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"STRATEGIC INTEGRATION BETWEEN STARTUPS: THE YOUGENIO CASE"

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Firma dello studente

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Alla persona che vedeva quel qualcosa in me
che nessun altro mai scorgerà.

Quel giorno sarai solo tu
il mio festeggiato.

Abstract

This work aims to analyze a new company, founded in June 2016, called Yougenio. As it is going to be clear along the text, it is not a normal startup, because it has not been founded by a young and inexpert team of "dreamers", but it is an experiment pursued by an already established group called Manutencoop, based in Bologna (Italy), which is trying to exploit in a B2C market its previous knowledge and expertise developed in the B2B. The work has been divided in four chapters.

The first one is an attempt to summarize what are the differences between EU and a better developed startup ecosystem, which is USA. Then, it follows a brief overview on the Italian situation on both the legal framework, created in order to facilitate the growth of this kind of new businesses, and the updated actual results. New management practices for new ventures are then discussed to give to the reader an idea of which are the best-known ways to deal with startups management. Next, a general look is taken on how firms can integrate their businesses together to achieve better synergies thanks to the use of M&A processes. The chapter is closed with a focus on how difficult it is to determine their values and which are the main issues to deal with the valuation processes.

The second chapter tries to analyze in which background Yougenio is moving: in which segments the startup is actually interested, which competitors are developing in the same niche, etc.

The third one, instead, goes further in the company business overview: all past moves of the company until today are explained (with the reasons behind specific decisions taken), and so are the results achieved. It focuses on the future strategy of Yougenio and how the top management is thinking to the next steps, knowing how this niche is a fast-pace moving environment. Taking into account what precedes, the chapter concludes with financial forecasts regarding the business and its future improvement.

The text is concluded with the study of a possible integration strategy, Yougenio could go through, with two other competitors in order to boost their growth path, together.

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CHAPTER 1

1.1. Introduction

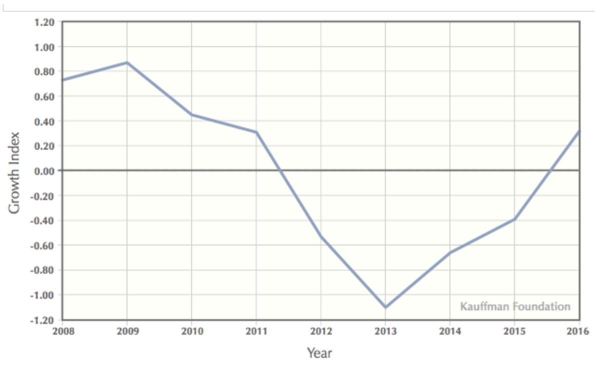
"*Innovation is what distinguishes a leader from a follower*"
Cit. Steve Jobs

Being an entrepreneur means turning an idea into action, something which can be used to produce some kind of profit. Entrepreneurs must be ready to be innovative, creative, able to manage a very high level of complexity, ready to deal with uncertainty, and, finally, they must be risk-takers in order to reach their main goals, realizing their own views. Nowadays, the idea of starting a new venture and considering a career as an entrepreneur is shared by more and more people in the world. Entrepreneurship is the foundation of each economy, it is the reason new jobs are created, new products/services are offered, it is actually the reason we are all living in the best historical period ever known. Cultivating an entrepreneur attitude is in the best interest of all countries, in fact many policy-makers, in the past 3-5 years, have introduced several new laws which have the goal to help the setup of new innovative ventures (see Italy D.L. Crescita 2.0, 2012). Universities, investors and many other subjects (different from governments) are moving to help and exploit the innovation trend which is actually continuously accelerating: "*The pace of disruptive technological innovation has gone from linear to parabolic in recent years* […]" a Merrill Lynch's researcher wrote.
Hundreds of incubators, acceleration programs and startup events which make mentors and funds available for launching new firms are everywhere spreading, mostly in USA, EU and China. However, the speed at which startup ecosystems are developing in the world is different.

"[…] *The question of whether Europe can produce world-class innovation has been put to bed. The question of whether it can produce a $100Bn company has been put to bed. And the probability that the next industry-defining company could come from Europe - and become one of the world's most valuable companies - has never been higher*" stated Tom Wehmeier, Partner and Head of Research at Atomico, in the welcome statement on the third edition of the State of European Tech Report. EU is working to provide and create the right environment which can push further the integration among deep tech expertise and its geographic diversification with the traditional industry. The research teams of Atomico, an international venture capital firm, and Slush, a non-profit student-run startup events management organization, define today as the best time to become an entrepreneur in Europe thanks

to the rising number of startup-supporting initiatives, improved access to capital and abundance of talent on the European continent.

US has many perks linked with the fact that it is the biggest economy, and, compared to EU, it has also many better macroeconomic indicators at the moment[1]. US is always being known as the natural place for entrepreneurs looking for the "American dream" coming true. According to the Kauffman foundation, which designed the Growth Entrepreneurship Index[2] to keep measured the health of startups in USA, the US ecosystem is running good after a slump in 2013.



China, the second-biggest economy in the world, is working hard in the general development of the country, and all these efforts are going to be rewarded since in some years it will become the first economic power in the world. China is keeping investing billions in pushing innovation and entrepreneurs to start their businesses. Several programs have been activated under the purpose of driving innovation: torch, among the others, has been defined "*the most successful entrepreneurial program in world if you look at its size, scale and commercial results*" by Steve Blank[3].

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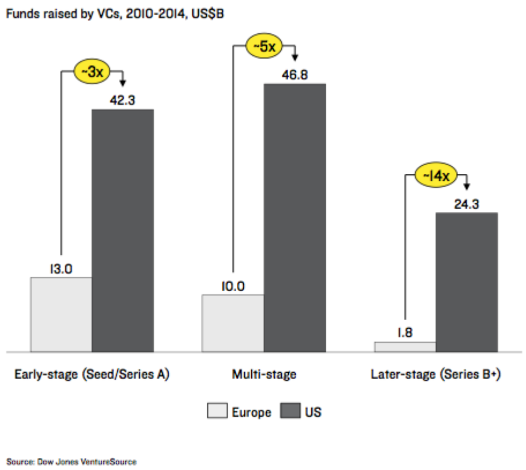
[1] https://tradingeconomics.com/united-states/gdp-growth
[2] It is composed by three metrics:
a) Rate of startup growth captures how much, on average, the cohort of startup businesses grow in employment in their first five years of operation.
b) Share of scale ups looks at the number of companies that grow to employ at least fifty people in the first ten years after creation (defined as scale ups), as a percentage of all employer firms of ten years and younger.
c) High-growth company density looks at the number of high-growth private companies in an area. To fit into at least 20 percent annualized growth over a three-year period with at least $2 million dollars in annual revenue.
[3] Silicon Valley serial entrepreneur

1.1.1. A USA - EU comparison

The European and United States startup worlds are almost opposite ecosystems. In EU, the three startup capitals are London, Tel Aviv and Berlin since they all own a huge network of players (startups, mentors, VCs, talented people, etc.) surrounding them. However, London is the only one which actually has enough late-stage funding options, since in UK are present VCs like Accel Partners or Index Ventures. This is the reason why many new ventures grow in EU, but then they plan to move and establish their headquarters in the US market at a certain stage of their growth paths. In fact, the big European lack of capital becomes clear looking at later stages: Round B onwards. As Atomico reported[4], the US produces 3x as many $B+ companies as Europe but raises 5x as much capital.



How it can be seen, Later-stage funds raised in EU are 14 times less than the ones in US, hence there is a clear lack of funds which is definitely not helping European startups. Asking funds to the American VCs is the only available way to become an international player.

American and European startups have a different final goal, and this explains another huge difference between the two ecosystems: revenue or growth first?

US startups and investors see growth and traction as the most important metrics in evaluating a startup's success, since the American market is a colossal market and a new venture needs an extremely high degree of market penetration in order to win competitors. The main strategy is to get as many users as possible with any method which can be though (massive advertising usually) in order to reach the critical point. VCs invest tremendous amounts of money into these realities hoping they will be the new Google, Snapchat, etc. This behaviour has caused the rise of many Unicorns:

[4] Source: SLUSH & ATOMICO | The State of European Tech ($B—2015)

1B$ companies whose turnovers are far from being reflective of their expected valuation. The cash flow analysis is completely forgotten/postponed until the "monster" base has been created or funds are ending. Hence, a lot of businesses fail due to their incapacity in creating enough revenues to sustain the immense infrastructures built, even though they have reached a great number of constant users, so a very high level of traction. VCs know this kind of investments have a very high level of risk since 80% of founded startups are supposed to fail or at maximum reach the break even. However, the remaining 20% guarantee enough profits to overcome the previous losses. Europe does not have this "prestige". EU startups are not in the position of using big amounts of money for growth since they have less later-stage funding at their disposal as previously briefly mentioned. Hence, they aim from day one to generate revenues even though this many times means less growth. However, to be completely honest this is not only a funding issue, but actually in Europe, when a startup is generating revenues, it's testing/proving its product/market fit: the firm is building something which people will pay for, so it is a value creating activity. European startups growth speed is lower also for the different Go-to-Market Strategy they have to adopt in penetrating the EU market. It's not possible to enter all the European countries at the same time and this explains why we do not have so many multi-billion new companies (unicorns). However, a sequential go-to-mkt, due to the existence of smaller markets, allows startups to initially focus only on their domestic markets before spreading in the others, giving them the possibility to setup the business activity and look for the product/market fit with less hurry. Then, in US there is more "intellectual capital", meant as a higher concentration of places full of intellectual capital and also high-level funders that are more than happy on taking risks. Marc Andreessen[5] argues that in his own experience EU entrepreneurs are better than the American counterparts, however the latter ones are said to be more entrepreneurial, overly ambitious and less afraid of risk. Paul Graham[6] thinks the problem with Europe is not that they lack courage, but that they lack examples. Finally, EU lacks mentorship according to Dave McClure[7]: US startups are much more exposed to mentors than the European ones.

[5] Silicon Valley investor and Netscape co-founder
[6] Y combinator founder
[7] Silicon Valley investor

1.1.2. Italian situation

On 31 December 2017, the number of innovative startups registered in the special section of the Register of Companies (Decree Law 179/2012) was equal to 8,391, with a stated increase of 537 units compared to the end of September (+ 6.8%). Startups therefore account for the 0.51% of the over 1.6 million limited companies, both active and inactive, registered in Italy (in September the incidence of the phenomenon was equal to 0.48%). The total capital subscribed by startups amounted to over € 423 million, on average € 50,423 per company: a significant increase (+ 4.1%) compared to the previous quarter. Concerning the distribution of business segments, 70.9% of innovative startups provide services to businesses, in particular software production and IT consulting (31.5%), R&D activities (13.5%), information services activities (9%); 19.2% operate in the industry sectors in the strict sense of the term (above all machinery manufacturing (3.6%), computer and electronic products manufacturing (3.3%), manufacture of electrical equipment (1.9%)); while 4.2% operate in the commerce. The innovative startups with a prevalence of young people (under 35) are 1,824 (21.7% of the total), a share three times higher than that recorded among the limited companies segment (7.2%). The innovative startups in which at least one young person is present in the company structure are 2,948 (35.1% of the total, against an incidence of 13.1% if we consider the totality of Italian companies). There are 253 innovative startups with a predominantly foreign shareholding (3% of the total), a share that is lower than that observed in the group of limited companies (4.6%). The innovative startups in which at least one non-Italian citizen is present are 1,088 (13% of the total); this share is higher than that of the group of limited companies (10.8%). Analyzing the geographical distribution of the phenomenon, in absolute terms Lombardy remains the region in which the largest number of innovative startups is located: 1,959, equal to 23.3% of the national total. Emilia-Romagna follows with 862 (10.3%), Lazio with 825 (9.8%), Veneto with 758 (9%) and Campania, the first region of the South, with 623 (7.4%). At the bottom of the ranking are Basilicata with 73, Molise with 41 and Valle d'Aosta with 17 innovative startups. In terms of employment, at the end of September 2017 there were 3,341 innovative startups with at least one employee (204 more than the previous survey), equal to 39.8% of the total, which was essentially stable compared to 39, 9% recorded in the previous quarter. Based on the increase in the total number of startups with at least one employee, the total number of employees also grew at the end of September 2017, reaching 10,847: an increase of 585 units compared to June 2017, for a percentage increase of 5.7%. The average number of employees for innovative startups is stable, falling very slightly from 3.27 to 3.25. The median value remains unchanged: at least half of the innovative startups with employees employ a maximum of 2. At the end of 2017, 34,480 shareholders were members of the 8,214 innovative startups with at least one shareholder, a significant increase (+3,080, + 9.8%) compared to 31,400 at the end of September at 7,669 innovative startups. It is conceivable that the members are directly involved in the business activity. On average, each innovative startup has 4.2 members (three months ago the figure was 4.09 at startup) with a median value of 3. These are higher data than those of the limited companies (average: 2.53, median: 2). As can be deducted, by 30 September 2017 the total number of members and employees involved in innovative Italian startups amounted to 42,247 units. By the same date a year before they were 34,791, and so the increase was of 25.4%. Finally, coming to the economic and financial indicators, it should be noticed that the currently available financial statement data for 2016 cover 58.8% of the registered startups: 4,937 out of 8,391. In the remaining cases, the company was set up in 2017, or the data on the financial statements for 2016 have not been acquired yet. Among the innovative startups registered at the end of December 2017, the value of average production per company in 2016 is equal to about 155 thousand euro, down by about 5 thousand euro compared to the average recorded in the previous quarter (- 3.6%). The median value is equal to exactly 30,000 euros, a very slight decrease compared to 30,274 of startups for which the latest balance sheet was available at the end of September (-0.9%). The average assets amounted to just over 267 thousand euro for innovative startups, down by around 5 thousand euro compared to the previous survey (-1.8%); half of innovative startups stop just under 74,500 euro (unchanged compared to last quarter). Considering, finally, the total production of innovative startups in 2016, as by 31 December 2017, it amounts to 761,450,401 euro, a figure of over 35 million (+4.9%) compared to the 725 million euro recorded by the registered startups at the end of September. The total operating income recorded in 2016 is negative for 88 million euro, compared to 83.7 million in the previous survey. In 2016 a majority of loss-making companies remain among the innovative startups: 57%, against the remaining part (43%) which reports a profit for the year. The gap with the previous survey is minimal (57.3% against 42.7%). As in the case of recently-established companies with a high technological content, the incidence of loss-making companies among innovative startups is significantly higher than that found in the universe of joint-stock companies, equal to 33.7%. ROI and ROE profitability indicators of innovative startups show negative values; if, however, it only refers to those in profit, the indices are significantly better than those reported by other companies (ROI: 0.11 against 0.03, ROE: 0.25 against 0.05).

1.1.3. Italian legal framework

The word "*startup*", definition of a new innovative business, was used for the time in our legal system in 2012 with the so-called D.L. Crescita 2.0[8], containing "Further urgent measures for the growth of the country", and converted into law 221/2012. Corrado Passera, Italian Minister of Economic Development, had asked to a group of experts to join a task force in order to put forward proposals on how to turn Italy into a country that encourages the establishment and development of startups. The main outcomes were used to write down artt. 25 to 32, hence startups were officially recognized giving them a series of facilitations and ad hoc legislation on different subjects: administrative simplification, labour market, tax benefits, bankruptcy law, etc.

The measures are aimed at promoting sustainable growth, technological development and employment (particularly among young people), the aggregation of an ecosystem driven by a new entrepreneurial culture devoted to innovation, as well as fostering greater social mobility, strengthening the links between universities and businesses and a more massive attraction of foreign talent and capital in our country. Other laws have been created in some subsequent legislative interventions with the goal to increase the range of perks a startup can have, more specifically provisions as the Decree-Law 76/2013, known as "Decree on Labour", Decree-Law 3/2015, known as "Investment Compact", and the Budget Law for 2017 (Law 232/2016).

To be identified as an "innovative startup", a firm has to comply with a series of requirements (easily checked[9]), which allow the firm to be recorded in the special section of the Business Register, managed by the Italian Chambers of Commerce system:

- be newly incorporated or have been operational for less than 5 years;
- have their headquarters in Italy or in another EU country, but with at least a production site branch in Italy;
- have a yearly turnover lower than €5 million;
- do not distribute profits;
- have as exclusive or prevalent company object – as stated in the deeds of incorporation – the production, development and commercialisation of innovative goods or services of high technological value;
- are not the result of a merger, split-up or selling-off of a company or branch;

[8] Decree-Law 179 of 18th October 2012 (art 25-32)
[9] **http://startup.registroimprese.it/isin/home**

- the innovative character of the enterprises is identified by at least one of the following criteria:

1. at least 15% of the company's expenses can be attributed to R&D activities;
2. at least 1/3 of the total workforce are PhD students, the holders of a PhD or researchers; or, alternatively, 2/3 of the total workforce must hold a Master's degree;
3. the enterprise is the holder, depositary or licensee of a registered patent (industrial property), or the owner and author of a registered software.

And what follows are some of the main benefits:

- constitution and subsequent modifications through a standard model with digital signature
- fee-cut for starting a new business
- tailor-made labour law
- flexible remuneration system and work for equity schemes & stock options
- tax incentives for corporate and private investments in startups
- equity crowdfunding authorised online portals
- "fail fast" procedure
- conversion to innovative SME

1.1.4. Critics on the Italian startup ecosystem

There have been several critics on the necessary requirements to define a new venture as an innovative startup, since by looking inside the public business register it is easy to find firms which are way far to be known as innovative. Startups selling ice creams and travels, but also consultancy firms, communication and advertisement agencies would share the main objective, according to the parameters, "[…] *to develop, produce and commercialize innovative-high-tech products and services* […]". Antonio Ghezzi[10] criticizes that: "*to be certified as innovative, companies only self-certify the respect of some parameters to be accepted*".

Moving on the role of investors (VCs and incubators), they are supposed to invest in different realities being able to diversify their investments. However, Italian market is not liquid, hence these subjects have become precise evaluators in specific small niches trying to reduce as much as they can the associated risks: on average, more than 38 years old VCs finance expert entrepreneurs, forgetting the kids working in a garage. The number of incubators grew a lot: there was a particular moment in

[10] Director of the Startup Hi-tech Observatory of the Politecnico di Milano

which there were more incubators than financed startups. In Italy, incubators are paid spaces in which founders establish their offices against a monthly rent. The main goal for an incubator should be helping these new ventures shaping their business plans offering a guidance, instead of exploiting them offering paid consultant advices.

Focusing on the European scale ups[11], the SEP (Startup Europe Partnership) 2017 Report, which is mapping them, shows good results for the old continent. In fact, the total number is rapidly increasing (67% of all scale ups have happened since 2010) and this is a general overview:
- UK has a dominant position (Brexit will reduce the total number of European scale ups by 36%)
- E-commerce, Fintech and Hospitality guide the growth of scale ups in the European ecosystem.

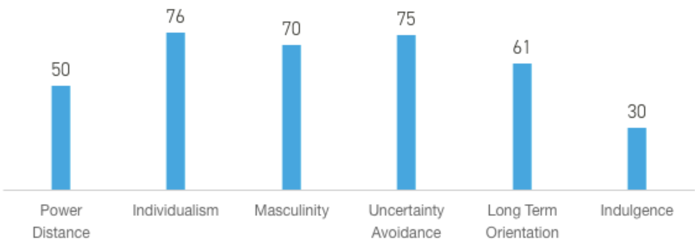
For what concerns Italy (11th in the SEP 2017 ranking), there have been 135 scale ups overall, with the capacity to attract more than 900 M€. It looks like a good result, however in UK the number of firms under the same conditions have been 1512 (with 20.2 B€) while in Germany the number has reached 442 (10.2 B€).

In Italy there are specific situations which should be changed since they literally push startups running away[12]. Italy is ranked as the 44th country in the world[13] for business-attractiveness and SMEs spend on average 52% more time than European peers dealing with bureaucracy. Not to mention the lack of a startup culture (most Italians have no idea about the meaning of the term "startup"). Universities start to offer entrepreneur courses taught by professors with no specific working experience in startups, sometimes not even outside the academia. In USA, a person can mentor another startup only if he/she has already managed to sell his/her company for more than one million dollars.
Then, Italy totally misses a hub: Milan (14,7%), Rome (8,5%) and Turin (4,7%) are the three biggest startup provinces but they do not even reach together the 30% of total startups in the country. The creation of a real hub with events, suitable infrastructures and right people would guarantee the networking which makes in this field the real difference. According to GCR, Silicon Valley, Berlin and London, for example, show how high levels of proximity are extremely important and how it is one of the main ingredient for success. This implies how Italy absolutely needs a comprehensive plan which chooses a startup capital and then invests in it, in what is missing/needed (low-cost housing,

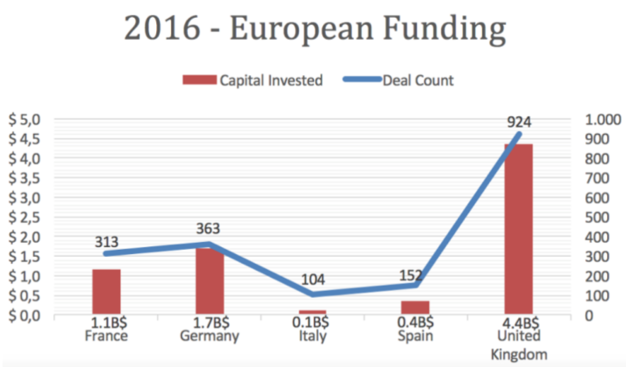
[11] According to OECD, scale ups are companies which launch activities with at least 10 employees and score an increase in employment or sales of more than 20% over three consecutive years
[12] AMERIO, M., 2016. The Italian Startup Dilemma
[13] Global Competitiveness Report (GCR) from the World Economic Forum 2016

general services, etc). Startups fail every day. Hence, creating a Hub would guarantee the transmission of both knowledge and employees among startups.

Italians are by definition one of the most risk-averse people[14], as shown in the graph. Italians express a 75 uncertainty avoidance index, compared to 35 for UK and 63 for Germany.



Finally, it is really hard to find and raise capital in the Italian market due to the difficulty of ensuring a good Internal Rated of Return (IRR) to the Limited Partners (LPs) investing in Italian startups. Italy is also characterized by a not so good economic situation which makes investments in high risk sectors highly unlikely. Italian VCs are small and focused on the Italian market, which makes them not appealing at all and causes the biggest VC funds in the country to be participated by the State through Invitalia.



14 https://www.hofstede-insights.com/country-comparison/italy/

1.2. Running a lean startup

"*It is not the strongest of the species that survive, nor the most intelligent, but the one most responsiveness to change*"
Cit. Charles Darwin

Everyone uses the magical word startup, but actually not so many people have a clear idea of what this term really means. It could seem that each new venture can be called startup in its early years, but this is not the case. The first point is that this definition is far from being close to the age of a firm. A startup is not a new born company, or at least there is not a causal relationship.

Once the process of launching a new enterprise followed a specific path: writing down the business plan, pitching it to investors in order to raise capital, team-building activities, creation of a finished product, and selling it as much as you can. The probability of fail during this summarized process is 75%, according Harvard Business School's Shikhar Ghosh, hence a fatal stop should normally be expected.

Nowadays, making these huge efforts in order to develop a product following the just shown procedure does not make sense anymore. A new methodology called the "Lean Startup[15]" raised with the goal of decreasing the risk associated with a new venture, following the main principle of pushing for experiments over huge planning activities, getting feedbacks by customers instead of C-suite intuitions, and finally iterative development over traditional product construction. In just some years, the concepts of MVP and pivot are taking place all over the world.

Questioning about the old way of doing business, the worst part was the process of writing down the "perfect" Business Plan. Writing it down has always been seen like a compulsory part: founders try to explain in this static document the opportunity size, the problem they're going to solve and the specific way of doing it. In each excellent BP there is always a five-year forecast for incomes, profits and FCF[16]. What really does not work in this approach is the timing a BP is built, even before the product. The main assumption is that a young entrepreneur must be able to find out all the unknown metrics, before both raising money and executing the idea.

[15] A startup which combines fast, iterative development methodologies with customer development principles [Cooper B., Vlaskovits P., 2010].

[16] As a matter of fact, in Italy an excellent BP is still asked by the biggest VCs & Accelerator programs at early stage startups, but mostly in order to test the team abilities before going further into the idea analysis (Source: personal experience).

When operations were completed and a convincing BP was funded with fresh cash, the entrepreneur isolates himself again in the execution of what previously decided: there is not space for customer feedback, which is going to be gathered only with the official launch. In fact, starting to sell the product is often the moment in which 75 percentage of new firms literally destroy their dreams failing or at maximum reaching the break-even point. This usually happens when there is no market and no customers ready to accept the product's features.

