013

**Figure 16: Type of products bought online by Vietnamese customers.**

*(source of Data: Kanta media, 2010<sup>35</sup>)*



## Section 2. TRENDS AND CHARACTERISTICS OF E-COMMERCE MARKET IN VIETNAM

### 3.2.1 Market players.

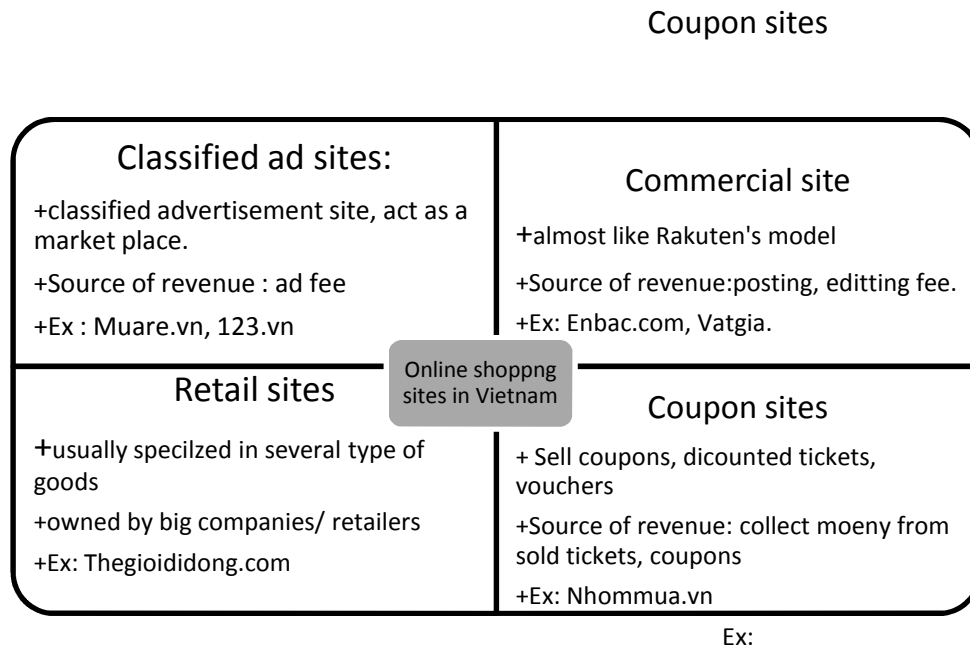
Basically there are 4 types of online shopping sites in Vietnam, classified by business models, and type of sellers, according to Acorn and Epinion 's report.<sup>36</sup>

<sup>35</sup> <http://www.pcworld.com.vn/articles/kinh-doanh/giai-phap/2010/12/1222839/dac-diem-mua-sam-truc-tuyen-cua-nguoi-viet/> ( retrieve on 2013/06/18)

<sup>36</sup> Acorn and Epinon. "Vietnamese Internet users online buying and selling behavior", results of an online survey among 2495 Internet users aged 18-54, August 2012.

**Figure 17: Classification of online shopping sites in Vietnam**

(source of reference : Acorn and Epnion)



+Classified ad sites:

This kind of website acts more like a market place where people post their advertisements of goods for sales. These websites do not provide much support for sellers such as : page design, layout. The sellers and buyers contact each other directly for price bargain, product information and delivery. Most of sellers are individuals, with limited amount of goods. The website makes money by collecting advertisement fee for advertisement banners, not from sellers, and the business model is more **C2C rather than B2C**. Some well-known websites of this segment are **Muare.vn**, **123mua.vn**

+Commercial site:

This type of website is relatively close to Rakuten's website or **B2B2C** model , and these sites provide payment tool and different types of service for sellers such as consultation, page design. Also, although the site does not deal with delivery and shipping activities, they invest money and spend time on site-administration activities such as: editing posts, protect sellers from hackers , site maintenance services, and some other functions like time-setting for sellers to post their products at

the time when most people will be online. Sellers of these sites are usually small to medium sized business owners with more variety of goods than sellers in "market places". However, while sellers on Rakuten are asked to pay fixed amount of money to open shops (various plans, but quite expensive, ranging from 20000-100000Yen in Japan), these shops in Vietnam collect fee on times of uploading posts (including editing), for example sellers in **Enbac.com** pay 500000VND (about 18 USD) for 1000 times of uploading, which is very cheap. Main players of this business model are **Vatgia.vn, Enbac.com.**

#### +Retail site

This type of sites also deals with **B2C**, however, in most of the cases, these are companies' official online shops which sell products directly to customers (such as **fptshop.com** owned by FPT company) or sometimes they buy goods from different companies, stock them and deliver directly to customers. Many sites specialize in a particular kind of goods, such as **Thegioididong.com** that only sells mobile phones and phone accessories, **Banmypham.vn** that only sells cosmetics. Customers of these sites are people who want to find particular goods or particular brands because search engines usually categorize goods into brand, or companies' names.

Besides domestic brands, in recent years, several foreign online shopping sites have entered Vietnam, for instance: **Alibaba.vn** (focus on B2B) from China, **Ebay.vn** (specialize in Auction) from US, or **Lazada.vn** (commercial site) from Philippines. However, all of these sites have just started since 2011, 2012 and are still at the beginning phase.

\* Though currently there are many online shopping sites in Vietnam, it is clear that there is no market leader, because the market is so fragmented and none of players appear to "have reached market share of more than 5%" according to PWC's report. This is a great opportunity for a big player to participate in the market.

#### +Coupon sites (most are Groupon sites)

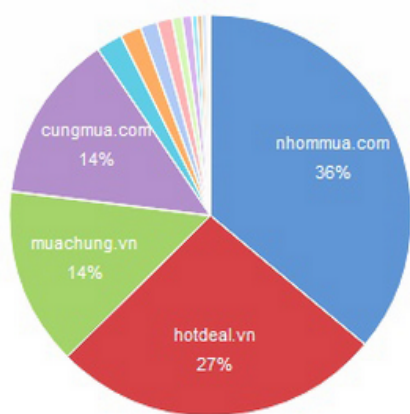
"Groupon" is a new term combined by Group and Coupon, and is name of a famous website in US. The idea for Groupon's business model (or **B2T**- Business to Team) is simple: if a certain number of people (predetermined) sign up for a deal (usually coupons, discounted tickets) in

Groupon, all members will get it. Otherwise, no one can get the deal when the certain number is not reached. The reason why this model is popular is that: for customers, people are attracted by discounted gifts/tickets, usually deep discount; for business owners: they can get many loyal customers and customers' information data because it requires a certain number of people to make the deal available, clear stocks, and reduce risks of giving too much discount for sales promotion.

In Vietnam, "Groupon" model has become very popular since 2010 because it is easy to imitate and "Groupon"-liked websites do not have to carry much risk, or invest a lot of money, and Vietnamese consumers are very sensitive to price. Until 2011, there are about 97 websites doing this business model in Vietnam, sold 6700 deals and more than 4.2 million vouchers with the total revenue of 31.69 million USD<sup>37</sup>. Main players in this segment are : Muachung.vn, Nhommua.com, Cungmua.com and Hotdeal.vn , among them Nhommua.com had 36% of market share and became the biggest player in 2011.

**Figure 18: Market share of "Groupon" players in Vietnam Market**

*(Source of data : Web20.vn)<sup>38</sup>*



However, in December 2012, Nhommua.com , the leader of this segment suddenly closed its website, which caused confusing chaos for many customers who got the vouchers but could not use them. Though it has re-opened recently, many customer started to lose their trust in this service, and

<sup>37</sup> Dealcuatui.com 's report on "Groupon" websites, December 2011

<sup>38</sup> <http://web20.vn/tin-tuc-chi-tiet/tin-tuc-chung/thong-ke-ve-cac-website-mo-hinh-groupon-mua-chung-nhom-mua-tai-viet-nam.htm> ( retrieved on 2013/06/18)

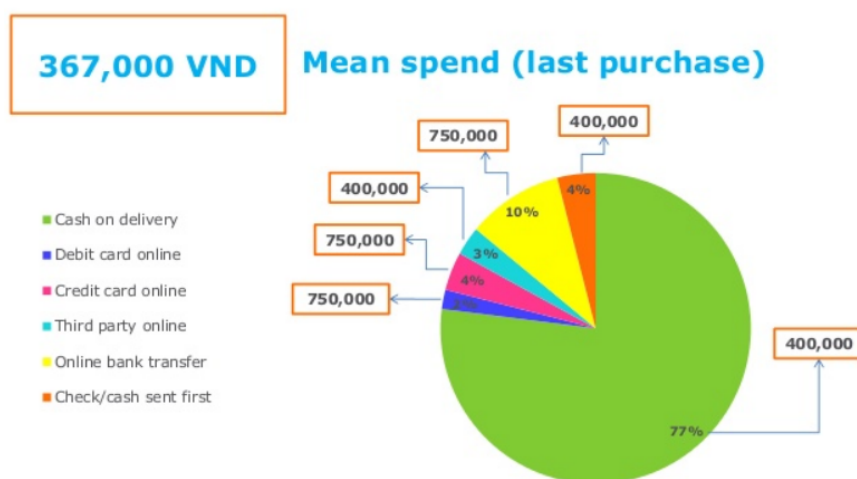
companies and local business owners became more careful in cooperating with such websites.

### 3.2.2. Payment

According to a report at Vietnamese e-commerce conference in 2010, more than 90% of online shopping transactions are paid by cash. In 2012, according to a survey conducted by Acorn<sup>39</sup>, a consulting company, answered by 2945 Vietnamese, 77% of respondents still prefer COD-Cash On Delivery, 10% used Bank Transfer and only 6% used Debit, Credit Card online to pay.

**Figure 19: Payment Modes of Vietnamese online shoppers**

(source : Acorn's survey)



This fact could be explained by several reasons:

+ Customers do not trust current online payment system: In Vietnam, there have been some recorded cases that online customer's accounts were hacked and e-money were stolen and used by hackers. The main reason is because technology for Internet privacy is not developed well, shopping sites administrators do not invest enough in service maintenance.

+ Many Vietnamese still do not have bank accounts and most of payment are cash payment: According to data of the State Bank in March, 2013<sup>40</sup>, only 20% of population has bank accounts, and only 14% of total payment value in 2012 are non-cash payment, even though 42 million

<sup>39</sup> Acorn, Vietnamese Internet users Online Buying and Selling Behavior, August 2012

<sup>40</sup> <http://www.pcworld.com.vn/articles/tieu-dung/song-cong-nghe/2012/03/1231197/thanh-toan-khong-tien-mat-chiem-14/> ( retrieved on 2013/06/20)

payment cards were issued. The reason why Vietnamese people prefer using cash is that in Vietnam, there are only a few places people can pay by card, most shops, supermarkets or restaurants do not accept payment by cards. In addition, ATM system is not working well, and not available in many areas. In many cases reported on newspaper, customers cannot withdraw money after inserting cards, or even cannot take cards out after using. Therefore, to avoid those risks, people prefer carrying cash.

