

A STUDY ON THE STRATEGIES OF EVALUATING PLATFORM ECONOMICS START-UP MODEL WITH VC VIEWPOINT

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ABSTRACT

In recent years, platform economy is almost equal to the leadership position of traditional enterprises since the industrial revolution, and many people treat platform economy as their start-up business target. But the entrepreneurial success needs to consider lots of factors; otherwise it will cause a failure in the last. This study evaluates the strategy models adopted by entrepreneurs in platform economics from the perspective of venture capital (VC). According to their own core technology and market characteristics, the strategies are respectively: (1) attacking strategy; (2) ride sharing strategy; (3) hit and run strategy; (4) micro market strategy. Entrepreneurs need to master powerful key resources in at least one aspect among the demand side, supply side and technical side; otherwise their start-up business will be failed.

KEYWORDS: Platform Economy, Star-Up, Venture Capital, Entrepreneur

INTRODUCTION

Scientific and technological progress is at a tremendous pace, so many traditional job opportunities will be replaced by machines and network platform. Economists (2013) argued that the unemployment situation of young people under the globalization is becoming increasingly serious, and the total unemployment is very large, and the problem of generation jobless gradually derives. Therefore, to help young people solve the problem of unemployment and make them be able to seek jobs in the unbalanced labor market have become an important international issue that is paid attention to by each country in the world.

Due to the low birth rate and low mortality rate, Taiwan has entered the aging society. The proportion of working population reduced, and the challenges met by successful labor intensive industries in the past will be increasingly serious. In addition to industrial outside moving, "entrepreneurship" is also an issue discussed by the people in recent period, and it hopes to improve the success probability of entrepreneurship, so as to improve and increase the rate of economic growth and thus reduce the unemployment rate. The statistics of the EU (2015) pointed out that many enterprises operated by young people belong to the industries with a lower entry threshold and a fierce competition. According to the latest annual report of Global Entrepreneurship Monitor (2015), the proportion of people who participate in newly founded enterprises in Taiwan is as high as 8.2 %, just second to the United States, and it is almost twice of Japan and South Korea, but the proportion of people affected by the shutdown in working population is higher than that of the United States.

Entrepreneurial behavior is from Great Venture Opportunities. Entrepreneurial team and investors have very high expectations for the career prospects. VC with capital, technology and ability are invested in the new team with a high development potential, participate in operating decisions, and offer a variety of value-added services.

Due to the development of science and technology and the promotion of mobile communication technology, mobile communication tools and intelligent networking are widely applied. At present, the entrepreneurial market paid much attention to by people is no longer the research and development of hardware or single software, but the entrepreneurial model focusing on “platform economics”.

Starting from the view of VC, and in view of the entrepreneurial model of “Platform Economy”, this study hopes to assist entrepreneurs in increasing the opportunities of becoming successful under the market wave of platform economics in the future.

LITERATURE REVIEW

Platform Economics

Sangeet Paul Choudary pointed out that platform is almost equal to the leadership position of linear-form enterprises since the industrial revolution, and the main reason is the larger marginal economic benefits and it has positive network effects. Therefore, platform grows faster than linear production-oriented enterprises, and its growth no longer relies on physical capital investment. Meanwhile, the mode of competition is no longer the price but other ways put forward by Platform Economic Model, and they subvert the business landscape. They are: (1) platform restructuring value creation process; (2) increasing the new supply; (3) consumption of platform restructuring value; (4) platform’s curation driven through communities; (5) restructuring quality control process.

The key point of platform is not to design network, but whether the related goods or services are digitalized. If a market is highly digitalized, it will have an opportunity of developing the platform, and there will be a risk that the existing traditional enterprises will be subverted by the emerging platform enterprises.

Table 1: Examples of Industries and Enterprises Subverted by Platform Mode

Examples of Industries and Enterprises Subverted by Platform Mode	
Agriculture	John Deere, Fasal farmer platform of intuit
Communications and Networks	We Chat, LinkedIn, Facebook, Twitter, Tinder, Instagram, Snapachat
Consumer products	Philips, FlavorPrint of McCormick Foods Company
Education	Udemy, Skillshare, Coursera, edX, Duolingo
Energy sources and heavy industry	Nest Labs, Tesla, Qiyi Group, EnerNOC
Finance	Bitcoin, Lending Club, Kickstarter
Medical care	Cohealo, SimplyInsured, Kaiser Permanente
Games	Nintendo, Xbox, Playstation
Human resources and advisory services	Upwork, Fiverr, 99designs, Sittercity, LegalZoom
Local services	Groupon, Yelp, Foursquare, Angie’s List
Logistics	Haier Group, Munchery, Foodpanda
Media	Wikipedia, Kindle Publish, Medium, Viki, YouTube
Operating system	Microsoft, Ios, Android, MacOS
Retails	Alibaba, Walgreens, Amazon, Burberry, Shopkick
Communication and transportation	Uber, Waze, BlaBlaCar, GrabTaxi, Ola Cabs
Tourism	Airbnb, TripAdvisor

