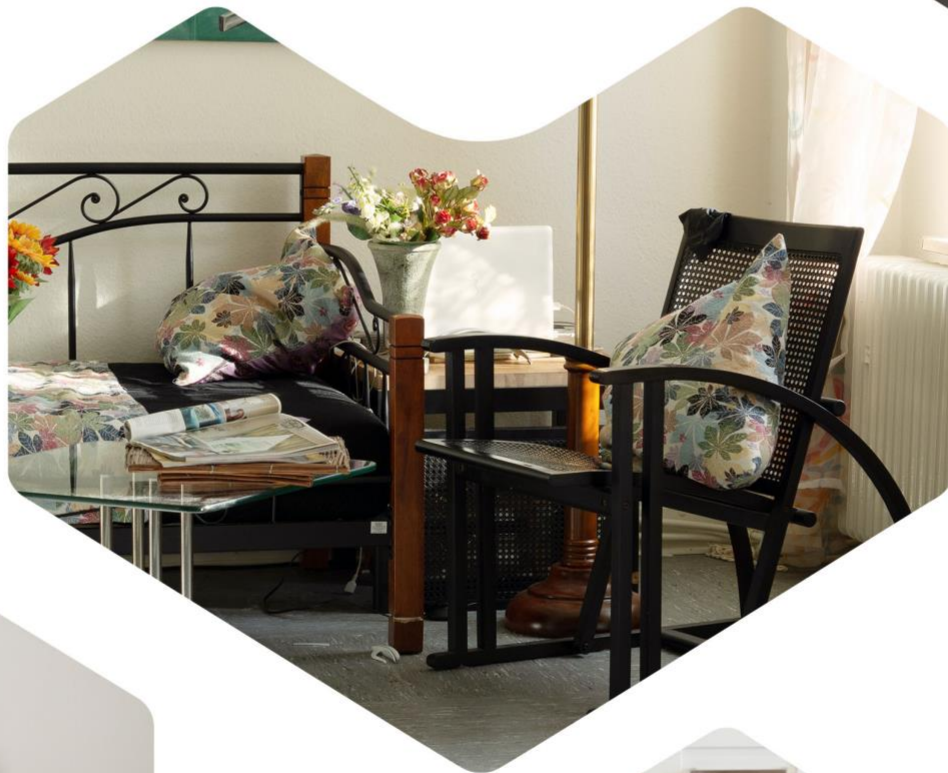


TUBC 2020

BY  Lazada

Lazmall

Home & Living





This case was jointly written by Supawat Likittanawong, Adjunct Professor of Thammasat Business School, and Lazada Thailand. The case was prepared solely as a basis for discussion, and is not intended to serve as endorsements, sources of primary data, or illustration of effective or ineffective handling of a business situation.

This case was written under the permission granted by Lazada Thailand. Copyright © 2020 by BBA International Program, Thammasat Business School, Thammasat University. This publication may not be digitized, photocopied or otherwise reproduced, posted or transmitted without the permission of BBA International Program, Thammasat Business School, Thammasat University.





Lazmall Home & Living

Shoppers have been slow to embrace buying furniture or large home and living products online as the pieces can be major investment they want to see before acquiring. For retailers, furniture is bulky and expensive to ship (and return and restock). Even IKEA, the master of flat-pack furniture, built its entire low-cost model on in-store shopping, and only in recent years began exploring e-commerce.

That said, the tide is beginning to change. Retailers are beginning to see success with the furniture and home goods category online. Examples from more developed markets like the United States has seen big home and living brands growing their e-commerce presence. Brands such as Williams-Sonoma and its portfolio of brands has almost half of its retails coming from e-commerce. Many global and regional online retailers are seeing a significant growth in their home and living category, so much so that many have launched a dedicated Home and Living product section, which encompasses everything from bed and bath to home improvement to lawn and garden. Some have even launched their own house brands under these product categories. Although the competition in this space is not as aggressive as in some other categories, the move to begin focusing on the Home and Living product clearly indicates its attractiveness.

Retail in Thailand¹

The first half of 2020 has been arguably one of the most challenging periods the Thailand retail industry has faced in over a decade and the degree of uncertainty in the second half of the year remains high. Retailers and developers alike must be adaptable and step up their e-commerce penetration to survive.

