



VentureBean Consulting

**New World: Banking, Digital & E-commerce:
Changing Business Models**

**Institute of Chartered Accountants of India
Nagpur Branch of WIRC**

State Level Women Empowerment Seminar
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Agenda

At the start

Business Models

Funding Strategy: VC/PE/Angel ?

Due Diligence

Valuation

In Summary

The **Starting** Points

YOU

Your Work/ (life) Today

AND

Where you Want to go

At the Start: “to trigger thinking” ...

- What do you understand by the by the New Digital World, what are the elements of this?
- What are key drivers of Digital Commerce today?

This session

- Focusses on the impact of the changing business environment; topics: Emerging **business models**, **value** creation, **funding** strategy and **VC/PE** funding, and more, with **case studies**
- Looks at **roles** for **Chartered Accountants** in this fast growing eco-system
- Touches upon How **Women Members** can **leverage** and take advantage of emerging opportunities

At the Start: “to trigger thinking” ...

- Digital commerce encompasses a variety of activities, with different definitions available.
- Gartner for Marketing Leaders definition:
“Digital commerce uses the Internet, mobile networks and commerce infrastructure to execute transactions with consumers or businesses and to support marketing and other activities around these transactions.”

(Ref: <https://www.gartner.com/marketing/digital/research/commerce/>)

WHAT IS A BUSINESS MODEL

- Investopedia definition

“The plan implemented by a company to generate revenue and make a profit from operations. The model includes the components and functions of the business, as well as the revenues it generates and the expenses it incurs.”

(Ref: <http://www.investopedia.com/terms/b/businessmodel.asp>).

- HBR article by Andrea Ovans: What is a business model

<https://hbr.org/2015/01/what-is-a-business-model>).

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EXAMPLES ...

A few years ago...

- Bharti Airtel, Café Coffee Day, Big Bazaar, RedBus ...

Today...

- E-Commerce/technology platform/aggregator companies for example Flipkart, Zomato, Big Basket, Paytm, Practo, Uber, Ola ...

EXAMPLES ... Evolving

- **Investor led Consortium:** DK-GLO (Didi + Kuaidi + GrabTaxi + Lyft + Ola) **competing** with Uber
(Consortium of Investors **Tiger**, Coatue, GGV, Softbank, China Investment Corp, Alibaba Ref. <https://www.linkedin.com/pulse/ubers-biggest-competition-ride-sharing-company-1-max-motschwiller?trk=hp-feed-article-title-ppl-follow>)
 - Recently Tiger has invested in Uber in addition to Ola; Ola has tied up with the consortium for its users to use its app in other countries to get a ride from others in the consortium
- **Platform:** Leading online marketplace..
 - Trying to push seller advertisement instead of commission
 - Looking at making buying more social; offline buying is often a group experience while online is more an individual purchasing
<http://www.slideshare.net/sanguit/the-platform-manifesto-16-principles-for-digital-transformation>

