



Teaching Case

Choosing e-commerce strategies: a case study of eBay.vn partnership

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Abstract

The case uses the story of one of the leading e-commerce firms in Vietnam to introduce students to concepts and models of e-commerce, and in particular, to help students get familiar with cultural, ethical and legal issues in doing cross-border e-commerce. After solving the top three challenges in doing e-commerce in Vietnam within the past 9 years – enabling a reliable and secured online transaction, building customers' trust in buyers and providing an effective shipping service, the CEO needed to consider whether he should expand his proven successful domestic ecosystem extensively or build a completely new one to serve his company's strategic move: *doing cross-border e-commerce in Southeast Asia where there exist established players in the highly competitive and technology savvy market*. Such a key strategic event occurred in early 2014.

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Introduction

The Lunar New Year 2014 was just around the corner: lights were twinkling and a massive fireworks display was coming up. The atmosphere was festive. Sitting in his office, Binh Hoa Nguyen, CEO and founder of Peacesoft – one of the top five e-commerce companies in Vietnam – had to consider various options for his successful partnership with eBay.vn in a quest to expand its customer base in Southeast Asia whose population is around 650 million. He was thinking really hard about the news that Alibaba, Rakuten¹ and Lazada² were also having their own ambitious plans with huge funds to do e-commerce in this region. Having solved the top three challenges in doing e-commerce in Vietnam within the past 9 years – enabling a reliable and secured online transaction, building customers' trust and providing an effective shipping service, he needed to consider whether he should expand his company's domestic business model extensively or build a completely new one to serve this 'cross-border market'. Whatever his approach was, developing a network of delivery and an online transaction system for this huge market were high on his agenda. Of course, big money to do business does matter. Yet, more critical to ensure a success in e-commerce were running the shipping network that must be able to address the country's unique issues and enabling an online transaction platform to accommodate different methods of

payment. Either the newly developed one or an extended version of Peacesoft's domestic ecosystem must enable the firm to compete well with those e-commerce giants. Otherwise, a failure in this market would be inevitable, resulting in the negative impact on the domestic market and a severe loss of faith of foreign investors.

After establishing a partnership with eBay, Peacesoft was transforming itself into one of the top five e-commerce firms in Vietnam. This case explores the unique business model that enabled Peacesoft to gain and sustain a good market position domestically and examines its early move to expand internationally.

Binh Hoa Nguyen: Peacesoft's CEO and founder

Binh Hoa Nguyen³ was born in 1982 in Hanoi. He founded Peacesoft in 2001 as a sophomore of computer engineering at Vietnam National University. During his college life, he won several awards such as Vietnam Wisdoms, Scientific Research, Creative Youth, Informatics Talents, Microsoft Imagine Cup and particularly the Golden Globe from Vietnam's Prime Minister. Such competitions and experiences, which he later reflected on, did give him much confidence and belief in starting his own business (see Figure 1). His dream was that



Figure 1 CEO Nguyen (See more about CEO Nguyen at: <http://onforb.es/1Ds6NZN>, or <http://bloom.bg/1DBd83M>.) – founder and CEO of Peacesoft group.

someday he would own a company to freely adopt his creative ideas to conquer the market and make money. For him, adopting emerging technologies, building a new business model, tackling challenges, addressing customers' demands, and ultimately, watching his business grow up were sheer joys.

For many people, IT is some magic that could enable firms to do everything effectively at a very low cost. During 2000–2001, the successes and business models of the renowned companies like Google, Yahoo, Microsoft, PayPal, eBay and Amazon obsessed him. He reflected, 'I said to my family and friends that I have been thinking really hard about this decision. My company [would] sell many stuffs online. Many companies out there were not really successful, some even disappeared after just 6 months or a year. They just simply copied the "Western" models and styles. We need to make it [our business model] completely different, something that appreciates the local context, value and customers' preferences ... Only then can we be successful!'

His first name is 'Hoa Binh', which in English means 'Peace'. So he decided to go with 'Soft', which means software, to give the company the name 'Peacesoft'. Peacesoft's vision was to become one of the leaders in C2CB2C of the Vietnam e-commerce market with a focus on online auction, transaction and advertising. Peacesoft wanted to come first in customers' mind. Binh firmly believed that his dream would not be too far-fetched.

Binh was certain that Peacesoft could only achieve and sustain the success based on a strong philosophy and work ethics, which he summed up in nine golden words: Teamwork – Passion – Teach and learn – Customer first – Embrace changes – Self-motivation – Creativity – Transparency – Loyalty and honesty. Binh often shared his thoughts with new staff and students, 'I am very much concerned about how fast you take action and think rather than where to start. For me, your quick action and decision making capability are more important than [your] background'.

An overview of e-commerce in Vietnam

Since 2010, Vietnam has been widely seen as a new tiger of the global economy (see, e.g., <http://bloom.bg/1CJUuN>). With its

population of 92.5 million, Vietnam was ranked 15th out of 198 countries based on the number of Internet users⁴ in 2014. Vietnam had the largest online population in Southeast Asia (Do, 2013; Johnny, 2014). With an electronic market that had 39.77 million people accessing to the Internet and had more than 134 million mobile phone subscribers and 20 million Facebook users (Kemp, 2014), Vietnam has so far drawn a lot of attention of both domestic and foreign investors (see, e.g., <http://on.ft.com/1DRa5Wa> or <http://onforb.es/1xYeJdv>) to do e-commerce. Still, there are many more interesting issues about the growth of Vietnam's e-commerce to mention. For example, considering Vietnam's e-commerce market size during 2011–2016 and other countries in the Southeast Asian region, the total Internet users in Vietnam has soared 153% from 28 million in 2011 to 43 million, in a span of just 5 years (see Figure 2).

Another dimension is the e-commerce Penetration (ECP), which is an important measurement of the e-commerce market maturity of each country. Simply put, it is the percentage of the total retail market being done online. In 2011, Vietnam's ECP was only 0.25% and valued at US\$154 million. However by the end of 2016, ECP in Vietnam is expected to triple to 0.71% while online retail will increase sixfolds to \$900 million (see Figure 3).

As far as Vietnam e-commerce market is concerned, in 2013, Vietnam E-commerce and Information Technology Agency (VECITA) reported that there were over 100 e-commerce Websites primarily focusing on e-marketplace and a few number doing online auction. According to VECITA analysis,⁵ sales per online buyer accounted for approximately \$120 in 2013. Purchasing items are fashion, cosmetics products (62%), technology and electronic products (35%), household products (32%), air tickets (25%) and others. In Vietnam, most of online shoppers paid in cash (74%), while payments via bank accounts and intermediate payments in e-commerce Websites were 41 and 8%, respectively. The B2C e-commerce sales were valued at \$2.2 billion (see Table 1).

VECITA also predicted that by 2015 about 40–45% of the total population will be Internet users and that Vietnam B2C e-commerce sales will reach \$4 billion (see Table 2).

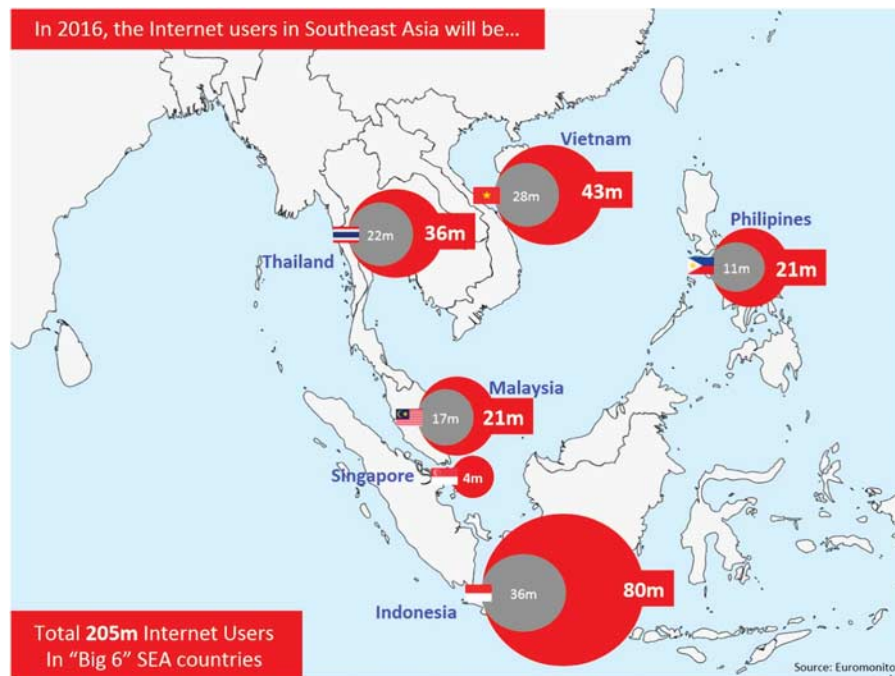


Figure 2 Vietnam's e-commerce market size 2011–2016.
Source: Euromonitor.

