



Rakuten

CCS 001 – Certified Case Study

May 2014

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Agenda



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5	Appendix	<ul style="list-style-type: none">• Other ICG source of insights

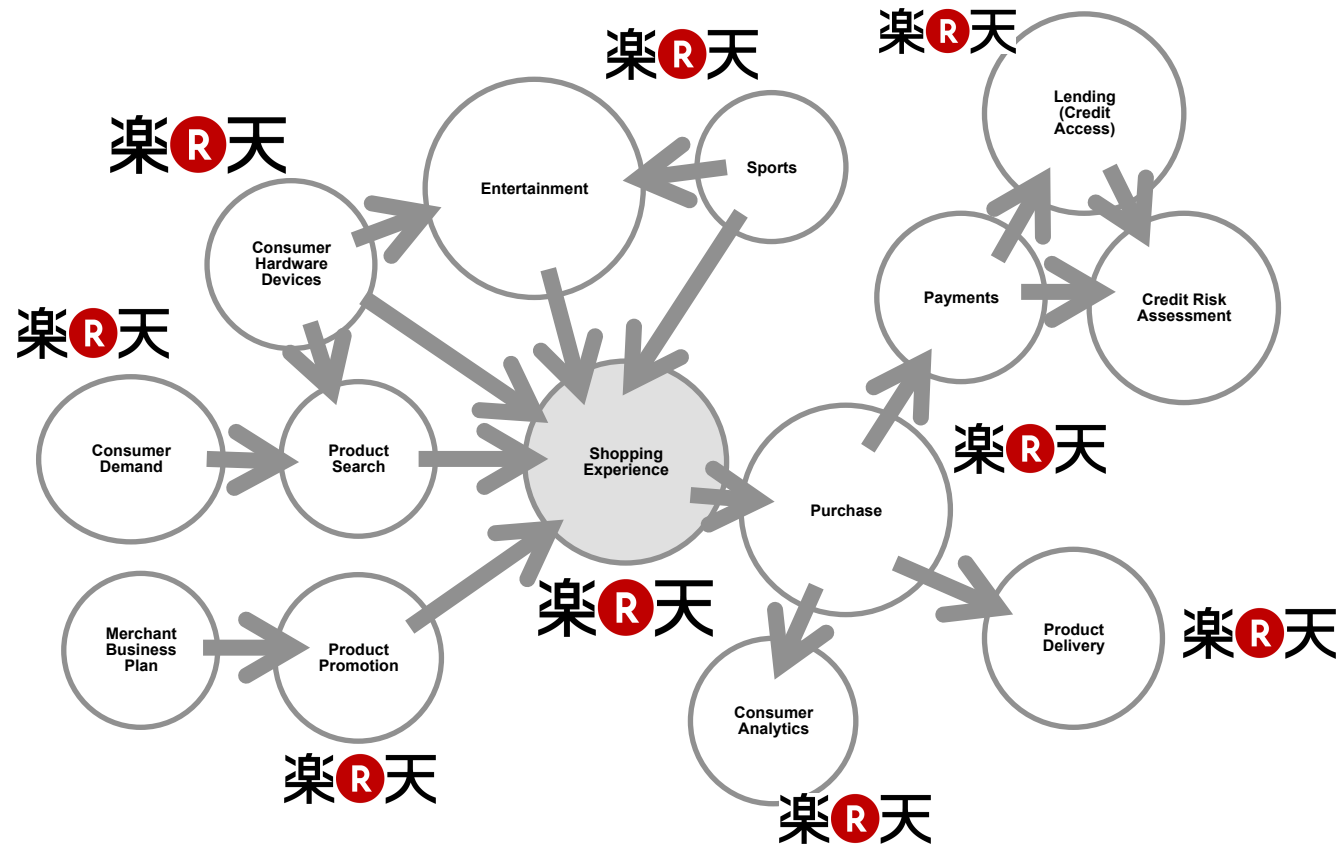
Rakuten: What is it?



KEY INSIGHTS


- **Japanese electronic commerce** and Internet company based in Tokyo
- Its B2B2C platform is one of the **largest e-commerce** site in the world by sales
- Founded in 1997 by Hiroshi Mikitani
- Tot revenue **USD 4.6B** (FY2012)
- Expanded outside Japan in 2005 through an **extremely successful** acquisition campaign
- The Rakuten Groups has **40 businesses and services**

RAKUTEN ECOMMERCE MARKET ECOSYSTEM



Source: secondary research, ICG

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Ecommerce development in Japan



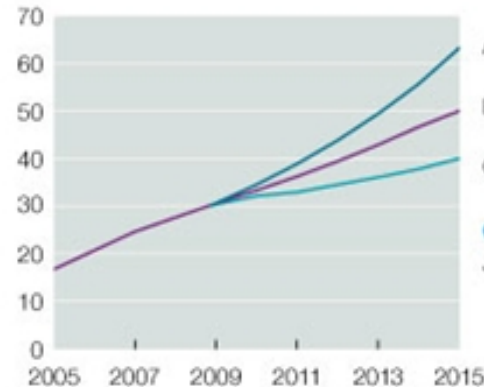
KEY INSIGHTS

- From the earliest days of the dot.com boom, E-commerce expenditure has **skyrocketed** around the developed world
- In Japan however, **language and cultural barriers** left the local market relatively untapped, even as projections for Japanese online expenditure grew aggressively

ECOMMERCE PROJECTION FOR THE JAPANESE MARKET

The Japanese Internet retail market will grow to at least \$50 billion by 2015.

