

Building e-commerce ecosystems on Amazon: A conversation with Rainforest's JJ Chai

The cofounder of a Singapore-based e-commerce aggregator explains how his previous start-up experience helps him identify, acquire, and scale Asian “solopreneurs” targeting US consumers on Amazon’s marketplace.



In this episode of *The Venture*, we share a conversation with JJ Chai, CEO and cofounder of Rainforest, a Singapore-based e-commerce brand aggregator that operates across Amazon's home, pets, and personal-care spaces. Chai discusses with McKinsey's Andrew Roth the importance of a programmatic approach to acquiring and scaling brands, how Amazon's phenomenally expanding marketplace can generate value even for ultra-niche products, and the multiple advantages of business building on the world's largest e-commerce platform. At the close of the interview, McKinsey's Tomas Laboutka offers his insights.

An edited transcript of the podcast follows.

Podcast transcript

Andrew Roth: From Leap by McKinsey, our business-building practice, I'm Andrew Roth, and welcome to *The Venture*, a series featuring conversations with legendary venture builders in Asia about how to design, launch, and scale new businesses. In each episode, we cut through the noise to bring practical advice on how leaders can build successful businesses from scratch.

In this episode, we talk with JJ Chai, who is CEO and cofounder of Rainforest, a Singapore-based e-commerce brand aggregator that operates across Amazon's home, pets, and personal-care spaces. You'll hear JJ talk about the importance of a programmatic approach to acquiring and scaling brands; how Amazon's phenomenally expanding marketplace can generate millions, even for ultra-niche products; and the multiple advantages of business building on the world's largest e-commerce platform.

Later, McKinsey's Tomas Laboutka and I talk about the key elements in JJ's growth story, which you can apply to your business-building activities.

JJ, welcome to the show. You and your co-founders launched Rainforest to buy brands selling on Amazon, and I've read that you estimate 30 percent of sellers are based in Asia. You and I met a long time ago when you were driving growth at Airbnb, and then you went on to Carousell. So I'm curious to hear how you decided to start Rainforest.

JJ Chai: I think one of the biggest challenges about launching a venture is the zero-to-one cliff, where you take your idea and get it to the point where someone is actually willing to pay for that product. I always wanted to start something and was trying to figure out how to manage that risk. So, when this opportunity to do a buy-and-build play came around, it was very attractive to me. It was similar to what I'd done at Airbnb and Carousell, taking something that works and scaling it up to more countries and more verticals.

Andrew Roth: You're looking at sellers on the Amazon US marketplace, who you've described as "solopreneurs." Tell us a little bit about these sellers and how you're reaching them.

JJ Chai: The phenomenon we see is this explosion in the ability of individual people to create their own brands in the product world. Because of the App Store, individuals are able to create software, like the classic case of *Flappy Birds* in Vietnam, where a solo developer created an app that made millions.

The same thing is now happening in the product world, with about two to three million third-party sellers on Amazon's global ecosystem creating their own products and brands. We acquire brands from these entrepreneurs who have capped out around their ability to scale up. We give them a nice exit and help their brand reach its full potential.

Andrew Roth: So in your evaluation of these sellers on Amazon, you're looking at things

like their ratings, reviews, and rankings when deciding whether to target them. You once told me about a salt-and-pepper-shaker company you were looking at. Why were you evaluating them?

JJ Chai: This was a husband and wife team who launched a salt-and-pepper-shaker brand, one of those fancy ones where you click a button and it automatically grinds the salt and pepper. They started off bootstrapping their own funds into it, and I think in the last 12 months, sold about \$1.6 million worth of salt and pepper shakers. They source from China and sell to US customers. They spend about 20 hours a week doing customer service and managing the inventory here in Singapore. They started off with a good quality product and good customer service, but over time, the most important thing for us was the reviews and ratings they received on Amazon. And because of either being early or being good, this brand ranks as one of the top ones in that specific niche and continues to sell very well. Those are the kinds of brands we're most interested in, those with very good reviews and ratings.

