STARTUP FAILURES IN CHINA AND USA

(And What SEA Can Learn from Them)

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INTRODUCTION

The global venture fundraising scene has seen drastic changes over the past decade. In the early 2000s, the venture capital landscape in China was rather modest compared to the U.S. However, venture capital investments in China began to increase exponentially year-on-year since 2009. The switch from U.S. to China was due to a number of factors. First and foremost was the increasing demand for venture capital funding. Top universities such as Tsinghua and Peking University began hosting venture competitions, providing venture capitalists (VCs) an abundant selection of startups eager for some funding. These startups were in a significantly hungrier class compared to their Western counterparts, to the extent that any and all VCs were assured of all the deals they were interested in. Stephen Bell, Managing Director of Trilogy VC, says he "got every deal that he put a term sheet out for." In addition, companies opted for significantly more modest and realistic valuations. Out of these competitions, the best ideas could win ¥3,000, and VCs would offer US$100,000 for a 25% stake - a mere fraction of the cost of similar Silicon Valley deals.

This rapid growth resulted in the overconfidence of founders and investors alike. With the emergence of highly successful Chinese companies such as Alibaba (IPO-ed in 2015) and Xiaomi (currently valued at US$45 billion), the number of angel and venture investors skyrocketed from a few dozen to over 2,000 in a span of two years. Valuations began to increase by nearly tenfold, putting Chinese startups in the same range as their Silicon Valley counterparts, with none of the infrastructural support and relative market stability that the latter enjoys.

Given the short track record for Seed / Series A rounds and a comparatively less mature ecosystem, investors saw a potential higher rate of failure and some began to move their funds out of China. Investors are getting increasingly wary of the burn rates of Chinese startups, especially the smaller, younger ones, many of which are far from profitable at this stage.

This report will explore the reasons for startup failures in both the U.S. and China, and identify the pitfalls that the Southeast Asian ecosystem would do well to avoid in its path to growth.

Investors are getting increasingly wary of the burn rates of Chinese startups, especially the smaller, younger ones, many of which are far from profitable at this stage.

ARE STARTUPS IN THE U.S. AND CHINA OVERVALUED?

When deciding on valuations for small and medium-sized companies, people most often refer to two methods: Discounted Cash Flow (DCF) and multiples. Academics tend to prefer the DCF method given its more theoretical nature, as this method encompasses the key drivers of businesses (cost of equity, weighted average cost of capital, growth rates, etc). In many cases, it could also serve as a check for whether or not a company's stock is over or undervalued. In practice, however, comparing multiples of similar companies is more common due to ease of use. Many startups struggle to accurately forecast revenues and cashflows for even a short period of 6 months, let alone the typical 4-7 years required for a proper DCF analysis.

Professor Aswath Damodaran from NYU's Stern School of Business takes the view that VCs play the pricing game when it comes to startups - they set a number based on how much people are willing to pay for a particular company, not the company's intrinsic value regardless of market conditions. He argues that when evaluating startups, VCs always use one of these four methods to set the price: (1) most recent price of the company; (2) pricing of similar privately-held companies (3) pricing of public companies with post-value adjustments; and (4) forward pricing. Given the nature of pricing models which rely heavily on comparables, valuations then tend to suffer from noise, subjectivity, information lags, pricing feedback loops, and time horizon issues. If a venture happens to be valued on a winning streak, other recent ventures, even the overpriced ones, will serve as comparables, consequently raising the price of the venture in question, subsequently driving up future prices in the market.

VCs play the pricing game when it comes to startups.

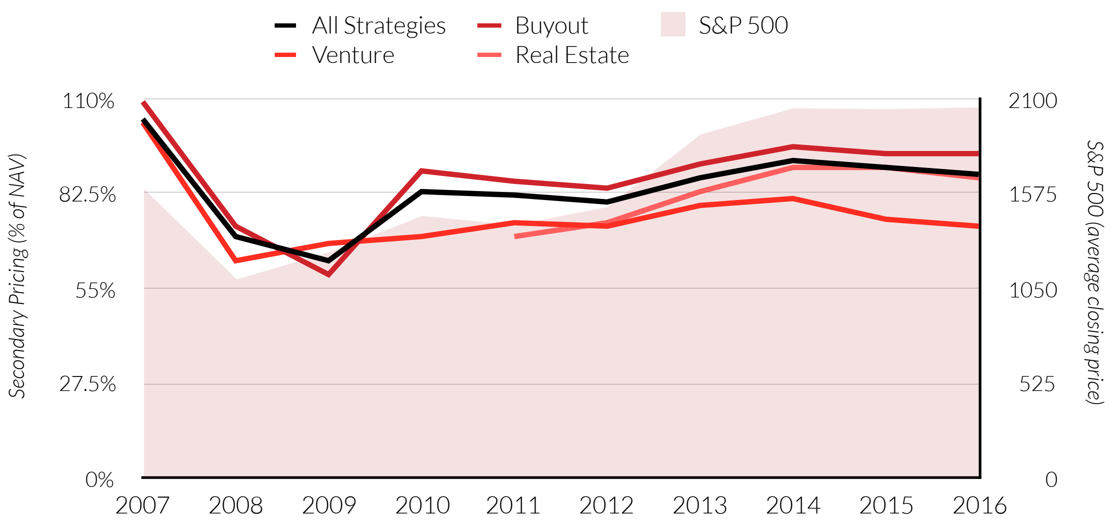

Figure 1: Secondary Markets Pricing Over Time (2007-2016)

Secondary markets provide liquidity to the venture funds and adjust the price in association with underlying risks when deals are made. A study conducted by Greenhill Cogent on the secondary pricing over time indicates that there is a greater downward trend of venture pricing on secondary markets, in comparison to all other strategies in the same time frame (See Figure 1).

To say that the discount in secondary markets are indicative of this overvaluation is a weak argument, given that there are other factors such as increased liquidity and risk that could have led to greater discounts for ventures. However, comparing the overall decline for venture secondary markets with the other strategies does raise a question on venture valuations that is worth exploring.

METHODOLOGY

This study seeks to obtain insights from analysing startup failures in the U.S. and China. The ideal subjects are companies in the e-Commerce, FinTech, and SaaS sectors that have raised more than US$5 million and either closed down or had down rounds subsequently. A macro level analysis will be conducted to track the venture capital flow established from 1995 to 2015, and determine how the capital flow affects the investment process, valuation and exit preference in the market. A deeper analyses on nine companies will be followed to gauge individual failure stories.

Figure 2 below outlines the criteria for the sample size identification, as well as the macro and micro factors for deeper analysis. The dataset was obtained from the CrunchBase on 14 September 2016. Preliminary analysis included a data cleaning process to identify a suitable sample size of 508 out of 110,683 companies. Target companies for detailed analysis were selected based on the availability of information with regard to macro factors such as economy, ecosystem, market, competition and regulation, as well as micro elements such as product/value proposition, founding team, expertise/specialty, operation and valuation.

Figure 2: Sample Size Identification and Analyses Criteria

RESULTS AND ANALYSIS

Valuation Bloat

The research tracked capital flows from the main sources to the recipient companies at different stages of growth. Figure 3 below shows an increase in the number of investment firms founded from 1995 to 2015. These firms can be categorised into 2 groups: traditional venture capital firms, and a collective group of angel investors, corporate venture capital, investment banks and other sources.

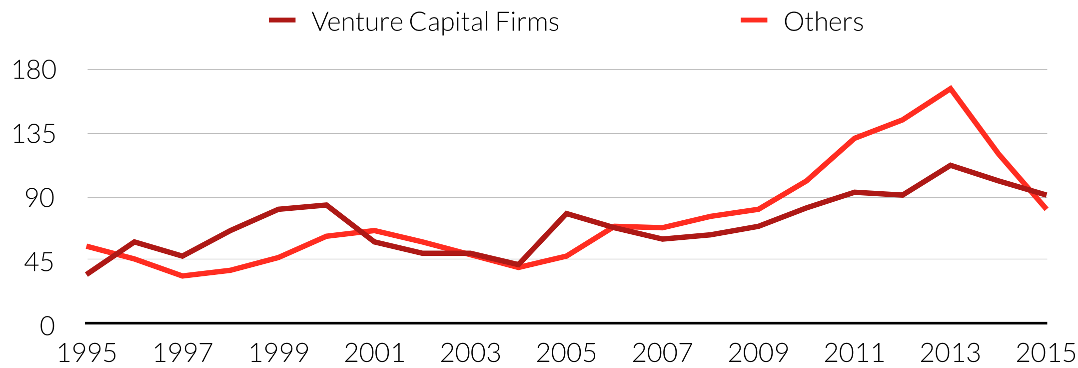

Figure 3: Number of Investment Firms in the U.S. and China (1995-2015)

From 2006 onwards, the total number of firms in the "Others" group consistently outstrips the number of traditional venture capital firms, which could suggest that more capital is flowing to startups from non-institutional, less sophisticated investors.