The secret, which also underlines the difference between an existing company and a startup, is that the former executes a validated business model while the latter is looking for one. The major difference is at the heart of the lean start-up approach: a temporary organization designed to search for a repeatable and scalable business model [Steven Blank, 2013].

Nowadays, entrepreneurs face special challenges due to technological uncertainty and new market opportunities, moreover resource constraints lead founders to deal with time and money pressures in searching the best possible fit in order to try to scale up their businesses. The difficulties just mentioned are even more hardly to fight during early-stage situations, where having some feedback from possible early adopters is pure gold information. What a startup makes are experiments: understanding the way to create a sustainable business is the main finding of all a startup's activities.

The market research revolution must go through a complete new way of thinking, wasting the traditional one. The needed process aims to turn intuitions into market-driven facts that can be elaborated in order to validate, pivot or say good bye to an initial business model idea. Sounds obvious how the process should always entail two steps: a) identify the falsifiable hypotheses concerning specific KPIs, and b) questioning them with timely and cost-efficient means.

Hypothesis and assumptions are different. The former ones (once tested) have their value in letting people make decisions thanks to them. Startups, since they suffer lack of resources, must be disciplined about hypothesis in the following two areas [Cespedes F., Eisenmann T., Blank S.; 2012]:

a) Customer Problem and Product. Entrepreneurs must formulate initial hypotheses about potential customers' problems and the venture's solution. These hypotheses are core to the customer value proposition component of a venture's business model.

Dealing with customer discovery means verify whether a market is available for the startup specific offering. Looking if the proposed product/service could effectively fill a market gap, hence the question is not how to build it, instead whether it should be created or not.

b) Demand Creation and Buying Process. Entrepreneurs also require initial hypotheses about how potential customers will find out about a startup's product, who will buy it, and who else will influence the purchase. These hypotheses are core to the Go-to-Market component of a venture's business model.

These second hypothesis set should asses which are the customers, since the "market" does not buy anything. Studying how the product is going to be perceived by the customers and adjust it accordingly are the best way to decrease as much as we can the uncertainty involved. Focusing on the funnel (awareness, trial, repurchase) gives hints on where founders should focus their attention.

Eric Ries coined the term "lean startup" to describe organizations that follow the principles of hypothesis-driven entrepreneurship [Eisenmann R., and Ries E., and Dillard S.; 2012]. This formula does not mean a startup is living keeping its costs as down as possible and/or using only founders' money. The lean startup concept is very close to the "lean manufacturing", both focused on trying to avoid useless wasting of time and money. Hence, a startup can use huge quantity of money, but after having validated its business model through testing activities. At that stage and only in that moment, the creation of a solid infrastructure and investment in customer acquisitions make sense.

Following the hypothesis-driven approach, a person converts his/her idea into falsifiable hypothesis. The creation of a so-called MVP (Minimum Viable Product) allows to test the base hypothesis. There is not one right MVP, but a series of them are often required in order to keep testing each particular feature, since an MVP is defined as the "smallest set of activities needed to disprove a hypothesis". Outcomes of this testing process are the evidences of what has to be done in the next step: "pivot" to a revised model, go on with a new secure base or drastically abandon the venture. The process must be repeated until all the key assumptions have been confirmed and the startup has achieved the so-called product-market fit: product that profitably meets the needs of the target market's customers, and can commence scaling [Eisenmann R., and Ries E., and Dillard S.; 2012].

This approach helps entrepreneurs dealing with one of the biggest risks related to their activities, which is the creation of something that customers do not want to buy at all. Along with this text, in the next chapter we will see a real case in which startup founders wasted resources building and marketing services before they had done their "homework" finding the best business model.
In fact, the first goal an early stage startup should pursuit is not the growth, but the creation of sustainable business by controlling uncertainty before trying to scale up.

1.2.1. Lean startup method

Startups often accidentally build something nobody wants, it does not matter much if they do it on time and on budget. The Lean Startup is a new way of looking at the development of innovative new products that emphasizes fast iteration and customer insight, a huge vision, and great ambition, all at the same time [Eric Ries E., 2011].

Early adopters

An early adopter is a customer who feels a need for your product more acutely than others. Those people have two particular features: a) easily forgive mistakes and b) eager to give feedback.
When a startup has been setup (early-stage level), it should initially aim to have a small gross number of sales since the goal is to sell its product/service only to visionary early customers, just mentioned early adopters. This is a required first step, before a new product can be directed to a mass market. On average, early adopters easily accept an 80% solution for their problems. They use literally their minds to think and create what is missing in your developed solution. What they want and care about is being the first in using a new technology. In fact in the B2C market, for example, being the first to have something to show (pc, telephone, etc..) is what pushes early adopters in their purchase behaviors. The same happens in the B2B market, where gaining an advantage acquiring a new tool your competitors do not have yet is really worthy, instead if it is already available and perfect there would be no pro in adopting it. The logical conclusion here is that focusing in new products' characteristics is wrong by definition, it is a huge waste of time and resources. Every entrepreneur would like to change the world with a great product which everyone will adopt, hence sometimes it is really difficult to accept the fact that you are developing something initially used by a small niche of people who let you test an incomplete product.

Build-Measure-Learn feedback loop

Applying a scientific method to a new and complex business is not an easy task. The first task to deal with is identifying a set of hypothesis that must be tested. Not every hypothesis has the same importance, a startupper should find the so-called leap-of-faith assumptions [Eric Ries E., 2011] which are the riskiest elements of a startup's plan. The most important of them are the value and growth hypothesis since they are what pushes a startup growth and its future development.

For what concerns value, is the new product or service going to be value-creating or destroying? Weird question, but addressing it is an excellent way to deal with the future uncertainty. There are many examples of projects profitable in the short term but not in the long one, for example if you are trying to develop a Ponzi scheme.
A very close speech regards the other leap of faith assumption. Growth, as for value, must be understood getting the reasons behind a possible startup's growth. Destroying value under particular growth conditions is dangerous and so common (let's think of a business that is expanding thanks to many fund-raising from investors and much paid advertising). Success theaters are often used to show how excellent an idea can be, but this behavior is not going to pay in the long run.

The first step in the BML feedback loop is the building phase, in which the team as fast as possible creates a minimum viable product that guarantees a complete round of tests and validations.
The second one is complete using useful metrics[17] which help to analyze how the customer behaves. They are characterized by the following three features:

- Actionable, cause effect clear
- Accessible, data which are not too complex to be understood by employees and managers who are not able to use them for the reason they had been created: guiding their decision-making process
- Auditable, employees must believe them, they must be credible to the employees.

These steps are often understood but not so often applied in the real world, in fact most data reporting systems do not answer questions, they are just a great excel exercise.

Pivot

"*Are we making sufficient progress to believe that our original strategic hypothesis is correct, or do we need to make a major change*?" This is called a "Pivot". It is not actually a synonym for change. Taking the decision of pivoting, a startup is trying to test a new fundamental hypothesis about MVP, business model and engine of growth. It is a new effort trying to align the startup's efforts with a business and product which create value and drive growth.
The way a startup can turn pivoting are many, here an exhausting list [Eric Ries E., 2011]:

- Zoom-in Pivot, a single feature of a product becomes the product
- Zoom-out Pivot, adding features to complete the product

[17] Vanity metrics: numbers or stats that look good on paper, but do not really mean anything important [WOJCIK, C., 2012.]

- Customer Segment Pivot, the company is solving a real problem but for a different type of customer than originally planned
- Customer Need Pivot, the target customer has a problem worth solving, just not the one that was originally anticipated
- Platform Pivot, refers to a change from an application to a platform or vice versa[18]
- Business Architecture[19] Pivot, when a startup switches architectures
- Value Capture Pivot, changes in monetization and revenues model
- Engine of Growth Pivot, a company changes its growth strategy to seek faster or more profitable growth
- Channel Pivot, it is a recognition that the same basic solution could be delivered through a different channel with greater effectiveness
- Technology Pivot[20], they are sustaining innovation, an incremental improvement designed to appeal to and retain an existing customer base.

Entrepreneurs should not be afraid of pivoting. The thing they should have always in their minds is the startup's runaways left which define how many pivots can still be done in looking the right business model. Many entrepreneurs use a wrong definition, in fact they evaluate the runaway as the amount of time remaining which a startup has to find its right business model. Hence, they evaluate it like the remaining cash divided by the monthly burn rate[21]. However, as previously explained, it is the number of opportunities the startup has to make a fundamental change to its business strategy. This makes clear how the only way to extend runaways is to get to each pivot faster: try each possible solution at the lower cost or/and shorter time.

[18] Many startups that aspire to create a new platform begin life by selling a single application for their platform. Only later does the platform emerge as a vehicle for third parties to leverage as a way to create their own related products.
[19] There are two major business architectures: high margin, low volume (complex systems model) or low margin, high volume (volume operations model).
[20] Technology pivots are much more common in established businesses and they excel at this kind of pivot because so much is not changing.
[21] a startup with $1 million in the bank that is spending $100,000 per month has a projected runway of ten months.

Engine of growth

Startuppers make mistakes, many mistakes, however this is what launching a new venture means. One of the most dangerous situation happens when a specific way of growth is not chosen, in fact to reach a sustainable[22] growth, one of the three engine of growth has to be preferred to the others. They are designed to give startups a small set of actionable metrics on which focusing all the efforts. As mentioned many times along this text, startups usually do not have a lot of time and money so they should focus only on finding the best way to do business for their ideas. Clearly, it is not possible to be perfect: test everything and behave like the literature often tries to explain. A specific engine of growth must be chosen for this reason: identifying it allows to direct limited resources on what can guarantee the growth of the business. Choosing an engine means having chosen unique metrics which will be used to conduct the business and decide the future experiments.

Again, a sustainable growth is reached thanks to the match between the business features and the engine of growth chosen. When this step is appropriately developed what is going to happen is that new customers come from actions of past ones.
Past customers drive the sustainable growth according to the following ways [Eric Ries E., 2011]:

1. Word of mouth, caused by satisfied customers' enthusiasm for the product
2. As a side effect of product usage, they drive awareness of themselves whenever used
3. Through funded advertising, as long as the cost of acquiring a new customer (the so-called marginal cost) is less than the revenue that customer generates (the marginal revenue)
4. Through repeat purchase or use.

These sources of sustainable growth power the BML feedback loops

The Sticky Engine of Growth

These businesses rely on having a high level of retention. Their expectation is that once a customer starts using their product, he/she will keep doing so. An example could be a phone service provider in which customers change for two mainly reasons: a) high dissatisfaction, or b) switch to another competitor's product. The opposite happens when a customer chooses for instance to buy Coca cola this week and Pepsy the next one, no big deal. Companies which develop a business around this engine of growth keep continuously checked their churn rate which is defined as the fraction of customers that do not remain loyal with their products.

[22] sustainable excludes all the activities that shortly increase revenues but have no long- term impact

Growing means having a rate of new customer acquisition higher than the churn rate while the speed is determined by the difference between them.

The Viral Engine of Growth

Everyone knows what a viral video is, someone publishes a post on a social network and then, no one knows how, that video becomes viral since other people share it spontaneously. This happens with videos, but can also happen with new online platforms when people are using them.

The product awareness, which is a good way to say “people know you exist”, spreads rapidly from person to person like a virus during an epidemic. Customers are not behaving in this way because they decided to do so, they do not want to be “evangelists”. Growth is a side effect when customers are using the product. However, it can be exploited. A famous example of a viral success story is about Hotmail. The startup team could not afford expensive marketing campaign so they added a feature to their product, precisely they inserted at the bottom of every email sent with their domain the following text: “P.S. Get your free e-mail at Hotmail” along with a clickable link. 18 months after launching, they were selling the company to Microsoft for 400 $M.

As any other engine of growth, the loop can be quantified and can be called the viral loop. Its speed is determined by the viral coefficient: the higher it is, the faster the business will growth. What it measures is how many new customers a new customer brings with him/her[23]. When it is higher than 1, we have an exponential viral growth.

The Paid Engine of Growth

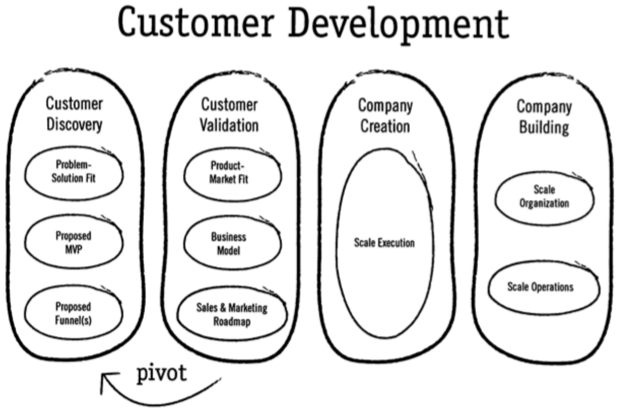
Let’s consider two businesses: the first one makes 1$ on each new customer while the second one makes 100$. From this information it is not possible to understand which one will grow faster than the other. Adding the Cost Per Acquisition (CPA) for both companies, which is very easy, gives some hints. The only ways to increase their rate of growth are either to increase the revenues or to decrease the CPA from each new customer. Of course, this engine of growth works when the revenues coming from a new customer are bigger than his/her CPA.

[23] 0,1: every 10 new customers, one is brought by them; 2: every customer is going to bring other 2

1.2.2. Customer development

Steven Blank, in his book “Four Steps to the Epiphany”, introduced for the first time the concept of “Customer Development framework” [Cooper B., Vlaskovits P.; 2010]. It is formed by a four-step framework useful to search and confirm a) the startup market for its product, b) the right composition of the product features, and c) the correct way of acquiring clients.

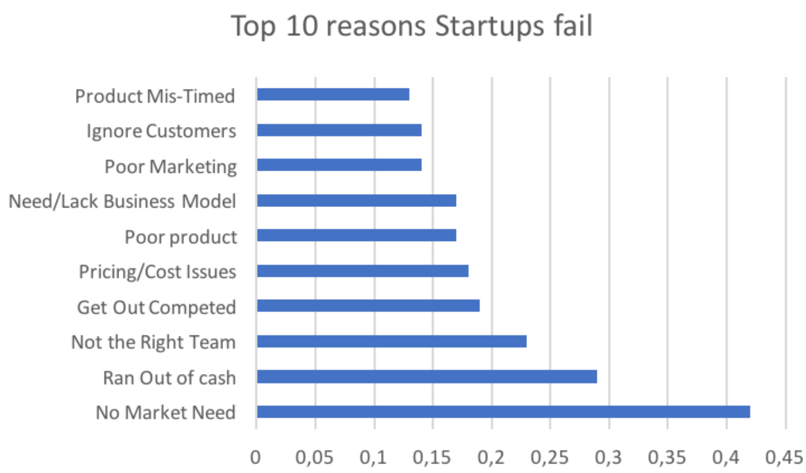
Customer Discovery: A product solves a problem for an identifiable group of users.
Customer Validation: The market is large enough for a business to be further developed.
Company Creation: The business is scalable with repeatable sales and marketing roadmap.
Company Building: Company departments are founded to support the scale up.



Customer Development is not linked with a define business or industry. Everyone can gain great advantage in developing this way of thinking and applying it to different realities.
CD is about questioning your core business assumptions. It applies a scientific method to what is really not scientific like building a business.

Practical Tools

As underlying in the previous paragraphs, startups are very different from a traditional business, mostly for the high level of uncertainty and risks they are supposed to face day-to-day.
As a matter of fact, they have also a very high failure rate which is more or less of 75% on average. It is very interesting to analyze the specific reasons why a new venture fails: the following chart has been created questioning founders of 101 startups "Post-Mortem".
Having no market need, running out of cash and choosing the wrong team are so common situations that every startupper has to pay attention to them even though they always think that is not their case.



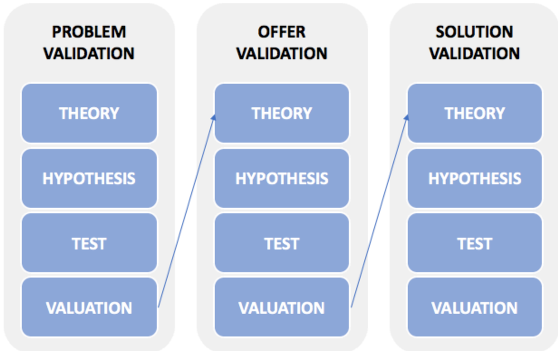
Lean Startup is a scientific method which can be applied to any decision of any startup. The method is based on 4 key pillars:

1. Theory: The question that must be addressed here is why what the startupper has in his/her mind should be successful. In a nutshell, why does he/she want to solve that customer problem? Why in that particular way? And why using that acquisition strategy?

2. Hypothesis: They are the declination of the theory in short and concise sentences that can be confirmed or not by data collected in the field. A threshold is often defined for which the hypothesis is rejected or not.

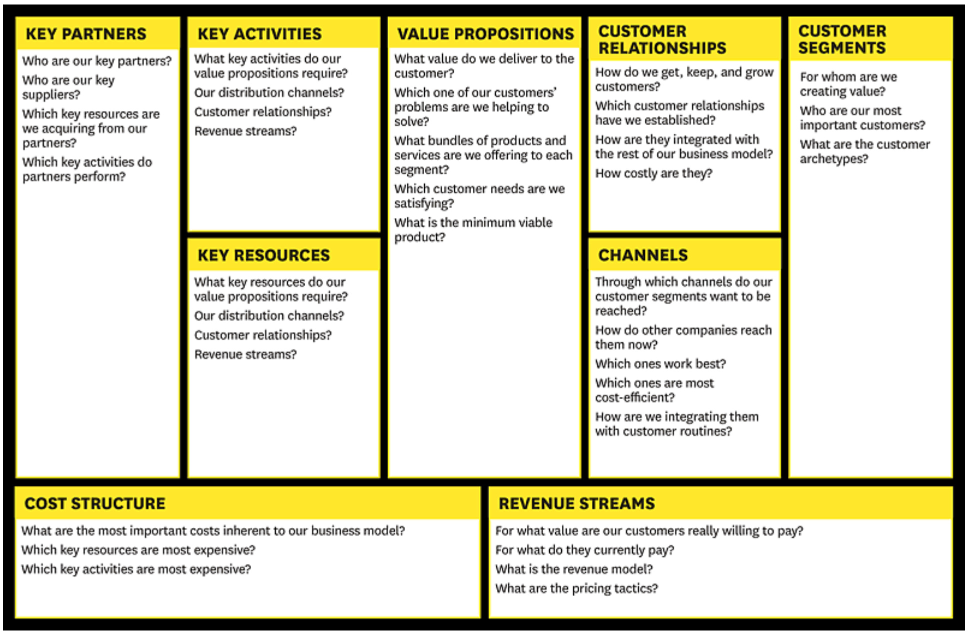
3. Test: A test is a collection of data that confirms (or not) hypothesis. It must be rigorous (representative and unbiased sample) and appropriate to the context.

4. Evaluation: It consists in the analysis of the results that confirm or not the hypothesis and - consequently - can lead to a redefinition of the theory.



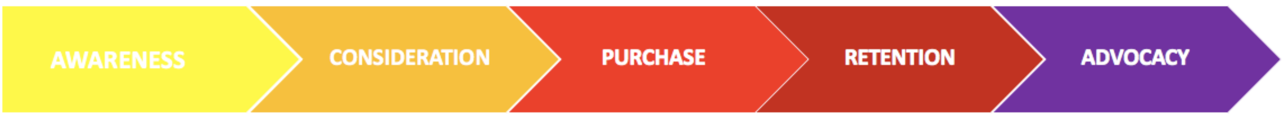
This process is continuously applied (not just once) in three macro categories which are the Problem Validation, Offer Validation and Solution Validation.

Following this process, the first step a startupper is supposed to do is writing down his/her Business Model Canvas[24], which helps to have under control all the four fundamental areas of a business: customers, offering, infrastructure and the financial sustainability. It represents the *theory* behind the business idea. Each block contains *hypothesis* that will be tested in the following phases.



Problem validation

After defining your general theory (BMC), the customer problems must be analyzed through the customer journey, which is a map of what the client is doing.



It is a tool that helps to identify problems, needs, dissatisfactions but also the friction points in the user's journey that are those situations in which a consumer can face some of the following problems:

- Decision (the consumer cannot easily decide between options)

[24] Each BMC changes according to the type of Business Model (direct, marketplace, multisided)

- Research (the service / product is difficult to find or reach)
- Ease of use (the service / product is difficult to use)
- Trust (the customer does not trust the current situation)
- Obstacles (the product / service is expensive, takes a long time)

The customer journey represents the theory in the phase of problem validation, but is based on many conjectures and assumptions about what the startupper believes consumers do.
The critical parts of the customer journey must be considered as hypothesis to be validated[25].

At this point the secret stands "*out of the building*", in fact people do not know what they want, but they are very expert on the problem they feel. Hence, the only way to actually falsify the startupper's idea is testing it with several tools asking for feedback to other people.
Below a not exhaustive list[26]:

1. Interviews: the most effective and fastest way to obtain detailed information on the problem (organization = min 1 day; execution = min 20 minutes)

2. Observations: when information on real behavior is more important than the opinion of the user (organization = min 1 day; execution = depends on the cases, min 2h)

3. Reenactments: when an experience is hardly analyzable and / or rare (organization = 1-3 days; execution = min 0,5 days)

With the 4th step, in the problem validation, the startupper should have enough data to answer the following question: "Did the interviews lead to a pivot on the value proposition or on the target?".
If the answer is no, he/she can access to the offer validation.

[25] The hypothesis have to be: a) explicit, b) testable, and c) measurable
[26] These tests can also be used together to produce more precise information and different aspects of the user experience

Offer (& Solution) Validation

The goal is to understand if the user is "active"[27], or willing to pay to get the solution to the problem that the startup has validated, even before building the solution (solution validation).
Making an offer-validation in a scientific way means constructing the offer in a manner consistent with the findings of the interviews, monitoring specific metrics to assess the real interest of potential customers and testing different "versions" of the offer.
At the moment, the startupper knows what the problem is and how people feel about it. Using the "pain-points" expressed by potential users he/she can build an attractive offer, which leads to the following hypothesis (which have to be tested):
1) Is my potential client active in front of the offer I am presenting?
2) What is the best offer?
3) What is the best combination of supply and acquisition channel?

Once the solution has been created and all the major decisions have been taken it is time to understand if the target is going to use it at the set price and if the solution offered creates the assumed value, concluding in this way all the three validation processes.

Another issue to address here is whether or not to distinguish between offer and solution validation, since in practice sometimes they are close enough to avoid the double step. However, principles must be followed anyway:

1) even if they are done together, it is necessary to get both the activation rate of the offer and that of the solution
2) it depends on the costs (money and time) to realize a first solution (if it is too expensive to create the solution, starting only with the offer validation is a good idea)
3) it depends on the "value" of the experiment (sometimes the offer validation by itself is too little to convince the user to activate[28]).

[27] Generally speaking the most common used metrics in the evaluation process are the so-called AARRR (Acquisition, Activation, Retention, Referral, Revenue) and the focus here should be on the 2nd one
[28] ex: a flyer that advertises a new type of food may not work if I do not do a tasting too on site

In any case, the most used test is the A/B test which is a parallel comparison of two versions of the same offer or solution that vary by a single feature, shown to two groups of users / customers randomly divided (so that they are similar and therefore comparable).
These tests help understanding what the best offer is and can be used practically everywhere in finding:

- Best value proposition
- Best User Experience (UX)
- Best layout
- Best acquisition channel
- Mile activation mechanism
- Best price
- Best solution
- Better features of your product / service
- Better interaction with the customer

1.3. Startup valuation

"*Always choose your investors based on who you want to work with, be friends with, and get advice from. Never, ever, choose investors based on valuation*"
Cit. Jason Goldberg, FAB cofounder

Established firms need money to carry on their activities, and new ventures make no difference. One of the most important difference between them is the uncertainty of cash flows that characterizes the latter ones. As a natural consequence, these kinds of enterprises face a lot of difficulties to be financed with debt and all the debt related tools since they require constant flows of money to guarantee a full reimbursement of the loan. On the other side, bankers are not really available to lend money to startups, they are also highly unlikely to have some assets as guarantee. According to Griffith E. (2017) the best time for startups to raise debt are: (1) when the company is growing, but not fast enough to get a bunch of new equity from interested investors, (2) when the economic units work but there is a valuation gap or management does not want to be diluted further, (3) when the company is close to profitable and equity is too expensive or will take too long to raise, (4) when the company is more than ten years old and equity investors are tapped out in their older funds.