Online retail market¹ in Japan, \$ billion²



**CAGR,³
2009–15
(projected)**

**Online retail
penetration as
a share of
total market**

Aggressive scenario	13.0%	7.0%
Base scenario	9.0%	5.5%
Conservative scenario	5.0%	4.3%

**Compared with
Japan's overall retail market -1.3%**

¹Excluding sales of tickets and electronic downloads of media such as music, movies, and software.

²Average exchange rate in 2009: \$1 = ¥100.

³Compound annual growth rate.

Source: Euromonitor International, Dec 2009; "Current and expected landscape of mail order/e-commerce business in 2008-2009," Fuji-Keizai; "Research on utilization in Japan 2008," Japanese Ministry of Economy, Trade, and Industry (METI); McKinsey analysis

Ecommerce sales in Rakuten key markets

Rakuten focus on the right markets, with growth of ecommerce in Asia Pacific steadily outpacing growth in other geographies – a trend which is expected to continue



ECOMMERCE PROJECTION

Ecommerce Sales Topped \$1 Trillion for First Time in 2012

FEB 5, 2013 [Print](#) | [Email](#) | [Free Newsletter](#)

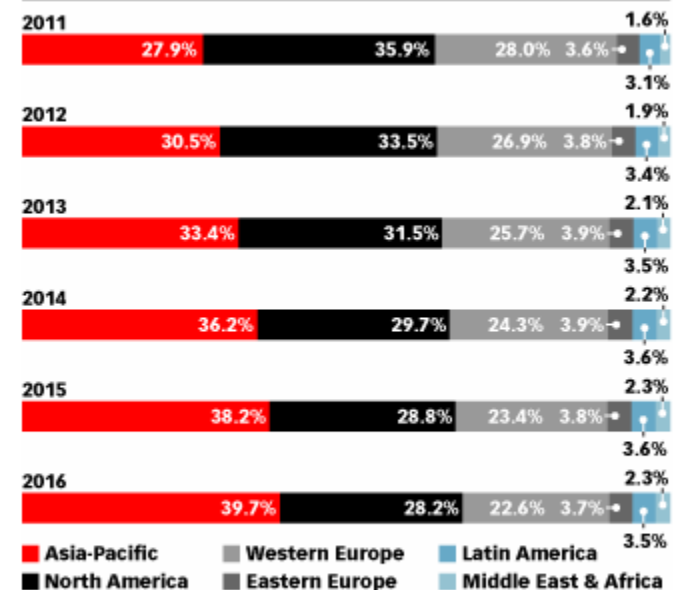
Asia-Pacific poised to surpass North America in B2C ecommerce spending

In 2012, B2C ecommerce sales grew 21.1% to top \$1 trillion for the first time, according to new global estimates by eMarketer.

This year, sales will grow 18.3% to \$1.298 trillion worldwide, eMarketer estimates, as Asia-Pacific surpasses North America to become the world's No. 1 market for B2C ecommerce sales.



B2C Ecommerce Sales Share Worldwide, by Region, 2011-2016 % of total



Note: includes travel, digital downloads and event tickets purchased via any digital channel (including online, mobile and tablet); excludes gambling; numbers may not add up to 100% due to rounding
Source: eMarketer, Jan 2013

150894

www.eMarketer.com

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KEY INSIGHTS

- MDM Inc. **was founded in Tokyo**, Japan by founder, chairman and chief executive Hiroshi Mikitani in 1997
- The company launched Rakuten Shopping Mall as an online marketplace, and its **resounding success** led MDM to change its name to Rakuten Inc in 1999
- In English, Rakuten translates to “Optimism”

Traded as	JASDAQ: 4755 ↗
Industry	Online retailing, Internet
Founded	February 7, 1997
Founder(s)	Hiroshi Mikitani
Headquarters	Tokyo, Japan
Area served	Japan
Key people	Hiroshi Mikitani (Chairman and CEO)
Revenue	▲ \$4.63 billion (2012) ^[1]
Net income	▲ \$244 million (2012) ^[1]
Employees	10,867 (December 2013) ^[2]
Website	rakuten.co.jp ↗ global.rakuten.com/group/ ↗