Measures put in place to contain the spread of Covid-19 in the first half of the year dealt a significant blow to the retail industry, along with tourism. According to the Bank of Thailand, the Retail Sales Index in May 2020 dropped by 34% year-on-year, largely due to the decline in sales of motor vehicles and fuel. The Consumer Confidence Index also dropped to its lowest point since 1998 at 47.2 in April but managed to recover slightly to 50.1 in July.

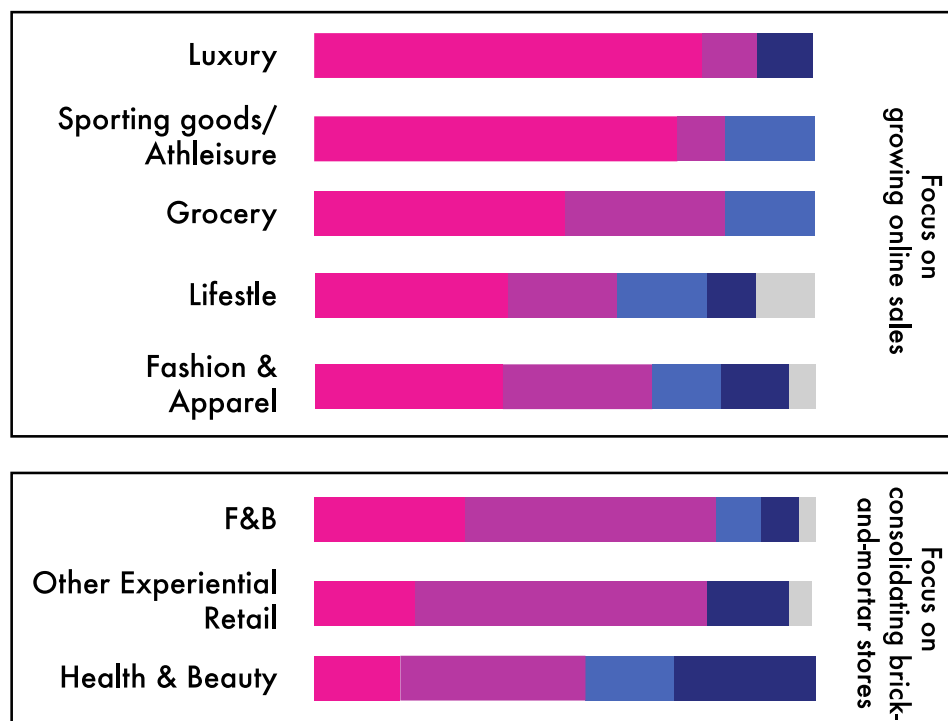
The retail sector same-store sales growth for the second quarter is expected to show negative figures from both food and non-food retailers as the country was in a heavy lockdown for almost the entire quarter.

¹ Adapted from “Adaptability and e-commerce, CBRE identifies keys for retailers to survive in the second half of 2020” published in Bangkok post, Sept 20,2020

As business restrictions began to ease, many landlords have used a variety of sales and marketing strategies aimed at stimulating customers' purchasing power. These included grand sales of longer duration, and more frequent mall activities to help both permanent and temporary tenants. Some also provided more flexible rental terms to retain existing tenants.

**Responses to the question:
“How will Covid-19 affect your company’s sales network
over the rest of the year?”**

■ Increase online sales capacity ■ More stores/ large footprint
■ Fewer stores/ smaller footprint ■ Not sure ■ No impact



Data as of May 21, 2020

(Source: Asia Pacific Retail Flash Survey, CBRE Research)

Landlords were not the only people adapting to new conditions. Retailers who used to rent larger spaces were growing more familiar with using online platforms. Consequently, they are now refocusing their business online, resulting in resizing or cancelling current rental spaces in many retail centers.

