

A Work Project, presented as part of the requirements for the Award of a Masters Degree in Management from the NOVA – School of Business and Economics.

## **Business Model Analysis of Mobitto –**

### **How to solve the chicken and egg problem of a multi-sided platform?**

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## **Executive Summary**

The present work project is a business model analysis of Mobitto. Mobitto is a Lisbon-based multi-sided platform that creates value by enabling direct interactions between two sides, namely businesses and consumers, through a mobile smartphone application. Businesses can advertise campaigns to consumers through the application. Purchases through the application are rewarded with loyalty points. Mobitto takes a 30% margin on the transactions of loyalty points. In order to create value, Mobitto needs to elaborate a strategy on how to attract both sides to the platform and on which side to focus first. Hence the question, how to solve the chicken-and-egg problem for Mobitto? Environmental factors and market trends are favorable for Mobitto's value proposition. Competitive assessment confirms Mobitto's innovativeness as no other player predominates the market for mobile loyalty applications. International benchmarks and operational analysis suggest, to focus Mobitto's seeding strategy on the business side. Strategic objectives and correspondent KPIs are developed and integrated into an implementation and recommendations plan that puts the focus on merchant acquisition and customer service.

**Keywords:** Mobitto, multi-sided platform, business model analysis, mobile multi-firm loyalty program, startup.

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## **1. Scope, Objectives and Methodology**

The present work project is part of three work projects collaborating with Mobitto<sup>1</sup>, an innovative mobile loyalty platform, in the Field Lab of Entrepreneurial Innovative Ventures. The scope of this work will be an analysis and discussion of Mobitto's business model. Lisbon-based startup Mobitto enables two sides (businesses and consumers) to directly interact with each other, whereas purchases through the mobile application are rewarded with loyalty points. In order to create value, businesses and consumers need to be on the platform. Therefore, Mobitto faces a "chicken-and-egg problem". As long as one side does not join, neither will the other and vice-versa. The business model analysis seeks to solve that problem and is composed of five parts. After providing a company overview, several business frameworks are used to assess the environmental context, competitiveness and the operating model in order to derive an adequate business strategy. A multi-scenario analysis seeks to explore future possibilities based on the suggested business strategies. An implementation plan, strategic recommendations and final recommendations complete this work.

### **1.1 Literature Review**

Ever since the internet became widely used in the second half of the 1990s, it has fundamentally changed today's business paradigm. Internet services have disrupted several industries (e.g. music; travel; retailing) and led to the creation of completely new industries (e.g. online advertising; social networks) and new business models. Furthermore, "by easing and speeding the exchange of real-time information, it enables improvements throughout the entire value chain, across almost every company and industry." (Porter 2001) Looking at the different value chain activities, especially marketing functions have been impacted by internet technology (Prasad, Ramamurthy and Naidu

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<sup>1</sup> Besides my work on the general business model of Mobitto, Diana Sousa examines how to attract a relevant pool of users for Mobitto and Sara Seabra analyses how to potentiate the B2B business model.

2001). The last decade brought the convergence of the internet and mobile communication technologies (Barnes 2002) and led to the creation of innovative mobile business models and mobile marketing forms. Mobile devices, especially smartphones<sup>2</sup>, have become an essential part of consumers' lives. This increased the interaction possibilities of businesses and consumers making use of personalized, context-aware, social and interactive mechanisms through mobile applications (called apps).<sup>3</sup>

Mobitto's business idea represents such a mobile marketing app, but before introducing the idea itself, some of the most auspicious mobile trends are introduced that set the ground for Mobitto: location-based services (LBS), crowd-based services, mobile social media and gamification.

LBS can be defined as "services that depend on and are enhanced by positional information of mobile device." (Dhar and Varshney 2011, 122) LBS offer value propositions that seek to address and enhance contextualized customer experience. These services provide directions, recommendations or other information related to the user's present location or include social characteristics to share locations among friends.

Crowd-based services derive from the idea of "collective intelligence". A term often mentioned in that context is "crowdsourcing", first defined by Jeff Howe in 2006 as "the act of a company or institution taking a function once performed by employees and outsourcing it to an undefined [...] network of people in the form of an open call." (Howe 2006) Web-based forms of crowdsourcing adapted for commercial usage include crowdfunding or open innovation projects.<sup>4</sup>

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<sup>2</sup> Smartphones differ from typical mobile phones by being capable of running an operating system (OS), which provides a standardized interface and a platform for applications and allows the connection to the internet. The most common OS are Google's Android and Apple's iOS, combining 91.1% of the Worldwide Smartphone OS Market (IDC 2013).

<sup>3</sup> Apps are software programs, mostly designed by independent developers, serving different purposes and made available to smartphone users through the OS app stores (Android Google Play and iOS App Store).

<sup>4</sup> Open innovation describes the process of opening e.g. a company's R&D process by including external ideas from outside the company (Chesbrough 2003). Crowdfunding describes the "collective effort by people who network and pool

Mobile social media is a subcategory of social media. It describes a group of apps “that allow the creation and exchange of user-generated content.”<sup>5</sup> (Kaplan 2012, 131) Through personal mobile devices, consumers can ubiquitously engage in mobile social media, because they are constantly connected to a wireless network. This introduces the features of location-sensitivity and time-sensitivity to social media, namely usage of the exact position of a specific mobile device and a specific (real-time) moment (Kaplan 2012).

Gamification describes the use of gaming mechanics to engage audiences in a non-gaming context. By making technology more engaging, gamification encourages users to perform tasks they normally would consider uninteresting (Zichermann and Cunningham 2011). The concept reached considerable usage in websites and apps, where data measurability indicates improvements in areas such as user engagement and ROI (Palmer, Lunceford and Patton 2012).

Globally, the opportunities for startups grasping these trends are considered substantial (Dhar and Varshney 2011).<sup>6</sup> However, many of these startups have yet failed to prove the viability of their business models to generate revenue. As an example, New York-based company Foursquare which is considered as the market leader in the area of mobile social media (Kaplan 2012) was valued at \$600 million, but disappointed investors by generating just \$2 million in revenues last year (Frier 2013). Online deals pioneer Groupon’s<sup>7</sup> stock price has lost 77% of its value since the company went public in November 2011 (BBC 2013). In summary, these examples increased the pressure on

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their money together, usually via the internet, in order to invest in and support efforts initiated by other people or organizations.” (Ordanini, et al. 2011, 444)

<sup>5</sup> For content to be considered user-generated it needs to be published either on a publicly accessible website or on a social networking site accessible to a selected group of people; it needs to show a certain amount of creative effort; and finally, it needs to have been created outside of professional routines and practices (Kaplan und Haenlein 2010).

<sup>6</sup> From a global perspective, opportunities (e.g. financially) for mobile startups are still the greatest in the United States. However, Portugal, as the rest of Europe, is benefiting from recent US investments in Europe.

<sup>7</sup> Groupon’s and other startups’ (e.g. LivingSocial) original business idea is based on the concept of using collective buying to offer daily deals (discounts) on local goods and services to users.

business model viability for start ups in this sector, which emphasizes the importance of this work project for Mobitto.

Another important aspect of this thesis are loyalty programs. In the literature, loyalty programs are defined as “structured marketing efforts which reward, and therefore encourage, loyal behavior.” (Sharp and Sharp 1997, 474) Research claims that loyal customers are more profitable to a firm. Reasons for that include reduced acquisition costs, less price sensitivity, increased spending and favorable recommendations passed on to other potential customers (Dowling and Uncles 1997). In order to practice loyalty marketing, companies must be able to identify loyal customers. The key success factor hereby lies in the collection of customer data. Through loyalty programs companies can identify members at the point of purchase and therefore receive that data. Traditionally, companies can create either their own customer loyalty program (e.g. IKEA, Nespresso) or participate in a multi-firm loyalty program (e.g. Miles & More, PAYBACK<sup>8</sup>).

## **2. Company Overview**

Mobitto is a Portuguese startup founded in 2011. The initial business idea was to offer a self-marketing tool to merchants offering real-time and contextualized discount deals through a smartphone application. The business idea resembled existing deal-of-the-day offerings such as Groupon, but sought to distinguish itself by offering discount deals highly based on user context (e.g. location, age, gender, interests, etc). During a pilot launched in Portugal between February and May 2012, the company learned that contextualized discount models do not accomplish to attract returning customers to businesses. In the search of the right mix<sup>9</sup>, Mobitto moved to reward users' loyalty. The new concept provides merchants with a tool to advertise campaigns to users of the

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<sup>8</sup> PAYBACK is Europe's leading loyalty program operating in Germany and Poland. It combines more than 600 partners and consumer's can earn PAYBACK points at over 37.100 point of sales with a single loyalty card.

<sup>9</sup> The right mix composes: return for merchants, incentive for consumers and a sustainable business model for Mobitto.

Mobitto app. When shopping at any participating merchants, users get rewarded with a loyalty currency called “Mobitto Points”<sup>10</sup>. Furthermore, different aspects are included in the business concept:

- Use the “power of crowds” and enable users to acquire their favorite businesses to the ecosystem. Thus, the users can contribute to build their own loyalty clubs.
- Integrate the loyalty program with social networks to generate network effects.<sup>11</sup>
- Include gamification mechanics that allow users to conquer venues within the app.
- Make use of the fact, that small and medium enterprises (SMEs) rarely have access to an affordable electronic customer relationship or loyalty program and provide customer analytics.

The Mobitto brand is a trademark owned by investor Mobile Hangar, which is funded by serial entrepreneur Ruben Dias and football player Cristiano Ronaldo. Latter also acts as the brand’s ambassador.

## **2.1 Value Proposition**

Mobitto creates value primarily by enabling direct interactions between businesses and consumers. Users benefit from earning points when purchasing goods and services through the mobile application. Points can later be redeemed for rewards and therefore represent economic benefits. Since the use of the app provides customer analytics, Mobitto enables businesses to understand, identify and reward loyal customers as part of a customer relationship service.

