Analysis on the Company Lovepop Using POCD-Model

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Abstract. The analysis of start-up enterprises is one of the important research topics in venture capital. Researchers use many methods to analyze start-up enterprises. However, POCD model is rarely used to analyze start-up enterprises in these methods, and there is still a research gap in the analysis of start-up enterprises with POCD model. So the purpose of research is using POCD to analyze startups in order to show a comprehensive understanding of the POCD model and how to use it to analyze startups. Therefore, the research topic of this paper is how to use POCD to analyze whether startups are worth investing in. The research methods of this paper are as follows: firstly, the data of start-up enterprises are collected, and then a start-up enterprise is selected for analysis. In this study, Lovepop is showed as the research object. The result of the study is that lovepop is at a high risk for investors to invest in lovepop because the industry is in a declining industry, the total revenue of this industry is declining every year, people's demand for this industry is declining, and Lovepop is short of capital, and the initial investment is small. Investors need to bear more investment pressure and they need to be given more investment to help them operate otherwise they tend to run out of money and the company cannot operate. Lovepop should further improve its product quality and technology.

Keywords: POCD-Model · Lovepop · Case study · Venture capital

1 Introduction

To evaluate start-ups, there are many specific methods, such as the first common method for risk evaluation, the risk assessment method. It is a comprehensive assessment of the damage severity or frequency of losses caused by investment risk accidents, which can be divided into risk accident damage degree assessment and risk accident frequency assessment. Usually, risk assessment can be divided into 1 to 10 levels, the higher the level, the higher the risk level. The second common method is checklist evaluation method. Checklist evaluation method gives scores to inspection objects according to certain standards, with higher scores for important items and lower scores for minor items, and then gives scores according to the actual situation of each inspection item. In order to obtain full marks of this item, each inspection object must meet the corresponding conditions. Those who do not meet the requirements will get the full score of the evaluation according to certain standards, and the comprehensive evaluation score

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of all projects will not exceed 100 points. Therefore, the risk degree and risk grade of risk factors can be evaluated according to the score of investment activities investigated. A third common methods for the Delphi method, Delphi method is essentially a feedback anonymous inquiry method, the general process is: after getting the opinions of the experts about prediction problem, carries on the sorting, induction and statistics, then the anonymous feedback to experts, again for advice, and then focus on feedback, until stability. The evaluation results of Delphi method can be expressed in the form of tables, direct pictures or written narration [1].

In contrast, POCD model has many differences from these three methods. POCD includes specific analysts and their status and importance in the company, which is the essential difference between POCD and these three models. The other three factors in POCD, opportunity, context and deals, are covered to some extent in the three common methods. The advantage of POCD model lies in that it analyzes four aspects: people, opportunity, context and deals. Straightforward suggesting a company of investment structure, the company background, prospects for the development of the company, the company will have to face a variety of factors, such as decision which factor to judge whether investors should invest in the company.

This research aims to using POCD model to analyze start-ups can help investors have a deeper understanding of the companies they want to invest in. The purpose of this study is to give people a better understanding of the definition of POCD and how well POCD can be used to analyze startups. Researcher uses Lovepop as a start-up in the research, and analyze whether this start-up is worth investing through POCD, what are the advantages and disadvantages of investment, and what aspects should Lovepop improve itself in order to attract more investment.

2 Case Description

Lovepop was founded in February 2014 by Ross and Wise, shortly after they started creating their own pop-up cards using computer design skills they had learned, while earning their undergraduate degrees in naval architecture. The company is in the industry of 3D paper art. Their main business is to sell cards directly to consumers online and in local craft markets. They have launched cards in nine categories including birthday, love and wedding, selling for $8 to $15 each. Lovepop's cards are designed to be attractive with blank insides, compared with traditional cards. On the first day lovepop put the cards up for sale on its website, the website made nearly $2,000 in sales. The next day sales dropped to $50. The next day sales dropped to $50. Rose and Wise entered Harvard Business School in September 2013, Rose and Wise went to Vietnam in January 2014 to discover Kirigami in the field of global immersion. Then, Rose and Wise created the first original Lovepop in March 2014, Rose and Wise won the summer rock scholarship in May 2014 [2]. At the same time, Lovepop firstly manufacturing trip to Vietnam and sell cards in the market. From June to August 2014, I-Labrose and Wise at Harvard University launched the holiday campaign in their second year at Harvard Business School. Cumulative first-year sales in September 2014 were $95,000 [3]. In October 2014, Wise took a manufacturing trip to Vietnam; Ross opened the South Station pavilion. In December 2014 Wise asked the designers to open Lovepop Music Factory. In January 2015, the founders met with Star of Science and Technology and received the invitation to join the summer queue. Founder.org ended in March 2015; Founderorg is offering $300,000 in convertible notes. The company's main problem is switching cost is low [4].