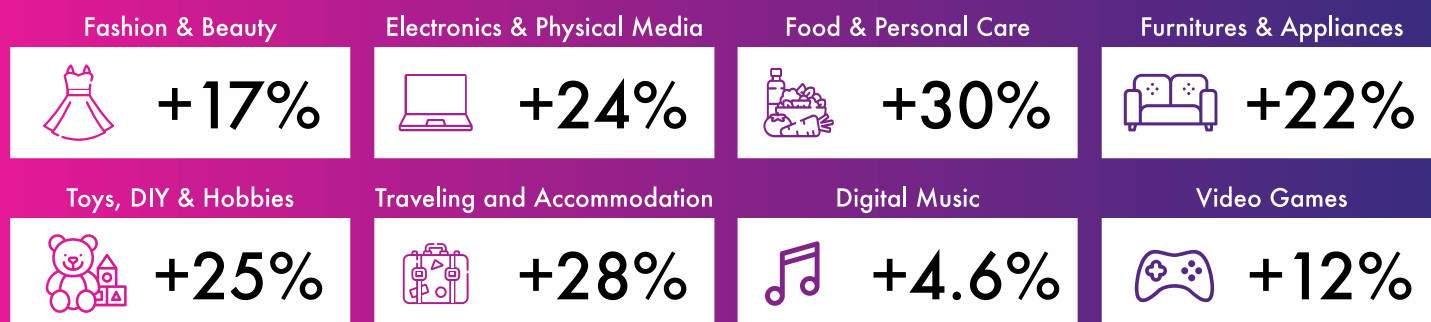
The Covid-19 outbreak has accelerated the pace of change in traditional retail business while also accelerating the growth of online retail at the same time. Going forward, e-commerce penetration will not be an option but a must for both brick and click businesses to survive.

E-commerce in Thailand²

The online shopping sector in Thailand is valued at \$26.2 billion in 2019. As an emerging e-commerce market, it has expanded at a breakneck speed over the past five years, with 48.7 percent growth in 2016 and 26.8 percent growth in 2017. That said, e-commerce is far from overtaking physical retail in the country. For 2019, it takes just a 0.8 percent share of the total retail market, and only 21.7 percent of the population has shopped online.

Those that do engage in e-commerce, however, are spending significant amounts. The average annual online spend, at \$1,746.20, is the highest of the south east Asian countries. This suggests an appetite for higher-ticket items and possibly that e-commerce is at present restricted to higher-earning citizens. The most popular online shopping category is travel, followed by consumer electronics with both among the top three fastest growing e-commerce categories. In terms of growth, Furniture and appliances trails behind in fifth place.

Jan 2019: E-Commerce Growth by Category



(Source: Hootsuite)

Shopping activity peaks mid-week in Thailand: Wednesday is the most popular day to spend online, and sales volumes tend to fall over the weekend. International e-commerce events such as ‘11.11’ in November, Black Friday and Cyber Monday are also growing in prominence in Thailand.

Looking ahead, business to consumer (B2C) e-commerce growth is expected to level out to a compound annual growth rate of 12.5 percent to 2021. Several factors will influence the pace of e-commerce expansion. Perhaps the most significant is the fact that internet penetration, at 53 percent, means a significant section of the Thai population doesn’t have the ability to shop online. The government’s ‘Thailand 4.0’ policy is looking to improve online accessibility by installing broadband infrastructure in villages across the country.

Other than online access, Thailand’s e-commerce delivery infrastructure is also developing to meet demand. In addition to dominant local and regional players like DHL, Kerry, J&T and Flash, and

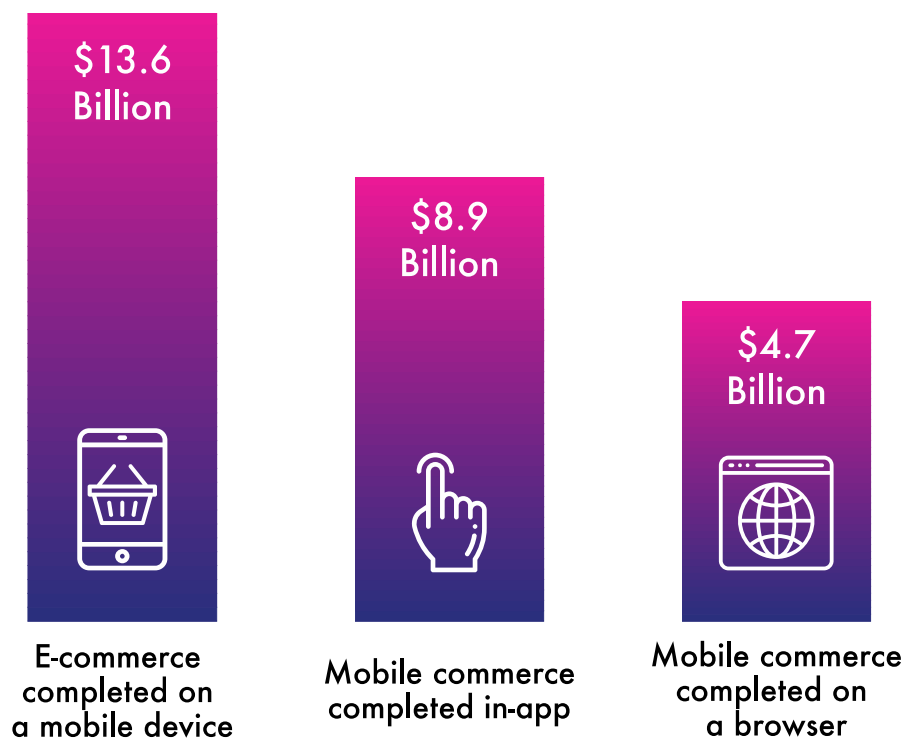
² Adapted from JP Morgan’s E-Commerce Insights 2019.

