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THE PLATFORM EDGE

What makes a business a platform and how can you assess these opportunities?

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Issue // 04 // September 2018

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SYNDICATE ROOM
Invest with the professionals

dear SyndicateRoom member,

Countless elements determine whether an idea will succeed or flop. Sometimes it's the wrong place, wrong time, wrong audience – but none of it is ever wasted. We build on the failures. Every step change in human history was the culmination of a hundred visions and revisions; it's the breaking point of everything that's come before.

The spark of disruption relies on the serendipitous moment when environment, experience and motivation meet.

When Ford unveiled his revolutionary moving-chassis assembly line (based on what was already used by flour mills, breweries, meat-packing plants), he wasn't just selling an easy method of getting from A to B, he was pedaling freedom: a 'motor car for the great multitude'.

In July 1894, the world's first competitive motor race kicked off from the Parc de Saint-Cloud (the same place that in 1868 witnessed the first bicycle race, from Paris to Rouen). Today, Grand Prix manufacturers like Mercedes and Ferrari use technology developed for Formula 1 to pimp out your road car.

Wilbur and Orville built the Wright Flyer in their bicycle shop in 1903 because they simply wanted to fly. (They got help from their mother, who'd grown up working at a carriage shop.) What they created was a vehicle capable of transporting people and cargo to the other side of the world in under a day.

Within two generations, air travel had transformed the world and become routine; we'd seen an aircraft break the sound barrier and watched a man walk on the moon.

The space race wasn't just about discovering some new playground for humanity, it was powerplay, a symbol of status. Now it's morphed again into something more individual – never mind Elon Musk, Brian Blessed, at 81 years old, is training to visit Mars as you read this. Space travel is becoming accessible, a spacecraft 'for the great multitude' in the making.

And what about all the ideas that didn't make it? The disruptors that shot up but fizzled out before they could break through the stratosphere? Those and a thousand other factors we'll never know paved the way to where we are now and to everything that's about to be made possible, tomorrow or the tomorrow after that. What matters is finding new ways to get there.

Big business might keep the world ticking over, but it's the startups that are driving the horizon.

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Today, 'platforms' seem to be everywhere – but what qualifies a business as a platform and how can investors assess these opportunities?

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WELCOME TO THE FUNDED CLUB

Let's put our hands together for the latest companies to join SyndicateRoom's portfolio

DISRUPTIVE INNOVATION

Each month, we receive hundreds of business plans for review from budding and established entrepreneurs. One thing nearly all of them claim is that they're going to disrupt their industry by 'thinking outside the box'. If the market is large enough, then a disruptor can be a very valuable investment indeed.

The problem? The term has all but lost its meaning, metamorphosing instead into a buzzword deemed vital to capturing investors' attention.

This article will examine what disruptive innovation actually is, and how investors can tell whether a company really is a disruptor or simply angling for a piece of the bandwagon.

Marcin
Zaba
Head of Marketing

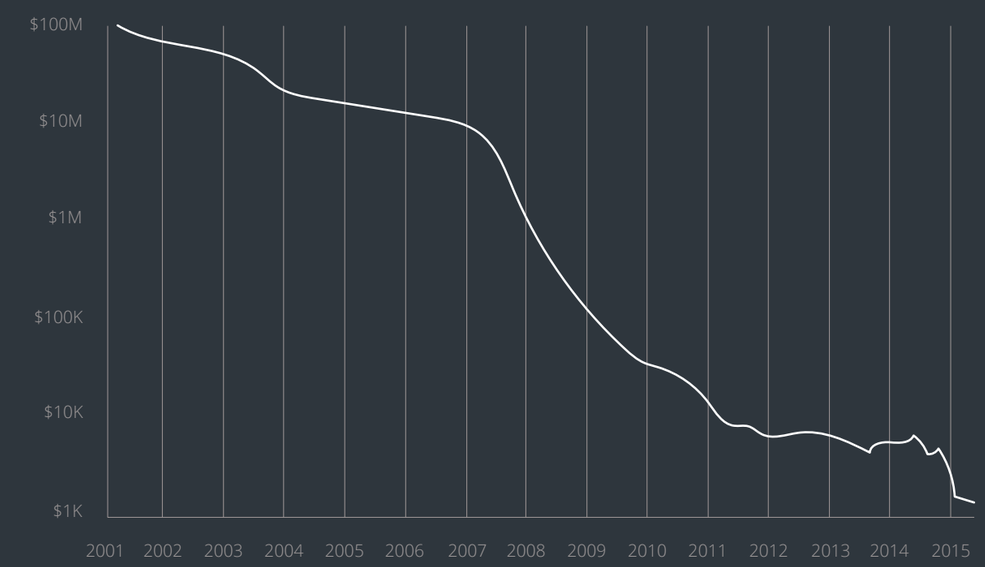
DRAMATICALLY CHEAPER

Genetic sequencing helps us understand the information locked up in our DNA and is absolutely vital to the ongoing development of medicine.

