Publication: The Straits Times, Pg A20
Date: 10 January 2024
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ST Explains

How Lazada layoffs point to potential IPO of parent unit

The recent layoffs at e-commerce firm Lazada coincide with a slew of leadership changes at its parent company, Alibaba. The tech titan is attempting to defend its market share in the region, while facing increasing competition from its rivals in China, including ByteDance and Pinduoduo, the tech firm behind fast-growing shopping application Temu. ST PHOTO: ONG WEE JIN

Cost cuts may signal to investors the firm's resolve to improve profitability: Analyst

Timothy Goh

Recent layoffs at regional e-commerce firm Lazada have turned the spotlight on the company, increasing speculation about a potential initial public offering for its parent business unit in 2024, and the escalating competition in South-east Asia's e-commerce landscape.

The Straits Times examines how the job cuts intertwine with Lazada's recent business developments.

WHAT WE KNOW ABOUT THE LAYOFFS

Lazada on Jan 3 retrenched an undisclosed number of its staff.

In response to queries from ST on Jan 3, a Lazada spokesperson declined to confirm the layoffs, saying: "We are making proactive adjustments to transform our workforce, to better position ourselves for a more agile, streamlined way of working to meet future business needs."

However, sources close to Lazada revealed that it plans to cut between 25 per cent and 50 per cent of its South-east Asia headcount.

The firm, headquartered in Singapore, has a presence in six countries including Indonesia, Malaysia, the Philippines, Thailand and Vietnam.

Other media reports speculate that up to 30 per cent of jobs across the region would be axed, and that at least 100 people have been laid off in Singapore.

A retrenched Lazada employee, who spoke to ST on condition of anonymity, said workers in every department and across job grades were affected.

She added that employees were informed of the layoffs on the night of Jan 2 via one-to-one online chats, with the firm's human resources department labelling the job cuts a "graduation".

According to a report by The Edge, Lazada's chief marketing officers in various countries have been let go.

Retrenched employees were told that they would receive two weeks' salary for each year of service.

But the Food, Drinks and Allied Workers Union, an affiliate of the National Trades Union Congress, did not find this satisfactory.

On Jan 6, it said that it was negotiating with Lazada for better benefits for the company's laid-off employees, with the Ministry of Manpower (MOM) facilitating talks. MOM said it facilitated discussions between the union and Lazada, and that there was good progress.

ST understands that a round of layoffs was also conducted in October.

PRE-IPO RETRENCHMENT

The latest job cuts by Lazada come amid increased competition within the e-commerce space, as well as speculation regarding its parent business unit's potential IPO in the United States in 2024, first reported in May 2023.

Lazada, which was founded in 2012, became a subsidiary of Alibaba Group Holding after the Chinese tech titan acquired a stake in it in 2016 to expand its presence in South-east Asia.

Following Alibaba's split into six main business units in March 2023, Lazada now operates under Alibaba International Digital Commerce (AIDC), which also includes online store AliExpress.

Mr Nirgunan Tiruchelvam, head of consumer and Internet at investment advisory firm Aletheia Capital, noted that if AIDC is planning an IPO, the unit needs to manage its operating expenses because potential investors would want to put their money in a company where the cash burn is under control.

He also pointed out that investors would be keen to see a "pathway to profitability", due to the high interest rate environment.

Mr Tiruchelvam added: "What Lazada is doing is merely playing catch-up with what other e-commerce companies, like Shopee, have been doing for the past few quarters."

Shopee, a Singapore-based e-commerce platform, conducted layoffs between September 2022 and March 2023, cutting more than 7,000 jobs worldwide.

Shopee is a subsidiary of Tencent-backed Sea, which made its debut on the New York Stock Exchange in 2017.

Sea was profitable for the first half of 2023 but sank into the red in the September quarter with a net loss of US$144 million (S$191 million) at the group level. The firm is reportedly on track to post its first profitable year since becoming a public company.

AIDC posted a 53 per cent revenue growth in the September quarter, with a net revenue increase of US$3.36 billion. But Alibaba did not provide a breakdown of costs or reveal whether each division within the unit has been profitable.

Associate professor Trevor Yu at Nanyang Business School agreed that layoffs in such cases could be interpreted as cost-cutting measures. He also noted that investors may see the retrenchment exercise as a positive indication.

"The hope for potential investors is that the company will be able to retain more of their revenue at a lower cost and therefore be profitable, and sometimes this can also have a positive impact on the firm's potential stock price," he said.

"It's a signal to investors that the firm is willing to take tough measures to improve its profitability, and this can be seen as a preparatory step before an IPO."

CHANGES AT ALIBABA AMID GROWING COMPETITION

Lazada's layoffs coincide with a slew of leadership changes at its parent company, which is facing increasing competition from its rivals in China, including ByteDance and Pinduoduo (PDD), the tech firm behind fast-growing shopping application Temu.

In December 2023, Alibaba appointed group CEO Eddie Wu to lead its core e-commerce business, taking over from co-founder and longstanding e-commerce head Trudy Dai. Three months earlier, Mr Wu had taken over from Mr Daniel Zhang as group CEO.

In the past year, PDD's US-listed shares have surged over 50 per cent, while shares of Alibaba have dipped by more than 30 per cent during the same period.

Alibaba is also attempting to defend its market share in the region. In December 2023, it pumped US$634 million into Lazada, pushing its investment in the firm to more than US$1.8 billion in 2023.

Its competitors have also taken strategic steps in the region.

In December 2023, ByteDance's TikTok revealed its plans to acquire a majority stake in Tokopedia, the e-commerce arm of Indonesian tech giant GoTo.

The partnership enables TikTok Shop, the platform's e-commerce service, to operate in Indonesia, following the country's ban on online shopping via social media platforms in September 2023. The deal involves a US$1.5 billion investment by TikTok into Tokopedia.

According to data from Statista, Indonesia is projected to account for more than 40 per cent of South-east Asia's e-commerce market by 2030.

Dr Kenneth Goh, associate professor at Singapore Management University, noted that if Alibaba is gearing up for an IPO for its e-commerce unit, it has to showcase more than just profitability.

He said: "It needs to demonstrate how it's going to win the battle against competitors like Shopee and Tokopedia, and how that will allow the company to gain a foothold in the existing markets that it operates in and enter new markets, which might explain why Alibaba is pumping money into Lazada."

WHAT'S NEXT FOR LAZADA

According to Dr Goh, it is unlikely that Lazada will spend big on customer acquisition measures such as big discounts or advertisements in the coming months, as public investors tend to be more risk-averse than private investors, which creates more pressure for the firm to be profitable.

Instead, he noted, Lazada might explore other means, such as investing in strategic resources or technologies like artificial intelligence that will help the firm in areas such as logistics, fraud prevention and customer experience.

"These will enable it to win the market share on the consumer side, but also command a premium on the financial markets," he said.

On Lazada's manpower woes, Ms Amarjit Kaur, partner in litigation and arbitration at Withers KhattarWong, said: "The manner in which a company conducts retrenchment exercises speaks volumes about how it treats its workforce – adverse publicity will make it a challenge to attract strong talent going forward.

"If Lazada is indeed headed towards an IPO, it should take a long-term view of its strategic manpower needs and calibrate its manpower capacity accordingly, minimising disruption to its incumbent workforce."

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