COMPANY HISTORY

How does it work

- The company **launched privately**, with no initial funding from Venture Capitalists, and targeted the **online shopping experience** for both Japanese consumers and merchants.
- Small merchants in particular were struggling at the time in the wake of the Japanese recession
- The corporate philosophy driven by Mikitani is that the shopping experience should not be merely transactional, but a rich experience with deep engagement between merchants and customers
- Central to this corporate philosophy is the Japanese concept of **Omotenashi**, which finds equivalents in the Western values of hospitality or service
- Rakuten started **expanding outside Japan from 2005**, mainly through **takeovers and joint ventures**
- Assisting this process was Mikitani’s global vision of Internet culture, which transcended traditional and prevailing views of Japanese business culture
- This position often **placed Mikitani at odds** with the Japanese business establishment
- In a surprising move which had bold ramifications for the company, **Mikitani instantiated English as the official corporate language of Rakuten in 2010**, as part of his global expansion plans

Omotenashi: “Empowering online merchants in delivering hospitality and service”

Rakuten is active in different industries

One of the 6 largest internet companies



KEY INSIGHTS

- With the global success of the **online retail franchise**, Rakuten found further capital to **diversify** into **complementary** lines of business, on a global scale
- Through **acquisition** Rakuten added **additional services** lines to its business model
- One of the **6 biggest** internet companies



PRODUCT OFFERING

- **Online retail:** Operation in a number of countries outside Japan
- **Banking, Credit and Payments:** Offering personal consumer credit services including card loans, mortgages, and other banking services
- **Portal and Media:** Managing portal sites acting as gateways to the internet, and performing other activities
- **Travel:** Operating hotel booking and other travel-related websites and providing other services
- **Securities:** Providing services such as online securities brokerage
- **Professional Sports:** Managing a professional baseball team, planning and selling related merchandise and performing other activities;
- **Entertainment:** Online video club

Rakuten Business model:

E-commerce ecosystem as the core business to which adding value services to create a competitive customer proposition



KEY INSIGHTS

- In the early stages of its business model evolution, Rakuten **focused on its core business** of providing an **electronic marketplace** where consumers and merchants can interact and effect purchases
- It became clear that **many other types of value added services** were required or desirable to make the marketplace functional, highly integrated, and scalable, and so to **create the competitive value proposition** for which Rakuten is now so well known
- Initially these value adding complementary services were supplied by third party vendors, however Mikitani saw an opportunity to create a **better customer experience** and drive greater profitability by incorporating these services into the Rakuten business model – to **supply more of the components of the full ecommerce Market Ecosystem**
- As global competitors have discovered, the **Rakuten “ecosystem play” generates far more value than the sum of its parts**
- The key factor is that **information flowing through the ecosystem** can be captured, analysed, and acted upon using **Big Data Analytics** to drive superior levels of service and profit returns
- After internal validation, Rakuten has **extended its franchise a step further**, by adding technology consulting in Big Data analytics to its set of market offerings
- Since 2008 Rakuten has hosted its own Technology Conference with Big Data Consumer Analytics as its major focus
- Rakuten has a “Start up School” for technology led innovation

RAKUTEN ECOMMERCE MARKET ECOSYSTEM



Source: secondary research, ICG

Rakuten in Banking

A significant component of the Rakuten global ecosystem play combines elements of Financial Services



KEY INSIGHTS

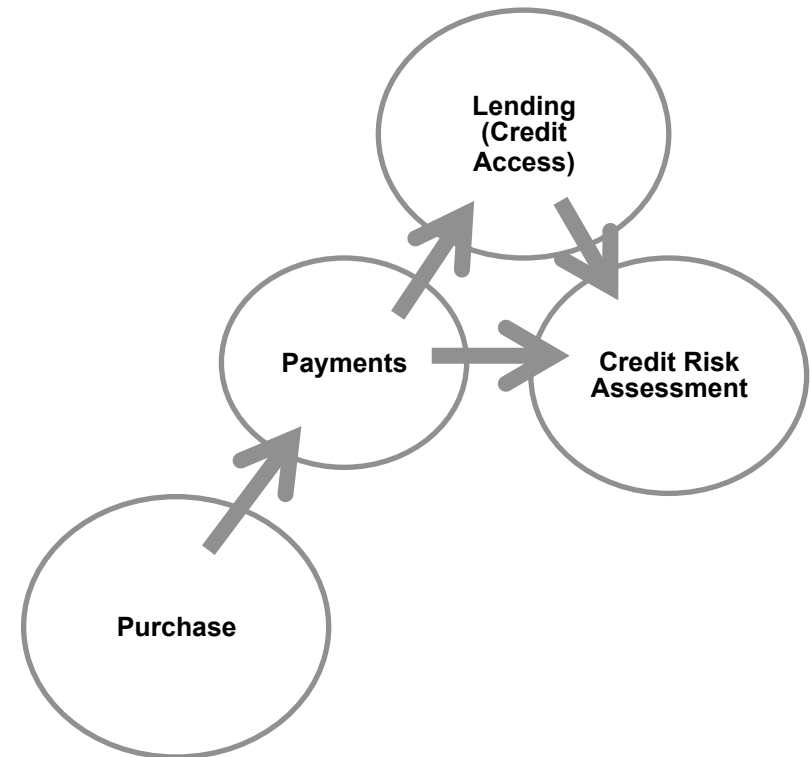
- Rakuten spearheaded its move into Financial Services through the **acquisition of E Bank** – the second oldest online bank in Japan
- Rakuten Bank (as it is now known) is now **Japan's largest online bank**, with 3.82 million bank accounts across personal, business and corporate online banking
- Rakuten has plans to enter Banking broadly, not just in retail consumer markets, but also in payments, credit schemes (there is already a Rakuten credit card), and merchant banking services such as securitisation and securities broking
- Financial Services is a **rapidly increasing segment** of the Rakuten business model, with revenues in this segment growing at a **rate of 10% year on year**

