**MBA ENTREPRENEURSHIP PROGRAMME**

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*THE REPORT ON EXPERIENTIAL ENTREPRENEURSHIP PROJECT*

*DEVELOPMENT OF PERSONALIZED OUTFIT GENERATING PLATFORM: REDUCTION OF CHOICE PARALYSIS IN E-COMMERCE FASHION INDUSTRY*

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# INTRODUCTION

One of the unexpected effects of the Covid-19 pandemic has been the rise of e-commerce companies' growth and evident changes in customer behaviour. Increased demand for online shopping created a lot of challenges for e-commerce platforms and fashion communities. Currently, there exist two main requirements for suggesting fashion clothes and accessories online: the relevancy of the proposals, and the personalization in the recommendation process. In this report, these two requirements will be met through building a solution between recommendations and outfit generation to specific customer groups.

As e-commerce platforms collects large amount of data, it is presumed, that people have similar tastes in individual items and clothes selections. Therefore, the proposal of a personalized outfit generation model emerged, which will connect user preferences regarding individual items with the processed data to create an algorithm solution. The future of online shopping depends on the business's ability to create a personalized, engaging virtual shopping experience for consumers. The adoption of latest digital technologies and tools — such as data analytics, machine learning, and mobile trends — is necessary to meet the demands of today's online shopper.

Therefore, the platform named Fashmile.com will be presented to the market, which will generate personalized outfits for the users and bring more value in this competitive fashion landscape. The solution is to really understand the customer preferences, and to translate that understanding into personalization and relevance.

## 1. PROBLEM/OPPORTUNITY

One of the main issues customers currently face while doing their shopping online, is the large apparel assortment, which leads to choice overload and a confusion in buying the right outfit for everyday/occasional wear. The Harvard Business Review presents the data of survey, that "not only excessive choice can produce "choice paralysis," but also that it can reduce people's satisfaction with their decisions, even if they made good ones" (Schwartz, 2006). This indicates an importance to narrow the options for customers and suggest them the personalized apparel versions, which help individuals to make decisions faster and feel more satisfaction in doing their shopping.

The Fashmile.com platform will be designed specifically to deal with the variety of clothes, shoes, accessories, and their brand possibilities in order to gather the maximum assortment from suppliers and purify the specific, personalized items for customer by using automated solutions. As the same way e-commerce took away a lot of the pain points of high street shopping (e.g. actually

having to go out on the high street), Fashmile.com will be designed to take away the pain points of online shopping – the endless choice, and wasted time scrolling and searching. The majority of customer's needs/pains, jobs to be done were carefully analysed and are submitted in the Value Proposition Canvas (see Appendix A).

Traditionally, physical stores have their own merchandisers, who is responsible for a visual look of the shopping place, so Fashmile.com will be designed as an alternative for their role, which main tasks such as keeping track of the latest trends in fashion, deciding what would look good on people, finding suitable apparel and accessories are essential. The platform will perform as an outfit generator tool by suggesting trendy outfits with links for future online purchases and helping to build a capsule wardrobe for a customer.

The apparel industry is highly important in economic terms of trade, investment, employment and revenue all over the world. Fashion is the largest B2C e-commerce market segment and its global size is estimated at $759.5 billion in 2021. The market is expected to grow further at 9.1% per year and reach a total market size of $1.164,7 billion by the end of 2025. (Statista.com, 2021). Globally, the clothing industry employs more than 300 million people along the value chain; the production of cotton alone accounts for almost 7% of all employment in some low-income countries (Ellen Macarthur Foundation).

E-commerce and the future of the fashion industry are evolving and if we look at market trends across the globe, multiple e-commerce-based fashion companies have experienced exponential growth in sales and revenue. Much of this is attributed to changes in consumer behaviours, as a large portion of the population and especially Millennials, report to now prefer shopping online versus in-person. This consistent growth is giving investors confidence to direct money into such retailers with high hopes for excellent ROI. Another reason that the future of retail in the fashion world is e-commerce is due to an increase in technology that personalizes the shopping experience.

## 2. VALUE PROPOSITION

For <u>fashion lovers, women/men in age 25-34, Mass Market, technology friendly</u>,
who <u>are lack of time and struggling in online shopping for apparel,</u>
our <u>Fashmile.com</u> is <u>an automated solution,</u>
that <u>saves time searching online and reduces the endless choice in e-commerce</u>.

For B2C fashionistas, who want to look good and modern, the economic value proposition will be suggesting them to save money, time, and efforts for shopping (see Appendix B). An organized wardrobe will be a desirable result for less money in a long term. Towards creating a sustainable

business model and improving the impact on society and environment, Fashmile.com will create additional value from these perspectives as well. The societal value will be expressed as improving Persona's self-esteem, increasing confidence, and avoiding stigmatization in society. This purpose is dedicated to the sensitive target group of people with average income and which feels socially excluded between peers as the stylist services are hardly affordable. In regards of the environment, the fashion sector is booming and there is an increased attention to the impressive range of negative impacts that the industry is responsible for. The idea of the project is not just to minimize the expenses from a customer side, but also prevent over-consumption of clothes, so the apparel waste will be diminished, and environmental benefits will be highlighted.