Trying to find out the intrinsic value of a firm comes into play when equity financing is an almost unavoidable fact [Desachè G., 2015]. A startup's life usually starts with owners' funds. Pooling them together is a way to define how much equity each co-founder is going to receive (even though there is not obligation for having the same percentage of equity with respect to what has been invested) when the new company is setup. Generally, founders ask for help[29] to their families and friends against a very small equity share. However, it is mathematical how, independently on the business, the venture is going to search for new investors (business angels, VCs and/or PE funds). Investors look for capital gain and they should avoid situations like making an investment in startups with a high equity value with negative firm's result or a low equity value. In the former one it is highly unlikely that investors can renegotiate their stock with a better price and it is almost sure they lose their money, while in the latter one, if the founder entrepreneur is too diluted he/she is not going to spend too much effort in the business execution, making the stocks worthless. There can be many different rounds of financing and these make really probable that different investors have different investment conditions in their contracts: veto right, drag-along or tag-along clauses, etc. The value of

[29] This money being invested not for financial reasons, but mostly for the personal attachment to the people creating the company, has been nicknamed "Love Money" [Desachè G., 2015]

equity for each investor has to take into account those various features in order to determine the firm's value for each investor [Desachè G., 2015]. Selling the share to the public (IPO) is the actual final goal.

Convincing VCs to invest in a new venture without an established founder reputation might be challenging, even more when the startup is formed by intangible and knowledge based assets.
Admati and Pfleiderer (1994), Lerner (1995), Hellmann (1998), Kaplan and Strömberg (2001, 2002, and 2003) developed one of the two main lines for overcoming these situations designing institutional structures to permit financing early stage ventures with a contractual and monitoring-based approach. The other one, described by Megginson and Weiss (1991), Biglaiser (1993), and Stuart, Hoang, and Hybels (1999), is called certification-based approach and explains how external startup's affiliates signal the quality of a startup helping to legitimate new ventures which have not an history [Hsu D. H., 2002]. However not all certifications are useful since they must fulfill the following conditions as underlined by Booth and Smith (1986): 1) The certifying agent must have reputational capital at stake that would be compromised with an invalid certification; (2) the certifying agent's reputational capital must exceed the largest one-time wealth transfer from a mis-certification; and (3) the certified target must face a cost of leasing the reputational capital of the certifying agent. "*It is far more important whose money you get [as an entrepreneur] than how much you get or how much you pay for it*" (Bygrave and Timmons; 1992) and "*from whom you raise capital is often more important than the terms*" (Sahlman; 1997). Offers made by VCs with a high reputation are three times more likely to be accepted, and high-reputation VCs acquire start-up equity at a 10 to 14% discount. [Hsu D. H., 2002].

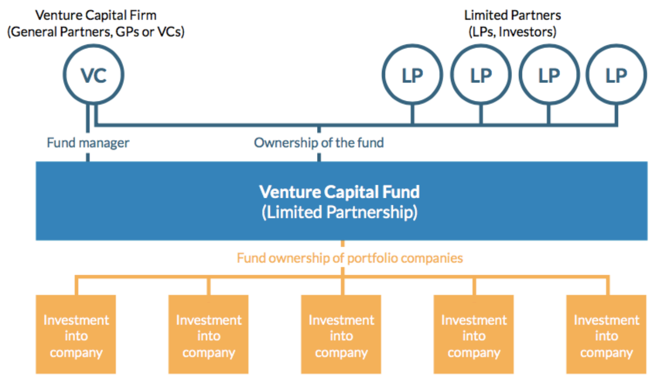
1.3.1. Venture Capital market

"[…] *while PE usually starts with existing but under-optimized companies, VCs often start with crazy people.*" [Hwang V. W.; 2012]

The institutional investment activity in risky capital is generally defined by the terms "venture capital" and "private equity". Although often used as synonyms, the real venture capital refers to the financing of the start-up of new companies (young and high-technology ones that have a capacity for rapid growth), while private equity includes the investment operations carried out in phases of the life cycle of companies after the initial one. The modern VC industry was born in 1946 but only at the beginning of '80s new capital from pension funds started to flow the market[30]. At the moment, USA is the world leader in VC with 52B$ (>60%) against China 15.5B$ (18%) and Europe 10.6B$ (12%) in 2014 according to EY [Vanham P.; 2015]. Europe is home of prominent startups and innovation hubs like Berlin, Stockholm and London. Using CB Insights data, a map of the venture capital investors in Europe by country has been created. Analyzing the most active ones (including VCs, corporate VCs, growth equity firms, and business angels) from 2012 to 2017Q3, the German High-Tech Grunderfonds has completed almost 200 deals, making it the biggest top investor in European tech startups.

According to Metrick A. and Yasuda A. (2010) a VC has five main characteristics:

a) A VC is a financial intermediary, meaning that it takes the investors' capital and invests it directly in portfolio companies (as shown in the picture).



30 In the USA VC started in 1978 thanks to the passage, a few years before, of a rule that allowed pension funds to invest in ventures [Dettori G.; 2015]

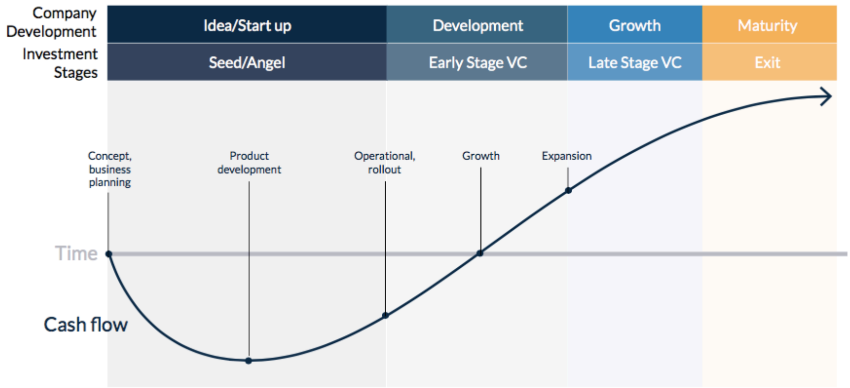
b) A VC invests only in private companies. This means that once the investments are made, the companies cannot be immediately traded on a public exchange.

c) A VC takes an active role in monitoring and helping the companies in its portfolio.

d) A VC's primary goal is to maximize its financial return by exiting investments through a sale or an initial public offering (IPO).

e) A VC invests to fund the internal growth of companies.

Taking about VC investments does not necessary mean to just give money to the "three guys working in a garage" to setup their own business, in fact there are many other possible situations. A simple classification of the variety can be explained in three stages [Metrick A., Ayako Y.; 2010]: a) early-stage, b) mid-stage (also called expansion-stage), and c) late-stage. Early-stage is usually used from the moment in which the new venture starts to sell its product/service. On the other side, later-stage firms are characterized by profits or at least a clear path to reach them, giving to the VC a concrete possibility "to exit" from the business. In the middle, we can find all the other companies which are improving their own businesses.



Sources of funding: VCs, angel investors, incubators, accelerators, strategic investors (corporate groups), growth equity investors, private equity firms, debt investors

The VC operations follow a specific path which is repeated for each business opportunity:

- investing, after having made tons of screening activities (out of hundreds, a few dozen are asked for detailed information, and fewer will receive a preliminary offer[31])
- monitoring, through board meetings, recruiting and regular advice
- exiting, since VCs are subjects to contractual obligations to return capital to their investors

This process perfectly fits with the best-owner life cycle model which explains how the best owner is not static, it changes overtime as the business's circumstances change [Koller et all.; 2015].

[31] it includes proposed valuation, type of securities, and proposed control rights for the investors

1.3.2. Stage of financing

Negotiating with a VC is a time-consuming and costly activity for both parties, hence neither the VCs nor the financed startups wish to often repeat the process. So, which is the motivation for staging the funding process? Mainly for the agency problems which are generated. Ex ante, the issue is raised when the sellers have information that buyers do not (adverse selection), while ex post, a part can take advantages assuming additional risks that not positively affect the other part (moral hazard). Focusing on the first case, staging activities are used as a way to make a screening, to distinguish between "good" and "bad" entrepreneurs. In fact, bad ones are less likely to accept a "staged" contract since they face a real risk of abandonment by the VC after not good news concerning the business come out. This is consistent with ex ante staging being a way for better firms to signal their types similar to the way short term debt is used […] [Kaplan and Stromberg; 2004]. Focusing on the second case, instead, staging is used because startuppers and VCs have different objective functions. When there is information asymmetry, the former ones could decide to take actions which are not in the best interest of the latter ones. Monitoring the entrepreneurs is the solution of the dilemma, however these activities are characterized by the so-called monitoring costs. Providing funds following a staged manner and following the development of the project are ways to solve the trade-off created between agency and monitoring costs. VCs weight potential agency and monitoring costs when determining how frequently they should reevaluate projects and supply capital [Gompers ;1995].

VCs try to provide financing for a company with the goal of reaching milestones (the development of an MVP, customer acquisition, etc). Financing events are known as rounds. The first time a startup receives funds is called "first" round (or Series A), the second time is the "second" round (or Series B), and so on. With each well-defined milestone, the parties can return to the negotiating table with some new information. These milestones differ across industries and depend on market conditions; a company might receive several rounds of investment at any stage, or it might receive sufficient investment in one round to bypass multiple stages [Metrick A., Yasuda A.; 2010].

To be more specific, it must be also explained what happens before a Series A fund can be won by a new venture. In fact, to be ready at this event, a startup has already been working a lot, validating its problem-solution fit, its product-market fit and highly likely all its business model canvas. Having this in mind, there must be a specific path to reach that level of readiness, and in fact there exist two subjects which help startups in this delicate situation: incubators and accelerators. The substantial difference is that incubators are physical places of residence for startups, while accelerators are paths (temporally limited) that should support the development of the company or allow the company to take off. Another important difference is that startups pay a symbolic monthly price after being accepted in an incubator, usually chosen in order to be only focused on the creation of the MVP, while accelerator programs usually provide a micro-seed fund of 30-50K that helps to keep running during the 3-6 months of acceleration, against 9-15% ownership[32]. The main goal of these programs is to teach how to run a lean business trying to validate any possible assumptions and be ready to develop the *traction*: people are using your product and paying for it. These programs end with the "investors day", when the startup is introduced to many investors to receive a seed fund, which is generally 300K in Europe and 500K in USA, which is going to help the new venture to run the business reaching specific milestones and be finally ready for a Series A round.

1.3.3. Valuation process

How can we evaluate a new venture? How is a young entrepreneur supposed to judge the intrinsic value of his/her idea execution? Which are the metrics used by a venture capitalist in order to make an investment decision? Addressing the answers to these questions is far from being easy, however they are essential for having a final agreement between the parts. Valuation is important for VCs since it specifies the fraction of stock they are going to receive in return for the investment, while for founders it means giving a value to the entrepreneur's efforts in the new business. The valuation process finally guarantees an alignment between entrepreneur and investor views (Clercq et al. 2006)

The value of a business (but also for any kind of investment) looking at the economic theories is the NPV of its future FCFs (Brealey, Myers, and Allen 2007). As said by Dittmann, Maug, and Kemper (2004), a way to reduce the failure rate of funding agreements between VCs and startuppers is the use of many valuation methods. Silva (2004) studied venture capitalists' decision-making and found how their attention is more focused on the entrepreneur, business idea and sustainable advantages. Financial forecasts do not seem to play a very important role in the selection of an early-stage idea. Sometimes, deciding whether or not to invest in a young startup is a matter of guessing right and feel good. Miloud., Aspelund. and Cabrol (2012) leveraged established theories in strategic management to develop an integrated framework on firm performances which can give a value prediction of early-stage new ventures. When it is difficult to value a young firm based on output (e.g. future cash-flows), pricing it based on inputs (e.g. entrepreneur, industry attractiveness, etc.) may be a better alternative

[32] Luiss enlabs, 42 accelerator and Nana bianca are Italian examples of acceleration program for early stage startups which apply these general conditions.

than ‘pure guess’.

Investors behaviors in evaluating new ventures can be summarized as follows:

- The degree of product differentiation and the growth rate of an industry are positively related to the valuation of new ventures in this industry
- A new venture is valued higher if its founder has relevant industry experiences before founding the venture, its founder has previous top management experiences and its founder has previous startup experiences
- New ventures founded by a team of founders are valued better than those founded by one founder
- The network size of a new venture is positively related to its valuation by venture capitalists

Low valuation without clear reasons is one of the biggest problem in the VC-entrepreneur relationship. Following what proposed by Miloud et al. (2012), it might help to increase both accuracy and defensibility of VC’s evaluation, and prepare startuppers to be ready to adapt business and operations to the requirements when asking for money. All the previous “metrics” are immediately available at the time of a negotiation. This approach is also likely to facilitate collaboration and reduce conflict between entrepreneurs and venture capitalists (Zacharakis, Erikson, and Bradley 2010). Being able to produce the required information and getting how a VC is going to use it will allow entrepreneurs to work more easily and not to waste time in no sense activities.

1.3.4. Valuation methods

The first method analyzed in this chapter is the Discounted Cash Flow model. In the DCF approach, the assumption of the terminal value assumes that the venture will not cease its operations in the future. In a distressed scenario, likely for a startup, there is a high risk that the expected cash flows will stop in the future because of bankruptcy or liquidation situation. Not taking into account this possibility can overestimate the value of a startup. Generally, Discounted Cash Flow (DCF) method aims to estimate a company's value as the present value of its discounted cash flows with an appropriate rate, called WACC. Valuing firm's equity by using the DCF is a process that requires at least the following steps [Koller et al., 2010]:

1) Finding the core business value of the firm, which is equal to the PV of the discounted operating free cash flows.
2) The identification and valuation of non-operating assets. The sum between the core business value and their value is the EV of the firm, which is the economic value of the entire venture.
3) The determination of the firm's consolidated NFP, minority interests and other non-equity claims.
4) The equity value can be found by subtracting the market value of debt from the Enterprise Value. Equity value can be computed as follows:

$$Equity = Enterprise\ Value - Net\ financial\ position - Minorities$$

The process of choosing the right inputs for the DCF analysis can be really challenging. A minor change in any assumption can definitely strongly affect the estimation of the company. An investor has to estimate the following three aspects which are critical for a DCF analysis:

1. Cash Flow Projections

It consists in reorganizing the financial statement, both the Income Statement and the Balance Sheet, with the goal of distinguishing among operating from non-operating items. Thanks to the reorganization of the Income Statement, it is possible to determine NOPLAT (Net Operating Profit Less Adjusted Taxes) of the firm, which does not include any gain different from non-operating assets or financial transaction (ex: interest). NOPLAT is different form Net profit, since the latter is profit

available to equity holder only, while the former is profit available to all investors (debt holder too). However, thanks to the reorganization of the Balance Sheet, it is possible to determine the Total Invested Capital which includes net working capital, operating fixed assets and all the other operating assets and liabilities.
At this point, after reorganizing all the financial statement, the next step is the historical analysis of the venture's performance. The goal is to understand whether the company has created value, how much it has grown and to compare this trend with that of competitors. Here, the formula thanks to which the Free Cash Flows, included in the DCF valuation, can be determined [Koller et al., 2010]:

$$FCF = NOPLAT + Non\ cash\ operating\ expenses - Investments\ in\ invested\ capital$$

2. Discount rate

As already explained, the interest rate used to discount the firm's expected free cash flows is called weighted average cost of capital and it reflects the *systematic* risk of the firm. WACC represents the opportunity cost for all the investors to invest their money in a specific business instead of another one. A correct and reliable calculation of WACC is one of the trickiest step in the application of DCF model because of its great impact on firm's enterprise value.

3. Terminal Value

Terminal value is the value of the operating cash flows after the explicit projection period. The estimate of terminal value is complex because of the great incidence of the terminal value on the firm's total value and the absence of widely shared methodologies for its determination. Generally, terminal value should be computed when the firm reaches its steady state, characterized by constant ROIC and growth. Terminal value formula by Koller et al. (2010) is based on the free cash flow projected in the first year after the explicit forecasting period and a perpetuity growth rate.
The perpetuity growth rate (g) should be equal to the long term growth rate of the firm's sales considering that no firm can grow at a rate that is higher than the growth rate of the economy in the long term (Damodaran, 2011).

Applying the traditional value techniques in order to estimate the enterprise value of a startup is more difficult since its conditions are usually characterized by a very high risk of failure, negative (or very small) economic indicators (EBIT, EBITDA, Net Profit) and no financial history. It is not known how much time the firm will need to reach the maturity, it is difficult to esteem how big its potential market will be, but mostly whether this new venture will keep working in the future or just fail. The DCF is not easy to use for many reasons, and one of them could be the estimation of the discount rate. Indeed, it is usually computed on mature listed companies which bear less risk than a new venture that will most probably fail even before breaking even. Traditional approaches are not incorrect, they are simply incomplete when modeled under actual business conditions of uncertainty and risk.

Using multiple methods, another classical valuation method, can be very useful even though, like DCF, it can be more difficult than a normal case, since it consists in taking a close (sector, growth rates, etc.) sample of listed companies and comparing their main financial metrics. Finding the right comparables for a startup which is innovative by definition is a real issue. Hence, trying to use new ways in order to evaluate new ventures sounds a necessity and methods of this kind have been developed in the past years, like the real options method which takes into account the potential of the firm to change its strategy through time and adapt to new market circumstances. In the traditional DCF model, many issues cannot be answered with any certainty. Indeed, some of the answers generated thanks to the use of the traditional method are flawed because the model assumes a static, one-time decision-making process, while the real options approach takes into account the strategic managerial options certain projects create under uncertainty and management's flexibility in exercising or abandoning these options at different points in time, when the level of uncertainty has decreased or has become known over time [Mun, J., 2006]. However, this complex method is not often used in practice, and is replaced by the venture capital method, which has flaws and has less theoretical justifications [Desachè, G., 2015].

The VC method, first taught by professor Bill Sahlman at Harvard in 1987, is one of the most used for defining the pre-money valuation of startup ventures. VCs want to get a return on their investments in a certain amount of time (from three to seven years) so, when evaluating a business, they are looking for how much money they will be able to resell the shares (they are about to buy) in the next financial rounds. This task is as much easier as the company has already delivered specific results and performances. In evaluating a new venture VCs try to find out [Berkery D.; 2007]: a) the max company valuation based on their view, b) the floor valuation based on the competition (other investors), and c) try to buy as closer as they can to the bottom of the range[33]. The next step is to understand the exit strategy. First of all, which is going to be the potential value when the VC plans to exit? How much will be raised in the next round of financing (since the VC is going to be diluted)? Having these two valuations (at exit and next fund step), VC needs to operate a discount process in order to have an idea of the value he/she can have for the company today. In general, given the risk taken, they look in early stage venture for a multiplication of their investment by 10 or 20 times over 6 years, in order to achieve an actual return of 6 -7 times [Desachè G., 2015]. These required returns depend on the progress regarding the project: advanced projects, less risk, lower returns asked. Following this procedure, an investor will have the maximum value he/she is available to pay, however there is competition for investments in good startups and, knowing that, entrepreneurs could not accept found proposals if they are not good enough for them.

This method has highly judgmental facts, moreover, from a theoretical point of view, it has limits and makes no sense since, as pointed out by Damodaran in the "*Dark side of Valuation*", there is not a real match between the VCs target rate of returns and the one they actually ask for [Timmons J., Stephen S.; 2007]:

Stage of development	Required rate of return
Start-up	50 to 70%
First stage	40 to 60%
Second stage	35 to 50%
Bridge/IPO	25 to 35%

In fact, the actual returns earned by venture capitalists are far from being so high. Those that follow are Damodaran's estimates for the returns of venture capitalists in 2007 in comparison with the NASDAQ:

[33] Expectations and readiness of the entrepreneur are also taken into account

	Three-year	Five-year	Ten-year	Twenty-year
Early stage	4.90%	5.00%	32.90%	21.40%
Balanced	10.80%	11.90%	14.40%	14.70%
Later stage	12.40%	11.10%	8.50%	14.50%
All VC	**8.50%**	**8.80%**	**16.60%**	**16.90%**
NASDAQ	3.60%	7.00%	1.90%	9.20%

In reality, the so high discount rates are useful in the negotiation field. In fact, when an investor wants to invest an amount of money in a new venture but founders ask him/her a too much high price, using a higher discount rate in order to compensate is way easier than discuss the startup future forecasts with the entrepreneurs.

The VC method, as just seen, is based on a valuation of a success scenario hardly discounted since it is really unlikely to happen. So, why not create a method in which different scenarios (with different probabilities) are weighed to reach an "average" valuation? The last analyzed method is the so-called "First Chicago" method, which actually answers to this question. This model combines elements of market oriented and fundamental analytical methods. It is mainly used in the valuation of dynamic growth companies. First, a financial forecast has to be set up (including revenues, earnings, cashflows, exit-horizon etc.) for each case. A detailed qualitative analysis of the market trends and the company are necessary in order to estimate three scenarios, which are:

a) Best case scenario, based upon the company performance that exceeds most expectations
b) Base case scenario, that is what the majority believes to be the future performance of the firm
c) Worst case scenario, which projects company performance if many contingencies go wrong[34]

After founding the financial forecasts for each scenario, the Terminal Value (TV) at the time of the exit must be determined, applying multiples (market oriented valuation concept), hence making a comparison between the investment and other transactions within a similar group of firms. Those peers are usually characterized by:

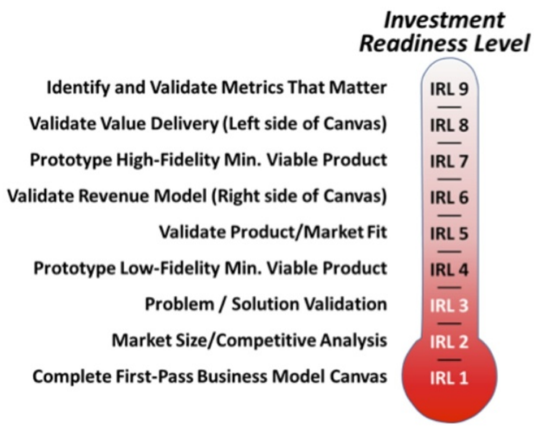
- Enterprise industry
- Enterprise stage
- Enterprise region

[34] It is reasonable to set the worst-case equivalent to the event of total loss of the invested capital

Professionals in the venture industry use multiples based on KPIs like EBIT, Revenues etc. The critical factor in this market approach is that the transaction data of the peer group are actually missing, in fact data about M&A activities in the venture industry are rare. The valuation for each scenario is the sum of the discounted Terminal Value and the discounted cash flows until the exit-horizon. The final outcomes are discounted using real cost of capitals, found using the Capital Asset Pricing Model (CAPM) adjusted for the illiquidity[35]. Then, those scenarios are composed together with different probabilities. This weighted-average valuation takes into account the risks inherent in company operations and reduces the effect of inadequacies in any single valuation method. However, critics have been raised against this model as well, since it is still very judgmental for what concerns the assigned weights and the different visions entrepreneurs and investors can have in dealing with this method in evaluating the company.

The evaluation criteria of a startup are undoubtedly one of the most controversial and debated topics in the world of angel investors. Innovative products, relevant markets and large capacity teams are some of the elements that are most commonly cited to justify evaluations that often, at the time of investment, rely more on the so-called "belly" of the investor than on objectively measurable elements [Tassi C. 2015].

Steven Blank, known as the father of the Customer Development method and one of the main inspirer of the Lean Startup organization thinking, explained for the first time one of the most important, maybe the unique, indicator of success for a startup business which is the ability to execute the search for a scalable and repeatable business model.



According to him, adopting an instrument which helps startup to behave in the correct way tracing all the progresses made in validating the business would be extremely useful in helping investors during the valuation activities. The Investment Readiness Level (I.R.L.) concept has been developed following this idea, and thanks to it it is always possible to determine

[35] Many VCs determine the required return internally. They do not trust concepts like WACC (Weighted Average Cost of Capital) and CAPM (Capital Asset Pricing Model) due to of the incompleteness of the private equity market (you can´t replicate the payoff of an investment with a portfolio of assets).

the future steps in the validation path of the business, having always verified and kept under consideration all the most important KPIs from the idea to the scale up moment.

Higher the IRL, higher the knowledge of what has been done in managing the business and what are the outcomes which can lead the investor's decisions. Overcoming the current pitch/business plan system would allow each actor in the system (startups, investors, etc.) to focus on what really matters, hence the probability of success of a new idea.