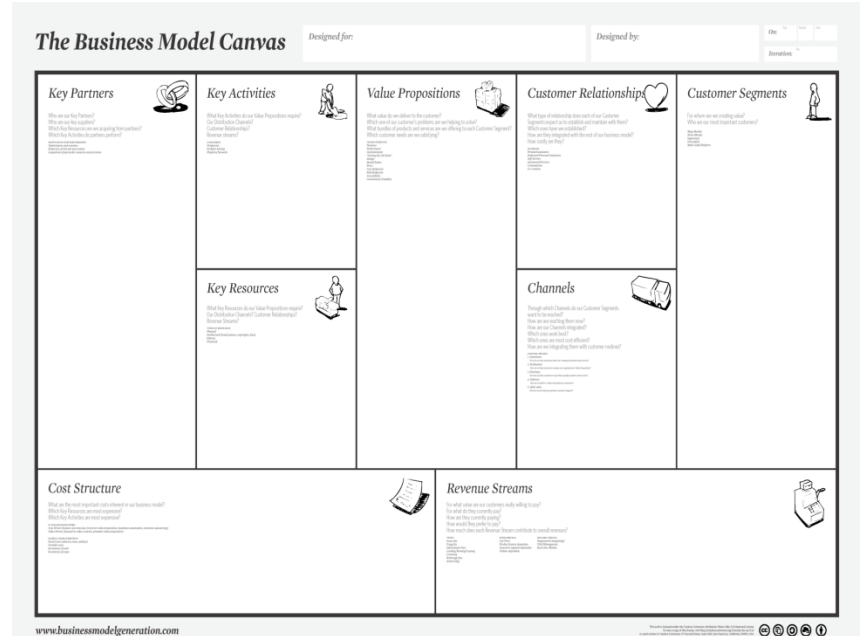
EXAMPLES ... Evolving

- **Seller** in marketplace experimenting
 - Sales option 1: One price including all costs (for eg. Rs.500; option 2: Separating Shipping Handling (i.e. Rs.450+Rs.50)
 - Changing from Sales Option 1 to 2, average sales dropped!
 - Testing to see how they can come on first page, for example displaying sample/low cost goods as hook to target customer
- **CAs** evolving
 - Creating offline/online accounting services model
 - Leveraging on technology and creating a platform for delivery
 - Using WhatsApp to communicate to clients, Alumni and sharing
- * To Trigger Thinking : Home work post the session
How are you leveraging on the digital world (Digital India)

Business Model Canvas: 9 building blocks

BUSINESS MODEL CANVAS (BMC)

- Customer segments
- Value propositions
- Channels
- Customer relationships
- Revenue streams
- Key resources
- Key activities
- Key partnerships
- Cost structures



SOURCE: <http://www.businessmodelgeneration.com/canvas>

- Acknowledgements:
 - Wikipedia, the free encyclopedia
 - <http://www.businessmodelgeneration.com>
 - <http://www.businessmodelhub.com>
 - **Alexander Osterwalder**

Business Model Canvas: 9 building blocks

Customer Segments

- *For whom are we creating value?*
- *Who are our most important customers?*
- Mass
- Niche
- Segmented
- Diversified

SOURCE: <http://www.businessmodelgeneration.com/canvas>

- * To Trigger Thinking : Home work post the session
 - Who are your **Key Customers**?
 - Does a small minority provide **majority revenue**?

Business Model Canvas: 9 building blocks

Value Propositions

- *What value do we deliver to the customer?*
- *Which one of our customer's problems are we helping solve?*
- *Which customer needs are we satisfying?*
- *What products and services offered to each Customer Segment?*

Characteristics

- Newness
- Performance
- Customisation
- Design
- Brand
- Price
- Accessibility

SOURCE: <http://www.businessmodelgeneration.com/canvas>

- * To Trigger Thinking : Home work post the session
 - What is the **Value** you think you are providing?
 - Take a **Feedback** from key **customers** re the value they see.

Business Model Canvas: 9 building blocks

Channels

- *Through which Channels do our Customer Segments want to be reached?*
- *How are we reaching them now?*
- *How are our Channels integrated?*
- *Which ones work best?*
- *Which ones are most cost-efficient?*
- *How are we integrating them with customer routines?*
- Awareness
- Evaluation
- Purchase
- Delivery
- Aftersales

Customer Relationships.

- *What type of relationship does each of our Customer Segments expect us to establish and maintain with them?*
- *Which ones have we established?*
- *How are they integrated with the rest of our business model?*
- *How costly are they?*
- Personal
- Dedicated
- Self service

SOURCE: <http://www.businessmodelgeneration.com/canvas>

Business Model Canvas: 9 building blocks

Revenue Streams

- *For what value are our customers really willing to pay?*
- *For what do they currently pay?*
- *How are they currently paying?*
- *How would they prefer to pay?*
- *How does each stream contribute to overall revenues?*
- TYPES
- Asset sale
- Leasing
- Subscription
- Brokerage fee
- Licensing
- Advertisement
- FIXED PRICING
- List based
- Product feature based
- Volume based
- Segment dependent
- DYNAMIC PRICING
- Negotiation (bargaining)
- Real time market

SOURCE: <http://www.businessmodelgeneration.com/canvas>

Business Model Canvas: 9 building blocks

Key Resources

- *What Key Resources do our Value Propositions require?*
- *Our Channels?*
- *Customer Relationship?*
- *Revenue Streams?*
- Physical
- Intellectual
- Human
- Financial

Key Activities

- *What Key Activities do our Value Propositions require?*
- *Our Channels?*
- *Customer Relationships?*
- *Revenue Streams?*
- Production
- Problem solving
- Network