There was a 30 semi-structured interviews done with the representatives of the target group (Persona's) in order to receive the outcome and to validate that the Fashmile.com actually provides perceived value to the customers that they are willing to pay for the solution. One respondent said, "I hope that this product will help me to start enjoying shopping" (Gytis, December 2021). One other respondent said the following "I always wanted to look stylish, but I feel a lack of knowledge in combining clothes together, separately they all look perfect, but in overall does not match" (Austėja, December 2021). Respondents were united and agreed that the solution looks very attractive, but most would've wanted to test it themselves to get a better feel for it. It was hard for them to assess how large the improvement would be to their daily lives, but they all saw the potential in what they called an innovative product.

Although B2B sector is not the primary target group for Fashmile.com, but the platform will increase their performance as well, which in future might become additional revenue stream. For B2B customers, the economic value proposition will be less order returns, more visitors, and higher conversions. The 10 semi-structured interviews were also made with B2B representatives, and the responses related to these solution attributes were common across the respondents. One of them said "We currently are handling 20% of online-bought products being returned, compared to just 9% of items bought in a brick-and-mortar store. We hope that automated solution will help to minimize the percentage" (VP Sales at next.co.uk, December 2021), while another said "Anything more than 3.8% of conversions would put us in the best 20% of Style and fashion stores we benchmark for conversion rate, and more than 5.3% would put us in the best 10%." (VP Marketing at prettylittlething.com, December 2021). The majority of respondents emphasize that the Fashion industry is a harsh market where you need to be visible to remain in business. It was obvious during the indexing that all the respondents wanted to be first with the product to attract more visitors. This could assist them in striving for a better customer experience and be more visible in social media.

## 3. BUSINESS MODEL

Triple Layer Business Model Canvas (TLBMC) is a valuable tool, which supports creatively developing, visualizing, and communicating sustainable business model innovation (Stubbs and Cocklin, 2008). This three-layer canvas allows to understand how Fashmile.com creates different types of values – economic, social and environmental.

### 3.1. Foundation of the economic layer of the TLBMC

The economic aspects of Fashmile.com business model (see Appendix B) begin with the quest to solve the customer's problem to choose the right apparel set for everyday/occasional wear. In order to suggest customers a variety of brands to choose from, it is crucial to have large product assortment, which is trending and available at the moment customer is entering the website.

For the first steps of implementing start-up activities, there is an entry budget of 10 000 euros predicted and planned to be spend for testing the Minimal Viable Product (MVP). The team will start working not from the platform as a whole solution with algorithm (very high production cost), but from creating the test version with platform creator tool Wix.com and try to receive data from customers at the beginning. The entry market – United Kingdom.

Main revenue streams are foreseen to be from Affiliate Networks with UK e-commerce stores, which means joining the Affiliate program and promoting/selling the products on a commission-based payment system, which depends on the e-commerce store, but varies from 1-9 % on the order. The affiliate program provides a "permanent referral" system and if a user bought a product using automatically generated link, the promoter receives agreed percentage of all referral purchases.

Technology development, finding partners in fashion, which suggest their apparel assortment range, creating and implementing Sales and Marketing plan are main activities for a start-up. Even though each UK e-commerce store suggest their Affiliate Networks for marketing purposes, it seems, this will be the hardest part to find the first e-commerce stores, which would like to suggest their own products and share their sensitive product data.

### 3.2. Foundation of the social layer of the TLBMC

Social value speaks to the aspect of an organization's mission which focuses on creating benefit for its stakeholders and society more broadly. For sustainability-oriented firms, creating social value is likely a clear part of their mission. That is why, on a broader level, Fashmile.com aims to improve

the quality of everyday life of its "customers" (site visitors), by offering them a possibility to save money on unnecessary clothes and avoid additional expenses for styling services (see Appendix C). Simply, being stylish with less money spend. Towards this direction, Fashmile.com will create societal value as improving self-esteem, increasing confidence and avoiding stigmatization in society. This purpose is dedicated to the sensitive target group of people with lower income and which feels socially excluded between peers.

### 3.3. Foundation of the environmental layer of the TLBMC

Much in the same way the original business model canvas is used to understand how revenues outweigh costs, the main objective of the environmental layer of the TLBMC is to appraise how the organization generates more environmental benefits than environmental impacts. The environmental layer (see Appendix C) of TLBMC reflects the full range of environmental impacts that can be assigned to Fashmile.com project from a pure lifecycle perspective.

Fashmile.com prevents over-consumption of clothes, so the apparel waste avoided and the climate change mitigation benefits associated have been highlighted as Environmental Benefits. End-of-life starts when the use phase finishes. The project has a positive impact of avoiding the clothes waste, and therefore a scenario of avoiding clothes on landfill was considered as big advantage.

