

Case startup “Stocker”

By J. Kersten/ April 2017/ fictive case

Introduction

Sarah (28 years old) and Doreen (26 years old) are friends who both have studied Business Studies in University. After they have graduated they started to work for a big bank in Amsterdam. Although they liked working at the bank, their biggest dream would be to start a company their selves.

From university on they have a passion for trading shares on the stock exchange. They are quiet good in it and they follow all the financial news. Moreover, they are well equipped to read all the financial numbers of the listed companies that come out every quarter due to their studies in University and work experience at the bank.

Business idea

Sarah and Doreen figured out that many people are interested in trading shares on the stock exchange, but they found out that a lot of people find trading on the stock exchange a little bit intimidating. Especially all the financial numbers are hard for many people to understand.

Sarah and Doreen want to solve this issue with an app that provides the user easy to use insights to trading shares on the stock exchange themselves. Every day the user will receive valuable information from Sarah and Doreen (through the app) which allows them to make smart decisions when trading at the stock exchange.

Status of the startup

The two girls have built the app already in a so called “Minimum Viable Product” (MVP). This means that the app works already, but that the functionalities are still very simple. The app has been built by means of “bootstrapping”, which means that the girls have paid for the development costs themselves. So far no external investor has been attracted to invest in the company.

There is already some demand for their product (app) since they are already trying to get some “traction” (webpage visits and demand for the product) in their startup. On their website Sarah and Doreen are already active in blogging and they had some publicity in some of the Dutch newspapers, this all to gain more “traction” (sales)!!

P: Product

In the upcoming months (from January 2017 – june 2017) they want to test their MVP under the customers that are already interested. Therefore they want to plan 6 tests of 1 month each. This way they can finalize the app for commercial use and sell it through the “play store” (android) and the app store (IOS).

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Due to the testing they expect they need to make some additional adjustments to the app which will cost about 30.000 EUR. Basically the product for the consumer is an app to download. For the content the consumer pays a monthly amount.

P: Price

The product for the consumer is an app to download on which the consumer pays a monthly amount of 5 EUR. Therefore 1 consumer brings in 60 EUR per year in turnover (12 months times 5 EUR per month). For this the customer will get access to easy to use financial information to trade shares on the stock exchange.

P: Place

“Stocker” sells direct (online) to the consumer. No third parties are involved concerning the selling of the product. Although there are parties involved for the promotion, see the P: promotion.

Moreover, parties are partnered up with “Stocker” to sell the product, parties like the app store (IOS) and the play store (Android).

P: Promotion

Concerning the marketing/ promotion they want to hire in two “influencers”, these are people with status within the field stock trading. Moreover, they want to use search engine marketing (SEM) to reach the target group. In addition, they want to use search engine optimization (SEO) to be found online by the target group. And Sarah and Doreen want to continue with their blog on their platform and they want to continue to reach (free) publicity by means of papers and online media. Sarah and Doreen also want to attend every year at a business fair in order to meet potential customers.

Investments

In the upcoming months (from January 2017 – June 2017) they want to test their MVP under the customers that are already interested. This will cost about 30.000 EUR. In the months July 2017 – December 2017 they want to modify their product. This will cost about 20.000 EUR.

In January 2018 the company will be live! From 2018 on the testing of the product will continue as well as the developments in the product. The testing will cost about 20.000 EUR every year, as well as the maintenance in the platform.

Moreover, the following marketing/ promotion tools are used:

- 2 influencers;
- Search engine marketing (SEM)
- Search engine optimization (SEO)
- 1 business fair.

In the first year of the startup: year 2017, the company is not yet operational. Although we assume that the marketing costs of the above tool will already be made!! This can be seen as

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starting up the “marketing machine”, this will cost time and money with zero to minimal returns!