Andrew Roth: But in the long run, you decided to pass on this company, right?

JJ Chai: Yes. It's one of the hundreds of brands that we've examined, and one of the more attractive ones. Unfortunately, we couldn't agree on a price. But then we found an entrepreneur in Singapore who created unique bedding products and was doing about \$1.5 million in sales on Amazon, and we acquired the brand.

Andrew Roth: This is one of the most surprising things about your company. When I was digging into the Rainforest model, I thought we were going to have a conversation about how you're finding sellers on the Southeast Asian marketplaces, like Tokopedia or Shopee. Instead, you're solely focused on Amazon sellers that may be based in Singapore but that focus on the US market. I didn't realize how many sellers in

Singapore were targeting the US market. Is this your sole focus?

JJ Chai: We're focused on acquiring Amazon brands based out of not just Southeast Asia but also Asia-Pacific, including China. The reason is that the idea of having strong brand protection on the Amazon ecosystem is very well established. You can create your own Andrew's coffee mugs, and you register that trademark on Amazon and no one can copy and sell your coffee mugs on that platform. And all the reviews and ratings accrue to your coffee mug, brand name, or whatever design you've created, and no one can take that away. That's an important part of the acquisition process—there is some value these entrepreneurs have created over time through the rankings, reviews, and the ratings they have on the platform.

There are some other marketplaces that still have a lot of paid reviews. More importantly, the structure is often skewed toward price value. The ranking algorithms promote price and don't focus enough on protection for brands, but this will change over time.

But right now, one of the biggest challenges for acquiring a brand on Amazon is the lack of private-label brands on the platform. There aren't too many of them, because there's no inherent value in creating brands [versus just selling products] at this point. But again, I think this will change over time.

Andrew Roth: It sounds like you value the trust factor of Amazon, or how the playing field is leveled a little bit with the risk taken out.

JJ Chai: Exactly right. If you buy a business on the platforms in this part of the world, they are typically good businesses. But the top seller for salt and pepper shakers on Lazada in the Philippines or Shopee in Indonesia may not be so in the next six months. And there's no reason to believe they will be. Whereas

on Amazon, the brand and the reviews it accrues actually mean something. It's also reflected in the algorithms, and they take good steps to prevent your brand from being reused or pirated.

Andrew Roth: Let's dig into that. You were talking about this bedding company. You make the acquisition and you go through your process of vetting them. You start rolling them into your own capabilities and I would imagine across product sourcing, supply chain, et cetera. Tell us how you're integrating your acquisitions and then revving up the execution.

JJ Chai: The reason why this model is quite attractive is the Fulfillment by Amazon (FBA) program, where brands rely on Amazon to do the fulfillment, returns, and so on for a price. As a solo entrepreneur, the total amount of assets that need to be transferred is in the Amazon account, along with the rights to the inventory, the trademarks, social-media accounts, the supplier contracts, and agreements. It's a very light process and can be done at scale, since there are no employees transferring over, no warehouses, no hard assets, et cetera. We typically complete the acquisition in under 60 days, and it's getting even quicker.

When one of these brands comes under the Rainforest umbrella, the idea is that each one is a nice sapling, the core of a brand. We intend to grow big trees that become part of our rich forest ecosystem.

The important part to remember is that these are solo entrepreneurs. They are pretty good at creating ideas, but they usually won't get everything right, such as the supply chain, sourcing, product design, marketplace management, digital marketing, and so on. And they suffer from basic mistakes like stockouts, shipping to the wrong port, not using the right tariff codes, not sourcing from the right manufacturers for the best costs, or not organizing their supply chain to prevent copycats.

We provide help with all of this, right across the full value chain, with in-house or external

specialists, which we can afford thanks to our scale.

Andrew Roth: So you have a playbook, and it sounds like the integration is fairly straightforward, because they're solopreneurs. And then you take the brand, you put them into your playbook across product sourcing, marketing, and optimizing how they're presented even, I would imagine, really tuning things up.