This business model can be described as a multi-sided platform (MSP)<sup>12</sup>.

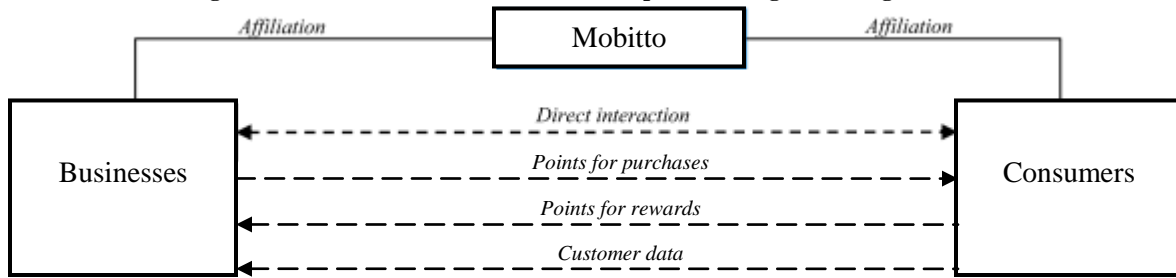
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<sup>10</sup> Mobitto points serve as the internal currency. Businesses distribute them to paying customers. Accumulated points can later be redeemed for rewards. Thus, businesses benefit in the form of returning customers and customers perceive Mobitto Points as economic benefits.

<sup>11</sup> Users get incentivized to promote and recommend Mobitto through social networks, because users benefit indirectly from the size of the Mobitto network. As an example, an extra customer potentially increases the number of services available to other customers, since by increasing the demand for services, service provisioning becomes more profitable and more firms would be willing to join Mobitto (Camponovo and Pigneur 2003).



Figure 1 Mobitto as a MSP: Own illustration adapted from Hagiu and Wright (2011)



## 2.2 Mission and Vision

Mobitto aims to improve the way consumers interact with merchants they frequent. User can take an active role in where to earn loyalty points for purchases. To businesses, Mobitto provides a tool to address prospective customers and to manage customer loyalty. By bringing together businesses and consumers in that way, Mobitto wants to become the worldwide leading mobile multi-firm loyalty application by 2018.

## 2.3 Product and Services

Mobitto offers a mobile loyalty program that is offered in two different components for each of the two target groups: an app for users and a web application for businesses. The web application enables merchants to create and administer campaigns, learn about, identify and reward their customers. The data includes demographic and geographic information about customers, but as well about other Mobitto users close to the merchant's venue. Through the smartphone app, users can earn points shopping at participating venues. Besides that, users can earn additional points through a wide range of actions exploiting the opportunities of crowdsourcing, social networks and

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<sup>12</sup> MSP are sometimes referred to as two-sided markets (cf. Hagiu and Wright (2011) for explanation of terminology). A multi-sided platform has distinct user groups on each side and incurs costs in serving both user groups. On the other hand, it can decide from which side to collect revenue. Another important factor is that MSP show network externalities or network effects. "The platform's value to any given user largely depends on the number of users on the network's other side." (Eisenmann, Parker and Alstynne 2006, 94) As a MSP, Mobitto therefore has to resolve the problems on how to attract and to create value to both user groups, from which user group to collect revenue and how to accelerate the network effect. Literature usually sees the greatest potential of MSP in the increasing return to scale in network. On the other hand, the main challenges are getting the pricing right, fighting winner-takes-all battles with competitors and the threat of envelopment by an adjacent platform provider with overlapping user bases (Eisenmann, Parker and Alstynne 2006).

gamification.<sup>13</sup> The redemption of points, collected across different venues, can be carried out in any of the participating venues. The product can therefore be seen as a mobile adaption of existing offline multi-firm loyalty programs. Within the Mobitto application, users can connect with other Mobitto users. Information about their friend's behavior on Mobitto will be displayed within the application. The program is also linked to the existing social networks Twitter and Facebook to share experiences on Mobitto and give recommendations.

## **2.4 Revenue Model**

As mentioned above, MSP have distinct user groups on both sides of the network. The platform needs to decide from which side to collect revenue. Eisenmann, Parker and Alstynne (2006, 3) describe that MSP typically have “a ‘subsidy side,’ that is, a group of users who, when attracted in volume, are highly valued by the ‘money side’, the other user group.” As Mobitto's offering is free of costs for users, whereas merchants have to pay to for the service, Mobitto collects revenues similar to other successfull platforms like eBay or Google.<sup>14</sup> Participating businesses pay Mobitto upfront and the amount is exchanged to the internal currency of Mobitto points<sup>15</sup>. Merchants create campaigns (e.g. for one specific product) and decide how many Mobitto points they are willing to distribute to users buying this campaign. If a customer buys the offered product through the app, he receives the specified amount of Mobitto points from the merchant. Therefore, Mobitto operates with a pay-per-lead model that resembles Google's advertising strategy.<sup>16</sup>

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<sup>13</sup> Filling in their profile; Inviting friends to Mobitto; Validating campaigns; Sharing experiences on social networks; When recommended campaigns are actually converted; Providing contact details of merchants; Acquiring merchants; Becoming ambassadors.

<sup>14</sup> In web search, Google brings together advertisers and searchers, whereas searchers are subsidized. In online auctions, eBay only charges sellers for transactions made through the platform and thus, subsidizes buyers.

<sup>15</sup> Current exchange rate: 1 € = 300 Mobitto points

<sup>16</sup> Advertisers using Google AdWords appreciate the system because they only pay if users click on the advertiser's link (Seifert, Leleux and Tucci 2008).

Businesses have the possibility to offer rewards to users and thus recover Mobitto points. Those recovered points can be re-used for campaigns or exchanged with Mobitto for the equivalent amount in euros. For this transaction Mobitto takes a 30% margin.

## **2.5 Strategic Objectives**

Strategic objectives help an organization to set goals for its business strategy and by deriving key performance indicators, which simultaneously allow the organization to track the adequacy and success of its strategy. Strategic objectives for Mobitto are summarized in **Table 1** in the appendix. Objectives 1 (user reach) and 2 (merchant reach) are short-termed and will measure Mobitto's success to reach the required scale on both sides of the network to benefit from network effects. Objective 3 will help to prove Mobitto's financial viability which is extremely important for further investment. Objectives 4 (user engagement with merchants) and 5 (user engagement with app) are medium-term oriented. Objectives 4 will show the degree to which Mobitto can deliver its value proposition of increasing the value of customers for participating merchants. Objective 5 measures the engagement of users with the app itself and represents an important factor for achieving favorable consumer attitude towards Mobitto as a brand itself and its most important brand touchpoint, the Mobitto app.

## **3. Environmental Assessment**

Mobitto's target market consists of both sides of the network: businesses and consumers. Due to local knowledge, business contacts and the moderate size of the Portuguese market, Mobitto starts its activities in its home market. The environmental assessment for Mobitto's business environment will be done on a macro-environmental level. According to Seifert, Leleux and Tucci (2008) this includes number of potential customers, market growth and macroeconomic trends (PEST

analysis). An analysis on the micro-level (e.g. target market segmentation) will not be scope of this thesis.

### **3.1 PEST Analysis**

As any other, Mobitto's business model is affected by external factors. In order to investigate the general environment, a global PEST analysis (looking at political, economical, social and technological factors) helps understanding key drivers, market opportunities and threats. **Table 2** in the appendix summarizes the PEST analysis. Social and technological factors seem to favor Mobitto's business operations. On the one hand, adoption of mobile smartphones becomes mainstream and consumers become savvier with those technologies. On the other hand, innovation in hardware and software reduces prices, further boosting the adoption of mobile technologies. Economic factors appear yet favorable. In the US, the number of startups getting seed funding in 2012 increased by 65% over 2011 (Zwilling 2013). However, unsuccessful IPOs of technology companies<sup>17</sup> could slow down these investments. From a legal point of view, one should highlight the increasing political concern regarding tracking and utilizing user's personal information of technology firms and developments should be carefully monitored<sup>18</sup>.

The implications of economical and political factors for Mobitto are obvious. Mobitto should gather user's consent for using their personal information (this usually happens when users install the application). Furthermore, a popular service and a novel business model alone will not satisfy investors. Profitability and sustainability will be key factors.

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<sup>17</sup> The combined value of Facebook, Groupon and Zynga IPO shares fell by \$65 billion in 2012 (Shinal 2013).

<sup>18</sup> As user's personal information have become a valuable asset, legal entities have become active in protecting user rights (e.g. the "do not track online act" allows consumer to forbid the collection of private information in the United States). The respective entity in Portugal is the CNPD – Comissão Nacional de Protecção de Dados – the Portuguese Data Protection Authority.

### **3.2 Market Analysis and Market Trends**

Until recently, local small and medium businesses relied on non-technology solutions for managing customer loyalty. However, technological developments have led to the introduction of app-based low-cost customer relationship programs. Technological and social factors, described in the PEST analysis, are reshaping the way customers interact with businesses. Mainstream adoption of smartphones and social media are leading to the “convergence of loyalty programs, engagement and gamification.” (Clay 2012) Integrating social media and game mechanics to further reward consumers for non-purchase interactions (e.g. social recommendations) have the potential to further strengthen loyalty and engagement. As Schivinski and Dabrowski (2013, 2) showed “user-generated social media communication have a positive impact on [...] brand loyalty and perceived brand quality.” Unsurprisingly, 34% of global senior marketers will consider mobile applications and loyalty programs in 2013 (Marketing Charts 2012). Mobitto matches these present trends with its business concept. However, merchants cannot be expected to work with every platform and consumers are not willed to have an app for every loyalty program. Therefore, over the next years consolidation in this industry is expected (Broitman 2012) and Mobitto should target to take the incumbent’s role in the industry.