Investments		2017	2018-2022
6 tests of 5.000 EUR of 1 month each	<i>"cash out" in cash flow statement</i>	€ 30.000	€ 20.000
Adjustments to the app due to testing	<i>"cash out" in cash flow statement</i>	€ 20.000	€ 20.000
Hiring two "influencers", costs 25.000 EUR per year	<i>cost in profit & loss statement</i>	€ 50.000	€ 50.000
Search engine marketing (SEM)	<i>cost in profit & loss statement</i>	€ 25.000	€ 25.000
Search engine optimization (SEO)	<i>cost in profit & loss statement</i>	€ 10.000	€ 10.000
1 business fair at the end of the year	<i>cost in profit & loss statement</i>	€ 10.000	€ 10.000
Total		€ 145.000	€ 135.000

Conversion rates

We make assumption for the following “conversion rates”, these rates have been discussed with experts (entrepreneurs, bankers, accountants, startup coaches etc.) within the field of online marketing. The “reach” of the channels is given on a yearly basis.

Traction channels	reach	conversion rate
Influencer 1	100.000	0,5%
Influencer 2	100.000	0,5%
Search engine marketing (SEM)	150.000	0,5%
Search engine optimization (SEO)	50.000	0,5%
Business fair	50.000	0,5%
Current traffic on site (by blogs/ free media)	<u>50.000</u>	0,5%
<i>Total reach</i>	<i>500.000</i>	

*Assumption: The startup will lose 10% of its customers every year (due to increased competition and due to the fact that simply not everybody can be happy with the product).

Profit & loss statement

On top of the investments & costs given in paragraph “investments”, the startup will have the following costs per year:

Minimum loan entrepreneur 1	€	25.000
Minimum loan entrepreneur 2	€	25.000
Rent for office	€	10.000
General costs	€	10.000

These costs will start in 2018 as the company really is operational. Remember that the marketing costs start the year before already.

Cash flow

Additional investments in the platform due to increased users are given under “parapgraph” investments:

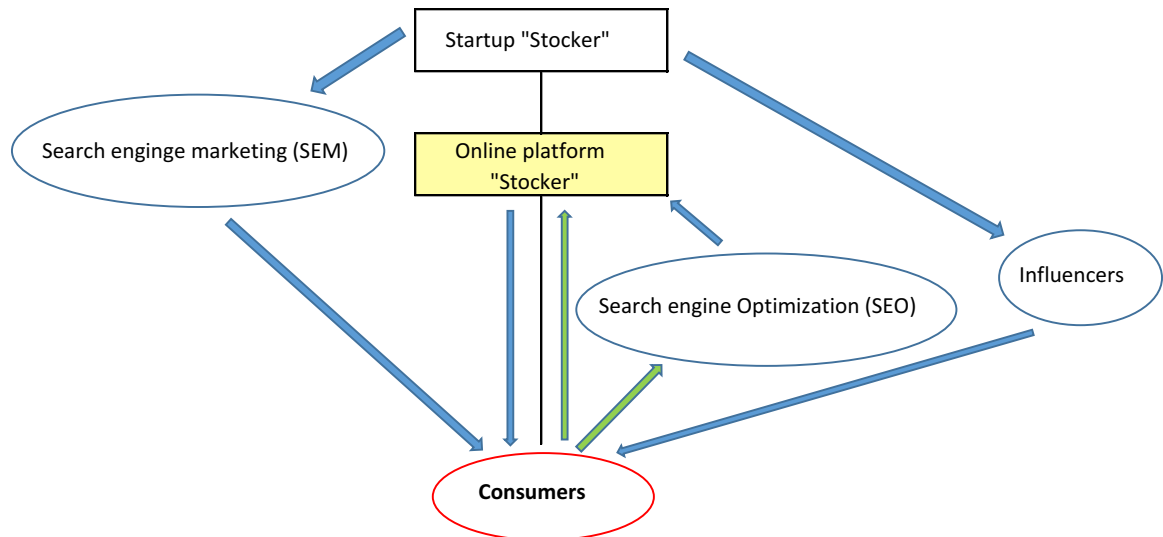
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20.000 EUR yearly for testing and 20.000 EUR yearly for adjustments to the platform.

Working capital: none since the customers pay direct (at the end of every month) and no “product stock” is needed in this particular business.

In short, the business model is given under here:



Questions asked:

1. Put together the Profit & loss statements for the upcoming 6 years (2017-2022)
2. Put together the cash flow statements for the upcoming 6 years (2017-2022)
3. What is the amount of cash needed in order for this startup to be able to start?
4. What is the number of total clients needed to be “break even”? Assume that all the costs of the startup are fixed.
5. Would you recommend the startup entrepreneurs to work out a worst case scenario as well?



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