In 2013, 62% of customers bought clothes, shoes and cosmetics online while only 10% of customers spent their money on online professional services, that is, learning English online or educational consulting (See Figure 4).

As early as 2014, most of the e-commerce business models in Vietnam were fully developed and since then the competition has gradually become fierce. The ICTs infrastructure, the technical capability, the legal mechanism and the support of the government as well as the community all supported the growth of the e-commerce industry. In May 2014, the prime minister issued a decree on the national action plan to develop e-commerce for the period of 2014–2020. This action plan, which is worth around \$22.5 million of the governmental budget, focused on three key issues:

- Completing the IT infrastructure and promoting the adoption of online transaction platform
- Securing online transaction – Accepting industry standards for online transaction such as digital signatures and completing legal framework
- Training and developing the highly skilled workforce⁶ for doing e-commerce

To further promote e-commerce, VECITA decided that starting from 2014, the first Friday of December is the 'national online shopping day'. Similar to the United States' 'Black Friday', on this day, all e-commerce Websites in Vietnam will offer big discount and free shipping for customers. In so doing, the government believes that it would help strengthen customers' perception of online shopping, thereby enabling the entire e-commerce industry to be in full swing by 2015.

However, the impressive development of e-commerce in Vietnam was not without its flaws. There are many Websites⁷ that had made frantic efforts to attract customers at the

beginning, but were then unable to maintain their growth after a long journey. A few Websites that had received big investment almost 'ran their course', and consequently, were not enthusiastic about the game anymore. Some of the online shopping Websites were not completely dedicated to making customers' shopping experience enjoyable while many others just ran as a medium connecting between buyers and sellers, that is, showing or displaying products online, without incorporating the online payment systems. E-commerce, therefore, is a long journey, in which only firms that have sufficient resources, competent capability and a well-planned investment strategy can survive and grow. The thought of 'instant or immediate successes' does not exist in this playground. Being a new market entrant or not, a firm must identify its capability, direction and the challenges that it will confront when doing e-commerce.

Obviously, numerous works had to be done.

A close-up of Peacesoft

In April 2001, with just \$100, Mr. Nguyen started his own software business, which he jokingly called 'a garage software company'. Peacesoft was initially founded to provide software solutions, of which software outsourcing was a key service. Following the steps of pioneering software firms in Vietnam at that time such as TMA, Paragon solutions, FPT or Lac Viet, Peacesoft entered the market of software outsourcing with hopes that it could soon make big profit by quickly grasping advanced skills of computer programming and project management. Peacesoft began receiving small orders from some local companies and then gradually sought big orders from clients in Europe and Japan.

The first 3 years of his start-up was really hard and his target was to survive while keeping his eyes on emerging

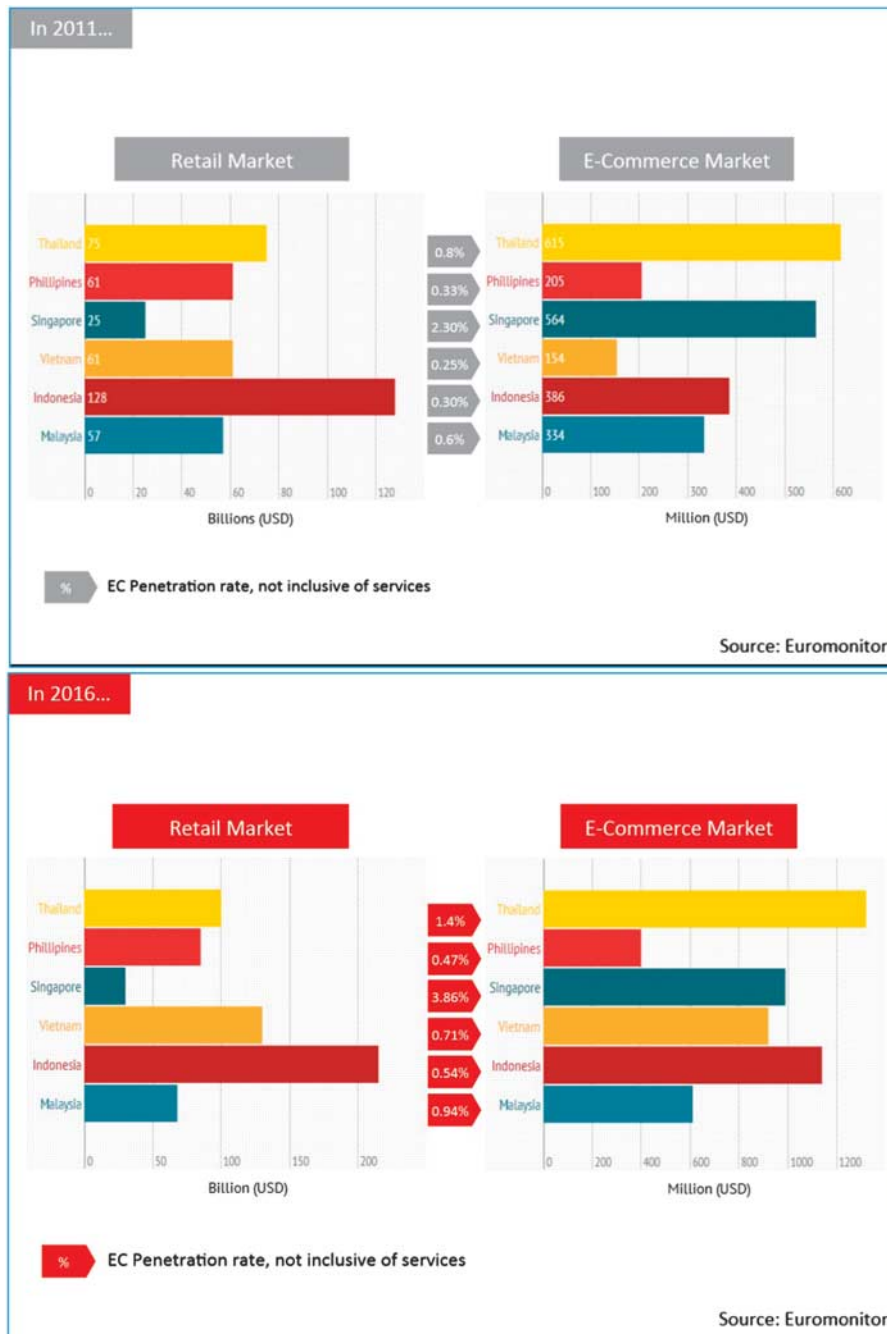


Figure 3 Vietnam's ECP rate for the period of 2011–2016.
Source: Euromonitor.