international couriers including UPS, FedEx and TNT have all established domestic delivery networks here. There is also a growth in the number of warehouses and local providers offering express services. The increasing number of delivery providers present in Thailand is driving down shipping costs, again boosting the attractiveness of e-commerce to consumers. Merchants are entering into partnerships with couriers to offer expedited delivery in certain parts of the country, which could raise expectations of delivery speeds.

Thailand is considered a mobile-first country, with the use of smartphones and other mobile devices outstripping desktop internet usage. The Thai mobile commerce market is already the dominant e-commerce sales channel in the country. It accounts for 52 percent of all online shopping transactions and worth \$13.6 billion. This makes the country one of the regional forerunners for mobile commerce.

The mobile commerce market is expected to grow at a compound annual growth rate of 16.4 percent to 2021, by which point it will generate \$25 billion in annual sales. Thai smartphone users are keen e-shoppers, with 71 percent shopping online at least twice a month. Some 90 percent of smartphone users plan to shop online in the future. Apps are the most-used method to shop online, closing 65.2 percent of all transactions – offering in-app purchasing will therefore be crucial for merchants to reach most Thailand's online consumers.

Preferred E-Commerce Methods



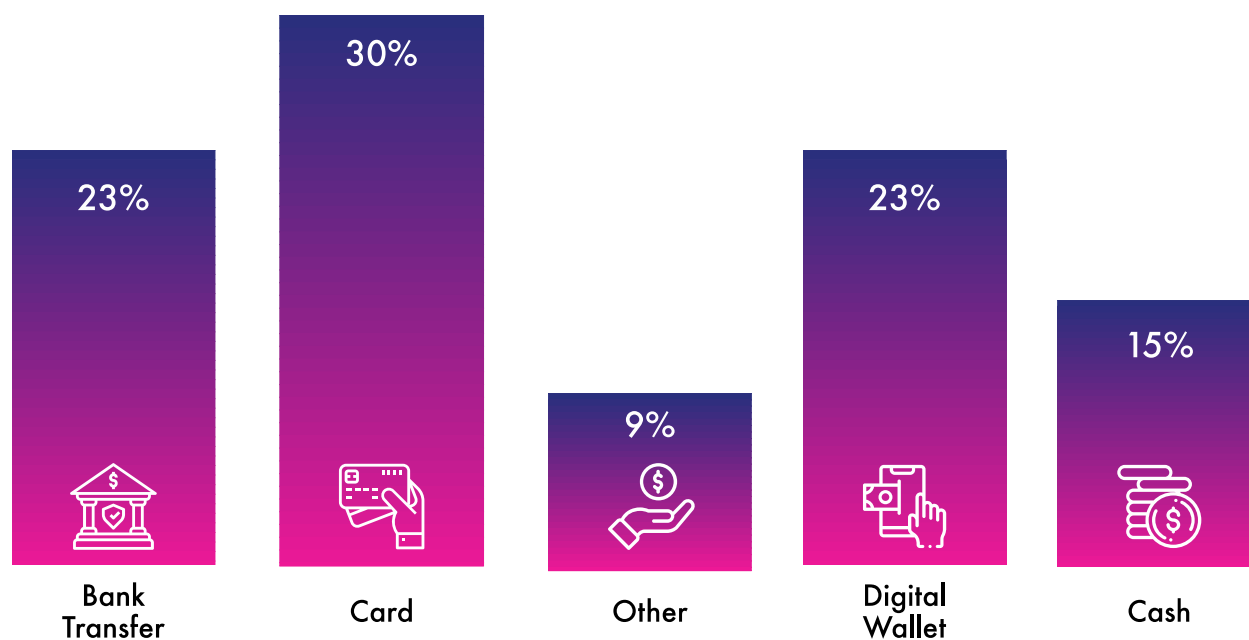
(Source: J.P. Morgan)

Social media should not be ignored as a means of attracting business. Facebook is the primary research channel before buying goods with 9 out of 10 online shoppers research products on Facebook before making a purchase. The social network has 48 million users in Thailand. Line, Instagram and Twitter also have millions of Thai users. The global rise of social media as an e-commerce sales platform has had a considerable impact upon Thailand's e-commerce market. Over half (51 percent) of Thai online shoppers have made a purchase through a social media site.

