

The Application of POCD Framework Investment Suggestion for PSYKHE Fashion

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ABSTRACT

Successful investment requires accurate and effective analytical models. This paper provides a comprehensive analysis of PSYKHE Fashion to assess the risks of business to help investors decide whether to invest. This paper starts with a detailed investigation of the company, including its background, business, philosophy, property, and financing. Secondly, I use the POCD framework to deeply analyze the company's situation and analyze the operation of the company from the perspective of people, opportunity, context, and deal, including the strengths and weaknesses of each perspective. Finally, through our research, we find that PSYKHE Fashion is a start-up business, but it has a very optimistic future. I remain optimistic about the company and think it is worth investing in. In this paper, the POCD framework is applied to in-depth analysis and venture investment of a start-up company, providing a great method for predicting the investment prospects of a company.

Keywords: *Venture capital, POCD Framework, E-commerce, Investment*

1. INTRODUCTION

Venture capital is the start-up company that promotes innovation, defines new industries, and disrupts existing industries [1]. The reason why venture capital is called venture capital is that there are many uncertain factors in the investment, and the return of the investment will bring great risk. This kind of investment is mainly a financing method that provides financial support to the initial enterprise and obtains the shares of the company. Venture capital generally invests in high-tech start-ups whose founders have excellent technical expertise but little experience in company management. Risk investment has a different effect on start-up: it increases the risk of lack of experienced investment company in support of the low quality of entrepreneurial success of the project, but also lowers the risk by a more experienced investment company to support the quality of the success of the project, more competitive supply of venture capital firms will improve the balance of all start-up valuations [2].

PSYKHE is a shopping platform that combines artificial intelligence and psychology. As an initial company founded in 2019, PSYKHE needs the support of investment companies in terms of funding. For investment companies, a thorough understanding of all aspects of the company is one of the criteria to judge

whether they can invest. For analyzing enterprises, there are many models in commercial finance, such as the SWOT analysis model, SPACE matrix, POCD framework, and so on.

POCD framework analyzes enterprises from four perspectives: People-Opportunity-Context-Deal. People are the people who have a significant impact on the enterprise, including founders, investors, suppliers, etc., and analyze whether these people can support the development of the company. Opportunity is a product or service for which a customer is willing to pay more than expected for the required investment and operating costs. Context refers to the consequences of influencing opportunities. Deal refers to the implicit or explicit contractual relationship between an enterprise and all resource providers [3].

This article makes use of the POCD framework to make a multi-angle analysis on PSYKHE and analyze the company's future investment prospects. The research finds that there are two strengths of Context for PSYKHE. More people would turn to online shopping when they want to buy clothes. Also, Under the influence of COVID-19, more and more consumers turn online to shop, and they would like to turn online to buy things, especially clothes. This brings much demand for the firm, which improves the firms' market valuation.

The remainder of the article is organized as follows. Section 2 describes the firms' basic information. Section 3 introduces the POCD analysis. Section 4 presents the discussion for the research. Finally, the article summarizes the conclusion in the last section.

2. FIRM DESCRIPTION

PSYKHE Fashion is a fashion e-commerce platform that provides recommendations with artificial intelligence. Each client needs to take a personality trait test. It was founded in 2019 by Anabel Maldonado [4] who is a freelance fashion journalist with an educational background in psychology. Algorithms will be used to offer favorite brands and products for customers to match their personalities. Different customers will see different pages and products when they shop. Consumers could filter products by their moods and create a wish list. The results from the website will meet the expectation of consumers with a personal algorithm. It offers a suggestion for consumers based on their personality traits. It enables consumers to shop online, and the platform provides a great shopping experience for consumers. It saves lots of time for consumers who need to find the fashion for themselves gradually, and it will filter the information for consumers they do not like. In addition, the company will tailor the shopping experience for each consumer based on their personality trait, and it is believed that a personality test is useful to predict the shopping habits of consumers.

PSYKHE Fashion to better understand its customers psychologically when they log on to the site they will be asked if they want to take a questionnaire called the Big5 personality Test, the most respected personality measure in psychology. The test will help with self-discovery and systematizing personality so that after the customer has finished the test, the platform of the site will combine testing and AI technology to recommend something they think the customer will like. The reason for doing this is that, at the psychological level, they know there is some connection between personality and style preference, so they can more effectively recommend some products that customers are likely to be interested in.

Anabel started her company when she began using the much-admired Big5 personality model to explain aesthetic taste research to better address personal style preferences. She also found that this framework was a missing piece in online personalization. PSYKHE Fashion's philosophy is studied at a philosophical and psychological level: "Why do we wear what we wear?" They think fashion is not only about clothes to wear, but more about inner energy, which is far more valuable than the value society gives it. People's style preference is shaped by their inner psychology, so fashion is studied from the psychological level. They look for fashion for three specific reasons. First of all, what we wear fits our status. Our personality is the biggest influence on our

style. Deep down, we can feel who we are. On an intuitive level, when you see an item of clothing, you immediately know whether you are you or not when you wear it. Second, fashion can shape who we are and who we should be. Over time, as you get older, your style shapes who you become. People show their personality through what they wear. Finally, use clothing as therapy. The quality of your clothes can change your mood and give you strength in times of pain. This is why when people are in a bad mood, shopping for clothes can effectively relieve their mood, and when people dress up, they will feel obviously happy.