## 4. GO-TO-MARKET PLAN

In order to present valuable product in the market it is necessary to identify the key market trends and prepare macro analysis evaluation for Fashmile.com.

The main areas of environment were mapped – market forces, industry forces, key trends and macroeconomic forces in Fashion industry (see Appendix E). Another tool for macro analysis evaluation in the fashion was undertaken by making use of the PESTEL framework. Appendix F results are provided by looking at political, economic, social, technological legal and environmental factors since these are expected to have considerable impact on changes in fashion business models. From the gathered market data, it makes a confirmation of Fashmile.com hypothesis project in general, as the booming interest in personalized fashion, significant presence in AI technologies, customers' interest in lowering consumption makes a niche for business success.

In order to develop a go-to-market (GTM) strategy in the fashion industry, it is also important to look on different market segments in which fashion companies compete. The most common criteria to differentiate the segments is the price. The focus will be only on last and the biggest segment –

Mass Market, because the largest e-commerce shops (next.co.uk, asos.com, prettylittlething.com, 6alando.co.uk and etc.) are targeting this segment.

Regarding statistics in 2021, 23.7 percent of the e-commerce users in the United Kingdom's fashion market were between 25 and 34 years of age, making it the biggest age group (Statista.com). In accordance with these findings, the main customer segments for Fashmile.com will be women/men in age 25-34, average income, which are interested in fashion and frequently uses e-commerce as a channel. Moreover, the target group will cover also B2B sector, where UK fashion e-commerce brands will be able to integrate their shop assortment into the platform and benefit from user traffic.

The main marketing channels to reach target audience will be used through influencer network and social media (Facebook, Instagram ant etc.). Influencer marketing works well because of the high amount of trust that social influencers have built up with their following, and recommendations from them serve as a form of social proof to the brand's potential customers. Moreover, currently it is the fastest and cheapest way for business to enter the market.

Fashmile.com will use a subscription-based pricing model – freemium, where a company offers a version of its subscription service to all customers for free. At the beginning, the usage of Fashmile.com platform will be free for customers in order to create traffic. Later, as the traffic to Fashmile.com increases, there is a great possibility to join separate brands and propose their banners/links on the platform. Additionally, platform will suggest extra personal stylist services, which will be taxed as premium subscriptions with additional benefits.

## 5.  COMPETITOR ANALYSIS

Even though Fashmile.com is operating in a very tight niche, there will be still a wide array of competitors, whose business operations partially overlap the business model of the platform. The similar business model competition overview is indicated in the table below with the main competitor Thread.com being at the first place and confidently taking big part of the market.

**Table 1**

*Competitor Distribution and Comparison*

| Name | Market | Monthly visits/Revenue | No of employees |
|---|---|---|---|
| **Thread** operates as an online personal styling platform designed to help men find clothes. Based in London, England, United Kingdom **www.thread.com** | United Kingdom 63 % USA 23 % | 1,175,163 monthly visits. Estimated annual revenue is $12M per year. | 101-250 |
| **LTK** is a global creator | 100+ countries reach | 188,163 monthly app | 251-500 |

| | | downloads.<br>Estimated annual revenue is more than $2.5B. | |
|---|---|---|---|
| **commerce platform** that empowers thousands of digital lifestyle influencers to achieve economic success. Based in Dallas, Texas, United States<br>**www.company.shopltk.com** | | | |
| **Outfittery** provides an online personal shopping service for men. Based in Berlin, Berlin, Germany<br>**www.outfittery.com** | Germany 83 %<br>USA 6 % | 21,731<br>Annual revenue is €80M per year. | 251-500 |
| **Stitch Fix** is a personal styling platform that delivers curated and personalized apparel and accessory items for women. Based in San Francisco, California, United States<br>**www.stitchfix.com** | USA 97 % | 5,664,506<br>$2 billion in annual net revenue. | 1001-5000 |
| **SKECHERS USA**, Inc. designs, develops and markets more than 3,000 styles for men, women and children. Based in Manhattan Beach, California, United States<br>**www.skechers.com** | USA 59 %<br>Spain 11 %<br>United Kingdom 5 % | 4,262,243 monthly visits.<br>$4.597 billion in annual net revenue. | 5001-10000 |

What is indeed apparent from the overview of competitors, that they all generate enormous achievements in several perspectives – annual revenue, monthly visitors/app downloads and employee numbers. Moreover, the data from the Crunchbase.com (the leading destination for company insights from early-stage startups to the Fortune 1000) shows the high interest of investors and large money contributions in funding rounds. For example, Thread.com "has raised a total of $40.7M in funding over 8 rounds. Their latest funding was raised on Nov 24, 2021 from a Series B round." (Crunchbase.com). This makes a conclusion, that market is more than ready for such a personal styling service and there is high growth potential for Fashmile.com as well.