The processes for sequencing genomes are insanely complex and used to cost millions of dollars, relying on powerful computers and highly specialised equipment available in only a handful of laboratories.

As these labs occupied the entire market for genetic sequencing, they could charge fortunes to governments, academic researchers and pharma companies seeking to get to grips with the building blocks of life. In 2001, the sequencing of a single genome would cost you $100m. Their service was so profitable it made no sense to change what they were doing.

Then, something shifted: dramatically cheaper and faster computing led to a drop in the cost of genetic sequencing to just $1,000 today.



>
COST PER GENOME
Dramatically cheaper and faster computing has led to a drop in the cost of genetic sequencing from $100m in 2001 to just $1,000 today

A NEW MARKET IS CREATED

This fall in cost created a new market for genetic sequencing. What could once only be afforded by the wealthiest of governments and a handful of big pharma businesses became readily available to you and me.

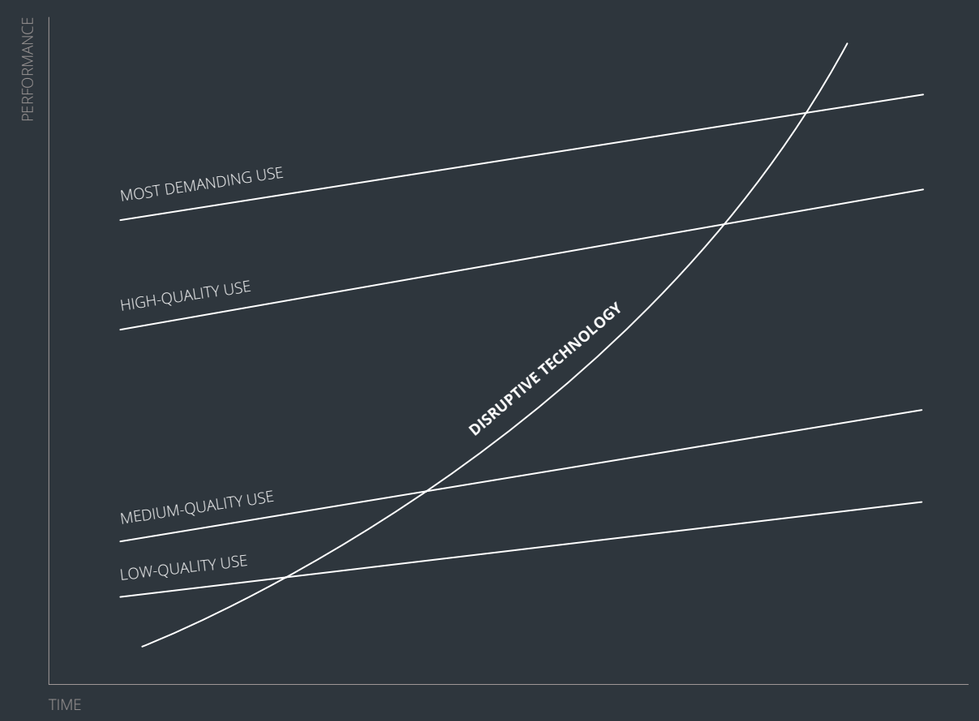
None of this development came from the incumbent labs – it came from new entrants to the market, like 23andMe. Instead of selling to big pharma and focusing on the highly complicated and profitable segments already occupied by the genetic sequencing labs, 23andMe went after ordinary people to sell them dinner party stories about how they were 1/32 Nepalese or 1/64 from Central Africa.

The labs weren't interested in this new market – it wasn't as profitable as their big-buck customers – so 23andMe effectively became the only player.

CREEPING UP FROM BELOW

Having sequenced the DNA from millions of individuals, on 25 July 2018, GSK announced a drug-discovery partnership and a $300m equity investment into 23andMe.

What's important in this story is that GSK was once a high-value client of the labs, but 23andMe crept up from below – first by creating a new market for genetic sequencing and then by moving up the market segments until it out-competed the complacent incumbents.



what to look for

A disruptive innovation is one that initially focuses on the low-end of a market and grows in sophistication until it out-competes incumbents in the most demanding segments. As investors, we want to find and back these businesses just as they're starting out.