"*Investors sitting through Incubator or Accelerator demo days have three metrics to judge fledgling startups: 1) great looking product demos, 2) compelling PowerPoint slides, and 3) a world-class team. We think we can do better*" Cit. Steve Blank.

1.4. Firms Integration

"*You should talk about the business, but more importantly about values and culture to understand whether the companies are likely to be successful working together.*"
Cit. Kristian Segerstrale, Cofounder and CEO of Playfish

When large companies wish to bring new technology to market, increase their portfolio capability to address broader customer opportunities, or access new customers or market segments, their need to move quickly drives them to consider acquiring the assets of other companies. The target of acquisition, typically a startup, may have outstanding technology and a wish to exit stand-alone operation in favor of being acquired. Their motivation may be to leverage a larger company's capabilities, such as cash for growth, access to channels, and brand association. The combination of these complementary motivations may seem to provide a strong force in the market, however, a strong commercial outcome depends on successful integration to realize the consolidated potential of any deal. Many acquisitions that looked promising during the business case phase do not deliver to expectation, in part due to the implementation challenges [CARBONE, P., 2011]. Different models of integration are characterized based on how the newly acquired assets are leveraged by the acquirer.

According to Carbone (2011), four types of integration can be differentiated along two dimensions: i) the form of integration used and ii) the target organization for integration. The form of integration considers whether resources are consolidated in the buyer's or seller's company; the other dimension considers whether the combined entity remains as a standalone unit or is absorbed into the acquiring company's units.

1. The "Cross-Leverage" model leaves the acquisition as a separate business unit, but merges the technology and people into the main company. This is the default model when the acquired company is very large or has overlapping portfolio elements that must be rationalized.

2. The "New Bet" model turns an acquisition into a new, standalone business unit within the company to pursue a new market segment. This model should assist in entering a new market segment; however, the new entity must overcome many challenges, such as the acquiring company's lack of brand value in a new space and different business processes

3. The "Top Up" model breaks up the acquired entity into portfolio elements and consolidates it into the acquiring company. This model works well to accelerate a successful internal business unit

by providing it with additional resources and filling gaps more quickly than can be done organically.

4. The “Double Down” model consolidates both companies’ assets into the acquired company. This model works best when the acquired company has the market momentum, brand, customer base, or channel, and when it also has an effective leadership team.

Generally talking, there are two types of growth: a) organic and b) external. Both growth strategies can be used by the same firm, hence it is not an exclusive choice between one of them. Moreover, firm’s growth strategies often vary over time [ACHTENHAGEN, L., BRUNNINGE, O., MELIN, L., 2016]. Organic growth implies the implementation of several activities which try to exploit existing resources already owned by the firm, such as skills, employees, funds and technology. Companies should follow many different strategies depending on their specific situation in order to grow their businesses. Amplifying the productive capacity to respond to an increase of clients’ demand, diversifying the business to achieve economies of scale, using actively the findings of its R&D department, and integrating different stages of production (ex.: vertical integration) to increase the market power and reduce costs are just examples of a not exhaustive list. However, organic growth has some limitations. Indeed, in many cases the resources of a company are not enough to sustain the growth, the path is forecasted to take too much time to be realized, or even the marketplace in which the firm is operating may not allow the company to grow beyond a certain point. Hence, given the dynamism of the markets, firms may need a faster way to grow. External growth permits companies to obtain knowledge, market-shares, new products or access to new markets. Ventures can agree upon strategic alliances, JVs or they can engage in M&A deals. The company can immediately take advantage of the benefits related to a bigger size (ex.: a bigger customer base). However, these operations have other specific risks that must be taken into account each time these operations are used.

1.4.1. Merger & Acquisition operation

The terms “merger” & “acquisition” are in practice used as synonyms, however they are not.
In fact, a merger is a process involving two firms which have decided to join their activities (management, stocks, employees, assets, etc.) in order to create a new entity, while an acquisition is a process in which a part buys the other one becoming the new owner (no new firm is created). Since 2000, less than 10% of M&A activities have been originally structured as a merger process (Scott M., Brady C.; 2014) so the acquisition looks like the preferred one. It should also be noticed that there are rarely true mergers because one firm will usually dominate the other in the new formed entity, and this can be analyzed observing the new staff composition, behavior, culture and other related features which will be likely closer to one partner than the other one.
Merger and acquisition are both complex processes and require a series of steps to be done, such as a formal negotiation, due diligence and so on, before moving forward with them. The goal under M&A activities is the creation of synergies, hence the total value after the process should be greater than the simple sum of the parts.

M&A deals can be divided in three major categories:
- Horizontal, which are used by competitors
- Vertical, used by seller and buyer in the same industry
- Conglomerate, operations among completely unrelated businesses

The Federal Trade Commission[36] (FTC) adds other two categories in the M&A deals:
- Product Concentric, which involves firms selling related products in the same industry
- Market Concentric, formed by firms in different markets but with close businesses

According to Scott M., Brady C. (2014) there can be an additional classification defining deals as either complementary or supplementary. The former one is described as “[...] *helps to compensate for some weakness of the acquiring firm*”, while the latter is used when “[...] *the target reinforces an existing strength of the acquiring firm*”.

A further classification is based on the friendly or hostile attitude of the buyer. The first one is characterized by a formal agreement among the involved parts having a friendly nature, while the

[36] U.S. agency actively involved in the protection of U.S. consumers and in the elimination and prevention of anticompetitive business practices

second one can happen when the acquiring firm directs its offer directly to the shareholders passing over the management. This second situation can only happen with public companies in which the management of the target holds a minority stock of the firm so it cannot stop the hostile takeover.

Since they were born, M&A activities have been giving origin to antitrust concerns, hence governments try to control and limit, where possible, all the drawbacks due to these aggregations. The Clayton Act[37] (1914), at section 7, states how M&A activities must be prohibited if the following condition is met: "[…] *in any line of commerce or in any activity affecting commerce in any section of the country, the effect of such acquisition may be substantially to lessen competition, or to tend to create a monopoly*."
From a competition perspective, what actually can harm competition and consumers can be observed through the following two effects:

- Unilateral effect: the merged entity has the ability to increase prices[38] to the detriment of consumers and despite the responses of the remaining competitors

- Coordinated effect: the ability to increase prices will depend on competitors' behavior (whether they will compete less vigorously post-merger)

Nowadays, according to the European Law, firms which intend to pursuit a M&A process are obliged to follow a bureaucratic procedure, precisely described and well-explained in the EC Merger Regulation and the Implementation Regulation. The strategy is a "forward-looking" analysis, in fact once the process would be done, disentanglement of the two firms may be highly problematic. The first phase starts with the notification to the European Commission which will allow or not to go on in the process. The second phase, reached by less than 10%, is a further analysis which leads to three possible outcomes: a) the merger has been cleared, b) it can be cleared under conditions, or c) it is prohibited.

[37] Coming after the Sherman Act (1890), was part of the U.S antitrust law.
[38] It is a shorthand for different ways in which firms' behavior results in competitive harms: increase prices, reduce output, choice or quality of goods, diminish innovation.

1.4.2. M&A Synergies and Risks

Pursuing an M&A transaction aims to create a combined entity whose value is bigger than the simple sum of the values of the two companies if they keep running alone. Specifically, firms ought to use M&A strategy only if synergies are rising thanks to the deal.
They can be divided in three main pools:

Operating synergies: these include revenue increase and cost reduction and they are the result of the combination of the two companies. Revenue enhancement may derive from increased sales or increased pricing power, while cost reduction is associated with the achievement of critical size to benefit of economies of scale. Other savings might arise from shutdown overlapping departments such as advertising, marketing or R&D.

Financial synergies: these are related to the idea that bigger companies usually have access to a greater and cheaper pool of funds. Indeed, a company may decide to engage in an M&A transaction to lower its financing costs.

Managerial synergies: they come out when a high-performing management team takes the place of a poor-performing team.

Koller, Goedhart and Wessels (2015) suggest six strategic rationales for a value creating M&A:

Improve the performance of the target. It simply consists in buying a target and producing costs savings in order to increase margins and cash flows. Private equity firms usually do this. Clearly, it is easier to implement this strategy when the company presents low margins and low returns.

Consolidate to remove excess capacity from an industry. The strategy is developed in mature industries where supply is usually greater than demand. An additional aim of consolidation may be that of reducing price competition in an industry. Anyhow evidence indicate that it is very difficult to pursue this strategy, since it is achievable only when there are just three or four competitors and it is difficult for new entrants to get access to the industry. Peers without taking any action may capture the benefit of reduced capacity too (free-rider problem).

Create market access for the target's, or bidder's, products. Usually the targets involved in this strategy are small businesses with innovative products. In this case, due to their size they have not the ability to exploit the entire potential market for their goods. Thus bigger companies can largely profit from this situation. In other cases, the target's company may provide to the bidder a faster access to new markets.

Acquire skills or technologies more quickly and at a lower price than they could be built internally. Many companies have adopted this strategy instead of spending huge amount on R&D; the spread of cross-border transactions is a proof of that. Especially in hi-tech industries, being fast in responding to customer needs is essential to achieve success.

Pick winners early and help them develop their businesses. It consists in identifying and acquiring a company in a new industry or product line, before others recognize its worth and potential growth. Clearly this has a high degree of risk, moreover management has to be willing to make investments based on a "bet" and they should have skills and patience since the investment may need time to produce good results.

Exploit a business's industry-specific scalability. Many merger plans have the achievement of scale economies among their rationales. However, particularly for large deals it may be a superficial source of value creation. That is, large companies are already operating at scale. Thus their combination probably will not produce substantial costs savings. To justify an acquisition, economies of scale have to be unique. In other words, general rationale as back-office savings may be not enough to produce value. Instead economies of scale may be an important source of value when a large company buys a smaller one.

M&A are not just a good idea or a bad one as any other business process. Deals to be successful have to be value creation ideas and they should not be based on vague rationale such as growth or internationalization (Koller, Goedhart and Wessels, 2015). The benefits these operations may bring to companies, as it has been underlined above, are clear, however the average rate of failure highlighted by the literature is high. M&A require firms to develop a careful analysis of the risks involved in the deal and to define a dynamic strategy for each stage of the transaction. Follows a list of situations which can explain how these operations can actually destroy value instead of creating it (Petitt and Ferris, 2013):

- Overestimation of the target's value, related on the excessive confidence on the growth and/or market potential and asymmetric information
- Overestimation of the expected synergies
- Pay too high premium, due to management's hubris or the competition with other bidders
- Execute a poor and inaccurate due diligence of the target
- Fail to achieve a successful integration process of the two companies after the deal

When M&As result in efficient allocation of resources among shareholders, they are creating value for the economy. The principle of the *best owner* explains who should be the actual owner of the business, that with its resources and skills is going to develop the higher value in the actual environment. As the external conditions change, the best owner changes too. M&A is a complex topic since the transactions' success is driven by many factors and, according to McKinsey, the best acquirers are those that present the following characteristics:

Engage in M&A thematically. It develops business plans that consider both M&A and organic strategies to achieve specific purpose. Business plans take into account the capabilities of the company and its peculiarities as the best owner of a business.

Manage reputation as an acquirer. A company that considers how it is perceived by the targets and invests in its reputation as an acquirer may gain a real competitive advantage. Indeed, to be perceived as an attractive acquirer may decrease search time, facilitate the integration process and reduce the chances of bidding war.

Confirm the strategic vision. The financial due diligence is reinforced with a strategic due diligence. That is, given the additional information available after the letter of intent, managers can better assess the feasibility of their scopes and strategy.

Reassess performance improvement targets. Successful acquirers revise expectations on performance improvements once they discover more about the targets during the integration process. This allows them to update their objectives and exploit the real potential of a deal. The due-diligence estimates are considered as the lowest acceptable performance improvements.

1.4.3. M&A Alternatives

Companies have a lot of strategic opportunities in their pockets, one of these is M&A activities. In fact, the decision to acquire or to be acquired by another firm (or to merge with it) is only one of many at their disposal. However, many times top management takes this kind of decisions without considering the others, often forgetting that mergers and acquisitions are very expensive, distracting for management and staff, and time consuming (Scott M., Brady C. 2014).
M&A success rate is very low, so it should be compulsory to always evaluate all the possibilities without being moved by own emotions and needs.
In their publication, Scott M. and Brady C. (2014) classify M&A alternatives as follows:

- Internal Growth: it is the less risky and expensive alternative since there are no integration costs and no acquisition premium is paid

- Divestitures, following these two-path downsizing (divesting non-profitable businesses) and down-scoping (divesting non-core businesses)

- Joint venture & Strategic alliances, preferred with respect to merger because in this way the post deal integration process can be avoided. However, in this kind of alliances there are often as many coordination difficulties as integration ones for mergers. These strategies might be a good idea in particular circumstances when a firm is looking for a product or a missing skill and is not interested in entering in a M&A process. It should be remembered how these alliances usually have a short-term goal, but they can be used as a test in order to have some insights on how a future closer relationship (M&A) could work.

- Holding companies & Minority investments: they have many benefits similar to those acquired through a JV or a strategic partnership, having avoided the integration process due to a merge or acquisition for example, but they are characterized also by a lower cost. In fact, first of all by buying less than 50% of a company a firm does not have to pay a control premium, then it is easier to stop the relationship if a partner wants to terminate it, there is the right for some board seats and finally it is avoided the process of asking permission and approval from the target shareholder.

- Doing nothing: seen the very low success rate for M&A processes, Scott M. and Brady C. (2014) proposed as an alternative also not to do anything: "*Some of the best deals are those that never happened*". According to them, M&A activities are often used as a symbol of strength of management and for this reason they should always be deeply analyzed before acting.

CHAPTER 2

2.1. The rise of the fourth industrial revolution - Industry 4.0

"*Our Industry does not respect tradition – it only respects innovation*"
Cit. Satya Nadella, CEO Microsoft

Nowadays, we are living during the fourth industrial revolution which is going to create an automated and interconnected industrial production. McKinsey explained, in one of its report, where there is going to be the major impacts:

- Use of data, computing power and connectivity, and is declined in big data, open data, Internet of Things, machine-to-machine and cloud computing for the centralization of information and its conservation
- Analytics, since once the data are collected, analyzing them is not an easy task. Today only 1% of the collected data is used by companies
- Interaction between man and machine, i.e. widespread "touch" interfaces and augmented reality
- Transition sector, from digital to "real", which includes additive manufacturing, 3D printing, robotics, communications, machine-to-machine interactions and new technologies for storing and using energy in a targeted way, rationalizing costs and optimizing performance

Internet of Things (IoT)

The Internet is well known and accepted by anyone, but it has not always been this way. It has been created under the name ARPANET, and it has gone through several phases to become what it was until some years ago: a complex computer network. The Internet is evolving and literally hitting many other aspects of our existences. Nowadays, different physical objects can be connected communicating among them even though they are not computers in the classical way of thinking. This is called the Internet of Things and it is just in the starting phase of the IoT revolution. In fact, less than 1% of all physical connectable things are currently linked in some ways: out of over 1.5 trillion objects which could have assigned an IP address, only under 15 billion are actually connected with the Internet[39]. By 2020, Cisco estimates there will be more than 50 billion devices connected to the Internet. By that time, computers (including PCs, tablets, and smartphones) will represent just 17% of all Internet connections; the other 83% will result from IoT, including wearables and smart-home devices.

Artificial Intelligence (AI)

AI is defined as the ability of machines to emulate human thinking, reasoning and decision-making, and according to the Market intelligence firm Tractica its estimated annual worldwide revenue would reach $36.8 billion by 2025, up from $643.7 million this year (2016), while according to a 2016 forecast from research firm Markets and Markets (M&M), AI is predicted to increase from $419.7 million in 2014 to $5.05 billion by 2020, at a compound annual growth rate (CAGR) of 53.65% between 2015 and 2020. According to eMarket what follows are the major AI technologies: machine learning, neural networks, genetic algorithms, induction algorithms, deep learning, expert systems and knowledge representation. The AI sector is a crowded market; almost all big tech firms have several projects, and according to the NY Times they are willing to pay experts millions of dollars to reach their goals. During these years, many news have come up showing the first results of these research processes. In 2011, IBM's Watson supercomputer beated two international "Jeopardy" players becoming one of the most famous example of AI technologies. Apple's most well-known AI initiative is Siri, while Google and Microsoft, with the acquisitions of respectively DeepMind unit and SwiftKey (among the others), have become two of the heavyweights in AI.
However, some new technologies came up from innovative startups which had successfully attracted VC. The difference with the tech giants is that these small new ventures develop products for specific business problems. According to CB Insights the number of AI deals and the amount invested around the world grew between 2010 and 2015, with several firms investing almost $400 million in 2014 and $310 million in 2015.

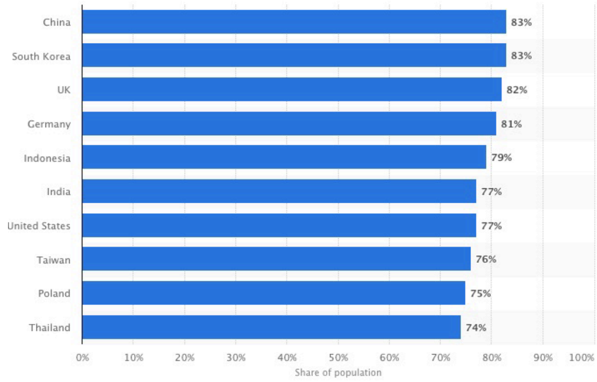
[39] TILLMAN, 2013.

2.2. E-commerce

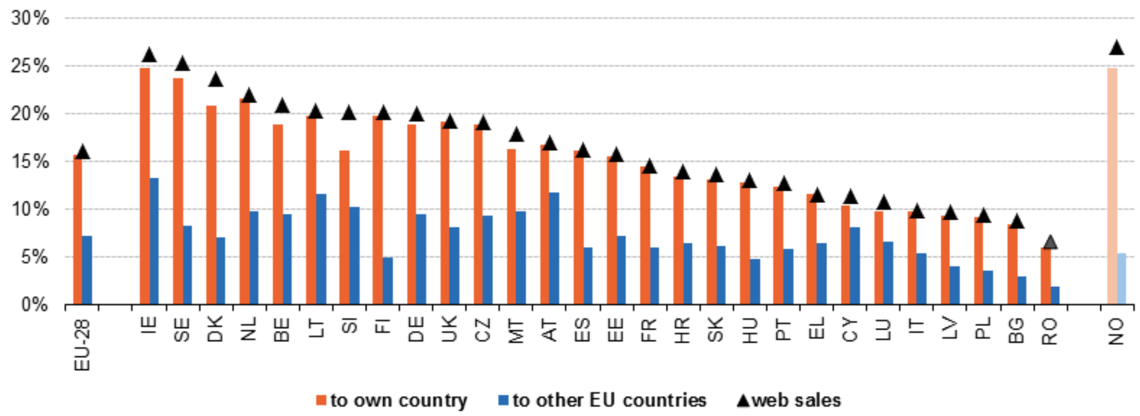
"*The internet is not a friendly place. Things that don't stay relevant don't even get the luxury of leaving ruins. They disappear.*"

Cit. Arjun Sethi, CEO MessaGeme

The rise of industry 4.0 is not stopping the development of all the other internet-related sectors. In fact, online shopping is increasing in all markets. According to many statistics and studies, the actual number of users around the world who bought products online is stated at 1.6 billion. They have used nearly 2 trillion dollars, a figure that is going to double in 2020. In the following chart are represented the 10 countries with the highest penetration rate of online sales in mid-2017: China is first, followed by South Korea and UK. US is seventh on the ranking, while Germany's online market is growing really fast in the EU. According to the infographics of Shopify's Global E-commerce Statistics, China's online sales is equal to 672 billion dollars, constantly increasing, while US's online sales is declining its relative weight. It was accounted for 22.2% of the global e-commerce segment in 2015, and 19.4% is the actual share with a forecast of 16.9% in 2020. Historically concentrated in the west, the e-commerce is moving eastwards in favor of Asian firms.



Concerning EU, the European e-commerce turnover increased by 15% to 530 billions of Euros in 2016, with a forecasted growth rate of 14% for the following year, reaching an amount of 602 billion.



Web sales to own country and other EU countries, 2016 (% enterprises) – *Source*: Eurostat

The percentage of firms with more than 10 employees with a correlated website is rising from 67% in 2010 to 77% in 2016. However, just the 18% of these retail firms use the internet as a sales channel. The pace of this growth changes with respect to which country we are talking about. In fact, these rates of growth are different across the European markets: UK is at the top of the list with 33% of the European online sales. In the western European countries the proportion of consumers shopping online is really high (87% UK, 84% Denmark, etc.) while in Romania, Macedonia and Bulgaria are found the lowest percentages. Finally, buying online is way more 'normal' for young people: two-thirds of 16-24 years olds purchase online frequently, in comparison to one-third of the 55-74 years olds.

2.3. Italian market analysis[40]

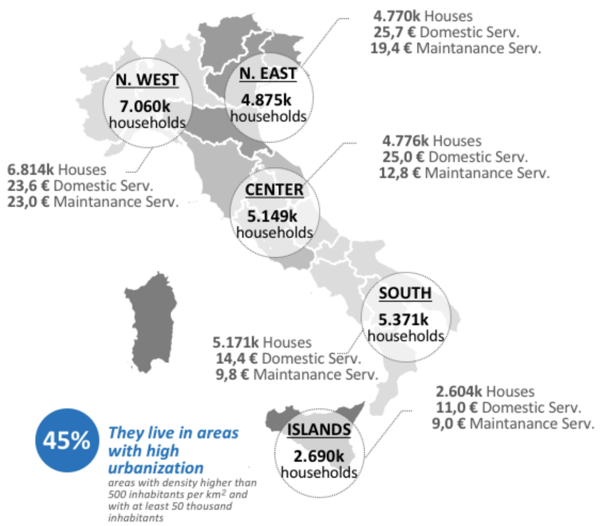
"*Don't' measure anything unless the data helps you make a better decision or change your actions*"

Cit. Seth Godin, Founder Squidoo

The last part of this second chapter concerns the analysis of the Italian background, where the startup I am going to analyze in the following chapters is currently moving its operations.

Families

Before going further in the business analysis, sounds good to take a view about the Italian market, more precisely on the average family. In Italy, there are 26K families with an average of 2.4 members.



Looking at their assets they own 24K houses of 99 sq.m. with 4 rooms on average.

However, what really matters for the Yougenio business is the amount each family pays for domestic services and ordinary maintenance which is respectively 21€ and 16€ per month.

Given the current distribution of population and housing among macro-regions, the average spending for the types of services considered varies significantly between North and South as it can be seen in the picture provided according ISTAT data.

Micro receptivity

The accommodation capacity is characterized by the presence of a high number of non-hotel businesses (greater than that of hotel facilities). According to ISTAT, in Italy there are 33K hotels which cover the 47% of the available capacities[41], while more than 100K of other services cover the remaining 53%. Focusing on the other services, 29K are B&Bs (1,4M arrivals; 3,9M presences; Avg. staying 2.8 days) while 79K are general accommodations (5,7M arrivals; 33,2M presences; Avg.

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[40] If the source of data is not specified, they have been found on KPMG Italia databases

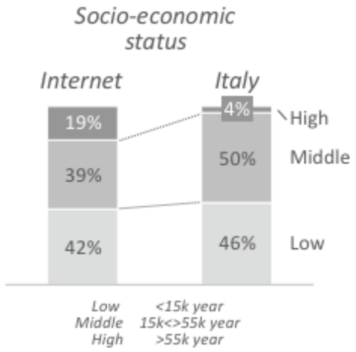
[41] data used looking at the number of beds

staying 5.8 days). Cleaning is one of the most common expenditure in this field and for each arrival the average cost for cleaning the rented flat is 26.7€.