RAKUTEN LEVERAGING EBANK



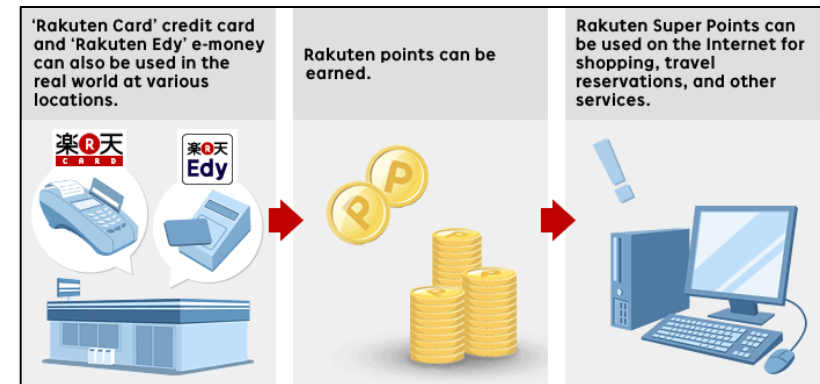
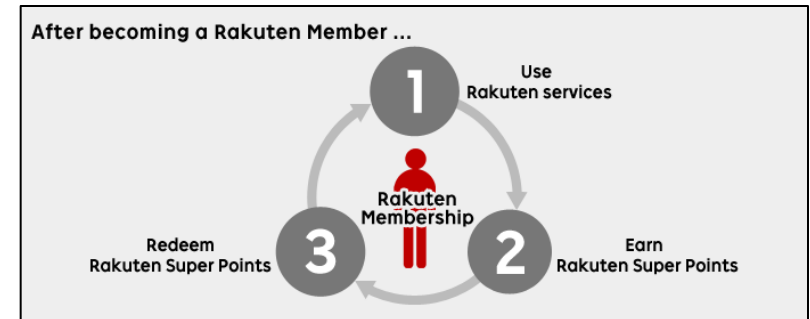
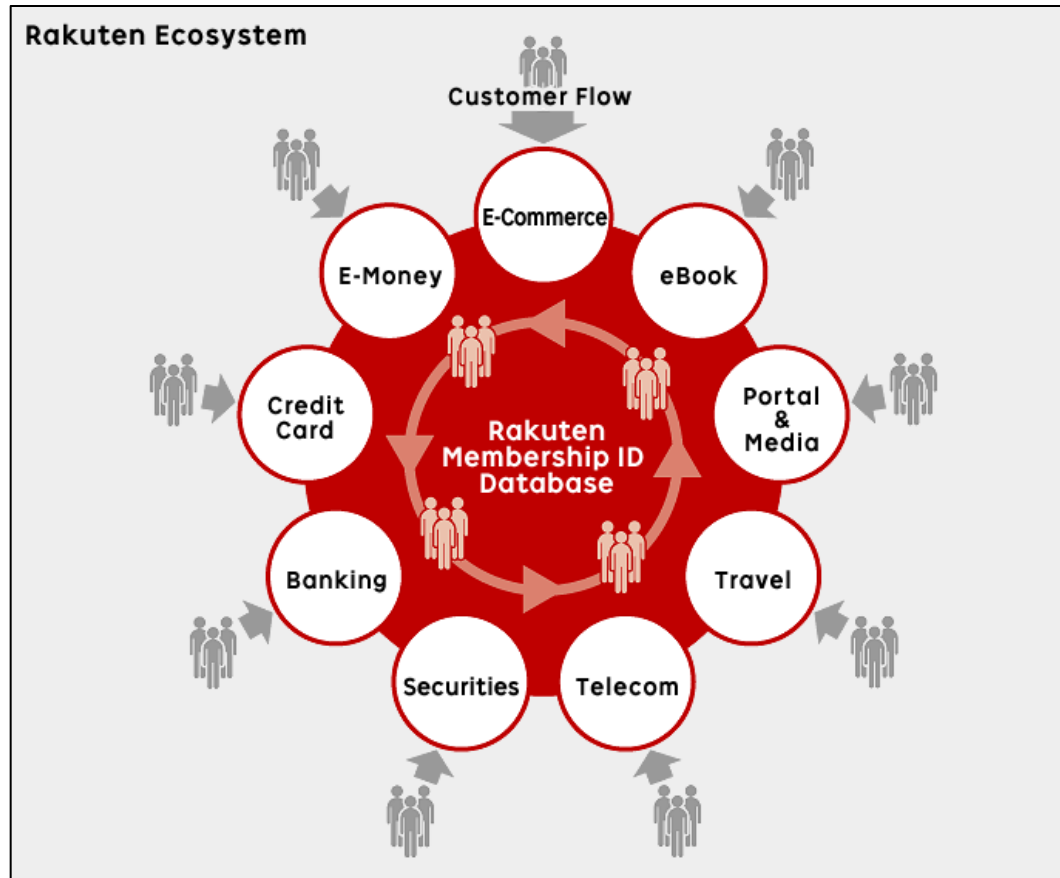
Rakuten card English Support Site

