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ALIBABA GROUP: ACQUIRING LAZADA TO WIN the SOUTHEAST ASIA E‑COMMERCE BATTLE[[1]](#endnote-1)

Wiboon Kittilaksanawong and Noor Izzati Binti Harun wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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With the investment in Lazada, Alibaba gains access to a platform with a large and growing consumer base outside China, a proven management team and a solid foundation for future growth in one of the most promising regions for e-commerce globally.[[2]](#endnote-2)

J. Michael Evans, President of Alibaba Group Holding Limited

Given the slowdown in the Chinese economy and intensified domestic competition, the Chinese e‑commerce giant Alibaba Group Holding Limited (Alibaba) decided to enter the Southeast Asia market in April 2016 by acquiring the cash-strapped leading incumbent, the German e-commerce company Lazada Group (Lazada). Lazada’s value proposition was that it offered an effortless shopping experience. Given this promise and the rising competition in the region—particularly from the anticipated entry of the U.S. e‑commerce giant Amazon.com, Inc. (Amazon) in the first quarter of 2017—Lazada had no choice but to continue investing to build its logistics infrastructure to strengthen its platform ecosystem. As a result, it became short of liquidity. The acquisition by Alibaba would enable Lazada to continue to pursue its strategic imperatives and to leverage Alibaba’s successful experience and other resources in China. It also raised important questions for Alibaba: Was Southeast Asia an appropriate destination for Alibaba’s globalization efforts? Should Alibaba have entered the region through joint ventures or greenfield investments? Should Alibaba integrate Lazada or use a partnering approach? Did a report that Amazon would delay its entry to the region to a later date mean that Alibaba and Lazada had successfully built a fortress that could pre-empt even the world’s largest e-commerce player?[[3]](#endnote-3)

alibaba: the chinese e-commerce giant

History

The story of Alibaba began when the founder and executive chairperson, Jack Ma, a former English teacher from China, discovered the Internet for the first time during a trip to the United States in 1995. Coming from a country without easy access to the Internet, Ma discovered that he could hardly find any information about China using the technology.[[4]](#endnote-4) Being aware of the potential opportunity, he decided to start his own Internet business in China. Despite having no experience with computers or coding, he managed to create a website he called China Pages, which was a directory for Chinese companies looking for international customers.[[5]](#endnote-5)

In 1999, four years after the creation of China Pages, Ma came up with a new vision to develop an online platform that would allow small-and-medium-sized exporters to post their products while enabling buyers to purchase directly from them. He then convinced all his friends to invest in this vision and managed to get US$60,000[[6]](#endnote-6) to start the new business; he set up the head office in his apartment in April of the same year.[[7]](#endnote-7) Motivated to go global and inspired by the world-famous folk tale *Ali Baba and the Forty Thieves*, Ma named the new company Alibaba.[[8]](#endnote-8) In no time, the platform attracted members from all over the world. By October 2009, the company had raised $5 million from Goldman Sachs and Co. and $20 million from SoftBank Group Corp.[[9]](#endnote-9)

By 2013, Alibaba’s online transactions had finally surpassed the combined transactions of eBay Inc. (eBay) and Amazon.[[10]](#endnote-10) One year later, in 2014, the company had established online business-to-business (B2B) services.[[11]](#endnote-11) In September 2014, Alibaba was listed on the New York Stock Exchange. Valued at $160 billion, and with a plan to sell 12 per cent of its shares, Alibaba was able to raise nearly $20 billion. This initial public offering value was larger than that for any other company listed in the United States at the time.[[12]](#endnote-12)

Ma had always wanted to do something that could influence many people and contribute to his beloved country. Through Alibaba, he not only created millions of jobs but also changed the country’s social and economic landscape, making China the largest Internet market in the world.[[13]](#endnote-13) By 2017, Alibaba had grown to become the second-largest Internet retail company based on market value—just behind its biggest rival, Amazon. Nevertheless, its profitability was more than double that of Amazon.[[14]](#endnote-14)

