



Queen Mary
University of London

Reform strategies for Rakuten to enter the UK market.

BUSM147 - STRATEGIC ANALYSIS



Name: Dev Upadhyay

Student ID: 200644879

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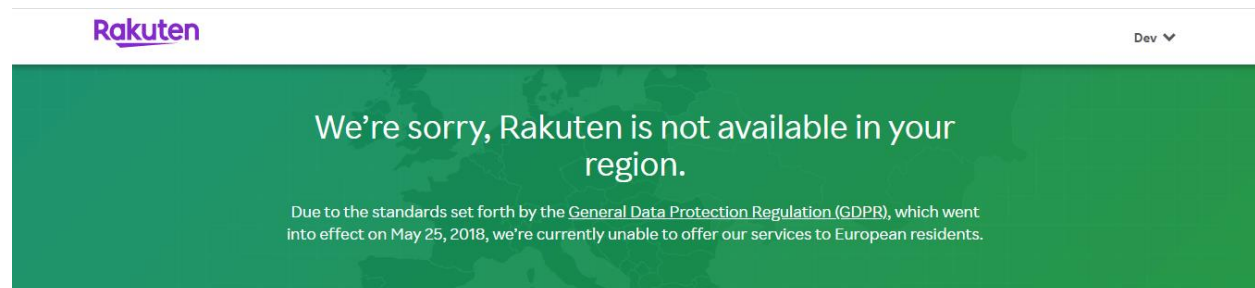
{i} Introduction

Rakuten is one of the world's largest Internet service companies founded in Japan. Rakuten's business portfolio has 2 business segments,

1. Internet services: E-commerce sites, travel, books, communications, etc.
2. Financial technologies: Banking and Securities, Credit cards, Life insurance, etc.

Rakuten ruled the Japanese E-commerce market and was able to capture a lot of ground in the European and UK markets initially. They entered the European market with an excellent strategy by adding inclusivity and diversity in their management style. But when they started exploring the UK market, they faced many challenges and made many mistakes which cost them financially and market share.

In this report, we will be discussing a two-part question ie 'What is the biggest mistake that Rakuten has made in your judgment?' & 'Which actions should Rakuten take to prevent those mistakes and make it more profitable?'. The objective here is to address challenges Rakuten faced while working in the European and UK market and most importantly what major mistake Rakuten did while expanding in the UK, which made them exit the market altogether. Based on the issues they faced and miscalculations they committed, we will analyze and devise a strategy that can be beneficial for them to re-enter and sustain in the market. (RAKUTEN: TO STAY OR NOT STAY IN THE UK?, 2020)

