

Case example

Rocket Internet – will the copycat be imitated?

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Introduction

Rocket Internet is a Berlin-based start-up incubator and venture capital firm. It starts, develops, funds and operates e-commerce and other online consumer businesses. The company was founded in 2007 and stock listed in 2014 valued at \$8.2bn (€6.5bn). It has over 700 employees and over 30,000 across its network of portfolio companies. It has helped create and launch over 150 start-ups and is currently active in more than 100 companies across more than 100 countries on six continents.

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 to 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. A month later they were acquired by eBay for \$50m. This was to be their first great online success, but far from the last.



The Samwer brothers

Next the brothers created Jamba, a mobile phone content platform. It was sold to VeriSign, a network infrastructure company, for \$273m 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. Several of their ventures have been acquired by the company with the original idea, like two of their most high-profile ventures: CityDeal, which was sold off to American Groupon, and eDarling sold to American eHarmony.

The company has frequently been criticised for simply being a copycat machine without any original ideas and

some have even claimed it is a scam that rips off the originals. The brothers, through Oliver Samwer, defended their model ahead of their IPO in the *Financial Times* (Sally Davies, 15 July 2014):

‘There is a romantic concept of what tech innovation is. . . There’s always an Einstein, a pioneer who defines the first category. But take the first car – it looked horrible, you would never want to use it, and you would never make a market for it. It took someone like Toyota to work harder, make it cheaper and bring it faster around the world.’

Finance and expert teams

To structure the financial solutions, Rocket Internet has a large team of finance experts at the Berlin headquarters and extensive cooperation externally with high-profile investors globally, such as J.P. Morgan. Besides financial skills Rocket Internet 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 essential for product development and there are around 200 engineers with access to state-of-the-art technologies.

The expert team in marketing includes experts in customer management, customer relationship marketing and online marketing. Other teams include Operations, Business Intelligence and HR. Apart from this there is a Global Venture Development programme including 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 regular staff support for Rocket Internet and specialists for the expert teams and Global Venture Development programme and, not least, the

founders of the ventures. Based on their 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; acting as entrepreneurs and holding personal stakes in the 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

Rocket Internet is more of an international venture builder and operator compared to many others. Expertise is shared throughout the portfolio of ventures globally and its best

practice can be applied across 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. The 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. They have a team of about 25 staff looking for new opportunities, scanning a couple of hundred companies a month. 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 and European counterparts. Rocket Internet has an international infrastructure and distribution network with the capacity to build ventures on an international scale in just a few months. 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 has continued to produce successful start-ups. Zalando, which initially mimicked the online shoe retailing business in the USA by Zappos, now part of Amazon, has expanded into clothing and jewellery. They are now the biggest online fashion retailer in Europe with rapidly growing sales (€4.5bn for 2017) and the company was stock listed in Germany 2014 at €5.3 billion. Other fashion brands have also been launched in the umbrella Global Fashion Group: Dafiti (Latin America), Jabong (India), Lamoda (Russia), Namshi (Middle East) and Zalora (South East Asia and Australia). Two high profile IPOs in 2017 from Rocket Internet were Delivery Hero, an online takeaway food delivery company and HelloFresh, a meal-kit delivery company. In 2018 the online retailer Daraz was sold to Alibaba.

However, Rocket Internet's stock price has fallen close to 50 per cent since its listing and some investors have complained that the company is too complex to analyse and understand and questioned its ability to become profitable and find enough successful exits for its many start-ups.

Rocket Internet has also started to attract imitators of its own. Wimdu is a copy of the Airbnb, which allows individual home and apartment owners to list their properties as holiday accommodation, but they quickly formed a partnership with another Berlin incubator for expansion into Europe. 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 re-launched it as Fab internationally and Bamarang was closed down.

Rocket Internet is even facing imitators from within. Four of the original managing directors who contributed to the initial success have left the company. They have all become active as venture capitalists and support companies in direct competition with Rocket Internet. Two, together with other former employees, left to set up the Berlin incubator 'Project A Ventures'. Multiple venture capitalist firms and incubators from other parts of Europe have also emerged, such as The Hut Group in the UK. There are thus signs that Rocket Internet may eventually be imitated itself. In addition, many of these new

competitors are pioneering entirely new online ventures and business models rather than imitating existing ones. 'The day and age of copying seems over' according to Ciaran O'Leary, general partner at BlueYard Capital, a Berlin-based venture capital firm. However, these developments did not worry Rocket Internet CEO Oliver Samwer, who stated in an interview with *Reuters*: 'We are planting new seedlings so we can harvest them in 2020 and beyond. . . Small seedlings can suddenly grow big.'

Sources: J. Kaczmarek, 'An inside look at Rocket Internet', *VentureVillage.com*, 18 November 2012; M. Chafkin, 'Lessons from the world's most ruthless competitor', *Inc. Magazine*, 29 May 2012; B. Rooney, 'Rocket Internet leads the clone war', *The Wall Street Journal*, 14 May 2012; G. Wiesmann, 'Zalando to set foot in seven new countries', *Financial Times*, 26 March 2012; T. Bradshaw, 'Facebook backers to take stake in Zalando', *Financial Times*, 2 February 2012; M. Cowan, 'Inside the clone factory', *Wired UK*, 2 March 2012; R. Levine, 'The copy cat kids', *Cnnmoney.com*, 2 October 2007; *New York Times*, 3 December 2006; *The Economist*, 'Attack of the clones', 6 August 2011 and 'Launching into the unknown', 4 October 2014; S. Gordon and D. McCrum, 'Rocket Internet: waiting for the lift-off', *Financial Times*, 10 October 2015; J. Kahn, S. Nicola, A. Ricadela and A. Satariano, 'Inside Rocket Internet's ailing startup factory', *Bloomberg Business Week*, 7 October 2016; E. Thomasson and N. Schimroszik, *Reuters*, Business News, 11 January 2018.

Questions

- Based on the data from the case (and any other sources available) use the frameworks from the chapter and analyse the resources and capabilities of Rocket Internet:
 - What are its resources and capabilities?
 - What are its threshold, distinctive and dynamic resources and capabilities?
- 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 resources and capabilities with sustained competitive advantage?
- What is the importance of the Samwers brothers? What would happen if they left or sold the company?

Suggested video clip

www.youtube.com/watch?v=Tq7WnzY89KE