Domestic Market Competition

Home to nearly 1.4 billion people, over 50 per cent of whom had access to the Internet, China was inevitably attractive for online retailers.[[15]](#endnote-15) As the pioneer e-commerce company in China, Alibaba remained the dominant player in the market, occupying a 57 per cent share of the business-to-customer (B2C) market in 2016. However, this figure had decreased from 61 per cent in 2014, while the shares of an emerging domestic rival, JD.com Inc. (JD.com), had increased from 18 per cent in 2014 to 24 per cent in 2016.[[16]](#endnote-16) JD.com had adopted Amazon’s business model by heavily investing in its own logistics infrastructure. Despite the rising competition, Alibaba’s revenues had continued to grow significantly each year since 2010, mainly as a result of the growing online shopping trend.[[17]](#endnote-17)

The e-commerce market had grown substantially, and the online retail market was at peak in 2013, with a nearly 60 per cent annual growth rate. However, this growth was expected to decline to 20 per cent in 2018 due to the economic downturn in the Chinese economy (see Exhibit 1).[[18]](#endnote-18) In 2016, China’s economy grew at only 6.7 per cent—its worst performance in 26 years—and growth was expected to weaken further, to 6.2 per cent in 2018.[[19]](#endnote-19) Growth of gross merchandise volume (GMV) was the most important performance metric in the e-commerce industry. Alibaba’s GMV was at 40 per cent in the fourth quarter of 2015 but was reduced to less than 25 per cent in the same quarter of 2016 (see Exhibit 2).[[20]](#endnote-20) Although Alibaba still managed to increase its revenue during this downturn, the company could not ignore the fact that competition among e-commerce players would become stiffer and would potentially jeopardize its leading position.[[21]](#endnote-21)

Global Ambition

In 2017, Alibaba, once only a regional e-commerce player, had been actively pursuing globalization. The company had bought shares in promising Internet-related businesses all around the world over the previous 10 years.[[22]](#endnote-22) The slowdown in the Chinese economy, domestic competition, and expectations from capital markets all motivated the company to accelerate its globalization. In fact, Alibaba had derived only 7 per cent of its total revenue from international retail and wholesale markets in 2016.[[23]](#endnote-23) However, it aimed to generate over 50 per cent of its revenues outside China in the next 20 years,[[24]](#endnote-24) while serving 2 billion customers around the world, empowering 10 million businesses, and creating 100 million jobs.[[25]](#endnote-25) Regardless of the economic situation, Alibaba was optimistic about China’s e-commerce market, because only 50 per cent of China’s population had Internet access at that point. However, it would take time for the company to grow further by filling this gap.[[26]](#endnote-26)

LAZADA: THE AMAZON OF SOUTHEAST ASIA

The Beginning

Lazada was the brainchild of three tech-savvy brothers—Alexander Samwer, Marc Samwer, and Oliver Samwer—who founded Rocket Internet SE (Rocket Internet), a large, German, Internet-based incubator. Rocket Internet’s vision was to become the biggest online consumer platform outside the United States and China.[[27]](#endnote-27) Its business model was to develop new businesses, usually in emerging markets, based on the successful ideas of others. Facing constant criticism for this approach, the company defended itself by saying it was the builder, not the innovator.[[28]](#endnote-28) Rocket Internet saw a promising opportunity to start an e-commerce business in Southeast Asia because the market had grown rapidly but was without dominant players, probably due to the region’s diverse cultures, languages, geographical conditions, and consumer habits.[[29]](#endnote-29) To capitalize on this opportunity, Rocket Internet developed the online platform Lazada in 2011, based on the successful business model of Amazon. In 2017, Lazada, with its headquarters in Singapore, was operating in Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam (see Exhibit 3).

The Chief Executive Officer (CEO)

Rocket Internet’s exacting search for a qualified person to build a first-class e-commerce company in the region led to the appointment of Maximilian Bittner in 2012, a history and economics graduate from University College London with a masters of business administration from the Kellogg School of Management, as the chief executive officer (CEO) of Lazada.[[30]](#endnote-30) Bittner had worked as an analyst at Morgan Stanley for three years and as engagement manager at McKinsey & Company for five years. He grew Lazada substantially, achieving an online footprint of 5 million daily visits to the company’s sites and mobile apps and employing 5,500 people as of March 2016. Lazada also had the largest number of Facebook followers in Southeast Asia, with approximately 15 million fans. Bittner’s strong content marketing capabilities contributed significantly to Lazada’s popularity as the prominent online shopping marketplace in Southeast Asia.[[31]](#endnote-31)

