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A Case Study on Rocket Internet Explaining Why Europe Lags in the Information Age

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Abstract: Europe has emphasized developing its information industry since the start of information age while it has not been as successful as the US. The study aims to get a comprehensive insight into the dilemma of the Internet industry development in Europe with an example of Rocket Internet, utilizing Porter's Five Forces and the IA3 model to analyze its market and non-market issues separately. As for market issues, the shortage of innovation in their merchandise and fewer user engagements make them less competitive in the scrambling market with Google. For non-market issues, the bill General Data Protection Regulation prohibits Rocket Internet from achieving dominance by controlling all European citizens' information. If Rocket Internet and other organizations like to expand their global markets, they need to diversify and innovate their products and service, creating an unparallel business operation model while catering to the wave of technological waves. Additionally, they are supposed to employ public relations means to shape glorious images of taking charge of social responsibility.

Keywords: rocket internet, Porter's five forces, IA3 model, general data protection regulation

1. Introduction

With the flourishing of information technology, the Internet plays a more pivotal role in national security. The worldwide government has realized how far and fast the domestic internet construction is a significant factor in whether they could rank among the great powers. Hence, more and more states started to develop Internet Technology (IT) industries. For example, in 1993, the US enacted National Information Infrastructure (NII) to build an information highway. Europe followed suit, publishing the Delors White Paper in 1994, proposing to invest 900 billion francs in 10 years to establish network infrastructure [1]. However, after 20 years, Europe seems to fall behind overwhelmingly the US since the latter possesses more multinational Internet corporations like Google. According to a digital economy report released by United Nations Conference on Trade and Development (UNCTAD) in 2021, while the US contributed 67% market share in total value, Europe only accounted for 3%, which even lagged behind Asia and Pacific (29%) [2].

Up to now, many scholars have attempted to explain the reasons why Europe has lagged in the new round of technological revolution. Reviewing the history of Europe's Internet development, Shahin pointed out that at the initial stage, the egoistic behavior of each European Union member hinders the possibilities of Internet integration among nations, as well as the lobby from the conventional telecommunication establishments, leading Europe to miss the priority opportunity [3].

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Then, in the period of follow-up development, even though some European e-commerce companies have the advantages of being late to the game, such as imitating successful models and drawing lessons from former multinationals, they still find it hard to survive in fierce competition because most parts of global markets are carved up by many IT organizations from the US and devoid of productivity to make technological breakthrough [4]. Additionally, in a crucial period for the digital economy, the shortage of digital skills and literacy of most Europeans, and the disparities of languages, cultures, and customs among all European countries, make it difficult for each European company to do further integration in information resources [5,6]. Although there are many perspectives to understand the factors of Europe losing its advantageous position in the information age, a systematic framework is still missing. Most importantly, most researchers do not consider the impact of non-market contributors, reckoning that only market forces matter.

This paper analyses the dilemma for Europe to further expand its IT industry scale both politically and economically using Rocket Internet (RI), the biggest start-up Internet company in Germany, as a case study. In the first place, there is a brief introduction to the company. Then, Porter's Five Forces are applied to investigate RI's market issues. As for non-market problems, the IA3 model is an ideal theoretical framework to gain in-depth insight into its non-market problems [7]. After thoroughly understanding its obstacles, some suggestions exist for RI's development and prospect for Europe's future performance in the digital age.

2. Case Study of Rocket Internet

2.1. Background Description

Rocket Internet is an establishment that provides e-commerce technology consulting and capital operation services for domestic and foreign enterprises. Its market strategy is to identify successful projects and recruit technicians to copy the business model with the speed of a rocket to put them into the countries or regions where there is a gap in the market in this area. Up to now, the service network of RI has covered more than 20 countries. The renowned project includes Alando, eDarling, and Zalando.

However, it is not optimistic to see the development of RI. Figure 1 represents its market capitalization from 2014 to 2023. By imitating certain successful firms' operation modes, RI enables the reduction of the risks and instabilities in cost, which help it reach its peak at $10.79 billion on 28 Nov 2014. However, because of accusations of copycats, its market capital decreased drastically to $2.38 billion on 31 Mar 2017. Up to now, RI has not restored its fame and reputation yet. After a fluctuation in its market capitalization fluctuated between $4 billion and $6 billion from 2017 to 2019, the number declined continuously and finally stabilized at around $3 billion in 2023. Compared with the market capitalization of other Internet establishments formed in the US (See Table 1), like Amazon and Meta Platforms (formerly Facebook), RI seems less competitive in the global market, which is just about $3.05B.

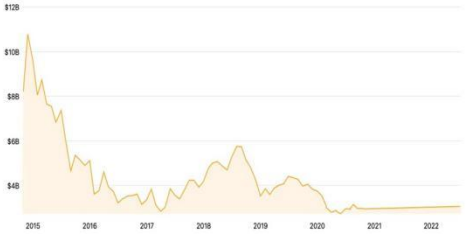

Figure 1: Market capitalization of rocket internet from 2014 to 2022 (Source: https://companiesmarketcap.com).