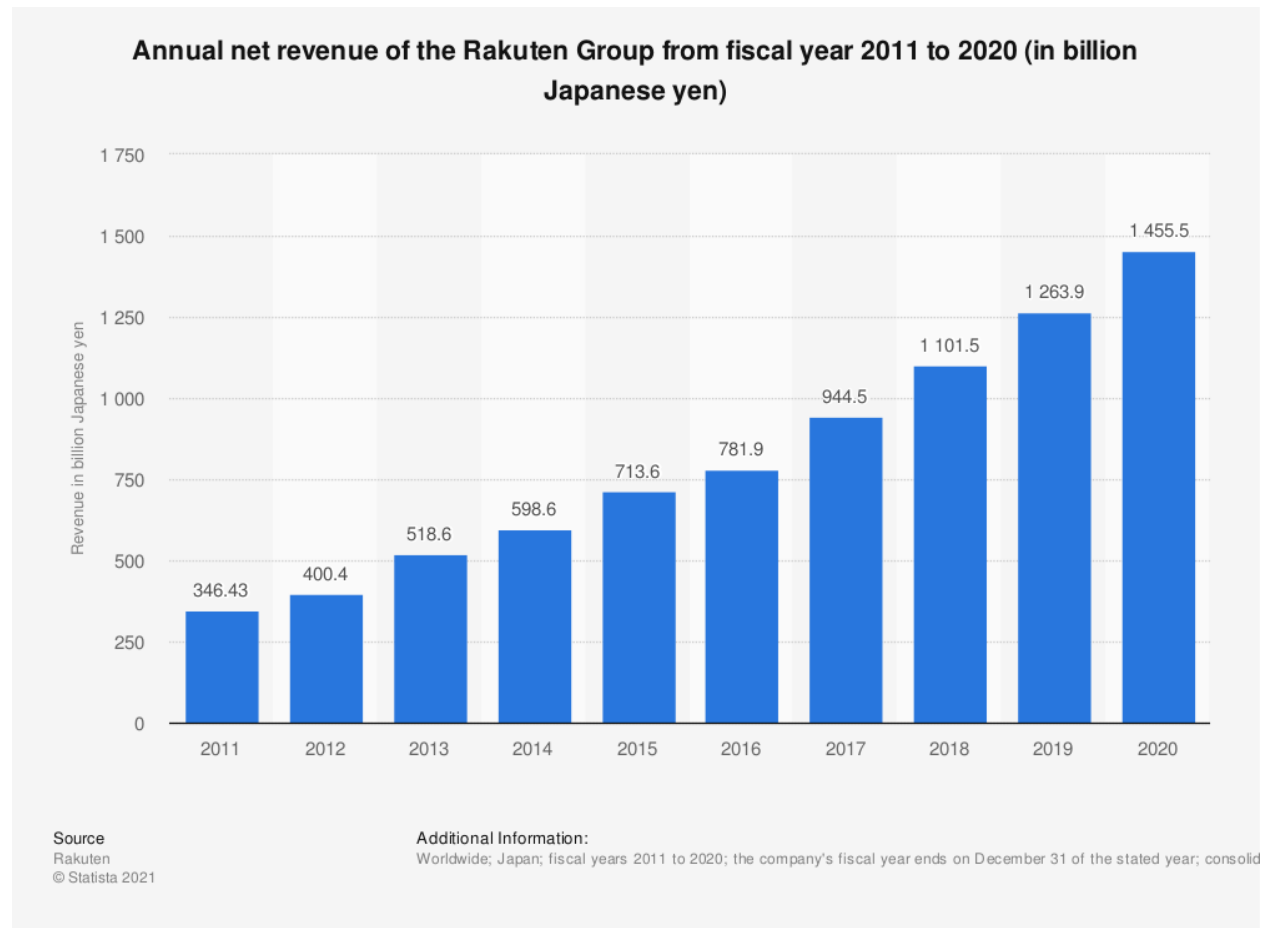


Pic 1: Rakuten website not available

{ii} Description (Important facts and milestones)

Rakuten's founder, Hiroshi Mikitani a Harvard Business School educated in the United States, after a few years working at the Industrial Bank of Japan, saw the destruction caused by the 1995 earthquake in his hometown made Mikitani decide to start his own business which he felt would better serve his country's damaged economy. Sensing the potential of internet shopping in 1997 his first business was MDM, inc, an online marketplace that sought to replicate Ebay's success. By the year 2000, the company had changed its name to Rakuten. In 2020 Rakuten employed approximately 24000 over 72 countries and had revenue of 1.46 trillion yen up from about 1.26 trillion yen in the previous fiscal year (Pic 1). As per the 2020 fiscal year, Rakuten cooperation has seen 14% of growth overall and 17% of growth in just the

E-commerce sector. The Rakuten Groups portfolio has 40 businesses and services which includes ecom sites(rakuten ichiba), rakuten travel, rakuten books, kenko.co, Rakuten communications, banking and securities, credit cards, life insurance, etc.



Pic 2: Rakuten Group's annual revenue FY 2011-2020 (Statista, 2021)

Rakuten started expanding into other markets in 2005 by acquiring and investing in other companies, it was only until 2010 that Rakuten began to place more emphasis on acquisition campaign strategy and expanding its operations outside of Japan with several high-profile acquisitions. These acquisitions included the following companies:

Acquisitions	Year	Acquisitions price
French online retailer PriceMinister	2010	€200 million
UK online retailer and e-commerce market place Play.com	2011	\$41 million
Canadian e-book reader company Kobo	2012	\$315 million
Singapore-based video streaming site Viki	2013	\$200 Million
Tel Aviv-based web messaging company Viber Media	2014	\$905 million
US rebate site operator Ebates Inc.	2014	\$952 million