In recent years, the Thai government has placed more focuses on digital payments infrastructure. Cards are Thailand's dominant e-commerce payment method, used in 30 percent of all transactions, with bank transfers and digital wallet making up the majority of the rest. However, for e-commerce cash on delivery still accounts for about 70 percent of all transactions. The government has also launched PromptPay that is geared towards facilitating mobile transfers. PromptPay allows registered users to transfer funds between consumers and businesses using their mobile phone number or citizen ID., with the money transferred from and to a registered bank account tied to either mobile number or citizen ID number. The scheme already has 14 million users.

These measures, alongside growing smartphone penetration, should also boost digital wallet adoption. Digital wallets are currently used to pay for 23 percent of e-commerce transactions, tying with bank transfers. The use of digital wallets is forecasted to rise at a compound annual growth rate of 18 percent to 2021, to take a 28 percent share of the payments market.

E-commerce Payment Method Split by Value



(Source: J.P. Morgan)

Lazada's Home and Living

Founded in 2012, Lazada is Thailand's leader in online shopping. Its presence in five other Southeast Asian countries also makes it the predominant player of the region. Multiple research houses agree that Lazada tops the e-commerce platform rankings in Thailand. SimilarWeb reports that the company's local-language site attracted an average of roughly 44 million visits per month between May and July 2019, while App Annie reports that the company's mobile app was the most-used shopping app in Thailand across the first three months of the year. Lazada consolidates 2,000 flagship stores with international and local brands and brings them onto its online marketplace, making it the e-market in Thailand with the largest selection of sellers.

The company has enjoyed a staggering nine rounds of funding, through which it has raised \$4.2 billion. Its most recent investment came from Taobao parent company Alibaba in 2016. Lazada received a \$2 billion from the Chinese Internet conglomerate, making it the new regional flagship e-commerce service of Alibaba. This entitled Lazada to access Alibaba's extensive e-commerce logistics infrastructure. As a result, products on Lazada's LazMall platform are eligible for next day deliveries on domestic purchases and 7-day cross-border deliveries in Southeast Asia.

Lazada started incubating the Home and Living category in 2018 and it has since then grown with many brands onboarded. Lazada's Home and Living category is structured into two platforms, Lazada and Lazmall.

