CASE EXAMPLE

Rocket Internet – will the copycat be imitated?

Introduction

Rocket Internet is a very successful Berlin-based start-up incubator and venture capital firm. It starts, develops and funds e-commerce and other online consumer businesses. It has 25 offices around the world with over 700 employees and an additional 15,000 in its portfolio companies. It has helped create and launch over 100 start-ups and is currently active in more than 50 portfolio companies across more than 40 countries.

The company was founded by the Samwer brothers, Alexander, Oliver and Marc. After going to Silicon Valley in the late 1990s they became inspired by the Californian entrepreneurial culture and especially eBay. The brothers offered eBay to create a German version of the online auction house, but they received no reply from eBay. Instead they launched their own eBay clone, Alando, and adapted it to German conditions. A month later they were acquired by eBay for $50 m. This was to be their first great online success, but far from the last.

Next the brothers created Jamba, a mobile phone content platform. It was sold to VeriSign, a network infrastructure company, for $273 m in 2004. Since then they have become experts in spotting promising business models, especially in the USA, and imitating and scaling them internationally quicker than the originals. This model is the basis of Rocket Internet, which was founded in 2007. Several of their ventures have been acquired by the company with the original idea (see table). Two of their most high-profile ventures after

The Samwer brothers

Alando were CityDeal, which was sold off to American Groupon, and eDarling sold to American eHarmony.

The company's has frequently been criticised for simply being a copycat machine without any original idea and some have even claimed it is a scam that rips of the originals. However, the question remains: if Rocket Internet has been so incredibly successful and what i does is simply copying, why has no one successfull imitated Rocket Internet yet? The brothers, throug Oliver Samwer, defend their model in *Wired*:

'But look at the reality. How many car manufacturer are out there? How many washing-machine manufac turers are there? How many Best Buys? Did someon write that Dixons copied Best Buy, or did anyone eve write that Best Buy copied Dixons, or that [Germa electronics retailer] Media Markt copied Dixons? N they talk about Media Markt. They talk about Dixon:

Company	Founded	Business	Buyer	Founded	Price, $m	Transaction dat
Alando	1999	Online marketplace	eBay	1995	50	1999
cember.net	2005	Online business network	Xing	2003	6.4	2008
eDarling	2009	Online dating	eHarmony	1998	30% stake*	2010
GratisPay	2009	Virtual currency for online games	SponsorPay	2009	na	2010
CityDeal	2009	Discount deals for consumers	Groupon	2008	126†	2010
viversum	2003	Online astrology	Questico	2000	na	2010

*With option to buy more † Including a stake in Groupon
Source: Gründerszene.de

They talk about Best Buy. What is the difference? Isn't it all the same thing?'

Source: http://www.economist.com/node/21525394#

Finance and expert teams

Rocket Internet has strong financial backup from its main investor globally, Kinnevik, a Swedish investment company. Kinnevik also contributes with its long-time experience from investing in new businesses and its global network of contacts. Many other investors invest directly in the start-ups and in the later growth stages, among them the American investment bank J.P. Morgan. To work with the investors and structure the financial solutions Rocket Internet has a team of about 35 experts in finance at the Berlin headquarters.

While Rocket Internet has the financial skills needed for an incubator and venture capital firm, it also develops the concepts of new ventures, provides the technology platforms and combines various skills necessary for setting up new ventures. It has about 250 specialists working at the Berlin head office. These specialists are part of diverse expert teams. Engineering including IT software, programming and web design skills are of course essential for product development. At head office there are around 200 engineers who have access to state-of-the art technologies and tools.

There are several other expert teams as well, not least in marketing, including experts in customer management, customer relationship marketing and online marketing. Other teams include Operations, Business Intelligence and HR. Apart from this expertise Rocket Internet has a Global Venture Development programme that includes a global mobile task force of entrepreneurial talents that can bring further know-how to all international markets. This task force includes venture developers with functional skills in product development, supply management, operations and online marketing. They rotate every 4–6 months to a new venture in another part of the world.