Rakuten's expansion wasn't restricted to just the retail industry, as in 2014 a Tel Aviv-based internet calling and instant messaging service Viber Media for \$905 million, later that year bought out Ebates is a cashback website that uses affiliate links to get discounts at online stores and shares the saving with customers. Ebates has since changed its name to Rakuten Rewards and remains the firm's biggest profit maker across Europe and the United States. Apart from Rakuten TV, their financial services are available throughout Asia, which combine to make Rakuten the biggest online bank in Japan. Rakuten has made its mark most fast-paced industries like social media, ride-sharing, and even cryptocurrency. Rakuten's diverse portfolio has crypto features ie Rakuten wallet. The service allows customers to convert their loyalty points into virtual currencies. To capture the western audience's attention Rakuten has been seen making heavy investments in sports sponsorships like €220 million for official jersey sponsors of La Liga's FC Barcelona and \$60 million for the NBA's Golden State Warriors. (Wikipedia, 2021)



Pic 3: Hiroshi Mikitani, CEO of Rakuten Inc., and Barca's president Josep Maria Bartomeu pose with a FC Barcelona jersey after signing an agreement between FC Barcelona and Rakuten Inc. (FANSIDED, 2016)

While expanding in Europe they face three main challenges:

- 1) Language: Every country in Europe speaks a different language and even though they have many similarities among them they are completely different from Japanese.
- 2) Internet accessibility: The spreadability of the internet is not proportional across Europe, countries in the northern and western parts have good accessibility.

3) Customer prospects differed slightly from other European countries. Each country in Europe has its domestic players, which is quite difficult to identify.

Rakuten tackled 2 out of 3 challenges by playing a masterstroke: **Englishnization**.

To expand fast and attract the international talent they implemented another global mindset strategy in 2011 where they started raising the English level of their employees, they called this strategy "Rakuten Englishnization Project". This helped them hire more than 80% of their engineers from more than 45 nationalities around the world. Hiroshi Mikitani once said in a Harvard Business School lecture that "The internet is a global business and you cannot be just domestic." while explaining the reason for the Englishnization of his company. This Englishnization of the company helped them greatly by the democratization of internal knowledge. Another factor that helped them to attract talent from the world was to blend the Silicon Valley-style and Japanese culture, meaning dynamism and high quality. Rakuten Europe's domestic economy grasp and a variety in products category helped it achieve and maintain its market pre-eminence. But their acquisition campaign strategy had faced tough challenges while expanding in the UK due to mistakes they made. (Rakuten Englishnization Project, 2016)

Rakuten's mistakes in the UK.

Rakuten entered the UK market by acquiring UK's largest online retailer Play.com. After its acquisition, they planned to expand and develop Play.com further to strengthen its foothold in the UK e-commerce market. But there were a few main reasons why Rakuten struggled.

1) Due to the advent of streaming platforms like Netflix and other OTT platforms, the CD and DVD market had shrunk drastically. Play.com which only sold DVDs is already crashing down and rebranding itself to Rakuten. They have 14 million users. But an important issue which they didn't address that whether all those members were still active? Play.com itself is not in a prime condition as customers may already be moved on to another streaming platform.

2) There was another reason why Rakuten struggled, this reason was more of a problem related to their image among the UK general population and not a business strategy issue. In 2014 Rakuten was found guilty of selling the whale meat and elephant ivory online, by an Environmental Investigation Agency in the UK. In response to that in April Rakuten announced that they will stop selling whale and dolphin meat but they kept on selling elephant ivory until 2017. By the time they stopped the ivory online sale, the damage had already been done and it was quite late for them to recover from this. (Wikipedia, 2021)

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Japan's biggest online retailer, Rakuten, ends whale meat sales

Announcement comes after campaigners shamed company over issue and international court banned Southern Ocean hunt

Justin McCurry in Osaka

Fri 4 Apr 2014 05:38 BST

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Pic 4: (Guardian, 2014)

3) The Third mistake that Rakuten committed was restructuring the whole Play.com business model fundamentally from E-commerce retailers to B2B2C which cost them a lot of time and they can't compete with the agility of its competitor, Amazon. In 2013 Rakuten announced a loss of 7.6 billion yen in the e-commerce business. Amazon had the first-mover advantage, as they were launched in 1998, whereas Rakuten entered the market in 2011. Nearly 30% of eCom online transactions in the UK take place on Amazon.co.uk. (RAKUTEN: TO STAY OR NOT STAY IN THE UK?, 2020)