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Table 1: Largest internet companies by market capitalization.

Rank	Name	Market Capital	Country
1	Alphabet (Google)	$1.301T	United States
2	Amazon	$1.077T	United States
3	Meta Platforms (Facebook)	$551.39B	United States
4	Tencent	$477.55B	China
5	Alibaba	$267.49B	China
6	Netflix	$154.68B	United States
7	Meituan	$118.04B	China
8	Booking Holdings (Booking.com)	$99.28B	United States
	……		
100	Rocket Internet	$3.05B	Germany

2.2. Analysis on the Problems and Challenges Faced by RI

2.2.1. Market Issues

Threats of new entrants.

Entry barriers, which include switching costs for customers and government policy, are an essential variable to measure the extent of threats of new entrants. Specifically, if the profits do not meet the costs, buyers will continue enjoying initial products and services instead of changing suppliers. However, RI has not founded a valid usage engagement and a huge loyal customer base, which has been narrowing as it was accused as a copycat in recent years, jeopardizing its reputation and creating opportunities for new entrants to gain more customers. Meanwhile, more and more countries have enacted related policies, which aim at protecting and developing domestic newly-built Internet companies, to dominate an advantageous position in a new round of international competition in science and technology. A flourishing of new entrants becomes a threat to RI to survival.

Threats of substitutes.

As a latecomer, the key to RI's success is imitating how other successful companies do and intaking lessons from the failures. Although it helps RI to gain considerable profits, it also restricts RI's further development in the long term to some extent. In other words, it lacks unique services and products. For example, people are willing to buy books on Amazon instead of Zalora, a complete replica, because the former is more notable and reliable. Not only the shortage of epistatic substitutes produced by RI further worsens its situation, but many consulting or e-commerce companies could replace the functions of RI.

Competitive rivalry.

Up to now, RI has faced fierce competition with other Internet establishments. In the beginning, RI had missed an early opportunity under the existence of Google and Microsoft, which Europeans had excessively relied on. Therefore, RI found it difficult to occupy a significant market share in IT industries later. Moreover, the flourishing of IT corporations worldwide, such as Alibaba in China and Mercado Libre in Argentina, severely squeezes the chances and possibilities for RI to expand to new marketplaces. Additionally, compared with other Internet organizations, the products or operation modes have no attraction in RI since it is just a copycat. Hence, the lack of comparative

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advantages accounts for its lower profit growth in recent years and further aggregates its original disadvantageous position.

Bargaining power of customers.
Although RI has nurtured a considerable number of customers all over the globe, most buyers do not stick to or show loyalty to its products or services since they are standardized and undifferentiated. Therefore, buyers face negligible switching costs in changing vendors, giving them the confidence to negotiate with companies for lower expenditures.

Bargaining power of suppliers.
E-commerce companies incubated by RI are its primary suppliers. They are interdependent. For one thing, those firms in the early form excessively rely on investments from the RI to maintain their operation in a rat race. For another, the profits earned by the establishments would become capital flowing to RI for further expansion. If RI would like to vindicate its pay-offs or prestige in certain regions, it is indispensable to support its sub-companies unconditionally by offering substantial funds to monopolize the local market. Therefore, it markedly enhances the aptitudes of suppliers to bargain with RI.

2.2.2. Non-market Issues

The effects of General Data Protection Regulation.
The General Data Protection Regulation (GDPR) enacted by the European Commission, which aims at preventing personal data leakage and flowing outside the EU, as well as unifying data regulation rules of EU's members [8], would be a hindrance to RI's further development since it would complicate and restrain RI's information-intensive business models to some extent. Specifically, it constrains the amount of personal data RI are allowed to possess. Winner-takes-all is the nature of the Internet industry [9]. The more information an Internet company attains, the more possibilities it could stand out in a competitive market. Although the bill effectively protects personal privacy, it strictly limits the size of RI.

The interests of the government, giant Internet companies and customers.
The governing bodies and regulatory authorities, especially Europe Commission, undoubtfully wield tremendous impact over Internet enterprises by establishing policies. Their primary concerns are twofold. For one, they are responsible for succoring domestic Internet industries to make them more competitive. For another, although they encourage complete and free competition, they attempt to avoid the monopoly since it would restrain medium-sized companies' development.

Other potential actors may include Meta Platform and Google, the primary victims of GDPR since they were the first defendants not long after the bill. Their interests are explicit, expanding their boundaries without any constraints. Moreover, in the field of the Internet, whoever possesses personal data has more possibility to be outstanding in the rat race, which violates the purposes and spirit of GDPR. In this case, RI shares the same interests with them as they all intend to enhance their influence in the Europe market, even globally.

Lastly, customers have an ambivalent attitude toward the bill. On the one hand, there is a consensus that light-touch enforcement regarding individual data controllers versus commercial companies is indispensable. On the other hand, citizens worry it is a signal that the government attempts to regulate individuals' day-to-day behavior and over-involves their daily life, resulting in data frustration unexpectedly [10].