JJ Chai: Yes. We have a checklist for our brand managers, and there's a migration process over one or two weeks where the solopreneurs turn over the brands to our brand managers. And typically, we've already identified big, chunky items where the biggest opportunities lie for the brand.

Once our brand managers take over, they go through the full checklist across each of the domains. Then they work through the most critical ones and those with the longest lead times, which are typically stabilizing inventory and making sure there's no stockouts. Then they do things around improving the storefront and pay-per-click (PPC) keywords, creating videos, and generally trying to optimize sales.

Andrew Roth: So it seems like with the portfolio you're starting to build, you're bringing a lot of capabilities to start driving the growth across an array of different verticals, things large incumbents are trying to figure out. And there's a lot of talk of building ecosystems and driving growth, things that often seem theoretical for incumbents. Walk us through your long-term vision of building your own ecosystem. Is there a specific segment strategy that you have in mind?

JJ Chai: I think there are two parts there. One is being quite programmatic about the acquisitions side of things and having a clear portfolio lens. I think there are so many players in our space, and they all have slightly different variations of how they think about it. We're

looking at the home, pets, and personal-care categories. We're also looking for Amazon-first brands. They don't all need to be on Amazon, but we'd like some anchor on a big ecosystem that's well established.

There may be some products that are category leaders—salt and pepper shakers, for example—but everything from pet bowls to toilet brushes are all in play in the home category, and we'll build up from there. We intend to expand out to new platforms and geographies, and into other adjacent products where we can grow. That's the acquisition side of things, which is finding a nascent brand that has good potential.

The second part of it is being programmatic about the checklist. The tricky part there for us, as well as for any big consumer-packaged-goods (CPG) brand, is really around production innovation. But the good part about the way we're structured is that our products are stable and generate strong cash flows, allowing us to invest in cracking the next version of the salt and pepper shaker, so to speak—the next type of products. This all still falls into the realm of testing, learning, and listening to the consumer.

Andrew Roth: And in terms of ecosystem, if you had a look five years down the road across home, pets, and personal care, what are you going to be doing? Are you launching your own private-label brands? Are you going to weigh on one of those sectors more than another? Is there an initial hypothesis that you have?

JJ Chai: A bit too early to say. We'll likely have a portfolio across those three sectors, three categories of brands clustered around those areas—home, pets, personal care. They're all sub-brands that will likely stay within their own specific niche. So if we think about it in terms of one room at a time—say, the bedroom—what are we not providing? It'd make sense for us to launch new products in that category or look for a category leader to complete that niche for us. So, that's the idea, that over time we have a full portfolio that can fill your bedroom, your kitchen, and so on, one area at a time.

Andrew Roth: I'm curious about the number of acquisitions, and your year one and year two targets. How many are you going for?

JJ Chai: Like all good start-ups, we have a three-year plan, but anything beyond 12 months is a bit of an arbitrary number. This year, we'll do about eight to 12 acquisitions. Next year, we'll likely double that and probably do some larger acquisitions as well.

Andrew Roth: In terms of larger acquisitions, you mentioned a lot of players are starting to enter this space. When incumbents start thinking about launching a new venture, they often get caught up worrying about the competition, especially if an 800-pound gorilla enters the market. From your own personal perspective, what happens when one of the big players comes into your space? How do you explain that to an investor, for example?

JJ Chai: This is a very common question from any potential investor. It's kind of obvious, but you should go for large market size. To give you a sense of Amazon's size, though, their marketplace's gross merchandise volume (GMV) hit \$300 billion last year. They added \$90 billion in one year, which is 1.5 times Southeast Asia's entire e-commerce GMV in one year.

This is why you can have a super-niche product—like salt and pepper shakers—and still do \$1.6 million in business, right? So you can take a super-narrow niche and build a sizeable business out of it. And that's also true for your competition, which I think in this space represents about \$3 billion, looking to acquire brands on Amazon. But that's still less than 2 percent of Amazon's total GMV, in a market where they're going to grow by at least another \$100 billion this year.