+ Online payment can be charged: banks which issue payment cards will collect fee on customers' online transactions. On the other hand, Vietnamese people are very sensitive to price. Therefore, most of online shoppers choose to pay by cash.

### 3.2.3. Delivery

As mentioned above in Chapter 2 , Vietnam 's infrastructure is still in bad conditions, especially in rural areas, which makes it difficult for delivery service to reach customers in short time. There are, of course, many courier services in Vietnam, but basically price is high for delivering to rural areas, and traffic problems make it impossible for "next-day" service.

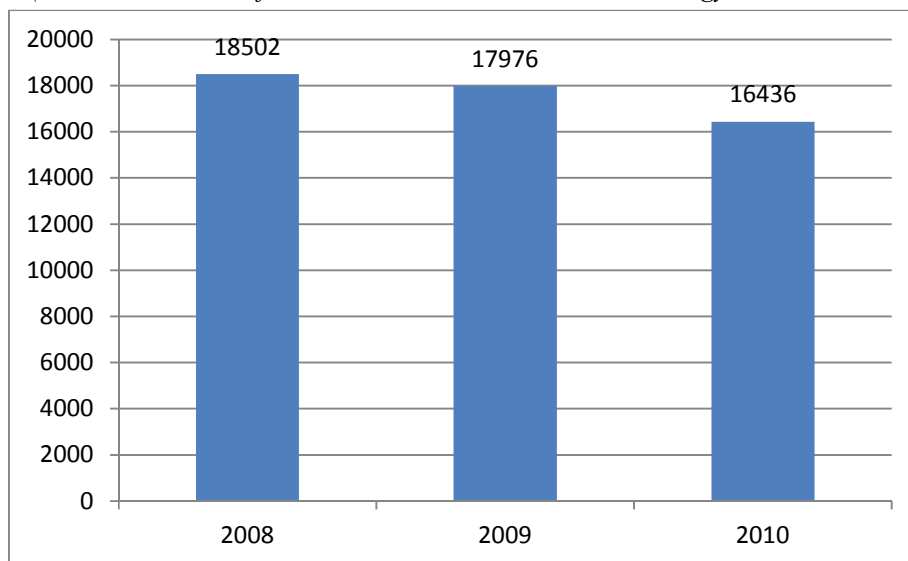
Currently, there are several ways of delivery for online shopping services:

+ The most common way is using national post system because of its availability. However, the number of postal outlets tend to decrease in recent years. In addition, it takes time for post officers to deliver goods to rural areas, and perishable products or bulky item can not be delivered this way.



**Figure 20: Number of postal outlets in Vietnam from 2008 to 2010**

( source: Vietnam information and communication technology, White Book 2011)



+ Using the own delivery teams : some companies build their own delivery team which uses motorbikes, scooters, or a few trucks to deliver goods. By doing this, the shop/company can deliver faster with higher quality and it may be cheaper than using third parties' service. However, this can only be applied to customers who live in big cities and only big companies/shops. For individual or smaller shops, they can deliver to customers by themselves ( usually by motorbikes)

+ Using couriers : this method is used to reach customers who live in rural areas or customers who want fast delivery and willing to pay for extra shipping fee. There are many companies doing this service in Vietnam, including foreign brands like Fedex, DHL, or domestic brands Viettel...However, shipping fee is usually high and not all customers are willing to pay.

+Other methods: sometimes, customers are willing to come to the seller's places to receive goods, because they live nearby or they want to save the shipping fee, or in some cases, to get products earlier.

#### 3.2.4. Facebook shops

In recent 5 years, Facebook has influenced on Vietnamese internet users' life in many ways. Though Vietnamese government has tried to block Facebook in many ways in Vietnam because uncensorable content can negatively influence Vietnamese politics, the number of people using

Facebook are still increasing rapidly. Facebook now have over 12 million users in Vietnam according to the data of WeAreSocial in October 2012<sup>41</sup>, which is 200% growth rate in 1 year. Before Facebook came, Zing was the most popular social network site with 27% of population having Zing account, but Facebook has overtook this place, and became the biggest social network in Vietnam.

With this astonishing growth of Facebook, many people soon realized business opportunities. Online shopping through Facebook became a new trend in Vietnam, because of many advantages :

- +no fee for setting up shops, advertising or uploading posts.

- +interactive communication with customers: questions or inquiries can be easily answered by using "Comment" function.

- + easy to get people subscribed: only by inviting people to "Like" or "Follow", they can get a big number of customers and keep them updated with new information.

- + easy to share to many people : by using Facebook's powerful tool " tagging".

This model is mostly used by small-sized shop because their customers base is not too big, so they do not need a system to sort out orders. Payment are usually done by bank transfer, and goods are delivered to customers by shop owners by post.

Nevertheless, Facebook is a social network page, not an online shopping site. Therefore, it is difficult for customers to find items they want because there is no search engine, and facebook information security is still a controversial problem.

However, because of its undeniable popularity, big online shopping sites such as Chonmua24h.com started to create their own Facebook pages, but the purpose is more advertising and drawing people's attention and "Likes" by entertaining content, rather than selling.

### 3.2.5. Internet providers started their own shopping sites.

Online shopping business became so attractive that many Internet providers now want to have their own shopping sites. In Vietnam, the market for ISP (Internet Service Provider) was

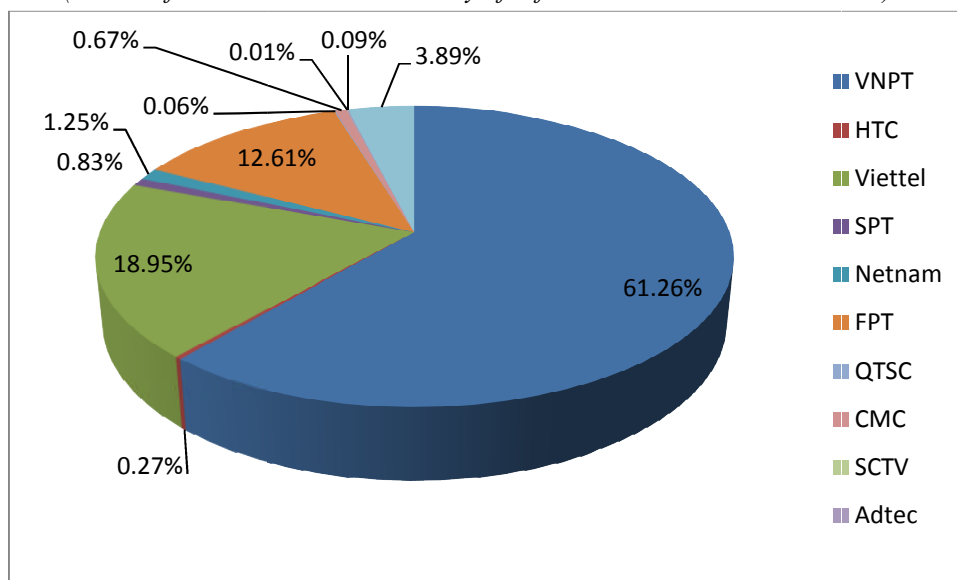
---

<sup>41</sup> <http://wearesocial.net/blog/2012/10/social-digital-mobile-vietnam/> ( retrieved on 2013/06/20)

dominated by VNPT ( Vietnamese Post and Communication Corporation) with 61.26% market share, followed by Viettel and FPT with 18.95% and 12.61% market share respectively.

**Figure 21: market share of ISP in Vietnam**

*(source of data :Vietnamese Ministry of Information and Communication)<sup>42</sup>*



Besides fptshop.com, FPT started their Sendo.vn , a retail site , or Viettel had their Viettelstore to sell electronic, PC, mobile phone-related goods. Though VNPT has not established their own shopping sites, its subsidiary "Mobilefone", joined e-commerce market by providing payment tool by phone for online shopping services. Some advantages of these sites over other normal shopping sites are :

- + Brand awareness: those companies are well-known for their IT service. Their brands are connected to customers by key words such as: good Internet security, fast speed, which leads to "Trust"-a very important factor in online shopping in Vietnam.

- +Big customer base: as 3 biggest ISPs in Vietnam, these companies already have many customers who registered for their service, which is a big advantage in marketing.

- + Advantages as an ISP: as ISPs, they know well about customers' demographics, and

<sup>42</sup> [http://www.thongkeinternet.vn/jsp/thuebao/table\\_dt.jsp](http://www.thongkeinternet.vn/jsp/thuebao/table_dt.jsp) ( retrieved on 2013/06/20)

preferences such as: which site customers visit most often, which online activities are most done by Vietnamese internet users. By understanding this, FPT designed their site to be linked to popular news website, online music shops, or movie-watching sites...to increase "entertainment" for customers while shopping at their sites.

### Section 3. CHAPTER SUMMARY

These are opportunities and challenges to Rakuten in doing e-commerce business in Vietnam.

Opportunities	Challenges
<p>+ Increase of Internet users at fast rate.</p> <p>+Increase of online shoppers.</p> <p>+ No market leader, so it is a big chance to take the leading position.</p>	<p>+ Competition with hundreds of online shopping sites ( domestic brands , foreign barnds, ISPs' sites, Groupon sites, Facebook shops)</p> <p>+ Difficulties in delivery, logistics due to poor infrastructure.</p> <p>+Low rate of non-cash payment due to lack of trust makes it difficult in applying Rakuten's current payment system in Vietnam.</p>

Vietnamese e-commerce market is obviously a potential market, but to overcome difficulties here, Rakuten should come up with solutions to deal with 3 problems:

- + Trust: how to gain customers' trust, which requires appropriate marketing strategies.
- + Payment: how to guarantee safety of online payment, or how to make it more convenient to customers.
- + Delivery: how to make better delivery service for customers who live outside big cities.



## CHAPTER 4 CASE STUDIES ON RAKUTEN'S OVERSEA EXPANSION.

### INTRODUCTION

This chapter will review two cases of Rakuten in China, and Thailand to learn lessons from failure and success stories and see whether Rakuten's business model in these countries could be applied to Vietnam or not.

The reason why China case is chosen to analyze is that: China is obviously the most challenging market to Rakuten so far , and is the only one market that Rakuten finally had to withdraw from. By looking at this case, we can learn what should have been done better in doing e-commerce business in China.

Another case is Rakuten in Thailand. Rakuten has been doing well so far in Thailand. Also, Thai e-commerce market and this one of Vietnam have many things in common, such as: located in the similar regional area, e-commerce market is still in growing phase and not developed yet. Therefore, it may be possible for Rakuten to apply the same business model in Thailand into Vietnamese market.

### Section 1. RAKUTEN IN CHINA

#### 4.1.1Entry mode.

Rakuten decided to establish a **joint venture** with Baidu, the Chinese leading search engine to create "Lekutian" shopping site ,with the rate of 51-49% share for Rakuten and Baidu respectively.

**Picture 2: Logo of Lekutian**

*(source: Google)*



Each party had to invest 50 million USD to build the online shopping mall. By partnering with Baidu, Rakuten could get many advantages in doing business in China, such as:

+ Brand awareness: as a dominant search engine, or Chinese "Google", Baidu is famous to all Chinese customers. Therefore, Rakuten can save time and money for "branding".