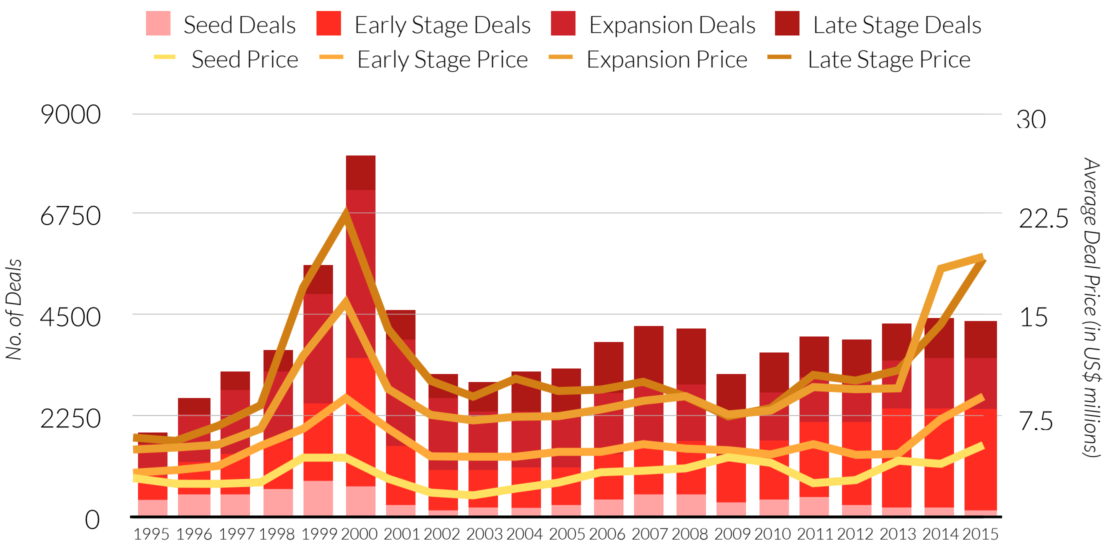

Figure 4: Total Number of Deals VS Average Price by Stage (1995-2015)

The similarity of valuation trends between 1998-2000 and 2013-2015 should raise some red flags.

Figure 4 above shows the proportion of capital going into startups at the following stages: Seed, Early Stage, Expansion, and Late Stage. The proportion of deals for different stages has remained largely the same in the past 20 years, but it is worth noting that there were substantial increases in the number of deals for Early Stage ventures from 1997 to 2000 and from 2009 to 2015. The average investment amounts (price) per deal for Expansion and Late Stage startups also showed a dramatic increase after 2013, noticeably similar to the trend from 1998 to 2000. Although the number of deals does not follow this pattern, the similarity in price trends alone should raise red flags for venture capitalists from 2017 onwards.

A Changing Exit Landscape

The trend for company exits could also indicate significant overvaluations in the U.S. market. Fearful of having to trade below IPO prices, a large proportion of VC-backed companies are increasingly choosing M&A deals as their exit strategy of choice. Figure 5 shows that M&As have outnumbered IPOs by a good margin every year since 2000. Offer amounts for M&As have remained in line with those of IPOs for the most part, except from 1999 to 2000 and from 2014 to 2015. (2012 is an anomaly with Facebook's IPO.)

Bloated valuations are the result of a feedback loop of expansion and overconfidence.

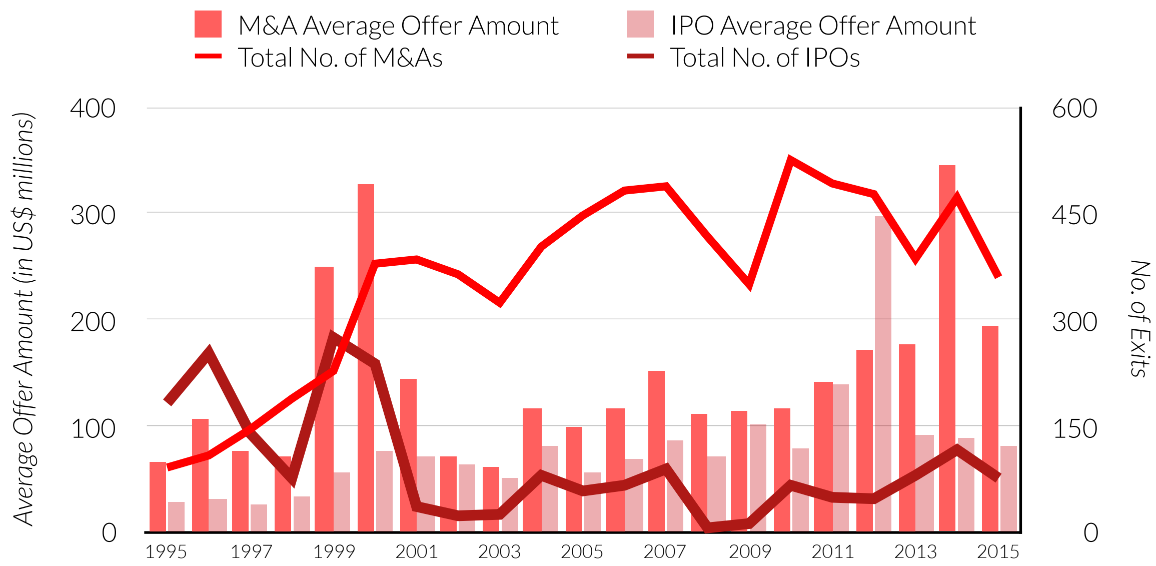

Figure 5: M&A VS IPO, No. of Exits and Offer Amounts (1995-2015)

Considering the factors that influence valuations, it can be argued that bloated valuations are a result of a feedback loop: a steady growth of investors, the expansion of Early Stage deals, rising prices for Expansion and Late Stage companies, increased confidence, and a decided preference for M&A over IPO. The similarities in funding and exit patterns between the years leading up to the 2000 Dotcom Bubble and where the market stands now give cause for concern.

Too Much Funding Can Kill You

The abundance of capital and overvaluations in the market cloud the decision-making processes of many venture capitalists and startups alike, leading them to make exceedingly non-conservative and unwise investments. To illustrate this point, two companies will be examined in greater detail: *Quirky*, a crowd-sourced development platform, and *Homejoy*, an on-demand housecleaner matching platform (See Appendix A for the companies' funding information).

QUIRKY is an example of how even the more established investors can be too optimistic about a failing company, continuing to pump money into it in an attempt to turn things around.

In a span of five years, Quirky managed to raise a total of US$175 million in equity investments, and burn it all in record time. The boon came in September 2012, when Andreessen Horowitz and Kleiner Perkins pumped in US$68 million in Quirky's Series C round. At that time, people were already questioning whether Quirky, a business with dubious scalability and a shaky customer base, was truly worthy of so much funding. Just one year later, the company went on to raise a Series D round worth US$79 million. This time, the two notable investors doubled down and participated with a few other big players, hoping to sustain Quirky until it reached a state of profitability. However, Quirky filed for bankruptcy only a year later.

Quirky's business model made it a cash-burning machine, because it had to continuously create and rapidly manufacture new gadgets to make sure that it lived up to its brand and mission, even in the glaring absence of product focus and iteration. Instead of adjusting Quirky's model to reduce unproductive burn and work towards a better product/market fit, investors chose to feed Quirky more money to let it burn even faster – a failed approach that eventually led Quirky to its demise.

Many startups with weak business fundamentals have managed to secure millions and billions of funding, a sign of venture capital over-exuberance. On-demand companies have been a prominent feature of the current boom, from transportation to food delivery and home-cleaning services. One such example is **HOMEJOY**, an online platform connecting professional cleaners with clients for US$20 per hour.

Despite raising over US$60 million, Homejoy failed to overcome steep competition from other startups like Handy and Thumbtack, or fight back against regulations on the contract-for-hire system, a thorny issue in the on-demand economy. This resulted in lawsuits that Homejoy claimed were the "deciding factor" in its failure to secure additional rounds of funding.