So, yes, there's competition in our space, and everyone has their own flavors, geographies, categories, and brands. I do think it's one of those things where it seems like a hot space, and lots of players are going into it. But

everyone will have their own niche segments that are slightly different, so there's still lots of space.

Andrew Roth: It's a huge market, and the pie is big enough. So I guess you're racing against time, perhaps more than worrying about competition.

JJ Chai: Yes, it's time we're racing against. Because at the end of day, an acquisition involves some competition, right? And the supply-demand thing actually works out pretty well, since we are starting to see more people willing to sell their brand. I think the last report from Amazon said there's a few thousand new sellers coming on board every day, and about 60 percent of them are from APAC, and a high concentration from China. So there are all these new entrepreneurs, and as the demand keeps rising for new brands, you'll see people realizing, "I could actually start up a salt-and-pepper-shaker business with \$10,000 of capital and turn it into a million-dollar brand."

Andrew Roth: Yes, I have to admit your story about the salt and pepper shaker kept me up at night.

JJ Chai: Our most recent conversation yesterday was with a woman who created her own aero yoga equipment brand. It's a smaller brand she started because of her own interest in it. She's a data scientist during the day, and a yoga equipment seller on Amazon at night.

Andrew Roth: Incredible. So, in your first year, you've acquired three companies, right?

JJ Chai: Three brands, two acquisitions. We have two or three more in the due-diligence pipeline.

Andrew Roth: And then, I would imagine, the hard work kind of starts, right? You're programmatic about the acquisition, and then you've got to lift sales and grow these brands.

Tell us a little bit about your next five to ten hires. Give us an idea of the capabilities you're looking to bring onto the team to scale up these brands.

JJ Chai: The first type of hires are generalists who understand supply-and-demand planning, or the full stack around reaching out to the supplier in China, getting a good price, and maintaining a relationship with that person. So we get generalists who know how to run e-commerce brands. Then we supplement them with subspecialists, such as someone who knows how to actually solve alternative bedding products from China or India, and build a more resilient supply chain there.

We also hire specialists in product design to look through the reviews, find the most common complaints, decide what the next version or product should look like, and do a prototype. Digital-marketing specialists are also important for things like improving the return on advertising spend on Amazon, testing new channels, and so on. So in every part of this end-to-end chain, such as sourcing, supply chain, product development, marketplace management, as well as advertising, there's a specialist.

And then there's a horizontal piece, which is around international expansion. When we acquire them, these brands are typically US-only or very heavily focused on the US market. So if we plan expansion to Europe, what does that mean? For bedding products, it means different bed sizes, different terms, wording, permits, and so on. And then to Asia, what does that mean? So it's the team's internationalization capabilities that helps bring your brand to these markets as well.

Andrew Roth: I like that framing. I think the big takeaway for an incumbent that might be trying to start their own new venture within a large organization is to look at the speed and

scale of the programmatic acquisition process, or the programmatic scaling of the brand. Perhaps incumbents will start thinking of mini-acquisitions to get started in whatever industry or vertical they're in. The hard work starts with the execution and the scaling, but a lot of incumbents get stuck in sort of this analysis paralysis of where to play, versus what you're doing, which is "Let's take the risk out; let's just start buying brands that have great potential."

JJ Chai: Yes, we have that luxury to do some greenfield projects like that. But even in my last two ventures, Carousell and Airbnb, mergers and acquisitions were a big part of what we did. It's not obvious to people, but start-ups also do M&A, and it's one of the more interesting, big strategic moves you can make to actually get into a new category, a new vertical, or new geography.

At Carousell, we entered new geographies by acquiring assets in Vietnam and Malaysia. We also did some mini-acquisitions in cars, to enter a new category. At Airbnb, we did acquisitions in the experience space. Of course, you'll have all the difficulties that come with M&A, especially with larger ones on the post-merger side of things, but it is a valid lever to pull for growth.

Andrew Roth: It sounds a little bit more than just a valid lever and almost like a must-have in the playbook, especially when you're in a market like Southeast Asia, with so many different countries, policies, and ways to attack the market. We could probably have an episode just about that.