+ Understanding the domestic market: in a market like China where domestic firms have many advantages over foreign players, understanding local market, local customers' behavior is a "must" to survive. Baidu clearly has a profound understanding of domestic markets, especially about Internet users' preferences, activities, behaviors. By doing joint venture with Baidu, Rakuten can reduce risks of going to a new market such as: cultural differences.

+ Relationship with Chinese government and dealing with regulations: Building good relationship with government is one of key factors to do business in China. With Baidu, a domestic company as a guarantor, it is easier for Rakuten to deal with procedure, and regulations.

#### 4.1.2 Business model and business growth.

Rakuten applied its successful business model in Japan into the Chinese market. Merchants on Lekutian will contact customers directly and deliver goods to them. Rakuten played the role of market place. Because China has the biggest population in the world with an amazing growth rate of economy, both parties expected positive results after launching the site.

Nevertheless, the business did not go well as they expected and finally, after nearly 2 years of operation, they lost 896 million Yen, and only gained 0.1% of the B2C market in China. Rakuten

and Baidu decided to close the Lekutian site and Rakuten withdrew from Chinese market.

#### 4.1.3 Reasons for failure.

Many economists and journalists have written about the reasons why Rakuten failed in China. These are several main reasons:

+ Intensified competition: Rakuten also stated that this is the main reason why they failed. Though there is no Amazon in Chinese market, the market clearly is dominated by Alibaba (40% market share), the biggest online shopping site. Therefore, like Japanese trust Rakuten, Chinese people trust Alibaba, and it is not easy to make them switch their preferences.

+ Lack of marketing and advertising: although Baidu is a big brand in China, "Rakuten" and "Lekutian" is still new to customers. While Alibaba and Taobao spent heavily on mass media advertising, Rakuten just kept itself in a low profile.

+ Incomplete localization<sup>43</sup>: According to Gong Wenxiang, a Chinese expert on e-commerce, Rakuten failed to recognize different demands of customers living in different areas of China because China is a big country and netizens living in each region have their own characteristics. In this sense, Rakuten could not make the most use of Baidu as a local partner.

+ Search engine and e-commerce are different business: the idea of cooperating with a search engine company sounds good, but many analysts pointed out that they are still different businesses in nature and though there are many people visiting Baidu every day, it does not mean that the sales for Rakuten will increase.

+ Cultural differences in the joint venture: Because this is a joint venture of 2 companies from different countries, employees working for 2 companies faced cultural differences in working style, way of thinking, and could not agree on many things.

---

<sup>43</sup> China Business Focus <http://en.cbf.net.au/Item/18799.aspx> (retrieved on 2013/06/20)



## Section 2. RAKUTEN IN THAILAND

### 4.2.1 Entry mode.

Rakuten **acquired** Tarad.com, an online shopping site in 2009, and put Rakuten logo on the top of the website, and changed the website's name into Rakuten Tarad.com, and the new website's design is pretty much same with Rakuten Japan.

Picture 3: Tarad.com website's homepage in June 2013

(source : Tarad.com)



Rakuten invested about 3.5 million USD to buy 67% of Tarad. There are several reasons for this decision of Rakuten:

+ Big customer base: at the time of acquisition, Tarad had more than 160000 merchants or business owners registered for its service, and 2 million customers.

+Saving cost and time for building the site: Tarad was established in 2000, and after nearly 10 years, the site was totally complete. Unlike the case in China, Rakuten did not need to invest huge money to build it.

+Brand awareness and local market understanding: Tarad is not a search engine like Baidu, it is an online shopping site with nearly 10 years of experience in Thai e-commerce market, and is one of biggest online shopping sites in Thailand. Also, Rakuten and Tarad can share understanding and know-how about e-commerce.

+ Tarad and Rakuten are the same type of online shopping sites: in Thailand, there are

basically 3 types of shopping sites which are :e-classified sites (C2C), for example :Pantipmarket.com; e-shopping sites, such as Tarad.com; and daily deals , for instance : Thaicitydeal.com. Among 3 of these sites, Tarad has the closest business model to Rakuten.

+Easy to control the business: decision making is an important factor in success, especially in IT industry. In the joint venture with Baidu, because both parties had the same control over the business, it was difficult to make decisions. However, in this case, Tarad is a small company with only 42 employees in 2009, while Rakuten had more than 3500 employees(non-consolidated) buying Tarad and getting control it will make it easier for Rakuten to make quick decision.

#### 4.2.2 Business model and business growth.

After acquiring Tarad, Rakuten applied the same B2B2C model which was successful in Thailand into the website. According to Pawoot Pongvitayapanu, ex-CEO of Tarad.com<sup>44</sup> in an interview with a Vietnamese newspaper, Rakuten made several changes after buying the site. While the most popular payment means of online shoppers in Thailand is bank transfer (around 90% of transactions), Rakuten Tarad put a lot of efforts in changing this habit , especially by:

- encouraging customers to pay online by building an ecosystem with point accumulation system, special sale campaign
- making it possible for customers to pay in many ways: at convenience stores, pay on mobile phone, bank transfer or use Paypal, Paysbuy, mPay.

After 3 years of operation, now Rakuten Tarad 's sales has increased by 1500%, with more than 80 employees (2011) and according to ex-CEO of Tarad, sales of merchants grew quickly, some shops' sales rose by 1000%. The site now does not only focus on technology but also became more customer-oriented with many consultation service for merchants.

---

<sup>44</sup> <http://www.action.vn/khoi-nghiep/tro-chuyen-voi-startup/2792-thuong-mai-dien-tu-dung-chay-theo-thi-truong-hay-tao-ra-no> ( retrieved on 2013/06/21)

#### 4.2.3 Key success factors

**Picture 4: Hiroshi Mikitani and CEOs of Tarad.**

*(source: Google)*



So far, Rakuten Tarad has been considered as one of the successful cases of Rakuten oversea. However, it was not easy for Rakuten at first to enter Thai e-commerce market. Like Vietnamese market, Thai market is not a developed market yet, which causes many difficulties , such as:

- +Customers still do not trust online shopping and online payment.
- + Many merchants are still conservative about joining online market.
- + The market was fragmented with many competitors.

However, Rakuten was fully aware of them, and took appropriate actions to overcome these problems.

According to the ex-CEO of Tarad, key success factors of Rakuten Tarad are:

- + Speed : M&A makes it easier for Rakuten Tarad to have fast decision making.
- +Localization: Rakuten Tarad made the most use of Tarad.com' s platform and understanding about market.
- +Differentiation: Rakuten Tarad offered many ways of payment, to bring convenience to customers while other shopping sites mostly use Bank Transfer.
- + Gaining customers' trust: guarantee safety in online payment and delivery service.
- +Cheap price.
- +Effective marketing : Search Engine Optimization , Advertising in Social Network sites (Facebook, online forums), Influencer Marketing (by review of celebrity, hot bloggers), direct

marketing (talking to merchants , e-mailing).

### Section 3. CHAPTER SUMMARY

There are many lessons we can learn from the case of Rakuten Tarad, and Lekutian.

+ First of all, entry mode and partners are the first important key to success. Joint venture partnership caused several problems to Rakuten while M&A in Thailand seems to be a good choice.

+ Localization is the next issue which any foreigner firm needs to pay attention when going oversea., however, level of localization depends on characteristics of each market.

+Differentiation or Price competition : Rakuten needs to make decision on strategic positions.

+ Marketing ( 4Ps) : what kind of marketing startegy will work for a particular market.

+ Payment and Delivery method.

+ Last, but not least: it is very important to gain the trust of local customers , especially in developing market.

## CHAPTER 5 RECOMMENDATIONS ON ENTRY MODE AND MARKETING STRATEGY.

### INTRODUCTION

Chapter 1, 2 and 3 has proved that Vietnam is an attractive and potential market for Rakuten. However, to win this no-leader market, Rakuten needs to prepare itself with right strategies. To prepare well for this challenge, chapter 4 gave an overview about lessons Rakuten learnt oversea to see what can be applied and what should be avoided when entering Vietnamese e-commerce market. Based on previous chapters' information, this chapter will give recommendations toward Rakuten's entry into Vietnam.

### Section 1. SWOT ANALYSIS OF RAKUTEN IN VIETNAMESE MARKET

**Table 2: Rakuten's SWOT Analysis**

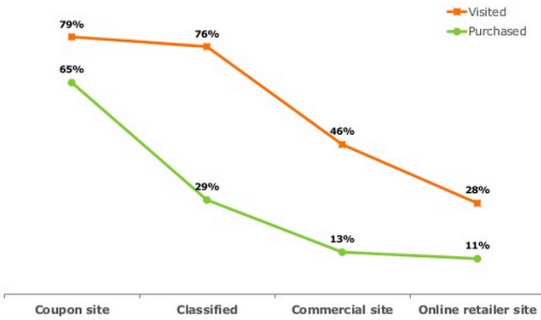
*(source: Author's analysis)*

<b>Strengths</b>	<b>Weaknesses</b>
<ul style="list-style-type: none"> <li>• 13 years of experience in e-commerce field with unique B2B2C business model.</li> <li>• Experience in many oversea markets</li> <li>• Good at building platforms, online payment system's security.</li> <li>• Lot of cash because of strong and profitable domestic business.</li> <li>• Brand recognition and good reputation in Japan and some oversea markets</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of understanding Vietnamese market.</li> <li>• High fee for opening shops and consultation service.</li> <li>• cannot control quality of delivery because merchants will deliver goods to customers.</li> <li>• low brand recognition in Vietnamese market--&gt; difficult to gain customers' trust.</li> </ul>

<p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>• Vietnamese e-commerce is growing at very fast rate.</li> <li>• Vietnamese government is encouraging foreign firms to invest into Information and Technology Field.</li> <li>• Increase of Vietnamese Internet users, online shoppers</li> <li>• Vietnamese e-commerce market currently has no leader.</li> </ul>	<p><b>Threats</b></p> <ul style="list-style-type: none"> <li>• Competition with hundreds of local shopping sites and foreign players.</li> <li>• Vietnamese customers may be not willing to adapt Rakuten's online payment systems.</li> <li>• Logistics in Vietnam is not developed yet.</li> <li>• Vietnamese regulations are still strict and complicated to foreign firms.</li> </ul>