The Business Model

Like Amazon, Lazada began its operations by selling products from its own warehouse. As a pure online retail company, Lazada controlled the supply chain and ensured customer satisfaction. To increase the assortment of products available as its customer base grew, the platform evolved in 2013 into an open marketplace with small merchants and major brands selling directly to consumers. This new business model improved the company’s performance by allowing it to expand faster with lower risk. By the end of 2014, Lazada’s marketplace sales accounted for 65 per cent of its total revenues. As of April 2016, Lazada had more than 27,000 active merchants across six nations in the region.[[32]](#endnote-32)

The company’s value proposition was to deliver the best shopping experience while addressing logistics challenges.[[33]](#endnote-33) Lazada developed multiple payment methods, including cash on delivery (COD), and provided extensive customer care and even free product returns. To improve delivery, Lazada invested in its own logistics service, Lazada Express, while also partnering with over 100 third-party logistics providers. To cope with the relatively underdeveloped logistics infrastructure in emerging nations, Lazada established 10 fulfillment centres and over 80 distribution hubs across the region. A fleet of over 2,000 vehicles was also prepared for last-mile delivery.[[34]](#endnote-34)

During its fourth birthday celebration, Lazada announced that its GMV from sales across six nations had exceeded $1 billion in 2015—an increase of 167 per cent from 2014.[[35]](#endnote-35) Its revenue had grown 78 per cent, from $154.3 million in 2014 to $275 million in 2015. In 2016, Lazada was ranked the number one online shopping marketplace in the Philippines, Indonesia, Malaysia, Thailand, and Vietnam.[[36]](#endnote-36) The company had successfully created a strong platform ecosystem consisting of reliable partners, merchants, and infrastructure across the region.[[37]](#endnote-37)

The Struggles

However, Lazada’s spectacular growth came with unsustainable costs. The company reported a $296.5 million loss in 2015, more than double the loss it had reported in 2014 (see Exhibit 4). The huge loss was due not only to the incentives and discounts it offered to merchants and buyers on its platform, but also to its heavy investments in expanding its logistics capabilities to accommodate the rapid growth of e-commerce and address the logistics challenges in the region.[[38]](#endnote-38) The company could not grow and sustain its leading e‑commerce site without these substantial investments. With rising competition and the anticipated entry of U.S. e-commerce giant Amazon into the region, Lazada had no choice but to continue investing to strengthen its position. This scenario left the company cash-strapped and obliged to look for additional funding to continue its competitive operation.[[39]](#endnote-39)

Alibaba’s ACQUISITION OF LAZADA TO ENTER SOUTHEAST ASIA

Transaction Rationales

As its home economy slowed and the competition continued to rise, Alibaba had to look for a new source of revenue to sustain its growth. Southeast Asia was a fast-growing region with an increasing middle-class population that could potentially drive the e-commerce market. Despite its attractiveness, the region was challenged by its fragmented market, infrastructure, logistics, connectivity, and payment gateways. Given these challenges, entering the region early through a greenfield investment might have been costly and risky; thus, acquiring an established player was a more appropriate option.

Lazada had conducted a few rounds of fundraising and had managed to raise about $700 million. However, this cash ran out quickly due to the challenges of serving six different emerging markets. Raising additional capital was difficult due to the size of the investment and the fact that the company was not a usual start-up in the first place. Lazada had figured out how challenging it was to operate a successful e-commerce business in Southeast Asia.[[40]](#endnote-40)

In January 2016, Alibaba expressed its interest in acquiring the cash-strapped Lazada—through either a full-fledged acquisition or a strategic majority investment. However, after the deal was signed, Alibaba would have the option to purchase the remaining shares from Lazada at market value over the next 18 months.[[41]](#endnote-41) In April of the same year, Rocket Internet sold half of its stake in Lazada to Alibaba for $137 million. Alibaba continued to acquire Lazada by spending $363 million to purchase the remaining shares from Tesco Plc, Kinnevik AB, and other investors. Alibaba also invested $500 million in Lazada’s newly issued shares. Alibaba became the controlling shareholder of Lazada, valued at $1.5 billion, through its $1 billion investment.[[42]](#endnote-42)