The following questions will help you discover whether a startup has the potential to be a true disruptor.

01

Is the overall market characterised by profit-maximising incumbents addressing a subset of high-value customers? (Think specialised labs serving wealthy governments and big pharma only for $100m a pop)

02

Given the available technology, can the product or service be made 10x faster, 10x cheaper or 10x better? (Think decrease of costs in genome sequencing from $100m to $1,000)

03

Can the radically simpler product or service benefit a completely new market? (Think how 23andMe appealed to ordinary people curious about their ancestry)

04

Are the incumbents able to sell into this new market or are they limited by their structure and business models? (In a different example, could Encyclopædia Britannica publish all its content for free – like Wikipedia – and still survive?)

05

Can the startup founder create a case dominating the lowest end of the market and then move to more sophisticated market segments?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CAPITAL AT RISK

article

OLD DOG, NEW TRICKS

Move over bike-share schemes, the new trend for 'last-mile' transportation providers is shared scooters.

Bird was founded in 2017 and, post its most recent funding round, is now valued at over $2bn. Incredibly, that valuation has gone from $300m in March 2018 (post a $15m raise) to $1bn in May (post a $100m raise) to the present $2bn figure post the latest $300m round in June.

While Bird's effectively copied the model created for bike sharing, as popularised by ofo and Mobike, and applied it to scooters, investors see so much more.

'We have met with over 20 companies focused on the last-mile problem over the years and feel this is a multi-billion-dollar opportunity that can have a big impact in the world,' said Saar Gur, General Partner at Charles River Ventures – a new investor in Bird's most recent round.

Who knew we had a last-mile problem? Apparently it's the distance where uber is not cost effective but just the thought of walking it makes perspiration flow. How lazy we have become – and how profitable this could make the business.

What I find more incredible than the rapid fundraising and rise in valuation, is that not only has Bird not produced an evolutionary step change in technology, but most of what it's offering, from a technological perspective, can be bought off-the-shelf and assembled at home. Which goes to show, there's an incredible amount of disruption that stems not from an evolutionary shift in technology, but through shifts in other market forces.

Here are some recent examples of other seismic disruption stemming from something other than evolution.