However, ex-employees would attribute the decline to the founders' arrogance and overconfidence, and their refusal to listen to more experienced and seasoned colleagues after raising the second funding round. One example was when the founders tried to cut costs by scaling back on their customer service team, without reallocating the resources towards quality improvement and business development. By compromising the quality of their customer service across different time zones, wait times and complaints from dissatisfied customers rose via social media, significantly harming Homejoy's brand.

With Homejoy having burnt through $60 million in its three-year life span, it remains to be seen whether similar on-demand services such as Uber will face similar fates in the near future.

The abundance of capital and high valuations can cloud the decision-making processes of VCs and startups alike, leading to exceedingly non-conservative and unwise investments.

WHY DO STARTUPS FAIL?

Startup companies are very diverse in various aspects of their business model. Hence, failures occur for a number of different reasons, which could be narrowed down into the following: operational inefficiencies, product/market misfit, poor market understanding, poor product development, competition, and misvaluation. To illustrate, the following companies will be used as examples in one or more of the categories mentioned above (See Appendix B for in-depth analyses on each company).

Company	Description
Blippy (E-commerce)	Dubbed the "Twitter of personal finance", Blippy allows users to publicize their credit and debit card purchases.
Famo.us (SaaS)	Famo.us enables major brands to build and deploy micro-apps that can be shared on social media and email. This is their third pivot - they started as BenchRank, a ranking system, evolved into an open-source development platform, before specialising into "micro-app content management".
Fashion Playtes (E-commerce)	Fashion Playtes is an interactive clothing design website that lets pre-teens or "tweens" design and order their own clothing online.
Formspring (SaaS)	Formspring is an interest-based social Q&A website, which allows users to relate their ideas and opinions on any topic.
Gaopeng (E-commerce)	Gaopeng is Groupon's Chinese domain, a group-buying website that offers discounts to customers at local merchants in China via daily emails.
Letao (E-commerce)	Letao is a Chinese website that operates as an online retailer of footwear including sneakers and leather shoes.
Stipple (E-commerce)	Stipple is an Internet technology company that created tagging technology which allowed users to hover over digital images and dive into details provided by the brand e.g. cost or location.
Stratos (FinTech)	An early player in a new category of devices, Stratos is a quasi-universal credit card that consolidates all the plastic cards in your wallet.
Wantful (E-commerce)	Wantful is an online gift-giving service characterized by high-quality gifts and exquisite design.

Figure 6: Startup Failures for Micro-level Analyses

Operational Inefficiency

(Famo.us, Fashion Playtes, Formspring, Gaopeng, Letao, Stipple)

Poor management and decision making lead to excess supply, inefficiencies, and a failure to achieve market acquisition.

Famo.us (U.S.)
Founder Steve Newcomb is a perfectionist who did not ascribe to the lean methodology. Without verifying the feasibility of the technology from the beginning, he overbuilt his team, attracting a large number of interested coders on his website and incurring concentrated technology risks.

Fashion Playtes (U.S.)
When neither traction nor sales took off, Fashion Playtes started offering extensive promotions and discounts, in an attempt to re-engage with existing customers. Discounts were regularly available, and could be up to 25% even for small basket sizes. While such a strategy might build revenue in the short term, it can also quickly burn through profits fairly rapidly with little reward in terms of captured market size.

Formspring (U.S.)
Formspring's team failed to address anonymous internet harassment and bullying among their user base, insisting on their policy of never publicly revealing its users' identities. On March 22, 2010, a 17-year-old New York high school graduate committed suicide, reportedly after dozens of insulting comments about her had been posted on Formspring in the days leading up to her death. Soon after, a local grassroots boycott of the Formspring site began.

Gaopeng (China)
Groupon's failure to adapt to the local environment limited its ability to reconize cultural nuances and succeed in the Chinese market. Their senior management team in China comprised only two Chinese members: one from mainland China and the other from Hong Kong. Even Groupon's operations in more remote parts of China were run by foreigners. Thus, cultural conflicts arose whereby employees did not necessarily respect or feel loyal to their managers, resulting in very low efficiency and high employee turnover rates. Meanwhile, their product and service strategies were wholly undifferentiated from thousands of other competitors in the space.

The final blow came from two major scandals in 2011. The first was when internal staff were caught cheating in a lucky draw; which led to the termination of the Vice President, and a public apology from the CEO. In the same year, it was revealed that Gaopeng's luxury watches were actually fakes. Consumers were compensated, but this left an indelible stain on Gaopeng's reputation.

Letao (China)
From an operational standpoint, Letao failed in 3 aspects: (1) inability to control costs; (2) failure to transform its existing profit model; and (3) an inappropriate company strategy. Firstly, as the company has been growing its customer base very aggressively, investors saw Letao as a very attractive opportunity and invested large amounts of capital in them. The company did not use the investment wisely, making unnecessarily extravagant expenses such as leasing over-the-top offices and expensive online advertisements.

Secondly, as the profit margin was extremely thin for an online distributor, Letao attempted to capture higher profits by creating its own brand. However, the company underestimated the amount of time and marketing required to build brand awareness, and grossly overproduced its products, resulting in huge losses after its launch.

Lastly, Letao pivoted one too many times, and too quickly. When rolling out its new in-house brand, it changed its business model completely without a transition period, stripping away its then-existing competitive advantage as the biggest online shoe distributor in the market. These high-risk moves did not pay off and eventually cost the owners the entire company.

Stipple (U.S.)
Stipple shut down in 2014, 18 months after raising capital at a valuation of US$25 million. With reference to the explosive early-stage funding pre-2014 and the follow-on investing that did not keep pace, Founder and CEO Ray Flemings explicitly explained that Stipple "had turned on revenue, but did not scale fast enough … not yet profitable … Like many companies we got into the Series A crunch and we weren't able to raise more money … We simply weren't able to get dollars flowing from the marketplace to line up with our expense structure."

Product/Market Misfit

(Blippy, Fashion Playtes, Stratos, Wantful)

Blippy (U.S.)
Blippy's feature of allowing users to publicise their debit/credit card transactional information did not sit well with majority of their users, who felt that this placed too much sensitive information in the public domain, such as personal purchasing pattern, financial status and location. Moreover, users found it hard to find any value on the platform, since the total number of revealed transactions was still small and very few good bargains could be identified.

Fashion Playtes (U.S.)
While the platform was targeted at female pre-teens, many of the customers were parents searching for gifts for their teenagers. Fashion Playtes attempted to reach out to teens through their own magazine, which published articles targeted for their age groups, but this did not work as well as they hoped. Moreover, mass customization appealed only to a limited set of customers, who knew what they want, and could afford to invest hours and their creative energy to customize products. The vast majority of shoppers quickly lost patience with the nitty gritty and opted for the typical mass-produced products.

Stratos (U.S.)
Payment devices like Stratos, Apple Pay and Coin need to work every time to avoid casting doubt in their users' minds. Yet Stratos failed to work about 5% of the time, and failures occurred with no discernible pattern. Using Stratos, especially at smaller retailers, was a difficult and unintuitive process. Clerks had to input the last four digit of the credit card into their card payment processor. However, this was not displayed conveniently on the Stratos processor, so theStratos user had to retrieve the information via the smartphone companion app and either hand over the phone to the clerk or read off the digits.

Wantful (U.S.)
Wantful spent large amounts of funds on building over six hundred products. This could have been the founder's preference to build a perfect product catalogue over validating actual demand, given his background in product design. They expanded to other cities before even securing a product/market fit. The expansion resulted in high cash burn rates.

Poor Market Understanding
(Formspring, Gaopeng)

Formspring (U.S.)
As a platform designed for teenagers, Formspring failed to consistently capture teenagers' attention when it needed to compete with other similar platforms such as Tumblr, ASKfm and MyYearbook's "Ask Me" services, and social media platforms such as Facebook, Instagram and Twitter. In order to survive in the social media market, Formspring had to adjust its business model and features quickly so as to stay ahead of the curve. Unfortunately, Formspring failed to make the necessary changes quick enough to capture a substantial user base.

Gaopeng (China)
Groupon's China head seemed to think that all international markets were alike – what worked in Germany would work in China. Groupon's sales team in China initially insisted that its partnering vendors split profits 50-50, without taking into account the realities of China's group-buying environment. Given that so many players existed in the market, vendors have the upper hand when negotiating with group-buying operators and typically leave their partner only 10% of the profits. Groupon also insisted on using mass email marketing, despite being warned that Chinese consumers seldom read those types of email. Such an approach had been successful in Germany, but Groupon ultimately found out the hard way that it would not work in China.