Digital Diffusion

	2014	2015	2016	2017	2018	2019
Internet users (millions)						
Germany	62.2	63.0	63.6	64.1	64.3	64.7
UK	50.1	51.3	52.5	53.7	54.5	55.3
France	47.8	48.7	49.5	50.2	50.7	51.2
Italy	35.8	36.2	37.2	37.5	37.7	37.8
Spain	31.6	32.3	33.0	33.5	33.9	34.2
Netherlands	14.3	14.6	14.6	14.7	14.8	14.8
Sweden	8.1	8.1	8.2	8.3	8.3	8.4
Switzerland	6.7	6.9	7.0	7.1	7.3	7.4
Denmark	4.7	4.8	4.9	4.9	4.9	4.9
Norway	4.5	4.5	4.6	4.6	4.7	4.7
Finland	4.4	4.4	4.5	4.5	4.6	4.6
Ireland	3.7	3.8	3.9	4.0	4.1	4.2
Other	28.3	28.7	29.2	29.5	29.7	29.9
Western Europe	**302.1**	**307.5**	**312.7**	**316.5**	**319.4**	**322.1**
Internet user penetration (% of population in each group)						
Norway	87.0%	87.0%	87.0%	87.0%	87.0%	87.0%
Denmark	85.0%	86.0%	87.0%	87.0%	87.0%	87.0%
Netherlands	85.0%	86.0%	86.0%	86.0%	86.0%	86.0%
Switzerland	83.7%	84.7%	85.7%	86.7%	87.6%	88.4%
Finland	82.9%	83.9%	84.8%	85.6%	86.4%	87.1%
Sweden	83.1%	83.1%	83.1%	83.1%	83.1%	83.1%
UK	77.4%	78.8%	80.0%	81.0%	81.7%	82.2%
Ireland	77.0%	78.0%	79.0%	79.9%	80.8%	81.7%
Germany	76.8%	77.9%	78.8%	79.5%	79.9%	80.3%
France	75.3%	76.4%	77.3%	78.1%	78.6%	79.1%
Spain	66.2%	67.1%	67.9%	68.3%	68.6%	68.9%
Italy	58.0%	58.6%	60.0%	60.3%	60.5%	60.7%
Other	67.2%	68.2%	69.3%	70.0%	70.5%	71.0%
Western Europe	**72.6%**	**73.6%**	**74.6%**	**75.2%**	**75.6%**	**76.0%**

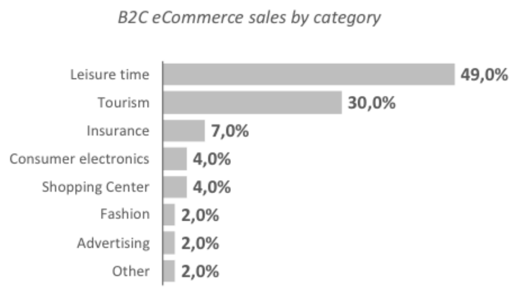
The Italian population is still partially behind other European countries in the spread of Internet.

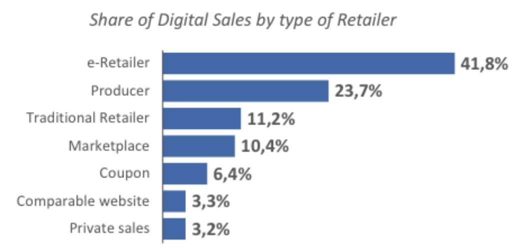


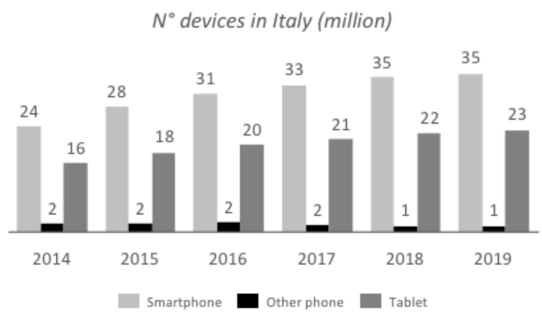
64% of Italian families have an Internet access and, according to ISTAT sources, most households that do not have Internet access indicate the lack of skills as the main reason (55%).

59% of the population can be considered as an Internet user with an almost 50/50 division between men and women. The economics status of a person does not seem to count a lot but a higher use of Internet is made by wealthy people as underlying in the chart.

The digital audience is progressively increasing, as the time spent on the Internet, thanks to the growing popularity and spread of "mobile" tools such as smartphones and tablets. 59% of households have an enabled[42] phone, while only 49% of the population has one.







According to a Google search, 90% of users simultaneously or sequentially use smartphones and

[42] with an internet connection

laptops to perform their online activities. The development of digital purchases is still slow and confined to some categories of products and services.
30% of the population can be classified as “digital buyers” which are users who have made at least 1 digital purchase in the last year. The percentage is actually increasing also with the total number of Internet users. Forecasts predict a total number of Internet users in 2019 around 37.8M, 52% of which are going to be the DBs. Several surveys have underlined that 70% of DBs have declared to buy online because prices were lower than traditional retailers or shopping in a store.

Customer’s thinking

After having created a poll of 1315 people, they have been asked to answer some questions in order to study what they are looking for in cleaning and maintenance services, obtaining statistically relevant data on the potential degree of penetration and understanding the buying behavior of the target audience.

The main point coming out for what concerns cleaning services is that the increase of “management complications” increases interest. Given the total sample, the people who use a cleaning agent are characterized by a higher prevalence of families with one / two children, a house of medium / large size, both workers and a middle income.
Depending on the economic condition reached, the Internet is used in the search for the “value for money” or for the search for the “novelty”. Following other interesting points:

- 86% of all respondents take personally care of home cleaning services
- 65% of actual cleaning service users declare to be curious about the possibility of buying online these services
- 75% of those who use the cleaning service would not want to change their partners
- 65% of those who use the service put the criteria of choice “confidence” and “warranty” of the cleaner
- 55% of those who use a cleaner would appreciate the security of an insurance
- 80% of the current consumers of domestic cleaning services are in favor of the subscription of an "all-inclusive" fee.

Reasoning to enter in this market should always go through some main points:

a) The house is the most intimate point of the individual sphere, where you sleep, eat and where your own family is living. As a result, the current trend is to deal with it in the first person
b) When a customer finds a trusted person and/or a quality professional, the last thing the customer wants to do is losing it
c) People who use cleaning services show interest and curiosity not only for the digital fruition of the service but also for the wide range that could be available in a single platform

Changing the focus on maintenance services, the main point coming out by the pool of people is that the “new” digital families need an alternative tool to satisfy the needs of home services. Most of the respondents showed interest in the on-line purchase of ordinary maintenance services (plumber, electrician, etc.) for which the sample that represents it is similar to the sample of the respondents. It is greater the presence of young people who appreciate both online consumption and the wide range of services available on a single platform. Following other interesting points:

- Almost 9 out of 10 people would consider the possibility of using at least one online home maintenance service
- 72% of respondents want to take advantage of online services
- Only for a small part of those who do not take advantage of the site (5%), the motivation is dictated by the high level of satisfaction with the previous supplier base
- The non-recurring nature of most of the proposed services determines a great sensitivity to the customer's price

Again, reasoning to enter in this market should always go through some main points:

a) The ordinary maintenance market is characterized by a good mobility of demand and a strong attention to price, even though the trust / quality component is important and the service also has recurring features
b) The interviewees show interest and curiosity both for the digital use of the service and for the choice of a wide range of services in a single platform

Market Data

Domestic market

Market data available from official sources aggregate cleaning and personal services which formed the domestic market, and they do not intercept the undeclared component of this compartment. Evaluating the overall market, including the part of black economy – a non-negligible share -, divided for the two areas of interest (cleaning and person), therefore requires an estimation process.
According to the information previously specified, given by ISTAT (monthly spending on domestic services equal to € 21.06 per family and number of dwellings 24.135k in Italy), the regular domestic market can be estimated around 6.1B€. Going further sounds interesting and taking a view on numbers with respect to the "black market" can deliver a clearer idea of the general market:

a) Cleaning services

The available market is made up of both families who already make use of the service (current market) and families who have not found a referent yet (so-called "missed" market).
Knowing also that on average 14% of Italian families hire an employee, 5h/week for 40 weeks on an annual base, it is possible to estimate the total Italian cleaning services market which is equal to 6.3B€. Thanks to some insights present in ASSNDATCOLF 2013, this value can be divided in 2.1B€ and 4.2B€ which are respectively the regular and black market.

b) Person services

The available market has a significant size, and positive features such as high spending media and the recurrence of the service, but also negative, as the high "fiduciary" barrier.
1,915K families are followed by 1,000k home helpers with an average annual cost of € 3,650 per family, and 1,720K families make use of baby sitters with an average annual cost of € 1,085 per family (source CENSIS), creating a total person services market of 8.9B€, divided in 4.0B€ regular and 4.9B€ black[43].

[43] Confartigianato 2012

Maintenance services

The ordinary maintenance market is a significant "mandatory" expenditure. The propensity to purchase online is also good, but the low average expense increases the number of events to be managed. Starting with the assumption that one family over five requires each year one maintenance service with an average spending of 1000€, we can predict a total maintenance services market of 5.5B€, with an estimated 15% of black economy.

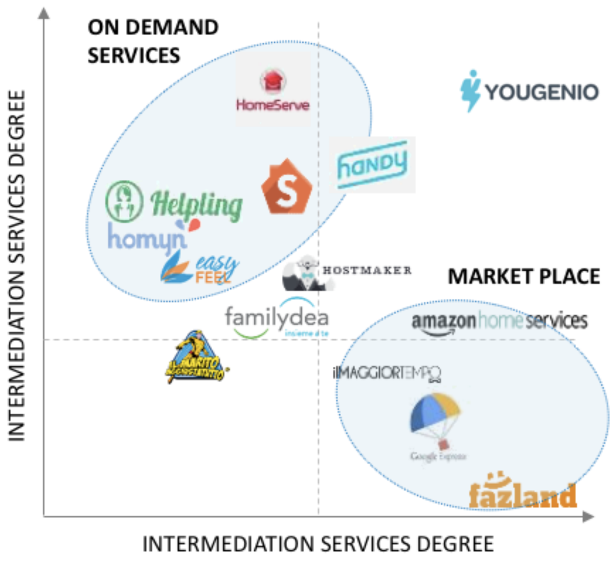
Micro receptivity

The market of micro receptivity in Italy benefits from the tourism vocation of our territory and the high digital development achieved by the operators.
With 250K micro receptivity structures, the total value of the cleaning services in this sector can be assumed to be equal to 225M€, assuming 8,4M reservations[44], while the total value for what concerns the maintenance services of this sector can be estimated as equal to 45M€[45].

[44] Source: ISTAT 2013
[45] Source: AIRDNA and Inside Airbnb, 2015

Competition

The traditional market has two main features: the great fragmentation due to the very high number of participants and the strong exposure to "unfair competition" (domestic services are one of the most exposed sectors of the Italian economy). According to ASSINDATCOLF 2013, 1.655K people are domestic workers (60% of which is considered black labor) and 37.5K are firms, both in the cleaning and person services. In the maintenance services are estimated 120K professionals (15% of which operate in the black economy, according to CONFARTIGIANATO 2012), while there are 35K maintenance firms.



The Italian online market of “Home services” is still being defined. At present the differentiation between players is mainly played on pricing, but also on the "value proposition" (in terms of offering or business model integration). Three are the main points:

a) There are no major barriers to entry from a digital point of view (as in the traditional one)
b) Interesting business fundamentals are attracting players backed by liquidity injections from numerous VCs making the market “drugs”
c) Bipolarization: marketplaces are used to integrate many "non-recurring" services (see maintenance services), instead on-demand platforms for those services where the supplier's responsibility must be greater (see personal services)

Clients

From the carried out analysis, 4 "typical" customer profiles emerge for which a digital offering of services for the home and the person is interesting. Analysis and understanding of the needs derived from these archetypes:

A) Busy family: Families who live in big cities, middle / high aged, with a good income and who make use of domestic workers. They use the Internet to search for novelties to try in order to have a facilitation in carrying out their activities, or for a better quality / price ratio (value for money)
   - Specific needs:
     - Confidence towards "foreign" people to whom to entrust the care of their own home
     - Establishing a long-term relationship
     - Having support and management help of domestic services

B) Single young: Young people (single or newly formed families), struggling for the first time with a life to manage independently, with a "hectic" life and who have not found yet the support they would like to manage the housework. In most cases they use the Internet as a means of getting informed, actively discussing with other users in forums / blogs / social networks
   - Specific needs:
     - Finding information and having easy access to the services they need within the new context in which they live
     - Minimizing the time spent on managing their own housework
     - Having the opportunity to remember interventions and deadlines
     - Having a prospect that summarizes the situation of the activities done and to be done

C) Middle family: Medium-sized families, mostly young, with an average income and living in large cities. They turn with good propensity to the online market for the management of the house; they do it in order to mainly look for a convenient offer. Blogs and social media are seen and used as an advanced and updated word of mouth, incorporating information from other users' posts
   - Specific needs:
     - Finding a practical and fast way to meet the needs of home services

    - Evaluating and choosing the best offer according to their needs

D) Hoster B&B: People who manage a micro-receptive structure mainly in a direct way. They are subjects that have started to manage a B&B, from the economic to the luxurious, however with the needs of "professional" services. The management of these services is, at the moment, carried out in first person or organized among different suppliers by the owners themselves
    - The management of a receptive facility is very demanding in terms of time required:
        - The hoster follows in person the many support activities
        - Interaction timings linked to the stay calendar
        - Every "down-time" for a problem with a system results in a loss of revenue

CHAPTER 3

3.1. Value proposition

"'*Make something people want' includes making a company that people want to work for*"
Cit. Sahil Lavingia, CEO Gumroad

The Manutencoop Group is the main active agent in Italy in Integrated Facility Management, i.e. the management and delivery of integrated services to public and private customers. Manutencoop Facility Management can provide a wide range of auxiliary services to the core business of large private groups, public bodies and healthcare facilities. The services provided can be grouped into two main areas of activity:

- Facility Management Services: property management and maintenance services (environmental hygiene, technical maintenance services, green maintenance, logistics services, auxiliary services, heat management).
- Specialist services: Laundering & Sterilization, lighting, installation and maintenance of lifting, project & energy management, document management, fire protection and video surveillance.

Manutencoop was among the first groups in Italy to operate in the Integrated Facility Management market and today it is the leading Italian operator and one of the industry's leading players in Europe. The company has been created in 2003 and the HQ is registered in Zola Predosa (Bologna). A consolidated turnover of 929.1 M€ and consolidated net income of 33.5 M€ have been reached in 2016. The Group can count on a continuously increasing number of employees who passed the twenty thousand units.

Manutencoop has decided to combine its ten-year experience in the field of technological innovation creating Yougenio, an online platform for cleaning and maintenance services. It is an online specialist helping customers with quality home and family services, through professionals at its direct dependencies. Yougenio was born in 2016 within the Manutencoop Group, which allows it to rely on an heritage of skills acquired over the years in the service of public entities and private entities. Home cleaning, babysitting, elderly care, plumbing, electrical work, construction work, garden maintenance and many more are just examples of what a client can ask for. Yougenio is not a marketplace that simply puts in demand and demand. They have chosen to create their team of professionals by selecting, training and hiring them as direct employees. Yougenio was born with the idea to quickly conquer a position of leadership in the ‘Consumer’ market of services for “the home” and for “the person”, integrating all the traditional Facility Management activities that until ‘16 the Group had exclusively focused on the ‘Business’ market. Yougenio is a digital platform easily accessible to millions of potential customers. The principle is that of the well-know 'on line' service platform, which allows, with the use of specific marketing and targeting tools, to "intercept" the needs of potential customers on the network, to offer them the possibility to access and book the service they want, managing in a simple and fast selection booking and payment.

Yougenio has a lot of strengths which mark the differences with a new born startup:

- A wide range offering available for home services
- Multi-year skills in the provision of the service to B2B customers and in the organization of work (scheduling, programming interventions, etc.)
- Pool of qualified operators and a certified supply chain, with a wide and widespread territorial coverage
- Strong back office to support the initiative (Advanced Service Center, Legal Office, etc.)

Mission

Creating value for customers by giving them the opportunity to have more free time and to take advantage of a professional, qualified, flexible and affordable service

Values

We believe in the commitment we place in our work, in loyalty to our customers, respecting the community in which we operate and the innovation we bet on every day

What we do

We offer a wide range of services for the home and for the person, from cleaning, to maintenance, up to baby-sitting and elderly care services

How we do it

Our services are customizable, to meet the most disparate needs, and easily bookable by PC or smartphone, through our website

Yougenio offers its services in two ways:

a) Performance services: the offering is oriented to the sale of a "complete service" and therefore structured for a specific performance

To request an intervention customers interact with the platform and:

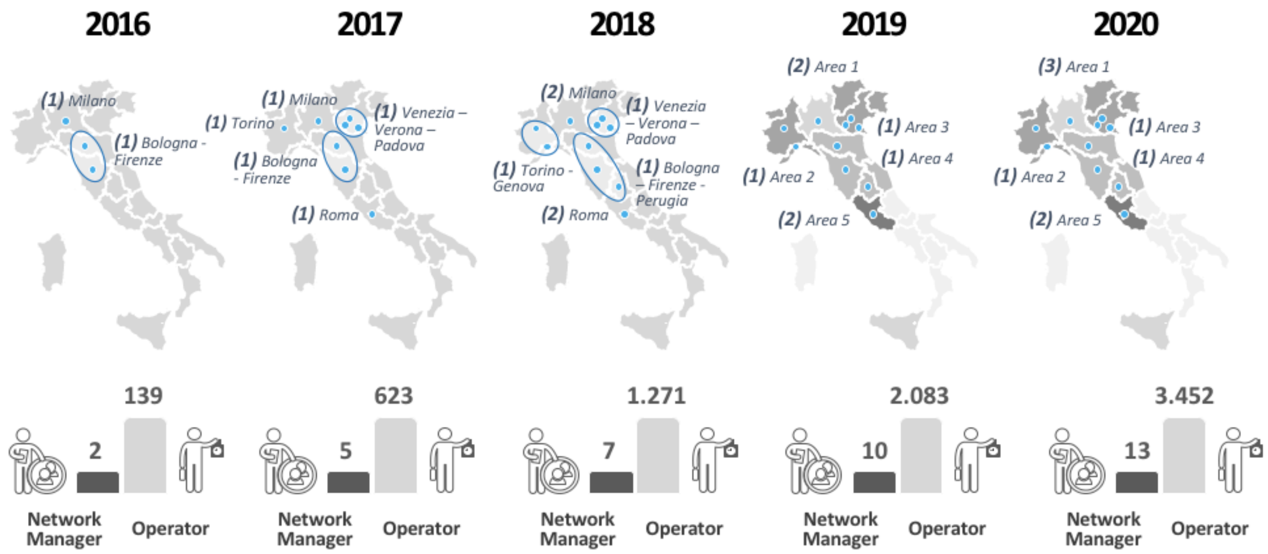
1) Configure and customize the need: the user is guided in characterizing his/her needs, configuring the environment and specifying the type of service / activity
2) Get a quote for the service: for standard services, it takes place in real time, otherwise an online estimation or an inspection is required (both free)
3) Plan the intervention: select the employee and set the date and time for the intervention; high flexibility in terms of coverage and terms of notice; possibility to program repeated interventions
4) Book and arrange payment: payment is made online (paypal, credit card, ..), inserting references; debit and digital invoicing only after the performance has been completed

b) Subscription services: the subscription allows the customer to "forget" deadlines and household chores

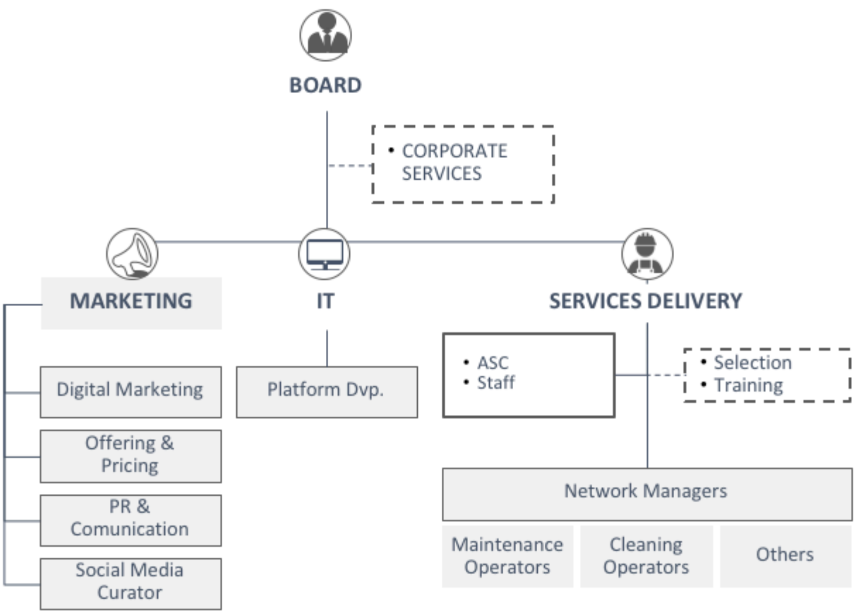
The subscription is an annual package with a fixed all-inclusive fee that includes all the services that the customer may need with specific frequencies for each type:

1) Configure the need: the user is guided in characterizing his/her needs, configuring the environment and the relative systems
2) Get a quote for the annual subscription: proposed packages with different articulation and amplitude of services and time frequency (Full, Smart, Mini)
3) Organize the work: (possibly) select the employee and select the weekly availability slots. The detailed schedule remains with YG. (The customer will monitor the progress of activities vs the plan online)
4) Payment: payment is made online (paypal, credit card, ..); digital monthly charge and invoicing

Yougenio is not a 'normal' startup, in fact, thanks to the support of the Group, it can rely on an important budget, which puts Yougenio as a unique start-up of its kind, and through which it is estimated to support the acquisition of customers needed to generate the expected top line and a strong national coverage for the services, mostly in the north, as shown in the following Go-To-Market strategy.



The strategic national coverage, the reference market and the dynamics of the digital business model require a streamlined structure focused on overseeing core functions: Marketing, IT and Services Delivery, being able to exploit the synergies that the Manutencoop Group can offer in relation to support services.

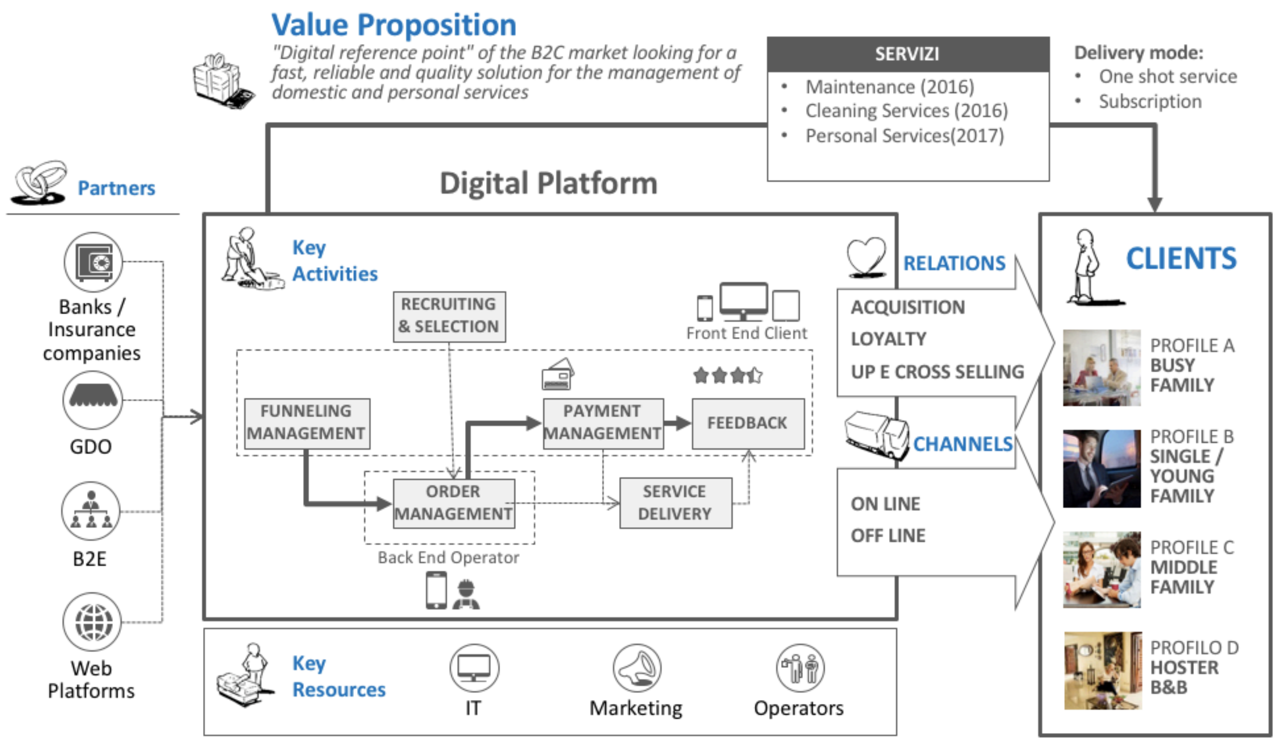


The key resources for YG derive from the union of 'ingredients' that belong to the Group's tradition with other new and innovative ones: the quality of its people as a foundation, digital technology as a sales and development channel, marketing as a strategic lever:

a) Operators: the employees must be considered the "ambassadors" of the company. The use of employees is a distinctive factor and a competitive advantage. Fundamental become training (soft skills) and an incentive model consistent with the objectives

b) Digital platform: the digital platform represents the essence of YG's 'value proposition' and has been realized with the aim of responding to the usability and experience requirements of the highest level with respect to the market

c) Marketing: the start-up of the 'start-up' in an already structured context which allows to benefit from financial resources to be allocated to targeted communication and ad hoc marketing initiatives that translate into an accelerator of business growth, sought after by the market even before its debut (teaser phase)

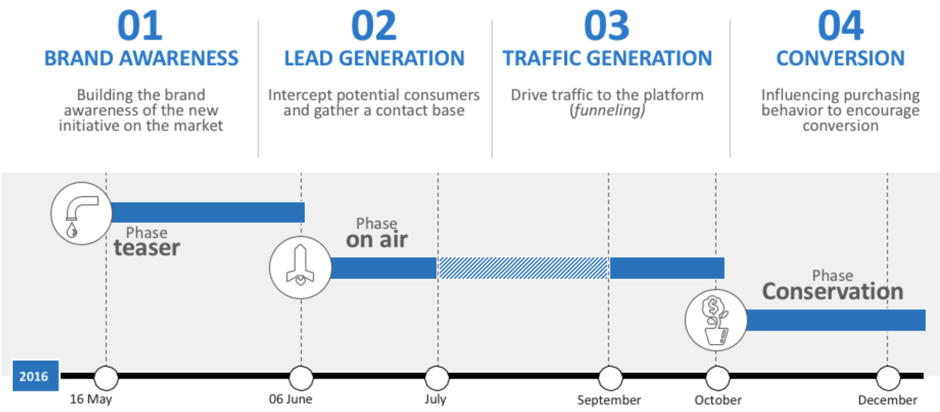


Business Canvas Model Yougenio

3.2. Yougenio first steps

"If you're not embarrassed by the first version of your product, you've launched too late"
Cit. Reid Hoffman, Linkedin Founder

The launch of the platform on the market has taken place at the beginning of June '16. Therefore, a communication period was foreseen prior to the operation of the platform in mid-May and a period of strong communication to support the launch in June and September. In the summer months and after September a maintenance communication plan was planned and focused on a greater conversion of visits.