SOURCE: <http://www.businessmodelgeneration.com/canvas>

Business Model Canvas: 9 building blocks

Key Partnerships

- *Who are our Key Partners?*
- *Who are our key suppliers?*
- *Which Key Resources are we acquiring from partners?*
- *Which Key Activities do partners perform?*
- MOTIVATION FOR PARTNERSHIP
- Optimization and economy
- Reduction of risk and uncertainty
- Acquisition of particular resources and activities

Cost Structure

- *What are the most important costs inherent in our business model?*
- *Which Key Resources are most expensive?*
- *Which Key Activities are most expensive?*
- IS YOUR MODEL
- Cost driven
- Value driven
- SAMPLE CHARECTERISTICS
- Fixed costs
- Variable costs
- Economies of scale

SOURCE: <http://www.businessmodelgeneration.com/canvas>

CAs Possible Role

- Analysis of Business Model
 - Setting out Financial and Strategic Impact
 - Factoring in Tax and other Statutory implications, illustrative: in example of seller in marketplace given earlier where shipping and handling was shown separately, there was also a tax implication which a CA had flagged off when a doubt was raised
- * To Trigger Thinking : Home work post the session
How do you demonstrate thought leadership in your area of work and knowledge

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Due Diligence

Valuation

In Summary

Stages of business

- Idea / Seed
 - R&D / Pilot / Proof of Concept
 - Commercialization / Scale up
 - Early Stage
 - Growth / Later Stage / Expansion
 - Turnaround
 - Acquisition, Inorganic expansion
 - ... etc.
-
- **Funding Strategy & Investor Selection depends on Stage**
 - **Valuation & Valuation Multiples are connected to stage**

Investors: One Slide Checklist

- HNIs, informal and formal angel groups
- Seed Funds
- Venture Capital
- Private Equity
- Banks exploring innovative ways to fund SMEs
- Strategic Investors
- Corporate Funds; (Family) Business Groups, Indian & Global
 - Directly and/or through a special division or subsidiary
 - For employees alone or open to public
 - As intellectual and/or financial capital with other facilities
- Government supported funds
- Impact Investors
- Incubators
- Accelerators
- Co-Creators
- Crowd funding
- Online funding platforms

**Which
One
is the
...
Right
Fit
for
the
Venture?**

Case Studies: For startups

Different mandates, different preferences:

- Accelerator: Microsoft Ventures
- Impact Fund: Unitus Seed Fund
- Entrepreneurship Factory: JGI Ventures
- * To Trigger Thinking : Home work post the session
If your clients are looking for funding, think through
 - The preferred option for them, debt, equity or mix
 - If equity, which kind of investment, which investor(s)



What Investors Look for

- **INVESTOR FIT:** Mandate and Fund Philosophy, stage of investment cycle, other portfolio companies
- Team: Education, experience, multi-disciplinary, co-founder team cohesiveness
- Past track, of team members both in and before this venture, of business
- Idea/Business growth and history thus far, ability for growth and sustainability
- Competitive scenario
- Risks
- Financial plan and funding strategy

Business Plan

- An **output** based on **business model** and strategy, expected to evolve over time
- To be **forward looking**, based on past knowledge of promoters and their work experience in the existing or new venture
- **Assumptions** to be tested to see if they will be valid for execution, i.e. to demonstrate this is not a business plan on paper alone
- **Risks** to be factored in plan
- **Multiple scenarios** are looked at
 - **revenues** expected are discounted
 - **costs** and expected cash flows are factored
 - **sensitivity** to key parameters are checked

Ref. Business Planning Book – 3rd edition published 1st July 2015 at: <http://www.cmii.icaai.org/pcmii.asp>



Caselet: You are a **Financial Advisor**

- Jingles Fund, an overseas fund has a life Cycle of 10 years; it is now in the 7th year
- Jingles Fund has offered 1 million USD for a 20% stake in Bling Co., you are advisor to this company
- Bling also has an offer of Rs. 6.5 crores for 25% stake in the company from Bhavans, a Rupee Fund.
- ***What are the key deal aspects Bling Co. should look into before proceeding?***