Poor Product Development
(Blippy, famo.us)

Blippy (U.S.)
Blippy suffered several serious security flops in its short lifespan. In 2010, several of Blippy users' credit card numbers could be found by simple Google searches, which raised the public's concerns over Blippy's capability to safeguard sensitive and personal user data, severely dampening users' confidence in Blippy.

Famo.us (U.S.)
The value proposition for Famo.us was essentially an over-promised vision. Due to the unpopularity of HTML5 in building in-web apps, Facebook and other major technology companies had pulled out certain applications in HTML5. However, Famo.us insisted on going in that direction without fully testing the feasibility and acceptability of the technology.

Competition
(Gaopeng, Stratos)

Gaopeng (China)
A latecomer to China's e-commerce arena, the ambitious company said it would combine Groupon's global group-buying experience and Tencent's deep knowledge of China's online communities. However, Gaopeng did not have any competitive advantages to begin with. Besides financial investments, Gaopeng was unable to derive any benefits from Tencent in terms of online traffic and a better understanding of the local internet market. In fact, Tencent also invested in Ftuan and operated its own group-buy website – QQtuan, which proved to be Gaopeng's largest competitor.

Stratos (U.S.)

Shortly after the Stratos Card entered the market, it fell victim to new technology and products. Apple Pay was infinitely more convenient, as it did not require a new card and account, or the need to present the physical card during payment. More importantly, Apple Pay was offered completely free of charge. In this case, the lack of exclusive technological advantage was a key factor for the failure.

Misvaluation

(Famo.us, Wantful)

Famo.us (U.S.)

The valuation of Famo.us was based purely on the founder's vision, initial sign-ups and a demo. The founder used 57,000+ signups on the company's website as an indicator of future revenue. However, this metric was highly inaccurate, because the signups were merely indications of interest, with no reasonable conversion rates into actual usage. The demo at TechCrunch Disrupt SF 2012 was confusing and lofty, and failed to prove to be a good assessment of the core capability of the venture.

Wantful (U.S.)

Wantful raised US$5.5 million in Series A funding, but ran out of cash with a burn rate of over $300,000 per month (approximately 18 months). Due to low revenue growth rates, Wantful failed to justify higher valuations and rejected down rounds from new investors.

CONCLUSION

The injection of unsophisticated capital leads to an abundance of venture capital waiting to be deployed in the market, thereby driving valuations up and subsequently affecting the decision-making processes of both venture capitalists and entrepreneurs. Similar patterns in venture deals and exit strategy trends between the 2000 Dotcom bust and the current state of the market raise concerns regarding where we are headed in the future.

Based on the individual company analyses, operational failures and product/market misfit were the main reasons for failure, with a touch of managerial hubris. The founding teams struggled and failed to reach sufficient revenue growth to attract the next round of investing, or amassed excess supply in expectations of high future revenue growth that never materialised. Easy access funding at sky-high valuations translated into higher volumes of cash, which facilitated high burn, oversupply, stagnation, and poorly-designed business models.

Although there is no formula to predict whether a startup will succeed, the lessons learnt from past failure may shed a light on the investment process for venture capitalists and founders alike. Considering that the Southeast Asian ecosystem is about a handful of years or so behind compared to the U.S. and China, studying these markets serves as an excellent cautionary tale that we would do well to learn from.

APPENDICES

APPENDICES

Appendix A: Quirky and Homejoy

Appendix A1: Quirky's Funding Information

Date	Round	Amount Invested (US$)	Investors
Dec '09	Venture	1.33 million	Arizona Bay LLC
Apr '10	Series A	6 million	RRE Ventures Contour Venture Partners Lowercase Capital Village Ventures
May '11	Venture	5 million	-
Aug '11	Series B	16 million	Norwest Venture Partners RRE Ventures
Sep '12	Series C	68 million	Andreessen Horowitz Kleiner Perkins Caulfield & Buyers
Nov '13	Series D	79 million	General Electric Andreessen Horowitz Kleiner Perkins Caulfield & Buyers Norwest Venture Partners RRE Ventures
Dec '14	Debt	10 million	-
Total funding raised: US$175.33 million (excluding debt and sale of company assets)			

Appendix A2: Quirky's Fund Usage

Round	Use of Funds
Venture	Seed funding
Series A	For growth strategies, including initiatives on construction of a full-scale rapid prototyping shop, a global sales force, greater retail distribution, 24-hour design and engineering capacities, and added interactive collaboration tools
Venture	(No available information)
Series B	(No available information)
Series C	Expand into new verticals and activate new communities such as Quirky Moms and Quirky Eco that will act as accelerated "mini invention machines" with the vision of making invention accessible to all
Series D	Partnership with GE to co-develop a line of 30 new connected home devices over the next five years Accelerate and expand Quirky's WINK platform, the app that makes it easy for consumers to access a range of connected devices anytime from mobile devices

Appendix A3: Homejoy's Funding Information

Date	Round	Amount Invested (US$)	Number of Investors
Dec 2013	Series B	US$38 million	6
Oct 2013	Series A	US$24.5 million	7
Mar 2013	Seed	US$1.7 million	7
May 2012	Seed	Undisclosed	1
Mar 2010	Seed	Undisclosed	1

Appendix A4: Homejoy's Investors

Investor	Round(s)
500 Startups	Seed
Andreessen Horowitz	Seed
Darian Shirazi	Seed
First Round	Seed, Series A, Series B
Fuel Capital	Seed
GV	Series A, Series B
Max Levchin	Seed, Series A, Series B
Mike Hirschland	Series A, Series B
Oliver Jung	Series A, Series B
Pear	Series A
Redpoint	Series B
Resolute.vc	Seed
Signatures Capital	Seed, Series A
Y Combinator	Seed

Appendix B: Detailed Individual Company Analyses

Appendix B1: Blippy Social Commerce (U.S.)

INTRODUCTION

Headquartered in Palo Alto, California, Blippy was described as the "Twitter of personal finance". It allows users to publicize its credit card and debit card purchases just like how Twitter users tweet their activities and thoughts on the social media platform.

Blippy envisioned generating revenue by 1) monetizing its user base once it has achieved a reasonable number of active users (potentially through advertisement); 2) build up an e-commerce marketplace to leverage the transaction data it has accumulated from its users' activities.

REASONS FOR FAILURE

Product Failure - Concept Failure

It turned out that not many users were willing to share their credit/debit card transactional information online, because such activities expose too much sensitive information to the public such as personal purchasing patterns, financial status and location.

In addition, existing users found it hard to see any value in the website, since the total number of revealed transactions is still relatively small due to limited number of users, making it hard for users to identify good bargains from other users' contributions or posts.

Technology Failure - Security Flops

Similar to other social media platform, security and privacy concerns cannot be circumvented for Blippy. In fact, since Blippy's core product relies on users sharing their credit/debit card transactions, it is even more crucial for Blippy to safeguard users' personal information.

However, Blippy suffered some serious security issues in its short lifespan. For example, in 2010, several Blippy users' credit card numbers can be found by simple Google search, which drew public concerns over Blippy's capability to protect sensitive user data.

Market and Competition Landscape

Branded as a social media platform, Blippy needed to compete with incumbent major social media operators (such as Facebook, Twitter, Instagram, and the like) for their user base and time spent per session.

In addition, Blippy also had to compete with other online/offline purchase sharing platforms which offer users a similar experience. For example, a company called *Mine* launched its online mobile directory of people and purchases founded by former a Product Marketing Manager from Twitter in

2012, though it must be mentioned that the company failed quickly as well after its debut.

In short, Blippy indeed choose a "blue ocean" sector in a "red ocean" social media market. However, users are not ready yet to share their purchasing information in an unsafe environment, which renders this concept unsuccessful.

FOUNDING TEAM

Founder	Bio
Ashvin Kumar	Ashvin (CEO) is Stanford graduate majoring in Computer Science. Prior to Blippy, he served as Chief Architect at Affinity Circles, a California start-up that provides social networking software for members to look for career opportunities.
Chris Estreich	Chris (CTO) is Stanford graduate majoring in Computer Science. Prior to Blippy, he stayed with Oodle, an online platform that facilitate users to buy and sell through online classifieds.
Philip Kaplan	Philip Kaplan (@pud) is a programmer and entrepreneur in San Francisco, CA. He is the founder of Fandalism (social network for musicians), TinyLetter (email service provider, acquired by MailChimp), Blippy (venture-backed social commerce company), and AdBrite (a large Internet ad network). He also developed several iPhone apps, including the best selling "Punch Your Friends."