–Unofficial English support–



Rakuten Rewards Program

A key value driver in the Rakuten push into financial services is its Big Data driven comprehensive loyalty and rewards program, which links together all players in the financial services value chain, from the payer, through to payment gateway providers, lenders, merchants, and others



Source: http://global.rakuten.com/corp/investors/policy/strength/business_model.html

While Rakuten's global rise has been spectacular, the journey is not without its challenges



EXHIBITS



Top 5 countries , 2013:
(ranked by B2C E-commerce sales)

1. US: \$384.80 billion
2. China: \$181.62 billion
3. UK: \$141.53 billion
4. Japan: \$140.35 billion
5. Germany: \$53.00 billion

PRODUCT OFFERING

- With its rapid success, strong online retail **heavyweights** like **Amazon.com** are taking notice and designing specific counter strategies
- In February of 2013, Rakuten predicted losses of \$373m in its Q4 earnings report, due to additional expenses incurred in the restructuring of key online assets in the US and UK
- The **rise of China** poses special challenges, with its rapid economic expansion (and the relative slowing of the Japanese and other first world economies) leading to a change in ranking of the world's top online economies.
- In contrast to other geographies, the heavily regulated nature of the Chinese online business environment will make **penetration** of that market **difficult** for non-Chinese online businesses, even in a global internet economy
- Rakuten's strategy however, seems well up to the task, with **recent share trends** showing dramatic improvement as the company bounces back to profitability

Source: secondary research, ICG; <http://www.newmediatrendwatch.com/world-overview/101-ecommerce/>; : <http://www.e-commercefacts.com/news/2013/02/rakuten-expects-losses/>

Recent Rakuten key acquisitions focused in the Americas and Europe



KEY ACQUISITIONS

- Buy.com (now Rakuten.com Shopping in the US)
- Priceminister (France)
- Ikeda (now Rakuten Brasil)
- Tradoria (now Rakuten Deutschland)
- Play.com (UK)
- Wuaki.tv (Spain).