Caselet – Debrief - Illustrative

- Promoters should make an effort to understand the investor mandates and reasons for investing. Some investors may want money back in a finite time period.
 - i.e. Are they building the Business or Building the Valuation?
Does it matter? Is it aligned with promoter thinking?
- The value add of the investors is to be examined, for eg. overseas funds could bring international contacts, Indian investors may be able to help with Indian networks
- Brand accretion or depletion to the company due to the investor should be factored
- The clauses in the contract need to be checked with care for possible impact on growth and sustainability

Caselet – Debrief - Illustrative

- Promoters need to estimate fund requirement over the next few years and see how each investor could fit into the overall scheme of growth and value creation
- Founders should think through possible scenarios over the next 3-5 years, assuming the company does as well as projected and also assuming a scenario where projections are not met
- Valuation today and valuation expected tomorrow, both have a role to play in decision making
- Valuations expected in 3-5 years, depend on assumptions for projections. These need to be thought through carefully from multiple angles, operations, finance, team, competitive landscape and more

Caselet: You head the **Finance Dept**

- Sunshine Group, a family managed business group has diversified into different areas from manufacturing to services and IT, with a couple of these listed in the stock markets
- You are a key employee of the Group and Member, Group Finance Executive Committee, reporting to the Holding Company Board
- The Board has noted that many companies in the traditional areas of business are loosing on valuation, while newly set up e-commerce and digital businesses in India appear to be multiplying in value day-by-day
- As key person in Finance, the Board asks you to think about their digital commerce and related strategy as a way to add value and grow their business in the years ahead
- ***Q. How will you strategize the digital commerce growth plans for the Group? What should be the do's and don't's?***

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Due diligence reviews (DDR)

Investment decision is based on DDR, some illustrative reviews are below. Some aspects of these may be done in-house by the investor, others may be out-sourced to experts and professionals:

- Business
- Market
- Technology
- Accounting
- Tax
- Legal
- HR
- Other..

Due Diligence Example

E-commerce based special vertical

- Forecast was not reflecting expected reality
 - Expenses uniform across optimistic to pessimistic scenarios
 - Few expenses were static across several months/years
 - 31st March 20X0 were in 1 city; 1st April 1 20X1 to YE in 4 cities; 1st April 20X2 in 8 cities... i.e. sudden jumps; not reflective of stage by stage expansion of business
- **Recommendation**: Management advised to recast numbers to reflect reality of running business and not just create an excel sheet

Due Diligence Example

Service aggregator (Service also listed on digital platform)

- Revenue/profitability review prior to 2nd tranche release
 - Revenue was accounted on receipt, including annuity
 - Costing exercise showed gross profit was low for all lines of business, other than one, with a few loss making. This could be due to low scale of business; needed further examination with scenario analysis for growth
 - Working capital constraints lead to acceptance of low profit/loss activities with cash advance, against higher profit jobs where cash would come in later in the delivery cycle
- Recommendation: Management advised to look into revenue recognition, undertake costing exercise and to relook at pricing strategy. Forecasts to be resubmitted based on revised plan before 2nd tranche could be released



Due Diligence Example

Example of forecast reflecting possibilities

- Pipeline for next year detailed out with customer segmentation and probability of conversion based on past record
- Domain knowledge and expertise demonstrated on questioning, for example in food business about customers eating habits etc.
- Recommendation: Prima facie this looked as if the management had done their homework and that they had domain knowledge. A technology product review was recommended before getting into valuation and negotiation

CAs Role: Due Diligence & other reviews

- Accounting Review (Historical and impact on Future Forecasts)
- Financial Forecast Review (Scenario and Sensitivity Analysis)
- Tax and Regulatory Linked Review
- Business Review (Impact on Growth, Valuation)
- Other special reviews such as Product/Service Costing, Pricing Strategy
- **Governance:** Suggesting Next Steps and MIS Based on Review Findings, Utilization Monitoring, scaling to meet Global Expectations, etc.

CAs Role: Due Diligence & other reviews

- **Mid-term Due Diligence Review**, for example when the next tranche of funding is to be released
 - Investment Utilization Review
 - Accounting Review
 - Revised Financial Forecast Review
 - Compliance, Tax and Regulatory linked
- **Governance: Continuous Monitoring and MIS Based on Review Findings**

CAs Role: Illustrative Sales Quality Review..