FUNDING ROADMAP

Item	Comment
Founded	2009
Angel Investment	Blippy raised US$1.6 million in a Seed round led by Charles River Ventures
Series A	Blippy raised US$11.2 million in Series A with estimated valuation at US$46.2 million
Closed	2011 - Blippy closed down in 2011, but the company management pivoted and launched Tophatter by leveraging Blippy's existing resources. Tophatter is a virtual auction house that conducts live online auctions every day where buyers and sellers can interact, chat, and transact in various categories.

LIST OF INVESTORS

Investor	Round	Year
Ariel Poler	Angel	Jan-2010
Brian Pokorny	Angel	Jan-2010
Ev Williams	Angel	Jan-2010
James Hong	Angel	Jan-2010
Jason Calacanis	Angel	Jan-2010
Philip Kaplan	Angel	Jan-2010
Sequoia Capital	Angel	Jan-2010
SV Angel	Angel	Jan-2010
Travis Kalanick	Angel	Jan-2010
CRV	Series A	Apr-2010
August Capital	Series A	Apr-2010

Appendix B2: Famo.us (U.S.)

INTRODUCTION

Famo.us enables major brands to build and deploy micro-apps that can be shared on social media and email. This is their third pivot - they started as BenchRank, a ranking system for people and essentially a copy of Powerset. Then it morphed into an open source HTML5 development platform, but discovered that HTML5 could not deliver the experience that the team were looking for. After failing delivering the technology, it pivoted to a self-styled "micro-app content management" system.

REASONS FOR FAILURE

Vision is easy to sell, but at some point investors still want to see promised deliverables. Famo.us is a good example of the perils of overvaluation. Even without a specified product, value proposition, business model or even the technology behind, the company was able to raise a total of US$30 million from Seed to Series B, through two metrics: a demo of the founder's vision, and the number of pre-product signups on the website.

Technology Failure

The value proposition for Famo.us was essentially just a vision that was probably over-promised. Due to the unpopularity of HTML5 in building in-web apps, Facebook and other major technology companies pulled out certain application in HTML5. However, Famo.us insisted on going in that direction, without fully testing the feasibility of the technology.

Operational Failure

Steve Newcomb is a perfectionist who does not ascribe to the lean methodology for teams. He over-hired the team, and attracted a large number of interested coders on his website, incurring concentrated risk in technology.

Valuation Failure

Steve Newcomb essentially raised money using his vision as a selling point, and not much else. The valuation depended purely on 57,000 signups on his website as an indicator of future revenue. However, this metric is far-fetched and grossly unreliable, because the signups are merely an indication of interests, with no actual user conversion rate involved.

A demo is less likely to be a good tool to assess the core capability of the startup as well, a subpar demo even more so. Famo.us's demo was confusing and rather abstract during their presentation at TechCrunch Disrupt SF 2012.

PRODUCT / VALUE PROPOSITION

Steve Newcomb and co-founder Mark Lu first experienced difficulty in building their app with HTML5 on websites while working at BenchRank. They found an incompatibility of HTML5 with web browsers, because HTML5 was usually used to render documents but had poor performance in apps. They brought their vision to big VCs such as Javelin Venture Partners, and secured US$4 million in joint investments with Samsung. Having built a demo with JavaScript on a 3D layout and a physics engine in conjunction with 57,000 signups on the website, Steve Newcomb sold his vision again at a price of US$25 million to investors, but failed to deliver the technology he envisioned.

BUSINESS MODEL

There is no business model defined. The founding team intended to use an open-source platform to build attraction and later engage in large enterprises.

FOUNDING TEAM

Founder/CEO: Steve Newcomb

Steve Newcomb co-founded Powerset, which was sold to Microsoft for US$100 million. Steve Newcomb has been described as a perfectionist, who famously mocked the lean startup methodology.

Other members of the management team included:
Co-founder/Engineer – Mark Lu (No prior founding experience);
VP Business & Corp Development – Rick Armbrust (No prior founding experience, HBS MBA);
VP Engineering – Zack Brown (No prior founding experience);

After failing to deliver an open-source HTML5 development platform, the startup changed its website to *famous.co*, stuffed its old open source information on *famous.org*, and laid off a big chunk of the team, including its VP of Engineering, Head of Open Source, and a dozen engineers.

Time Period	Title	Company	Founder
2015 - present	Board Member	Node.js	No
2015 - present	Board Member	jQuery Foundation	No
2011 - present	Founder and CEO	Famo.us	Yes
2008 - 2010	Founder and CEO	Virgance	Yes
2005 - 2007	Founder and COO	Powerset	Yes

FUNDING ROADMAP

Date	Amount (US$) / Round	Lead Investor	Investors
Aug '14	20 million / Series B	Insight Venture Partners	5
Aug '14	5 million / Debt Financing	-	5
Mar '13	4.11 million / Series A	Javelin Venture Partners	2
Dec '11	1.1 million / Seed	-	10

LIST OF INVESTORS

Round	Investment Type	Investor
Seed (US$1.1 million)	Personal	Barney Bell
		Lerenzo Thione
		Matt Ocko
		Roger Dickey
		Steve Newcomb
	Institutional	CrunchFund
		Greylock Partners
		Interwest Partners
		Javelin Venture Partners
		Quest Venture Partners
Series A (US$4.11 million)	Institutional	Javelin Venture Partners
		Samsung Ventures
Series B (US$20 million) + Debt Financing (US$5 million)	Personal	Jerry Murdock
	Institutional	Insight Venture Partners
		Javelin Venture Partners
		Quest Venture Partners
		Samsung Ventures

Appendix B3: Fashion Playtes (U.S.)

INTRODUCTION

Launched in 2009, Fashion Playtes is an interactive clothing design website that lets pre-teens or “tweens" design and order their own clothing online. It provides girls from the ages of 5 and 12 an outlet to explore their creativity, connect with other young designers, and create clothes they love to wear.

REASONS FOR FAILURE

Operational Failure - Inability to Scale

Fashion Playtes shut down in May 2014 without much explanation, but one possibility is that they were unable to scale given the unsustainable level of customization that the company’s business model required.

Also, customer acquisition could have been more complicated and costly than initially perceived. While the platform was targeted at girls between 5 and 12 years of age, many of the customers turned out to be parents searching for gifts for their children. However, Fashion Playtes ignored this observation and continued attempting to reach out to teens through their magazine. Extensive promotions and discounts were offered, such as $10 gift card for every $50 spent, even on regular items for an indefinite period of time. Essentially, such an attempt to re-engage with existing customers can quickly burn through profits while unsuccessfully trying to build revenue.

Mass customization appeals only to a small customer segment, who demand complete control and can afford to invest hours and their creative energy. They have to be served by a reliable, complex online configurator, without which the entire business model will fail. The vast majority of shoppers quickly lose patience with the details and preferred an easily-obtained mass-produced product.

Market and Competition Landscape

There was quite a great deal of venture activity in the personalized online fashion space in 2009, when Fashion Playtes raised US$1.5 million in their first round of funding, led by New Atlantic Ventures and LaunchCapital. In July 2009, StyleCaster, a website that provided personalized style tips, an e-commerce platform and a social network, raised US$4 million in their first round. The funds were intended for international expansion, ad network growth and creation of new web-based and mobile apps. It was eventually acquired by SheKnows Media in 2014. StyleFeeder, a social shopping service, also raised US$500,000 from existing investors in 2009, bringing the total funds raised since its founding in 2005 to US$2.5 million. It was ultimately acquired by Top10 Media in 2006.

FOUNDING TEAM

Sarah McIlroy

Founder and President of FashionPlaytes.com, an idea that grew out of her own experiences designing clothes with her mother, and in turn sharing those experiences with her daughters. Prior to launching FP, she was a marketing and business development executive for gaming industry leaders like Atari and Hasbro. She has also worked in branding, product design and development, and merchandising strategies.