Human resource management and culture

The HR team recruit not only regular staff support for Rocket Internet, but specialists for the expert teams and Global Venture Development programme and, not least, the founders of the ventures. Based on their Silicon Valley entrepreneurial spirit they emphasise personal drive rather than good school grades. Head of HR, Vera Termuhlen, explains to VentureVillage.com:

'All in all, it doesn't matter if an applicant is from an elite university. For the area of global venture development, we look for applicants that are hands-on, first-class, have analytical skills, describe themselves as entrepreneurs, have a passion for the online start-up scene along and a willingness to work internationally, often in exotic locations like the Philippines or Nigeria.'

The co-founders and managing directors of the individual ventures establish all operations, build the team around a venture, and develop the business. They act as entrepreneurs and hold personal stakes in a venture's equity. Recruiting them is central and Rocket Internet normally recruits extraordinary, ambitious MBA-level graduates with high analytic skills from within the local regions where the venture is set up. As Alexander Kudlich, Managing Director of Rocket Internet, says:

'We are looking for those who from an analytical point of view understand the beauty of the business model, understand the rationale and understand what a huge opportunity is. Sometimes we say we are looking for analytical entrepreneurs rather than accidental billionaires.'

The company emphasises not only strong expertise, but 'a close cultural connection to Rocket Internet'. Rocket Internet has an intense entrepreneurial working culture that is highly performance driven including high pressure, long working hours, often from 09.00 to 23.00, and little job security. While this is attractive to some, the culture has also been criticised for being too tough and aggressive. Rocket Internet's Managing Director Alexander Kudlich comments on the culture:

'I would describe our culture as very focused, we have young teams – the average age is below 30. There is no place where you get more freedom and where you can take as much responsibility as you want. The only thing we want back is accountability.'

Identification of business models and execution

While some of Rocket Internet's skills are common among other Berlin incubators and indeed incubators throughout Europe, the company is more of an international venture builder compared to most. Expertise is shared throughout the portfolio of ventures globally and its best practice can be applied across the diverse business models (ranging from online fashion to

payments to deals to social networking). Compared to many other incubators, the function of the headquarters is central. While entrepreneurs are hired to oversee individual ventures, overall strategy for Rocket Internet is largely shaped at the head office. In particular, this is the case in the identification of new ideas, concepts and business models. The four managing directors at head office lead the scanning for and identification of novel and proven online and mobile transaction-based business models that are internationally scalable. Former Managing Director Florian Heinemann explains in *Wired*: 'We take a pretty systematic look at business models that are already out there and we basically try to define whether a model suits our competence and is large enough that it's worth it for us to go in there.'

Another significant aspect of Rocket Internet's centralised model is the speed at which it can launch novel business models internationally. This is different compared to many US counterparts, but also European ones. Rocket Internet has an international infrastructure and distribution network that build ventures on an international scale in just a few months. The capacity for multiplying business models has been demonstrated repeatedly for diverse types of online business models. As Managing Director Kudlich explains in *Wall Street Journal*:

'When we identify a business model we can, within a few weeks, build a platform out of our central teams. In the meantime the local Rocket offices will have hired or allocated the people who will execute on the ground ... That gives us the speed. The combination of access to the best talent in each country combined with highly standardised or modular approach in terms of platform and systems which are rolled out by our headquarters.'

In brief, Rocket Internet specialises in execution rather than innovation. This is also how the management defend their model when they are blamed for simply being a clone machine. Oliver Samwer says that they are 'execution entrepreneurs' rather than 'pioneering entrepreneurs'. Managing Director Kudlich explains to *Inc. Magazine*: 'Which is harder: to have the idea of selling shoes online or to build a supply chain and warehouse in Indonesia? Ideas are important. But other things are more important.'

Paradoxically, even though Rocket Internet often builds on others' ideas it prefers to keep its own ideas for itself as explained by Marc Samwer in the *New York Times*: 'We really don't like to speak about our investments since our track record encourages people to set up competing sites ... Ideas travel much faster these days.'