Section 2.            SEGMENTING BY BUSINESS MODEL

**Table 3: Vietnamese e-commerce market's segments (by business model)**

	Classified ad sites	Commercial sites	Retail sites	Coupon sites															
Business model	C2C	B2B2C	B2C	B2T															
Price	Low	Low	A bit higher	Very low															
Size of merchants	Individual-small	Small to Medium	Big companies	Medium															
Breadth of goods <sup>45</sup>	High	Very high	Low	Not so high															
Depth of goods <sup>46</sup>	Not so high	High	Very high	Low															
Organization(state of being organized)	Very low	Not so high	High	Not so high															
Supports for merchants	No support	Provide many service options to support .	A few services to support.	A few services to support.															
Popularity ( by the number of people who visited and purchased)	<p>Coupon sites are the most popular sites, followed by Classified ad sites, Commercial sites and Retail sites respectively.</p> <p><b>Figure 22: Most popular shopping website types</b></p>  <table border="1"> <caption>Data for Figure 22: Most popular shopping website types</caption> <thead> <tr> <th>Website Type</th> <th>Visited (%)</th> <th>Purchased (%)</th> </tr> </thead> <tbody> <tr> <td>Coupon site</td> <td>79%</td> <td>65%</td> </tr> <tr> <td>Classified</td> <td>76%</td> <td>29%</td> </tr> <tr> <td>Commercial site</td> <td>46%</td> <td>13%</td> </tr> <tr> <td>Online retailer site</td> <td>28%</td> <td>11%</td> </tr> </tbody> </table> <p>(source of data: Acorn)</p>				Website Type	Visited (%)	Purchased (%)	Coupon site	79%	65%	Classified	76%	29%	Commercial site	46%	13%	Online retailer site	28%	11%
Website Type	Visited (%)	Purchased (%)																	
Coupon site	79%	65%																	
Classified	76%	29%																	
Commercial site	46%	13%																	
Online retailer site	28%	11%																	

<sup>45</sup> Number of product lines

<sup>46</sup> Number of product varieties within a product line

### Section 3. POSITIONING


According to Michael Porter ,a firm positions itself by leveraging strength, and there are 4 generic strategies a firm can choose to position itself:

Cost Leadership Strategy	Differentiation Strategy
Focus -Low cost	Focus -Differentiation

Based on above SWOT analysis, we can see that it is not easy for Rakuten to position itself as a cost leadership player, because merchants in Rakuten seem to have to pay a higher fee to open an online shop , and other fees for consultation, which is one of weaknesses of Rakuten. Also, currently in Vietnamese market, many players are trying to follow this strategy (especially more than 100 coupon sites) , which makes it difficult for Rakuten to compete. Next, differentiation seems to be a good long-term strategy for Rakuten as it was successful in differentiating itself with unique B2B2C business ( as a first-mover), unique Rakuten ecosystem and EC consulting service. However, these advantages cannot be easily applied in Vietnam at first, because most of Vietnamese online shoppers will hesitate to use online payment system and Rakuten had low (almost no) brand recognition to common Vietnamese online shoppers, and is not a first mover of B2B2C model in Vietnam. Therefore, at a first stage of entry, Rakuten should not only differentiate its products/service but also focus on a narrower segment to brand itself in customers' minds.



**Table 4: Rakuten's positioning**

	Classified ad sites	Commercial sites	Retail sites	Coupon sites	
Business model	C2C	B2B2C	B2C	B2T	B2B2C
Price	Low	Low	A bit higher	Very low	High
Size of merchants	Individual	Small	Medium-Big	Medium	Medium to Big
Breadth of goods <sup>47</sup>	High	Very high	Low	Not so high	Not so high
Depth of goods <sup>48</sup>	Not so high	High	Very high	Low	Very high
Organization(s) (state of being organized)	Not good	Good	Good	Not good	Good-Very good
Supports for merchants	No support	many service options to support .	A few services	A few services to support.	A lot of supports



The last column of the table above is recommendation for strategy.

As mentioned in the summary of chapter 3, gaining customers' TRUST is the key success factor for Rakuten to be successful in Vietnam and it is also one of important factor which helped Rakuten do well so far in Thai market. However, in a long term, if Rakuten wants to not only survive,

<sup>47</sup> Number of product lines

<sup>48</sup> Number of product varieties within a product line

but also win over other competitors in this market, it needs to brand itself as a "high quality" brand with **high quality of goods and service**, because "quality" is what market players in Vietnam still lack, and the higher quality is, the more customers will trust it.

To create that brand image, Rakuten can keep its unique B2B2C business model as it has the most experience and know-how to implement it, but to improve delivery service in Vietnam, Rakuten should build a good delivery/transport system so that its merchants can utilize it and provide customers with better delivery service. In addition, Rakuten should **focus** on target segment of medium to big-sized merchants at first, because it is difficult to screen individual sellers, or control quality of their goods and services. Furthermore, because of fewer number of these merchants, breadth of goods cannot be not so high at first. However, instead of it, Rakuten will **differentiate** its goods by specializing some types of goods with more variety within a product line (higher depth of goods). Also, by selecting fewer merchants, online shops will be better organized and easier-to-search-for, and Rakuten's ECC (e-commerce consultants) can provide sellers with better and more support services.

## Section 4. ENTRY MODE

### 5.4.1 Entry options

These are 3 option of entry modes for Rakuten to consider. Each entry mode has its own advantages and disadvantages:

**Table 5: Pros and cons of entry modes**

	Pros	Cons
Establishing its own branch	take control over the business	Lack of market understanding, and customers' trust.  Big initial investment to build online platform.
M&A	Can have market understanding, marketing, distribution channel.	May take a lot of time for M&A process and dealing with Vietnam's regulations.
Joint Venture	less risky, less time for market researching	Difficulties in decision making ( while Rakuten culture is Speed and Top down).  Possible contradictions according to lesson from the partnership with Baidu in China.

From above comparison, we can see that M&A will be a better choice for Rakuten to develop long-term strategy and have quick decision making which is an important factor to succeed in IT-related industry. In fact, M&A has indeed become a new popular trend among Japanese companies who want to enter Vietnamese market because of its advantages. According to the statistics of StoxPlus ,a leading business information company in Vietnam , in 2012, Japan firms were at a

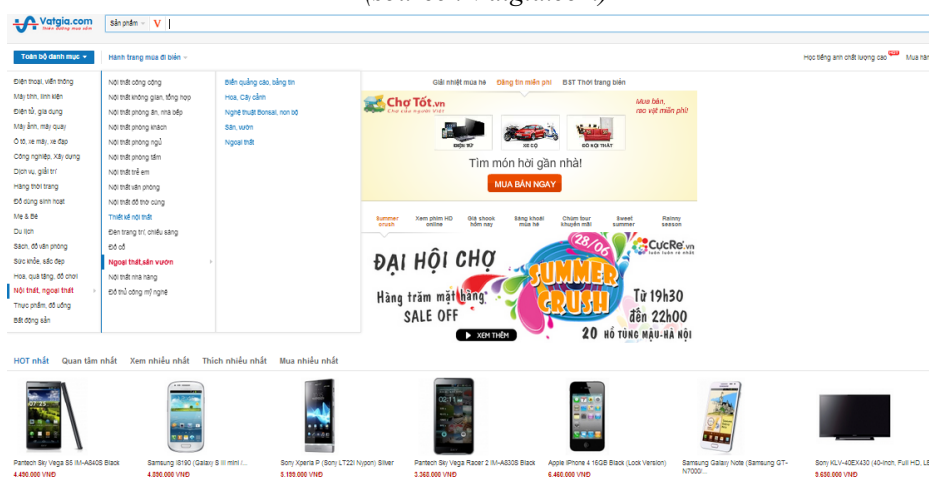
leading position in M&A activities in Vietnam, with total deal value of 1.2 billion USD of 14 deals<sup>49</sup>.

This section will also give Rakuten recommendations in choosing the suitable target for M&A, and the reasons why they should consider buying that. The first option is Vatgia.com, and the second one is Aha.vn.

## 5.4.2 Vatgia.com

Picture 5: Vatgia.com's home page

(source : Vatgia.com)



**Vatgia.com** ( Vat Gia means "Price" in Vietnamese) was established in 2006 and was first launched in 2007 as one of the first players in Vietnamese e-commerce market. 2007 was the time when many people believe that Vietnamese e-commerce would have no future. However, after 6 years of operation, it has become one of the most successful e-commerce websites in Vietnam with more than 1,200,000 people visiting per day and the value of deals is estimated about 3000 billion VND ( about 143 million USD) per year. From a small start-up, it now has more than 1 million registered users , 20000 registered online shops<sup>50</sup>, and more than 500 employees. In addition, Vietnam Price Joint Stock Company-the company which runs the site also owns **Baokim.vn**- a website which provides mobile payment service ( like Paypal), **Cucre.com** ( Cuc Re means "Very Cheap")-a coupon, discounted price site, and **Nhanh.vn** ( Nhanh means Fast)-a logistics company.

<sup>49</sup> StoxPlus, M&A Vietnam report, Issue 3, Vietnam M&A 2012 report and 2013 Outlook, April 2013

<sup>50</sup> <http://www.vatgia.com/home/help.php?iHpc=8&iHpd=70> ( retrieved on 2013/06/27)

Another interesting fact about Vatgia.com is that Nguyen Ngoc Diep- the founder of Vietnam Price Joint Stock Company decided to establish Vatgia.com because he was inspired by the business model of Rakuten when he studied in Japan. The first idea was establishing a site which sells Vietnamese goods and provides information about Vietnamese companies in Japanese, but at that time, he could not gather enough engineers and funding for his ideas<sup>51</sup>. However, being inspired by Japanese Rakuten and Kakaku, he made up his mind to create an online shopping site which applies B2B2C model of Rakuten.

Apart from above reasons for doing M&A, other reasons why Vatgia.com could be a potential target for Rakuten to acquire are:

- + As mentioned above, Rakuten will apparently achieve many advantages in Vietnamese market such as: a big customer base, customers' trust, local market understanding, mobile-supporting payment system and being able to utilize logistics system owned by Vietnam Price Joint Stock Company.

- + Vatgia.com and Rakuten have the same B2B2C business model.

- + Two companies share the same views and vision: according to the company's website, Vatgia aims to be a number 1 Internet service company in Vietnam by creating an ecosystem with multi-services , such as: online travel, education, sharing community and so on. This is exactly what Rakuten has been trying to achieve.

On the other hand, it is possible for Vietnam Price Joint Stock Company to sell the business to Rakuten because:

- + Vatgia.com has followed Rakuten's business model for a long time and the founder showed his admiration to development of Rakuten, therefore, he may want to create a joint-brand with Rakuten.

- + Vatgia.com aims to be the number one player in Vietnamese market, but it still needs a lot

---

<sup>51</sup> Official site of Vietnamese government on e-commerce

<http://ecommerce.gov.vn/322-805/giai-ma-su-thanh-cong-cua-cong-ty-thuong-mai-dien-tu-so-mot-vietnam.vhtml> ( retrieved on 2013/06/27)

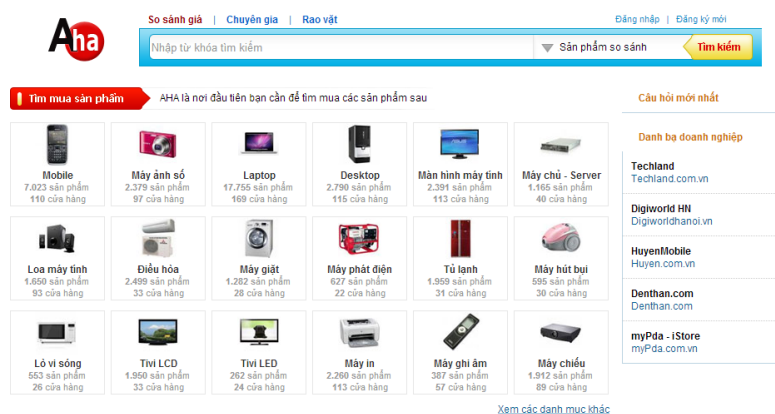
of funding ( the company has called for funding several times since its establishment), know-how and technology to do it ( such as search engine ). However, those factors are Rakuten's strengths.