### **3.3 Target Market and Market Needs**

Business ideas are only sustainable if they satisfy large enough and relevant market needs. For Mobitto, the business idea must satisfy the needs of both sides of the network. In the following, the needs of the distinct target markets will be reasoned in more generic terms. Specific needs are being discussed in more detail in the other projects of the Field Lab and hence, are not in the scope of this thesis.

### *3.3.1 Businesses*

Even though the loyalty program concept is applicable to a wide range of industries, Mobitto's main focus lies on restaurants and bars. Data on that sector relating to 2010 reports that there are 85.205 enterprises in the accommodations and food service sector in Portugal<sup>19</sup> (INE 2012a). As technological and social factors reshape the way customers interact with businesses, more and more small and medium businesses feel the urge to engage in innovative marketing tools. Customer relationship apps like Mobitto enable businesses to implement the marketing credo to know your customers, at an affordable price. The availability of customer data and the use of a personal technological device as the smartphone allow businesses to communicate at a very individual level to the customers. Furthermore, the benefits of a performance-based marketing in contrast to traditional marketing become more attractive in high competition and economic downturn. Businesses also benefit from the fact that Mobitto rewards social interaction about purchases. Thus, users are incentivized to recommend campaigns through social networks like Facebook. Therefore, positive user experience with the app and a participating venue has the chance to create positive word of mouth. Furthermore, being able to create campaigns in real-time allows merchants to easily restrict campaigns in time and number. Thus, merchants have a tool to e.g. address stock management inefficiencies and promote off-peak hours.

### *3.3.2 Users*

According to ANACOM (2012), the regulatory authority of the communications sector in Portugal, the usage of 3G mobile services such as smartphone applications in Portugal is rising<sup>20</sup>. The

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<sup>19</sup> Whereas restaurants and bars account for 91.2% of these businesses. Overall, the number of businesses in that sector declined 4.5% year on year.

<sup>20</sup> Growth rate: 6.1 % over the last year

Instituto Nacional de Estatística (2012b) estimates that 20.7% of the Portuguese population<sup>21</sup> used internet services on mobile devices in 2012. That corresponds to a total market of 992.261 users of internet compatible mobile phones and smartphones in Portugal.

The greatest need for users in participating in a loyalty program lies in economic incentives associated with participating in it. Mobitto provides a highly personal approach to a loyalty program, on the one hand users have the possibility to influence which businesses are participating in the program and see how friends behave within the loyalty program. On the other hand, users can receive individually targeted offers through Mobitto taking into account users' data and location.

*Summarizing the environmental analysis, environmental factors and market trends and appear favorable for Mobitto's value proposition. However, the Portuguese market should only represent the first milestone for introducing the concept on a global scale.*

#### **4. Competitive Assessment**

##### **4.1 Competitive Overview**

Several companies that were founded over the last years embraced the initially mentioned auspicious services, namely location-based services, crowd-based services or mobile social media, in their business concept. The competitive overview lists competitors that neither necessarily offer an identical product, nor operate in the same market as Mobitto. However, it includes companies that could either enter the Portuguese market with their existing product or come up with an identical product if they are already present in the Portuguese market.

In order to be considered as a potential competitor, the company must be capable of providing a MSP, that allows direct interactions between businesses and users, with the purpose of creating returning customers through a reward based system with no or little set-up costs for merchants. The

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<sup>21</sup> People between 16 and 74 years old

solution must be based on a mobile platform. Therefore, offline loyalty programs are not considered in this competitive overview. **Table 3** in the appendix names and describes potential competitors sorted by categories. **Table 4** in the appendix assesses those identified competitors in a number of relevant categories. Thus, a clearer picture of points-of-parity (POP) and points-of-difference (POD) of Mobitto can be established.

In summary, Mobitto serves six of these relevant features. No other potential competitor serves more than six features. Mobitto differentiates itself through the *automated merchant acquisition*, but loses in *locking-in merchants* to the platform. The automated merchant acquisition has already been discussed as one of Mobitto's key features. In fact, no other competitor allows (and rewards) users for doing the sales teams' work. This represents an advantage for users, who can influence the offer of merchants in the app and an advantage for the company, which reduces business acquisition costs. A merchant lock-in occurs if the merchant needs to do an investment in order to be compatible with the app. Without an investment into e.g. hardware or contract clauses, switching costs for merchants are comparatively low. This weakens the position of the application provider. In order to participate in Mobitto, a business has no upfront investment costs or contract clauses. In the long run this could be considered a point of weakness of Mobitto.

The other potential competitors that also serve six features are Checkpoints, QLoyalty and Square. While Checkpoints targets manufacturer brands as a way to promote their brand within big retailers that house multiple brands, QLoyalty focuses on single-store loyalty programs and Square tries to provide an easy to use POS system, which includes a loyalty program. With more businesses starting to use Square, Square would already have the infrastructure to introduce a multi-firm loyalty program. Similarly, the other payment app Google Wallet (which now only serves five features) could enter that space. As Google is just getting started with the product, the product is



likely to evolve. Clearly, Google is playing in a different league financially. Therefore, from the competitive assessment, payment providers Square and Google represent a potential threat.

## **4.2 Benchmark Analysis**

As abovementioned, for a multi-sided platform to work, both sides of the network need to be on the platform. Looking beyond Mobitto's direct competition, **Exhibit 1** in the appendix presents an analysis of three MSP from different industries (restaurant reservation, mobile payments and transportation) that successfully overcame the seeding problem. In the following, a common key success strategy applicable for Mobitto is described and elaborated on.

Mobitto shares several characteristics with all three platforms. Revenues are generated with the business side of the network only, while the service is free of charge for consumers. All four platforms charge businesses (mainly) with a pay-per-lead model, which increases the willingness to implement the soft- or hardware on the business-side even though the critical mass on the consumer side might not been reached yet. The benchmarks focused on businesses first and provided them with a "standalone mode" (Choudary 2012), which is basically composed by hard- and software components that already add value to the business operations even without the other side of the network. On top of that it allows a seamless interaction with the consumer side of the network once this side starts to grow. Also, providing a business with hard- and software to run its business, provides a long-lasting lock-in of that business to the respective system.

## **4.3 Mobitto VRIO Analysis**

To gain an understanding of sources of competitive advantage Barney (1995) proposed the VRIO analysis as a framework to analyze a firm's resources and capabilities. To achieve sustained competitive advantage Mobitto must develop a distinct set of resources and deploy them in a well-conceived strategy (Collis and Montgomery 1995). The VRIO analysis in **Table 5** in the appendix

shows that Mobitto's internal resources rarely provide a sustained advantage. This is mostly because Mobitto's most important resource, the technological platform, is not protectable through patents or copyrights. Furthermore, other important resources like a user community of considerable scale to acquire merchants or outstanding merchant relationships are not yet developed because of the novelty of the company.

However, current temporary advantages could lead to a first-mover advantage. By exploiting them, Mobitto could decrease imitability through path dependency. Resources can become inimitable because of what happened along the path taken in their accumulation (Collis and Montgomery 1995). An example would be an inherent lock-in effect on both sides of the network. After collecting a certain amount of Mobitto points, switching costs of consumers to change to a competitor would increase, because switching would cause customers to lose out on the benefits of points. The other way around, businesses will have problems explaining to customers that Mobitto points became worthless at their venue because they stopped participating in the ecosystem.

Even though, technology and design do not provide sustained advantage per se, these are key resources for the company. Mobitto should become a data-driven company using internal analytics to constantly improve the user interface of its user and merchant app. By improving the application according to actual user response (e.g. through A/B testing<sup>22</sup>), the Mobitto platform becomes harder to imitate and increases its likelihood to match target customer's needs, which should retain users on the platform. The management of user data for businesses represents another key resource for Mobitto. This together with leveraging the popularity of brand ambassador Cristiano Ronaldo<sup>23</sup> will

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<sup>22</sup> A/B testing is a methodology of using randomized experiments with two variants shown to users with the goal to identify which variant maximizes a specified outcome.

<sup>23</sup> Ronaldo is the sportsman with most fans on facebook worldwide cf. <http://www.socialbakers.com/facebook-pages/sports/> [accessed May 14, 2013]

be one of the milestones in achieving favorable brand reputation and sustained competitive advantage.

*Overall, the competitive assessment confirms the innovativeness of Mobitto's business concept. No other player predominates the market for multi-firm loyalty mobile applications, which gives Mobitto a first mover advantage. However, as the case benchmarks have shown, providing a standalone solution for the "money side" of the platform would increase Mobitto's chances of getting a foothold in the market.*

## **5. Operating Model**

### **5.1 Value Chain Analysis**

For the value chain analysis of Mobitto, those activities are considered "that are performed to design, produce, market, deliver and support" (Porter 1985, 36) the final product as primary activities (as opposed to the generic activities proposed by Michael Porter)<sup>24</sup>. Secondary activities are firmwide functions supporting the primary activities.

Currently, Mobitto's costs are higher than its revenues. **Figure 1** in the appendix is a projection of the value chain in the future. Marketing and sales costs are the highest costs Mobitto has to cover. Those costs include salary of sales representatives, sales commissions and merchant incentives. Sales costs contain all costs directed at businesses, marketing costs those directed at users. In that scenario, sales costs are 63.68% of all costs as a result of an aggressive merchant acquisition strategy. In that value chain scenario, sales activities are outsourced (paying 15% of the revenue as commissions to sales representatives).

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<sup>24</sup> The classical value chain framework analyzes the creation of value at the firm level through generic activities (Amit and Zott 2001). Even though Stabell and Fjeldstad (1998) found the value chain framework well suitable for traditional manufacturing companies, they found problems in applying the framework to service firms. Amit and Zott (2001) raise similar questions about the use of generic activities for e-business firms.