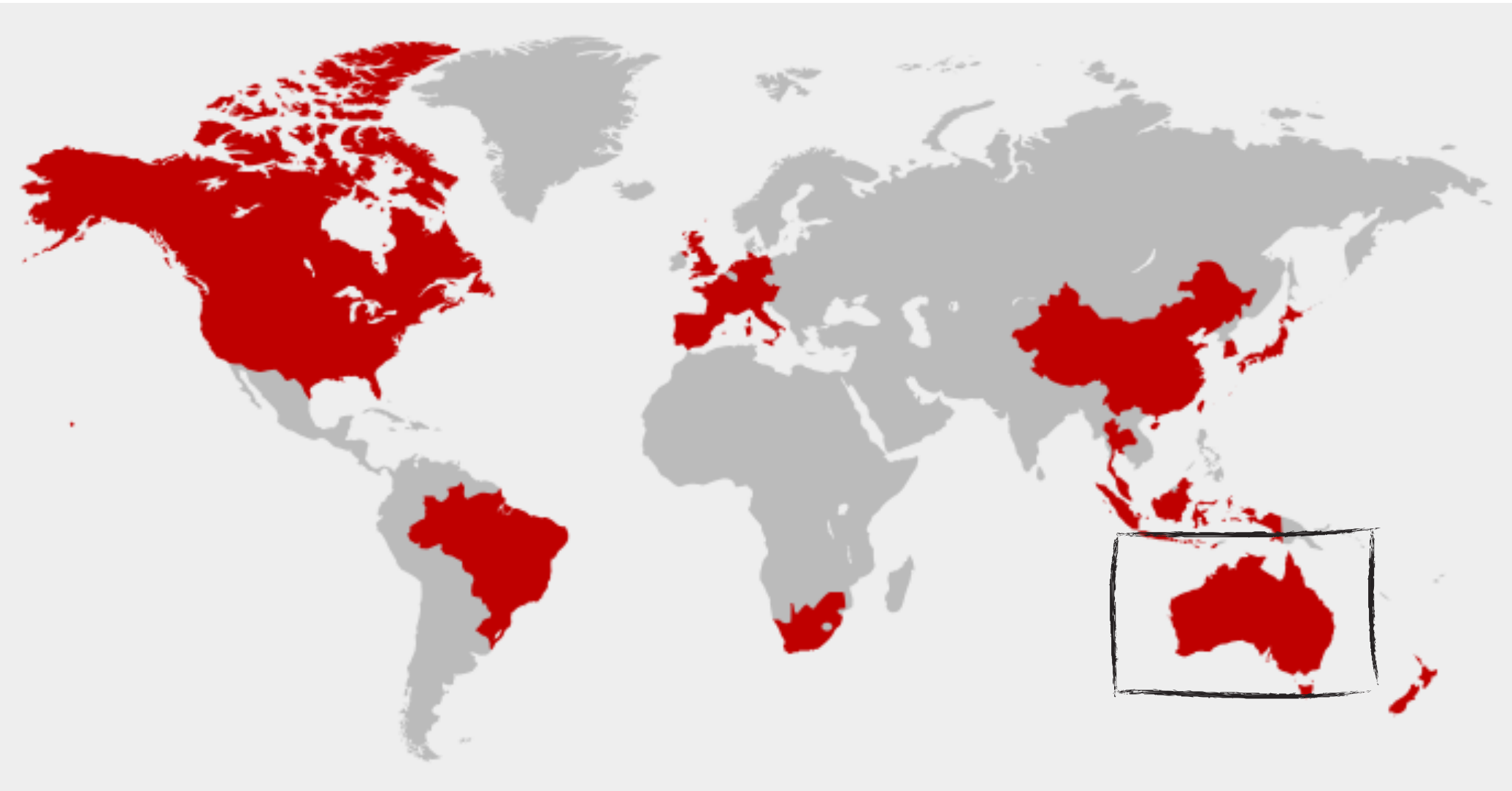


Rakuten holds the following subsidiaries around the globe: 楽天



Source: secondary research, ICG

Rakuten plans market entry in several geographies, including Australia



Source: secondary research, http://global.rakuten.com/corp/investors/policy/strength/business_model.html

RAKUTEN FINANCIAL RESULTS FY 2012

For the Internet Finance segment for the fiscal year ended December 31, 2012, in credit card and related services, the shopping transaction value accompanying an increase in credit card membership rose 36.0% over the previous fiscal year. Also, a solid rise in the revolving shopping balance resulted in a rise in commission income and subsequent notable growth in profit.

Banking services benefited from its effective marketing programs to Rakuten members and solid growth in loan balances to achieve increased interest income from loans. In securities services, activation of the domestic market from the fourth quarter has been generating a huge increase in current domestic stock transaction payments. In its aim to further enhance financial services, from the fourth quarter, Rakuten has made AIRIO Life Insurance Co., Ltd. (*2) a consolidated subsidiary.

As a result of the above, the Internet Finance segment recorded ¥156,430 million in net sales (10.8% increase over the previous fiscal year). Segment operating profit was ¥23,714 million (compared to a segment operating profit of ¥12,970 million in the previous fiscal year) which was an 82.8% growth in income over the previous fiscal year, due to a ¥4,264 million allowance in the previous fiscal year, for loss on interest repayment taken in advance of the re-organization of the credit card business.

Source: <http://www.businesswire.com/news/home/20130213006584/en/Rakuten-Reports-Consolidated-Financial-Results-Fiscal-Year>

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Quotes from the Press

QUOTES

“We are always looking to empower small to medium sized merchants, we teach them, we give them email tools, and much more. It’s a priority, which has allowed us to become different from competitors.”

“Internet shopping is not just about price or efficiency. It should be a fun experiment”

Hiroshi Mikitani, CEO, Rakuten
DLD, 24th Jan 2012

“For Rakuten, Japan’s largest retailer, digital analytics is more than a technique to optimise shopping carts. It’s a common language that weaves throughout multiple geographies as a fundamental element of the company’s globalisation strategy. By taking a strategic approach to analytics, Rakuten has realised industry-leading results”

Adobe Executive

WHEN Hiroshi Mikitani, one of Japan's most successful entrepreneurs and richest men, considered leaving Japan's prestigious business association, Keidanren, he announced it via Twitter—symbolically bypassing the old guard. This morning he followed it up by sending the group a formal letter of resignation.