+ Selling the business to Rakuten, the company does not have to change its vision, because Rakuten with its experience could help it to build the online ecosystem.

### 5.4.3 Aha.vn

Picture 6: Aha.vn's homepage

( source:Aha.vn)



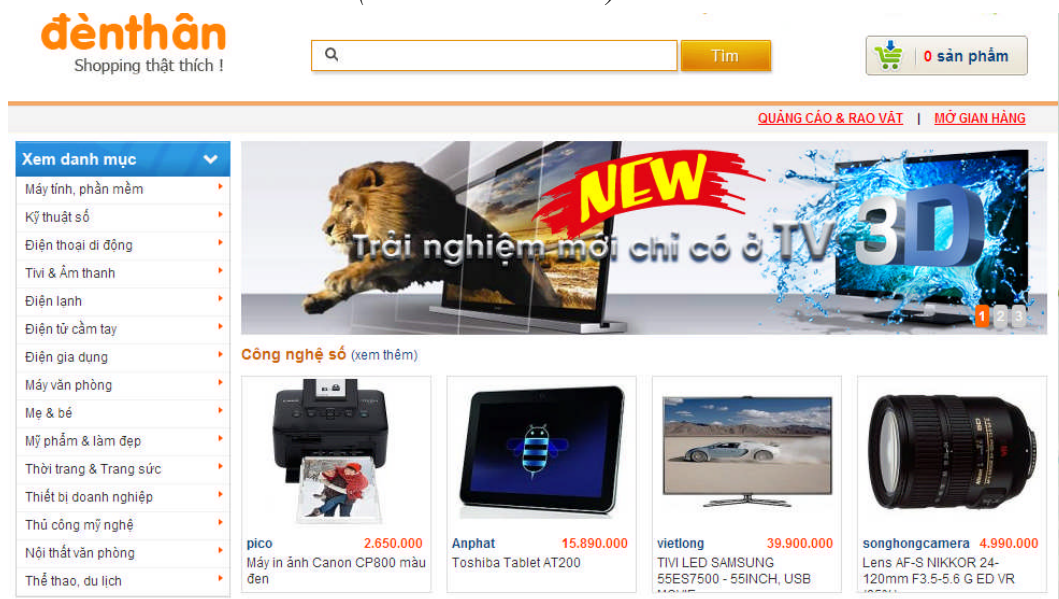
Aha.vn was established in June 2008, one of popular sites in Vietnam . It is one business of Hurama Joint Stock Company which also runs Hurasoft- a website solution service ( website design, web hosting, and SEO<sup>52</sup> advertising), and Denthan.vn ( Den than means "magic lamp"-inspired by the famous genie character in "Aladdin" story ) a commercial online shopping site .However, Aha.vn's business model is quite different from Rakuten, but close to the famous Kakaku.com in Japan because its first purpose is providing best information to customers by comparing price of different stores. The site is very strong at electronic appliances, PC, mobile, machinery. Once customers are interested in the product, they can see detailed information on the store's official site ( many sites are designed by Hurasoft). Also, Aha.vn has a section called "Chuyen gia" ( means Experts) for customers to share their ideas, experience in choosing products and answer each others' questions. It also built ranking system for products to help customers buy goods more easily.

<sup>52</sup> SEO: Search Engine Optimization

Because Aha.vn's functions are basically comparing price and providing products' information, in recent years, Hurama developed a real shopping site to take advantage of Aha.vn's strength. Now Aha.vn is linked to Denthan.com where people can find products with good quality, mostly from medium to big merchants ( up to 2000 products per shop). Sellers have to meet many requirements about delivery service, refund, warranty service and so on because Denthan.com wants to ensure the quality of goods and service. Each store on Denthan.vn is designed very carefully with detailed information about seller, and has its own page and linked to Facebook, featured "Like" function.

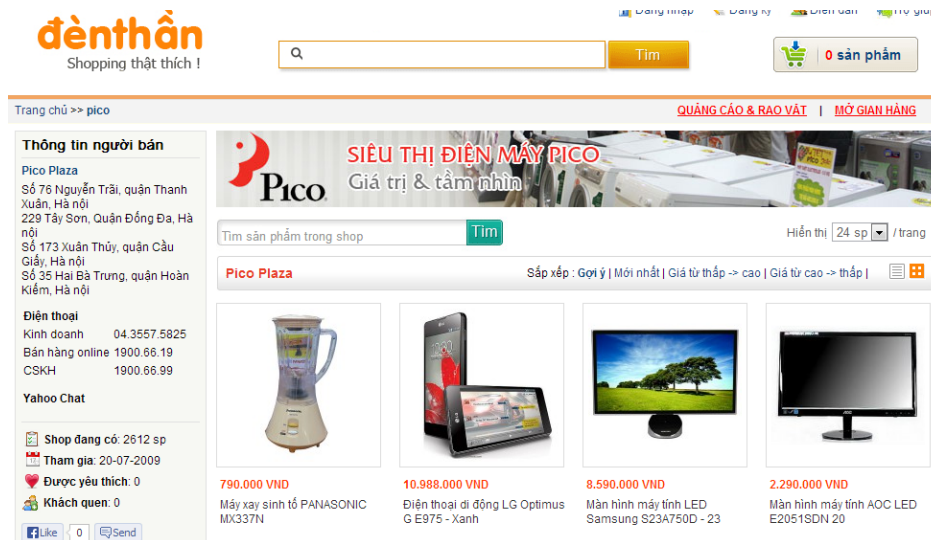
Picture 7: Denthan.com's Homepage

(source :Denthan.com)



Picture 8: A seller( named Pico)'s page on Denthan.vn

(source :Denthan.com)



In short, Aha.vn 's strength rests in:

+ First-mover advantage: Aha.vn is the first site in Vietnam which provides price comparing service , detailed information to customers , at the time when most Vietnamese did not trust online shopping sites.

+ Strong ability in SEO, especially for electric goods : products are classified by price range, brand, or even detailed functions( such as resolution, white balance for camera products).

+Reliability: price listed on the site is updated everyday to ensure accuracy, customers' reviews.

+Connection with Denthan.com : a commercial site with high-quality goods and service.

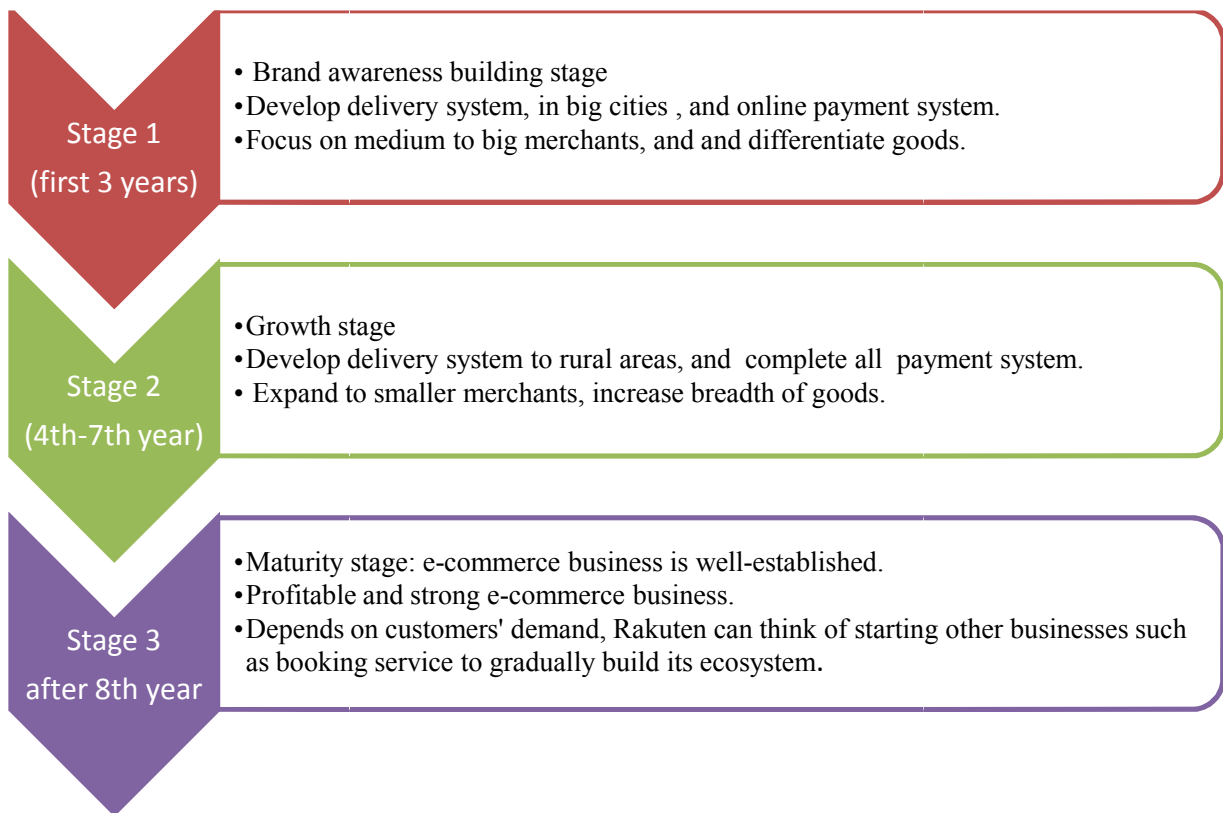
As mentioned above, acquiring Hurama , the company which operates Aha.vn and Denthan.vn could bring many advantages to Rakuten. Denthan.vn aims to be a website which provide the best quality of goods and service to customers, which is also suitable for Rakuten's positioning. However, compared to Vatgia.com, the company still lacks of a complete system for online shoppers, such as payment system, delivery and so on, which could cost Rakuten a lot for initial investment. Moreover, generally Hurama is still different from Rakuten in business model and strategy, which can cause obstacles for the acquisition.



## Section 5. STAGES FOR BRANDING AND MARKETING STRATEGY

Brand image: a shopping site which provides merchants and customers with good quality of goods and services.

Below are suggested phases for branding Rakuten and developing e-commerce business in Vietnam.



### 5.5.1 Stage 1

+ Place : focusing on online shoppers in big cities such as Hanoi, Hochiminh.

+ Products: Taking advantages of "from Japan" origin to differentiate by recruiting medium and big companies which sell imported Japanese goods with high quality such as : cosmetics, protein/diet food, products for baby, "made-in-Japan" home appliances.

+ Price :

Fixed cost for online stores will be different based on the size of business:

- Common stores : 600USD/ year
- Medium stores: 1200 USD/year
- Premium stores: 2400 USD/year

Variable cost will be 5% of each store 's sales when sales reach a particular pre-determined number.