Table 1 Vietnam B2C e-commerce sales in 2013 (VECITA, 2014)

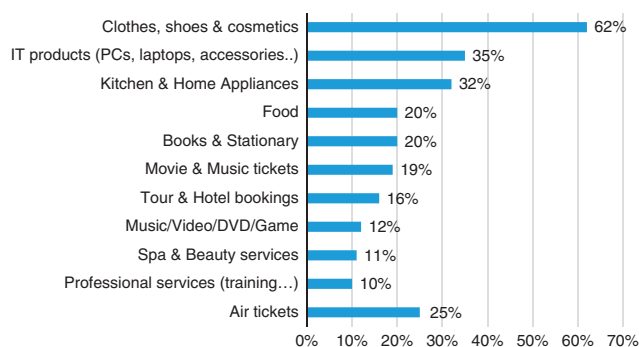
Vietnam population 2013	Internet users penetration (percentage of population)	e-commerce sales per online buyer 2013	Online buyer penetration (percentage of Internet users)	B2C e-commerce sales (in billions)
92 million	36	\$120	57	\$2.2

opportunities to do e-commerce. Things seemed not to go as they had been planned. Peacesoft would still have been a firm basically specializing in providing software solutions and services if its founder had not been invited to join IDG –

ASEAN⁸ hi-tech investment workshop – one of the largest annual events of its kind in Asia. At this workshop, each start-up founder barely had 5 min to pitch to investors and Mr. Nguyen did not waste the once-in-a-lifetime chance of his

Table 2 B2C e-commerce sales forecasts 2015 (VECITA, 2014)

Vietnam population 2015	Internet users penetration (percentage of population) in 2015	e-commerce sales per online buyer 2015	Online buyer penetration (percentage of Internet users)		B2C e-commerce sales (in billions)
			Growth level	Rate	
93 million	45	\$150	High	70	\$4.3
			Medium	65	\$4.08
			Low	60	\$3.7

**Figure 4** Popular products and services on e-commerce Websites (VECITA, 2014).

life to introduce his plan to do his e-commerce start-up. He seemingly pitched without getting any positive result or attention of the community of investors. What he felt at that moment and later was that he had missed something in his 'message' or the way his message sent to the investors had been 'lost in translation'. Back to Vietnam, Mr. Nguyen wrote an article published in *Tuoi tre.vn* – one of Vietnam's leading newspapers – reflecting on his activities in this big event and his dream on doing one of the first IT-enabled enterprises in the country. Right after the article had been published, IDG Venture was hugely impressed with his ambitious plan and break through ideas and this venture capital firm approached him for an investment. The meeting between IDG Venture and Peacesoft went smoothly, a deal⁹ was agreed and went through. Peacesoft became the first venturing company in Vietnam to receive a million-dollar investment.¹⁰ Mr. Nguyen shared with a big smile, 'No money, no dream. This is the turning point of my business – [It is] the rocket launcher for Peacesoft and my team ... Vietnamese companies cannot just do outsourcing services. With talented, young, energetic people in this country and this investment, we must think and do something new, innovative. That's my dream and also my commitment'. He told his staff in a company's annual event, 'Never ever see this investment as something taken-for-granted! See this opportunity as a "make-or-break"! If we cannot become bigger, more successful then we [will be] kicked out of the game. Not only do we need to prove to the foreign investors that our business would be worth every dollar of their investment but we also need to demonstrate that Vietnamese people and companies can still do hi-tech

businesses, will do well and one day will be able to compete equally overseas' (See Figure 5).

Peacesoft's first strategic move: building a partnership with eBay

In 2005, right after IDG Ventures investment, Peacesoft officially launched its first online business called chodientu.vn (aka 'electronic marketplace'). Since then, chodientu.vn has been one of the leading B2C2C sites in Vietnam. It was built on an open and highly scalable platform. The site was developed from scratch by Peacesoft's technical team and was integrated with technically sophisticated features of global portals such as Yahoo or MSN. In explaining the meaning of the site's slogan, Peacesoft's director of marketing, Ms. Dao Lan Huong, joyfully described, 'The site is truly aligned with our company's business strategy named E4, "Everything Everywhere for Everybody Everytime" – which represents comprehensive access and availability. We hope to make online transactions simple so that visiting chodientu.vn is as easy and commonplace as shopping at a brick-and-mortar mall'. (See Figure 6) shows the market share of the top five e-commerce sites in Vietnam in 2013.

Chodientu.vn was doing so well that it quickly grasped the attention of big players from overseas (See Figure 7). Among those household names is eBay Corporation. It was back in June 2007 when eBay officially began its business in Vietnam by launching a new Website at 'www.ebay.vn', expecting to connect Vietnamese customers to its global online shopping market. Still, after almost 1 year, what eBay could do was just simply enabling customers to access and purchase goods at low prices. In fact, eBay failed in its mission to create an online auction platform. Difficulties such as online payment barriers and customer support¹¹ that eBay encountered hindered the realization of its ambition. Being unable to look for a substantial customer base, eBay was almost locked in a stalemate in the Vietnam market. To survive and assert its brand, eBay was forced to choose a well-known local partner.¹² Despite being a new market entrant, Peacesoft repeatedly affirmed its position in the market by attaining many achievements. Chodientu.vn received hundreds of thousands of clicks per day and its founder, CEO Nguyen, was nursing his ambition of retailing beyond the domestic market. With such successes, Peacesoft appeared on the 'radar screen' of eBay as the sole candidate that may meet their expectations and demands. After several rounds of negotiation in the United States and

- Founded on April 26, 2001.
- In 2005: became the first and only 100% capital Vietnam-owned company to receive US\$1 million venture capital from IDG (International Data Group) Ventures.
- Total employees: 300; Most have college or advanced degrees. Average age is 25.
- Received numerous grand prizes from the Vietnam government and industry associations as well as international communities.
- Some of their specific awards: the best IT solution, the most effective software, the most favorite online payment portal and electronic wallet, the most outstanding online transaction platform.
- Nominated by to be in Top 100 IT enterprises in Asia in 2007 (*);

As of December 2014:

- Number of merchants using Peacesoft's platform: ~ 60,000
- Number of users: ~ 12,000,000
- Number of daily transactions: ~ 350,000
- Number of daily active users: ~ 300,000
- Total retail market target: US\$110 billion

(*) Source: <http://bit.ly/1GdurZ5>

Figure 5 A snapshot of Peacesoft.

Source: <http://bit.ly/1GdurZ5>.

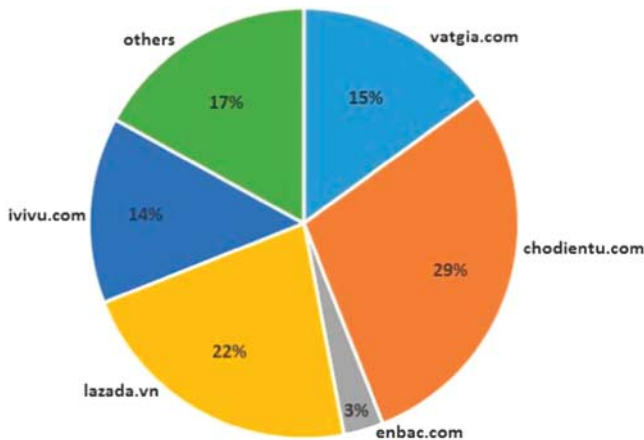


Figure 6 Top five marketplaces (in revenues) (VECITA, 2013).

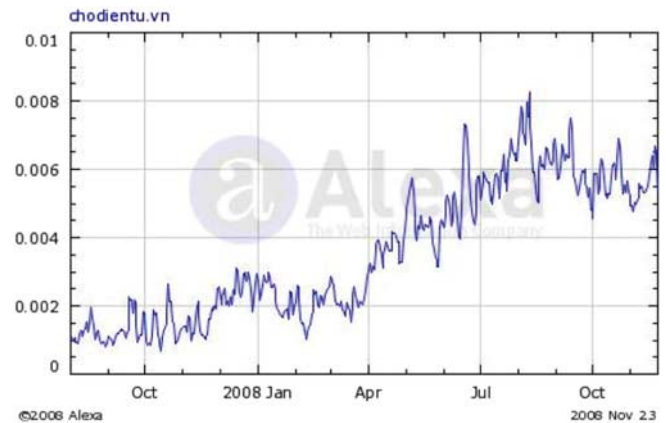


Figure 7 Access rates (growth) of chodientu.vn August 2007–December 2008. Source: Alexa, December 2008.

Vietnam, it was 17 June 2008 when the e-commerce giant eBay officially established a partnership with the 'young man' chodientu.vn.

CEO Nguyen was perhaps one of the very few members of the management board who expressed his excitement over this partnership. However, deciding to go with eBay did raise the eyebrows of many shareholders. The big loss of eBay¹³ in China just a few years ago seems to have obsessed everyone so much as if it just happened yesterday. Why did such a giant with in-depth knowledge, vast experience and resources fail in its mission to do e-commerce in China? Observers believed that eBay was not naïve and neither was its partner EachNet.

In fact, it was not. At least from CEO Nguyen's perspective.