JJ Chai: There's also one important component in our industry or this space, which is really on the capital structure side of things. How do you capitalize and set up for doing this? Very clearly, we need to be good at acquiring and we need to be great at growing the brands. But just as importantly, we need to solve the structural cost of capital so we can beat the cost of capital in our deployment. For us, as a new organization, that's not going to come cheap. We'll get better over time, but that's also another thing to think about,

which is, how do you capitalize, how much debt and equity, and what's the expected return?

Andrew Roth: Take us a little bit through your capitalization table in the way you're structured. You recently raised more than \$30 million, and a lot of it was debt, correct?

JJ Chai: So, it's really \$6 million on the equity side of things that goes on the balance sheet. And then we've got a \$30 million debt facility that we draw down as we make acquisitions so that they don't sit on our balance sheet costing us interest. This allows us to do acquisitions at a ratio of roughly about one to three, which is like \$1 coming from our balance sheet and \$3 from the debt side of things to make acquisitions. And that's important, right? Because if you funded it with predominantly equity, it's a very different expectation in cost and—

Andrew Roth: —and founder's risk.

JJ Chai: And founder's risk, dilution, all that. But the important thing is keeping the return on equity that you want and using that in a smart way to get those kinds of returns.

Andrew Roth: Great point. Thanks so much, JJ.

JJ Chai: Thanks so much, Andrew.

Andrew Roth: Now comes a segment where we invite founders and experts from McKinsey to provide more context and to draw practical insights. I'm joined by my colleague, Tomas Laboutka, from Leap by McKinsey, our business-building practice.

Tomas, I was really interested in Rainforest because of how they're entering the e-commerce space through acquisitions, and we're seeing lots of incumbents in this region

designing their own e-commerce platforms and marketplaces. And now you've got a start-up like Rainforest coming in to aggregate and consolidate sellers on marketplaces. It seems to be a huge space now with players like Thrasio in North America. What's your take on the industry?

Tomas Laboutka: I think the industry is poised to grow. The numbers that JJ mentioned, and the fact that this part of the business for Amazon grew more than 1.5 times bigger than the whole e-commerce market in Southeast Asia, really defines the whole game. He looked into this huge market and saw where the customers are, where the brand building and the differentiation around those brands is taking place, and how you can use rankings, ratings, and reviews to build a brand. The uniqueness of Amazon, I think, really helped JJ define the growth play. Combined with his advantage from his experience at Carousell and Airbnb, that allowed him to quickly identify the capabilities required to tackle the solopreneurs building those unique brands in those markets.

Andrew Roth: I was surprised the most about his sole focus on finding solopreneurs in Asia that are focusing strictly on Amazon and the US marketplace. I thought we were going to be talking about the Shopee, Tokopedia, and Lazada marketplaces. It's such a nascent market where he's finding brands to acquire, like the solopreneurs in Singapore behind the salt-and-pepper-shaker company. He talks about his programmatic approach to acquiring businesses, and as you mentioned, bringing his experience from Carousell and Airbnb to scale them. What are some of the main challenges you're seeing among incumbents when they're jumping into e-commerce in this part of the world?

Tomas Laboutka: I think the first thing is to figure out the right product, and this is the first wall that many hit. How do you really innovate on a product that can reach product-market fit and do that at scale? That's a really tricky part.

The second e-commerce hurdle is looking into the product-channel fit. How do you find the right distribution channels that scale and make sense from a unit-economics perspective? It's crucial in this type of business, which I've witnessed firsthand, and it gives real-time visibility into inventory.

Andrew Roth: Yes, the inventory management is something the consumer's not really seeing, but it drives a lot of the operations and sales for the e-commerce player. And whether you do consolidated distribution at one warehouse, or you've got fulfillment centers across multiple warehouses, depending on what region or country you're serving, it can get very complex. Can you expand a little bit on the distribution side?