The arena of competing interests.

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The arena occurs in regulatory proceedings and society. Regarding regulations, RI and other Internet companies encounter a game with the government. In this situation, the authorities are dominant because they have the initiatives and rights to monitor those establishments to obey GDPR.

At the social level, the government, RI, and customers all engage in the game. Whoever earns the support of public opinion will excel in the competition this case, the media plays a pivotal role. The government could inform that administrative and legislative departments aim to rebel against commercial oligarchies which deprive citizens of data illegally whilst enhancing the public's trust and confidence in GDPR through publicity and education. As for RI, it could apply media or other public relations means to construct a valid connection between the mass, presenting its determination to protect private information while holding the uproar that opposes the excessive intrusion into the public sphere by-laws or policies with the excuse of vindicating sound market operation.

Information asymmetry between the government and RI.

The government and RI are in a state of information asymmetry. The authorities have the initiatives to set the agenda. Hence, RI has to become a receiver and adjust its objectives in line with the bill later. If they openly objected to the law, suspicion in Europe would occur. It would incur numerous accusations and worsen the RI situation further. As for customers, the media is their primary channel to access information. Since the government and commercial giants could control the media organizations like a cakewalk, individuals could only serve as passive info-takers.

The assets of the actors.

The regulatory agencies have the authority to norm RI's behavior to protect private data. As for RI, it has consistently lost its accumulated fame and reputation by the accusations of copycatting recently. The shortage of sticky and loyal customers and support of public opinion means RI does not have sufficient assets to compete with the authorities. It could form a broad network with other Internet giants. Even though they are former contenders facing shared interests, they could mobilize a coalition and endeavor to lobby the legislative departments to adjust their policy. As for countless individuals, their opinions are assets since their supports are the primary resource for the legitimacy of the ruling party, especially in a democratic country.

3. Suggestions on Future Expansion Strategies

Firstly, RI should pay more attention to the synergy effect. In contrast to the scale effect, the synergy effect emphasizes the profits earned from the diversity of the products instead of the lower average cost [11]. In the traditional form, it is unanimous that if the production scale expands, the fixed price per product will dwindle, resulting in an upward trend in corporations' marginal profits. However, the richness of merchandise is more emphasized in the e-commerce age. It demands establishment expand its scale while diversifying its goods and services, which would help lower its marginal cost.

Secondly, RI is supposed to develop its unique business model and grasp the trend of high demands for advanced technology in the digital age. Undeniably, the copycat model help RI deviate from detours and risks successfully, but it retains its further advancement up to a point, such as innovation and creation. Hence, not only does it take the load of an ill name, but it gradually falls behind other Internet organizations since it still maintains a respective conventional operation. Therefore, RI must seek a business model different from other tech giants, keep pace with the heat wave of AI, VI, and metaverse, and embrace the challenges that the renovation would encompass.

Lastly, RI needs to nurture some public relations means to fight for the space to speak out for themselves. For one, RI should clarify that it endeavors to transform to respond to the new tech heat actively. For another, if it is unrealistic to lobby the European Commission to adjust the law, RI has

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to corporate rather than confrontation with the government. Through publicity, it should present that it does not intend to over-expansion faithfully. As long as it constructs a valid bond with the public and wins the trust of regulatory departments, it would have the potential to grow up.

4. Conclusion

The paper tries to elucidate the causes that restrict the Europe IT industry's prosperity with a more systematic theoretical framework by taking Rocket Internet as an example. As for market issues, the lack of innovation in their merchandise and fewer user engagements make them less competitive in scrambling markets with Meta and Google. For non-market problems, the bill GDPR prohibits RI from achieving a dominant position by controlling all EU citizens' information, so RI has to struggle to cope with the game among the government, other Internet companies, and customers. If RI and other organizations like to aggrandize their influence in global markets, they need to diversify and innovate their products and service, creating an unparallel business operation model and catering to the wave of technological waves. In addition, they are supposed to utilize media to shape glorious images of taking charge of social responsibility, indicating they are willing to cooperate with the government to lay the foundation for stable development.

However, there are some limitations to this study. Firstly, external validity is not enough on account of the scarcity of the samples. Although RI is a typical microcosm of the development of European Internet companies, its experience, and lessons do not apply to all due to the disparities among organizations. Secondly, process tracing is not employed, which means the paper could not explicitly reveal the causal mechanisms that specifically influence the rise and fall of RI. Last but not least, the research does not compare the differences between the political and economic environment regarding IT industries of the US and Europe, which is essential to understand why Europe falls behind.

Therefore, in future studies, more information about other Europe Internet establishments in the long term, as well as the US policies of the IT industry and interests group shaping the information environment, is required. They are the fundamental elements to carry out Qualitative Comparative Analysis (QCA), which will help to understand the incentives and constraints to Europe’s Internet development more thoroughly.

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