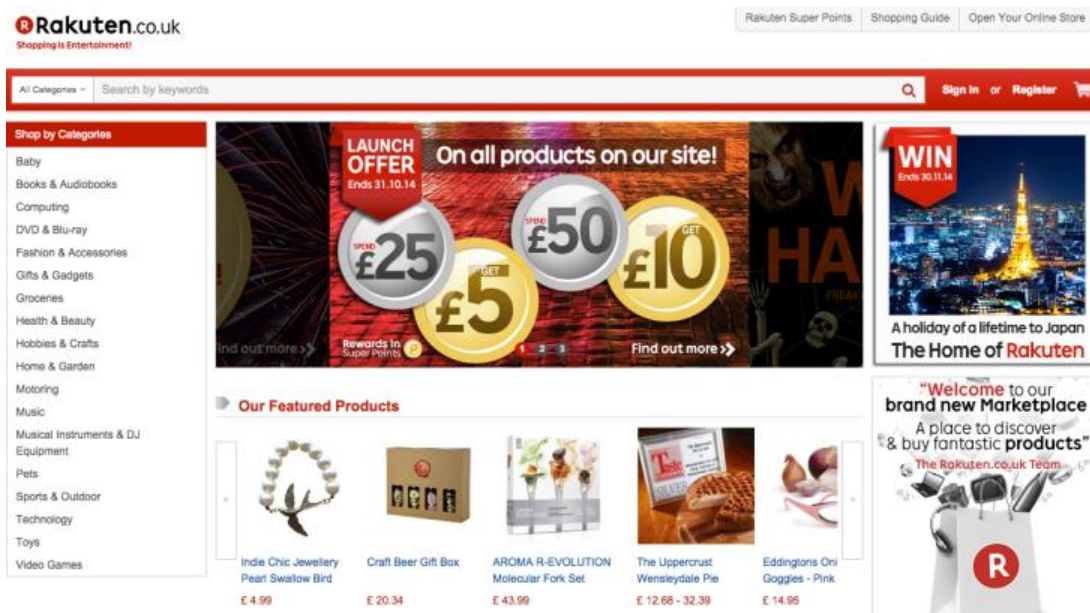
{iii} Analytical approach to Rakuten

Actions that Rakuten should take to prevent those mistakes and make it more profitable.

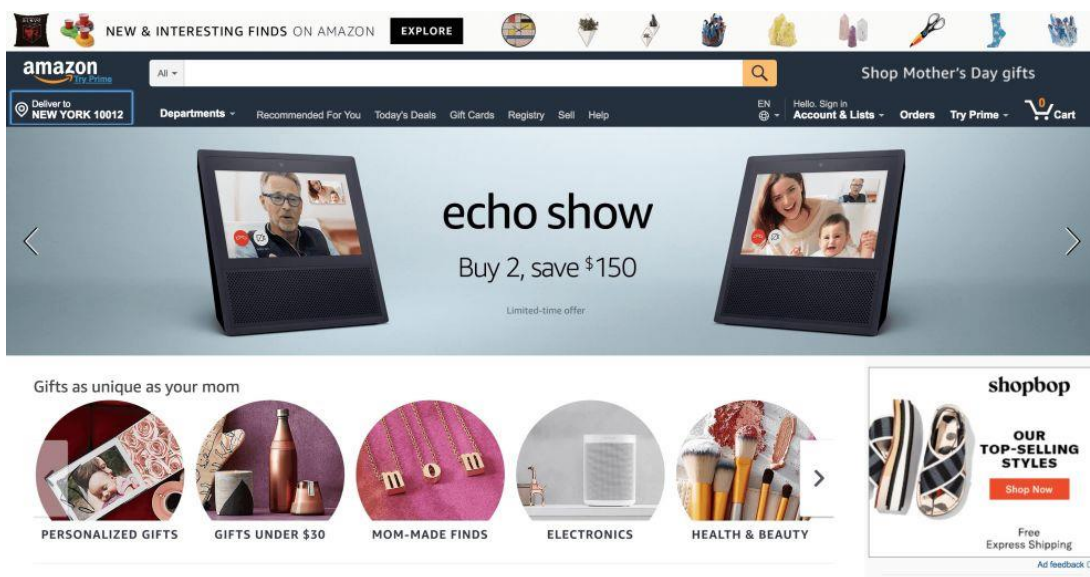
1) Amazon's emphasis on its logistics framework which provides fast and cheap shipping has helped it to achieve a comprehensive dominance in the eCom market space. Unlike Amazon Prime, Rakuten does not have a product delivery system and right now Rakuten's logistics are handled by third-party companies, which was the reason a lot of consumers had turned away to Amazon for quicker and cheaper delivery and the same is happening to other European countries like Germany and France, not to mention Prime subscription provides the latest and popular content in its OTT platform. Here Rakuten should use the complement strategy by building its own shipping and fulfillment centers, in order to

