

Fear of GAFA said to be behind Yahoo Japan-Line merger

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A sense of crisis about the strength of Amazon.com, Apple and other information technology giants apparently hurried Line Corp. and Yahoo Japan parent Z Holdings Corp. into arranging their merger, which will create Japan's biggest internet services group.

But it will not be easy for the new group and its 100 million users to break the dominance of Google LLC, Apple Inc., Facebook Inc. and Amazon.com Inc. — collectively known as “GAFA.”

The four each have solid customer bases around the world, industry watchers said.

“Yahoo Japan alone isn't large enough, and we'll be swallowed up by GAFA if we do nothing,” said a close aide to Masayoshi Son of SoftBank Group Corp., which owns Z Holdings, describing the CEO's mentality.

GAFA grew by centralizing a variety of online services, including financial and shopping services, on a single platform so they could collect vast amounts of personal data that allowed them to profit from advertising tailored to each user. Network effects are the driving force behind GAFA, with the scale of their expansion expediting data accumulation and improving user convenience.

For example, Facebook, which has some 2.4 billion users, has a market capitalization of about ¥60 trillion — way higher than the ¥3 trillion in combined capitalization for Z Holdings and Line.

In recent years, Chinese internet giants Baidu Inc., Alibaba Group Holding Ltd. and Tencent Holdings Ltd. (collectively called BAT), have achieved rapid growth thanks to China's massive domestic market and support from its government.

In 2000, Son, who prides himself on his investment expertise, plowed ¥2 billion into Alibaba, which was an obscure company at the time. Following additional investments, the value of SoftBank's stake in Alibaba has swelled to some ¥13 trillion.

Through this investment, Son keenly sensed the attractiveness of accumulating customer data.

According to Z Holdings President Kentaro Kawabe, Son said he agrees 100 percent with the Yahoo Japan-Line integration plan, and said it should be carried out swiftly for the sake of Japan and Asia.

Although the services of both Yahoo Japan Corp. and Line are well known and used in Japan, their growth potential in this market is limited because the population is rapidly graying and shrinking.

To break away from being a lion at home and a mouse abroad, the two companies see the need to come up with strategies for expanding operations abroad.

Line offers settlement and news distribution services in addition to its free messaging app in Taiwan, Thailand and Indonesia.

“We’ll aim to first grow in Asia and then become the third-largest force next to GAFA and BAT,” said Line President Takeshi Idezawa.

For the April-September half, SoftBank Group logged its first operating loss in 15 years on massive valuation losses from its investments, including the office-sharing business WeWork.

But Son kept up a brave front on the losses, saying, “I do feel responsible, but won’t shrink back.”

Since expanding its sphere of business is widely viewed as indispensable to compete on the world stage, speculation is focused on what steps Son might take next, including mergers, acquisitions or tie-ups, to cut into GAFA’s dominance.