CEO Nguyen spent a lot of time on traveling to meet and talk with investors and entrepreneurs in Asia and the United States to find out what had gone wrong for the eBay–EachNet partnership. Unlike others on the board, he was quite optimistic about the partnership's prospect of success in Vietnam. He argued that, considering the administration and leadership, this joint venture was primarily driven by Peacesoft's rich experience of the local context and Vietnam's unique characteristics. 'They did not emphasize much at this

issue in eBay–EachNet partnership right from the beginning and so, step by step, things went wrong. Big companies have their [big] ego and small ones may not be well aware of that!', explained CEO Nguyen. Such a commitment and consideration was reflected by the fact that in this partnership, with 20% of stake, eBay would also act as a strategic consultant for Peacesoft while Peacesoft would focus on upgrading its infrastructure and working environment, investing in human resource and R&D for products and services, and extending the market. eBay.vn is a Website for online auction and shopping while Peacesoft sees its chodientu.vn as a shopping-oriented cross-border social network.

CEO Nguyen maintained that there are auctions, whereby sellers can communicate directly with buyers via the partnership ebay.chodientu.vn¹⁴ but 'given the context of Vietnam, we want to add some value-added elements consistent with the shopping culture, style and preferences of the Vietnamese people. With its in-depth understanding of the local market, Peacesoft will select and implement best practices suitable for this local market. Besides, the company will leverage the international influence of foreign shareholders to steer the Vietnam market to the world's e-commerce'. Accordingly, shopping is just part of the many activities that users could do

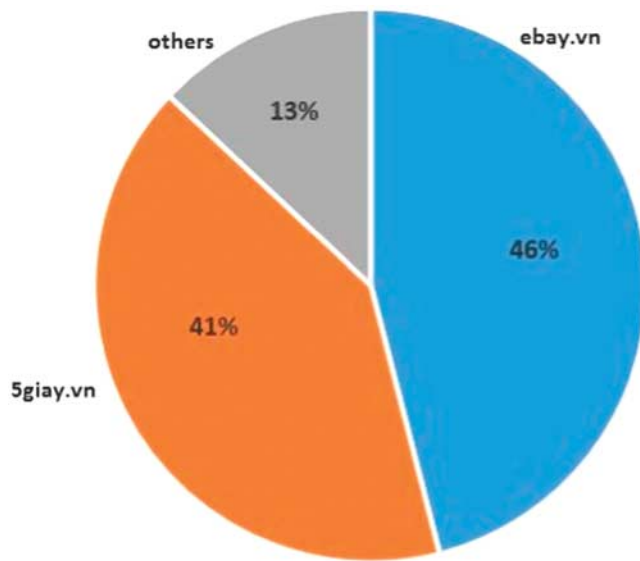


Figure 8 Market share of auction Websites (in successful transactions value) (VECITA, 2014).

when accessing chodientu.vn, such as making friends, seeking people with the same interests and preferences, sharing information about products and services, or shopping experiences and tips.

In late 2013, among the top 10 online auction Websites in Vietnam, eBay.vn came first with 46% of the total successful transactions value (see Figure 8).

Facing the tough challenges

On Day one, CEO Nguyen and his team were well aware of some of the most challenging tasks that they must face and address to be successful with e-commerce. These challenges were in fact commonplace in many countries but even tougher in an emerging economy like Vietnam. First, it is the customers' shopping preferences: they need to physically see and touch the products and pay by cash. This is what people got used to experiencing in the traditional commerce, but CEO Nguyen believed that soon it would be changed as more and more people bought products and services online and e-commerce Websites would be more integrated with online payment systems. Second, most Vietnamese customers did not fully trust e-commerce. Their common perception was that what they received was different from what was displayed online. Third, Vietnam at that time¹⁵ did not have an efficient delivery system. CEO Nguyen argued that solving this third problem was really hard but the outcome would be very helpful to enhance customers' trust in e-commerce.

Regarding the first challenge – online payment system – CEO Nguyen recalled his experience, 'The first thing to do with e-commerce is perhaps building an effective transaction or payment platform. As you know, the credit and online banking growth at that time were very, very slow, under-developed ... though it is much better now ... but many reports [during 2005–2008] can tell that the number of cash-on-delivery is still higher than 95% in all transactions. The second issue is trust and awareness of e-commerce in Asia. I think that the level of trust in Asia is much lower than that of Western countries and America'.

But things were not easy at all for CEO Nguyen and his team to tackle such challenges. He in fact had to argue several times with some senior managers from eBay when discussing what the options for online payment platform should be, 'We had a big debate on what options we could offer...I told them, for example, if you bring the eBay platform to Vietnam, Thailand, Brunei, The Philippines, or Indonesia, it will be problematic for online payment. How would you pay online? On eBay platform, the method of payment is via PayPal or using credit cards. But as I mentioned previously, the credit card penetration, for example here [in Vietnam], is quite low [during 2005–2008], just around 3%.¹⁶ This fact is different from the US where a large number of the population have credit cards. So, this means [it's] a big difference in method of payment. In Vietnam and many countries in Asia, people prefer Cash-on-Delivery (COD), about 95% [during 2005–2008]. Because the buyers here find it easy, convenient and safe. They can only pay for the goods that are in good or excellent condition. But guys from eBay [some of them are strategic consultants with years of experience] coming here do not really understand that [customers' preference]. They just want to simply replicate what they have been doing successfully in their countries, and so [as you see] they failed. We told them, we live here, eat Vietnamese food, we know the Vietnamese, the Southeast Asian culture. Give us a chance to adopt our strategy'.

A senior strategic consultant of eBay responded, 'You need us as strategic consultants. We are here to help. With years of experience, we can just bring the best to you. We failed in China and so this time [with this partnership], we are quite skeptical of any new solution. Clearly, you guys know this market and customers. No doubt about that. But this is the first time you guys do e-commerce and you seem to be the first to offer online payment in this market, right?'.

In 2005, when Peacesoft launched its first online business, the e-commerce market was still a new concept for the majority of customers in Vietnam. 'The biggest obstacle is the psychology and confidence of the customers. Vietnamese customers are not familiar with the online payment mode. Nor do they have the understanding of shopping and secure online transaction', explained CEO Nguyen. The context was even tougher! The global market was scared of conducting online transactions with some countries in Asia because of the risk of Internet fraud. In this case, 'Doing a successful partnership with eBay could be helpful! EBay – The brand itself is an excellent testimonial for trust', CEO Nguyen commented.

On the one hand, Peacesoft needed the eBay brand in its quest for e-commerce success. On the other hand, it had to deal with eBay's inquiries and convinced them to put faith in their plans. 'In some meetings, we had to explain a lot [for eBay's managers]. I mean, we had to find out what was special about eBay's PayPal and why it could be a big failure for the partnership [and also the Vietnam e-commerce market] if they do not listen to us', CEO Nguyen recalled. For the majority of online payment systems in Western countries (e.g., the United States/the United Kingdom/Canada), sellers can get paid immediately but a buyer can open a case of chargeback¹⁷ if there is a dispute. Because, for instance, the United States has such a good credit-rating system and an efficient chargeback scheme, buyers don't have to worry much about online purchasing (e.g., product quality or receiving)

while sellers get paid instantly and they can get chargeback any time. Therefore, the PayPal model would not work effectively in Vietnam where there is no adoption of charge-back mechanism and a limited, ineffective credit-rating system. Given the unique characteristics of the Vietnam e-commerce, CEO Nguyen and his team suggested a transaction model called *Nganluong.vn* that could help resolve the identified problem. This is the first online payment system in Vietnam (see Figure 9). eBay's consultants and CEO Nguyen's team reached a consensus that the model should be tested carefully to get the community's feedback before its roll-out. *Nganluong.vn* was officially launched in April 2009.

According to this model, a user can register either a personal or business account that has three main functions: deposit, withdrawal and payment. All transactions are conducted online via domestic or international credit/debit cards or bank accounts. CEO Nguyen explained that besides its function as an online payment tool, *nganluong.vn* may also be seen as a solution for small merchants and even the 'flea market' Websites to have a chance to do e-commerce. Typically, businesses that want to adopt an instant payment tool must connect to the bank. For small- and medium-sized businesses, self-creating such a tool is very expensive, time consuming and technically complicated. Thanks to *nganluong.vn*, for those businesses, it would take from 5 min to up to 4 h to connect to the bank, thereby helping them save the cost and effort. Specifically, built on the operational model of an e-wallet that connects directly to payment channels and the most popular banks in Vietnam, *nganluong.vn* allows any small- and medium-sized merchants to easily register an account free of charge by using his or her e-mail address and cell phone number.