## 5.2 Cost Model

Mobitto enables direct interactions between businesses and consumers, which includes the exchange of physical goods. However, Mobitto deals with digital information. Therefore, first of all total costs are low compared to a traditional bricks and mortar business. Once the digital product has been developed, distribution and marginal costs are low. As for the first year, variable sales costs (because the commissions paid) are representing the highest costs (cf. **Table 6** in the appendix). If commissions are reduced, once the critical scale (on the business side) is reached, the margin will automatically increase. On the cost side, fixed costs are more likely to dominate Mobitto's cost structure in the future.

## 5.3 Industry Mapping

The industry mapping in **Figure 2** in the appendix shows the different players in Mobitto's business environment. In order to provide its service to users and businesses, Mobitto depends on players that provide the technological backbone of wireless communication services, namely mobile networks operators and mobile device manufacturer. Providers of application programming interfaces (API)<sup>25</sup> provide information about maps and venues to Mobitto. The cluster of enablers represents enterprises that already have established partnerships to a number of businesses. App store provider and digital agencies among others can act as enablers and help Mobitto to reach new users and businesses. Another example would be the restaurant software provider WinRest which provides point of sale management hard- and software to a wide range of restaurants around Portugal.<sup>26</sup> This cluster is of particular interesting in regard of potential partnerships as it would decrease dependency on sales representatives and increase the number of businesses quickly. As for

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<sup>25</sup> In Mobitto's case, Google for maps and Foursquare for venue information. They benefit from data usage of their services and analytics and Mobitto is obliged to mention them in the app.

<sup>26</sup> According to the company, WinRest manages 45.000 POS systems all over Portugal.

the businesses and their customers, Mobitto seeks to deliver its value proposition of increasing direct interaction and engagement between them. However, single-store loyalty program providers propose the same value proposition. E-Payment providers handle the transaction between businesses and their customers. The green dotted lines in the industry mapping represent the additional value that Mobitto delivers to businesses in the industry. By delivering new customers to businesses through the app and by providing existing customers (e.g. of business A), who will start using the app to earn loyalty points, with other attractive offerings of e.g. business B and vice versa. *The analysis of the operational model, demonstrates the major costs involved with paying sales representatives (with high commissions). In order to achieve notable scale on the business side with an alternative to sales representatives, the industry mapping demonstrates opportunities in collaborating with the abovementioned enabler cluster. Those enablers could act as the required accelerators to achieve network externalities and possible collaborations will be further evaluated within the business strategy.*

## **6. Business Strategy**

### **6.1 Porter 5 Forces Analysis**

**Industry rivalry:** Theoretically, wireless technologies reduce the importance of geographic boundaries and increase the number of competitors in an industry (Jelassi and Enders 2008). Moreover, investment costs are comparatively easy to cover as investments for startups keep on booming. However, the focus on local businesses requires know-how of specific needs and therefore, temporarily, reduces the number of possible competitors giving Mobitto the chance to act as a first-mover in Portugal.

**Bargaining power of suppliers:** The industry mapping identified mobile network operator, mobile device manufacturer and API provider as suppliers of the technological backbone. Those suppliers

have an interest in Mobitto adding value to their services, ultimately their customers will be beneficiaries of the app and suppliers should not exercise bargaining power.

***Bargaining power of end users:*** As long as Mobitto is not able to gain traction on either side of the network, the other side possesses comparatively high bargaining power: For businesses to demand lower lead prices; for consumers with lower switching costs. However, the existence of a lock-in effect may reduce switching costs and thus lower the bargaining power on either side.

***Barriers to entry:*** “Mobile applications are difficult to keep proprietary from new entrants, but consolidation favors incumbents.” (Jelassi and Enders 2008, 244) As a first-mover, Mobitto should build on its points of differentiation and try to achieve strong brand preference.

***Threat of substitute products:*** Thinking about apps, their low price and the high amount of alternatives might favor the threat of being substituted by another application. However, depending on the content apps can create a strong lock-in effect for example because of loyalty points. Mobitto must be perceived as highly differentiated product to avoid threat of substitute. The opportunity lies in achieving top of mind position through branding and unique engagement features.

## **6.2 TOWS Analysis and Strategy guidelines**

In addition to the internal analysis of Mobitto’s resources (cf. VRIO analysis), a TOWS analysis seeks to put internal strengths and weaknesses and external opportunities and threats into relationship and identify strategies based on these relationships. The complete TOWS matrix is available as **Table 7** in the appendix. In the following, the main strategic guidelines will be described. As it is necessary to prioritize the strategic guidelines derived from TOWS analysis in order to allocate Mobitto’s limited resources efficiently, guidelines are distinguished by time horizon and associated with the strategic objectives.

**Table 1: TOWS Strategic Implications**

Strategic guideline	Description	TOWS Factors	Time horizon	Strategic objective
SO	In an economic downturn, merchants and customers act more carefully. Measurable marketing tools that can provide expected return calculations represent an attractive medium. Based on real data, Mobitto can demonstrate best practices comparatively at low costs in the merchants' web based platform. <sup>27</sup>	S4 O1	Short-term	Merchant reach
	The smartphone is becoming the most important personal device. Loyalty apps will most likely replace plastic and paper cards and Mobitto should embrace the opportunity to be the app associated with loyalty. Therefore, user's engagement of the app should be constantly monitored.	S2 O2	Medium-term	User reach; User engagement with app
WO	Build as much as possible on the first mover advantage.	W2 O4	Short-term	Merchant reach; User reach
	To reach scale, the small sales force should focus on highly attractive marquee businesses.	W1 O2 O3	Short-term	Merchant reach; User engagement with merchant
	In order to increase the lock-in effect on the business side, Mobitto should evaluate the possibility of a standalone mode of the application, eventually in a partnership.	W3 W4 O1	Long-term	Merchant reach
ST	Create brand awareness. Take advantage of partnership with Cristiano Ronaldo as the brands' ambassador. Brand awareness might also protect Mobitto from market entrance of financially backed companies (or increase negotiation position in case of a partnership). Positive brand awareness can also help to decrease merchant's rejection of the new technology.	S3 T1 T3 T4	Medium-term	Number of users; User Engagement
	Free credit to convince merchants.	S4 T3	Short-term	Number of merchants
WT	As financially backed companies like Google entered the market to digitalize the traditional wallet. Mobitto should aim to occupy the place of an universal loyalty program within the digital wallet. As Google favors to acquire technology companies and integrate them in their products, acquisition by Google <sup>28</sup> would be a potential scenario.	W1 W2 W3 W4 T4	Long-term	Number of merchant; Number of users; User engagement with app

<sup>27</sup> **Table 8** in the appendix represents a simplified excel model of a ROI calculation for merchants. The merchant only needs to know his average sales and profit margin. By gathering more data, more sophisticated forecasts will be possible.

<sup>28</sup> In 2011 Google acquired single-firm loyalty program Punchd cf. <http://www.getpunchd.com/google> [accessed May 14, 2013]

## 7. Multi-scenario analysis

After conducting internal and external analyses, a multi-scenario analysis seeks to answer the question on which side to focus by evaluating the impact of different KPIs, associated with the strategic objectives, on the overall performance of Mobitto.<sup>29</sup>

Analyzing different KPIs of the sales activities and merchant acquisition with a sensitivity analysis, namely changes in the sales success rate, number of Mobitto points distributed per transaction and merchant churn rates, provides insights on how to manage and monitor the sales activities.

While the impact of sales success rate and merchant churn rate show only some impact on the EBITDA (cf. **Table 11** and **12** in the appendix), the impact of an increased distribution of Mobitto points through merchants per transaction influences the financial performance substantially (cf. **Table 13** in the appendix). Reason for the latter is evident. The more money (or Mobitto points) merchants distribute in the ecosystem, the higher are Mobitto's revenues as they take their share of that money. The resulting implication would be that sales representatives, need to invest their time not only in merchant acquisition and retention, but also in customer service, namely helping to maximize the use of campaigns. The payment of commissions on revenue incentivizes sales representatives to provide customer service as their payment does not depend on number of newly acquired merchants. The question remains, whether sales representatives manage their time to acquire new merchants on the one hand, and provide support for existing merchants on the other hand. The establishment of account managers being responsible for merchants should get on Mobitto's agenda. The need for account management becomes even more obvious when the scenario of a potential partnership with an established enabler such as WinRest is evaluated.

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<sup>29</sup> The time horizon of the underlying excel model is a twelve month period. The underlying KPIs are shown in **Table 9** in the appendix. The status-quo projections are displayed in **Table 10**. Values regarding the basic setup of the model are based on Mobitto's experience and expectations as there is no current data available.



Obviously, the acquisition of e.g. 7.500 new merchants<sup>30</sup> through this partnership would increase EBITDA significantly (cf. **Table 14** in appendix). However, the question whether this increase in number of merchants can be handled without any problems remains.

Analyzing the impact of different KPIs for the user side with the simplified model is a bit more complicated. All KPIs directed at increasing the number of users (increasing marketing spending or decreasing user churn rate) positively influence the financial performance. However, as the model is simplified in the way that it does not foresee a decrease of virality over time, the number of users therefore increases exponentially<sup>31</sup> (cf. **Table 15** and **16** in the appendix). Therefore, more than focusing on the number of user, the impact of increased purchases of campaigns and merchant acquisition is compared. The outcome has implication on marketing communications and would help to decide whether to promote to try out and use the app or whether to promote the merchant acquisition feature. And similarly to increasing the points being distributed by merchants, increasing the transactions on consumer side have a higher impact on financials (cf. **Table 17** and **18** in the appendix). Summarizing, KPIs regarding growth (number of merchants and users) need to be monitored by Mobitto, but KPIs regarding use of the service are those that requires more management attention and actions. The implementation plan and following recommendations will take that into consideration.

## **8. Implementation Plan**

The implementation plan for abovementioned strategic guidelines is summarized in **Table 19** in the appendix. In order to organize and manage the implementation key activities are assigned with responsibilities. Immediate attention is required regarding the set up of the sales team. To solve the

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<sup>30</sup> That would assume that 1/6 of businesses using WinRest's POS software would start using Mobitto.