+ Promotion:

- Heavy mass media advertisement : TV advertisement, Facebook especially on Social network sites and news site ( 95% Vietnamese Internet users visit these sites everyday).
- Product reviews by Vietnamese celebrity( singers , actors, bloggers)
- SEO -Advertisement through Search engine, for example : Google.com.vn, target potential customers ( female,35-44 year old people...)
- Special campaigns on peak seasons or special occasions such as: summer sale season, Lunar new year, Mid-autumn festival to attract Vietnamese customers who are very sensitive to price.

+ Delivery:

- For big cities: next-day delivery service. Rakuten can build its own logistics team to deliver goods by scooters/motorbikes (available in all districts).For bulky items, Rakuten can sign a contract with a transport company to deliver by trucks. Rakuten's merchants are encouraged to join this system( by offering many benefits)
- For rural areas: use national postal service for the first stage.

+ Payment:

Besides developing of its own online payment system and encourage people to use non-cash payment methods ( Credit cards, Paypal) , Rakuten can offer customers with more convenient payment means: such as paying at nearby shops ( by contracting with local shops)

### 5.5.2 Stage 2

There will be several changes in strategy for stage 2.

+ Place : besides big cities, Rakuten will gradually take steps to reach customers in rural areas.

+ Products: .In this stage, Rakuten will expand breadth of goods and attract more smaller sized sellers. However, these sellers still need to meet specific requirements of product quality or delivery service.

+ Promotion: from this stage, Rakuten can cut the amount of money spending on advertisement by half because customers' brand recognition is expected to be much higher than the stage 1.

+ Delivery: expand logistics system to be able to deliver in the next day to areas nearby big cities .

+ Payment : starts running Rakuten's online payment system, point systems.

### 5.5.3 Stage 3

If marketing strategies in stage 1 and 3 work well, Rakuten can continue implementing it with appropriate changes to localize the brand in terms of product, promotion while still differentiating itself from other sites by "Japanese quality" of goods and customer services.

## Section 6. FINANCIAL FORECAST

This part will make financial assumptions in the case that Rakuten buys Vatgia.com to evaluate feasibility of the business , forecast sales, expenses, net profit ( loss) for first 5 years. Unit for money used here is US Dollars.

In M&A cases in Vietnam, as well as Rakuten's M&A cases in oversea market, Rakuten needs to buy at least 51% of Vatgia.com to take control of the business. There are several ways to buy the business in this case. First, like Tarad's case, CEO or founder of Tarad decided to sell his business to Rakuten. However, it may be difficult in Vatgia's case because the site is doing quite well

and the founder may not want to sell it. Nevertheless, Rakuten can choose another approach which is buying share from other investors , such as IDG Ventures Vietnam, a current big source of funding for Vatgia.

#### 5.6.1 Acquisition cost

According to Value.site4vn- a Vietnamese website which values sites, especially Vietnamese sites, Vatgia 's value is more than 5 million USD <sup>53</sup>. This figure is calculated based on Pagerank of Google, the site's traffic report, several security , search engines , connection with social networking sites' indexes, and in comparison with other sites in the same industry. Furthermore, to acquire Vatgia, Rakuten should prepare a premium amount , such as 30% of the value, which can lead to 6.5 million USD in total. As mentioned above, Rakuten should buy at least 51% of share which is equal to 3.3 million USD to take control of the site. However, the real price can be much higher since Vatgia is doing quite well in Vietnam.

#### 5.6.2 Sales and revenue forecast.

Revenue of Vatgia.com comes from 2 main sources: sales and advertising

(1)Revenue from sales.

First, based on official forecast that market size of e-commerce in Vietnam can reach 2.8 billion in 5 years and the number of Vietnamese internet users can increase to 37 million in next 5 years of Vietnamese government on e-commerce market, we can estimate the number of Vietnamese online shoppers ( currently 12.5 million )by assuming growth rate through years with highest growth rate in year 4 due to forecast on Vietnamese economy. Next, because there are 40% of Vietnamese online shoppers are Vatgia's users now, we can estimate the number of users as well as the number of registered accounts in 5 years. From these figures, we can get the number of sellers( see Appendix 1 for more details). Currently there are 20000 online stores, after 5 years, due to marketing strategy to increase brand awareness of Rakuten in Vietnam, the number of sellers are expected to exceed 34000.

---

<sup>53</sup> <http://value.site4vn.com/www/vatgia.com> ( retrieved on 2013/07/03)

**Figure 23: Rakuten-Vatgia's number of sellers.**

	Year1	Year 2	Year 3	Year 4	Year 5
Market size(Mil USD)	300	525	918.75	1607.8	2813.7
Number of Internet users (Mil)	32.12	33.27	34.47	35.71	37.00
Number of Online shoppers(Mil)	13.13	13.91	15.30	17.14	17.83
Number of registered accounts(Mil)	1.42	1.64	2.00	2.37	2.65
Number of sellers	<b>24098</b>	<b>26178</b>	<b>29957</b>	<b>33115</b>	<b>34482</b>

After calculating the number of sellers/ shops, we can estimate Rakuten' revenue for first 5 years .Currently, there is no shop-opening fee for sellers, however each month, sellers have to pay about 600 USD/ year for web hosting, maintenance fee and so on, and a small ratio ( about 5%) of sellers could pay 1200 USD/ year for other consultation, layout design fee. In first 3 years after acquisition, apart from these price options, Rakuten can add a premium price :2400 USD/ year for big sellers and should take advantage of sale force to increase ratio of these premium stores to 5% and medium stores ( 1200 USD/ year) to 10% after 5 years. Besides these fixed cost, sellers have to pay a variable cost according to their monthly sales. Sellers have to incur these variable costs because when they have more customers or more transactions, the total system's capacity needs to be expanded. As a result ,costs such as maintenance cost is higher for the site. Below is the summary of

revenue from sales. To make it simple, we will assume that these variable costs for sellers will be equal to 5% percent of total fixed cost from all kinds of stores( though it will be various according to the size of stores), because the higher percentage of variable cost may make Vietnamese sellers hesitate to join the site. As a result, Rakuten 's revenue from sales in Vietnam can exceed more than 27 million USD( see Appendix 2 for more details). This might look optimistic but it is not impossible result , because as mentioned in Chapter 3, many analysts and giant firms see Vietnam e-commerce market as a very potential market.

Common store: 600USD/year

Medium store: 1200 USD/ year

Premium stores: 2400 USD/year

**Figure 24: Rakuten-Vatgia's revenue from sales( prediction)**

	Year1	Year 2	Year 3	Year 4	Year 5
Number of sellers	24098	26178	29957	33115	34482
Rev from common stores	13301820	13978924	15637601	17087271	17585944
Rev from medium stores	2024190	2513065	3235366	3576406	4137869
Rev from premium stores	578,340	1,884,799	2,875,881	3,973,784	4,137,869
Rev from sellers' sales	795,218	918,839	1,087,442	1,231,873	1,293,084
<b>Rev from sales</b>	<b>16,699,568</b>	<b>19,295,627</b>	<b>22,836,290</b>	<b>25,869,334</b>	<b>27,154,766</b>

(2) Revenue from advertisement

According to Free Website Report. Vatgia has annual revenue from advertisement of 1.1 million USD, based on Google Page Rank, Traffic report and Alexa ranking<sup>54</sup>. This is equal to more than 6 % of Vatgia's revenue from sales. Therefore, assume that Vatgia's revenue from advertisement

<sup>54</sup> <http://www.freewebsitereport.org/www.vatgia.com> ( retrieved on 2013/06/30)

is 6% of revenue from sales, we can get the below' results.

**Figure 25: Rakuten-Vatgia's revenue from sales( prediction)**

	Year1	Year 2	Year 3	Year 4	Year 5
<b>Rev from advertisement</b>	<b>1,001,974</b>	<b>1,157,738</b>	<b>1,370,177</b>	<b>1,552,160</b>	<b>1,629,286</b>

(3) Total revenue

After 5 years, the site ' revenue is expected to reach 28.7 million USD.

**Figure 26: Rakuten-Vatgia's total revenue( prediction)**

	Year1	Year 2	Year 3	Year 4	Year 5
Total revenue	17,701,542	20,453,365	24,206,468	27,421,494	28,784,052

### 5.6.3 Cost estimation

There are 4 types of cost Rakuten after taking control of Vatgia"

(1) Cost of sales

(2) Salary

(2)Advertising& Marketing cost

(4) Online processing fee

Below are assumptions and estimation for each type of cost. Each type of cost are based on many assumptions, from various sources and data in Vietnamese. To make it easier to understand, the cost will be converted from Vietnam Dong (VND) to US Dollars at the exchange rate of 21000 VND= 1USD

(1) Cost of sales

Cost of sales for an online retailing site consists primarily of expenses associated with operation of data centre, distribution system improvement, buying latest software, facility and equipment rent expenses, energy and bandwidth cost and support and maintenance expenses.

For general websites, the average cost of sales is about 20% at the maturity phase ( such as

Facebook, Google), but it may cost more at the developing phase. That is why for Rakuten Ichiba , this cost accounts for 20.8% of sales<sup>55</sup> in 2012, but for Rakuten Tarad, this cost makes up 40%<sup>56</sup> on average for 3 years after Rakuten's acquisition because like Vietnam, Thailand's e-commerce market was not developed well yet in 2008, so Rakuten had to spend a lot of money to improve the system and technology.

Hence, for first 3 years, Rakuten needs to invest in various things in Vietnam such as servers, warehouses, and equipment, which make this cost account for 40% of sales. Later , this cost can slightly be reduced to 37% and 35% of main revenue. Therefore, we can make an assumption that cost of sales will make up 40% of sales for year 1, 2, 3, and 37% for year 4 and 35% for year 5.

**Figure 27: Estimated cost of sales**

	Year1	Year 2	Year 3	Year 4	Year 5
Cost of sales	6,679,827	7,718,251	9,134,516	9,571,653	9,504,168

## (2) Salary

First, the number of employees are calculated by assuming that the average increase rate of employees are 3.7%. This number is the actual number of recruited positions each year. Also, because this is IT business, not a labor-intensive industry, the number of employees are expected not to increase so much despite of e-commerce market 's fast growth. The average salary per month is estimated to be 1000 USD because current salary for engineers is around 600 USD, and salary for manager positions are around 2000 USD or more ( Japanese managers assigned by Rakuten later may have higher salary too).Salary is expected to increase 7% per year since Vietnam's inflation rate is about this much.

---

<sup>55</sup> Rakuten's non-consolidated Profit and Loss- Fiscal year 2012 full year and 4th Quarter Financial results, February 2013.

