

Investment Feasibility of a Start-up Company Based on POCD Framework: Evidence from Overwolf

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ABSTRACT

Along with the development of the society, a lot of start-up company take out. In addition, investors can gain huge return with invest a good start-up company. This paper uses POCD framework to evaluate the feasibility of investing in Overwolf and expand this way to other start-up companies. Based on the analysis, we can have more idea of whether Overwolf is worth investing in. POCD is a combination of four elements: People, Context, Opportunity and deal. People are first-order important, which is about who are the people involved, and their experience about why investor can believe that they will be successful in the future, and who is missing from the team. Opportunity part is about the opportunities from customers, competition and free cash flow engine and its economics. Context contains factors that are external to venture about the company. Besides, deal is using to put the three parts together and use finance to tilt the balance of risks of the company. According to the results, it is likely that the high potential and market leadership of Overwolf and researched out what are the reasons make Overwolf be this successful now. These results shed light on investing on a start-up company.

Keywords: Investment feasibility, POCD framework, start-up company, Overwolf

1. INTRODUCTION

In-game apps and mods are frequently used by gamers. App developers and mod authors add true value to the gaming community.[1]Building in-game apps and mods from scratch is not an easy task for quite a few gamers, which is a problem lots of software companies are trying to find a solution for.

A start-up called Overwolf, has been taking the market since its establishment in 2010.Overwolf built a framework that provides creators all the tools they need to build and publish apps and mods.[2] The extensions are often focused on providing in-game services that would normally require a user to exit the game, e.g., the usage of a web browser or an IM client. The platform has gained traction in competitive video games (e.g., esports and MMORPGs),where native extensions are often forbidden due to concerns about cheating.

Evaluating the investment potential of a company,especially a start-up during its very first stages,has always been a critical issue that's attracting numerous investors.When judging whether different

types of projects have investment value, the correct reference system of relevant investment feasibility evaluation can provide positive guidance for investors' investment judgment and bring into play the effect of getting twice the result with half the effort.However,when we look at the typical business frameworks (e.g,SWOT or 4Ps[3]),they are designed and more suitable for mature companies which have been running steadily for years.The fixed reference system for investment feasibility may not always match projects of different species types, when they neglect the uniqueness of start-ups,such as limited resources,high-speed expansion,and flat organizations.

Therefore, it is particularly important to develop a universal evaluation system for start-ups.William Sahlman, professor at HBS had developed a framework POCD (people,opportunity,context,and deals) himself for building and financing new ventures.¹The POCD framework could provide a comprehensive assessment of them with incomplete information, to study this company and conduct research.Analyzing the context in which a company is located can not only avoid the one-sided

analysis of the individual company, but also look at the difficulties faced by the company in the context of the environment. Great leadership and execution are also the prerequisites of a fast-growing start-up. Evaluating the business opportunities that the start-up is pursuing could not only let the investors know the probability of success of the project, but also let them be aware of the whole market. Finally, deals, which refer to the implicit and explicit contractual relationships between the venture and all resource providers.

This framework is consequential because it contributes to the existing literature, making the literature associated with this model becomes more ample and rich. Additionally, more information is available for the investors when they do analysis, which helps them make more accurate judgments, and the investment decisions of VC has reference and reference significance. Furthermore, this research could also help the start-up companies know clearly about their role definition, and the aspects and details of improvements that they need to focus on.

In the paper, the POCD framework is applied to evaluate the investment value of a specific start-up. Overwolf was picked as a case, given its innovative business model and new emerging business sector.

2. People

2.1. Founders

As the CEO and Co-founder of Overwolf, Uri Marchand has rich experience about computer science since his Bachelor of Science degree from The Interdisciplinary Center (Reichman University). Reichman university is aiming to train future leadership, and there is distinguished former member of the Knesset: Yoel Razvozov (2013–2021). Furthermore, Uri Marchand receive high grades scholarship and the Efi Arazi entrepreneurship scholarship all year of studies and Chai scholarship for outstanding computer science students. Besides, he also scored 763 points in the Israeli psychological test, which has an average score of 548. Therefore, it is incontestable of his leadership and his professional knowledge.