<sup>31</sup> Since users joining the platform are incentivized to invite friends. The model is simplified in the way that it does not foresee a decrease of virality over time as it is likely to happen.

chicken-and-egg problem, Mobitto needs to focus on businesses first. Merchant acquisition and subsequently the establishment of proper customer service can be regarded as the most critical activities, because acquiring (attractive) merchants is important especially for the user side, but maximizing merchants' spending will have substantial impact on Mobitto's revenues. Medium attention should be required to further develop Mobitto's product, the platform. Recommendations will be given in the following part. For the long-term, Mobitto should evaluate the benefits of expanding its technology to be capable of running in a standalone mode for merchants, either through a partnership or per in-house development.

## **9. Recommendations and Final Remarks**

Mobitto's offers an innovative business concept that digitalizes the concept of multi-firm loyalty programs. The environmental factors analyzed in this work project appear favorable for Mobitto's service offering. Analyses and forecasts show that Mobitto has potentially found the right mix – return for merchants, incentives for consumers and a sustainable business model. Recommendations are structured in: strategy, product, businesses, users and partnerships.

*Strategy:* The seeding strategy for Mobitto to solve the chicken-and-egg problem lies on the business side. Businesses are easier to address through sales activities and incentives can be used to make the initial offering of Mobitto less risky and more attractive, even before consumers are attracted in scale. The proposed KPIs regarding sales success will help to monitor the merchant acquisition, but optimizing the merchants' use of campaigns will be a key success factor. This can be done through improvements on the product (see next part) and increased customer service. Insights generated through the work project on how to potentiate the B2B business model should be evaluated and incorporated to segment the target market for businesses. As for now, the focus on attractive marquee businesses is recommended as the association with well-known brands will

benefit the Mobitto brand itself. Branding will be crucial for Mobitto as it has a positive impact on all of the abovementioned categories.

**Product:** The Mobitto platform has to become a product of constant data-driven optimization. Thus, inimitability will be the result of exploiting first mover advantage through the use of analytics and testing. The information Mobitto will collect about user behavior will become one of the most important assets. Therefore, both the merchant and the user platform should be enhanced. The merchant platform through best practices and ROI calculations and the user platform through features that allow giving feedback about experiences at venues. This would help Mobitto to identify positively ranked businesses. After all, Mobitto has no control over the service quality of participating businesses, but through the right use of user feedback Mobitto can provide incentives e.g. favor positively ranked businesses with better lead prices. In the end, performance based marketing has always been the promise and advantage of an internet-driven marketing tool. Furthermore, the evaluation of a standalone mode (including hardware solution) for Mobitto is highly recommended. Even though, the market entry strategy for Portugal will happen without it, as the competition in other markets will become more mature and players like Google and Square provide more extensive solutions (including POS, mobile payment and loyalty), Mobitto cannot afford to lose ground.

**Merchants** are the “money side” of the Mobitto network. As such, they need to be increasingly involved in the development of the platform. Long-term partnerships (especially with marquee players) should be established and sustained through contractual agreements. The average amount of Mobitto points transacted was among those factors that most influenced revenues. Providing more and more personal customer service for the top accounts, should therefore be one of the most critical issues on Mobitto’s agenda.

**Users:** Users come second in Mobitto's seeding strategy. One reason is simply, that the app adds no value to users as long as there are no attractive merchants on the other side. With growing scale on both sides, comes the virality effect on the user side that Mobitto is hoping for. In order for users, to actively engage in the platform (acquiring merchants and ultimately building their own loyalty club) they must have a clear perception of why Mobitto should occupy the top of mind position in their minds. Marketing know-how needs to be established in the company and marketing campaigns should be substantiated with marketing research.

**Partnerships:** Partnership with established providers of the enablers cluster (cf. industry mapping) can accelerate the growth of Mobitto. Benefits of potential partnerships that increase merchant reach and know-how on POS hardware should be weighed against the decrease in autonomy. As shown, partnerships with enablers, affiliated to a high number of businesses, can increase the number of merchants for Mobitto and thus help Mobitto to reach necessary scale to achieve its vision of not only becoming a national, but a global leader for mobile loyalty applications.

Overall, Mobitto needs to balance organizational growth, consumer acquisition, branding and technical advancement. The analysis and implementation recommendations of this thesis, hope to provide some initial guidelines to manage that process successfully.

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in Management from the NOVA – School of Business and Economics.

**Business Model Analysis of Mobitto –  
How to solve the chicken and egg problem of a multi-sided platform?**

**- Appendix -**

Sanprit Singh #1072

A Project carried out on the Field Lab Entrepreneurial Innovative Ventures, under the  
supervision of:

Filipe Castro Soeiro

June 3<sup>rd</sup> 2013



**Table 1: Strategic Objectives**

<b>Strategic objective</b>	<b>KPIs</b>
1. Reach 45.000+ users by the end of 2013	Number of users acquired through marketing Number of user acquired through Ronaldo Viral coefficient User churn rate
2. Acquire 500+ merchants by the end of 2013	Number of sales representatives Contacts of sales representatives per month Sales success rate of Sales representatives Number of campaigns per merchant/month Merchant churn rate Merchant virality rate (acquired by users)
3. Have revenues equal costs by the end of June 2014	Number of users Number of merchants Number of transactions Average transaction price Total costs
4. Constantly increase user's engagement rate with merchants (return) over the next three years	% of users that redeeam at least 1 deal per month Number of visits per user at merchant per month Average amount spent at merchant
5. Constantly increase user's engagement with Mobitto application (usage) over the next years	Number of sign-ins per user per week/month Number of invites to friends sent out by users Number of users that invite merchants User churn rate

**Table 2: PEST Analysis**

<b>Political</b>	<ul style="list-style-type: none"> <li>- Location privacy protection require users' consent</li> <li>- Raising privacy concerns might lead to political intervention</li> <li>- Do not track online act</li> </ul>
<b>Economical</b>	<ul style="list-style-type: none"> <li>- Unsuccessful IPO of technology companies (e.g. Zynga, Groupon and Facebook) might slow down investments in the technology industry</li> <li>- Economic downturn increases tendency to save money (loyalty rewards can be a means to save money)</li> <li>- In an economic downturn merchants become more demanding in terms of measurability of marketing spending</li> </ul>
<b>Social</b>	<ul style="list-style-type: none"> <li>- Mainstream adoption of mobile smartphones</li> <li>- Popularity of mobile applications</li> <li>- Social networks are a commodity</li> <li>- Border between online and offline disappears (e.g. augmented reality apps)</li> <li>- Individuals increasingly engage in crowd-based solutions</li> <li>- Rise of generation of "digital natives"</li> </ul>
<b>Technological</b>	<ul style="list-style-type: none"> <li>- Continuous innovation in hardware and software (computing and electronics companies are the top R&amp;D spenders)</li> <li>- More affordable smartphones, cheaper data plans</li> <li>- Increasing measurability of consumer behavior</li> </ul>

**Table 3: Competitive Overview**

Category	Company	Description <sup>1</sup>
Loyalty	Belly	Belly is a loyalty program that offers rewards at participating businesses. Belly users scan their card or app at the in-store tablet, earning points that are redeemable for rewards unique to each Belly business.
	RewardMe	RewardMe brings the CRM capabilities of eCommerce to offline stores by connecting a network of devices: the Point-of-Sale System (POS), in-store interactive tablets, and consumer phones.
	Stampt	Stampt is a mobile consumer loyalty start-up, that offers a paperless replacement for the classic buy-10-get-1-free type of loyalty cards. Participating merchants are also able to view usage statistics and leverage this information by pushing out targeted one-time-use special offers.
	Punchcard	Punchcard is a mobile engagement and loyalty network designed to give merchants a way to retain customers while rewarding shoppers for making frequent purchases at their favorite retailers. After scanning a receipt at any business, the shopper is entitled to a reward. Merchants get real-time data about their customers' buying habits, as well as social and other demographic information that allows them to provide their loyal customers with targeted offers and rewards.
	Perka	Perka operates a custom-designed cardless loyalty mobile application designed to help neighborhood merchants manage profitable long-term customer relationships. The subscription-based platform includes in-store technology for local small businesses to engage their regular customers and reward authentic purchases. Loyal customers earn perks such as free product or cash discounts.
	LevelUp	LevelUp is the pay phone app. It lets you pay with your phone to save time and money at your favorite local merchants. For merchants, LevelUp is a fast way to accept mobile payments and engage with customers with a high-tech loyalty program.
	QLoyalty	QLoyalty allows brands to create loyalty campaigns and promote them through a web app. QLoyalty takes advantage of social networks to increase the loyalty service with shares and comments from users, making it a tool to attract new customers.
Deal-of-the-day	Groupon	By promising businesses a minimum number of customers, Groupon can offer deals-of-the-day. Groupon brings buyers and sellers together in a collaborative way that offers the consumer an unbeatable deal, and businesses a large number of new customers.
	LivingSocial	LivingSocial Deals is a group buying program that invites people and their friends to save up to 90 percent each day at their favorite restaurants, spas, sporting events, hotels and other local attractions in major cities.
Location-based deal-of-the-day	Groupon Now	Groupon Now is a mobile apps that gives a user the ability to find local deals in realtime. This is accomplished by mapping a list of time-specific daily deals in the user's vicinity.

<sup>1</sup> Descriptions based on company descriptions from [www.crunchbase.com](http://www.crunchbase.com), a free database of technology companies, people, and investors.