The future

Rocket Internet's success has continued. Zalando, which initially mimicked the online shoe retailing business in the USA by Zappos, now part of Amazon, has expanded into clothing and jewellery. Sales are rising rapidly; annual revenues for 2011 were $650 m and Rocket Internet claim $130 m in revenue per month. Recently it has also launched an Amazon clone, Lazada in South East Asia and a mobile payments company, Payleven, inspired by American Square.

Rocket Internet has, however, started to attract imitators of its own. One of the operations is Wimdu, a copy of the American Airbnb, which allows individual home and apartment owners to list their properties as holiday accommodation. However, Airbnb quickly formed a partnership with another Berlin incubator, Springstar, and they have since been rolling out Airbnb globally. Similarly, the original company responded swiftly when Rocket Internet imitated Fab.com, a designer deal site, with its Bamarang. Fab acquired Casacanda, a parallel European site, and quickly relaunched it as a Fab internationally and Rocket Internet had to close down Bamarang. Rocket Internet is even facing imitators from within. Two of its managing directors have together with other former employees left to set up the Berlin incubator 'Project A Ventures'. There are thus signs that Rocket Internet may eventually be imitated itself.

Case example

Rocket Internet – will the copycat be imitated?

This case focuses on the strategic capabilities of Rocket Internet including the key distinction between threshold versus distinctive capabilities and an evaluation of them using the VRIO framework.

1. **Based on the data from the case (and any other sources available) use the frameworks from the chapter and analyse the strategic capabilities of Rocket Internet:**

   (a) **What are its resources and competences?**

   (b) **What are its threshold, distinctive and dynamic capabilities?**

   Typically, a student would divide the components of strategic capabilities and analyse the threshold and distinctive capabilities, which when compiled might look similar to the example given below.

Threshold resources	Threshold competencies
• Technology platforms • Offices and facilities • Expert teams in various functional areas • VC money/financing	• IT skills • General managerial skills including distribution and marketing • Incubator support capabilities (marketing, design, web platforms, distribution, etc.)
Distinctive resources	**Distinctive competencies**
• The Samwer brothers • The Rocket Internet brand • A global mobile task force: Global Venture Development programme • Company reputation of repeatedly and successfully launching online business models	• HQ identification, conceptualisation and execution of new online business models • Combination and integration of broad online skills • Internationalisation and multiplication speed • Culture and HR recruitment/integration of founders and high potentials

Activity mapping or value chain analysis might also be used for Question 1. If used imaginatively, both help explain where and how capabilities are developed, employed and managed. They can also help indicate why and how distinctiveness might arise.

Critical reflection on the choice and subsequent use of these tools to produce insights should be promoted. For example:

• Why did students choose the particular framework they used over alternatives?

• Show them that analysis per se is not an end in itself; that analysis is done either to answer questions such as the ones that follow or to create questions. Asking the students in what situation such an analysis might actually be used by managers relates the exercise to the practise of the senior manager.

• Ask what actions managers might take as a result of undertaking such an analysis.

Again, the analysis per se is not the goal, but rather what implications and actions that comes out of it.

Interestingly, Rocket Internet is built around dynamic capabilities for online business models generally. The central activities of the company are to *sense* and *seize* new online business opportunities and *build and reconfigure* the necessary (operational) capabilities. However, the case does not explicitly discuss Rocket Internet's *own* dynamic capabilities. They would include the sensing and seizing of opportunities in the *incubator and VC industries* and possible reconfigurations of capabilities there.

2. **Based on your initial analysis and answers to Question 1, carry out a VRIO analysis for Rocket Internet. What do you conclude? To what extent does Rocket Internet have strategic capabilities with sustained competitive advantage?**

The aim here is to use the VRIO criteria technique to analyse Rocket Internet's strategic capabilities in depth and evaluate if they grant the company competitive advantage and if so if they are sustainable. Here it is helpful for students to consider other Berlin based incubators and venture capital companies (and there are plenty not only in Berlin, but of course all over Europe) and think about to what extent they would be able to match Rocket Internet's strategic capabilities. Students should think carefully about their categorisations and justify their views. Of course, it is also essential not to confuse Rocket Internet as an incubator and VC firm with the online companies they build and invest in.