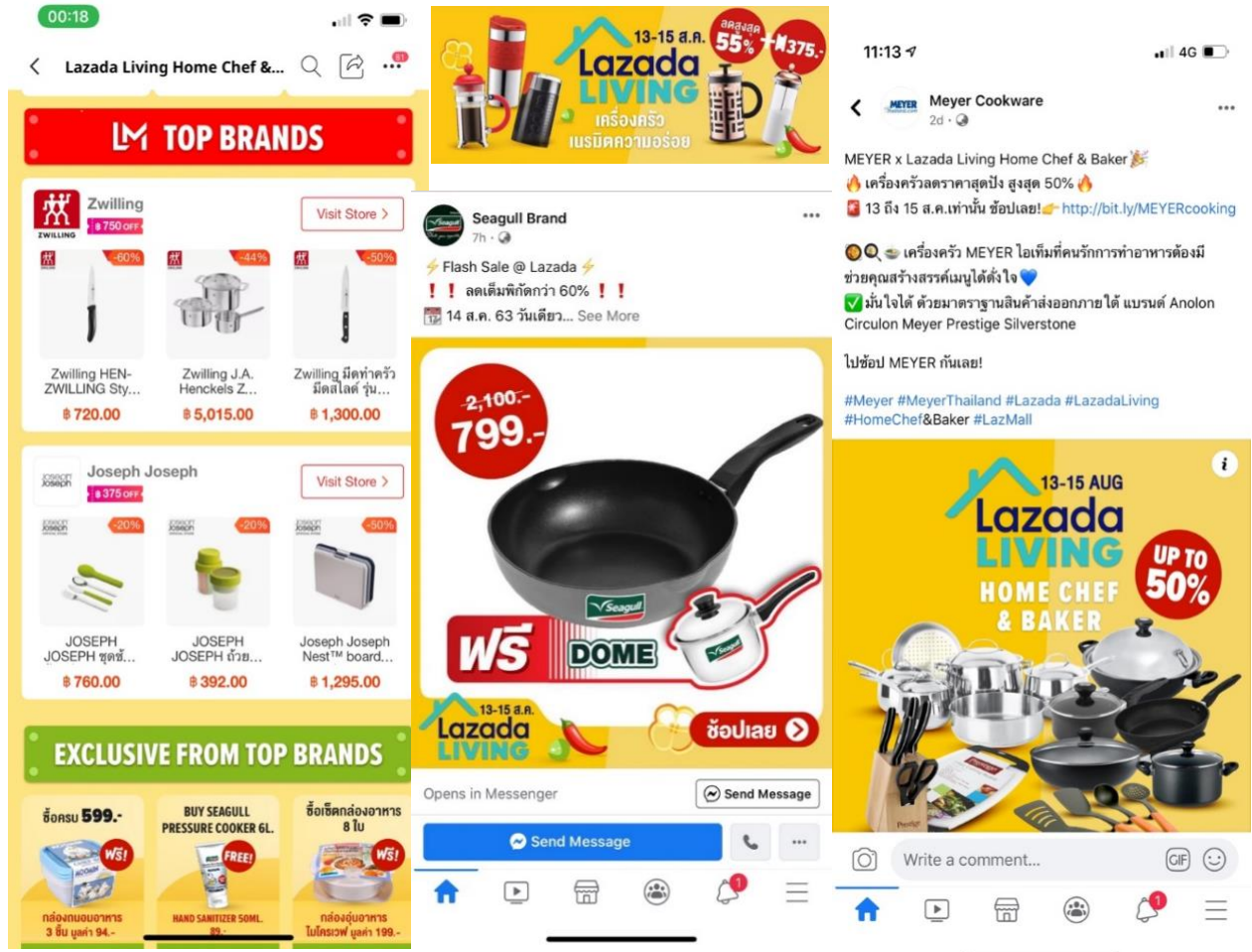
1. Lazada is a commission free, customer to customer (C2C) platform where anyone can open their shop.
2. Lazmall is a platform for brand owners to open their branded shop on the platform.

Under both Lazada and Lazmall, there are dedicated category teams to provide support for the retailers. Examples of category teams include General Merchandise, Electronics, Fashion, FMCG and Digital Goods. Lazada has invited many global and local brands to join the platform as Lazmall Brands and to leverage the Lazmall position as the number one shopping destination of Home and Living e-commerce.

To assist retailers in their online store presence and growth, Lazada has also offered many commercial incentives such as platform vouchers (on top of seller's vouchers). Platform vouchers are discounts sponsored by Lazada that can be applied on top of discount offered by sellers in the form of seller's vouchers. Lazada also provides ratings and reviews which help buyers make informed decisions. Another development that is a focus for Lazada is the development of its Shoppertainment strategy (coins, games, livestreaming) which the company would apply to assist the growth of all of its business.

From recent performance review, Lazmall Home & Living has achieved year-on-year performance growth of more than two hundred percent. Some well-known local and international brands that have onboarded the Lazmall platform include SB Design Square, Index Living Mall, Philips, SATIN, Zwilling among others. Recently, to build awareness of the Home and Living

category for both Lazada and Lazmall customers³, Lazada has created a new category header called “Lazada Living” which is used to promote various category campaigns.



Category header for Home Chef & Baker Campaign

Trends that drive the growth of Home and Living E-Commerce.

The growth of the Home and Living e-commerce is predominantly driven by a few global trends. Specifically, around consumer changing behaviors, retailers adapting to market changes and improvements in technology and accessibility.

The Consumers: The new generation of buyers turns to the internet first to gather information, compare prices, and order products. Digital shopping is changing as consumers become more reliant on, and more comfortable with, mobile devices. Shoppers increasingly use mobile phones

³ Lazada is a platform for consumer to consumer commerce. It is different from Lazmall in that the sellers do not have to be the brand owner of the products they sell.