“This is not what I should belong to. I am doing business to drive Japan to new Japan, and they want to protect old Japan. So I felt that for fundamental issues, I don't share the values of the current Keidanren,” he said in a telephone interview. Mr Mikitani is the founder and chief executive of Rakuten, an innovative retailer and by now an established household name in Japan. “Rakuten is a very value-oriented company, and we challenge many things,” he says. “If they were trivial issues, I could live with it. But if it is a fundamental philosophical difference, I don't think it's right to stay there.”

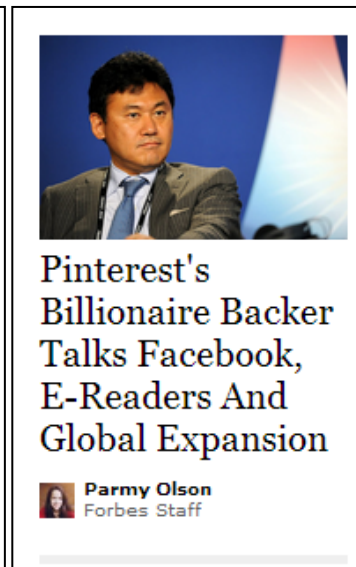
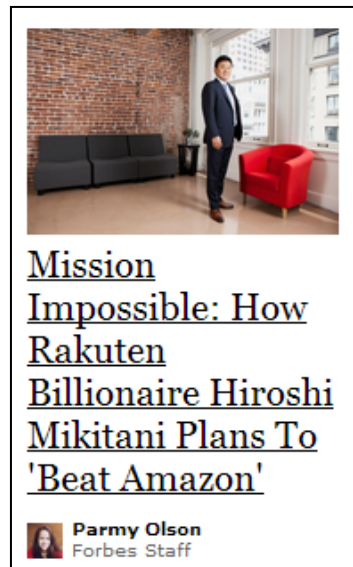
“In order to become successful in other countries, we need to have a global mindset. Japanese companies have been very homogenous. Because of the lack of ability to speak English, Japanese companies have remained largely focused on Japan”

Hiroshi Mikitani, CEO, Rakuten
DLD, 24th Jan 2012

Source: secondary research; <http://lanyrd.com/2013/adobe-digital-marketing-summit/scfcpx/>

Quotes from the Press

QUOTES



“As the founder of the Rakuten conglomerate, Hiroshi Mikitani is perhaps the most successful Japanese businessman of all time.”

tumblr

Source: <http://dld.tumblr.com/post/16402485360/the-secrets-of-a-huge-success; : http://lanyrd.com/2013/adobe-digital-marketing-summit/scfcpx>

INTERVIEW VIDEO

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Rakuten Technology Conference 2012

- It's a small world. ~ Your Globalization, Your Innovation ~

Oct. 20th SAT
in Rakuten Tower

[TOP](#) [SESSION LIST](#) [FLOOR MAP](#) [TIMETABLE](#) [EVENT REPORT](#) [ACCESS](#)

Lecture List



Hiroshi Mikitani (Chairman and Chief Executive Officer of Rakuten, Inc.)

Time: 13:00-13:20 (20min) | [Movie](#) | Place: [Main Floor - Track A \(4th Floor\)](#)

[Speaker's Bio]
Hiroshi Mikitani is Chairman and Chief Executive Officer of Rakuten, Inc., Born in Kobe, Japan, Mikitani earned his undergraduate degree in commerce from Hitotsubashi University in 1988. After graduation, he joined the Industrial Bank of Japan (IBJ), Limited, now Mizuho Corporate Bank, and became an investment banker. While working at IBJ, Mikitani attended Harvard Business School and earned his MBA in 1993. In 1995, Mikitani left IBJ and founded Crimson Group the following year, a consulting company, and became its President and CEO. In February of 1997, he founded MDM, Inc. (now Rakuten, Inc.) and became its President and CEO. With only a handful of staff, Mikitani successfully launched the "Rakuten Ichiba" in May of the same year. In June 1999, MDM, Inc. changed its name to Rakuten, Inc. Rakuten, Inc. completed its IPO and was listed on the JASDAQ market in April 2000. Rakuten, Inc. (JASDAQ: 4755) is one of the

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Website - ecommerce



Website - banking



支店 支店番号 口座番号 前回ログイン日時 2011/11/17 19:56:56

Branch name Branch code Account number

商品・サービス一覧 | 困ったときは | 登録情報の変更

Logout ログアウト

Change customer Info.