The financial history of the company is that it was founded by Anabel Maldonado in 2019 and at the fund, in the beginning, was not much. In 2020, the total funding for the company was \$260 K, which is much better than that of 2019. In 2021, it has collected \$ 2 million in seed funding from a range of investors. It is currently thinking of other ways and developing more vehicles to develop itself in e-commerce platforms. The business model of PSYKHE is built based on an affiliate partnership model in which the companies will gain between 5 and 25% of each sale. At present, the total liabilities for the company are £165.5k, while the net assets for the company are -£155.9k. The company successfully raised \$ 2 million this year, which will help the company to develop itself in B2B or B2C platforms. The funds that are collected by the company are mainly used in marketing, developing, and offering different products and services. The PSYKHE founding team has done lots of research, and the team has to filter more than 1 million products for its consumers.

The investors of the company are SLS Journey, Carmen Busquets, Felix Capital, Susa Ventures, Imaginary, and Kindred. There are five employees at present. SLS Journey is a new investment arm of MadaLuxe Group and a leading distributor of luxury fashion in North America [5]. The company focuses on beauty, fashion, and technology. Carmen Busquets is a founding investor and the largest co-founding investor in Net-a-Porter, and it is the early investor in it and Moda Operandi. The company is a B2C aggregator, and it is mainly pooling inventory from leading retailers, which means that it is also related to digital technology. The company mainly suggests for those who want to search for fashion information. It is mainly related to the fashion industry, where the competition is high. It needs to have its uniqueness to stand out from its competitors.

3. POCD ANALYSIS

POCD framework is used to make an analysis of PSYKHE Fashion and offer suggestions for investors if the company is worthwhile investing in or not. POCD framework in four parts: people, context, (business) opportunity, and deal. It is mainly a new framework for building and financing new ventures [6]. The

combination of the four elements will help businesses to judge if the business has high opportunities or not.

3.1. PEOPLE

Under the context of people, the definition of the four elements has some differences. These four concepts form a triangle in which context is within the triangle. The concept people mean the individuals who have a strong impact on the business regardless of the individuals are actual employees or not. It could cover lots of people, including founders, investors, key suppliers managers, and many other roles. Sometimes even customers might be a part of people. When we try to analyze or discuss a company, we will always try to find out the crucial role of people, for it might determine the future development of a company. We need to identify if those people are experienced or not and if they are capable and trustworthy or not.

I have searched for some materials of people to analyze the element of people for PSYKHE Fashion. The young company was founded in 2019 by Anabel Maldonado, who is a freelance fashion journalist with an educational background in psychology. The great idea suggested by Maldonado gains approval from lots of investors who think that it might have huge potential development. As Maldonado is capable and has great management skills, it gives lots of confidence for investors to invest in the company.

The strength of people for PSYKHE is that a flat structure will enable employees to communicate with others easily. The company has attracted lots of investors within a short time. Those investors have great financial ability, and it will help the company. The founder has a strong psychological background, and she knows how to use her background information to do business and personalize the platforms for consumers. But there is also the weakness of People for PSYKHE. Currently, there are only five employees for the whole company, and those employees need to conduct lots of work, including services, marketing, and many other jobs. Even though the company at present has attracted certain investors, but the funds collected from investors are not enough. At present, the net profits for the company are negative. The company needs to attract more consumers.

3.2. OPPORTUNITY

The concept of opportunity in the POCD framework means the end products or services that consumers are willing to pay for even more than the operating costs and investment. From the angle of economy, the opportunity is always related to a positive net present value project in which the value of outflow is less than that of the value

of customer inflow. It is shown that to have more values, a company must use the method of differentiation with a sustainable cost strategy. We need to evaluate if the opportunity is attractive and profitable or not. When it comes to analyzing the company PSYKHE Fashion, it is found that the idea of personalizing fashion for customers is popular.

Under the influence of COVID-19, more and more consumers turn online to shop, and they would like to turn online to buy things, especially clothes. In this way, it means that it could generate more value in the future for the company. The strengths of opportunity for PSYKHE will be as follows. First, the combination of AI and psychology will help PSYKHE to have a thorough understanding of the needs and personalities of consumers. In the current society where people want to be unique and stand out from others, personalization will be popular.

Besides, instead of taking lots of time like many other shopping websites, PSYKHE intends to pool fashion brands for consumers and save time for consumers. In this way, it will attract more and more consumers. When it comes to the weakness of opportunity for PSYKHE, the first one is that AI and psychological tests might not be correct, and they might not predict the expectation of consumers correctly. Besides, the reputation of the company is not big, and lots of consumers might turn to famous and big shopping websites such as Amazon and eBay. Besides, lots of consumers never hear of PSYKHE at all, which means that the company would improve its reputation in the market.