	MYGON	MYGON is a mobile app that shows real-time deals around the user's current location. For the merchants, it is a self-service platform that allows them to attract customers in the periods they need them the most, either by posting pre-scheduled or last minute deals.
Location-based social network	Foursquare	Foursquare is a geographical location based social network that incorporates gaming elements. Users share their location with friends by "checking in" via a smartphone app. By checking in a certain number of times, or in different locations, users can collect virtual badges. Various venues have embraced Foursquare, and offer special deals to users who are "mayors".
Mobile Payment	Square	With a free credit card reader for iPhone, iPad, and Android devices, Square Reader allows anyone to accept credit cards anywhere, anytime, for a low transaction rate. Square Register serves as a full point-of-sale system for businesses to accept payments, manage items and loyalty.
	Google Wallet	Google Wallet is a virtual wallet that stores payment information securely and makes paying fast both in-store and online. With Google Wallet, users can store credit, loyalty, and gift cards and make payments.
Location-based marketing	shopkick	shopkick bridges the worlds of mobile and physical retail. In August 2010, shopkick launched the first mobile application that hands consumers rewards and exclusive deals at shopkick's national retail partners simply for walking into thousands of stores and malls.
	CheckPoints	CheckPoints users accrue points which are instantly redeemable for real-world prizes, by checking-in to over a million retail locations across the U.S. and scanning barcodes on advertised products. Brand marketers, can now drive foot traffic to a specific product and interactively engage the consumer.

**Table 4: Competitive Assessment**

Competitor	Location/time-sensitive offers	Instore-Payment	Incentivizing social recommendations	Automated merchant acquisition	Single-firm loyalty	Multi-firm loyalty	User lock-in	Merchant lock-in	Analytics
Mobitto	√	-	√	√	-	√	√	-	√
Belly	√	-	-	-	√	-	√	√	√
RewardMe	√	-	-	-	√	-	√	√	√
StampT	√	-	-	-	√	-	√	-	√
Punchcard	√	-	-	-	√	-	√	-	√
Perka	√	-	-	-	√	-	√	-	√
LevelUp	√	√	-	-	√	-	√	-	√
QLoyalty	√	-	√	-	√	-	√	√	√

Groupon	-	-	-	-	-	-	-	-	-
LivingSocial	-	-	-	-	-	-	-	-	-
Groupon Now	√	-	-	-	-	-	-	-	-
MYGON	√	-	-	-	-	-	-	-	-
Foursquare	√	√	-	-	√	-	√	-	√
Square	√	√	-	-	√	-	√	√	√
Google Wallet	√	√	-	-	√	-	√	-	√
Shopkick	√	√	-	-	√	-	√	-	√
Checkpoints	√	-	√	-	√	√	√	-	√

*Location/time-sensitive offers* describes the ability of businesses to restrict marketing campaigns to users' location and in time. Almost all competitors have the capability to contextualize campaigns in that manner. This can be seen as a POP.

*In-store payments* through the app facilitate the transaction between merchants and users. Usually it also has an effect on merchant lock-in, in case the merchants need to acquire a specific hardware to accept the payment through the app. Mobile payment provider (Square and Google Wallet) are focused on this feature.

*Incentivizing social recommendations* describes the economic benefit a user receives if he shares and recommends campaigns on social networks. In general, almost all apps allow sharing of made purchases and most of the companies use this as a selling argument. However, only Mobitto, QLoyalty and Checkpoints offer economic benefits for doing so, herby differentiating from the other services.

*Automated merchant acquisition* has already been discussed as one of Mobitto's key features. In fact, no other competitor allows (and rewards) users for doing the sales teams' work. This represents an advantage for users, who can influence the offer of merchants in the app and an advantage for the

company, which reduces business acquisition costs. Therefore, this feature represents a key POD for Mobitto.

*Single-firm versus Multi-firm loyalty:* Most loyalty apps are focusing on customized single-firm loyalty program as a digital adaptation of their offline equivalents. This includes that earned points at a specific business can only be redeemed at that business. Mobitto and Checkpoints are the only providers that allow users to accumulate points in a unified wallet.<sup>2</sup>

A *user lock-in* increases the switching costs of users by creating a perceived loss of the loyalty points accumulated with a certain provider or social integration (number of friends within the platform). As all loyalty providers try to tie customers to their program, this feature represents a clear POP.

A *merchant lock-in* occurs if the merchant needs to do an investment in order to be compatible with the app. Without an investment into e.g. hardware or contract clauses, switching costs for merchants are comparatively low. This weakens the position of the application provider. In order to participate in Mobitto, a business has no upfront investment costs or contract clauses. In the long run this could be considered a point of weakness of Mobitto.

To provide *analytics* or customer data for no or low costs is one of the advantages of a digital loyalty program. All loyalty apps provide this feature which therefore represents another POP.

#### **Exhibit 1 – Case analysis**

##### *1. mytaxi*

Founded in 2009 in Hamburg, Germany, mytaxi developed a mobile solution that allowed direct interaction between taxi drivers and passengers, thus disrupting the taxi industry making traditional taxi dispatch centers redundant. Via GPS the app sends the customer's location to the nearest driver available. If the driver accepts the request, the customer can monitor the taxi approaching, is given the

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<sup>2</sup> To allow the creation of a single-store loyalty program, Mobitto has already considered providing whitelable solutions to businesses. Whitelabel solutions would allow companies to customize and rebrand the Mobitto software according to their demands.

telephone number, a photo of the driver, information about the vehicle and the average passenger rating. If a destination is specified with the request, approximate travel time and costs are displayed. For every mediated ride, myTaxi charges the allocated driver a set fee of €0.79. Taxi drivers that previously had to pay several hundred euros per month to work for traditional taxi companies can now operate independently with mytaxi (Kistner 2012). Due to the increasing popularity in Germany, mytaxi entered the international market in 2011. The app has been downloaded five million times and is available in more than 30 cities (in Austria, Switzerland, Poland, Spain and the US) with more than 30,000 connected taxis.

## 2. *Square*

San Francisco-based company Square was founded in 2009 by Twitter co-founder Jack Dorsey. The mobile payment provider allows merchants in the US and Canada to accept card payments through the Square app on any iOS or Android device. Traditionally, payments are considered an industry “which is especially difficult to get into, partly because it is very difficult to have a critical mass of buyers and sellers start using your payment mechanism simultaneously.” (Choudary 2012) Square provides merchants with a small plastic device (the Square Reader), which is plugged into the audio jack of the smartphone or tablet reads the magnetic stripe of the customer’s credit or debit card. Square charges only a fee of 2.75% on every swiped transaction. Traditional payment providers (e.g. VISA, MasterCard and banks) take fees between 1-5% per transaction and charge several costs additionally (start-up costs and end-of-month fees among others). (Egan 2011) Square works with industry-standard point of sale hardware. Thus, the merchant can connect the smartphone or tablet with its existing receipt printers or cash drawers. On top of that Square offers a customizable item library, sales reporting, staff management, business analytics and pricing options to manage operations.

In a second phase, Square introduced its consumer app, which allows users to register a credit card and pay automatically (without any physical card needed) at all merchants running Square.

The company is transacting \$ 10 billion a year and managed to integrate its service in a partnership with Starbucks into its 7,000 US stores. (Terdiman 2012)

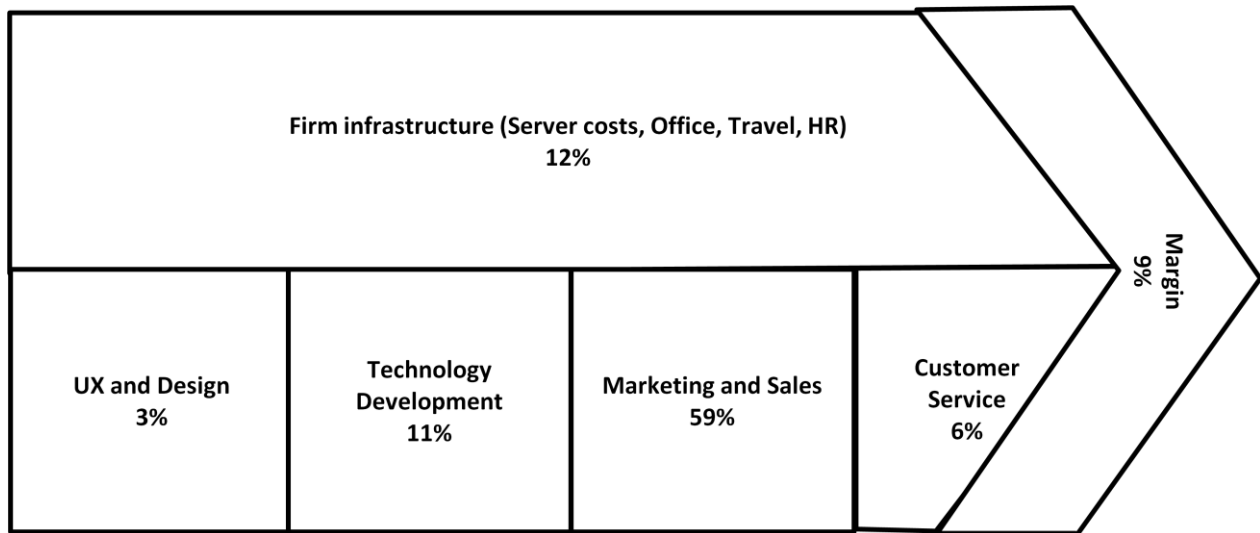
### *3. OpenTable*

Restaurant reservation company OpenTable was founded in 1998 and successfully went public in 2009 and made \$162 million in revenues in 2012. The company offers tools and services that “match people looking for a place to eat with restaurants that want customers, and also allows online reservations directly from restaurants' own websites.” (Miller 2011) In the first step, OpenTable distributed booking management systems which restaurant can use as software to manage their operations. OpenTable sells, installs, and maintains reservation software and hardware to restaurants through its own sales and tech teams. Restaurants pay OpenTable a monthly fee, which includes the software subscription. (Novellino 2012) Once OpenTable partnered with enough restaurants and had access to their seating inventory, they opened out the consumer side to allow them to start making booking and collecting a \$1-per-diner-booked fee from the restaurants. The restaurant reservations can be done online via the website and a location-based mobile app.