My Account (残高照会) ハッピープログラム 振込 カード ローン 預金/資産運用 FX mic BIG・toto 公営競技

Account Balance Happy program Bank transfer Credit card Loan Investment Toto, Public racing

セキュリティ設定 ログイン履歴確認 暗証番号変更 キャンペーン一覧

重要なお知らせ (2件) 残高確認時間: 2011/12/08 11:46

普通預金残高 (支払可能残高)	12,486 円 (12,486円)	Usage statement → 入出金明細 → 入金方法
定期預金残高	0 円	→ お預かり資産残高 Account balance of asset
ハッピープログラム 会員ステージ	ビギナー	→ 現在の会員ステージ 特典を確認する
マネーブリッジ状況/設定	設定済	マネーブリッジ状況/設定
Security Settings	中	Security status/setting

Member Stage of Happy Program

Money Bridge program

Setting Money Bridge program

Average

Setting security program

Information

「パーカッション10」 冬のボーナス
最大年1.10% (税引前)

Source: secondary research

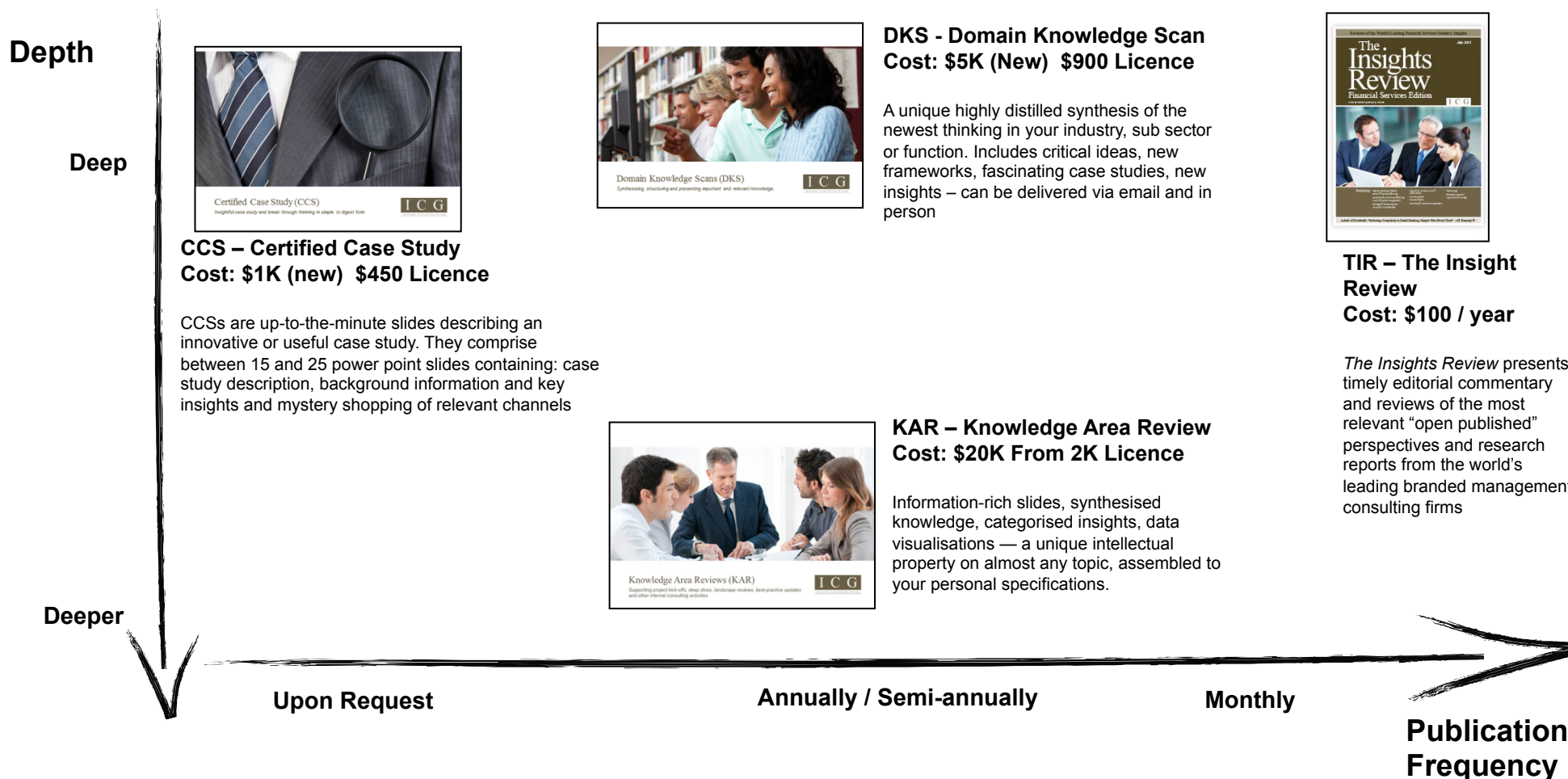
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ICG IP products cover a range of depth and frequency

ICG IP PRODUCT TAXONOMY





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