Although competitor's alternatives allow customers to create stunning fashion mood boards and share them within the community, there are several limitations and some of them are missing opportunities. Firstly, as startups are generating their outfit suggestions, many of them come with out of stock units, which indicates that they are not co-working with e-commerce shops via their data files (XML keys). It indicates old information and creates customers' frustration, what would be an improvement niche for the startup as Fashmile.com. Also, Outfittery.com suggest services just for men segment and it takes several days for outfit suggestion to be sent via e-mail. After couple of days, the need for customer might be gone and it will lead to lost money. For Thread.com main limitation is the market, as it properly works just in UK geographical zone, while collecting orders in their

internal store and do not provide other e-commerce links to suggest the outfits.

## 6. PROJECT TEAM

Currently the ownership of Fashmile.com lies in the hands of the three co-founders (see Picture 1). Fashmile.com will be registered as a Private Limited Company, with ownership 40% - Ema Baristiene, 30% - Gediminas Barista, 30% - Gytis Kazlauskas.

**Picture 1**

*Project team*



Gediminas Barista
Business Developer

Ema Baristiene
CEO and Marketing Manager

Gytis Kazlauskas
CTO

Ema Baristiene and Gediminas Barista are a married couple who have been together in the business for 5 years. They both have a successful track record in creating and developing businesses from scratch – in total currently responsible for 40 employees and €4M annual turnover within their companies. In 2010, Mrs. Baristiene earned a Bachelor's degree in Management and Business Administration. Following University, she worked for 8 years as a Marketing Manager in a well-known Lithuanian companies. Through her work as an employee, Mrs. Baristiene gained valuable experience which lead to establish an e-commerce business Bausa.lt. At Fashmile.com, Mrs. Baristiene will take CEO role and be responsible for leading business and main marketing activities.

Gediminas Barista earned a Master's Degree in Civil Engineering. After studies in Vilnius Gediminas Technical University he was a co-founder of UAB "Structus", which more than 8 years offers structural design services in Lithuania for different construction projects and currently is one

of the largest in their niche. Mr. Barista will be in charge of business strategy creation and development, financial projection and investment assurance at Fashmile.com.

Gytis Kazlauskas earned a Bachelor's degree in Electrical & Electronic Engineering / Robotics at Fontys University of Applied Sciences, Eindhoven, Netherlands. Following University, he worked as an Engineer at Philips Innovation Services (Research and Development department), Software Engineer at Computech in Ireland. Through his work, Mr. Kazlauskas gained valuable experience in the areas of IT, developing mobile apps, back-end and deepen knowledge in project management. At Fashmile.com, Mr. Kazlauskas will take CTO role and be responsible for creating IT platform and the algorithm.

Ema, Gediminas and Gytis strongly believe that with their combined knowledge and skills, they will be able to make this business a success. At the 1st year of Startup, they are not planning to employ internal workers, the tasks which are not covered by co-founders (accounting, system development and etc.), will be outsourced through other companies/freelancers.

It is aware for the team, that the family bond of a relationship may become a risk in running daily startup activities and raise questions for investors in order to receive funding. To mitigate this, co-founders emphasize the necessity to have well-defined job descriptions, time management control and setting boundaries in the boardroom.

## 7. FINANCIAL PLAN

With Fashmile.com, investors have the opportunity to get in on the ground floor with a company that's positioned to grow into a leading innovator in the fashion industry online.

### 7.1. Financial projection and key metrics

Fashmile.com is expected to be profitable in the first year of operations, with profits increasing over the next two years, as it will establish and increase the customer base. The main critical aspects of the financial calculations for the next 3 years are provided in the Income Statement (see Appendix G), Balance Sheet (see Appendix H), Cash Flow (see Appendix I), Break-Even Analysis (see Appendix J) and Financial History & Analysis (see Appendix K).

Sales revenue of Fashmile.com are forecasted to reach €97 255 in the first year starting from July, 2022. The 2nd year the sales revenue is planned to reach €1 399 966 and the 3rd year €4 864 601. Sales revenue are calculated in regards of several metrics:

- According to the statistics, in 2022 number of fashion e-commerce users in the United

Kingdom are forecasted to reach 45,5M;

- The CTR (click through rate) in UK e-commerce on average is estimated to be 3 % (website/mobile visitors);

- The Conversion rate in UK fashion e-commerce on average is 2,25 %;

- The average order value in UK fashion e-commerce on average is €69,09;

- The commissions from Affiliate Network on average is 5%;

- The average UK start-up in apparel & accessories forecasts a growth rate of 719,74 % in revenues for their first year, 347,48 % for the second, and 206,95% for the third.

Costs for the group are allocated to functions: cost of goods sold, selling expenses and administrative expenses. The cost of goods sold includes all costs of designing, producing and transporting the goods. The value is indicated 0, because there is no physical product involved. Total costs are all other cost except goods sold, which includes marketing costs, IT costs related to platform development, salaries and rents, administrative expenses.