2.2. Board Member

2.2.1. Board Member

Bruce Hack is definitely a heavyweight board member of Overwolf. One of his most important positions is that he served as vice chairman of Activision Blizzard during 2008 to 2009. Activision Blizzard is the world's largest video game publisher. Moreover, he also architected one of the largest turnarounds in video game history, from a \$250 millions loss in 2004 to an \$8 billion merger valuation in 2008 when he was CEO of Vivendi

Games. In addition, he also employed as CFO of Universal Studios between 1995 and 1998 and Vice Chairman of Universal Music Group between 1998 and 2001. All those prestigious positions all show up his rich experience about digital entertainment industry. Relevantly, it indicates his confidence on Overwolf's sustainable development as he is will to be the director of Overwolf.

2.3. Investors

For the investors, the huge numbers of funding can give absolute evidence of that investors are optimistic about Overwolf. So far, Overwolf has received \$74.7 million total funding amount. The biggest funding is the recently one, Series C with \$52.5 million, and the lead investors are Griffin Gaming Partners and Insight Partners (seen from Fig.1). For Griffin Gaming Partners, this is a leading venture capital firm singularly focused on investing in the global gaming market. As a derivative of gaming, Overwolf is naturally came into their sight. Venture capital fund Griffin Gaming Partners has raised \$235 million to invest game companies and related technologies around the world. It indicates that they are very optimistic about the prospects of game industry. And about invest Overwolf, Griffin Gaming co-founder and LionTree managing director Nick Tuosto thinks, Overwolf offers thousands of composers the only way to profit. Conversely, it will also increase the level of participation of publishers, and they can offer more details for players. The service, as offered by Overwolf, represents a new generation of platforms for user-generated content for games. And he's happy to invest in this leading company and drive development in this space. It shows that Overwolf have huge contribution of pushing gaming industry develop. Along with gaming industry develop, the development of Overwolf is going to get faster. For another lead invested company: Insight Partners. This company is not only focus on gaming industry, but they are also focus on all internet industry. On this basis, it also reflected the company is optimistic about Overwolf so that they can noticed this company which is really small of the whole internet industry. Insight managing director Teddie Wardi thinks, They have focused on UGC in gaming for many years and they believe that Overwolf is a leader in this space. AAA Game studios hope that creators can create and express their ideas, and Overwolf provides them with a platform. They can ensure that creators' contributions are recognised and ideas can be easily incorporated into games. Overwolf has proven to be a strong advocate for the game developer community. They look forward to helping them rise in 2021. They have strong confidence about the dominance of the Overwolf in UGC. With this huge amount of series C founding, the Overwolf's leading position in the UGC is even more unshakeable.