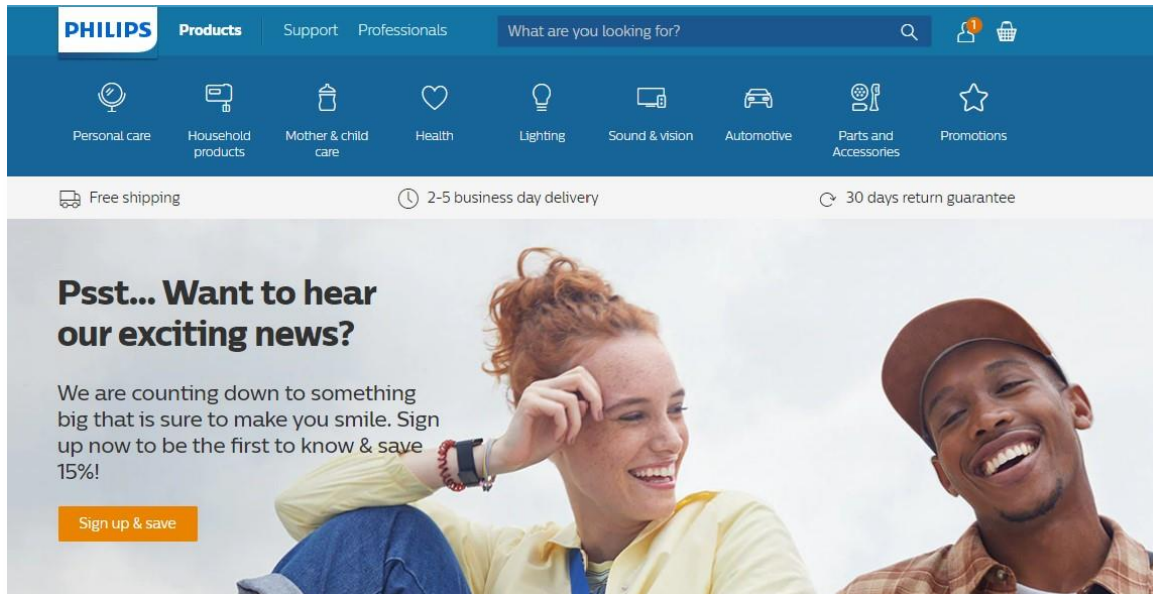
to buy, with mobile sales increasing by 67.9 percent between 2014 and 2015. Previously, consumers looking for unique, original merchandise tend to have a hard time articulating precisely what they are looking for in a product or design. However, Social media channels have made finding what they are looking for easier and faster. Consumers are getting exposed to new offerings through social media and the ease to purchase directly through those channels has supported the online retail growth. Also, with the e-commerce market gaining maturity, and retailers offering risk reduction initiatives like free shipping and returns, more and more customers are willing to buy larger ticket items online.

**Social commerce activities according to internet users worldwide
as of 1st quarter 2019, by age group**
Global usage of social media during path to purchase 2019, by age group

	Global	16-24	25-34	35-44	45-54	55-64
Discover brands/ products via ads on social	28%	32%	30%	27%	23%	19%
Discover brands/ products via recommendations on social	25%	28%	27%	25%	21%	17%
Research products online via social networks	43%	51%	46%	40%	32%	26%
Post with lots of likes would increase likelihood of purchasing a product online	22%	27%	25%	21%	17%	14%
A 'buy button' would increase likelihood of purchasing a product online	12%	14%	14%	12%	8%	6%

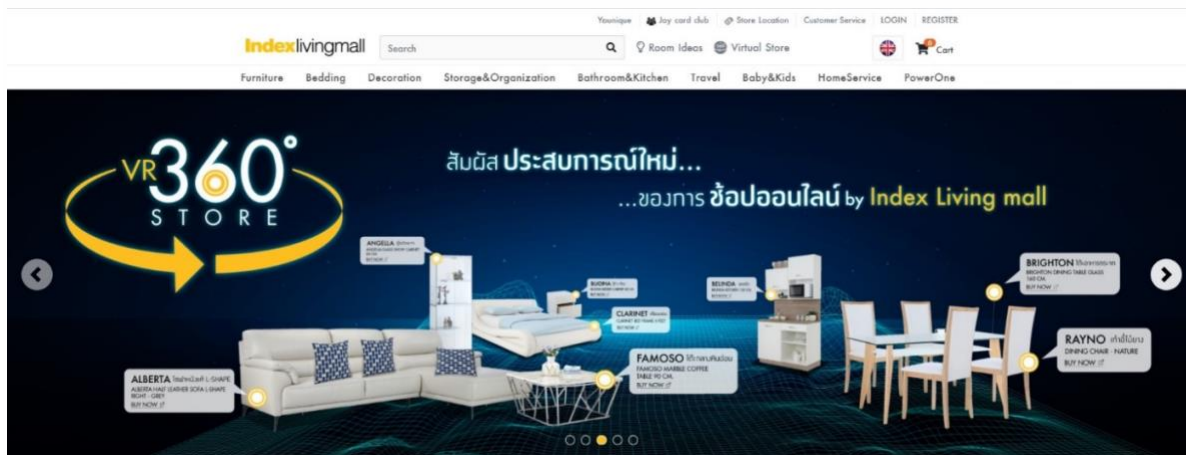
The Retailers: In recent years, many leading Home and Living retailers have taken the online channel more seriously. They have emerged as a force, especially with millennial mobile shoppers. With more sales moving online, many traditional Home and Living product retailers, especially high-end ones such as Williams-Sonoma, are investing significant sums in their online businesses. Traditional furniture retailers now get a substantial percentage of their total revenue through e-commerce. The industry trend-setters like IKEA has also made online retail a major focus. It has invested heavily in the production of its product images and enabling customer to provide product reviews. This has reduced the barrier substantially for its customers and many no longer feel the need to experience a piece of furniture in real life before ordering it.