**Table 5: VRIO Analysis**

<b>Resource / Capability</b>	<b>V</b>	<b>R</b>	<b>I</b>	<b>O</b>	<b>Competitive Indication</b>
Team	√	√	-	√	Temporary Advantage
Technology	√	-	-	√	Parity
Cristiano Ronaldo	√	√	√	√	Sustained Advantage
User Data	√	√	√	√	Sustained Advantage
Brand recognition	√	-	-	-	Parity
Design / User Experience	√	√	-	√	Temporary Advantage
Automated merchant acquisition concept	√	√	-	√	Temporary Advantage
Local merchant relationship	√	√	-	√	Temporary Advantage
Investor network	√	√	-	√	Temporary Advantage

**Figure 1: Value Chain Analysis with sales commission<sup>3</sup>**



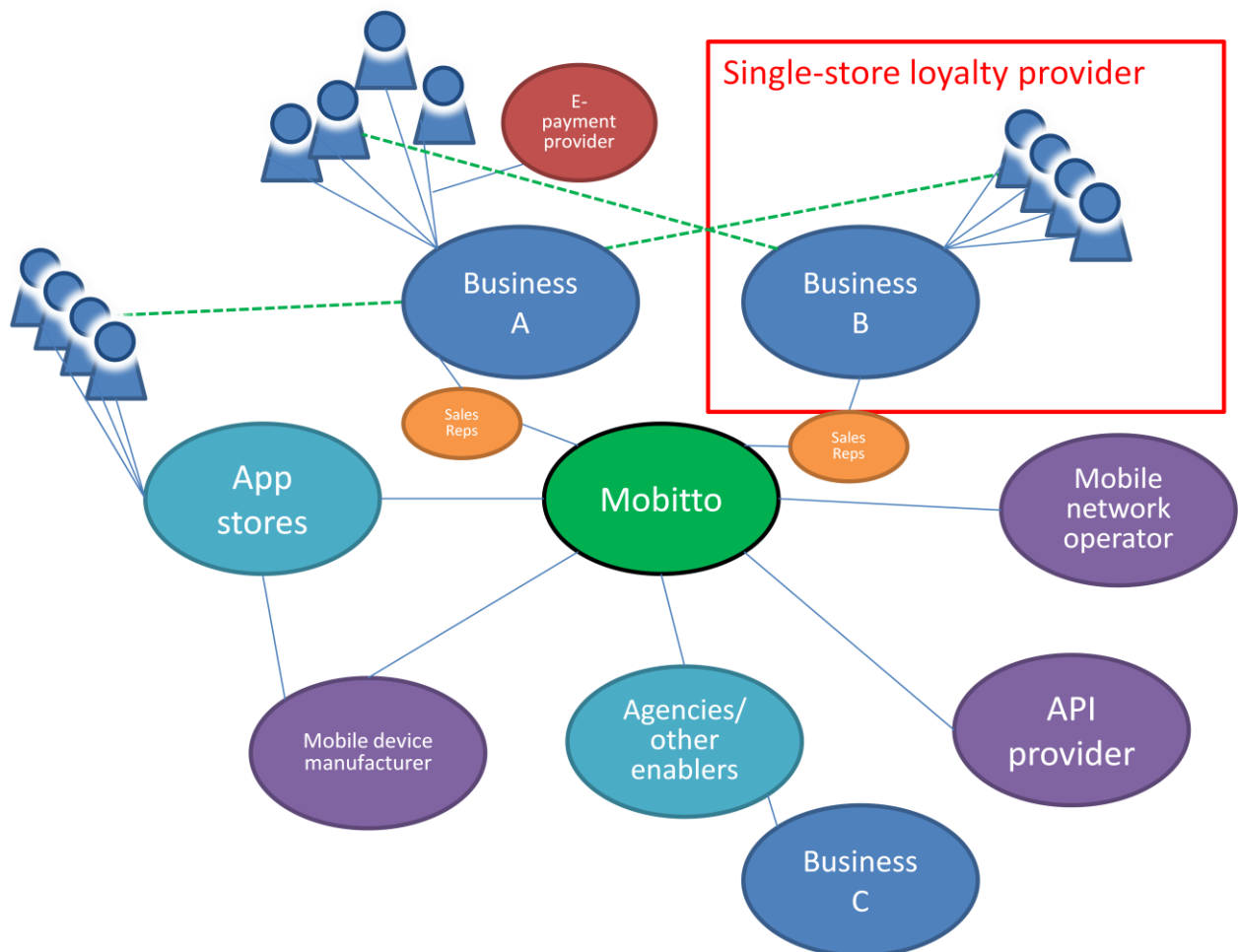
<sup>3</sup> Values according to company information



**Table 6: Distribution Fixed/Variable Costs**

Variable Costs: 66.2%	Sales Costs	63,7%
	Server Costs	2,5%
Fixed Costs: 33.8 %	Operational Costs (labor, office, travel, others)	33,1%
	Marketing Costs	0,7%

**Figure 2: Industry Mapping**



**Table 7: TOWS Matrix**

<p><b>TOWS matrix</b></p>	<p><b>Strengths:</b></p> <ol style="list-style-type: none"> <li>1. Automated merchants acquisition</li> <li>2. User lock-in</li> <li>3. CR7 brand ambassador</li> <li>4. Analytics and measurability for merchants</li> <li>5. First mover in Portugal</li> </ol>	<p><b>Weaknesses:</b></p> <ol style="list-style-type: none"> <li>1. Small sales force</li> <li>2. Imitable technology</li> <li>3. Low merchant lock-in</li> <li>4. No e-payment feature</li> </ol>
<p><b>Opportunities:</b></p> <ol style="list-style-type: none"> <li>1. Need for measurable marketing tools/POS systems</li> <li>2. Growing smartphone usage (primary internet tool)</li> <li>3. Concept works globally</li> <li>4. No clear incumbent in loyalty apps</li> </ol>	<p><b>SO:</b></p> <ol style="list-style-type: none"> <li>1. Provide merchants with a best practice platform (how to improve their business with Mobitto) (S4 O1)</li> <li>2. Expansion either user-driven or company-driven (S1 O3)</li> <li>3. Smartphone will replace plastic loyalty cards and paper punch cards (S2 O2)</li> </ol>	<p><b>WO:</b></p> <ol style="list-style-type: none"> <li>1. “Crowdsource” the merchant acquisition as much as possible; have sales force focusing on marquee businesses (W1 O2 O3)</li> <li>2. Collaborate with POS/ePayment provider or create own hardware (standalone) (W3 W4 O1)</li> <li>3. Embrace first mover advantage (W2 O4)</li> </ol>
<p><b>Threats:</b></p> <ol style="list-style-type: none"> <li>1. Lack of perceived differentiation from competitors</li> <li>2. Eventually low transfer rates and limited network connectivity</li> <li>3. (Technology) rejection from merchants</li> <li>4. Financially strong competitors (indirect)</li> </ol>	<p><b>ST:</b></p> <ol style="list-style-type: none"> <li>1. Create favorable brand awareness (CR7) (S3 T1 T3 T4)</li> <li>2. Create contests where users try to acquire certain number of businesses (S1 T3)</li> <li>3. Provide free trials (basic analytics for free) (S4 T3)</li> <li>4. Partner with hotspot provider (e.g. ZON and PT) (S5 T2)</li> </ol>	<p><b>WT:</b></p> <ol style="list-style-type: none"> <li>1. Strive for partnership with others e.g. Google Wallet (W1 W2 W3 W4 T4)</li> <li>2. Focus on niche markets e.g. specialty stores (W1 T4)</li> </ol>

**Table 8: ROI Calculations**

**ROI calculations for merchants using Mobitto**

Lead Price	1,00 €
Forecasted number of sales through Mobitto	38
Merchant's campaign costs according to sales forecast	38,00 €
Price of offered good (campaign)	7,00 €
Gross Profit Margin per good (campaign)	30%
Total revenue with Mobitto	266,00 €
Total gross profit with Mobitto	79,80 €
Total net profit with Mobitto (accounting cost)	41,80 €
Campaign ROI	110%

**How can Mobitto contribute to the sales of your offered product or service?**

Average sales per month	20.000
Average profit per month	42.000,00 €
Forecasted profit per month through Mobitto	41,80 €
Additional profit to your business through Mobitto <u>without rewards</u>	<b>0,10%</b>

**Selling rewards through Mobitto**

Price of offered good (reward)	8,00 €
Gross Profit Margin per good (reward)	30%
Forecasted number of rewards redeemed at your business	3
Percentage of users that received points at your business, that redeem points at your business	100%
Mobitto margin	30%
Additional profit to your business from reward redemption	7,98 €
Additional profit to your business through Mobitto with rewards	<b>0,12%</b>
Percentage of your sales through Mobitto	<b>0,21%</b>

**Table 9: KPI Assumptions for model<sup>4</sup>**

**KPI's**

**General**

Investment	€40.000	Budget allocation for online marketing	90%
Investment in sales	95%	Budget allocation for offline marketing	10%
Investment in marketing	5%		

Mobitto Profit Share

30%

**Users Online Marketing**

Game System Share

70%

User acquisition cost

€ 0,70

**Merchant**

**Users Offline Marketing**

Average cost per redeem

€ 1,00

User acquisition cost

€ 0,90

Average number of redeems per merchant / month

40

Average revenue per merchant / month

€ 40,00

**Users Virality**

Free credits to business

€ 10

Number of invites sent out be each new customer

20

% of churn / month

5%

Conversion rate of invites into customers

6,1%

The time it takes to complete a full Viral Cycle in days

45

**Sales Rep**

Timeframe

30

Fixed Salary

€ 600

The Viral Coefficient (invites \* conversion rate)

1,22

Sales Commission

15%

User churn rate

15%

Average contacts per representative / day

15

% of users that redeem at least 1 deal per month

30%

Average contacts per representative / month

300

Sales Success Rate

5%

<sup>4</sup> These KPI assumptions were verified with Mobitto. Due to lack of past data, they are based on experience.