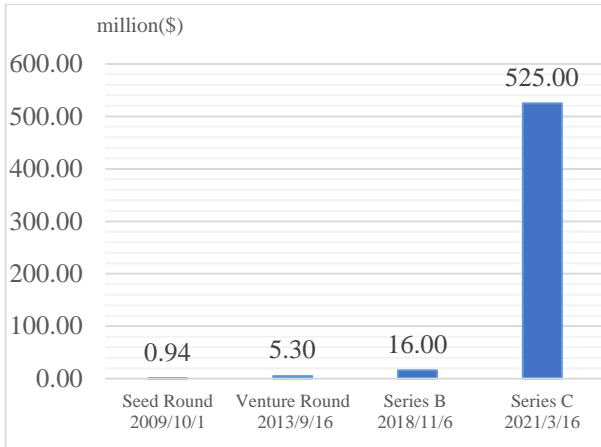


Figure 1 The Funding of Overwolf

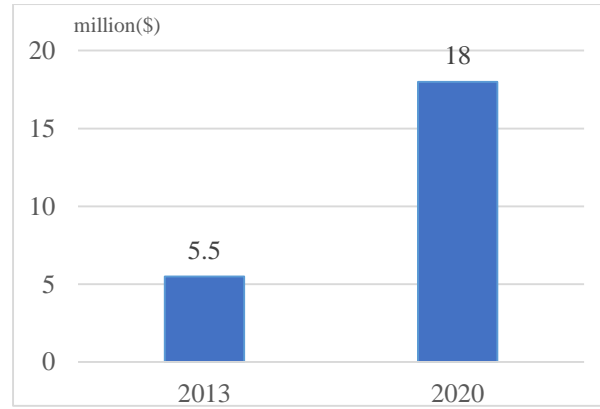


Figure 2 Overwolf 's User

3. Opportunity

3.1. Market

From the market environment, the speed of development of UGC is only going to get faster. There are two main reasons about it: sociability and “free-to-play” model. The first advantage of UGC is his powerful sociability. One can play UGC games or using UGC platforms from another players. There is huge difference between the things are created by author and players. As everyone knows, there are more players than authors. Thus, there will be more creativity from players. This creative outlet is a way to express yourself, and the ability to do so collaboratively creates a truly unique and special experience that attracts a huge market and, because of the more open-ended gameplay implied by the creative aspects, engages its audience much more than a more linear game. In contrast, free-to-play model is more powerful to attract players. There are a lot of great big games in the world, and they are more expensive with higher quality. Because the developers of the game have paid a lot for those games, it is fair enough. Nevertheless, as for UGC, most contents are free. It is easier to affect new players since they can just try it with free, they will not lose anything if they do not like it. It does not mean that UGC industry cannot make money. Through a clever monetization strategy, free-to-play games can (and increasingly do) generate more revenue than pay-to-play games. Microtransactions and advertising are both great monetization opportunities. There were only 50,000 users on the start of the beta release, but then the numbers grow up rapidly in 2013 with 1,000,000 at beginning and 5,500,000 at end of the year. Additionally, there were 18,000,000 users at end of 2020 as illustrated in Fig.2. Thus, the prospect of Overwolf is pretty luciferous, and investors do not need to worry about the company’s profitability.

3.2. Cooperation

Overwolf is cooperating with Intel, Twitch, Logitech, Cloud 9, etc. Intel is the biggest semiconductor company in the world which has huge impact of internet industry, not to mention the game industry. Twitch is the biggest stream platform since it hosts 91% of all video game streaming. Logitech is one of the world’s largest hardware companies. Cloud 9 is a famous esports company in America, it is also the world’s second-most valuable esports organization in 2020. In general, Overwolf has cooperated with a lot of companies involved in the game industry. The most important cooperated should be the cooperate with PUBG. After all, Overwolf is a derivative of games. Therefore, it should take a lot of convenience that working directly with game companies. This is a win-win cooperation. Overwolf can get more support from game companies and Overwolf can attract more players to the game and add more fun and possibility of the game.

Table 1 Advantages and disadvantages

| Aspect | Strength | Weakness |
|-------------|---|--|
| People | Members of the Board have extensive industry experience | Small staff size |
| Opportunity | Related industry grows rapid | Greater competitive pressure |
| Context | strong anti-risk economic strength; Beneficiaries of the Belt and Road Internet Platform; A unique platform for gamers and creators | monopoly economy; unstable policy pressures; financing issues and copyright issues |

Apply POCD framework to Overwolf. We can see table 1 about the advantages and disadvantages above. Overwolf has strength of people from their members of the board have extensive industry experience. But by contrast, they only have less than a hundred employees. For opportunity, Overwolf is lucky that they caught in the high speed of game development period, and the greater competitive pressure is accompanying.