Home and Living product retailers also realize that they need to reduce the barrier for big ticket item purchase. Many have set the industry standard in service that includes free shipping and returns, installment plans for large ticket items and even product installation services for relevant products. All these have made decision to purchase online for Home and Living products much easier for consumers.



Philips offering free shipping and return guarantee on its online store

The Technology: New e-commerce software technology is raising the bar for customers service. Retailers find that their online stores no longer have limitations in how they can display products and variations online, which makes having an online catalog or store much more appealing. There are also more options when it comes to online store customization. With full (and easy) control over online store look, feel and functionality, businesses in all parts of the supply chain are warming up to the idea of online sales. Advanced search functionality is now making it easy and convenient for shoppers to simply go online to narrow down their search. Add the bonus of being able to order right away and have the item shipped directly, barriers for online purchased have decreased significantly. Although product reviews and 360-degree photos will never be able to replace a real-life experience like laying on a bed or opening a kitchen cupboard, Technology is rapidly developing and might be able to compensate for that very soon.



Index Living Mall offering VR360 in its online store

VR technology, for instance, gives online retailers the ability to let prospective buyers visualize products in their own home or office online. VR360 also helps online home goods and furniture businesses compensate for the lack of a tangible experience.

The above trends have supported the growth of the Home and Living online retail. Statista.com states that, Home and Living product sales will see an average yearly growth of 10% worldwide. However, the online retail for the category is expected to grow at close to 30%. As such the online Home and Living retail will outperform the overall market growth nearly three times.

Home and Living - The market value for Home and Living product globally is expected to be one of the fastest growing categories among online retail. Furniture is a retail category with nothing but potential when it comes to e-commerce. In 2015, report shows that 70 percent of furniture retailers had not yet turned to e-commerce in a meaningful way. That said, the e-commerce for furniture and home goods is growing at breakneck speed. Statistics paints an extremely optimistic picture about online furniture retailers in Thailand, projecting that Thailand e-commerce furniture sales will double from \$320 million in 2019 to \$677 million in 2023.

CASE CHALLENGE

Lazmall Home & Living is facing two key challenges, which are influenced mainly by customer behaviors:

1. High competitiveness among online Home & Living industry

In Thailand, there are many online platforms that focus on the Home and Living category since the product assortments have high involvement with customers' daily life. To better serve their customers, Lazada needs to identify its competitive edge and define **Strategy of Differentiation** to maintain existing customer base and recruit new buyers to the platform. Lazada believes that its potential new buyers are **first jobbers and millennials** who have modern lifestyle with a different purchasing journey from other customer categories like baby boomers.

2. How to become Brand in Mind of customers for shopping Home & Living at Lazmall

The online platform model is a "Two sides Market" model which must deliver a 3win benefit to Customers – Brands – and Platform. Lazada needs to define how Lazmall can really become a **"DESTINATION"** for both Brands and Customers. To become a destination, the understanding of customer insight is critical. Lazada is looking for a well-designed and **Integrated Branding and Marketing Communication Plan** that will help gain customer and brands satisfaction.

From the above, the company is looking for teams to deliver **1) A Differentiation Strategy for Lazmall and 2) Integrated Branding and Marketing Communication Plan** for the strategy proposed. Any plans proposed is expected to be implementable immediately with clear supporting analysis of costs and benefits.

CHALLENGE YOUR LIMIT, NEVER MISS AN OPPORTUNITY