<sup>56</sup> Rakuten Tarad 's Profit and Loss in 2009, 2010, 2011- Thai Department of Business Development ( Ministry of Commerce)



**Figure 28: Estimated salary**

	Current	Year 1	Year 2	Year 3	Year 4	Year 5
No.of employees	500	519	538	558	578	600
Salary	6,000,000	6,420,000	6,869,400	7,350,258	7,864,776	8,415,310

(3) Advertising and marketing cost

+ Social media ( facebook): in first 3 years, Rakuten should use Facebook advertisement because as mentioned in Chapter 3, Vietnam is one of fastest growing country in terms of the number of Facebook users. We assume that Rakuten will use Pay-per-click advertisement on Facebook with 5000 clicks/ week package for first 3 years and reduce to 2000 clicks / week for year 4 and 5.<sup>57</sup>

+TV advertisement: TV advertisement is very necessary to draw current non-online shoppers ' attention, because most of Vietnamese people have TV . Rakuten can advertise their site on VTV3 ( the most popular entertainment TV channel).In first 2 years, Rakuten can pay for 10-second advertisement everyday from 18:55 to 19:00- the time when most people will be in front of TV for news information. This TV advertisement will cost Rakuten 433300 USD / year for first 2 years. and half of this for the next 3 years.<sup>58</sup>

+ Bloggers and celebrity's reviews: Rakuten should allocate 100000USD of budget each year to pay for bloggers and celebrity 's reviews .This way of advertising really works in Vietnam in recent years where famous people , or people who have much influence on others have more communication tools ( Twitter, Facebook) to interactively communicate with their fans.

+ Online news magazine: according to statistics of Cimigo, 95% Internet users visit online news website everyday, therefore, this can be a very efficient marketing channel to advertise Rakuten-Vatgia's website. Cost for advertisement on a popular site such as Vnexpress or Kenh 14 is around 20000USD /year. If Rakuten wants its advertisement to appear in 10 sites, the total cost will be 200000USD.

<sup>57</sup> <http://facebookads.com.vn/> (retrieved on 2013/06/29)

<sup>58</sup> TVad -TV advertisement price menu. <http://www.tvad.com.vn/> ( retrieved on 2013/06/29)

+SEO : advertisement on search engine such as Google will make the site pop up when target customers type e-commerce related keywords. This type of advertisement about 5000 USD/ year.

To summarize, below are total advertisement and marketing cost:

**Figure 29: Estimated advertising and marketing cost**

	Year1	Year 2	Year 3	Year 4	Year 5
Social media (facebook)	55714	55714	55714	22285	22285
Bloggers, celebrity's reviews	100000	100000	100000	100000	100000
TV ads	433300	433300	216650	216650	216650
Online news magazine	200000	200000	200000	200000	200000
SEO	5000	5000	5000	5000	5000
Total ads cost	794014	794014	577364	543935	543935

#### (4) Online processing fee

These are cost incurred when customers use payment service such as Paypal ,Credit card, the site will have to pay for these service amount of fee ( for example : for Paypal :2.9% value of the transaction). However, currently, not many customers are using these services, because as mentioned in Chapter 3, most of transactions are paid by cash. However, in long term, Rakuten should encourage customers to use non-cash payment method more. Besides worldwide service such as Paypal, it should promote Rakuten's payment system as well.

Assume that the ratio of deal value which is paid through Paypal is 5% of total transaction's value at first, we can get the year 1 's online processing fee. Next, assume that this figure (not the

number of customers or deal) will increase by 20% each year when Rakuten encourages more people to pay online, we can get 5 years' online processing fee.

**Figure 30: Estimated online processing fee**

	Year1	Year 2	Year 3	Year 4	Year 5
Online processing fee	207150	248580	298296	357955	429546

### 5.6.3 Profit & Loss

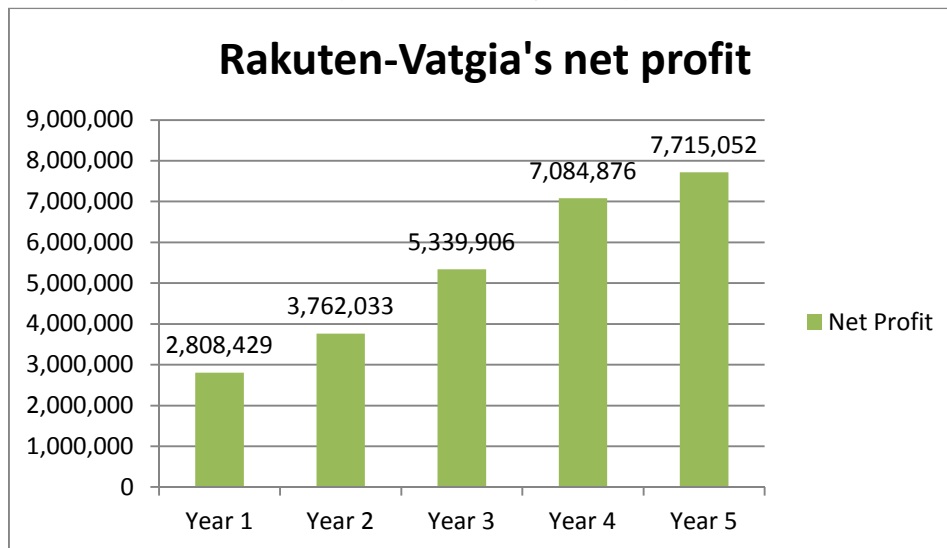
This is the summary of forecast for Rakuten's profit and loss after buying Vatgia. The tax rate is 22% (according to Vietnam's new tax system, starting from 2014/01/01)

**Figure 31: Prediction of Rakuten-Vatgia's Profit and Loss**

	Year1	Year 2	Year 3	Year 4	Year 5
Sales	16,699,568	19,295,627	22,836,290	25,869,334	27,154,766
Rev from ads	1,001,974	1,157,738	1,370,177	1,552,160	1,629,286
Total revenue	17,701,542	20,453,365	24,206,468	27,421,494	28,784,052
Cost of sales	6,679,827	7,718,251	9,134,516	9,571,653	9,504,168
Gross Profit	10,019,741	11,577,376	13,701,774	16,297,680	17,650,598
Salary	6,420,000	6,869,400	7,350,258	7,864,776	8,415,310
Ads fee	794014	794014	577364	543935	543935
Online processing fee	207150	248580	298296	357955	429546
Total expenses	14,100,991	15,630,245	17,360,434	18,338,320	18,892,960
EBT	3,600,550.55	4,823,119.75	6,846,033.52	9,083,173.95	9,891,092.49
Tax	792,121.12	1,061,086.35	1,506,127.37	1,998,298.27	2,176,040.35
Net Profit	2,808,429.43	3,762,033.41	5,339,906.15	7,084,875.68	7,715,052.14

**Figure 32: Rakuten-Vatgia's net profit in first 5 years**

*(source: Author's forecast)*



## Section 7. CHAPTER SUMMARY

To summarize, in order to not only survive but also become a market leader in Vietnamese e-commerce market, Rakuten needs to have a long-term strategy which consists of 3 phases: branding, growth, and maturity stages. Rakuten should **focus** on medium and big-sized businesses / sellers at first and **differentiate** itself from other competitors by Japanese products, high quality of customer services and delivery. Later, it can step-by-step shift to general products and increase breadth of goods.

After deciding its positioning strategies , Rakuten has 3 options of entry modes to enter Vietnamese e-commerce market. However, among of them, **M&A** has most advantages in terms of reducing risks and taking control of the business, which will help Rakuten make fast decisions in this fast-changing industry. Currently, in Vietnam there are two potential sites which Rakuten can consider to acquire. The most potential target is Vatgia.com, one of biggest online shopping sites in Vietnam with the same B2B2C business model with Rakuten, and the second is Aha.vn-a price-

comparing site, one of pioneers in Vietnamese e-commerce market.

If Rakuten can succeed in M&A to buy Vatgia.com, Rakuten can expect a high growth rate and net profit from the first year. In the first 5 years, it needs to invest in various things to improve the system and service, which makes cost of sales high ( 40% of sales), but from the 4th year, the cost of sales ratio, and other costs will be lower, which leads to significant increase in net profit to exceed 7 million USD. This result looks optimistic, but it is possible because of : high growth rate of internet and e-commerce market in Vietnam. The forecast is calculated based on predictions about Vietnamese e-commerce market of government, and big firms such as PWC.

## Section 8. LIMITS OF THE RESEARCH

First, the calculations and simulation for annual costs are preliminary, made to help Rakuten get rough ideas about doing this business in Vietnam. Most calculations used assumptions based on predictions of Vietnamese government and market research firms ( for example :Cimigo) on the future of Vietnamese e-commerce market. Vatgia is not a public company so financial statements are not revealed to public. To get more precise results, Rakuten should spend money and time on market research and doing due diligence, get actual figures on sales, cost, profit(loss) of the site.

Additionally, valuing any company is not easy, there are several methods to do it. However, because the topic of this research is not about M&A, and there are limits on research's length, time, this thesis does not go in details on site-value, or M&A methods. Therefore, there is a possibility that the above mentioned value of Vatgia may be different from the actual value.

In addition, the research has been carried out in only 1 year from the second half of 2012 to July 2013 , so the information on M&A, Vatgia sellers' fixed fee may be different according to the time Rakuten enters Vietnam. Since e-commerce is a fast changing industry, the site's value and business conditions can change quickly because of many reasons, such as uncertainties of Vietnamese economy in the future caused by uncertainties in real estate market; Vietnamese government 's regulation for e-commerce, M&A. Therefore, besides taking time to do market researches, Rakuten needs to choose the right timing to enter Vietnam. For example, currently

Vietnam does not have a separate law on M&A, however, due to increase of M&A deals in recent 3 years, Vietnamese government is preparing specific rules and legal framework to control the situation and protect big Vietnamese firms from being acquired by foreign companies. Hence, entering Vietnam before introduction of new laws would be better for Rakuten.

Last but not least, this thesis proposed Vatgia as the most ideal target for Rakuten to acquire. However, there are many factors which can influence on success of M&A, for instance: price negotiation, Vatgia's current main investors' options toward selling the business. Therefore, Rakuten should prepare more than 1 or 2 potential target, to increase the chances of entering Vietnam by M&A. In the case that Rakuten can not buy any of its targets or can not carry out its plan, it should forget Vietnamese market for a while and wait for other chances to come. Doing joint venture or establishing its own branch in Vietnam can contain may risks.

## Section 9. CONCLUSION

Vietnam has been considered as an attractive market for many foreign firms, especially IT-related companies in recent years. As mentioned in chapter 2, along with growth of ASEAN countries, Vietnamese is growing very fast in various fields : economy, education, technology and so on. However, since it is still in the transitional period from a centrally planned economy to open market economy, there are still many difficulties and challenges for foreign companies to do business , such as: long procedure of getting permits and licenses, shortage of electricity and energy, poor-equipped facilities and infrastructure.

Among all fast-growing markets in Vietnam, e-commerce market is one of the most potential markets. Unlike e-commerce markets in developed countries like Japan or US , Vietnamese e-commerce market is still young, started from 2007, 2008. However, from analysis in chapter 2, we can see that thanks to exponential increase of Internet users and other IT-related services, the market is booming with hundreds of market players and fast increase in market size. Nevertheless, there is still no market leader, which is a great chance for big and experienced players like Rakuten to take

the leading role.

To reduce risks of doing business in Vietnam, Rakuten can acquire a Vietnamese online shopping site and improve its current service while branding "Rakuten " brand and gaining customers' trust. It will take a long time for Rakuten to completely change Vietnamese sellers and buyers' behaviors in payment and delivery, which requires consistent efforts and investments. However, once Rakuten gain customers' trust in its quality, it will have great chances to win over other competitors and become the market leader.