4. CONTEXT

Analyzing the environment in which a company is located can not only avoid the one-sided analysis of the individual company, but also look at the difficulties faced by the company in the context of the environment, similar to the occurrence of systemic risks in financial investment. In finance, systemic risk is the risk of collapse of an entire financial system or entire market, as opposed to the risk associated with any one individual entity, group or component of a system, that can be contained therein without harming the entire system. It can be defined as a potentially catastrophic instability in the financial system caused or exacerbated by idiosyncratic events or conditions at financial intermediaries. It will have different impacts on different companies, i.e., companies that take precautions against systemic risks in advance will ease the pressure. Therefore, studying the company environment can not only study the risks that the company may face, but also resist risks as much as possible, improve the company environment, and enhance the company's competitiveness.

For game platform company Overwolf, its economic environment, political environment, technology and competition environment, and Internet environment must be analyzed.

4.1. Economic

Economics is the social science that studies how people interact with value; in particular, the production, distribution, and consumption of goods and services [5]. Economic is generally divided into macroeconomics and microeconomics. In order to study the national economic environment facing companies, macroeconomics analysis methods are mainly used here to study the impact of factors, e.g., gross national product and factor distribution on the operating conditions of game companies.

4.1.1. Advantages

Israel is the most industrialized and economically developed country in the Middle East. Israel has a well-developed market economy, but the government also performs certain management. Israel belongs to a mixed economy with a high degree of industrialization. It is dominated by knowledge-intensive industries and has high technical levels in high value-added

agriculture, biochemical, electronics, and military industries. Israel's overall economic strength is relatively strong, and its competitiveness ranks among the world's top.

The emergence of COVID-19 in early 2020 has led to a sharp decline in the global economy. The level of epidemic prevention in various countries is uneven, while Israel has performed well. Gross domestic product (GDP) grew at an annual rate of 15.4% in the April-June period from the prior three months, bouncing back from a weak first quarter with big gains in exports, consumer spending and investments. After posting a better-than-expected 2.6% contraction in 2020, Israel's economy was projected to grow above 5% this year on the heels of a rapid vaccination roll-out that led to a nearly full reopening of businesses after emerging from a third lockdown in mid-March [6].

The above shows that Israel has a strong anti-risk economic strength. Although game platform companies do not require actual offline store sales and are less affected by the epidemic, strong economic strength can bring stability to the company's operations. In addition, more and more production factors such as manpower and capital are invested in game platform companies, which has promoted the development and expansion of game platform companies. With the rise of the Internet, many students have gradually studied and even engaged in computer-related businesses. As a result, the game platform company has strong financial strength and talents.

4.1.2. Disadvantages

The higher the country's economic stability, the higher the people's standard of living, and the higher the remuneration requirements for work per unit of time. Especially in the current Internet competitive environment, companies pay for the labor costs of technological programming talents. Moreover, it is a huge expense for small businesses. Secondly, although there are industry barriers in the technology industry, technical talents are updated and iteratively fast. Many start-ups or large-scale companies can use high salaries to attract talents, leading to talent concentration. Thus, it creates a monopoly economy for game platform companies, such as China's Tencent Holdings. Therefore, for Overwolf, there are still certain obstacles to building monopoly economic barriers, unless Israel can play a leading role in the global economy, e.g., Apple and Intel.

4.2. Politics

The political environment of a country mainly includes the country's general political policy, political system, political policy, laws and regulations. The overall political policy determines the direction of a country's political development. The system can easily affect the

operating conditions of enterprises. For example, China's restrictions on extracurricular tutoring in 2021 have caused the stocks of educational institutions (e.g., XRS to plummet and layoffs).

4.2.1. Advantages

The main purpose of China's Belt and Road development strategy is to actively develop economic partnerships with countries along the route, and jointly build a community of interests, a community of shared destiny and a community of responsibilities of political mutual trust, economic integration, and cultural inclusiveness. Israel is one of the countries along the route that enjoy the economic, political, cultural and travel benefits brought about by the Belt and Road Initiative. Among them, China has also proposed the Belt and Road Internet platform, which has enhanced the popularity and user base of Israel's national Internet platform. In addition, in the context of a stable political environment or a global political community with a shared future, the people are no longer limited to domestic consumption methods and simple game experiences, and they are more eager for their favourite game characters and game modes to appear in the public eye, especially in the international market. In addition, Overwolf provides such a platform for gamers and creators to continuously reshape the company's reputation, use the company's customer loyalty to continuously raise the scale of financing, and reward game developers.