Source: Platform Revolution

Resources Needed by Entrepreneurs

Entrepreneurship is a multi-faceted phenomenon (Busenitz et al., 2003; Cooper, 1993; Gartner, 2001; Low & MacMillan), seeing from the connotation of entrepreneurship, Shane & Venkataraman (2000) argued that entrepreneurship should include: [how, who, and what factors will affect the chance to find, evaluate and use] (1988). The definition and viewpoint of Miller, D. (1992) on entrepreneurship can be summarized as follows:

- Entrepreneurs' entrepreneurship spirit and willpower is the key to the company's success.
- The uncertainty is high.
- Building teams, raising funds, product research and development and primary market promotion are entrepreneurs' most important work.
- Cash shortage, market technical change, lack of competitive products, and unable to attract excellent talents are the major risks.
- Entrepreneurs must complete important periodical targets in a certain period of time.

Lichtenstein & Brush (2001) and Dollingers (2003) divided the resources needed by entrepreneurship into six items: (1) financial resources: the sum of entrepreneurs' all financial assets; (2) physical resources: tangible assets applied by enterprises in the production and management process; (3) technical resources: including laboratories, research and development equipments, quality testing and control technology and so on, and the knowledge generated by the research and development can be protected through the patent, copyright and business secret; (4) human resources: including general and special human resources; (5) social resources: various resources acquired by entrepreneurs through leverage use of interpersonal in-laid relationship, including entrepreneurs' social relation network; (6) organizational resources: including the organization's business model, management ability, strategy, leaders, organization structure, etc.

Perspective of Venture Capital (VC)

Venture capital refers to the funds that a group of people with technical, financial, market or industry and professional knowledge and experience assist entrepreneurs in investing in high-risk and high-growth investment cases with their professional ability, and they select and invest in enterprises with a potential, so as to pursue for high financial returns in the future. After investigating 46 venture capital companies in the United States, Tybjee and Bruno divided venture capital decision-making process into Deal Origination, Deal Screening, Deal Evaluation, Deal Structuring and Post-Investment Activities (Tybjee & Bruno, 1984).

The working definition of venture capital executed by TVCA is as follows:

- Searching for appropriate investment resources
- Conducting an investment evaluation
- Investing in emerging and rapidly growing scientific and technical companies
- Assisting emerging scientific and technical companies in developing new products, providing technical support and product marketing channels

- Undertaking high risk of investment and pursuing for higher rewards
- Investing in these emerging scientific and technical companies in a form of stock equity
- Providing assistance with an added value through actual participation of operating decisions

RESEARCH FRAMEWORK

According to the literature review, the newly founded platform economics business takes the companies with a history of 3 to 5 years as the research case, and in view of their own core competitiveness, internal and external resources are analyzed, and after understanding their market operating results by referring to the operation financial reports in the last two years, it discusses and interviews with related venture capitalists, so as to evaluate the newly founded companies which are interviewed before and finally sum up the operation strategy of venture capital as well as platform new entrepreneurs. Then according to venture capitalists' interview, it sums up the evaluated decision analysis of investment, and the venture capitalists analyze the failure reasons of the companies invested in by them in the past. The architecture of this study is designed as follows:

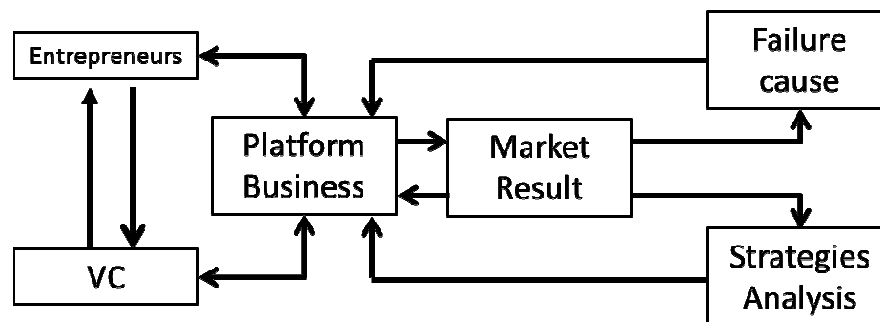


Figure 1

RESEARCH FINDINGS

After interviewing several project executors of venture capitalists and senior managers of start-ups of platform economics, and according to the research framework, then in view of the components of platform economics, it concludes the key factors of resources needed by entrepreneurs and venture capital evaluation principle. It finds the following phenomena:

- The new entrepreneurs of platform economics should at least have the requirements of users or application client, and only when the customers' key technologies are met can they survive under the competition of platform economics. In addition, the mastered key technologies must clearly set a price, and there must be a perfect cash flow that maintains the operation of platform economics.
- When the entrepreneurs are going to step into the platform economics, they must master key resources, especially capital and market. At the beginning of entrepreneurship, many people always think that the entrepreneurial fund needed by platform economics is very little, but it is not. Because at the early period, in order to attract users, the platform often curries favor with the supply side and demand side (such as Airbnb's referral bonus) in the form of subsidies. These are the cost which should be burdened by the platform itself, and they will spend a lot of money

before earning money. If they don't have sufficient funds and grasp the right market, the companies will soon be unable to continue due to a lack of money.

- The investment of venture capital in start-ups is not only an injection of funds, and at the same time, they involve in the management by relying on rich industrial experience and contacts. Therefore, they regard the personal characteristics of management team and companies' operators as the first item of the assessment, and the remaining items such as market and financial revenues are also the important ones which should be considered. So the entrepreneurs of start-ups must first set up their own contacts and public praise before starting a company, so that they can have the first successful step with venture capital.

Now, we sort out the key elements found by the study as the following table:

Table 2: Entrepreneurial Resources Analysis Table of Platform Economics

Components of Platform Economics	Resources Needed by Entrepreneurs	Evaluation Principles of Venture Capital Investment
Users	Capital	Entrepreneur and team
Application side	Market	Operating strategy
Medium side	Talents	Product and service
Value unit	Technological development	Industrial market
Cash flow	Business development	Equity distribution
		Business prospects

In the process of interviewing with venture capitalists, it also finds that many start-ups of platform economics closed in less than three years, and the common causes of failure are: (1) lacking of market demand; (2) running out of cash; (3) wrong team;(4) horizontal competition;(5) selling price and cost factors.

Based on the above research, it summarizes the entrepreneurship strategy of platform economics as follows:

Attacking Strategy

When the entrepreneurs master to the requirements of users and application clients, and reach a consensus with venture capitalists for the growth of future market, they should boldly take attacking strategies and establish future entry barriers, so as to make the latecomers difficult to enter.

Ride Sharing Strategy

Entrepreneurs can rely on the present popular platform economics and focus on some special services. At this time, the entrepreneurs must follow the platform to conduct the policy adjustment, observe whether there are competitors who enters, and timely adjust strategies to distinguish competitors.

Hit and Run Strategy

Due to the economic boom driven by a temporary trend, and if the entrepreneurs follow this pattern to make money at this time, they must be very keen to grasp the customers' needs at this time and modularize their own core competence, so as to quickly catch up with another wave after that.

Micro Market Strategy

The core competence owned by the entrepreneur's aims to specific niche markets. The characteristics of this market are closed, and its entry barriers are high, so at this time, the entrepreneurs must have a very high professional degree for the supply and demand of the market, so as to enable customers to stick in the provided platform services.

CONCLUSION AND SUGGESTIONS

It is almost impossible for platform economics have revenues at the beginning, because the enterprises usually spend a large amount of money in attracting the supply side and demand side to join the platform. If your market has a rival, you may also use more drastic means to make subsidies. When conducting the market evaluation; the entrepreneurs need to consider fund demand, so that they can raise relatively reasonable funds with venture capitalists.

The platform must master unique technology or assistance of external resources with a high entry barrier, so to avoid that the supply side and demand side skip the platform. The entrepreneurs should vigorously think about how to improve the platform's value and make the supply side and demand side (or one side) is willing to pay money for the platform.

The essence of platform economics is to be able to solve the deficiency of "supply side" and "demand side" in a particular field, so as to gain benefits from it. Therefore, the supply, demand and the solution cannot be separated, and the platform entrepreneurs should first make sure that they have at least one item of them, otherwise, it is best not to start a business.

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