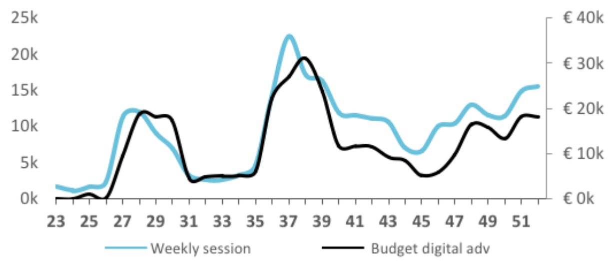
The communication strategy following the three phases, introduced in the chart above, was divided in online:

- Teaser phase (50K€) aimed on generating referrals, mostly on social media, in order to push WOM and brand awareness
- On Air phase (45K€) and Maintenance phase (265K€) were focused on the SEM, SEO, and other Search-related activities

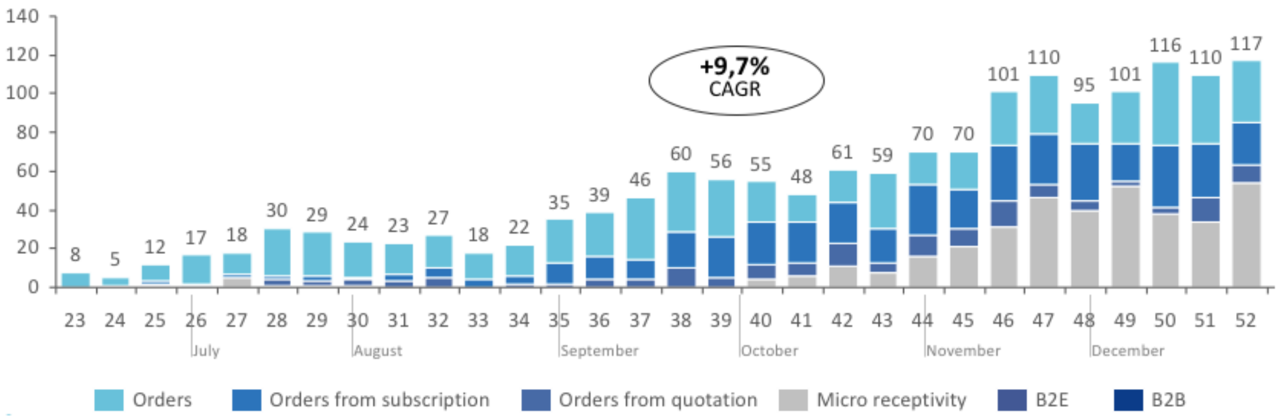
and offline:

- no spending in the Teaser phase
- On Air (80K€) and Maintenance (190K€) phases spending focused on radio, cinema and street advertisement.

All these efforts drove a significant level of traffic on the platform, even though mainly supported by the described advertising activities. In the mass market, a fair number of contacts were collected against a high CPA, while in the B2B there was a low acquisition cost.



The following picture, instead, shows how the order trend was constantly growing: in the first half of the period the trend was sustained by the marketing spending, while in the second part by the customer portfolio (subscriptions and micro receptivity).



In 2016, the initiative raised considerable interest, witnessed by a high volume of visits to the site and by the attention given to Yougenio by both the press (and prominent digital players such as Google) and "big" business operators. Then, cleaning services generated a good number of orders and subscriptions, gathering a high level of satisfaction, as shown by 90% of positive sentiment reviews. In the B2B and B2E fields, various activities have been carried out that have made it possible to establish commercial agreements capable of generating a good amount of orders in the last months of the year.

However, in order to have a fast go-to-market, the management team decided to adopt an undifferentiated marketing strategy, both between the two macro lines of services and within them, which did not fully exploit the market opportunities. Indeed, communication was very focused on the service, and when it was focused on the brand, it only partially achieved the desired objectives, with the result that Yougenio brand did not show such a distinctive positioning on the market. Overall, even though a high traffic volume has been generated, the number of orders were below expectations, especially in maintenance services, showing a conversion rate with ample room for improvement.

3.3. Yougenio nowadays

"*Everybody has a plan until they get punched in the mouth*"
Cit. Mike Tyson

The 2017 strategy has been based on a main concept: "Segmentation of offerings on consumer needs". To identify the most suitable strategy, it was decided to differentiate between the mass market and the corporate one, detailing the customer segments within each of the three service lines for the mass market.

3.3.1. Mass market – maintenance services

Services wallet very large: the catalog of maintenance services is today composed of over 110 services. This wide variety on one hand constitutes a distinctive feature of Yougenio, on the other it represents an element of complexity in terms of communication, marketing and positioning

Marketing and communication strategy: in 2016, a single sales and marketing strategy was adopted for all maintenance services unable to differentiate for time-to-market reasons, contributing to a not too distinctive positioning

Product categorization and undifferentiated journey: the purchase path undergoes numerous obstacles both in the search for services and in the identification of the right drivers on which to leverage

High competition on specialist services: the presence of vertical and highly specialized players on certain niche of services puts Yougenio in front of a high level of competition

Low capacity of competition on particular services: numerous services require an estimation and an inspection, therefore they do not allow to display an aggressive price and suffer from a higher fall rate due to the greater complexity of the purchase process

The need to differentiate marketing strategies emerged, identifying common purchasing behavior according to the types of maintenance services, in order to optimize economic efforts and communication investments on areas of greatest interest and increase sales. In order to segment the maintenance services, two guiding criteria have been identified: the *frequency of use* of the service and the *sensitivity of the customer* to the price.

From the analysis emerged four main clusters of services that differ in purchasing behavior:

- Occasional services, with a focus on price, are simpler, and more easily comparable with competitors, which are purchased by users as a result of specific triggers such as restructuring, damage or maintenance. They are not recurring and are not programmable, so they are not seasonal, but may in some cases be urgent.

- Recurring services, with a focus on price, are the simplest, and most easily comparable with competitors, which are purchased by users on a recurring basis. They are usually characterized by a seasonal recurrence, for which the demand peaks or the moments in which the client's need is realized are predictable.

- Rare emergency services, with a focus on service, are emergency services in the hydraulic, electrical and window-setting sectors. Furthermore, also different disinfestation services can be identified in this category. On these services users are interested in the quality of the service in terms of speed, reliability and guarantee of the intervention, consequently the price becomes a secondary aspect.

- Occasional services, with a focus on service, are the most complex construction and plumbing services, almost always as a preventive or on-site inspection, or those more niche and particular services, usually performed by vertical operators specialized in the specific field. On these services users are more interested in the service in terms of quality and possibility of personalization, and less focused on price, also because they can be very costly interventions.

3.3.2. Mass market – cleaning services

Cleaning company: the trend of cleaning service orders is constantly increasing, until a good number of purchases per week is supported, supported by a considerable number of discounts

Prices on the return service: the current performance pricing strategy is based on a logic in which the measurements have been subdivided taking into account the execution time of a complete cleaning

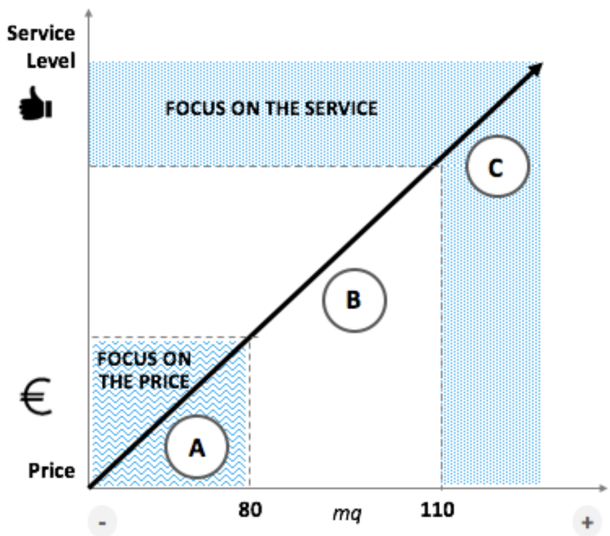
Percentage forecast: the division of dimensions starts from a medium-low range (0-50 sqm) which contributes to perceiving "expensive" services from the customer

High competition: the comparison with competitors for one shot services show a misalignment of prices on the low bands, which are also the most sold, and a lower price in the high bands

Low demand: inhomogeneity in the performance of specialized cleaning services; the first spring entry and cleaning services collected a fair number of orders, about 17% of the total, while the post-bleaching and post-party services did not receive much interest, about 3% of the total impact

Extra services for range amplitude: the accessory services complete the range and expand the offer. It has been found to be more successful if they are associated with basic cleaning rather than independent services. For example, windows and fixtures were clear: about 29 orders for the independent service, while an accessory service was chosen on approximately 118 orders

The performance pricing strategy, despite being a distinctive factor with respect to competitors, has made Yougenio non-competitive on the smaller dimensions. A price review was therefore necessary to be aligned with the competition. On the basis of purchase behavior, number of orders, purchase repetition rate and use of discounts, it was possible to divide basic cleaning services on three customer clusters, each of which with a reference size range.



A) Small groups (0-80 square meters): 265 orders
- Price misalignment with competitors or high demand
- Important use of discounts (60%)
- Low percentage of repetitive purchase (1/3) or high sensitivity to price

B) Average band (81-109 square meters): 73 orders
- Prices in line with competitors
- Discreet application
- Normal use of discounts (40%)
- Average percentage of purchase repetition (1/2) or low price sensitivity
- Greater sensitivity to the offer

C) Large groups (110-200 square meters): 27 orders

- Economic convenience and greater availability compared to competitors
- Low question
- Poor price sensitivity
- Sensitivity to the reliability of the operator, to the quality and completeness of the service offered

The first proposed initiative was the redefinition of the square footage of the buildings. It had the objective of narrowing the size range in order to push the taller sizes towards a recurring choice and to recover an entry point that allows to compete on the smaller houses. The band with small sizes represents the business card for Yougenio, as well as being the best-selling ones. A price strategy flanked by up / cross selling activities could increase visits to the platform. The intent was to attack small houses with an entry price aligned to the market and with a final offered service able to optimize the VOC. Intermediate bands, already competitive in terms of price, could represent the cluster on which to try to obtain a higher turnover volume with a service configuration that can adapt to all customer needs. The strategy of completeness and improvement of the service sold, thanks also to the new site release, will allow Yougenio to respond to the growing market demand for greater customization and flexibility. The big strategy has as its objective an increase in orders for houses with large sizes, more inclined to a recurring service related to the choice of a trusted operator. The intent was to enter that market segment that pays little attention to price but is looking for quality, completeness of the offer, professionalism and reliability.

3.3.3. Mass market – personal services

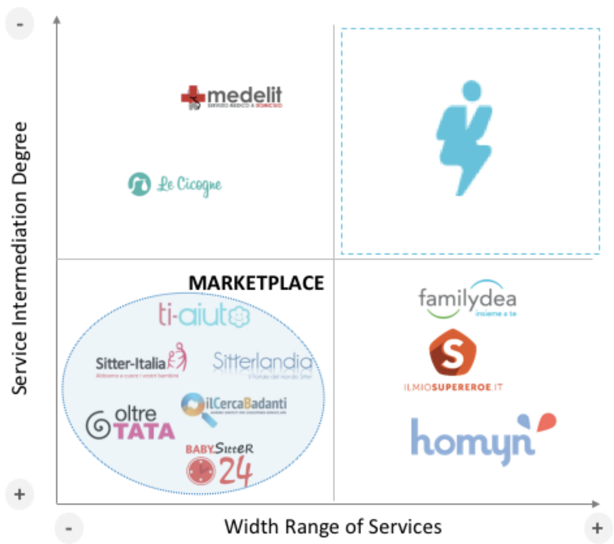
Growing market but deconstructed: the personal services market has grown steadily over the last few years (from 2001 to 2012 domestic household workers rose from 1,083 thousand to 1,655 thousand), reaching today around € 8.9 billion. However, due to the logic of informality that characterized its development, and due to the substantial absence of public interventions, the market is today strongly deconstructed and far from having efficient and qualified supply models.

High incidence of black work: the personal services market is strongly characterized by collaborators paid in "black", in fact among the professions with the highest incidence of undeclared work, we highlight the baby-sitters (80%) and caregivers (67.3%).

The WOM as selection channel: the research of collaborators is mainly carried out through "word of mouth" of friends, relatives and acquaintances, while among the main selection drivers appear, in addition to their feedback, also the reliability transmitted during the interviews and the experiences gained; surprisingly, economic convenience does not significantly affect.

Low level of specialization of collaborators: the work of a domestic collaborator is often configured as a complete domestic job, even when it involves specialist assistance to not self-sufficient people, in fact only 8.8% of families consider the possession of professional qualifications as a priority. Precisely for this reason in the exchange of self-sufficient elderly people, support is mainly required in the handling of domestic activities (79.1%)[46].

The Italian personal services market does not present large barriers to entry, given the steady growth in demand and the low level of skills generally required by families. However, there is a high price competition, mainly due to the predominance of black labor. In recent years many entities have been created, such as institutions, cooperatives and agencies, which offer assistance in the search and selection of caregivers and baby-sitters through the request for estimates, but other realities are also emerging that operate in marketplace mode linking supply and demand.



Almost all the main digital players for personal services operate in marketplace mode, that is, they do nothing more than put in contact with supply and demand. Most of these do not adopt a selection, evaluation and training process for people applying for their own portals, limiting themselves to the feedback mechanism issued by the users of the service. Some of these players require paid subscriptions (monthly, quarterly or yearly) in order to publish ads for the search for baby-sitters or caregivers. The rates proposed by these portals are very aggressive, even if there is a direct negotiation between the family and the person. In particular, the portals do not deal with the regularization of collaborative relationships, thus favoring "black" work.

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[46] Source: Censis-Ismu, 2012; Dati Eurispes, Rapporto Italia 2016

3.3.4. Corporate market

The visibility obtained in the B2C market has generated interest for Yougenio also by some B2B market operators, especially in the field of micro receptivity:

- Yougenio has managed to turn interest into commercial opportunities and, in advance of 1 year compared to what was foreseen by BP, has started operating in the B2B world
- Propensity to innovation, business background (both in terms of professionalism and delivery capacity) and attention to the customer were the distinctive factors of Yougenio's positioning compared to the rest of the market
- In the final part of 2016, there were contacts with 8 B2B operators, with whom a collaboration has begun, which also continued in 2017

Yougenio developed a diversified offering based on the kind of B2B client as briefly specified in the following list:

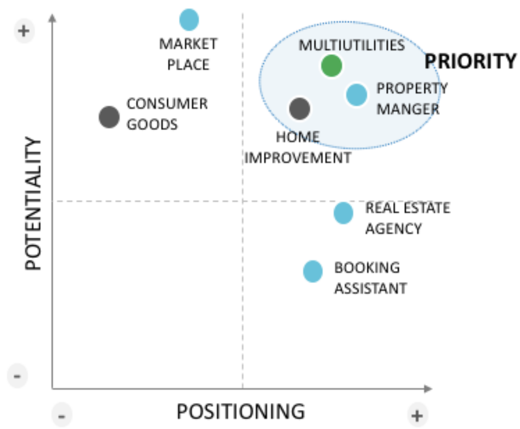
- Property manager: penetration with cleaning tailor made services on hospitality needs (cleaning, bed change, courtesy kit, ...), subsequently integration with scheduled maintenance plans or failure interventions

- Booking assistance: tailor-made cleaning services on hospitality needs (cleaning, bed change, courtesy kit, ...) similar to those for property managers and maintenance services, which would also allow Booking Assistants to extend their offerings to hosters

- Marketplace: partnership agreements to be promoted to hosters with cleaning services and IT integration between YG and booking platforms to book cleaning services (manually or automatically by integrating calendars) - see Handy and Airbnb in US

- Real estate agencies: creation of cleaning and maintenance packages related to the move (cleaning of first entry + first connection + ...) to be proposed in partnership with the agency

- Home improvement & consumer goods: the home transport services, installation of products purchased at the store and the possibility of booking the service in real time through the Yougenio platform (which represents an important improvement of the CJ at the point of sale)

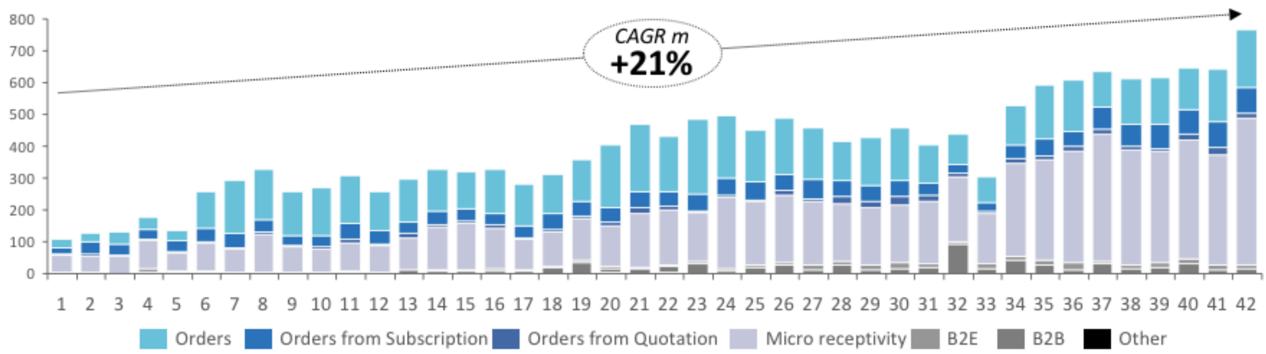


- Multiutilities: installation service of boiler and air conditioners, supply of products, multi-year scheduled maintenance packages and partnership to promote an ad hoc price list for end users of multi-utility

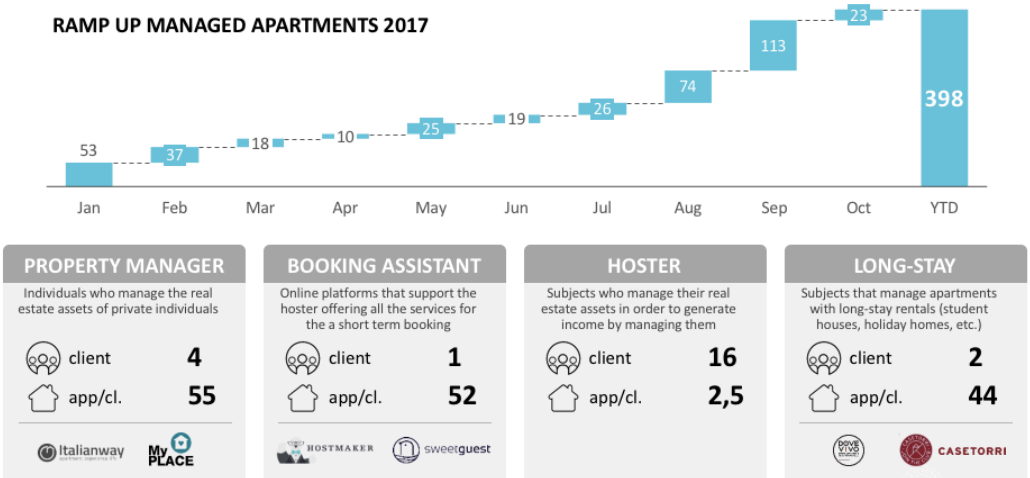
In order to take advantage of the opportunities offered by the Italian regulatory framework, in 2017 Yougenio structured some specific delivery methods for the B2E, based on conventions (companies can negotiate a personalized discount plan for the benefit of employees who purchase the services offered by Yougenio), packages (Yougenio also offers packages of services that can be delivered in specific areas, which can be customized according to the specific needs of the company), and cards (Yougenio cards allow you to purchase credit to spend on the platform; available in different denominations, they are valid for any offered service)

3.4. Analysis of the actual situation

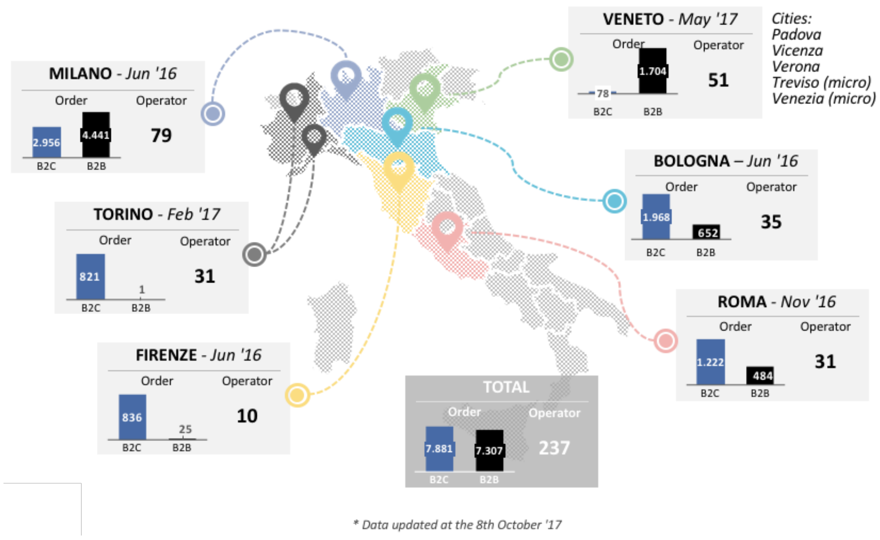
Yougenio has had a steady growth both in terms of sales volumes, which almost increased tenfold compared to 2016, and in terms of turnover, maintaining a positive trend also for the whole of 2017 (CAGR of 21% month on month)



The micro receptivity channel has proved to be the most promising in terms of volumes and margins; Yougenio has been able to seize the opportunities created, realizing true partnerships with some of the most important players in the industry. These partnerships, combined with excellent feedback, have triggered a virtuous circle of "word of mouth" among the insiders.



The times in which Yougenio managed to enter the market were very rapid, as were those used to extend the territorial coverage according to the roll-out plan that had been established; this has led the company to serve, a year after its birth, as many as 11 Italian cities in 7 different regions.