Net income (annual surplus/ annual deficit) is planned to be positive for the 1st year and reach €25 780, the 2nd year the net income is planned to reach €780 650 and the 3rd year €2 807 949.

## 7.2. Offering/funding request

Fashmile.com is turning to the investment community for a pre-seed capital infusion of €500,000 in order to jumpstart the vision into a fully functional start-up. Investors will be compensated in the form of equity shares in the company, based on a pre-money valuation of €45 735 698 (see Appendix L).

This capital will open the door for a lot of exciting things in terms of growth. First and foremost, it will allow the Co-Founders to settle into full-time roles with Fashmile.com. It will also bring the platform from MVP stage complete to 100% - giving a market-ready version with the full capability to help the retailer and consumer audience. Then, the team be able to follow this up with the full execution of marketing strategy.

## 8. CONCLUSION AND FUTURE WORK

In this report, a personalized outfit generation model was proposed to build the bridge between relevancy and personalization, which are two essential requirements in fashion generation and recommendation. The model was built in several steps – deeply analyzing the market and its preferences, indicating future trends (technology importance, movements such as lowsumerism and

slow fashion), solving the customers' problem and providing a technical solution as an outfit generating platform Fashmile.com.
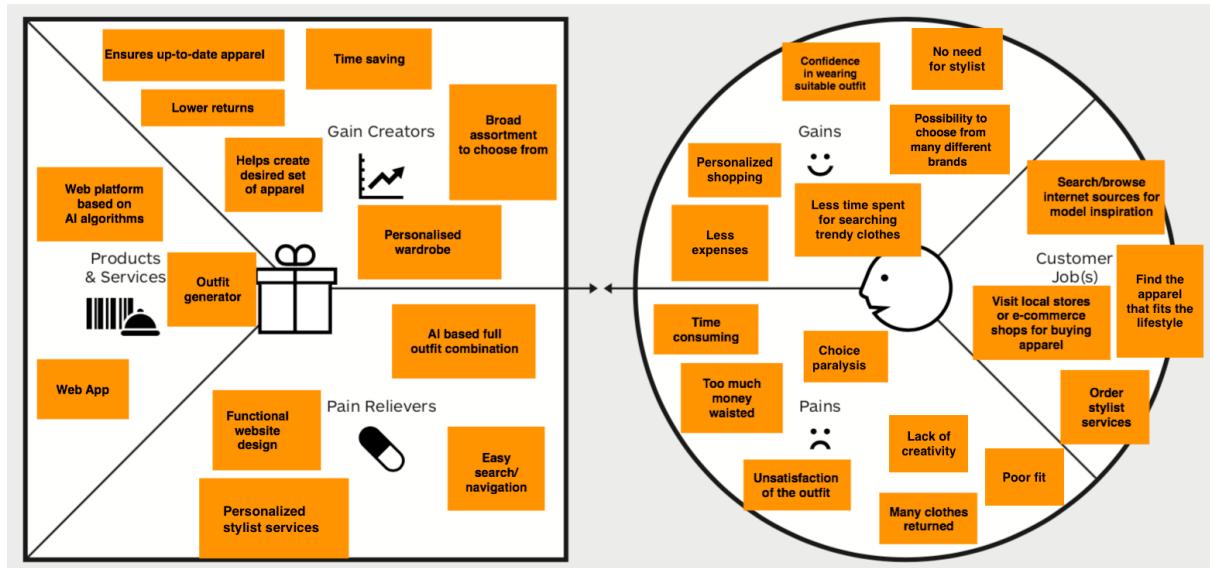
After analysis and preparation, the future model confirms the hypothesis of being a successful outcome, which outperforms other alternative models in outfit compatibility, outfit generation and recommendation by significant margins. For the future work, the aim is to scale the business model for other user groups and duplicate it in other geographical areas.

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# ANNEXURES

## Appendix A.

## The Value Proposition Canvas



## Appendix B.

## Triple Layered Business Model Canvas Economic Layer (Fashmile.com)

**Appendix C.**

**Triple Layered Business Model Canvas Social Layer (Fashmile.com)**

| Stakeholders (-) | Structure/Governance (-) | Societal Value (+) | Leverage | Target Groups (+) |
|---|---|---|---|---|
| • *Local Public Institutions*<br>• *Public and private organizations* | • *Privately-owned group;*<br>• *Transparency in communication* | • *Will improve self-esteem;*<br>• *Will increase confidence* | • *Global sales network*<br>• *Long term relationships with suppliers* | • *Lower income women/men;*<br>• *Socially excluded persons* |
| | **Human Capital and their Ecosystem**<br><br>• *Positive workplace for high number of nationalities;*<br>• *Training programs that will improve existing skills;*<br>• *Employment boost* | | **Scope**<br><br>• *EU directory* | |