By investing in Lazada, Alibaba gained access to a huge and growing consumer base outside China. Lazada was a well-established platform with competent management and a strong foundation for growth in the region.[[43]](#endnote-43) It would have cost Alibaba years and billions of dollars to build such strategic assets to operate in the region if it had chosen greenfield investments.[[44]](#endnote-44) For Lazada, the acquisition not only broadened its product assortment,[[45]](#endnote-45) it also allowed Lazada to leverage Alibaba’s experience in China and its large data and analytics resources, which could strengthen Lazada’s value proposition in providing an effortless experience to its platform users. Furthermore, merchants in China could increase their sales to the huge number of consumers in Southeast Asia through Lazada, while manufacturers and retailers in Southeast Asia could access consumers in China through Alibaba’s online marketplace.[[46]](#endnote-46)

The Integration

The acquisition provided opportunities for both companies to share their insights. Lazada sent 100 of its employees and its 34 top-performing merchants to Alibaba’s campus in Hangzhou, China, to learn online sales strategies and best practices.[[47]](#endnote-47) A networking session also gave merchants from Southeast Asia an opportunity to build relationships with successful sellers in China.[[48]](#endnote-48) The strong support from Alibaba significantly boosted Lazada’s confidence in continuing to invest in its competitive platform ecosystem and to face future competition. Alibaba also permitted Lazada to continue its operations as usual, keeping its existing Lazada brand.[[49]](#endnote-49)

STRENGTHENING COMPETITIVE POSITION POST-ACQUISITION

Payment Gateways

Electronic payments (e-payment) through credit and debit cards, or ‘e-wallets,’ was a key to e-commerce growth because it was less costly and risky for both merchants and customers. Despite the widespread use of e‑commerce in Southeast Asia, most customers still preferred to pay offline through automated teller machine deposits or by COD. Only 2 to 11 per cent of consumers in Southeast Asia (excluding Singapore) used online payment systems;[[50]](#endnote-50) and 70–80 per cent of citizens in the Philippines, Vietnam, and Indonesia did not have bank accounts. Lazada thus introduced HelloPay, a platform for secure online payment transactions that also enabled customers who were not cardholders to pay online.[[51]](#endnote-51) In April 2017, Alibaba announced that its mobile and online payment system, Ant Financial, would merge with HelloPay. The resulting, rebranded e‑payment platform, Alipay, would increase customers’ confidence and strengthen both Alibaba’s and Lazada’s mobile and online platforms in the region.[[52]](#endnote-52)

Logistics Infrastructure

Despite the impressive growth of e-commerce in the region, Southeast Asia was lacking a unified logistics infrastructure.[[53]](#endnote-53) Inconsistent cross-border customs and taxes as well as corruption in emerging markets continued to be barriers to online retail development. In order to deliver an effortless shopping experience, Lazada focused on building its own logistical supports while deepening its partnerships with third-party vendors.[[54]](#endnote-54) In March 2017, Alibaba signed a memorandum with the Malaysian government to transform 45 hectares of the area around the Kuala Lumpur International Airport (KLIA) Aeropolis into an e-fulfillment hub to facilitate the clearance of imports and exports.[[55]](#endnote-55) It also announced an initiative to establish a regional distribution hub in Malaysia, its first logistics facility outside of China.[[56]](#endnote-56) Malaysia was directly connected to Thailand by land and shared common borders with other countries. The country was close to Indonesia and had efficient sea transport. Because it had a much larger land mass than Singapore, this facilitated logistics operations.[[57]](#endnote-57) The initiative received the full support of the Malaysia government because it was aligned with the government’s plan to double the nation’s e-commerce growth.[[58]](#endnote-58)