Tomas Laboutka: I think what's really critical to understand is what you are optimized for. So when you look into the scalability of each channel, you want to understand the trade-offs you're making and how early traction translates into ongoing growth. As an incumbent or a corporate, you can distribute your new product to the customers at scale that nobody else can and maintain full control. And this is one of the advantages that really excites me when you start scaling.

Andrew Roth: We often talk to incumbents about derisking business building and throw around terms like "minimum viable product." JJ has found another interesting way to derisk business building by coming up with a programmatic way to acquire businesses to take the risk out, and then injecting it with capabilities to scale. What are your thoughts on this and how to reach product-market fit?

Tomas Laboutka: It's such a smart approach. When we talk about the minimum viable product (MVP), we talk a lot about the MVP graveyard, right? That's when you have an idea that fails before it really reaches

product–market fit. It’s very hard to get over the first hurdle, but JJ is very clever in understanding his advantage, the secret recipe he can bring to the businesses that already have the initial product–market fit. He has this checklist, and he comes to them and says, “Look, I understand what you are; why don’t I give you an exit and take it to the next level?”

And I think it’s really inspiring when you think about what all the other companies and venture builders can do with their own secret recipes, with their own playbooks. Then they can start building their own ecosystems, their own jungles or Rainforests.

Andrew Roth: Yes, and it kind of hits on the two different types of entrepreneurs that we see. You have entrepreneurs that design some breakthrough model or solve some problem. And then you have entrepreneurs that are focused on execution. But incumbents sometimes get too caught up trying to think of the next breakthrough business model versus just leveraging their advantages and executing.

I’m hoping to see incumbents take a bit more risk or more of a portfolio approach to business building on the latter part, and just take ideas that exist and localize them. We’ve heard it on this show, from everyone from Carro to Ninja Van to ShopBack. They draw on a business model that’s worked, they localize it, and then they scale it. What are your thoughts on how incumbents are approaching this right now?

Tomas Laboutka: If you start it from the innovation part, something that JJ alludes to, it’s not easy, especially when you’re ten, 20, or 30 years removed from the point where you were really innovative. Many of the larger players had their breakthrough some time ago, and the muscle to innovate and to really go from zero to somewhere might have atrophied a bit today. But incumbents have already developed strengths and capabilities, and this could play into their portfolio. They might look to areas where they could leverage their

strengths, in supply chain, growth, marketing, or maybe distribution, to find their winning recipe.

Andrew Roth: Let’s switch gears from capabilities to what many incumbents perhaps focus too much on, which is competition. We heard JJ basically say to look at the size of the marketplace. The total addressable market for aggregators is big right now. And you can focus on niche companies to acquire. There’s plenty of room in this market. You’re an entrepreneur and founder, Tomas. What’s your take on the amount of attention you should give to competition?

Tomas Laboutka: I like JJ’s confidence. I think it’s exactly the right answer. But from any other entrant’s perspective, I would ask myself a few things first. So what is my vision for playing in this new ecosystem? What can I do better than anybody else? How am I going to serve my customers? And then really be clear on how and why I have the right to play. That is step one. Step two is to be programmatic in the approach and have some sort of a checklist, a playbook that you bring to each of the stakeholders and the prospective companies you want to work with. Understand how your checklist is different. How are you bringing the capabilities or the advantages that you have so that you can fly through the actual execution and truly boost the new acquisitions?

Andrew Roth: So you’re saying in terms of competition, just stay focused on execution.

Tomas Laboutka: I think, at first, be clear on where you play, because competition is too broad of a term in such a huge space. And I think it’s always a little dangerous when you start looking left and right and start jumping all over the place. Having a clear thesis backed by what you can do better than anybody else and executing without getting distracted by the next shiny thing that pops up is really important.

Andrew Roth: Well, it's an exciting space. This idea of aggregating solopreneurs on marketplaces is sort of a window into the types of consumer demand that's going on in different

categories. JJ is focused on health and items that don't require a lot of moving parts, like electronics. It'll be fun to keep an eye on this space.

Andrew Roth and **Tomas Laboutka** are associate partners in McKinsey's Singapore office. **JJ Chai** is CEO and cofounder of Rainforest.

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