3.3. CONTEXT

The third important element is the context which means the factors, especially the external factors, that might influence the results and outcome of opportunity. The category of contexts is wide, and it includes various aspects. Interest rates, regulations, macroeconomic activity, technology, fierce competition, business bargaining power, and many other factors will exert great influence on the future development of a business. Context means the factors, especially the external factors, that might influence the results and outcome of opportunity. The category of contexts is wide, and it includes various aspects. Interest rates, regulations, macroeconomic activity, technology, fierce competition, business bargaining power, and many other factors will exert great influence on the future development of a business.

There are two strengths of Context for PSYKHE. More people would turn to online shopping when they want to buy clothes. The digital market is already mature in European and North American markets and other parts of the world such as East Asia. Market development for personalizing products especially personalizing fashion

is fast. The competition at present is not so strong, which means that it is easy for PSYKHE to become the leading company that personalizes fashion for people all around the world. The weakness of Context for PSYKHE is that under the influence of COVID-19, the world's economy suffered, which means that the purchasing power of people greatly declined. It needs lots of costs to develop AI, and during the process, it might also be expensive to update technology. At present, the funds to develop new and latest AI technology.

3.4. DEAL

The last element is deal which means both implicit and explicit relationships between the start-up and various resource providers. The concept deal might indicate what kinds of risks that a venture might encounter. But in this way, it is not necessary to analyze the deal, but the element is important and worthy of analyzing.

4. DISCUSSION

I evaluate the investment in PSYKHE from the aspects of people, opportunity, and contexts. When it comes to People, the founder is smart and has strong Psychology education. She is also good at management and negotiation. Currently, there are more and more investors who are interested in the development of the idea of PSYKHE, which means that it might have great potential for development. At present, there are only five employees. The size of the company is small, but it is possible that it might enlarge and there will be more employees with the development of the company. From the aspect of opportunity, the market is big, which means that the company will have a great development, for more and more people would like to pursue their personalized fashions. The digital market of online shopping will be huge all around the world. As long as the company invests a lot in promoting the development of digital shopping, it is believed that it will have high effectiveness in building online platforms. From the angle of context, digital information technology changes fast, which means that it needs the investors to invest a lot in building the online platform.

In addition, studies have shown that when the amount of capital flowing into the market increases, venture capital firms are more willing to invest in early-stage companies instead of late-stage companies [7-8]. Enterprise innovation is one of the key characteristics of a start-up company[9-10]. PSYKHE, as a start-up company, regards psychology as business innovation, which can effectively improve the company's innovation competitiveness among many enterprises and enhance the attractiveness of the start-up company to investment companies.

5. CONCLUSION

PSYKHE Fashion is a shopping platform founded in 2019. The platform mainly uses AI and psychology to provide customers with high-quality shopping channels tailored to their tastes. Because of its relatively novel operation mode, this platform has attracted a lot of customers to buy clothes on this platform, among which female customers account for a large proportion. Although it has attracted a lot of customers, it is a newly established company, its capital system is not very perfect and it lacks financial support from investors. In this paper, the POCD framework is used to analyze the economic system of this company, and the results of the analysis are provided to investors whether this company can or is worth investing in. I analyze the POCD framework in four parts, which are people, context, opportunity, and deal. This framework can effectively analyze companies and situations from different angles to help investors decide whether to invest or not.

There are risks and benefits at the same time. The priorities of the company are to conduct marketing and promote its products and services, for it is not known by many people. In this way, it means that investors need to invest more in marketing and other activities of the company. The prospect of the company is promising, for more and more consumers might turn on online shopping, and they would like to have their styles. The combination of AI and psychology will attract more and more consumers, and they will meet the demands of consumers.

I am optimistic about the future development of the company. The company might grow into a medium-size company within the future in a few years. When it decides to invest, it is found that the company is worthwhile investing from the perspective of people, opportunity, and context. Online digital consumption will be the future trend even after the COVID-19. Utilizing the POCD framework to conduct the analysis, PSYKHE Fashion will attract investors from the aspects of people, opportunities, and context. But it has its own disadvantages, such as insufficient talents and the difficulty of collecting sufficient funds at present. Under the influence of COVID-19, more and more people would turn to online shopping, which means that the prospect of the company is bright. The method is useful, and it will help us to determine if we need to invest in a new venture or not. But there are also many other factors related to the investment, which needs us to make careful consideration.

Although from various angles, this paper analyze PSYKHE Fashion, however, due to the lack of information, I am unable to give a detailed explanation in the deal part of the POCD framework. In the future research, I plan to continue to follow up the development of PSYKHE Fashion, especially paying attention to

economic and financial data analysis, to lay a strong foundation for the future venture investment plan.

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