Strategic Partnerships

In anticipation of Amazon’s entry into the region in April 2017, Lazada fortified its business by partnering with Netflix, Inc. (Netflix) and Uber Technologies Inc. (Uber) to form LiveUp, an Amazon Prime–style membership program that offered users benefits including rebates from Lazada and Lazada’s online grocer, Redmart, as well as discounts for Netflix, Uber, Uber Eats, and Taobao Collection.[[59]](#endnote-59) LiveUp would compete strongly against Amazon Prime. In addition to rebates, LiveUp membership also provided lifestyle support. Lazada had joined forces with Unilever to capture the region’s fast-moving consumer goods market, which was projected to reach $25 billion by 2020.[[60]](#endnote-60) The partnership would tackle logistical challenges while offering customers an unprecedented assortment of products, educational content, and shipping alternatives. These collaborations were essential to strengthen the ecosystem of Lazada’s platform.[[61]](#endnote-61)

OPPORTUNITIES IN SOUTHEAST ASIA

Growing Middle Class

Southeast Asia (that is, Singapore, Brunei, Malaysia, Thailand, the Philippines, Indonesia, Vietnam, Laos, Myanmar, Cambodia, and East Timor) was home to over 640 million people—nearly 9 per cent of the world’s population—and was the fourth-largest region after China, India, and the United States. Over 70 per cent of the population in the region was under 40 years old (see Exhibit 5).[[62]](#endnote-62) The countries, excluding East Timor, had formed the Association of Southeast Asian Nations (ASEAN) to promote economic growth across the region. The region’s combined gross domestic product (GDP) was about $2.5 trillion, surpassing the GDP of India. Thanks to rapid economic development and foreign direct investments, the GDP was projected to grow steadily at 5.3 per cent annually over the next 10 years, resulting in a growing middle‑class population, which was estimated at 190 million in 2012 and expected to double in 2020 (see Exhibit 6).[[63]](#endnote-63)

In 2014, 29 per cent of the population had disposable incomes over $10,000, and this was expected to increase to 50 per cent in 2019.[[64]](#endnote-64) The ASEAN economy would soon be on par with that of Brazil, Russia, India, and China.The region had overtaken Russia, Mexico, and Brazil to become the second-largest market among emerging economies.[[65]](#endnote-65)

The Rise of the Internet Economy

Despite its diversity (for example, different cultures, religions, and languages), the region’s people shared a strong attraction to mobile technology. The region was the world’s fastest-growing Internet market; it was expected to gain an estimated 4 million new online users every month for the next five years and a total of 480 million users by 2020, up from 260 million in 2016. The region had over 700 million active mobile connections, accounting for 110 per cent of the population. By 2020, Indonesia would be the fastest-growing Internet market in the world, with 19 per cent growth annually from 2015 to 2020 (see Exhibit 7).[[66]](#endnote-66)

Despite the growth in incomes and Internet adoption rates, the e-commerce market in Southeast Asia was still small, with only 3 per cent online retail penetration ($6 billion in sales) compared to 14 per cent in China and the United States (which had $293 billion and $270 billion in sales, respectively).[[67]](#endnote-67) This low penetration rate implied a huge opportunity to grow the market. E-commerce retail spending was $5.5 billion in 2015 and was expected to grow 16 times over the next 10 years, to $88 billion in 2025. This impressive growth would be powered by the large proportion of young people in the population and by the lack of traditional retail options (only one-third of those in the United States) due to geographical conditions such as remote islands in the Philippines and Indonesia.[[68]](#endnote-68)

THE E-COMMERCE BATTLE IN SOUTHEAST ASIA

The rapid growth of e-commerce in the region had attracted many regional and global players to the battleground. Among the most renowned players were the eBay-backed, Singapore-based online marketplace Giosis Group’s (Giosis) Qoo10; Alibaba’s ultimate rival in China, JD.com; the largest online marketplace in Japan, Rakuten Inc. (Rakuten); and of course, the world’s largest online retailer, Amazon.