## Other Costs

Server cost per user	€ 0,003
Server cost per merchant	€ 0,100
Average Employee cost	€ 1.800

## Merchant Virality

% of new users that invite at least 1 merchant 0,25%

**Table 10: Mobitto Financial Projections**

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12
<b>Total Revenue</b>	€ 2.631	€ 5.330	€ 8.145	€ 11.134	€ 14.363	€ 17.909	€ 21.868	€ 26.351	€ 31.495	€ 37.464	€ 44.457	€ 52.716
<b>Total Costs</b>	€ 8.673	€ 10.978	€ 13.358	€ 17.657	€ 20.329	€ 23.234	€ 26.447	€ 31.855	€ 35.963	€ 40.700	€ 46.219	€ 52.707
<b>EBITDA</b>	-€ 6.042	-€ 5.648	-€ 5.212	-€ 6.523	-€ 5.966	-€ 5.325	-€ 4.579	-€ 5.504	-€ 4.468	-€ 3.236	-€ 1.762	€ 9
Accumulated Total Costs	€ 8.673	€ 19.651	€ 33.008	€ 50.666	€ 70.994	€ 94.229	€ 120.675	€ 152.530	€ 188.494	€ 229.194	€ 275.413	€ 328.120
Accumulated Total Revenue	€ 2.631	€ 7.961	€ 16.106	€ 27.241	€ 41.603	€ 59.512	€ 81.380	€ 107.732	€ 139.227	€ 176.691	€ 221.148	€ 273.864
Accumulated EBITDA	-€ 6.042	-€ 11.690	-€ 16.902	-€ 23.425	-€ 29.391	-€ 34.716	-€ 39.295	-€ 44.799	-€ 49.267	-€ 52.503	-€ 54.264	-€ 54.256
Total Users	5.238	11.081	17.744	25.477	34.575	45.388	58.338	73.930	92.777	115.620	143.363	177.101
New Users	5.238	6.629	8.325	10.395	12.919	16.000	19.758	24.343	29.936	36.760	45.086	55.242
Total Merchants	92	183	274	366	459	555	656	763	879	1.006	1.148	1.308
New Merchants	92	96	100	105	111	119	129	140	154	171	192	217
Total Redeems (average)	2.631	5.330	8.145	11.134	14.363	17.909	21.868	26.351	31.495	37.464	44.457	52.716

**Table 11: Impact Sales Success Rate**

	Sales success rate				
	3%	4%	5%	6%	7%
<b>Total Revenue</b>	€ 46.434	€ 49.191	€ 52.716	€ 54.707	€ 57.465
<b>Total Costs</b>	€ 47.265	€ 49.653	€ 52.707	€ 54.430	€ 56.819
<b>EBITDA</b>	-€ 831	-€ 462	€ 9	€ 277	€ 646
Total Merchants	993	1.131	1.308	1.407	1.545
Total Transactions	46.434	49.191	52.716	54.707	57.465

**Table 12: Impact Merchant Churn Rate**

	Merchant churn rate			
	5%	10%	15%	20%
<b>Total Revenue</b>	€ 52.716	€ 47.972	€ 44.455	€ 41.799
<b>Total Costs</b>	€ 52.707	€ 49.174	€ 46.513	€ 44.475
<b>EBITDA</b>	€ 9	-€ 1.202	-€ 2.058	-€ 2.676
Total Merchants	1.308	1.070	894	762
Total Transactions	52.716	47.972	44.455	41.799

**Table 13: Impact Average Mobitto Points**

	Average Mobitto points distributed per transaction (equivalent in Euro)			
	0,50 €	1,00 €	1,50 €	2,00 €
<b>Total Revenue</b>	€ 26.342	€ 52.716	€ 79.027	€ 105.369
<b>Total Costs</b>	€ 33.177	€ 52.707	€ 72.180	€ 91.681
<b>EBITDA</b>	-€ 6.835	€ 9	€ 6.847	€ 13.689
Total Transactions	52.685	52.716	52.685	52.685

**Table 14: Impact of Partnership WinRest**

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12
<b>Total Revenue</b>	€ 2.631	€ 5.330	€ 8.145	€ 11.134	€ 14.363	€ 17.909	€ 21.868	€ 26.351	€ 31.495	€ 37.464	€ 44.457	€ 202.716
<b>Total Costs</b>	€ 8.673	€ 10.978	€ 13.358	€ 17.657	€ 20.329	€ 23.234	€ 26.447	€ 31.855	€ 35.963	€ 40.700	€ 46.219	€ 128.457
<b>EBITDA</b>	-€ 6.042	-€ 5.648	-€ 5.212	-€ 6.523	-€ 5.966	-€ 5.325	-€ 4.579	-€ 5.504	-€ 4.468	-€ 3.236	-€ 1.762	€ 74.259
Accumulated Total Costs	€ 8.673	€ 19.651	€ 33.008	€ 50.666	€ 70.994	€ 94.229	€ 120.675	€ 152.530	€ 188.494	€ 229.194	€ 275.413	€ 403.870
Accumulated Total Revenue	€ 2.631	€ 7.961	€ 16.106	€ 27.241	€ 41.603	€ 59.512	€ 81.380	€ 107.732	€ 139.227	€ 176.691	€ 221.148	€ 423.864
Accumulated EBITDA	-€ 6.042	-€ 11.690	-€ 16.902	-€ 23.425	-€ 29.391	-€ 34.716	-€ 39.295	-€ 44.799	-€ 49.267	-€ 52.503	-€ 54.264	€ 19.994
Total Users	5.238	11.081	17.744	25.477	34.575	45.388	58.338	73.930	92.777	115.620	143.363	177.101
New Users	5.238	6.629	8.325	10.395	12.919	16.000	19.758	24.343	29.936	36.760	45.086	55.242
Total Merchants	92	183	274	366	459	555	656	763	879	1.006	1.148	8.808
New Merchants	92	96	100	105	111	119	129	140	154	171	192	7.717
Total Redeems (average)	2.631	5.330	8.145	11.134	14.363	17.909	21.868	26.351	31.495	37.464	44.457	202.716

**Table 15: Impact Marketing Spending**

	Marketing spending			
	3%	4%	<b>5%</b>	6%
<b>Total Revenue</b>	€ 50.285	€ 51.500	€ 52.716	€ 53.931
<b>Total Costs</b>	€ 50.920	€ 51.813	€ 52.707	€ 53.600
<b>EBITDA</b>	-€ 635	-€ 313	€ 9	€ 331
<b>Total users</b>	164.260	170.681	177.101	183.521
<b>Total Transactions</b>	50.285	51.500	52.716	53.931

**Table 16: Impact User Churn Rate**

	User churn rate			
	5%	10%	<b>15%</b>	20%
<b>Total Revenue</b>	€ 60.905	€ 56.328	€ 52.716	€ 49.750
<b>Total Costs</b>	€ 58.521	€ 55.284	€ 52.707	€ 50.563
<b>EBITDA</b>	€ 2.384	€ 1.045	€ 9	-€ 813
Total users	231.902	201.391	177.101	157.534
Total Transactions	60.905	56.328	52.716	49.750

**Table 17: Impact User Validations**

	Users that validate at least one campaign per month				
	20%	25%	<b>30%</b>	35%	40%
<b>Total Revenue</b>	€ 43.861	€ 48.288	€ 52.716	€ 57.143	€ 61.571
<b>Total Costs</b>	€ 46.361	€ 49.534	€ 52.707	€ 55.880	€ 59.053
<b>EBITDA</b>	-€ 2.500	-€ 1.246	€ 9	€ 1.263	€ 2.518
Total users	177.100	177.100	177.101	177.100	177.100
Total Transactions	43.861	48.288	52.716	57.143	61.571

**Table 18: Impact of % of new Users that acquire Merchants**

	% Of new users that bring at least one merchant to the platform				
	0,15%	0,20%	<b>0,25%</b>	0,30%	0,35%
<b>Total Revenue</b>	€ 48.078	€ 48.288	€ 52.716	€ 55.035	€ 57.354
<b>Total Costs</b>	€ 48.832	€ 49.534	€ 52.707	€ 54.644	€ 56.582
<b>EBITDA</b>	-€ 755	-€ 1.246	€ 9	€ 390	€ 772
Total Merchants	1.076	177.100	1.308	1.423	1.539
Total Transactions	48.078	48.288	52.716	55.035	57.354



**Table 19: Implementation Plan**

<b>Activity</b>	<b>Responsibility</b>	<b>KPIs</b>	<b>Priority</b>	<b>Milestone (if any)</b>
Setting up sales team and sales goals	Mobitto	Average contacts per representative per day; Average contacts per representative per month; Sales success rate; Merchant churn rate	High	500+ merchants by the end of the year according to strategic objective 2
User marketing	Mobitto/Ronaldo management	Number of users acquired through marketing; Number of user acquired through Ronaldo; Viral coefficient; User churn rate	High	50.000+ users by the end of the year according to strategic objective 1
Customer service to support merchants with campaigns	Sales/Customer service team	Average Mobitto points distributed per transaction; Average number of redeems per merchant; Number of merchants; Merchant churn rate	High	Have revenues equal costs by the end of June 2014
Branding	Marketing/ Mobitto management	Number of users; Number of merchants	Medium	
Tracking of user engagement with application	IT/Analytics	Number of sign-ins per user per week/month; Number of invites to friends sent out by users; Number of users that invite merchants; User churn rate	Medium	
Enhancement of merchant platform	IT/Analytics/Sales	Average return per user per Mobitto point; Number of visits per user at merchant per month; Average amount spent at merchant per visit	Medium	
Enhancement of user platform	IT/Analytics/Marketing	Number of users; User churn rate	Medium	
Evaluation of standalone mode	IT/Mobitto management	Merchant churn rate; Number of merchants	Low	