To help prevent customers from Internet fraud, Peacesoft adopted a mechanism called 'holding payment' in *nganluong.vn* (see Figure 10). This is also a dominant mode of transaction, under which a payment is suspended in the buyer's account and the seller can receive the fund only after the buyer has received goods and approved the transaction (or after a maximum of 7 days). However, buyers may also optionally choose the other mode called 'instant payment' to transfer money to those that they know well or sellers who attain 'seller guarantee' issued by *nganluong.vn*. This option is, as CEO Nguyen explained, 'to take into account of the "fair trade" raised by eBay's consultants and you can see that we tried to strike a balance between our model and theirs'. In addition, the provisions on dealing with complaints and on securing transaction as well as an automatic monitoring system for online transaction were built to help ensure the fairness between buyer and seller in case of disputes.

The success of *nganluong.vn* cannot be gained without the relentless and strong support of the government for the adoption of digital transaction infrastructure. In May 2014, the prime minister signed an executive order for the ministry of trade and industry to take essential steps toward enforcing e-commerce merchants to incorporate online payment platforms into their sites. Before that decree, in March 2011, Vietnam's Central Bank (VCB) decided to allow Peacesoft to coordinate with commercial banks to provide intermediary services for electronic payment nationwide. So *nganluong.vn* became the first and for a time the only licensed electronic wallet exclusively serving the online payment in Vietnam (see Figure 11). CEO Nguyen commented, 'Until today [Dec 2014] *nganluong.vn* website has 3 million users with more than 80,000 transactions per month. This number accounts for 50%

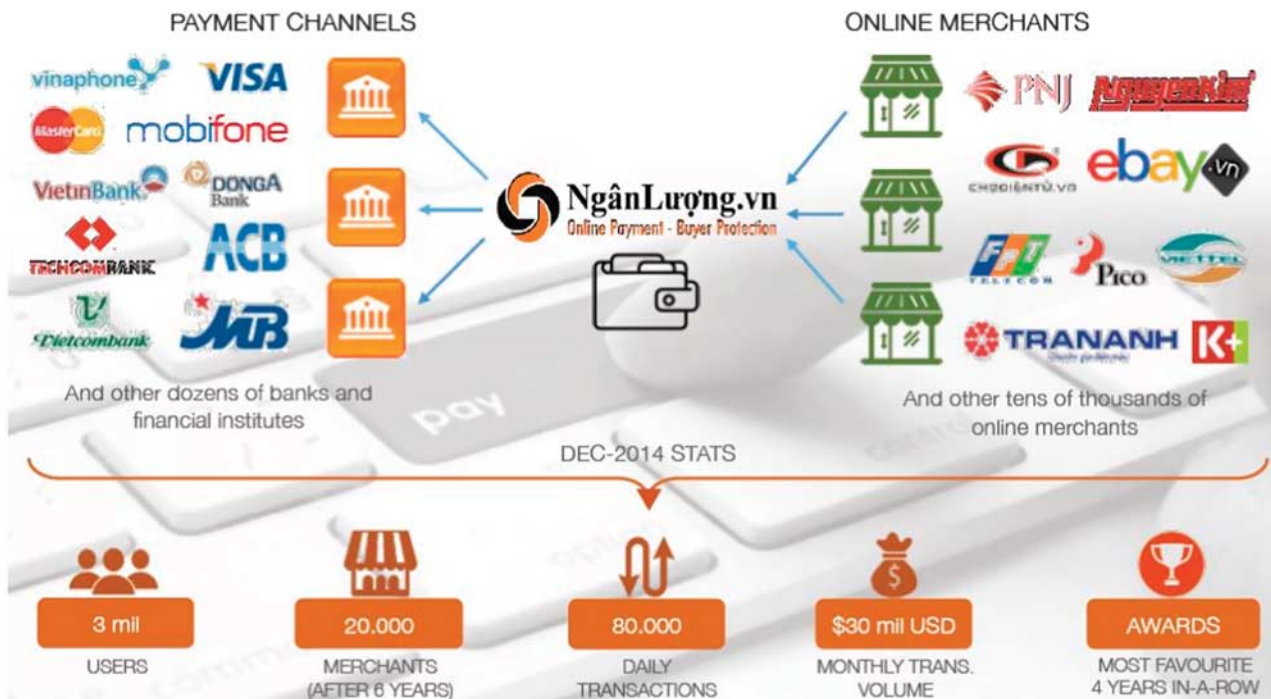


Figure 9 Online payment and transaction via *nganluong.vn*.
Source: Company presentation.

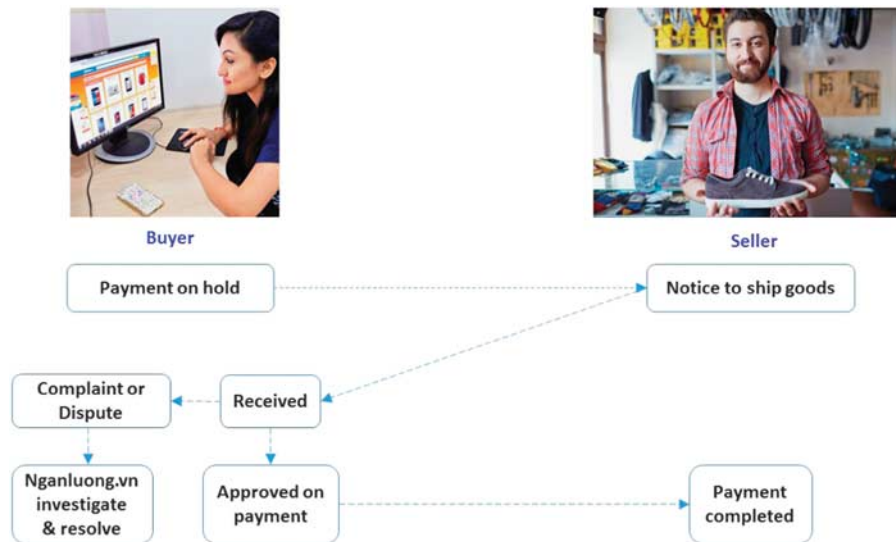


Figure 10 How Nganluong.vn works.

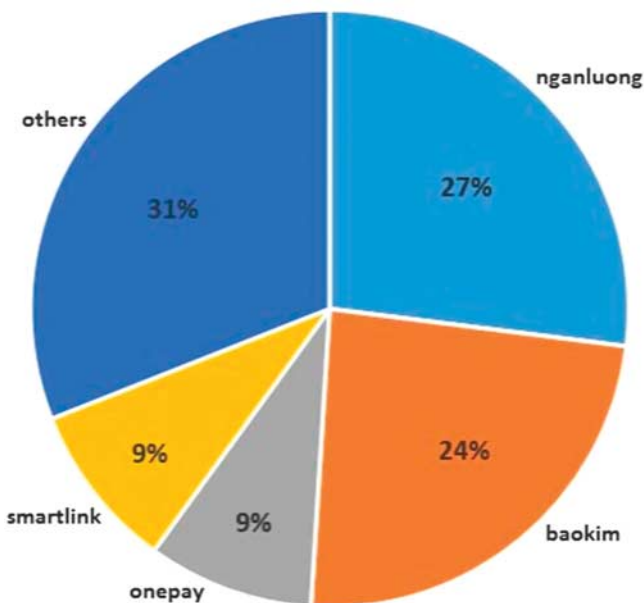


Figure 11 Market share of online payment systems (VECITA, 2014).

of the marketshare of online payment [in Vietnam]. Over 200 websites such as viettelstore.vn,¹⁸ chodientu.vn, nguyenkim.com,¹⁹ eBay.vn...accept payment via nganluong.vn. Now, this nganluong.vn has established more direct links to banks than any other payment platforms and has been voted by the community as the most favorite online payment portal for five years in a row’.