- Indicative parameters, for **Sales Quality**
 - Sales **Quantity**
 - **Quality** of revenue - in terms of mix of product/service/vertical/location etc.
 - **Costing** and margins across different products/service
 - Average revenue per employee
 - Number of customers, high value customers
 - New customers added
 - Customers lost
 - Pipeline customers
- **Quality impacts Valuation Multiple**

CAs Role: Illustrative Value Creation Review

- Investment should have potential for value creation not value depletion; i.e. beyond
 - Top line (revenues)
 - Bottom line (profits) and
 - Cash flow

 - GMV (Gross Merchandise Value) ?
- To understand
 - Financial and non-financial aspects of business
 - Investment into business over investment horizon
 - Growth and sustainability
- * To Trigger Thinking : Home work post the session
 - Are you able to integrate accounting and tax aspects in the digital economy with the business aspect? For existing businesses, for new age businesses?
 - For example if someone has a health problem, say a heart ailment, a good doctor will not only make suggestions for the cure of the complaint, but also prescribe lifestyle changes.

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Questions.. . questions..

What do you think of when you hear the word valuation for a business? Do you think it is related to

- Sales
- Cost
- Profit
- Cash flow
- **Combination** of above
- Other factor?

Questions.. . questions..

- Does value depend on whether one wants to sell a company, to buy a minority stake or to buy the entire company?
- Will a strategic investor value a company differently from a financial investor?
- How can a company which is continually losing money have any value?
- Why did ecommerce company valuations in India Zip and Zoom? Are these heading for a slowdown now?
- Will all companies lose in value in these volatile times or will some still Zoom in Valuation? If so, which ones will grow and be sustainable?

Valuation

- Based on
 - Tangibles *and* intangibles
 - Data *and* assumptions
 - Subjectivity *and* objectivity
- Many methods of computation including but not limited to
 - Multiples of revenue, EBIDTA, user base, etc
 - Multiples of industry specific value drivers, e.g. GMV (Gross Merchandise Value)
 - Cash flow based, discounted
 - Cost based
 - Exit valuation expected
- Factor statutory, accounting, and tax implications

Valuation

Driven by

- **Markets including flavor of season, competitive scenario, team at helm etc.**
- Percentage of stake offered
- Unbundling of deal issues, such as Board Membership, Decision making powers etc.
- Negotiation and taking control of the situation
- Deals can sometimes be structured to accommodate valuation perceptions
 - For eg. linking to future performance
 - This could become an area of **concern** when there is a possibility of a “**down round**” when new investors come into the picture
- *For more on valuation: detailed class notes at <http://www.slideshare.net/anjanavivek/valuation-basics> (from set of the **Top 4% & 5%** viewed on **SlideShare** in 2013, 2014 respt.)*

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In Summary: Reflections

New Age Communicating

For Individual/Team/Organisation

Post

Webcast

LinkedIn

Tweet

Facebook

Blog

WhatsApp

...and so much more

- * To Trigger Thinking : Home work post the session
Are you leveraging on the tools of the digital world?
 - For work and beyond ...
 - For clients and self ...

Communicating: Reflecting

- **Whom** are you communicating to?
- **What** do you want to communicate about?
- Understand implications of **privacy** issues
- Pay attention to safety and **security** issues
- Be true to yourself and develop your own style
- A step at a time – the crawl, walk, run approach
- Not communication also is communicating – it can send right as well as wrong messages
- Put aside time for introspection and reflection

In Summary: Towards 'Digital India'

Much of life and business is moving digital...

CAs

- Will encounter digital commerce transactions on a more regular basis in the days to come
- This will lead to multiple areas of work, from accounting, tax and audit to advisory and specialised areas such as business modelling to deal negotiations
- Some areas of work will be transaction focused, some could be linked to retainer, some bread and butter some cream
- Some are emerging areas with limited/few experts..
Would YOU like to be the expert?

In Summary

- **Thank you** for the patient hearing, for more ...

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Thanks and Best Wishes for 2016

- As we close the year...

...This is a time to stock take, plan for the Year Ahead.

...To reflect on what went well, what could have been better.

...To think through the changes we want to bring within ourselves and.. in our workplace.

...To set ourselves some milestones and action plans.

...To be Happy and Thankful and Enjoy what life has in store for us, every day.

Wishing You all A Great Year Ahead, Success and Joy