Qoo10—The Regional Player

Qoo10 offered an extensive product portfolio to buyers and customizable sales strategies to sellers. Its Singapore-based creator, Giosis, partnered with Mecox Lane Ltd.—a China-based mail order company with foreign investors—and Yahoo Inc. (Yahoo) to provide the best e-commerce deals in local marketplaces in China, Hong Kong, Japan, Indonesia, Malaysia, and Singapore.[[69]](#endnote-69) Until April 2015, Qoo10 had about 1.6 million registered users and processed about 45,000 transactions daily,[[70]](#endnote-70) generating monthly revenues of SG$25 million[[71]](#endnote-71) from its Singapore market. Qoo10 was forging alliances with shopping malls and big retail chains in Singapore to scale up its web-based platform as an additional source of revenue for these traditional retailers and in response to their high rents and rising staff costs. Despite rising competition, Qoo10 remained a leading e-commerce platform in Singapore.[[72]](#endnote-72)

JD.com—Alibaba’s Ultimate Rival in China

JD.com was ranked second largest in China’s B2C market, after Alibaba. JD.com’s GMV grew substantially (82 per cent) from 2011 to 2016.[[73]](#endnote-73) Unlike Alibaba, JD.com built its own extensive logistics network, which allowed it to have full control over the whole supply chain.[[74]](#endnote-74) Its nationwide logistics network provided same-day and next-day delivery to over 600 million customers. In terms of product authenticity and timely delivery, JD.com thus provided a stronger value proposition than Alibaba. Direct sales contributed 94 per cent of JD.com’s total revenues, while the marketplace platform contributed only 6 per cent of the total.[[75]](#endnote-75)

In 2015, JD.com entered the Indonesian market with a greenfield investment, opening the JD.id online store, which had a localized Android app.[[76]](#endnote-76) JD.id offered 12 different product categories, ranging from clothing for mothers and children to electronics and luxuries. The business grew rapidly as the number of stock-keeping units increased by 1,000 per cent, from 10,000 in 2015 to 100,000 in 2016. It also established a logistics network to serve over 365 cities in Indonesia, and it reportedly invested in Indonesia’s leading e-commerce player, PT Tokopedia, to accelerate JD.id’s expansion in the region. This entry confirmed the attractiveness of the Southeast Asian e-commerce industry.[[77]](#endnote-77)

Rakuten—The Largest Online Marketplace in Japan

Founded in 1997, Rakuten was the largest e-commerce company in Japan. Unlike its competitors, who adopted a standard B2C model, the company operated using a business-to-business-to-customer model. Aspiring to be the world’s largest Internet company, Rakuten launched Rakuten Ichiba in Taiwan in 2008, acquired the Thailand-based e-commerce site Tarad.com in 2009, and established a joint venture in Indonesia to set up Rakuten Belanja in 2011. In 2012, Rakuten entered Malaysia through greenfield investments, using this entry mode for the first time in its global expansion.[[78]](#endnote-78) Rakuten emphasized the best local and international product assortments while maintaining Japan’s high service standards on its platforms. It also provided tools to help sellers run successful online stores.[[79]](#endnote-79)

Amazon—U.S. E-Commerce Giant

As the world’s largest online retailer, Amazon sold nearly everything, including books, CDs, DVDs, and digital content. Amazon initiated Amazon Prime, a membership program that entitled its users to benefits that included free shipping, unlimited access to digital content, and the ability to borrow books from Kindle at cheaper prices.[[80]](#endnote-80) Amazon operated 11 online marketplaces across three continents, including North America (the United States, Canada, and Mexico), Europe (the United Kingdom, France, Spain, Italy, and Germany), and Asia (Japan, China, and India).[[81]](#endnote-81)

Amazon was also making moves into Southeast Asia by first tentatively launching its business in Singapore. It was reported that Amazon was actively acquiring assets and hiring people to facilitate this entry.[[82]](#endnote-82) In fact, Amazon had made an offer to acquire a Singapore-based online grocery marketplace, Redmart, in early 2016. However, Redmart had turned down the offer, considering the price too low. This initiative suggested that Amazon might launch its grocery service, AmazonFresh, in the region. Given its strong financial ability and years of online retail experience, Amazon could likely accomplish the strategic move into Southeast Asia without much difficulty, and this move would definitely amplify e-commerce competition in the region.[[83]](#endnote-83)