From the government’s perspective, Mr. Tien Quang Bui, head of the Payment Department at VCB, highly appreciated nganluong.vn’s business model, ‘Nganluong.vn has proven its capabilities and fulfilled all the requirements of the VCB by widely connecting with many banks and financial institutions such as Vietcombank, Techcombank ... or Visa/Master card. This is well aligned with the

government’s plan in the years ahead. The acknowledgement of the e-commerce community proves that this firm is on the right track’.

CEO Nguyen believed that Peacesoft could not just sit back and rest on its laurels, ‘We want to succeed overseas. That should be a real test of the capability of Peacesoft’. In April 2013, MOL Access Portal²⁰ (MOL), Asia’s leading e-payment service provider, entered into a joint venture agreement with Peacesoft to acquire a 50% stake in nganluong.vn. Accordingly, MOL and Peacesoft would jointly operate Vietnam’s first online payments and escrow platforms together with other related e-payment services in Vietnam. ‘This is an ideal cooperation as MOL can bring its global network of merchants into Vietnam, while giving the opportunity for Vietnamese merchants and publishers to sell their products and content directly to 12 markets through MOL’s growing payment network’, commented CEO Nguyen.

Concurring with CEO Nguyen, MOL Global’s Group CEO added, ‘We have strong trust and belief that we will be able to bring nganluong.vn to the next growth level with our global experience and expertise in building, investing and operating leading localized payment services worldwide. We are extremely delighted to partner with Peacesoft in this strong growth opportunity’. Such a strong commitment and assertion set a firm foundation for Peacesoft’s CEO to start thinking about expanding its e-commerce activities overseas.

Nganluong.vn’s development plan pursued the three-pillar strategy, focusing on tapping three major online market segments including payment for e-commerce, payment for digital content services forecast to reach \$1 billion revenue by 2015 by the Vietnam Software Association and payment via mobiles – a segment that catches 300% growth each year globally but is still unavailable in Vietnam.

The second and third challenges are building *trust in e-commerce* and an *efficient shipping network*. CEO Nguyen was certain that there was a strong link between these two issues. He believed that whatever the solution was, it should be capable of addressing both issues and that a good way to begin was how to improve the existing shipping network. His team then came up with a model, ‘Shipchung.vn is a completely new concept,



which you cannot find in the US. It is a start-up service that can help us to deliver goods to customers. Besides Nganluong.vn, customers can pay by cash when receiving goods. Do you know that shipchung.vn does not have any delivery staff?'

CEO Nguyen was so proud of shipchung.vn, praising that it was special and innovative. Indeed, in late 2014, the International Financial Corporation (IFC)²¹ did a full study of shipchung.vn in an attempt to understand how Peacesoft came up with this idea and to help diffuse this interesting model and its practice within the community. 'Not easy at all, very tough! Unlike the US, Vietnam has up to 50 shipping companies, each of which is just strong (effective) in some certain provinces/areas so their coverage network is not that wide and also their level of technology implementation [for communicating with customers] was quite below the par. Also, they prefer serving big merchants who sign the long-term contracts with them so this means there is no or limited chance for small merchants or sellers to do e-commerce'.

CEO Nguyen continued his analysis, 'You know, more than 85% of businesses in Vietnam are small merchants. So, if we cannot build this shipping system and network successfully, our dream of doing e-commerce would be unrealistic. Clearly, you know, they [small merchants] are the backbone of this market. Without them, who else in this country could do e-commerce and make profit? So we decided to go ahead and build a comprehensive system'.

Concurring with CEO Nguyen and his team, investors pointed out the fact that in this market the majority of merchants and sellers are small- and medium-sized enterprises (SMEs). They went further and challenged Peacesoft's capability of resolving this shipping problem. Their view was that this should be considered a great chance of boosting customers' confidence in e-commerce, 'We would go first and we cannot fail in [this project]. This is how we build a bridge connecting our business to the customers in the "real" world. Offering on time, fast delivery service and ensuring that customers will receive high quality goods are our objectives. If we do well, we [will] have a good chance to hold a good position in this market!'

CEO Nguyen knew that he and his team had to face one of the most challenging obstacles in their careers. The online transaction platform was difficult but it was something that he and his team could handle. The shipping problem and its infrastructure were even much tougher as they seemed to be out of his team's control, 'The hardest thing is not just about our suggested model but also about the country's existing infrastructure [how it was built and organized]. We must adapt to this local context'.

Shipchung.vn, another key component of Peacesoft's ecosystem, was launched with high expectation from both CEO Nguyen's team and shareholders. Specifically, the shipchung.vn model was aligned with the company's philosophy: *Centralizing the orders (by connecting with as many as e-commerce sites as possible) and locating the best service (by creating a pool of shipping companies)*. He went into detail, 'So what shipchung.vn does is to stay on top of all those [shipping companies]²². We signed contract and had the Application Programming Interface (API)²³ integrated with all of them (shipping firms). In fact we built the API integration for them. So that means, shipchung.vn is the aggregator of all the shipping services nationwide. And then, we open our API to all e-commerce websites. So we allow all e-commerce websites

to do online registration, and they can integrate the shipping API by themselves and we manage all the rest. So, whenever someone buys something from an e-commerce website, this website "calls" to shipchung.vn's API and then shipchung.vn will distribute those shopping orders to the best shipping company in that region [where to send]'.

Shipchung.vn was officially launched in September 2012. CEO Nguyen believed that by running shipchung.vn well, making it popular and ultimately ensuring that customers would only pay for what they like are the keys to building trust. 'You cannot change customers' perception [that e-commerce is associated with fake or poor quality products] by just talking or advertising. Rather, you need to do something practical in terms of excellent service. For example, for shipchung.vn, when you accept COD [Cash-on-delivery], the hesitation of buying [poor quality products] is completely removed. But we understand that shipchung.vn is just the beginning. More should be done to boost customers' confidence!'

Building an e-commerce strategy

All those challenges were, in CEO Nguyen's words, not separate but intertwined. He believed there should be a comprehensive solution to address all challenges appropriately and effectively. After several weeks of debate, he and his team were unanimous in building a complete 'ecosystem': 'In order to conquer the domestic market and expand overseas, Peacesoft must build a model deploying and connecting different forces. We call it "ecosystem"'. These forces include key components such as eBay.vn, chodientu.vn, Nganluong.vn, Shipchung.vn, Adnet.vn, Pro-eStore and supplemental ones such as BoxMe.vn,²⁴ MPOS.vn²⁵ and manhthuongquan.vn.²⁶ They all interact on a mutual basis, thereby altogether creating 'an ecosystem' to compete in the marketplace (see Figure 12). This is not only the notion but the structure that shapes strategic development and reflects the competitive character of Peacesoft. CEO Nguyen believed that in this ecosystem the interrelationship and mutual support in terms expertise and experience are what other competitors rarely have. In the center of the ecosystem is nganluong.vn that has a high attribute of 'openness-to-market' thanks to the 'merchant service function' to serve external Websites outside the ecosystem. He asserted that within his ecosystem nganluong.vn would be the component to likely have the most potential to grow and succeed in the ecosystem in many years to come.

A summary of key components of the ecosystem is provided in Table 3.

Prepare for a big move: doing e-commerce in Southeast Asia

Fast-forward 13 years, Peacesoft was already one of the leading e-commerce players in Vietnam (See Figure 13). 'Our mission is incomplete yet. [It] has just gone half way', recalled CEO Nguyen. He meant that Peacesoft had a strategy, even right at the beginning, to become one of Asia's powerhouses in e-commerce someday, 'Our vision of doing cross-border ecommerce is clear. We only see ourselves a "successful player" if we can compete well with others [internationally]. Achievements in the domestic [market] will not automatically guarantee a success overseas'. The company took step by step, attacking the Southeast Asian region first before expanding its market to Australia, South Korea, Japan, Europe and the North America.