| Social Impacts (-) | Social Benefits (+) |
|---|---|
| *Social Costs*<br>• *Take away jobs for stylists* | *Positive social value*<br>• *Apparel waste reduction*<br>• *Job creation* |
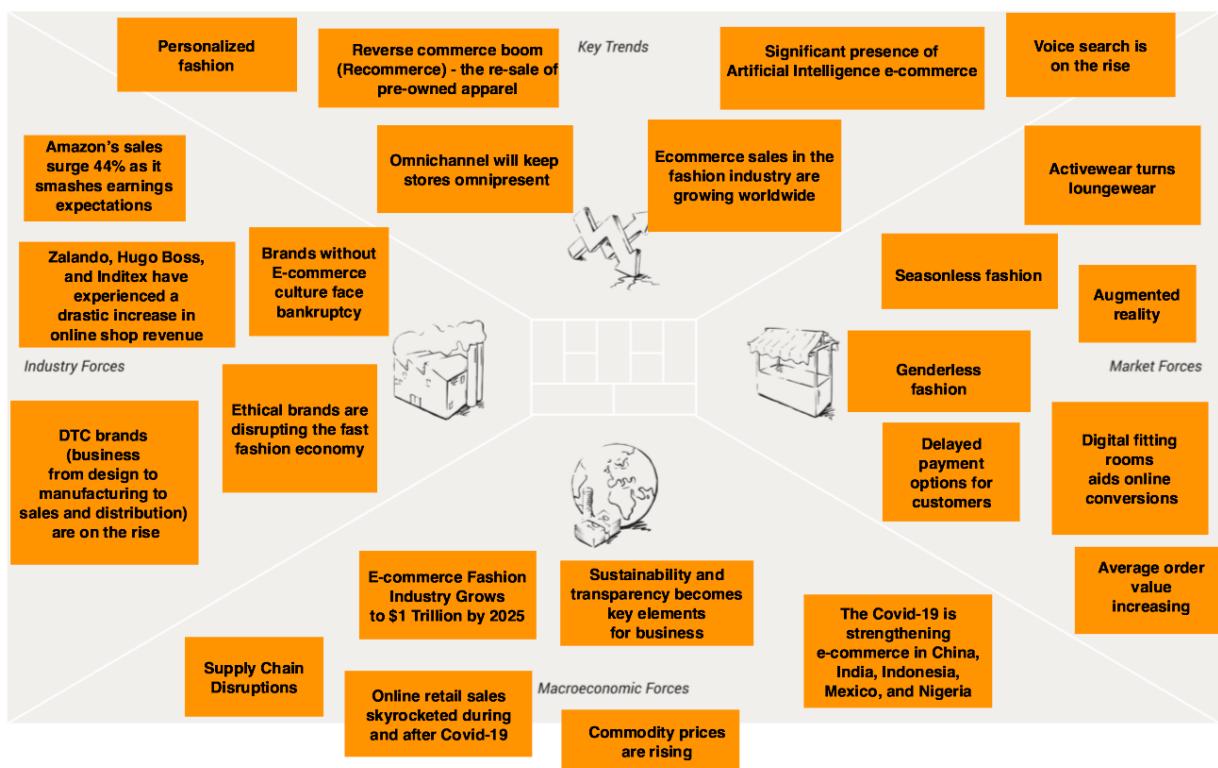
**Appendix D.**

**Triple Layered Business Model Canvas Environmental Layer (Fashmile.com)**

| Supplies And Outsourcing (-) | Production (-) | Functional Value (+) | Use Phase (-) | End Of Life (-) |
|---|---|---|---|---|
| • Electricity<br>• Water | • Office space and supplies;<br>• Computers, servers | • Improvement of apparel set performance per person over a year | • Wearing apparel | • Less clothes on landfill |
| | **Materials (-)**<br><br>• Office technical equipment<br>• Software | | **Distribution (-)**<br><br>• Truck transport<br>• Ship transport<br>• Logistic centres | |

| Environmental Impacts (-) | | Environmental Benefits (+) |
|---|---|---|
| • $CO_2$ emissions | | • Prevent apparel waste |

**Appendix E.**

**Business Model Environment and key external forces for Fashmile.com**



**Appendix F.**

**PESTEL analysis for Fashmile.com**

| | Factors |
|---|---|
| Political | - Brexit;<br>- Tense in relationship with China (large supplier and producer network)<br>- COVID-19 |
| Economic | - the fashion industry itself has constantly growing at around 10%<br>- online retail sales skyrocketed during pandemic period<br>- supply chain disruptions<br>- sustainability and transparency become key elements<br>- more money available for consumers to purchase clothes, which may increase the total sales of fashion companies<br>- greater opportunities for internationalization of apparel brands.<br>- rise in manufacturing cost of apparel<br>- rise of 'Lowsumerism'<br>- rise of Slow Fashion |
| Social | - targets set by governments to do business in an ethical and socially responsible way |