FUNDING ROADMAP

Date	Round	Amount Invested (US$)	Lead Investor(s)
2009	Series A	1.5 million	LaunchCapital
			NAV.VC
2010	Series A	4 million	Fairhaven Capital Partners
2012	Series B	5 million	Leo Capital Holdings
			Sprindrift Equities
2013	Debt Financing	1.69 million	-
2013	Venture	2.85 million	-

INVESTORS

Investor	Round	Partner(s)
Fairhaven Capital Partners	Series A (Lead)	-
	Series B	-
Golden Seeds	Series A	-
	Series B	-
Launch Capital	Series A (Lead)	-
Leo Capital Holdings	Series B (Lead)	-
NAV.VC	Series A (Lead)	Scott McComb Johnson
	Series A	Scott McComb Johnson
	Series B	Scott McComb Johnson
Sprindrift Equities	Series B (Lead)	-

Appendix B4: Formspring (U.S.)

INTRODUCTION

Formspring is an interest-based social Q&A website launched in November 2009, created to allow users to relate their ideas and opinions on any topic. The site allows its users to set up a profile page, follow other users and ask questions. The questions and their given responses are then published on the user's profile page. The company is based in San Francisco.

Formspring is set up as a forum. Users can ask questions anonymously or they can be visibly sent from another Formspring account, depending on the asker's preference. Users can choose to disallow anonymous questions and block selected people from asking further questions.

REASONS FOR FAILURE

Operational Failure

Formspring's team failed to address anonymous internet harassment and bullying among their user base, insisting on their policy of never publicly revealing its users' identities. On March 22, 2010, a 17-year-old New York high school graduate committed suicide, reportedly after dozens of insulting comments about her had been posted on Formspring in the days leading up to her death. Soon after, a local grassroots boycott of the Formspring site began.

Market Understanding

As a platform designed for teenagers, Formspring failed to consistently capture teenagers' attention when it needed to compete with other similar platforms such as Tumblr, ASKfm and MyYearbook's "Ask Me" services, and social media platforms such as Facebook, Instagram and Twitter. In order to survive in the social media market, Formspring had to adjust its business model and features quickly so as to stay ahead of the curve. Unfortunately, Formspring failed to make the necessary changes quick enough to capture a substantial user base.

Market and Competition Landscape

The barriers to entry for Formspring's business model is very low. From the onset, Formspring faced tough competition from other social media platforms. After their initial success, other platforms started to copy Formspring's Q&A type of engagement model, which tarnished the latter's edge in the market.

Furthermore, unlike a platform such as Facebook that targets a full spectrum of users, Formspring focuses on teenagers, a user group that constantly looks for new features. Once the initial hype and novelty wears off, Formspring's existing users could easily switch to other activities fairly quickly.

FOUNDING TEAM

Founder	Bio
John Wechsler	John Wechsler is a partner at venture development firm DeveloperTown. An entrepreneur with experience in start-up and high-growth firms, he has been a founding-level and/or C-level executive in high-tech firms since 1999. John is a past-president of EO Indiana (Entrepreneurs' Organization); a past committee member and semi-finalist judge for the Global Student Entrepreneur Awards; and a past-chairman of NPower Indiana, a non-profit helping other non-profits with their technology needs.
Ade Olonoh	A computer science engineer by training, Ade had a variety of experiences before founding Formspring. Prior to that, he founded Formstack, a startup based in Indianapolis. He also started Bottled Software, a software development consultancy, and Recursive Function, where he created several web apps, including Tweet140 and Ponyfish.

FUNDING ROADMAP

Item	Comment
Founded	2009
Angel Investment	Formspring raised US$ 255,000 in a Seed round
Series A	Formspring raised US$2.5 million in Series A with estimated valuation at US$ 46.2million
Series B	Formspring raised US$11.5 million in Series B
Closed	2013, Formspring was rebranded as Spring.me which later became a portal for Twoo, a website that features matchmaking algorithms that connect users to others based on location and interests.

LIST OF INVESTORS

Investor	Round	Year
Dave Morin	Series A	Mar-2010
FLOODGATE	Series A	Mar-2010
Freestyle Capital	Series A	Mar-2010
Gravity Ventures	Series A	Mar-2010
Kevin Rose	Series A	Mar-2010
Kristian Andersen	Series A	Mar-2010
Lowercase Capital	Series A	Mar-2010
Polaris Partners	Series A	Mar-2010
SV Angel	Series A	Mar-2010
Travis Kalanick	Series A	Mar-2010
Redpoint	Series B	Jan-2011
Baseline Ventures	Series A & B	Mar-2010 & Jan-2011

Appendix B5: Gaopeng.com (China)

INTRODUCTION

Gaopeng.com was launched in China on February 15, 2011. It was a group-buying website that offered discounts to customers at local merchants in China via daily emails. Gaopeng.com was financed by Groupon and Tencent, each of which owns 50% of the shares. The site combined Groupon's global group-buying operation experience with Tencent's large user base.

In August 2012, Gaopeng.com and Ftuan.com merged into one company named Wangluotianxia, and Lin Ning, founder of Ftuan.com, was appointed as its chief executive officer. The name of Gaopeng.com was kept. Tencent and Groupon invested US$40 million in the new company and became principal shareholders together with the management team.

REASONS FOR FAILURE

Lack of Local Understanding

Groupon's China head seemed to think that all international markets were alike – what worked in Germany would work in China. One example is Groupon's sales team in China. At first Groupon insisted that its partnering vendors split profits 50-50, without taking into account the realities of China's group-buying environment. Given so many existing players in the market, vendors have the upper hand when negotiating with group-buying operators and typically leave their partner only 10% of the profits instead of 50%. Groupon insisted on using mass email marketing, despite being warned that Chinese people seldom read that type of email. Such an approach had been successful in Germany, but Groupon ultimately found out the hard way that it didn't work in China.

Misaligned Management Structure

Groupon's failure to draw more heavily on local talent in its management structure limited its ability to adapt to local nuances and succeed in the Chinese market. Out of Groupon's senior management team in China, only two members were Chinese: one from mainland China and the other from Hong Kong. Even Groupon's operations in more remote parts of China were run by foreigners with limited understanding about the local nuances of the Chinese market. Thus a situation arose in which foreign managers were managing Chinese employees in a Western style and in some cases seeing very low efficiency, because employees did not necessarily respect or feel loyal to their managers. As a result, Groupon experienced tremendous employee turnover.

Not Aligned with Local Partners

A latecomer to China's e-commerce arena, the ambitious company said it would combine Groupon's global group-buying experience and Tencent's deep knowledge of China's online communities. But actually they did not align with each other. Besides gaopeng.com, Tencent also invested in Ftuan and operated its own group-buy website – QQtuan. In fact, gaopeng didn`t get any benefits from Tencent in terms of online traffic and understanding of local internet market. They got financial investment from Tencent but at the time, almost every group-buy website got huge amount of money. Gaopeng.com did not have any competitive advantages in the first place.

Operational Failure

The final blow came from two major scandals in 2011. The first was when internal staff were caught cheating in a lucky draw; which led to the termination of the Vice President, and a public apology from the CEO. In the same year, it was revealed that Gaopeng's luxury watches were actually fakes. Consumers were compensated, but this left an indelible stain on Gaopeng's reputation. Meanwhile, their product and service strategies were wholly undifferentiated from thousands of other competitors in the space.

BUSINESS MODEL AND VALUE PROPOSITION

Gaopeng.com is a group-buying website. It aims to provide consumers best shopping experiences in dressing, eating, living and travelling, and support merchants to fulfil the best sales.

MARKET AND COMPETITION

Market

The group-buying market in China has been in a healthy state from 2010 onwards. Both annual transactions and the number of consumers have double digit growth rates.

Competition

The competition started in 2010. With billions of dollars invested in startups, the competition turned fierce. The peak number of group-buy websites reached 5,058 in 2011, but dropped at an even faster speed because of the broken cash flows.

	2011		2012		2013		2014	
Ranking	company	transaction volume(BN RMB)	company	transaction volume(BN RMB)	company	transaction volume(BN RMB)	company	transaction volume(BN RMB)
No.1	lashou	1.63	meituan	5.15	meituan	15.12	meituan	40.06
No.2	meituan	1.45	dianping	3.04	dianping	8.29	dianping	18.16
No.3	wowotuan	1.21	wowotuan	2.94	wowotuan	3.7	nuomi	7.46
No.4	dianping	1.01	lashou	2.62	nuomi	3.57	wowotuan	4.88
No.5	nuomi	0.88	nuomi	2.26	lashou	3.32	lashou	3.69

After a frenzy around group-buying from 2010 to 2015, the once hot market has cooled. Realistically, there are now fewer than 10 surviving, with over 85% of the market share occupied by *Meituan*, *Dianping* and Nuomi.

FOUNDING TEAM

The CEO of gaopeng.com came from Tencent, and the operation team came from Groupon.