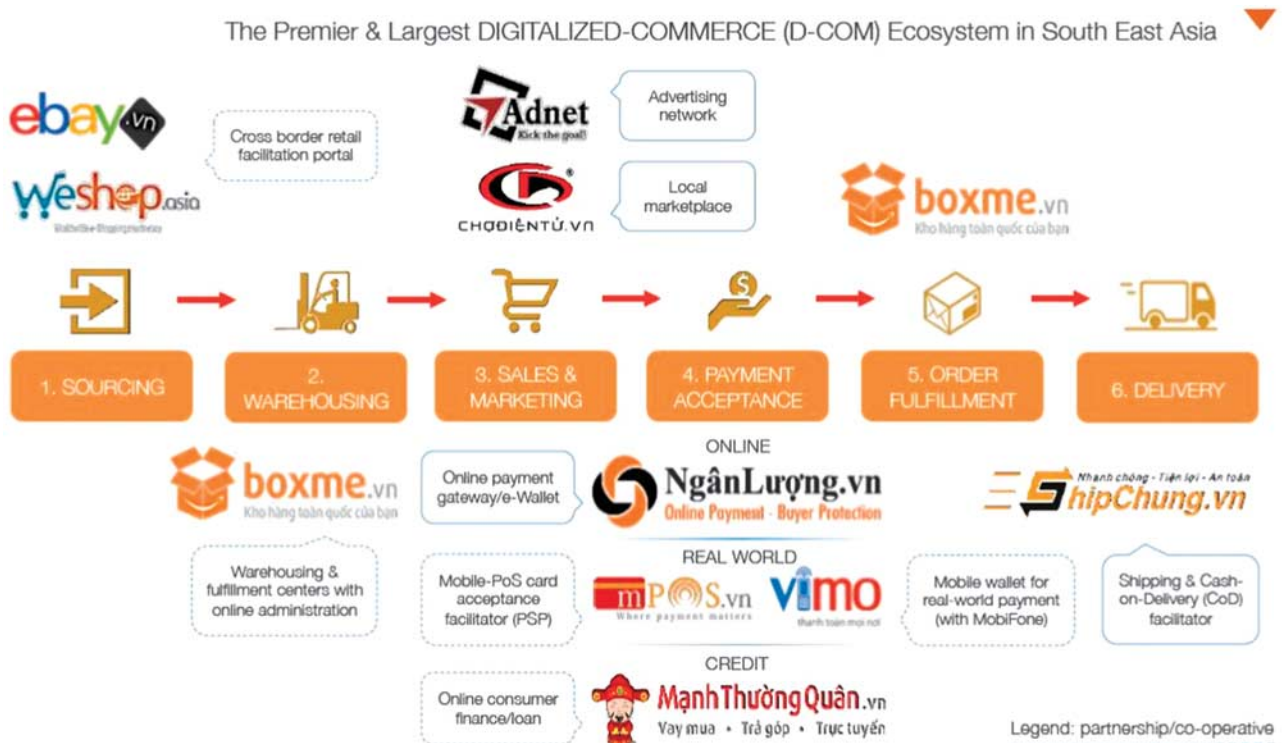


Figure 12 The ecosystem of Peacesoft.

Source: Company presentation.

Still, the environment and condition seemed not to be favorable for Peacesoft with its ambitious move. Within the last quarter of 2013, there were a lot of news about how its rivals were planning to do e-commerce not only in Vietnam but in Southeast Asia as well. The huge success of Alibaba's IPO in New York in 2014 even intensified the heat of competition in the region. Some urgent actions and smart planning and moves needed to be deployed at Peacesoft.

In his first responding to the news, two questions came across CEO Nguyen's mind: Shall we stay with our successfully proven ecosystem and just simply scale it up to 'fit' the scope and demand of the Southeast Asian region? Or, is it wise to build a completely new ecosystem from scratch just for this new market?

If CEO Nguyen and his team decided to scale up their current ecosystem, it would arguably be problematic for doing e-commerce in Southeast Asia. This is because, although one of their key components, *nganluong.vn*, is strongly supported by MOL – one of Asia's biggest online transaction platforms – the remaining components of the ecosystem were not initially built for this market. An example is *shipchung.vn*, which was initially designed to address the local unique context and condition. There would be many tasks to be done to accommodate the needs and coverage of the shipping network in a country like Indonesia where the population is scattered among more than 3000 islands. *If so, shall Peacesoft seek a local partner? What if competitors come earlier than Peacesoft and quickly establish the partnership with the best local partner?*

Alternatively, if CEO Nguyen and his team decided to design and build a completely new ecosystem for the Southeast Asian market, it would be an enormous challenge. Obviously, this choice may put them behind their rivals in

the race of conquering the market shares (See Figure 14). Considering the strong investment of some big e-commerce rivals such as Rakuten, Alibaba, Amazon and Lazada, CEO Nguyen once admitted that, 'Peacesoft does not compete with them [our rivals] using a single component. Rather, we compete with our entire ecosystem. We already had sufficient time to build this [complete] ecosystem'. This comment indirectly asserted that without standing on what they already built, they themselves would remove their big advantage. More importantly, building a new stable, sustainable ecosystem would need substantial time, effort and funding.

Either way, the road ahead would be an uncertain one.

Learning objectives

This teaching case is designed to introduce the following issues:

- Consumer behaviors, shopping preferences and local culture
- Business models and concepts in e-commerce
- Barriers to e-commerce development: Building buyer-seller trust and tackling disputes
- Key issues of cross-border e-commerce: Ethical, cultural, social and legal issues
- e-commerce Infrastructure: Online payment and transaction platform
- e-commerce Infrastructure: Logistics and delivery in e-commerce
- Pitching for a hi-tech start-up

Instructor may choose to focus on one or more of these objectives, depending on the time allocated for the case and students' familiarity with the suggested concepts and issues.



Table 3 Key components of Peacesoft's ecosystem

Components	Description
Chodientu.vn (aka 'electronic marketplace') eBay.vn	The pioneer and leading B2C2C domestic marketplace, in association with eBay.vn
NganLuong.vn	The first in Southeast Asia cross-border retail platform, enabling Vietnamese individuals and SMEs to directly buy and sell in retail way with the world
ShipChung.vn	The first and largest online payment and escrow platform for e-commerce and digital contents. Among few companies licensed by VCB, it is currently joining venture with MOL group and partnering with PayPal for cross-border merchant acquisition Since its first launch in 2009, Nganluong.vn has been five times in a row awarded the 'most favorite online payment platform and service' prize in Vietnam. Such a very high rating was earned because of its high quality of services, network coverage and the number of transactions. In December 2014, nganluong.vn connected to over 15,000 e-commerce sites selling goods and digital contents, 3 telecom service providers and 24 banks and financial service institutions in Vietnam
Pro-eStore	The first and only shipping gateway that connects online merchants to shipping companies and offers critical automated logistic functions for e-commerce sites including (i) shipping fee calculation, (ii) auto-generated shipping order on purchase, (iii) cash-on-delivery service before settling payment into seller's Nganluong.vn e-wallet account
AdNet.vn	This one-stop online retail platform for SME rent out professional online stores instead of building and hosting their B2C online sales Website. Store's listings are synchronized with chodientu.vn for immediate buyer exposure and higher chance of sales Besides the inherent advantages of hiring online stands (in comparison with building and maintaining Websites on their own), from a customer's perspective, hiring Pro-eStore of Peacesoft (and thus enjoying the reciprocal relationship with other components of this firm's ecosystem) brings in additional powerful advantages to compete effectively in the marketplace CEO Nguyen explained, 'Pro-Store is a component that has strong features, high flexible capability, and are integrated with tools to manage sales, web interface, e-marketing features, etc ... Thanks to nganluong.vn, ChoDienTu.vn, CDT-Sell (sales management), CBT-Buy (purchasing management), pro-eStore is the only one in the market that is equipped with online payment function. Pro-eStore is capable of enabling merchants to sell their products on chodientu.vn (thus instantly access the domestic market) while, at the same time, sell their products on ebay.com (thus instantly access the US market), and even import goods from overseas via eBay and Amazon for re-sale. Further, thanks to AdNet.vn, Pro-eStore is the only one in the online market that is capable of shooting the adverts on thousands of websites. With AdNet.vn, merchants now have an effective, ready-for-use advertising tool' This is the first open affiliate advertising platform, based on performance pricing structure, to match thousands of advertisers to thousands of small- and medium-sized publishers with billions of daily pageviews CEO Nguyen clarified, 'Among the five components, AdNet.vn is the one that has the highest risk of competition from others in the field of digital content because of its great potential'. Still, he assured that AdNet.vn would always have adverts from those hiring Pro-eStore, 'Our customers will get discounted prices when they advertise their products on websites belonging to our ecosystem'

Learning outcomes

Upon reading and analyzing the case, students are expected to:

1. Explain concepts and components of a business model adopted in e-commerce.
2. Discuss different approaches or solutions to build a business model in e-commerce.
3. Discuss strategies to build buyer-seller trust in cross-border e-commerce.
4. Describe e-commerce payment systems.
5. Discuss strategies to build a shipping and delivery network in e-commerce.
6. Discuss cultural, legal and ethical issues related to cross-border e-commerce.
7. Understand the strategy to pitch successfully for a hi-tech start-up.

