Capstone Project

Executive Summary

Developing a financial model for Supp.li for European expansion

Msc in Finance

Student Name and Nr: Benedek Lázár (156318)

Academic Supervisor: Péter Szilágyi

Project Sponsor: Zsolt Balog

10 Dec 2018

CEU CENTRAL EUROPEAN UNIVERSITY

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Introduction

Supp.li is a European B2B marketplace that enables chefs to order specialty, unique food products directly from SME food producers easily, fast, safe and affordably. Supp.li automates and secures the entire domestic and international buying and selling process. Supp.li targets a specialty niche and section of two large EU industries: HORECA (food service) and Food & Beverages industry. Supp.li as a new digitized bilateral HORECA food marketplace addresses these issues: Consumers have access to the unique products they are looking for in their favourite restaurants. Chefs can efficiently, simply, safely and automatically obtain the right ingredients. SME growers get a simple, fast and secure market access model and channel.

My Project Objectives

I had 3 main tasks during the project. The first was to pick the right place in Europe where Supp.li can expand and start its business. The second is to create a financial model with my colleagues, which was considering all the risks and variables, will help Supp.li to produce a profitable financial plan. And thirdly, if the company grows in line with the expected forecasts, how can it sell this company to a larger company doing such purchases.

What was the basis for the company's decision to start enlargement in Berlin?

Basically, there were 3 cities that I had to choose which city would be worth the Supp.li to continue its business. These 3 cities were Berlin, Budapest and Vienna. Budapest was there because Supp.li was not sure Budapest was the right city to start their expanding. I have read and analysed many kinds of studies on how to properly choose a particular city where this kind of activity could work. The most important indicators during the selection were the population in the given city, the number of restaurants within what medium or high-class restaurants, the number of tourists in the city, how much they spend in the city or country for food, regulations for this kind of business in that city or country, chef's willingness to buy the kinds of products in that city. Based on these indicators and personal meetings, the selection was made to Berlin.

Creating a new financial model

A new financial model had to be developed with colleagues by making the company more profitable in the future. Additionally, this new model will then compile the new web page because the current site will be replaced. This new financial model consists of many variables, the success of which will only be judged if it is used on the new website.

In the new financial model, we took the following factors into account:
1., How many percentages are the company looking for on a given product?
We will have a minimum of 25% on a given product. This is important because it is the minimum percentage that we can cover the company's costs and can be profitable for the future. The products were classified into several types of goods based on price and weight. Here weight was the most important factor and we divided these products into additional

groups. We distributed them by roughly 5kg and we add more percentage of the heavier products.

2., What is the delivery free of charge?
Several factors had to be considered, because first it had to be guessed that, for example, the products sold by Hungarian producers would be delivered abroad or the company would be contracted with new producers in the given country. We agreed that we are trying to sign up with the producers in that country.

3., For free shipping, we agreed on several things:
1. The first order is free when the order reaches 30 € and less than 10kg.
2. Introduce a coupon-like solution that means that if the customer reaches the specified limit the given month, in the next month the first 3 orders will be free.
3. Free shipping more than 100 € and less than 10 kg.

How could be able to sell Supp.li and what are the key indicators do these giant companies looking for?

I have analysed 2 big companies on the basis of which companies buy them and what strategies they use. These companies were Alibaba, Amazon.

Alibaba

Alibaba has significantly increased its investment pace over the past two years with 23 investments since 2013 totalling over $1.45B. In the five years prior (2008-2012) Alibaba averaged 1 investment per year, and none were publicly disclosed as being over $50M. This is in line with the general trend of Chinese firms investing more in emerging start-up companies. Alibaba has spent a large amount on acquisitions so far in 2014, with four acquisitions totalling north of $4B. At just the midpoint of the year, Alibaba has already outpaced prior year investment pace and if the pace continues, this will be the firm's most active M&A year by a significant margin. The Alibaba Group announced at the end of 2017 the creation of a global leadership academy dedicated to innovation and technological collaboration. The Academy will be called DAMO, which stands for "Discovery, Adventure, Momentum, and Outlook." Over the next three years, Alibaba will pour $15B into the creation of seven research laboratories worldwide. Outside of the US and China, centers will be built in Moscow and Tel Aviv.

Amazon

With 10 M&A deals in 2017, the company's acquisition tally exceeded the previous record set in 2015, and far outpaced activity in 2016. The uptick in M&A is particularly notable given that the company has rarely had more than 5 deals per year. While Amazon only spent $103M on acquisitions in 2016, M&A spending far exceeded $14B in 2017, which saw the acquisitions of Whole Foods ($13.7B) and Souq.com ($750M), the so-called "Amazon of the Middle East". These recent acquisitions could mark a new approach for the company. It's clear that Amazon is willing to spend, but only when it finds the right opportunity. Since 2010, Amazon has favoured buying early, acquiring 10 Series A-stage companies, followed by 8 seed/angel-stage companies. In summary, Amazon mainly acquires companies that align with its Prime, AWS, and Marketplace pillars. There are some blockbuster deals to "dreamy businesses" that have scaled up well, but more often Amazon uses small, practical purchases to develop. When it comes to corporate venture, Amazon is beginning to get more active. Most of Amazon corporate's deals have fallen into the $15M – $25M range, and nearly one-third of deals have been at Series E+.

Alibaba vs Amazon

Alibaba and Amazon have approached these new opportunities with different strategies — Amazon acquires while Alibaba invests. Outside the US and China, Alibaba has taken a minority stake in twice as many companies as Amazon, while Amazon has acquired 5X more companies than Alibaba. While Amazon is pouring billions into its branded marketplace and investing in other supplementary businesses, Alibaba has made heavy strategic investments in payment solutions and existing ecomm businesses. Amazon operates five different online retail marketplaces in Europe, and dominates the region's ecomm market.

Conclusion

Moving to a new city is expected to have a big impact on the company's employees, what kind of setup will work on Supp.li, but it is necessary to change because Budapest has not brought the expected successes and has to move on in this matter. Hopefully, Berlin will be a good choice and will take the expected breakthrough for the company because the surveys show that there is a need for such a market. Modern consumers are becoming more and more conscious, ie more diverse, more specific, quality, fresh, healthy, local, special (vegan, gluten-free, non-GMO-free, sugar-free, etc.) restaurant food, price-sensitivity has taken over quality sensitivity and comfort in eating. The new financial model that we will soon introduce to the new website will be much simpler to plan, so it will be easier to find investors as well, if we can give them more secure numbers. Hopefully it will be launched as soon as possible and from now on it will become more transparent and customers will be more willing to visit the site and purchase will be easier and better for them. After the analysis it became apparent that Amazon or Alibaba would probably not buy the company, but a starting point was good, from the point of knowing what these companies were investing and giving directions on how to proceed. All in all, I hope I found useful information and helped the company this past few months.