4.2.2 Disadvantages

Israel's political parties are complex, and the government adopts a party rotation system with separation of powers. The political environment is more complicated, and policies are prone to instability, which brings more negative factors. Since the unstable political system will have a certain impact on the economic system, political parties have different levels of support for different industries in different periods, i.e., Overwolf faces unstable policy pressures. If Overwolf is strong enough to threaten the American game development platform client, then the United States may treat China's Huawei, Lenovo, etc. to restrict Overwolf's global development. Therefore, a stable and strong political system can counteract the unfair trade war in the United States, such as China.

4.3. Technology competition and Internet

Technology and the Internet are changing the 21st century, as well as the lives of people. Looking back, smart phones have not yet appeared, and visualized smart screens and visual game experiences have not yet appeared in people's lives. The development of technology and the Internet affects the distribution of human life time, affects the competitive position of

countries in the world, and affects the production efficiency, sales strength and long-term benefits of countries.

4.3.1. Advantages

With the improvement of human living standards, human beings have higher and higher requirements for spiritual materials, which means that entertainment has gradually become a choice of humans, and game products are the easiest way to achieve entertainment. In order to stand out in the current international market with highly developed games and the Internet, technology has become the most important theme. Overwolf is committed to build a framework to provide creators with all the needed tools and publish applications and modules, and provides a very good platform for gamers and creators. The creator decides the game, and the gamer decides the game. It is different compared to platforms such as Tencent Holdings and NetEase Games. They are a team composed of 90 developers, product managers, designers, technicians and geeks. They are committed to providing services for in-game application developers and module authors. They are a team of professional and technological talents, which has technological advantages [7].

4.3.2. Disadvantages

The flaw in their technology lies in capital investment and financing. They use a lot of funds to reward game creators. The liquidity of funds depends on the degree of financing. They achieved 16 million US dollars in Series A financing in 2018. If they fail to raise funds on time, can they support the company's operations. Secondly, the ownership of the copyright of the company's game creation is a big problem, which is where technology is prone to contradictions.

5. Conclusion

In order to evaluate the feasibility of investing of Overwolf and analogous start-up companies, POCD framework is applied to analyze as clearly as possible them without too much information. Since market competitiveness, their internal resource of most companies is always only a small part of it will be shown. They will think about disclosure of some information will put them at a disadvantage in market with competitors. However, they also need to show up some information to attract investors. Therefore, POCD framework is powerful for investors that they can analyze information that is beneficial to the investment from those limited information. In this essay, we take the case of Overwolf. We utilized limited information from internet about Overwolf and apply them to POCD framework from three different parts: Context, People and Opportunity. According to the results, Overwolf is good to invest from

its abundant capital, market leadership and excellent market environment. Through the progress of writing this essay, we found the investment feasibility of Overwolf and practicability of POCD framework. Contemporarily, it is important to get more information from limited information. Based on the analysis, we have the first try about using POCD framework to research a start-up company. It is hard to clear up the information from internet about Overwolf at beginning. Those information looks like chaotic and unrelated. For investors, the huge potential of Overwolf is nonnegligible. Overwolf already has the best market environment, all they need is the huge funding for quickly seize the market share. However, for future, the profitability probably is a huge problem of this industry. Overwolf attract users and creators with huge reward, but the most return is heat rather than money. Hence, if investors want to keep this industry up, the new ways to make money is important. However, after classifying them to each part of POCD, we find their relations and make them easier to analyze. POCD framework is using on limited information of start-up companies, but it does not mean that more information is not necessary. More information is still good for using POCD framework to analyze a start-up company. In general, no matter which method using to analyze a start-up company for invest, more information is always better for an investor, but POCD framework is a good method with limited information. These results offer a guideline for Investment factors of startups.

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