3 Analysis

3.1 What is POCD Model

There are four dynamic components of any entrepreneurial process or venture which are the people; the opportunity; the external context; the deal. By people, those individuals or groups who perform services or provide resources for the venture, whether or not they are directly employed by the venture. This category encompasses managers, employees, lawyers, accountants, capital providers, and parts suppliers, among others. By opportunity, any activity requiring the investment of scarce resources in hopes of future return. By contact, all those factors that affect the outcome of opportunity but that are generally outside the direct control of management. Examples of contextual factors include the level of interest rates, regulations (rules of the game), macroeconomic activity, and some industry variables like threat of substitutes. Finally, by deal, the complete set of implicit and explicit contractual relationships between the entity and all resource providers. Examples of deals range from contracts with capital suppliers to the term of employment for managers [5]. The fundamental insight gained from studying hundreds of successful and unsuccessful ventures is the concept of integration, referred to as "fit", which is defined as the degree to which the people, the opportunity, the deal, and the context together influence the potential for success. According to the understanding of POCD, great business have some easily identifiable attributes. They have a world class managerial team in all dimensions, from the top to the bottom, and across all relevant functions. The teams have directly relevant skills and experiences for the opportunity they are pursuing. Ideally, the team has worked successfully together in the past. The opportunity has an attractive, sustainable business model that is possible to create a competitive edge and to defend it. The context is favorable both with respect to the regulatory environment and the macroeconomic situation. The deals provide the right incentives under a wide range of scenarios.

3.2 People

The founder in the company are Wombi Rose and John Wise. They act as manager, employees, capital provider, supplier in the company. Lovepop, which they met at Harvard Business School and founded together, has the technology to make 3D paper, and now has two investors who want to invest in their company, Techstar, a technology firm, and Founder.org. Lovepop compared to other similar companies. It has only two founders who are also employees of Lovepop, which gives Lovepop an advantage over other companies. This is very conducive to the management of the company. Two-person management can avoid the error and deviation of information transmission caused by the process of transmission from the superior to the subordinate, and save time. Sometimes the subordinate cannot understand the meaning of the superior well. Also, company can save lots of money in paying the employees, the money saved to pay workers can be used for the company's needs. However, the two founders should spend more time in the start-up company and the productivity of the company will be lower.

3.3 Opportunity

The switching cost of this industry is very low. People can choose to buy different cards in different companies depending on the customer's personal needs and preferences. It is easy to go to other companies to buy other products to try new things, in such aspects as Lovepop products attract degree and quality than other companies to make customer choice in Lovepop consumption unceasingly, but according to example sale nine cards when websites sell generated sales of around $2000 on the first day, generated sales of around $50 a day later [6]. This is enough to show Lovepop's low switching cost in the industry, which also reflects that Lovepop's product quality, service, product packaging and other factors are decisive factors in switching cost. It is difficult for Lovepop to get customers to buy again, as more and more companies come in and customers have more options. When there is a new company to enter the industry, other companies will attract customers to try their products in order to increase their popularity when the price pressure is very low in the early stage. They will restore a market price in the middle stage and attract a group of customers who like their products to consume in the company in the following period by lowering the price in the early stage. And that's going to lead to lower sales for Lovepop because most of the customers who are buying cheaper products are not going to buy very expensive products, so it is more likely to be a startup like Lovepop. The profit margins on cards are going to get lower and lower because the customers are going to buy the cards that are cheaper or the cards from one company are going to attract the customers and keep buying the cards from that company.