Thanks to investments in communication and marketing, the Yougenio brand has established itself in the sector, as evidenced by the good base of contacts acquired, by the good spread of "word of mouth" among the first contact channels and by the increasing volume of brand research on the engines of search; moreover, the experience gained allowed the company to "direct" the investments in the best way, improving the performances in terms of acquisition cost and conversion rate.

Challenges

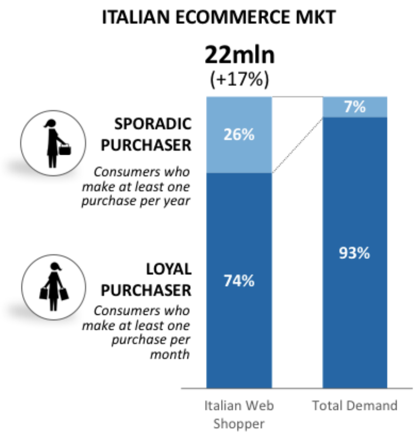
One of the main challenges for Yougenio's future is to make the operating model more scalable, by managing and rationalizing the complexity generated on various company levels (offering, invoicing, customer care, ...), due to the wide range of services offered, the heterogeneity of the market and the specific characteristics of the business. Another challenge for the future is to structure customer management activities more effectively and to better monitor the touchpoints that customers today encounter in their purchase process, by rethinking the role of the ASC and reviewing customer care processes (surveys, VoC listening, etc). Yougenio will also have to continue the organizational growth path, introducing some key figures in the management of the business, in order to follow with more punctuality the particularly critical or currently unmonitored areas, in particular customer management, human resources and IT (gradual internalization).

Another challenge, especially in the B2C field, is to be able to make Personal Yougenio (operative staff) evolve towards the role that had been outlined from the beginning, i.e. to be Yougenio's key resources, able to bring quality and efficiency to work, and skilled workers in order to exploit the possibility (still little explored) to do up / cross-sell activities. Reducing the turnover and increasing the loyalty of the operators are factors enabling the evolutionary path. In order to support the commercial activity, Personal Yougenio must be equipped with appropriate tools to advertise the services offered by Yougenio, with the relative discounts / promotions, such as brochures and gift cards, and to conclude the sale of new services directly on site, through POS or other payment instruments. The challenge in this case is also to strengthen the workforce while maintaining a low turnover rate; to this end, rewarding mechanisms or any sales incentives are tools that can contribute to the loyalty, going to act on variable remuneration and on the "sense of belonging" to the company Finally, to recover margins and increase the level of quality perceived by the client, it will be necessary to integrate the training of Personal Yougenio with particular reference to time and methods; moreover, the real challenge is to transform them into a real commercial force, exploiting direct contact with the customer to sell additional services or other types of services.

Opportunities

In micro receptivity, it will be fundamental to rapidly conquer new market shares, also considering the great growth trend of the sector, and to explore adjacent markets, i.e. those that have types of customers or needs that can be satisfied with the same offering / operating model (real estate agencies, HO.RE.CA, etc).

A potentially interesting leverage for growth is represented by the partnerships, both strategic ones, where Yougenio could join the value chain of already consolidated companies, completing for example their offering, and more functional partnerships in the short term, to reach specific targets of customers and / or enrich the catalog (see Fazland and ProntoPro).



Despite encouraging data from the development of eCommerce (+ 17% compared to 2016), the sector in Italy (especially for home services) cannot be declared mature yet, where business models are changing rapidly and facilitating new entrants. For Yougenio this can be a great opportunity both for "classic" services and for the re-launch of personal services.

Threats

Despite the fact that there are clear trends in the behavior of Italians, one of the main obstacles to growth is still represented by the undeclared market, with respect to which competition will have to be more on quality than price, especially in the field of cleaning services.
Then, Italian legislation and the need to comply with certain rules today generate an important management and bureaucratic complexity (e.g. management of vat on services offered); a further element of difficulty is the fragmentation of regulation at regional level (e.g. registration of boiler revision activity in regional registers).
Finally, another element of risk is the entry into the market of new subjects, such as companies already involved in facility management who decide to undertake the same path as Manutencoop with Yougenio, cleaning companies that want to attack the micro-consumer market, or operators in other sectors which, with a strong customer base already strongly developed, can enter the market through partnerships with entities already active in the home services (e.g. Edison with home assistance).

3.5. Yougenio in the future

The future for Yougenio is going to be really challenging seen its main goals, which can be divided in external and internal. Concerning the external ones, they can be summarized as follow: a) the leadership in the field of micro receptivity supported by a rapid growth in the micro-consumer sector by planning commercial activity on a strategic and operational level, providing the appropriate tools for sale and proposing the offering also on digital channels, b) simplification purchase thanks to a reduced level of complexity in the purchase process of certain types of services, especially in the maintenance field, meeting the needs expressed by customers, simplifying the operating machine and reducing the discounts applied to the services, and c) a brand premium positioning to increase the perceived level by working both on product communication and on the customer experience offered, in particular with regard to cleaning services.

The internal ones include the introduction in the company, at every level, from the operator to the management, of a customer centric approach oriented primarily to the customer, in order to modify the processes and increase the commitment of the employees towards the objectives, and developing the tools necessary to reach the point of maximum efficiency in spending advertising.

Overall, there must be a customer experience improvement thanks to a mapping process of the main customer journeys of Yougenio customers, both B2C and B2B, in order to identify the most critical moments of truth (MOT) and work to improve the customer experience (CX), from the beginning to the end of their journeys. The CX exerts an increasingly important weight on the profitability of a brand, for which companies must guarantee experiences in line with expectations to maximize results. There are clear correlation coefficients[47] between economic and financial drivers and the judgment on the quality of the experience. The quality of the relationship between customer and brand is therefore inextricably linked to company profitability. To mention some data:

- Consumers living the experience positively have a 6x chance to buy more
- 55% are ready to recommend a brand for an excellent experience, much more than parameters such as product or price
- 85% would pay up to 25% more to ensure a higher level of experience

[47] Source: Forrester Annual Report, Consumatori Online Stati Uniti, 2 KPMG International
Source: Zendesk, 2011, RightNow, Harris Interactive, American Express 2011
Source: Temkin Group's 2015 Research, 15 Customer Experience Factoids

- 82% declare that they have closed any kind of business relationship with a brand after having a negative experience
- 70% of those who had to deal with a bad service then talked about their experiences to other people
- 63% do not decrease the amount spent if the brand does a good job of recovery

In today's multichannel and multi touchpoint context, the consumer experience is the sum of the individual interactions with the brand in both physical and digital channels. Consequently, the cumulative sum of experiences generates the judgment from which a series of behaviors towards the brand arise. Therefore, the use of the Customer Journey as a framework of analysis has allowed the firm to have an integrated and complete vision of the customer experiences. To maximize customer satisfaction Yougenio must concentrate on every single touch point, always keeping in mind the overall vision of the customer journey according to all the aspects that impact on the client's experiences: functional, rational and emotional aspects. According to them, follow the base ideas and the macro initiatives which Yougenio is going to develop along 2018 for the main areas of business. To grow in the maintenance field, it is necessary to bring the customer closer to the online purchase starting from the profession and the artisan, thus grasping the opportunity that only the physical touch point can guarantee. Furthermore, it is necessary to simplify the purchasing process through an offering that can respond to a need that is less "explicit" or circumscribed, and through a more concise sales process that replicates the consumer's usual shopping experience: "The customer trusts the first person with whom he comes into contact" (quoted by an operator during a focus group).

• Definition of supply method “by profession”
  - Introduction of the figure of the "handyman"
  - Redefinition of the groupings in order to split the services differently, based on the results of the test
  - Development of offering scope for domestic renovations

• Program introduction to promote the sales activities made by the operators
  - Introduction of sales tools (pos)
  - Definition of on-site and CRM sales integration processes or review of the estimate process
  - Leading team training on up / cross selling activities
  - Introduction of commercial gadgets (brochures, gift cards)

• Promotions and ad hoc campaigns on high rotating seasonal services (see boiler revision)
- Identification of seasonal services subject to specific campaigns and promotions

• Offering widening towards needs by type of user
- Differentiation for: owner, tenant, condominium administrator, etc (not in scope)

The request for greater personalization in the cleaning services, highlighted by surveys, pushes towards a premium repositioning both from a qualitative point of view and from a target customer targeting strategy, without neglecting that slice of the market careful, however, at convenience.

• Constructing a customer-centric pathway that guides the review of offerings
- Definition of the personas
- Study of customer needs throughout the customer journey
- Study, modification and monitoring of the emotional curve

• Introduction of a differentiated offering to maximize the customer satisfaction of both the premium and standard customers:
- Introduction of differentiating elements for the premium customer
- Reduction of services considered premium for low cost customers (see availability on weekends)

• Promote the repetition of purchase with alternative methods to the subscription (see carnet)

• Differentiated pricing strategy (see premium price as an exclusivity element)

• Differentiated communication strategy for service / personas matrix

To support the expansion of the micro receptivity channel, it is necessary on one hand to create a distinctive communication positioning able to differentiate Yougenio, and on the other one to build a journey differentiated by customer type, with a more "tailor-made" approach for large clients. In order to make the model scalable and ready to support increasing volumes, the initiatives in the phase of use of the service and back office must necessarily be standardized and made more automatic.

• Definition of Positioning and USP towards business customers and creation of the micro receptivity section on the site

• Preparation of content (videos, photos, etc.), and tools to support the commercial phase (brochures, business cards, gifts card, ...)

• Presidium and participation in events and target groups in the micro-community

• Offering extension (e.g. check in / out)

• Definition of a new mode of offering "by customer type", with a commercial approach, offering and different after-sales support

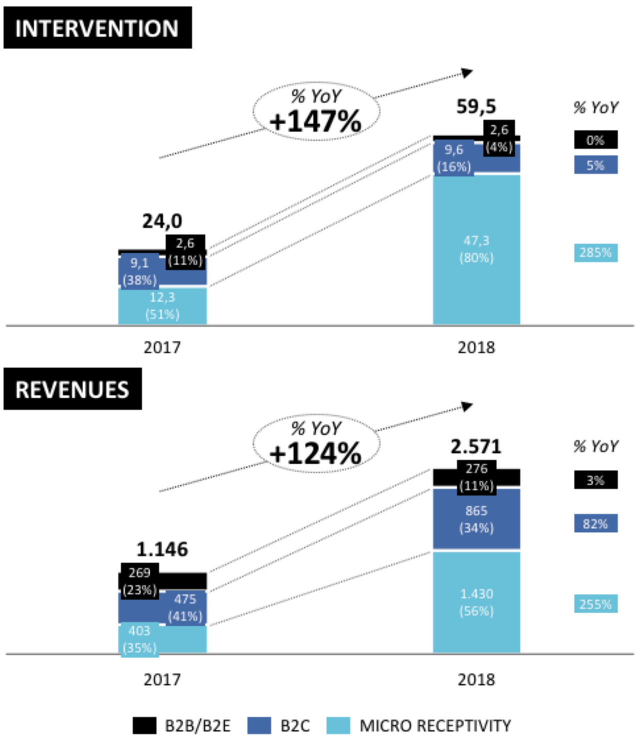
- Method of acquisition and relationship with the prospects (KC - key client), managed offline by the commercial function; offering standard (second price list and discount grid) and possibility of customization on customer needs (even in areas not covered)
- Method of acquisition and relationship with prospects (SB - small business), internal to the YG site, managed by the estimate department; offering standard (second price list and discount grid), but not at the front end of the site

• Standardization of apartment registry management, booking management

3.6. Financial overview

What follows is a brief analysis on the real numbers Yougenio has achieved and expects to reach in the following years under different focuses in order to have a complete picture of the actual and future development.

Overview sales channels



For 2018, 59.5k interventions are expected (+147% vs 2017) equal to € 2,252k (+97% vs 2017). The mix moves towards micro receptivity. Overall, the average level of net prices per intervention increases.

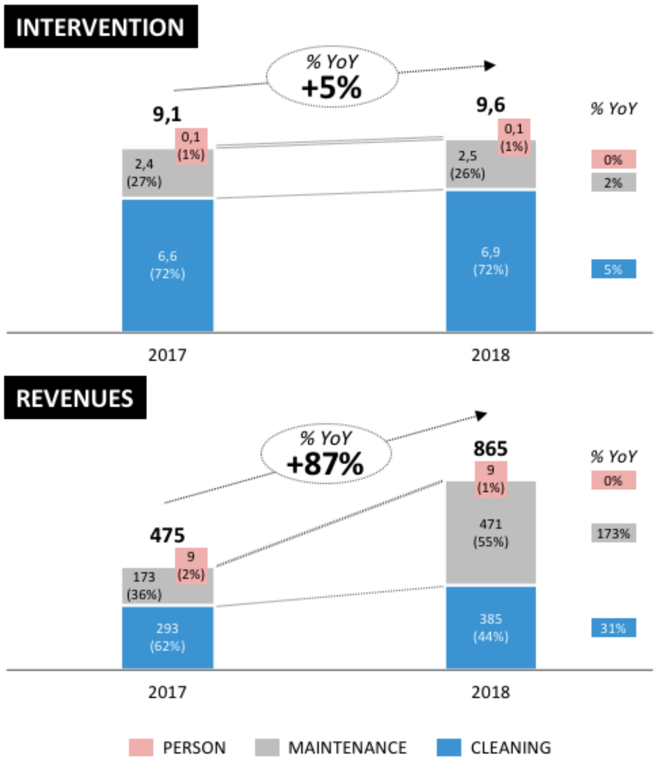
The main driver of volume growth is the micro receptivity, which goes from 12.3k interventions to 47.3k (+285%) which also include approx. 13.4k interventions related to the extension of the current range of services. The managed apartments will be on average 578, plus 192 digital microhoster customers.

Revenues increased driven by volumes and benefited slightly from the increase in maintenance within the channel, amounting to € 1,430k (+176%), of which approx. € 225k related to the range extension.

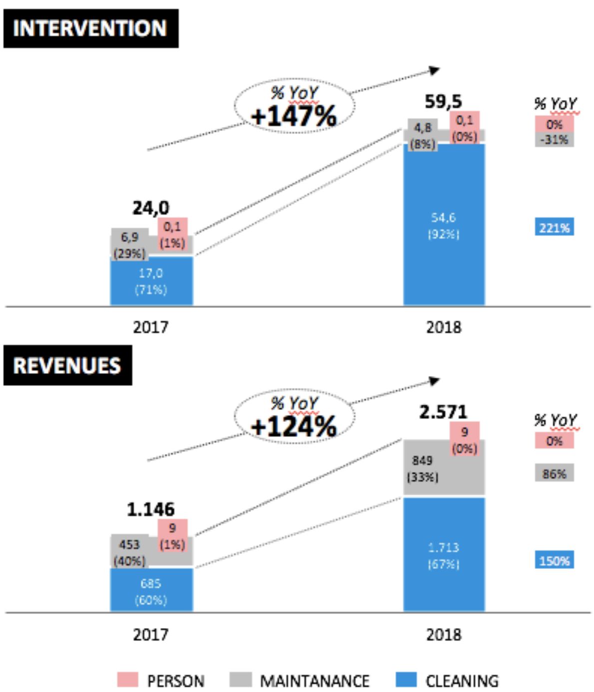
The volumes on the B2C are expected to grow slightly from 9.1k to 9.6k (+5%), as a result of the "selective B2C" policy, which aims to generate business without “performance” channels such as Groupon. B2C revenues are therefore expected to increase to € 865k (+87%) thanks to the benefit on average prices of the aforementioned policy (lower impact of promotion) and focus on longer-term services.

Overview sales B2C

As just mentioned, the planned interventions are going to slightly increase from 9.1k to 9.6k (+ 5%) due to the lack of contribution of the performance channels. However, revenues are expected to increase to € 865k (+ 87%) thanks to an increase in the average price of the interventions. For cleaning, the average price goes from € 45/int to € 56/int, almost entirely due to the cancellation of the promotions of the performance channel. For maintenance, the average price goes from € 70/int to € 189/int, of which € 60/int is due to the cancellation of the promotions of the performance channel, and € 54/int are due to the greater focus on services "complexes" as a quote, which rise to over 60% in the maintenance mix.



Overview sales per Los



Overall, the average level of net prices per intervention increases.

The main driver of volume growth is cleaning (54.6k interventions, +221%), driven mainly by the increase in micro receptivity.

The growth in revenues of € 1,713k (+ 150%) is driven by volumes and an average price decreasing due to the channel mix towards micro-consumerism (in which the average price is lower).

The decrease in maintenance services (-31%) is due to a different classification of some micro receptivity activities. Personal services in 2018 are still planned with a "by-opportunity" approach.

KPI & Contribution Margin

KPI	CLEANING		MAINTENANCE		PERSON	
	2017E	**2018**	**2017E**	**2018**	**2017E**	**2018**
Intervention	16.975	38.507	6.933	4.756	132	132
Period (hr)	3,3	2,3	3,2	4,4	4,0	4,0
TOT H MOD*	**56.595**	**88.843**	**22.475** (14.609)	**20.776** (15.667)	**530**	**530**
TOT HC	**168**	**181**	**15**	**15**	**0**	**1**
Saturation	*41%*	*61%*	*57%*	*61%*	*0%*	*60%*

ECONOMICS	**2017E**	*% on NS*	**2018**	*% on NS*	**2017E**	*% on NS*	**2018**	*% on NS*	**2017E**	*% on NS*	**2018**	*% on NS*
REVENUES	**684,5**		**1.400,8**		**452,7**		**842,4**		**8,9**		**8,9**	
Employees	1.681	*246%*	1.498	*107%*	605,3	*134%*	566,2	*67%*	0	*0%*	8,0	*90%*
Ammortization	-	-	-	-	-	-	-	-	-	-	-	-
Other	154,8	*23%*	305,3	*22%*	179,0	*40%*	315,2	*37%*	0	*0%*	0,5	*6%*
Direct Costs	**1.835,6**	*268%*	**1.803,0**	*129%*	**784,3**	*173%*	**881,4**	*105%*	**0,0**	*0%*	**8,5**	*96%*
CM	**-1.151,1**	*-168%*	**-402,2**	*-29%*	**-331,6**	*-73%*	**-39,0**	*-5%*	**8,9**	*100%*	**0,4**	*4%*

* *Also includes support hours not developed by interventions. The number of make hours is indicated in brackets*

The improvement of margins is essentially due to the increase in saturation, which went from 41% to 61%. The increase in saturation is due to the shift of the mix towards micro receptivity and secondly to the improvement in the scheduling management. The increase in margins is almost entirely due to the price effect on revenues (induced by lack of promotion) and that is worth about 65pp.

Income statement

A saving in selection and training is expected (-65k€ vs 2017) due to lower ramp up, stabilization of turnover and improvement of the process. Coherently with the new focus on Micro receptivity, B2C budgets have been reduced for creativity, communication, production and events at €270k (-360k€). Significant saving on digital marketing is expected, thanks to the new focus and a new strategy of acquiring leads and customers. The CPA drops from ca.125 € to ca.55 €. Finally, a strong investment in the structure is expected: +1 commercial, +1 Customer Management manager, +2 Customer Management staff and the internalization of a developer. Overall, we estimate € 280k in Personnel (+280k€ vs. 2017).

As explained before, 2018 will be characterized most likely by a negative EBITDA, equal to -3,1M€. Indeed, many investments will be done during the year, starting from a focus more addressed to the micro receptivity, since it leads the sales volumes. The expectation is for this growth to continue also in the following years. Thanks to efficiency policies, a revival of the services for the person and a selective B2C policy, a EBITDA equal to 0 is expected by 2020. In 2022, the micro receptivity will be a consolidated core business, followed by a strong maturity of the B2C Italian market; indeed, more and more people will be willing to buy cleaning and maintenance services through the web. Finally, a strong expected development of the services for the person will lead to an estimated EBITDA of 3,8M€.

	2017	% on NS	2018	% on NS	2019	% on NS	2020	% on NS	2021	% on NS	2022	% on NS
REVENUES	**1.146**		**2.571**		**6.090**		**12.964**		**18.012**		**24.321**	
Direct Costs	2.620	*229%*	3.278	*128%*	5.969	*98%*	9.656	*74%*	12.511	*69%*	16.013	*66%*
CONTRIBUTION MARGIN	**-1.474**	*-129%*	**-707**	*-28%*	**121**	*2%*	**3.308**	*26%*	**5.500**	*31%*	**8.308**	*34%*
Indirect Costs	532	*46%*	663	*26%*	859	*14%*	1.169	*9%*	1.371	*8%*	1.551	*6%*
GROSS MARGIN	**-2.006**	*-175%*	**-1.370**	*-53%*	**-738**	*-12%*	**2.139**	*16%*	**4.130**	*23%*	**6.757**	*28%*
Staff	233	*20%*	178	*7%*	183	*3%*	214	*2%*	163	*1%*	187	*1%*
Marketing	766	*67%*	840	*33%*	742	*12%*	961	*7%*	1.225	*7%*	1.226	*5%*
IT	195	*17%*	447	*17%*	650	*11%*	731	*6%*	823	*5%*	874	*4%*
Business Mngmt	424	*37%*	960	*37%*	1.149	*19%*	1.459	*11%*	1.817	*10%*	2.276	*9%*
G&A	1.619	*141%*	2.425	*94%*	2.724	*45%*	3.366	*26%*	4.028	*22%*	4.563	*19%*
EBIT	**-3.624**	*-316%*	**-3.796**	*-148%*	**-3.463**	*-57%*	**-1.227**	*-9%*	**102**	*1%*	**2.194**	*9%*
Ammortization	508	*44%*	739	*29%*	996	*16%*	1.262	*10%*	1.550	*9%*	1.571	*6%*
EBITDA	**-3.116**	*-272%*	**-3.057**	*-119%*	**-2.467**	*-41%*	**35**	*0%*	**1.652**	*9%*	**3.765**	*15%*
CONTRIBUTION TO THE REVENUES (LOS)												
CLEANING		*60%*		*67%*		*68%*		*61%*		*59%*		*53%*
PERSON		*1%*		*0%*		*3%*		*8%*		*11%*		*14%*
MAINTENANCE		*40%*		*33%*		*29%*		*31%*		*30%*		*33%*

The development of the new policies will lead the company from a present Contribution Margin (Revenues-Direct Costs) equal to -129% on revenues to one equal to 34% by 2022. The same goes for the Gross Margin, computed by subtracting to the Revenues also the Indirect costs, equal to -175% with respect to the present revenues, and estimated to be almost equal to 28% on revenues by 2022. The Compound Annual Growth Rate computed on six years is equal to 78%. The first actual year in which Yougenio will go on positive, with an expected profit of 1,4M€, is precisely 2022.

CHAPTER 4

4.1. The deal

"*Projections are just bullshit. They're just* guesses."
Cit. Jason Fried, Founder, 37Signals

Nowadays, the competitor businesses on the market are mainly marketplaces (B2C), and they focus on the development of the meeting point between demand and price quotation supply: an artisan buys the visibility of the price quotation by paying the lead to the platform, then he/she contacts the client who made the demand (independently). The marketplace does not have any other touchpoint with the final client. On the contrary, YG chose to equip itself with a complex machine to deal with all the operation process, from the online presence which answers to the client's immediate need to the final delivery of the service. To understand if this was the most appropriate decision for this specific market is still an open question, that will be defined only over time. At times, they could seem complementary, partners in a possible integration: the existing marketplaces, to which artisans can freely access, could give YG the opportunity to answer the price quotation demands by paying the lead, trying in this way to win new orders and increase the sales volumes. The question is: could a marketplace which founds its business model on the generation of lead join forces, through M&A, with YG? Assuming a fusion between YG and other players, which distinguish themselves for being a marketplace, opens the discussion for a deep analysis and the points would be a lot. The main one is to understand if the possible operation synergies, guaranteed by the union of the process of lead research and effective delivery of the service, can weight more with respect to the possible destruction of the business model carried out by the marketplace. There exists an effective risk to delete the incentive for the third artisans to pay the lead, since they are aware of the presence of a preferential channel for a player as YG, independently on whether the situation is biased or fair.

4.2. Fazland & Preventivi.it integration

Preventivi.it and Fazland.com, the two Italian online comparison platforms dedicated to the professional world, announced their merger the 27th of March 2018. The two companies, combining resources and expertise, are becoming the reference point for Italian professionals and consumers, helping the acceleration process of digitization in the country. The new group will be able to count on the results achieved by the two companies over the last three years: over 28 million visits a year, 250,000 requests for quotations and 130,000 registered professionals.

The model of comparison platforms, already widely consolidated in sectors such as banking or insurance, is becoming increasingly popular in the professional world. Indeed, the trend is also evident in Italy: in 2017 more than 20 million Italians[48] used digital channels to search for services and professionals, and the sector is expected to grow strongly over the next few years.