INVESTORS

Groupon
Tencent Industry Win-Win Fund
Mitsui Global Investment
Legend Capital
YF Capital (Yunfeng Capital)

Appendix B6: Letao (China)

INTRODUCTION

Letao is a Chinese online retailer for including sneakers and leather shoes, established in 2008. It works in partnership with local well-known shoe manufacturers and acts as an online marketplace for the shoe brands to open their online stores on the platform. It has also built its own warehouse country-wide to speed up delivery times. In 2011, due to the low margin as a shoe distributor, Letao has also moved to create its own brand in a bid to capture higher margins.

REASONS FOR FAILURE

Operational Failure

From an operational standpoint, Letao failed in 3 aspects: (1) inability to control costs; (2) failure to transform its existing profit model; and (3) an inappropriate company strategy. Firstly, as the company has been growing its customer base very aggressively, investors saw Letao as a very attractive opportunity and invested large amounts of capital in them. The company did not use the investment wisely, making unnecessarily extravagant expenses such as leasing over-the-top offices and expensive online advertisements.

Secondly, as the profit margin was extremely thin for an online distributor, Letao attempted to capture higher profits by creating its own brand. However, the company underestimated the amount of time and marketing required to build brand awareness, and grossly overproduced its products, resulting in huge losses after its launch.

Lastly, Letao pivoted one too many times, and too quickly. When rolling out its new in-house brand, it changed its business model completely without a transition period, stripping away its then-existing competitive advantage as the biggest online shoe distributor in the market. These high-risk moves did not pay off and eventually cost the owners the entire company.

Market and Competitive Landscape

When the company first started in 2008, it was the era of emerging e-commerce websites in China, where there were virtually no direct competitors to Letao. The e-commerce giants, Alibaba and Taobao, were in their early stages then. In 2009, Letao's second year, the number of daily orders had tripled in the span of 3 quarters.

In 2011, although the company had the largest market share, it was still unable to turn a profit due to high marketing and delivery costs. Letao tried to change its strategy from being a mere shoe distributor to both manufacturer and distributor, while creating its own brand. Due to the shortage in funding however, the company could not advertise its own brand properly, which resulted in greater losses and an eventual fire sale.

FUNDING ROADMAP

Item	Comment
Founded	2008
Angel	Raised US$ 2 million from Ceyuan Venture
Series A	Raised US$10 million in Series A from DT Capital Partners, Tiger Fund, Ceyuan Ventures
Series B	Raised US$10 million in Series B from DT Capital Partners, Tiger Fund
Series C	Raised US$32.5 million in Series C from Lead - DT Capital Partners, Lead - Tiger Fund, Lead - Ceyuan Ventures
Series D	Raised US$30 million in Series D from Lead - DT Capital Partners, Lead - Ceyuan Ventures, Lead - Tiger Fund
Series E	Amount undisclosed from Ceyuan Ventures
Closed	In 2014, Letao was bought by Guangdong Guanpeng Shoe Industry Franchise Ltd and an investment institution in HK for US$72 million

Appendix B7: Stipple (U.S.)

INTRODUCTION

Founded in 2010 and headquartered in San Francisco, California, Stipple is an Internet technology company that created tagging technology which allowed users to hover over digital images and dive into details provided by the brand (e.g. cost or location). This provides a platform for users to label and tag people, places, and objects in their images. Those images can in turn be monetized through commerce or advertising. This in turn allows advertisers and publishers to apply interactive curated content and accurate native advertising solution. It had more than 140 brand partners including Nordstrom, Nike, Zappos and L'Oreal, and had tagged over 80 million images in total.

REASONS FOR FAILURE

Operational Failure - Excessive Burn

Stipple shut down in 2014, 18 months after raising capital at a valuation of approximately US$25 million. With reference to the explosive growth of early-stage funding pre-2014, and follow-on investing that did not keep pace, Founder and CEO Ray Flemings explicitly explained that Stipple "had turned on revenue, but did not scale fast enough ... not yet profitable ... Like many companies we got into the Series A crunch and we weren't able to raise more money ... We simply weren't able to get dollars flowing from the marketplace to line up with our expense structure."

Market and Competitive Landscape

Stipple's competitor ThingLink has managed to survive and even acquired Pixboom, an interactive image tagging service for the fashion industry, in 2012. Having raised US$3.33 million in 3 rounds from 8 investors, ThingLink has a content creator base of 2.5 million.

Another competitor was PICT, acquired by PopSugar in 2013. PICT let advertisers and publishers turn images into "shop-able" content, hence users can click on a product featured in a photo and buy it from the advertisers and retailers on the spot.

FOUNDING TEAM

Founder	Bio
Michael Dungan	Currently Founder and CTO at PocketWatch Medica, Inc. Previously Founder and CTO of Stipple. Prior to starting Stipple, Michael was the technical lead at Tenman Digital, where he led software design and implementation for multiple web properties of a well-known celebrity.
Rey Flemings	Currently CEO and Director at PocketWatch Media, Inc. Prior to starting Stipple, Rey started as a market development manager for cloud computing technology, and served as CEO of Particle (a web applications foundry that was acquired by Apple) and as CEO of Tennman Digital where he managed early-stage investments for a family office and headed a technology incubator.

FUNDING ROADMAP

Date	Round	Amount (US$)	Lead Investors
2010	Seed	$2M	FLOODGATE
			Kleiner Perkins Caufield & Byers
2012	Series A	$5M	FLOODGATE
			Relevance Capital
2012	Venture	$4.38M	-
2012	Venture	$3M	Sands Capital Ventures

INVESTORS

Investor	Round	Partner(s)
Chris Harding	Series A	-
Chris Ackerley	Series A	-
Eghosa Omoigui	Seed	-
FLOODGATE	Seed (Lead)	-
	Series A (Lead)	-
	Venture	-
Global Brain Corporation	Seed	-
John Ferber	Seed	-
John Keister	Series A	-
Justin Timberlake	Seed	-
	Series A	-
Kleiner Perkins Caufield & Byers	Seed (Lead)	-
	Series A	-
Matt Mullenweg	Series A	-
Naval Ravikant	Seed	-
	Series A	-
Parkview Ventures	Seed	Laurent Ohana
	Series A	Laurent Ohana
Plug and Play	Series A	Zarko Maletin
Quest Venture Partners	Seed	-
Relevance Capital	Series A (Lead)	-
Rick Marini	Seed	-
Sands Capital Ventures	Venture (Lead)	-
Thomvest	Seed	-
Thomvest Ventures	Seed	-
	Series A	-

Appendix B8: Stratos (U.S.)

INTRODUCTION
Founded in 2012 by Thiago Olson and Chris Bartenstein, the Michigan-based startup raised US$6.63 million over three rounds of financing with the most recent being a US$5.8 million Venture round in October 2014. Stratos is an early player in a new category of devices. It was promoted as a universal credit card that aimed to consolidate all other credit cards into just one card.

The Stratos device is as thin as a standard credit card, but packs years of innovations. The Michigan-based company just launched the device and spent the last three years building the product. Unlike Coin, a similar universal credit card, Stratos did not look oor feel electronic. The casing is seamless and smooth. Quickly tap the card on a hard surface (like a phone, hand or countertop) and the card jumps to life, with lights flashing next to hidden buttons. The user has a few seconds to select a loaded credit card. If this action is done on a connected phone, a clever lockscreen menu lets the owner select even more cards to use.

REASONS FOR FAILURE
Insufficient Cash
Stratos was struggling, and the company lost a recent round of funding, so Olson paused operations and looked at restructuring. Only several months after the launch of the product, he struck a deal with Ciright One, a Pennsylvania-based smart card company that has been working on a very similar idea to the Stratos card.

Product Failure
The Stratos device failed to work about 5% of the time, and it was difficult to predict when exactly a particular transaction would fail, leaving users in a bind when attempting to pay using their Stratos device. Card verification also proved to be an issue with smaller retailers, where clerks have to input the last four digit of the credit card into their card payment processor. The Stratos device did not have a display, so the user needed to use the smartphone companion app to retrieve and share the information. Instead of speeding up the payment process, it ended up dragging out and frustrating both merchants and customers alike.