Suggested assignment questions

1. Describe CEO Nguyen's profile. How do you link CEO Nguyen's profile to the success of Peacesoft so far? What draws your attention to this young entrepreneur's characters?
2. In your opinion, what is special about this e-commerce company?
3. What are the risks and opportunities afforded by the partnership with eBay?
4. Can the value, platform and experience of eBay totally be applicable to the context of Vietnam? If not, why? Explain.
5. What are the challenges²⁷ of doing e-commerce in Vietnam?
6. Discuss and compare buyer-seller trust in the United States and Vietnam.
7. What are the key components of Peacesoft's ecosystem?

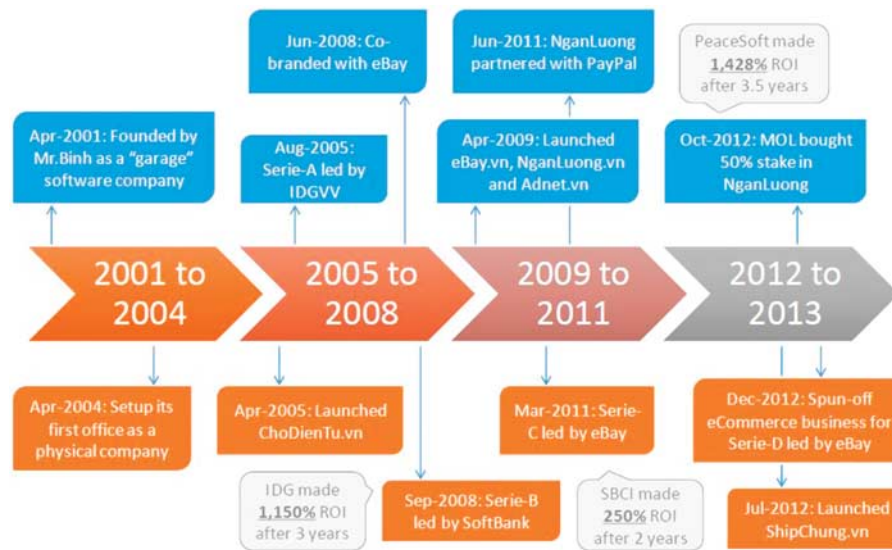


Figure 13 Timeline of Peacesoft.

Amazon and Lazada Among the Top Retailers in SEA Local Players Doing Well in Vietnam			
Unique Visitors (000) Top 5 Retail Sites per Country			
Vietnam		Indonesia	
VATGIA.COM	6,322	AVG.COM	1,435
Lazada Sites	2,351	Amazon Sites	1,347
SGIAY.VN	2,203	Lazada Sites	1,260
ENBAC.COM	1,970	INDONETWORK.CO.ID	778
THEGIOIDIDONG.COM	1,793	Apple.com Worldwide Sites	703
Thailand		Philippines	
WELOVESHOPPING.COM	1,732	Amazon Sites	1,094
Rakuten Inc	1,337	Apple.com Worldwide Sites	730
AVG.COM	1,146	AVG.COM	693
Lazada Sites	1,086	Lazada Sites	628
Apple.com Worldwide Sites	1,031	MULTIPLY.COM	515
Malaysia		Singapore	
Amazon Sites	1,497	Amazon Sites	680
AVG.COM	1,050	Apple.com Worldwide Sites	533
Alibaba.com Corporation	935	Giosis Group	440
Apple.com Worldwide Sites	840	Alibaba.com Corporation	326
GROUPON.MY	640	AVG.COM	264

Figure 14 Top e-commerce players in Southeast Asia.

Source: ComScore Media Matrix (<http://bit.ly/1F0lhCC>), March 2013.

- Describe Peacesoft's solution to address the problems of online payment and shipping systems.
- Would the unique characteristics of Peacesoft's ecosystem in Vietnam translate easily into the international market such as Southeast Asia?

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Notes

- See more about Rakuten at: <http://bit.ly/1OBghod>.
- See more about Rocket Internet's (a Germany-based e-commerce group) investment into Lazada at: <http://bit.ly/1HMRCv7> or <http://on.wsj.com/1CS8vSz>.
- A short footage video in English about CEO Binh Hoa Nguyen, featured on Vietnam National Television, can be viewed here: <http://bit.ly/1nydonT>.
- See more information about Internet Live Stats at: <http://bit.ly/1ywyEl8>.
- VECITA is a special unit founded by the Ministry of Trade and Industry: <http://bit.ly/1yBGHMB>.



- 6 About 10,000 people were expected to join this training program on promoting and adopting e-commerce.
- 7 According to CEO Nguyen, in 2014, there are around 4000 merchants and vendors selling products and services online in Vietnam. They are either using social media platforms such as Facebook or ZingMe (a Vietnamese version of 'Facebook') or running their own Websites. Of these, there are only about 20 Websites officially conducting online transactions.
- 8 ASEAN = Southeast Asia.
- 9 Seed investment.
- 10 See more about IDG Ventures' investment in Peacesoft at: <http://bit.ly/1Dy4zHE>.
- 11 The customer and tech support based in Singapore, making it inconvenient and costly for customers to contact and seek help.
- 12 See more information about this partnership at: <http://on.ft.com/19MIeJk>.
- 13 More analysis about how eBay failed in China can be found at: <http://onforb.es/1m7sqAv>.
- 14 Both eBay.vn and chodientu.vn now share the same domain name system.
- 15 In 2005.
- 16 In 2014 it was almost 20%.
- 17 A chargeback occurs when an issuing bank, where customers acquire credit cards, reverses a prior charge from a bank account or credit card at the request of a cardholder because of a problem with a transaction. The problem could be anything from a situation where the customer did not receive the product they purchased to one where the cardholder was not satisfied with the product's quality, to a situation where the cardholder was a victim of identity theft. Chargeback mechanism is adopted as a measure of customer protection exercised by credit card-issuing banks.
- 18 This e-commerce site belongs to Vietnam's third largest telecommunication company, which is now the Number 1 telecommunication service provider in Laos, Cambodia and Myanmar.
- 19 Nguyen Kim is the largest retailer and distributor of electric and electronic products in Indochina including Vietnam, Cambodia, Laos and Myanmar.
- 20 See more information about MOL Access Portal at: <http://bloom.bg/1MHSbq3> and at: <http://bit.ly/1Fxyxef>.
- 21 More information about IFC: <http://bit.ly/1FMqWGG>.
- 22 There are 91 delivery service providers in Vietnam, including 3 big names: Vietnam Post, DHL-VNPT Express and Viettel Post. However, a government official acknowledged that the country's delivery services are not up to the requirements of the e-commerce market, as there is a lack of ports, transport means

and a professional and dedicated labor force. Source: <http://s.nikkei.com/1ENT9jo>.

- 23 APIs are the connector bits that transform data into practical, useable business intelligence. APIs are also about how retailers can send the right communications to shoppers on the right device, and at the right time.
- 24 BoxMe.vn provides an online warehouse service for merchants to store their goods. For instance, a customer's order placed at the merchant's Website will be sent via BoxMe.vn, which then processes and requests the warehouse to ship goods to this customer's house.
- 25 MPOS.vn is similar to nganluong.vn but is more focused on mobile platforms.
- 26 Manhthuongquan.vn offers loan service at favorite interest rates to support customers. This component is similar to the credit rating and financial service systems working in combination.
- 27 Students may watch these videos to understand more about challenges and difficulties of doing e-commerce in Asia: <http://bit.ly/1FXtdNu> and <http://bit.ly/1PmBy81>.

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