| | |
|---|---|
| | - population growth<br>- population is aging (a threat for solely teenage- oriented apparel firms)<br>- health consciousness<br>- career attitudes<br>- customers are more and more concerned about their health<br>- customer interest in the materials used, their origin and their processing methods, demanding more transparency and accountability on behalf of the fashion firms<br>- trends are influenced by celebrities and the media<br>- the demand to more reporting activities and auditing processes on labour conditions and wages to ensure a fairer treatment of workers. |
| Technological | - brands without e-commerce will face hard times<br>- significant presence of AI technologies<br>- augmented reality<br>- digital fitting rooms<br>- voice search in a rise<br>- acceleration of the information flow due to social media |
| Legal | - health and safety<br>- equal opportunities<br>- advertising standards<br>- consumer rights and laws<br>- product labelling<br>- product safety<br>- global trade is tricky area to get right as each country has its own set of rules and regulations |
| Environmental | - increasing scarcity of raw materials<br>- pollution<br>- carbon footprint targets set by governments to mitigate climate change<br>- pressure for businesses to incorporate environmental friendly practices alongside their whole supply chain<br>- overconsumption in the fast-fashion |

**Appendix G.**

**Financials. Income Statement**

| | Year 1 | Year 2 | Year 3 |
|---|---|---|---|
| Sales volume | 97 255 | 1 399 966 | 4 864 601 |
| Direct cost of sales | 0 | 0 | 0 |
| **Gross earning** | **97 255** | **1 399 966** | **4 864 601** |
| Personnel costs | 33 040 | 126 039 | 250 311 |
| Rent | 840 | 1 680 | 5 040 |

| | Year 1 | Year 2 | Year 3 |
|---|---|---|---|
| Marketing | 31 122 | 447 989 | 1 556 672 |
| Other costs | 2 209 | 10 028 | 27 527 |
| Travel costs | 0 | 0 | 0 |
| **EBITDA (Earnings before interest, taxes, depreciation a. amortisation)** | **30 045** | **814 230** | **3 025 050** |
| Depreciation | 900 | 1 500 | 2 100 |
| **EBIT (Earnings before interest and taxes): Operating income** | **29 145** | **812 730** | **3 022 950** |
| Interest earnings | 0 | 0 | 0 |
| Interest spending | 1 945 | 27 999 | 97 292 |
| **EBT (Earnings before taxes)** | **27 200** | **784 730** | **2 925 658** |
| Business tax | 1 420 | 4 080 | 117 710 |
| Corporate tax | 0 | 0 | 0 |
| Solidarity tax contribution | 0 | 0 | 0 |
| Total income tax | 1 420 | 4 080 | 117 710 |
| **Net income: Annual surplus/ annual deficit** | **25 780** | **780 650** | **2 807 949** |
| Payout of dividends | 0 | 0 | 0 |
| **Balance sheet profit/loss, net result** | **25 780** | **780 650** | **2 807 949** |

## Appendix H.

## Financials. Balance Sheet

| | Starting Balance | Year 1 | Year 2 | Year 3 |
|---|---|---|---|---|
| Accumulated investments | 10 000 | 410 000 | 1 210 000 | 3 610 000 |
| Land Ownership | 0 | 0 | 0 | 0 |
| Accumulated depreciation | 0 | 900 | 2 400 | 4 500 |
| Demand to shareholders | 0 | 0 | 0 | 0 |
| Fixed assets | 10 000 | 409 100 | 1 207 600 | 3 605 500 |
| Accumulated deposits/contingency fund | 0 | 1 520 | 2 239 | 4 740 |
| Stock of inventory | 0 | 0 | 0 | 0 |
| Cash resources | 0 | 0 | 0 | 133 268 |

| | | | | |
|---|---|---|---|---|
| Current assets | 0 | 1 520 | 2 239 | 138 009 |
| Total assets | 10 000 | 410 620 | 1 209 839 | 3 743 509 |
| Authorized capital | 100 | 100 | 100 | 100 |
| Profit/loss carried forward | 0 | 17 736 | 27 200 | 807 850 |
| Balance sheet profit/loss | 0 | 9 464 | 780 650 | 2 807 949 |
| Equity capital | 10 000 | 37 200 | 817 850 | 3 625 799 |
| Provisions for taxation | 0 | 1 420 | 4 080 | 117 710 |
| Other provisions | 0 | 0 | 0 | 0 |
| Long term loans | 0 | 0 | 0 | 0 |
| Long term debt capital | 0 | 1 420 | 4 080 | 117 710 |
| Short term debt capital (bank) | 0 | 372 000 | 387 909 | 0 |
| Liability vendor | 0 | 0 | 0 | 0 |
| Short term debt capital | 0 | 372 000 | 387 909 | 0 |
| Total liabilities | 10 000 | 410 620 | 1 209 839 | 3 743 509 |