Competition
Not long after the Stratos Card entered the market, Apple Pay was was introduced. It worked flawlessly even without the physical credit cards during payment, and was totally free to use, with no additional processing fees. There were also several all-in-one Smart Cards competing with each other for the same market share:

Card	Stratos	Coin	Plastc
Info displayed on card	None	Last 4 digits of the card, card network and expiration date	16-digit card number, expiration date, issuing bank, card network and your name
Card interaction	Single tap on any card surface and press one of three preset buttons on the card before swiping	Enter unique tapping sequence (must be enabled) and press button to cycle to desired card before swiping	Enter PIN, pick card category and then select card before swiping
# of accounts supported on the card	3	8	20
EMV	No (future upgrade)	No (future upgrade)	Yes
NFC	No (future upgrade)	Yes	Yes
Battery life	2 years (non-rechargeable)	2 years (non-rechargeable)	30 days (re-chargeable)
Pricing	$95 every year or $149 every 2 years	$100 per card	$155 per card
When is it available	Apr-15	Nov-14	Summer 2015

FOUNDING TEAM

Founder	Bio
Thiago Olson	Chief Executive and Co-Founder. As the visionary for the connected card platform, Thiago provides principal leadership and direction for the company. He is responsible for establishing strategic relationships within the investment, financial and technology partner community. Prior to starting Stratos, Olson worked at CERN, U.S. Department of Defense, one of the first hybrid car startups, WaveCrest Laboratories, Sandia National Labs & Los Alamos National Labs.
Chris Bartenstein	President, Chief Operating Officer and Co-Founder. Chris met CEO Thiago Olson at Vanderbilt, where the two developed connected devices for student identification. Leading the business' day-to-day operations, overseeing the planning and execution of the company's overall strategic vision, Chris is also responsible for managing the global supply chain and key functional groups. He plays a major role with vendor, supplier and value-add service provider negotiations.

INVESTORS

Hyde Park Venture Partners
Resonant Venture Partners
Toba Capital
Western Technology Investment

Appendix B9: Wantful (U.S.)

INTRODUCTION

Wantful is an online gift-giving service characterized by high-quality gifts and exquisite designs. Users visit the website, answer a brief questionnaire about the recipient and their budget, and are presented with an array of curated gift options. They then select 12 products which Wantful assembles into a nicely-printed custom catalogue and delivers to the recipient, who then picks one as their gift. Gift prices range from $30-$500.

INDUSTRY

E-commerce

LOCATION

NYC, San Francisco, USA

REASONS FOR FAILURE

Wantful's value proposition was difficult to justify with their with targeted customer segment: male, goal-directed shoppers. The value propositions of Wantful are twofold to targeted customers. First of all, for goal-directed shoppers, it is less enjoyable to physically go to different shops or even browse catalogues to search for the ideal gifts. Wantful used sophisticated technology of recommendation system to narrow down the options for goal-directed shoppers, essentially creating value by reducing inconvenience in addition to customisation. On the other hand, Wantful introduced high end, well designed and niche products for big shoppers, enabling them to discover products that they wouldn't have come across.

In terms of merchants, the idea was that they would sell products to Wantful with higher wholesale prices rather than discounted prices on other websites. In addition, these merchants would be able able to access a wider range of customers who value high end and well-designed products, expanding brand awareness.

Wantful spent large amounts of funds on building over six hundred products. This could have been the founder's preference to build a perfect product catalogue over validating actual demand, given his background in product design. They expanded to other cities before even securing a product/market fit. The expansion resulted in high cash burn rates.

Wantful raised US$5.5 million in Series A funding, but ran out of cash with a burn rate of over $300,000 per month (approximately 18 months). Due to low revenue growth rates, they failed to justify higher valuations and rejected down rounds from new investors.

BUSINESS MODEL

Wantful had a traditional wholesale-retail model, taking 40% to 60% gross margins. It did not have to take on inventory because the merchants send out the products. Wantful saw a future opportunity for selling products direct to people not just selling gifts. For merchants, the prospect of selling on Wantful was much better than selling on, say, a flash sales site, which typically sells at a heavy discount.

MARKET / COMPETITION

The global market for non-photo personalised gifts was envisaged to grow at a CAGR of close to 11% to reach a value of USD 23.21 billion in 2020. The Americans had the highest revenue share of about 46% for non-photo personalised gifts in 2015. With such a trend, quite a few startups have emerged to provide personalised gift focusing on different types of customers.

Birdytell applies similar concept but focuses on share of gift wish list among friends and family for them to learn more about one another and purchase meaningful gifts for every special occasion. Birdytell was founded in 2013 and only serves metropolitan area of Phoenix.

Simone LeBlanc is a Canadian personalised gift e-commerce startup, focusing on luxury wedding gifts. The targeted customer segment is mainly female, with a price range from $75 to $750.

Loop Commerce simplifies gift-giving and short-circuits the need for returns and exchanges. In 2013, it secured US$12 million funding for a 30-member team.

The value proposition for personalised gifts seems to be valid in general through the existence and continue development of similar companies. The comparisons are as follows:

Company	Selling Point	Product/Market Fit
Wantful	Convenience and well-designed gifts	Ambiguous
Birdytell	Family/friends to share wish lists	Family
Simon LeBlanc	High end wedding gifts	Female
Loop Commerce	Exchange unwanted gifts	General

FOUNDING TEAM

Founder/CEO: John Poisson
John Poisson is a designer, product strategist, and three-time serial entrepreneur prior to Wantful.

Date	Title	Company Name	Founder
2011-2013	Founder and CEO	Wantful	Yes
2008-2010	VP Mobile and Social Media	Shutterfly	
2005-2009	Founder and CEO	Tiny Pictures	Yes
2002-2004	Director, Mobile Media R&D	Sony	
2000-2001	Founder & GM of Executive Producer	Meteor Studios	Yes
1998-2000	Founder & President of Effects Producer	Icestorm Digital Studio	Yes
1997-1998	Product Designer	Softimage	
1994-1997	Product Designer	Avid Technology	

Other members of management team included:

- VP Branding and Communications – Pam Seidman (No prior founding experience);
- VP Marketing and Business Development – Clint Schmidt (Startup working experiences in various companies);
- VP Engineering – Jeff Rafter (No prior founding experience, but later co-founded Songsly, an advertising platform connecting musicians and publishers).
- In 2013, Wantful was downsized from 26 employees to 17.

FUNDING ROADMAP AND INVESTORS

The Series A round totaled US$5.5 million, and it was shared between personal investors and VC firms, led by Polaris Partners, along with other institutional investors such as Forerunner Ventures, Greylock Partners, Harrison Metal Capital and Rd Swan Ventures. Personal investors included Arjun Sethi, Dave Morin and Matt Mullenweg.

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ABOUT

GOLDEN GATE VENTURES

Golden Gate Ventures is an earlystage venture capital firm investing across Southeast Asia. Since 2011, the firm has invested in over 30 companies across more than 7 countries in Asia. The firm invests in internet & mobile startups across many sectors, including ecommerce, payments, marketplaces, mobile applications, and SaaS platforms. Notable companies in the portfolio include consumer marketplace Carousell.com, online grocer RedMart.com, property website 99.co, and mobile payments platform Coda Payments.

The firm was founded by three former entrepreneurs from across the globe. Vinnie Lauria, who cofounded 2 Silicon Valley startups, including Lefora forum hosting which was acquired in 2010. Jeffrey Paine who has over a decade of experience managing investments in Asia and helped launched 50+ Founder Institute companies. Paul Bragiel is an Investor/advisor in 33 Silicon Valley companies, including Uber, and previously founded 3 global tech companies.

INSEAD

As one of the world's leading and largest graduate business schools, INSEAD brings together people, cultures and ideas to change lives and to transform organisations. With campuses in Europe (France), Asia (Singapore) and the Middle East, INSEAD's business education and research spans three continents.

In addition to INSEAD's programmes across three campuses, INSEAD participates in academic partnerships with the Wharton School of the University of Pennsylvania (Philadelphia & San Francisco); the Kellogg School of Management at Northwestern University near Chicago; the Johns Hopkins University/SAIS in Washington DC and the Teachers College at Columbia University in New York; and MIT Sloan School of Management in Cambridge, Massachusetts. In Asia, INSEAD partners with School of Economics and Management at Tsinghua University in Beijing and China Europe International Business School (CEIBS) in Shanghai. INSEAD is a founding member in the multidisciplinary Sorbonne University created in 2012, and also partners with Fundação Dom Cabral in Brazil.

INSEAD became a pioneer of international business education with the graduation of the first MBA class on the Fontainebleau campus in Europe in 1960. In 2000, INSEAD opened its Asia campus in Singapore. And in 2007 the school began an association in the Middle East, officially opening the Abu Dhabi campus in 2010.