3.4 Context

Lovepop the company's industry is a declining industry, with the annual speed of five percent of the industry trend is gravitate to monopoly aspects (with only eleven percent of the company's revenue is consumer sales) [7]. According to U.S. statistics, the total revenue of the industry was 6 billion in 2011, and in 2015, the total revenue dropped to 4.8 billion. The total revenue has been decreasing every year [8]. Also, gross profit margin is very low, distribution strategy led to the innovation of structural resistance, making too much face could not sell the products. From the perspective of macro economy, the barrier to enter this industry is relatively low. Innovation is very important in this industry, and people have low demand for products which are dispensable products in daily life.

3.5 Deals

Lovepop attracts two investors. One was from Techstars Boston, a start-up accelerator that would provide three-months of mentoring, networking, and exposure to prominent investors. In return for that support and 18000 dollars in cash, Techstars wanted 6% equity [9]. In addition, Techstars had indicated that Lovepop was also eligible for a 100000 dollars convertible note and that moreover, they would help the founder secure any additional funds they needed prior to an institutional round of funding. The second offer was from California incubator Founder.org, which had offered a 300000 dollars convertible note [10]. Techstar gives a lot of money as well as a lot of help, while Founder.org provides a lot of money but little help. In venture capital, the partner is more important than the amount of money they can offer. When the product has a high value and attracts customers, the partner will be willing to give more money. Although Lovepop's cash flow is still negative, its capital is low and its monthly burn rate is $40,000, its product is strong enough to attract more talented partners. Lovepop chose TechStar as a low-risk partner.

4 Suggestion

According to the above analysis, it is risky to invest in Lovepop, because the company is a start-up company, that is, just starting up. They do not have their own stable profit model, and their monthly income is unstable. Moreover, the company is not well-known in the industry, so the return time of investment in Lovepop is too long and the return rate is also unstable. The investment company also has to take a certain risk on whether Lovepop will fail and run away with its money. Lovepop's cumulative revenue is $209,000, but its cash flow is not positive, and its capital is low, but its monthly burn rate is about $40,000, so LovePop's capital chain is vulnerable to breakage. They spend a lot of money each month but the return is less than the expense. What keeps Lovepop going is their Kirigami 3D paper art and the pop-up cards the team creates themselves, using computer design skills they learned while earning their undergraduate degrees in naval architecture. Lovepop has only two founders, who are also the only two shareholders of the company. Considering their initial capital shortage, they are afraid to hire too many employees on the premise of no guarantee of profits. When they want to expand scale in the future, they will need to turn to investors for further funds. Lovepop will optimize its technology to attract investment, and cover mature production lines with technology to form a complete industrial line, so that investors will have a further understanding of the company. The most important part of a company is technology, technology can make money, money can expand, expansion can improve awareness. The more customers get to know the company, the more chance customers will be attracted to the product. The second is the product packaging, packaging can let customers remember your products, packaging to meet the style of novel, color matching, shape and size and other factors.

5 Conclusion

According to the research results, investing in Lovepop, which is in an industry that is losing revenue at a rate of five percent a year, is not suggested. The reasons involve: Firstly, most other companies in this industry are losing money; Secondly, Lovepop is a start-up company that does not have its own mature operation model; Thirdly, the expenditure of Lovepop is greater than its income; Forthly, Lovepop's cash chain is fragile.

Lovepop has only two shareholders, and these two shareholders are also the founders, who are directly related to the interests of the company. When Lovepop's initial state and revenue are negative, it cannot hire too many employees because of the expenditure of funds. It cannot hire too many employees without guaranteeing the company's profit. This will also lead to the company's work efficiency is not high. Sometimes when it comes to big orders, it worries that Lovepop's workforce is inadequate. What keeps Lovepop going is their Kirigami 3D paper art and the pop-up cards the team creates themselves, using computer design skills they learned while earning their undergraduate degree in naval architecture. This paper mainly contributes to how POCD model analyzes start-up enterprises in the field of venture capital, which is conducive to investors to consider more carefully when investing. Whether Lovepop is worth investing and how Lovepop should improve in order to attract more investors can be studied in the future.

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