## REFERENCES

### BOOKS

- [1] Al, R.(2007) "Focus- The future of your business depends on it", HarperCollins Publishers.
- [2] Malcolm, D., Rebecca V.(2010) "Economic Development in Asia", Second Edition, Cengage Learning Asia Pte Ltd.
- [3] Michael, E. Porter(1998) "Competitive Strategy: Techniques for analyzing Industries and Competitors",1 edition, Free Press.
- [4] Philip, K., Kelvin L.K. (2007) "A framework for marketing management", Third Edition, New Jersey, Pearson Prentice Hall.

### COMPANY AND ORGANIZATION'S REPORTS

- [5] Acorn , Epnion (2012), "Vietnamese Internet users online buying and selling behavior"
- [6] Business Monitor International (2013), "Vietnam Infrastructure report, Q1, 2013"
- [7] Business Monitor International (2011), "Vietnam Information Technology report, Q3, 2011"
- [8] Cimigo(2011), "2011 Vietnamese NetCitizens Report-Internet usage and development in Vietnam"
- [9] Doing business (2013), "Doing Business 2013, Vietnam"
- [10] Euromonitor International (2011), "Vietnam-Demographic and Economic indicators"
- [11] Facebook (2012), "Facebook Annual Report 2012"
- [12] General Statistics Office of Vietnam (2012), "Socio-economic situation in 2012"
- [13] Groupon (2012), "Groupon Annual Report 2012"
- [14] International Monetary Fund (2013), "Infrastructure and Income Distribution in ASEAN-5- What are the links"
- [15] Kanta Media (2010), "Vietnam Net Index 2010"
- [16] MasterCard (2013), "Report on online shopping in Asia Pacific, 2013"
- [17] PWC (2013), "E-commerce- a largely untapped opportunity in Vietnam"
- [18] Rakuten Inc (2013), "Fiscal Year 2013 First Quarter Consolidated Financial results"
- [19] Rakuten Inc (2012), "Consolidated Financial results for the Fiscal year ended December 31 2012"
- [20] Rakuten Inc (2011), "Rakuten Annual report 2011"
- [21] Rakuten Inc (2010), "Rakuten Annual report 2010"
- [22] StoxPlus (2013), "M&A Vietnam report 2012 and 2013 outlook"
- [23] Thai Department of Business Development(2013), "Rakuten Tarad's Financial Statements in 2009,2010,2011"
- [24] Vietnam Information and Communication Technology Ministry(2011), "White Book 2011"
- [25] We Are Social (2012), "Social, Digital and Mobile in Vietnam, 2012"
- [26] World Bank (2011), "Vietnam development report 2012-Market economy for a middle income Vietnam"
- [27] World Bank (2010), "IDA at work-Laying foundation for sustainable, inclusive growth"



## INTERNET ARTICLES

- [28] ASEAN, "ASEAN Free Trade Area (AFTA Council), retrieved on 2013/05/03 from <http://www.asean.org/communities/asean-economic-community/category/asean-free-trade-area-afta-council> retrieved on 2013/06/20 from <http://en.cbf.net.au/Item/18799.aspx>
- [29] BBC (2011/09/21), "Play.com is bought by Japan's Rakuten", retrieved on 2013/05/02 from <http://www.bbc.co.uk/news/business-15004271>
- [30] China Business Focus (2012/06/04), "Rakuten vainly combines e-commerce and search engine", *China Business Focus*,
- [31] Embassy of the Socialist Republic of Vietnam in the United States, "Constitution and Political system ", retrieved on 2013/05/03 from <http://vietnamembassy-usa.org/vietnam/politics>
- [32] Export Finance and Insurance Corporation, "Overview of Vietnam", retrieved on 2013/05/03 from <http://www.efic.gov.au/country/countryprofiles/Pages/Vietnam.aspx>
- [33] Facebookads, "Price menu for advertising on Facebook" retrieved on 2013/06/29 from <http://facebookads.com.vn/> (translated by author)
- [34] Forbes (2012/09), "The World 's most innovative companies", retrieved on 2013/05/02 from <http://www.forbes.com/innovative-companies/list/>
- [35] Free Website report , "Vatgia.com 's website traffic net worth 1.4 million USD", *Freewebsitereport.org*, retrieved on 2013/06/30 from <http://www.freewebsitereport.org/www.vatgia.com>
- [36] Geohive, "Current world population", *Geohive.com*, retrieved on 2013/06/13 from [http://www.geohive.com/earth/population\\_now.aspx](http://www.geohive.com/earth/population_now.aspx)
- [37] Indexmundi, "Vietnam Age Structure", *Indexmundi.com*, retrieved on 2013/06/13 from [http://www.indexmundi.com/vietnam/age\\_structure.html](http://www.indexmundi.com/vietnam/age_structure.html)
- [38] Jay, Y. ,(2012/03/26), "How Japan's biggest e-commerce company plans to take over the world", *Business Insider*, retrieved on 2013/06/05 from <http://www.businessinsider.com/how-japans-biggest-e-commerce-company-plans-to-take-over-the-world-2012-3>
- [39] Lisa, L. (2013/01/16), "Buy.com goes global, gets a new name, *Orange County Register*, retrieved on 2013/05/02 from <http://www.ocregister.com/articles/buy-383728-rakuten-company.html>
- [40] Minh, B. (2013/01/07), "E-commerce, do not follow the market , create it!", *Action.vn*, retrieved on 2013/06/21 from <http://www.action.vn/khoi-nghiep/tro-chuyen-voi-startup/2792-thuong-mai-dien-tu-dung-chay-theo-thi-truong-hay-tao-ra-no> (translated by author)
- [41] Ministry of Foreign Affairs of Japan, "Prime Minister's visit to Vietnam", retrieved on 2013/05/06 from <http://www.mofa.go.jp/region/asia-paci/vietnam/>
- [42] Ministry of Information and Communication, "Internet statistics", retrieved on 2013/06/17 from [http://www.thongkeinternet.vn/jsp/thuebao/table\\_dt.jsp](http://www.thongkeinternet.vn/jsp/thuebao/table_dt.jsp) (translated by author)
- [43] Nate, H. (2012/10/26), "Amazon give Rakuten troubles in Japan", retrieved on 2013/05/02 from <http://connected.retailnetgroup.com/index.php/2012/10/26/amazon-gives-rakuten-trouble-in-japan/>
- [44] PC World (2012/03/20), "Non-cash payment accounts for 14%", *pcworld.com.vn*, retrieved on 2013/06/20 from <http://www.pcworld.com.vn/articles/tieu-dung/song-cong-nghe/2012/03/1231197/thanh-toan-khong-tien-mat-chiem-14/> (translated by author)
- [45] PC World (2010/12/21), "Characteristics of Vietnamese consumers in online shopping activities", *pcworld.com.vn*, retrieved on 2013/06/18 from <http://www.pcworld.com.vn/articles/kinh-doanh/giai-phap/2010/12/1222839/dac-diem-mua-sam-truc-tuyen-cua-nguoi-viet/>( translated by author)
- [46] Philippe, D. (2010/06/05), "Political stability is Vietnam's advantage", *The voice of Vietnam*, retrieved on 2013/05/03 from <http://english.vov.vn/Politics/Political-stability-is-Vietnams-advantage/115316.vov>

- [47] Rakuten, "Rakuten's business strategy and Global expansion", retrieved on 2013/06/10, from <http://global.rakuten.com/careers/business/global/strategy.html>
- [48] Robin, W. (2010/01/17), "Rakuten to acquire France's Prime Minister for approximately € 200 million", *Techcrunch.com* retrieved on 2013/05/02 from <http://techcrunch.com/2010/06/17/rakuten-to-acquire-frances-priceminister-for-approximately-e200-million/>
- [49] TVad, "Price menu for advertising on VTV" retrieved on 2013/06/29 from <http://www.tvad.com.vn/> ( translated by author)
- [50] Value.site4vn (2013/05), "Vatgia is estimated to worth \$5,067,360", *Value.site4vn.com*, retrieved on 2013/06/27 from <http://value.site4vn.com/www/vatgia.com>
- [51] Vatgia, "Overview of Vietnam Price Joint Stock Company", *Vatgia.com*. retrieved on 2013/06/27 from [http://www.vatgia.com/home/help.php?iHpc=8&iHpd=70%20\(%20retrieved%20on%202013/06/27\)](http://www.vatgia.com/home/help.php?iHpc=8&iHpd=70%20(%20retrieved%20on%202013/06/27))
- [52] Web20, "Statistics of Groupon-like business model websites in Vietnam", *web20.vn*, retrieved on 2013/06/18 from <http://web20.vn/tin-tuc-chi-tiet/tin-tuc-chung/thong-ke-ve-cac-website-mo-hinh-groupon-mua-chung-nhom-mua-tai-viet-nam.htm> (translated by author)

## APPENDIX

### Appendix 1: Number of sellers on Vatgia.com after acquisition.

( source: Vietnamese government e-commerce site, Vatgia.com, author's analysis)

Unit: Million USD, Million people

	Year1	Year 2	Year 3	Year 4	Year 5
Market size	300	525	918.75	1607.8	2813.7
Internet user increase %	3.6%	3.6%	3.6%	3.6%	3.6%
Internet users	32.12	33.27	34.47	35.71	37.00
Online shoppers increase rate	5%	6%	10%	12%	4%
Online shoppers	13.13	13.91	15.30	17.14	17.83
Users/ online shoppers	40%	42%	45%	46%	48%
Number of Vatgia 's Users	5.25	5.84	6.89	7.88	8.56
(Registered accounts: users) ratio	27%	28%	29%	30%	31%
Number of registered accounts	1.42	1.64	2.00	2.37	2.65
(Sellers: register accounts) ratio	1.70%	1.60%	1.50%	1.40%	1.30%
Number of Sellers( million )	0.02	0.03	0.03	0.03	0.03
Number of sellers	<b>24098</b>	<b>26178</b>	<b>29957</b>	<b>33115</b>	<b>34482</b>

## Appendix 2: Revenue of Rakuten- Vatgia in Vietnam

( source: Vatgia.com, author's analysis)

Unit: Million USD, Million people

	Year1	Year 2	Year 3	Year 4	Year 5
No. of sellers	24098	26178	29957	33115	34482
Small stores' ratio	92%	89%	87%	86%	85%
No. of Small stores	22170	23298	26063	28479	29310
Rev from small Stores	13301820	13978924	15637601	17087271	17585944
medium stores' ratio	7%	8%	9%	9%	10%
No. of medium stores	1687	2094	2696	2980	3448
Rev from medium stores	2024190	2513065	3235366	3576406	4137869
Premium stores' ratio	1%	3%	4%	5%	5%
No.of premium stores	241	785	1198	1656	1724
Rev from premium stores	578,340	1,884,799	2,875,881	3,973,784	4,137,869
Total rev from sellers' fixed-cost	15,904,35 0.00	18,376,787. 52	21,748,84 7.79	24,637,460. 60	25,861,682.2 5