**Appendix I.**

**Financials. Cash Flow**

| | Year 1 | Year 2 | Year 3 |
|---|---|---|---|
| Opening balance bank | 0 | -372 000 | -387 909 |
| Incoming payments from claims | 97 255 | 1 399 966 | 4 864 601 |
| Incoming payments from loans | 0 | 0 | 0 |
| Incoming payments from interest earnings | 0 | 0 | 0 |
| Total incoming payments | 97 255 | 1 399 966 | 4 864 601 |
| Payout goods and other expenses | 34 170 | 459 697 | 1 589 239 |
| Payout investments | 400 000 | 800 000 | 2 400 000 |
| Payout deposit/contingency fund | 100 | 720 | 2 501 |
| Payout personnel costs | 33 040 | 126 039 | 250 311 |
| Pay out pay back of loans | 0 | 0 | 0 |
| Payout interest spending | 1 945 | 27 999 | 97 292 |
| Payout income tax | 0 | 1 420 | 4 080 |
| Payout of dividends | 0 | 0 | 0 |

| | | | |
|---|---|---|---|
| Total payout | 469 255 | 1 415 875 | 4 343 424 |
| **Closing balance bank** | **-372 000** | **-387 909** | **133 268** |

## Appendix J.

## Financials. Break-Even Analysis

| | Year 1 | Year 2 | Year 3 |
|---|---|---|---|
| Break even Sales level | 96 014 | 836 766 | 2 627 930 |
| Total fixed cost | 67 210 | 585 736 | 1 839 551 |
| Total variable cost | 30% | 30% | 30% |

## Appendix K.

## Financials. History and Analysis

| *Profitability ratios* | Year 1 | Year 2 | Year 3 | Variance 1-2, % | Variance 2-3, % |
|---|---|---|---|---|---|
| Gross profit margin | 100,0% | 100,0% | 100,0% | 0,0% | 0,0% |
| Operating profit margin | 30,9% | 58,2% | 62,2% | 27,3% | 4,0% |
| Net profit ratio | 26,5% | 55,8% | 57,7% | 29,3% | 2,0% |
| *Liquidity ratios* | | | | | |
| Current ratio | 0,00204241 | 0,00288636 | #DIV/0! | 0,1% | #DIV/0! |
| Quick ratio | 0,2% | 0,3% | #DIV/0! | 0,1% | #DIV/0! |
| *Operating ratios* | | | | | |
| Return on equity (ROE) | 69,3% | 95,5% | 77,4% | 26,1% | -18,0% |
| Return on assets (ROA) | 6,3% | 64,5% | 75,0% | 58,2% | 10,5% |
| *Solvency ratios* | | | | | |
| Equity ratio | 9,1% | 67,6% | 96,9% | 58,5% | 29,3% |
| Debt ratio | 90,9% | 32,4% | 3,1% | -58,5% | -29,3% |
| Working capital | -742 481 | -773 579 | 138 009 | -31 098 | 911 588 |

**Appendix L.**

**Financials. Valuation of Business**

### Step 1. Estimate the Investment Needed

*Insert the estimated investment needed for the start-up*

Series A:                         €500 000

For the financial forecast, the start-up is expected to grow to €29 793 908 in sales and €17 166 991 in profit by Year 5.

### Step 2. Forecast Startup Financials

*Insert the start-up's projected revenue, EBITDA and net income ramp*

|  | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|---|---|---|---|---|---|
| Revenue | €97 255 | €1 399 966 | €4 864 601 | €12 038 915 | €29 793 908 |
| EBITDA | €30 045 | €814 230 | €3 025 050 | €7 588 139 | €18 882 928 |
| Net Income | €25 780 | €780 650 | €2 807 949 | €6 902 212 | €17 166 991 |

In terms of the expected exit date, it is presumed, that the VC firm wants to exit by Year 5 to return the funds to its investors.

### Step 3. Determine the Timing of Exit

*Select the year the company will be sold or IPO*

Exit Year:                         5

The company's "comps" – companies comparable to it – are trading for 10x earnings, implying an expected exit value of €171 669 910 (€17 166 991 x 10x).

### Step 4. Calculate Multiple at Exit

*Select the projected multiple in the exit year to calculate the exit value*

Denominator            Net Income

Multiple                      10,0x

Exit Value            €171 669 910

The discount rate will be the VC firm's desired rate of return of 30%. The discount rate is usually just the cost of equity since there will be zero (or very minimal) debt in the capital structure at the start.

### Step 5. Discount to PV at the Desired Rate of Return

*Insert the VC firm's desired rate of return*

Rate of Return:                                    30%

This 30% discount rate would then be applied to the DCF formula:

€171 669 910 / (1.3)^5 = €46 235 698

This €46 235 698 valuation is known as the post-money value. Subtract the initial investment amount, the €500 000, to get to the pre-money value of €45 735 698.

After dividing the initial investment of €500 000 by the post-money valuation of €46 235 698, we arrive at a VC ownership percentage of approximately 1,1%.

### Step 6. Determine Valuation and Desired Ownership Stake

| | | |
|---|---|---|
| Post-Money | €46 235 698 | |
| Pre-Money | €45 735 698 | *aka an 500000 on 45735698 round* |
| VC Ownership | 1,1% | |