THE ROAD AHEAD

Given their potential synergies, acquiring the market leader Lazada seemed to be an appropriate strategic move for Alibaba to extend its geographical reach into the promising Southeast Asian e-commerce market. Lazada’s competitive advantages in the region, particularly its brand recognition, would take years for Alibaba if it chose to build them from scratch—that is, through greenfield investments. For Lazada, the acquisition provided opportunities to use Alibaba’s strong online retail knowledge and other resources to position itself competitively ahead of its competitors. With Alibaba’s backing, Lazada was able to build a stronger fortress to fight against the intensified competition in the region, particularly from the anticipated entry of Amazon. Nevertheless, Lazada occupied only 20 per cent of the Southeast Asian e-commerce market, and the market—like the geographical conditions—was very fragmented; Lazada would have to double its efforts to consolidate its competitive position and increase its market share. There were also reports early in 2017 that Amazon would delay its entry into Singapore to a later date.[[84]](#endnote-84)

Alibaba and Lazada had to determine what this delay meant: either that they had successfully created unbeatable competitive advantages—pre-empting even the world’s largest e-commerce player—and had already won the e‑commerce battle in Southeast Asia or that Amazon was planning an even bigger strategic move to counter them in this new e-commerce market frontier.

Exhibit 1: Transaction scale AND GROWTH of China’s online retail market

|  |  |  |
| --- | --- | --- |
| Year | Transaction Scale of Online Shopping (in ¥ trillions) | Overall Growth Rate of Online Retail Market (%) |
| 2011 | 0.8 | 70.2 |
| 2012 | 1.2 | 51.3 |
| 2013 | 1.9 | 59.4 |
| 2014 | 2.8 | 46.9 |
| 2015 | 3.8 | 36.2 |
| 2016E | 5.0 | 30.7 |
| 2017E | 6.2 | 25.4 |
| 2018E | 7.5 | 20.4 |

Note: E = estimated; ¥1.00 = US$0.15 in January 31, 2017.

Source: Created by the case authors based on Deloitte, *China E-Retail Market Report 2016*, 2017, 5, accessed July 13, 2017, https://www2.deloitte.com/content/dam/Deloitte/cn/Documents/cip/deloitte-cn-cip-china-online-retail-market-report-en-170123.pdf.

Exhibit 2: Alibaba’s Gross Merchandise VOLUME growth

|  |  |
| --- | --- |
| Quarter-Year | Growth |
| 4Q15 | 40% |
| 1Q16 | 34% |
| 2Q16 | 28% |
| 3Q16 | 23% |
| 4Q16 | 24% |

Source: Created by the case authors based on Adrian Stevens, “Will Alibaba’s Fiscal 1Q17 Earnings Top Analysts’ Estimate?,” Market Realist, August 3, 2016, accessed July 13, 2017, http://marketrealist.com/2016/08/will-alibabas-gmv-growth-rate-slow.

Exhibit 3: E-Commerce Market Size in Southeast Asia IN 2015

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | Thailand | Vietnam | Malaysia | Philippines | Singapore | Indonesia | ASEAN-6 |
| Market Size (US$ millions) | $1,440 | $690 | $510 | $350 | $970 | $1,680 | $5,640 |
| Rocket Internet | 17% | 9% | 28% | 34% | 6% | 29% | 21% |
| Foreign | 23% | 0% | 44% | 3% | 42% | 8% | 20% |
| Local | 13% | 25% | 0% | 2% | 19% | 17% | 12% |
| Others\* | 47% | 66% | 28% | 61% | 33% | 46% | 47% |

Note: \* Others included minor domestic and foreign players; ASEAN-6 = Association of Southeast Asian Nations plus Australia, China, India, Japan, New Zealand, and South Korea.

Source: Created by the case authors based on Yuki Hanai, “It’s Foreign vs. Local in Southeast Asia’s E-Commerce Market,” *Nikkei Asian Review*, March 10, 2016, accessed July 13, 2017, https://asia.nikkei.com/Business/Trends/It-s-foreign-vs.-local-in-Southeast-Asia-s-e-commerce-market.

Exhibit 4: Lazada—selected key financial indicators (IN US$ MILLIONs)

|  |  |  |  |
| --- | --- | --- | --- |
| Key Financial Indicators | 2013 | 2014 | 2015 |
| Net Revenue | 75.5 | 154.3 | 275.0 |
| Gross Profit | 5.2 | 22.4 | 67.0 |
| Adjusted EBITDA\* | (58.5) | (142.5) | (296.5) |
| Cash | 251.8 | 198.0 | 75.4 |
| Gross Merchandise Value | 95.0 | 383.8 | 1,024.7 |

Note: \*EBITDA = earnings before interest, taxes, depreciation, and amortization.