The temptation here is to list all distinctive capabilities as providing sustained competitive advantage, but the VRIO framework helps in differentiating sustained from temporary competitive advantage. However, there are clearly border cases where this distinction is difficult to make. For example, as regards Rocket Internet's ability to internationalise and multiply their online business quickly (indicated by both temporary and sustained competitive advantage in bold below).

Below is a summary of a VRIO analysis of some of Rocket Internet's strategic capabilities. It is apparent that only a couple of the strategic capabilities meet all of the demanding VRIO criteria and thus comprise sustained competitive advantage (HRM & culture and headquarter – HQ – identification, conceptualisation and execution of new online business models).

IT Technology platforms				
Valuable?	*Rare?*	*Inimitable?*	*Supported by the Organisation?*	*Competitive Implications*
No	–	–	No	Competitive disadvantage
Yes	**No**	–	**Yes**	**Competitive parity**
Yes	Yes	No		Temporary competitive advantage
Yes	Yes	Yes	Yes	Sustained competitive advantage

Expert teams				
Valuable?	*Rare?*	*Inimitable?*	*Supported by the Organisation?*	*Competitive implications*
No	–	–	No	Competitive disadvantage
Yes	No	–	Yes	**Competitive parity**
Yes	Yes	No		Temporary competitive advantage
Yes	Yes	Yes	Yes	Sustained competitive advantage

Finance				
Valuable?	*Rare?*	*Inimitable?*	*Supported by the Organisation?*	*Competitive Implications*
No	–	–	No	Competitive disadvantage
Yes	**No**	–	**Yes**	**Competitive parity**
Yes	**Yes**	**No**	**Yes**	**Temporary competitive advantage**
Yes	Yes	Yes	Yes	Sustained competitive advantage

Global Venture Development programme: Global mobile task force				
Valuable?	*Rare?*	*Inimitable?*	*Supported by the Organisation?*	*Competitive implications*
No	–	–	No	Competitive disadvantage
Yes	No	–		Competitive parity
Yes	**Yes**	**No**	**Yes**	**Temporary competitive advantage**
Yes	Yes	Yes	Yes	Sustained competitive advantage

Internationalisation and multiplication speed				
Valuable?	*Rare?*	*Inimitable?*	*Supported by the Organisation?*	*Competitive implications*
No	–	–	No	Competitive disadvantage
Yes	No	–		Competitive parity
Yes	Yes	No	Yes	Temporary competitive advantage
Yes	**Yes**	**Yes**	**Yes**	**Sustained competitive advantage**

HQ: Identification, conceptualisation and execution of on-line business models				
Valuable?	Rare?	Inimitable?	Supported by the Organisation?	Competitive implications
No	–	–	No	Competitive disadvantage
Yes	No	–	Yes	Competitive parity
Yes	Yes	No		Temporary competitive advantage
Yes	Yes	Yes	Yes	Sustained competitive advantage

HRM & Culture : Recruitment and integration of founders, entrepreneurs and high potentials				
Valuable?	Rare?	Inimitable?	Supported by the Organisation?	Competitive implications
No	–	–	No	Competitive disadvantage
Yes	No	–	Yes	Competitive parity
Yes	Yes	No		Temporary competitive advantage
Yes	Yes	Yes	Yes	Sustained competitive advantage

3. **What is the importance of the Samwer brothers? What would happen if they left or sold the company?**

The Samwer brothers with Oliver Samwer as the trio's driving force still lead Rocket Internet after more than a decade since they founded the company. Although the company has an external managing director their role is still crucial. Their leadership and Oliver Samwer's in particular is clearly fundamental for Rocket Internet's success and not the least important for keeping up the pace of the company's expansion. They have clearly provided for competitive advantage. However, it is still unlikely that the company would quickly collapse should they choose to leave or sell the company. Even if there would be significant problems with the investors if the brothers left, their visions, ideas and values should be built into the Rocket Internet culture, competencies and practices by now and these are thus likely to last at least for some time after their exit. Over a longer time period, however, there is a risk that these visions, ideas and values deteriorate when not fuelled by the brothers. In addition, and even worse, there is an apparent risk that they would bring the visions, ideas and values with them to start a competing company if they left.