Preventivi.it

The company, founded in 2009, with a customer base of more than 1M users, offers professional services in 30 different sectors (ex: photovoltaics, building renovation, electrical installations, alarm systems and video Surveillance, replacement of boilers, installers of air conditioners, etc.).

It looks for artisans and small companies, digitally hired, and leads, through the value proposition of several online comparisons. It has become a consolidated brand in the Home Services sector with a significant value of turnover and positive EBITDA, consistent with the role of a consolidated player.

Fazland

The venture, founded in 2013, with a customer base of more than 400K users, offers not only home maintenance services, but also services dedicated to the person (lawyer, broker, accountant, interpreter, etc). It is aimed at artisans, small businesses and even corporate subjects. Its leads are digitally hired, through the value proposition of online comparison, while the artisans are engaged both digitally and through agents. Fazland is characterized by a strong revenue growth, sustained at the expense of short term marginality. Important investments have been made in the last 3 years, mostly for TV campaign.

[48] Analysis requested by users of the home services sector, source Google Analytics.

4.3. The opportunity for YG

"Fall in love with the problem, not the solution"
Cit. Uri Levine, Waze cofounder

Yougenio has very clear what its long-term objectives are, and a purchase/merger transaction with the new reality, that will be created between the two competitors, must go through a deep analysis of the pros and cons.
Yougenio aims to grow and every activity that is being carried out up to now has mainly this goal. Moreover, it is necessary to demonstrate each day both the goodness of the business idea to the holding that owns the property, and at the same time the scalability of the market.
Proceeding with an M&A transaction would allow a strong improvement in the growth prospects: a reformed network of professionals, who would take care of the service delivery, combined with a strong lead generation activity.
Yougenio is a young reality (born the 6th of June 2016), and the integration would bring new and tested skills in terms of experience that would be in line with the process of development and internalization. Last but not least, the combined entity could favor the enhancement of Manutencoop group (IPO, new investors, etc).

Fazland and Preventivi.it could guarantee a lot of advantages such as the acquisition of useful assets for synergies.

CB. Focusing on the customer base, nowadays the two startups have 1.4 million B2C and B2B contacts, formed by general information, profiles, histories and digital purchase paths. Yougenio would be in possession of all registered users on the platforms, which develop 200K active users on an annual basis, with a return of 250K service requests on average, divided into 4 categories which are formed by 36 service categories. The synergies activated by the CB of FB (which has a very low request collection cost, compared to YG) have several positive aspects because, due to the nature of the platforms:

a) the users are profiled almost exclusively on maintenance and therefore in YG targets
b) it is a completely digitalized CB
c) it has significant dimensions both numerically and geographically.

However, the risks associated with this CB must also be taken into consideration:

- there is a low percentage of active customers
- active customers have a low propensity to repetition, 80% make only one request per year
- only 30% covers the city of interest of YG
- the distribution of customers out of YG and the division on the categories of services offered must be understood.

NETWORK. Another interesting asset is the total number of people who have already joined FP. Indeed, Fazland and Preventivi.it have a network of 130,000 professionals profiled by category and assessed through consolidated rating systems. This accumulated pool of professionals would become a real opportunity for a territorial expansion in YG:

a) DB of professionals of significant size and already profiled for trade and performance
b) wide geographical spectrum
c) a broad spectrum of types of profession.

As for the CB, the pain points should also be seen here:

- there is a significant amount of leads
- generally, a low-participation is shown in the platform
- the possibility of collaboration with the network of professionals of FP is to be explored
- there is a significant number (25%) of non-responsive SRs.

	YOUGENIO	fazland	preventivi.it	ProntoPro	Instapro
Key Words	11,4 K	50 K	24 K	280 K	19,5 K
Key Words 1° Page	1 K	10 K	4,4 K	86 K	1,7 K
Monthly Traffic	45 K*	241 K	1,8 M	2,6 M	205 K
Organic Monthly Traffic	5,3 K	35 K	6,8 K	300 K	5,5 K
Zoom Rank	42	52	46	64	41

Sources: (1) Google – Italia; (2) Seozoom

POSITIONING. Then, for what concerns brand positioning in the B2C market, the brand preventivi.it is top of mind as a digital comparator in the home services sector and a leader in the lead generation market share:

a) Fazland and Preventivi.it have accumulated over the years an important wealth of experience and historical data in SEM activities
   - 15M€ invested in Google Adwords
   - Adwords account of Preventivi.it with 10 years of data and optimizations
b) Fazland TV campaigns were matched by the increase in brand research
c) Fazland has a very high volume of keywords thanks to the large portfolio of covered services

However, the benefit of TV campaigns quickly evaporates after planning, so constant media investments are required. ProntoPro shows to have a very important weight on the market both from the volume of brand researches and from the number of key words managed on the search engines. The conversions of Fazland and Preventivi.it deriving from non-payment sources account for 16.35%, hence the collection of service requests is strongly driven by Adwords investments.

OTHER. First, the acquisition of a well-developed portfolio of internal IT skills which have allowed FP to develop their platforms and their constant update. Second, the presence of high profile teams with decades of experience in the development of brand awareness and digital business.

4.4. Sinergies

The acceleration of orders growth starts from the strengthening of the service delivery, through the network of professionals, combined with a strong lead generation activity

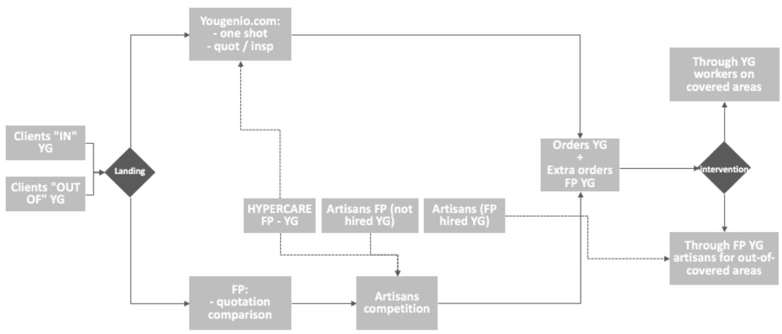
S1 – Lead + delivery

a) Coordinated digital marketing

The integrated and coordinated management of FP and YG on Digital Marketing (see S4) would avoid competing on the same categories of services

b) Lead

According to the categories and the situation of orders in YG, the leads that land on FP would be turned preferentially to Yougenio



c) Hypercare

The leads would be managed by the FP hypercare, which would increase the ability to make commercial push, promoting the YG offering

d) Professional network

YG, using the network of FP professionals, would enhance the delivery capacity and ensure greater geographical coverage

So what

- Incremental business generation both through geographical expansion and through an increase of the range of services, thanks to the contribution of the professional network
- Synergy activated also through a partnership:
    - for areas where YG is present stand alone
    - to cover the *not-in-scope* services with a different network of suppliers (through scouting activities) or with the same suppliers
- The synergy is based on the role of the hypercare, but it is considered a bet since it is a completely new activity to be explored by FP
- Possible reputational risk and abandonment of the Pros from the FP platform, given the presence of YG as a majority shareholder

S2 – Waste

Nowadays, there is a part of FP's service request that is not purchased by any artisans and for which customers therefore do not receive any response. A portion of these would be superimposable to the ready-to-use catalog of YG (small maintenance operations)

So what

- Growth, in terms of lead, for YG thanks to the entry of residual service requests
- Increased response rate of FP thanks to the management of waste
- Potential risk of enlargement of waste due to low "motivation" to sale, since for FP the sale would still be "guaranteed" by YG

S3 - DEM

a) DB contacts

Yougenio could access an important DB of contacts in the cities in which it operates, with the possibility of implementing periodic DEM campaigns on the core ready-to-purchase services aimed at recurring customer needs (cleaning, heating, air conditioning, gardening, etc).

b) Marketing automation

Yougenio could use the marketing automation platform already in possession of the new entity, facilitating marketing activities that today require a human activity, and allowing new opportunities for communication and promotion on the customer base

So what

- Access to a broad, highly profiled and qualified DB, usable with low-cost initiatives
- DB that cannot be acquired at no cost except through an M&A transaction
- Few YG services that can be used for DEM activities
- Given the peculiarity of the DEM activity, it would lead to an increase in "peaks" orders, with focus points on:
  - Provision of the service and planning of the resources needed to manage the peak period
  - Order management (see call centers, schedules, complaints, etc.)
- Need to verify whether the activity is feasible as a promotion of FP on YG or directly from YG

S4 – Digital marketing

FP's marketing structure has grown and matured over the 9-year experience of individual companies in the B2C market, so it could absorb many of Yougenio's needs. In particular it would allow:

a) Internalization of digital marketing agency with consequent efficiency in spending
b) Absorption of digital marketing managers
c) Partial absorption of staff working in digital marketing activities
d) Internalization of the creative agency

So what

- Economic efficiency
- Internalization of know-how and expertise
- Better coordination and alignment of marketing and communication processes

- Integration and merging of complex resources to be implemented and evaluated
- Potential start-up costs
- Failure to exploit the initial investment and the built experience curve

S5 – IT development

a) Team IT

FP uses an internal team of developers with Magento skills (current Yougenio ecommerce, but with strong customizations) that are currently outsourced. This structure, if reinforced, could absorb Yougenio's needs.

b) IT infrastructure

From the infrastructural point of view, FP already has some tools that Yougenio has already decided to develop/buy in the future (DMP, Marketing Automation Platform).

So what

- Economic efficiency
- Acquisition of know-how
- Costs and learning times of the Yougenio platform (Magento with strong customizations)
- Potential difficulties and operational complexity in the absorption of 4 FTEs on an already operational team.

Other strategic options

a) YG ITALIA - TERRITORIAL COVERAGE EXTENTION

The network of suppliers could enable the supply of services even in areas not covered by Yougenio and therefore exploitable both for strategic initiatives of offering on different customer bases and as a distinctive asset on the B2B/micro receptivity or corporate welfare.

b) REBRANDING - SPLIT BETWEEN B2C AND B2B:

It could be hypothesized a rebranding of Yougenio exploiting the FP brand, which is characterized by higher levels of awareness, in order to penetrate more effectively in the B2C market. In this case it should partially change the FP business model (from comparator to services ecommerce). At this point YG would remain the reference brand for the business customers.

c) INTERNAL GROUPON - "OFFERS" SECTION ON PORTAL FP:

One could hypothesize a section of the FP site dedicated to Groupon-style deals of network providers, including also offers of YG (in privileged mode). In this case it should partially change the FP business model (from comparator to services ecommerce) and add on the portal the payment gateway, currently not present.

4.5. Why YES vs Why NO

Why yes

GROWTH. The transaction would be an important accelerator of growth and expansion of YG's coverage compared to its organic development plan

SYNERGY. Synergies of structure and know-how are assumed

STRATEGIC OPTIONS. An operation of this entity would create an interesting and well-known subject on the market, favoring the successful outcome of a possible quotation on the stock exchange

Why no

CONFLICT. Yougenio would participate in the business model both in the role of owner and in the role of supplier, with risks (or necessary changes) on the business model of FP

EXTRAORDINARY OPERATION OR PARTNERSHIP? Some benefits from the transaction would also be achievable with other types of agreements (see partnership) that can be activated both on the lead side and on the network side of suppliers

OPERATIONAL COMPLEXITY. The growth plan hypothesized in the number and frequency of orders shows considerable operational complexity from the point of view of speed, geography, management and planning. With potential delays and negative impacts on brand equity

HYPERCARE. The industrial synergy is based on the functioning of the hypercare model, which shows risks of uncertainty (FP lacking in experience), low scalability and high costs

Final Remarks

"*When you're ready to quit, you're closer than you think*"
Cit. Bob Parsons, Founder Go Daddy

Yougenio has always defined itself as an innovative startup, or, better, its top management has always done so, even if it is not registered in the special register of the innovative startups. In fact, it was not born a long time ago (usual confusion on the false association "startup" equals to "young"), but the traits that can mark it as innovative are few. First of all, it is daughter of a big Italian industrial group (Manutencoop group), which can guarantee a security that is anything but natural for a startup and for the ecosystem in which it began to develop. The Holding provided to all the lacks of Yougenio: operating staff, know-how, management and even funding to guarantee its survival. That is why Yougenio does not need to propose itself on the market to search for funding and can focus only on the management of the business operation. Yougenio is a Manutencoop internal project, aimed at the exploitation of specific abilities, which are already present internally, also in other unexplored markets, in order to exploit the market trends that are developing in these years: from the intense digitalization of the families to the increasing propensity to buy complex services via web.
The launching of a startup, most of all in the case of innovative startups, nowadays should not follow the classic process adopted years ago: writing the business plan, asking for a loan to the bank, creating the finished product (son of the entrepreneur's vision), hiring to form the team and, finally, selling. Of course, you can follow this scheme, and you have to for simple businesses like a restaurant or a travel agency. Nevertheless, as well explained in Chapter 1, there exist mature and experienced methods which guarantee a net improvement of the probabilities of success for a new activity. A classic process, in fact, leads a startup to a failure three times out of four, and this should not surprise given the natural riskiness of the business activities. How can you act, then? Planning activities should be completely abandoned, since they are the first evil that afflicts new entrepreneurs: the startup, properly, is born to test the existence of a market, estimate its dimension and future development and, finally, understand if there exists an ideal context for the birth of a society able to generate profit.
The current situation sees YG taking part of a big group used to manage the business based not so much on efficiency, as on the relationships developed on the national context during the years. YG staff does not even know what the "Lean" management of a society means, it is not required to them. After depth market researches, the space for the business was actually observed by the group, however the data base to proceed immediately with millionaire investments was overestimated. All those activities aimed at the decrease of the risk associated to a new business activity, including a constant

testing activity, better than those of mere future planning, have never been used. The requested feedbacks to the possible future consumers, following a focus group organized in 2016, were not sufficient, and, on the contrary, were even badly managed, since thy had a "verification" approach rather than a falsification one. Trivially, it is easy to find proofs to support what you are willing to say; it is difficult, however, to demonstrate when you are personally wrong, because other dynamics enter the game, most of all when you have a strong trust on intuition, or, better, on the so-called C-suite intuition.

The MVP concept, even if known, was not taken into consideration, since it is a principle not shared by the company management. To go on the market with non-finished products is seen as a non-serious behavior. However, the fact that the complete service had not been tested a priori clashes with the fear of making a bad impression in the use of incomplete and unfunctional products. Not wanting to test a new service making the early adopters try it (who are for definition not critical towards a new product/service) and preferring the launching on the mass market of a definitive product, object of strong critics and stress from the beginning, is a non-sensed way of thinking, but anyways it is widespread, most of all in YG, where this reasoning finds space in the majority of the decisive processes inside the society. Data are taken seriously, but when they are missing they are not searched and fantasy takes control of the minds of the powerful.

Finally, the Pivot is another abstract concept that in this context is completely missing: the money does not finish, if not for a board decision, which takes place only if there is no positive perspective. Such forecasts are based on numbers not acquired following the ideal lean process, and so they have a high probability of being distorted: if you do not test the market, you could keep going when it is not worth it, or you could go out because you did not understand which was actually your reference niche. In a large interpretation of the term, Pivots in YG are processes of increase of the business range of action, aimed for the rise of the volumes in primis and the revenues in secundis, with the break-even points not even taken into consideration as KPIs. The rates of growth in B2C were insufficient, that is why by entering also in B2B (and B2E), reaching the prefixed targets became easier. This "by opportunity" approach created a strong stress on the entire structure of YG, nevertheless it was not given the right importance: first comes the achievement of the sales volumes required by the board, then all the rest. It is easy to understand how this approach is no way scalable, since it is splitting out the effort on all the available channels, and it is not pursuing the aim of becoming the leader of a niche.

This way of acting was justified by making the example of Esselunga. Esselunga group is investing a lot on the digitalization of the spending, since the future trend of the food market retail is well known: many operators are in fact dealing with the digitalization of the offering, of the delivery to

domiciles etc. Even though the market is not mature yet, the group keeps investing a lot, thinking that "it will be ready" and that "it will not be outclassed by the other players" when the moment will come. So it begins to invest already today, even if it is not developing volumes to justify it. The cash flows that this process s going to develop are very similar to the R&D investments.
Manutencoop, with YG, invests strongly on a market knowing that it will develop in the future, given the effective high probability of such a positive trend. This is in theory a virtuous approach, it is the mode in which YG acts that does not respect the modern business management procedures of an innovative startup, which should be completely renewed.
Continuing to criticize the YG approach, three full time months were dedicated to the drafting of the "perfect" Business Plan. In the specific case, the effort was taken by a team of consultants who had the task to prepare it and present it to the board following the mentioned positive perspective, given by the verification of an idea (rather than its falsification), reporting all that pushes them toward the idea, and leaving out all the sources of doubt. The presence of five years-forecasts was not missing, and as expected they did not occur in a time frame of two years. This, even if normal praxis, is highly criticizable. A subject classified as a startup cannot afford to enter a market relying on extremely positive estimates; it first needs to validate its business model, and just then it can begin the game of the future estimates. This way of acting is not particularly problematic in the specific case: YG has theoretically infinite possibilities of runaway, and so it is given the opportunity to adjust its business model slowly (due to the very strict structure which characterizes it, typical of big groups). Anyway, on the long term, not wanting do adapt to the new business management trends will lead to an incalculable waste of resources, most of all when the market evolves quickly and other players way more agile and prepared enter the game, thing that is already happening.
YG is a startup, though it is static on decision-making processes and daily operation. Why? As often happens in the Italian panorama, YG uses external suppliers and does not integrate certain skills making the resources grow internally for scopes in which it is not clear the temporal space of necessity, classic argument on the variable management of the resources due to the strictness of our job market. The natural consequence is the increase of management costs, the slowness of delivery, the missing control on the results of the agreements (given the lack of the specific know-how), the increase in the complexity on managing more independent subjects. But above all, a quick and continue adjustment is not possible, and that would be a necessary condition for a startup in its early years of development. YG acts following a simple logic: if it does not have the resources and the know-how, then it relies on external suppliers; if, instead, it has some resources that have already performed similar jobs in the Manutencoop group, then it uses them for new tasks. This logic, as

already explained, has been used as an excuse to exploit the already working machine to enter the near markets, as the B2C one. However, this logic is very superficial. Let us see some examples:

- The operators that make the clearing in hospitals or certain other places (hospitals are one of the main Manutencoop business) are not supposed to have specific relational skills, they just need to know how to do their job. Introducing these operators to the families does not follow the same logics, mostly if they pay a lot more for this service with respect to a domestic worker working in black. Some training courses have been carried out, but many subjects are not able to have adequate relationships with the house owners. That is why the use of internal resources to launch a new business needs to be evaluated more carefully and not taken for granted.

- ASC is the Contact Center that YG uses to manage the inbound calls from potential clients. This contact center already worked as a collector for other services inside the group, so it was decided to exploit these internal resources also for the new business, even though the not so well prepared staff. On the short term the savings were quite evident, however the conversion rates of the telephone operators did not fit the market standards, and even if many reorganizations were realized, it is difficult to reach a sufficient level.

In my humble point of view, suppliers are the number one plague of YG. I myself am part of the group of consultants that deals with the business management to all effects. It may sound strange, but the trust generated by the relationship between the two groups made sure that the business operation management was completely entrusted to us. This project brings a great advantage to our society: having a consultant team busy at the same time on all the company fronts on the development of a startup is a unique event, and it lets us develop an important know-how. Nevertheless, for YG this is very heavy: it is to all effects a digital startup, and besides not having developers to manage the complex online process (as many as three external suppliers are used), it does not even possess the operating staff to manage the centers of power (occupied by us). YG has the C-suites, operating on the field, but all the middle management is occupied by external suppliers. Not only it grows less than expected, but also in the wrong way.
YG was neither the classic American startup, where the only focus is on the growth of users in spite of everything (volumes forecasts not even remotely reached), nor the classic European, where the focus is on the generation of revenues with a quick achievement of the break-even (given the current negative marginality, increasing the volumes only increases the fork between losses and revenues). As repeatedly outlined along this text, the difference between an existing society and a startup is that

the former performs a validated business, while the latter is looking for one. YG could be placed in the middle, since it has nowadays “validated” its business plan, in fact there are consumers that regularly use the service and are satisfied with it. However, this process passed for highly strong investments in communication (introduced in the previous chapters) and so I like considering YG as a society with an auto-validated business model, since it literally “instructed” part of its public target. YG is not under any circumstances looking for sustainability, starting from the last arrived technical operator to the CEO. Everybody is committed in demonstrating that the initial sensation based on insufficient data will reward on the long term.

Conclusion

"*If you can't feed a team with two pizzas, it's too large*"

Cit. Jeff Bezos, Founder Amazon

One of the simplest economic concepts, explained to the University freshmen, is that of sunk cost[49]. As can be seen from the analysis made along this text, the micro-receptivity channel is giving results above the expectations, unlike the B2C channel. The parallel between the two is very indicative: to a high CPA (bigger than the mean return) for the B2C, which is characterized also by a low retention rate, we have a CPA almost equal to zero, with a very higher mean return rate, for the micro receptivity, due to the ongoing nature of the relationship that is established with the client. Instead of focusing the effort on this second channel, which is proving to be ready and with an increasing demand (spread among the population only due to the WOM), YG is following a sunk cost logic: it does not stop investing on other channels because a lot has already been done. It seems a joke, but the "keep going until it does not work" logic prevails on any other rational base. The initial intuition (not properly tested) is turning out to be fallacious, and all the analyzed KPIs keep confirming it.

Switching to a lean perspective and focusing on what you can would certainly solve the fate of the business. Addressing, then, to an increasing process of internalization of the useful resources would be another big step forward, and above all with a different background: a staff that can manage the uncertainty and not only the daily routine. This would be necessary to finally land to the big world of the Growth Hacking. The stories of the great successes of Hotmail and Dropbox, just to mention some, show the path that new digital businesses should follow in the business organization and in the work-team formation: logic and testing Vs hope and forecasting.

YG has tried to grow fast, in every possible and imaginable way. In the second year of activity, it has reached one million of turnover, and the forecasts on the third predict that a two million level can easily be surpassed. These results seem exceptional for a reality so young and mainly operating in domestic cleaning, a market still pervaded by a high percentage of black labor. However, as explained throughout the all text, these achievements are the result of substantial investments in awareness (marketing, communication, etc.) carried out thanks to the back-up of the holding company, which pushes to reach the volume targets as soon as possible. To date, the company is growing at excellent

[49] costs in which you have already incurred and which cannot be recovered in any significant way

rates, but very far from the plans planned two years ago. Here is the idea of an acquisition which could make the company back along the road estimated, at least this is the dominant feeling.

Buying a reality like FP would certainly give direct access to a wider customer base, as to all the other benefits listed above, but even more, would allow acquisition of skills/technologies more quickly and at lower prices than they could be built internally (Koller, Goedhart and Wessels, 2015). YG would have the opportunity to equip itself with personnel and proprietary technologies that are missing nowadays, being completely dependent on external suppliers, and this is what would allow the real quality leap of the venture.

However, this does not take into account how FP and YG could seem complementary, partners in a possible integration, and this still needs to be fully demonstrated. The main concern underlying in the first paragraph is still "alive": understanding how the possible operation synergies, guaranteed by the union of the process of lead research (FP) and effective delivery of the service (YG), can weight more with respect to the possible destruction of the business model carried out by the marketplace (FP). Indeed, there exists an effective risk to delete the incentive for the third artisans to pay the lead, since they are aware of the preferential channel for a player as YG, regardless of whether the situation is biased or fair.

Moreover, reading and re-reading the list of situations written by Petitt and Ferris (2013), explaining how an operation of this kind can actually destroy value instead of creating it, I do not fail in seeing critical issues for the reality under scrutiny. The need to grow no matter what makes this deal being seen with an excessive confidence on the results that can actually be brought home, and today the C-suite does not have, in my personal opinion, the ability to manage an integration plan between similar realities operating in different businesses, mostly at a time when daily operations already put into test the business, and the very good organic growth necessarily leads to all the problems of a growing business that must be managed.

A greater focus on the management of the structuring of the growing reality and on the most profitable businesses would probably lead to a slowdown, which today is not acceptable, but on the other hand to a competitive advantage in the long run much more easily sustainable.

Of course, my point of view could not take into account variables unknown to me, and every thought I expressed could be differently developed. This wants to be a base for a future discussion about the issues that YG considers untouchable, because sons of decisions made over time, and so true Leap of Faith, classic in the business management, since our limited rationality sometimes does not allow us to do more than this.

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