Source: Created by the case authors based on Rocket Internet, *Annual Report 2015*, 69, accessed January 31, 2018, https://www.rocket-internet.com/sites/default/files/investors/Rocket%20Internet%20Annual%20Report%202015.pdf; Rocket Internet, *Annual Report 2014*, 63, accessed January 31, 2018, https://www.rocket-internet.com/sites/default/files/investors/Rocket%20Annual%20Report%202014.pdf.

Exhibit 5: Southeast Asia Population by Age Group (%)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Age (Years) | | | | |
| 15–24 | 25–34 | 35–44 | 45–55 | 55+ |
| Singapore | 24 | 27 | 25 | 17 | 7 |
| Malaysia | 37 | 26 | 22 | 10 | 5 |
| Philippines | 40 | 31 | 16 | 9 | 4 |
| Vietnam | 42 | 32 | 14 | 8 | 4 |
| Indonesia | 43 | 27 | 19 | 8 | 3 |
| Thailand | 45 | 29 | 14 | 7 | 5 |

Source: Created by the case authors based on Paul Srivorakul, *The ASEAN E-Commerce Inflection Year 2015: What Are Needed for a Big Leap?*, Ardent Capital, December 2015, accessed July 13, 2017, https://www.set.or.th/th/news/thailand\_focus/files/2015/Paul.pdf.

Exhibit 6: Foreign Direct Investment into Southeast Asia region AND CHINA  
(in US$ BILLIONs)

|  |  |  |
| --- | --- | --- |
| Year | ASEAN-5\* | China |
| 2004 | 44 | 60 |
| 2005 | 40 | 72 |
| 2006 | 60 | 72 |
| 2007 | 86 | 80 |
| 2008 | 50 | 108 |
| 2009 | 40 | 92 |
| 2010 | 98 | 116 |
| 2011 | 100 | 124 |
| 2012 | 120 | 120 |
| 2013 | 130 | 118 |

Note: \*ASEAN-5 = Association of Southeast Asian Nations plus Thailand, Singapore, the Philippines, Malaysia, and Indonesia.

Source: Created by the case authors based on “ASEAN Outpacing China,” *Southeast Asia Globe*, May 2, 2014, accessed July 13, 2017, http://sea-globe.com/foreign-direct-investments-china-focus-asean-2.

Exhibit 7: ASEAN-6 Digital Population 2015–2020 (in MILLION USERS)\*

|  |  |  |  |
| --- | --- | --- | --- |
| ASEAN-6 Country | Number of Users | | CAGR (%) |
| Year 2015 | Year 2020 |
| Indonesia | 92 | 215 | 19 |
| Philippines | 55 | 93 | 11 |
| Vietnam | 44 | 82 | 13 |
| Thailand | 38 | 59 | 9 |
| Malaysia | 22 | 28 | 5 |
| Singapore | 5 | 6 | 3 |

|  |  |
| --- | --- |
| Region | Growth in Internet Users |
| (CAGR%, Year 2015–2020) |
| Southeast Asia | 14 |
| India | 14 |
| China | 10 |
| United States | 1 |
| European Union | 1 |

Note: \*Number of users assumed that Internet penetration would reach approximately 92 per cent in Singapore; 85 per cent in Vietnam, Thailand, the Philippines, and Malaysia; and 78 per cent in Indonesia. ASEAN-6 = Association of Southeast Asian Nations plus Australia, China, India, Japan, New Zealand, and South Korea.

Source: Created by the case authors based on Nawar Najeeb, “E-conomy SEA: Unlocking the $200 Billion Digital Opportunity in Southeast Asia,” presentation at Commonwealth Broadband Asia Forum 2016, Kuala Lumpur, September 23, 2016, accessed July 13, 2017, www.cto.int/media/events/pst-ev/2016/broadbandasia/Nawar%20Najeeb%20Copy%20of%20Presentation

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