match up the fast and cheap delivery system. They will have a huge incentive by matching Amazon's logistics strategy as third-party logistics not working for Rakuten. They can also offer free delivery to their loyal customers and a transparent delivery system provides transparency as inlet customers know the progress of the whole delivery.

2) The web page layout for the Amazon site is more interactive, simpler, and more targeted, in other words, its site is built around the search that a user has made, which helps amazon to suggest the specific products to the user. Whereas Rakuten has multiple links and featured products on its website similar to a departmental store which makes it busy looking and overwhelming layout.



Pic 5: RAKUTEN's overwhelming web site layout



Pic 6: AMAZON's subtle webpage

3) Every merchant has its customizable landing page, where they can provide extensive information about the products they are selling which allows the merchant to promote their products as they want, in a way it is a good move as a lot of consumers like to research before spending their money, but it is not very appealing to those who like the very organized way of displaying product information.

4) In Japan, Rakuten has created an ecosystem of products and services which is also known as Rakuten world, where their loyalty points ecosystem incentivized the other products and services in Rakuten sites. So if a user uses their club card, the user will get discounts and the customer will receive additional discounts for using their mobile services. In short, the more discount for a user the more services they use. They are required to replicate the same model and increase the switching costs to retain customers, to achieve this they are required to levy heavy psychological costs by implementing two main strategies:

a) While the cancellation of a service customer has to go through a complicated process and a lot of work which discourages them.

b) Most Rakuten users enjoy an ecosystem that involves the integration of all Rakuten services and gets discounts and loyalty points, so, loss of additional discounts and loss of loyalty points earned in a service or product will discourage them to do the cancellation.

They can also offer an enticing value proposition to potential customers that exclude the switching cost and disharmony related to change to the product.

a) They can provide free services like free delivery and a free Rakuten TV subscription for a month or a year in order to decrease monetary switching costs.

b) Switching costs can also be reduced by providing trial periods in applications like KOBO etc.

5) They can use network effect in their business model where members using Rakuten Viki, should be incentivized for referring the service and product to their friends and family members and the same should be applicable for those who accept that referral. The incentives that are awarded should be redeemable in any other Rakuten service, this will do positive enforcement to those apps or products which are not performing as expected.

6) They should also work on image building by developing and promoting a sustainability strategy and adapting Good governance practices.

a) Consumers are very much concerned about the carbon footprint and ecological damages that are caused by humans. They prefer recyclable packaging or “green” deliveries.

b) They can promote safe-labor practices by the promotion of safety culture which boosts employee morale and builds trust. This practice can improve the image of Rakuten in front of stakeholders and the general population.

{iv} Conclusion

To conclude this report we can say that in the past Rakuten made great decisions which helped them to conquer their domestic e-commerce market and also some parts of Europe's market. But from here, now on they should focus on logistics, simplifying their websites, and work on promoting sustainability strategies. They are required to create different ecosystems outside Japan based on the geographical values and culture to make the switching cost for customers attractive. Japan is known for their quality across the globe as their motto says "99% is not 100%", and they should take pride in their country and have affection to its culture which is very important, but at the same time they should import good aspects of the many different cultures and put it together one, just like they promoted the English language in their company in order to go global, apart from Englishnization they have acquired silicon valley culture to make Rakuten global. Integrating different services into their main core business and just focusing on those for the expansion in the European and UK market is essential. This can be achieved by introducing their financial technology services to these market spaces, which will give them a stronghold on their investments and expansions will be cost-effective.

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