Tom
Britton
Co-founder, SyndicateRoom

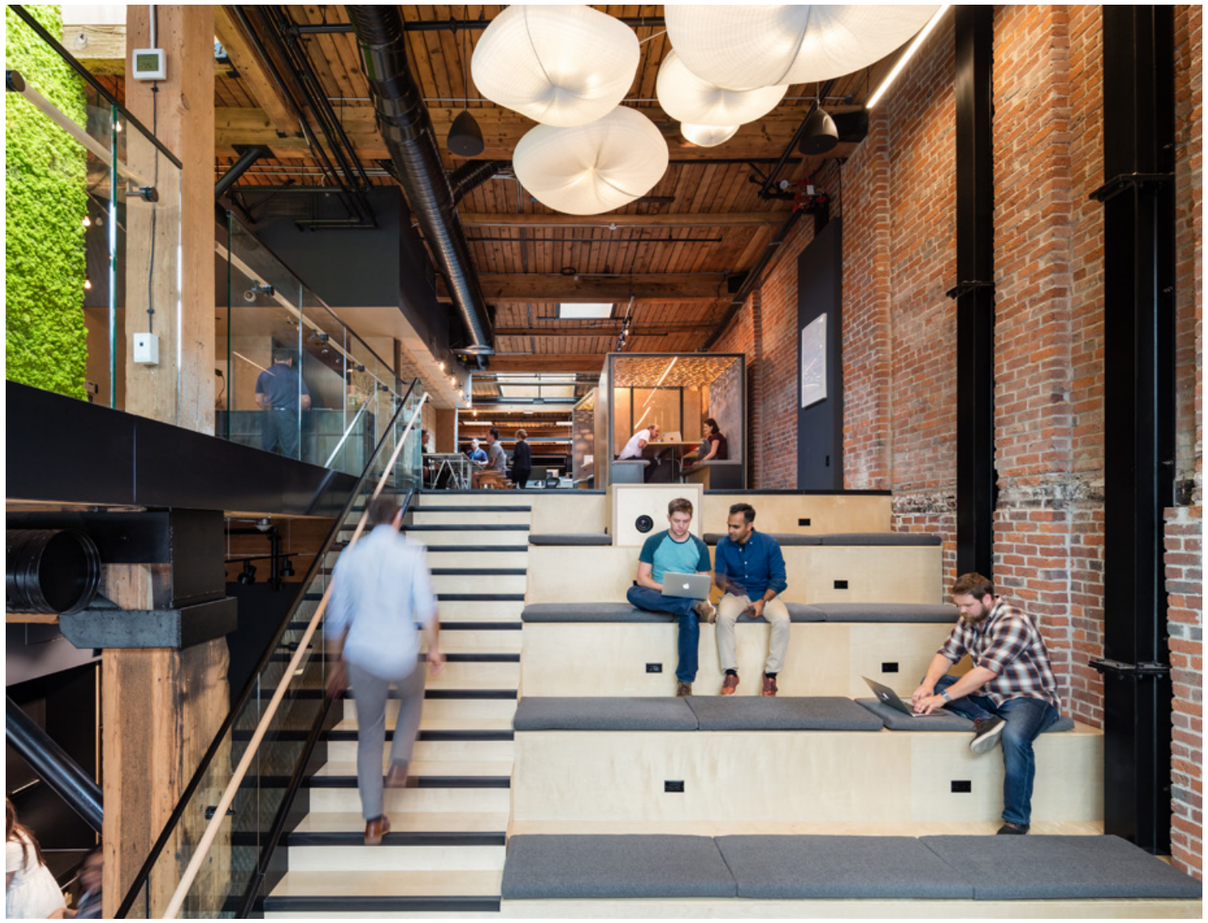
SOCIAL NETWORKING

FACEBOOK

Geocities, created in 1994, was arguably the first social network. AOL, which launched in 1997, is commonly regarded as the first dominant player in the space. LiveJournal, Myspace, Friendster, Tagged and numerous others had gained solid traction before Facebook first launched to a closed network of Ivy League schools in the US.

Facebook's technology was not novel, and in many ways was inferior to that of Myspace when it launched. The target market was incredibly restrictive, the team was inexperienced – countless factors were working against it. And yet, it was through one of these restrictions that the demand for the network boomed.

The perception of exclusivity for the target market (top-tier US university students at launch) pulled all the right strings and those who felt left out demanded access – and they gradually got it. Eventually Facebook opened its doors to everyone, dropped the 'the', and, well, the rest is history.



Slack's offices in Vancouver

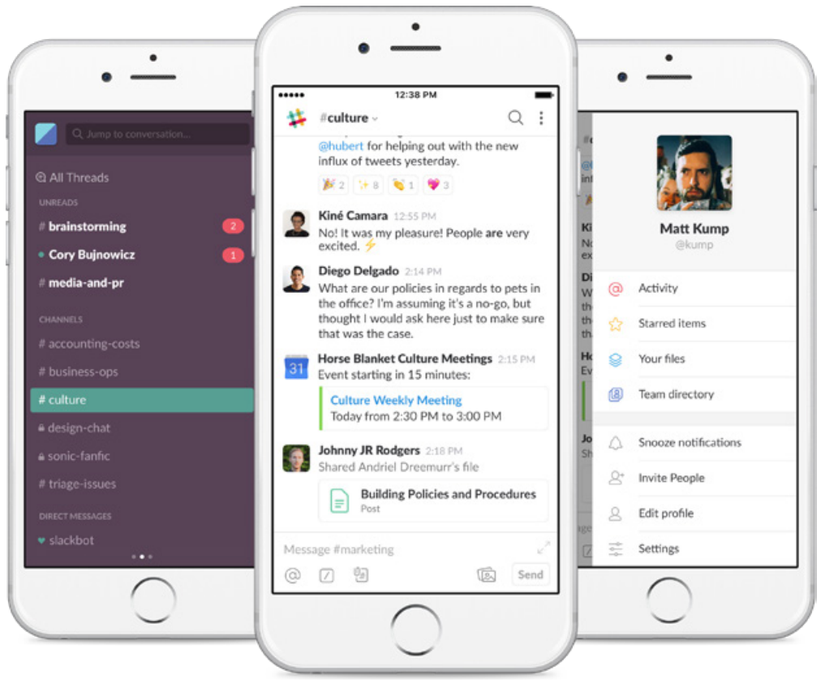
SLACK

Remember when we used a thousand tools to keep our projects organised and our teams informed? Email, Skype, Google Hangouts, Basecamp, whiteboards, conference calls and so on? These still exist today, but most of us access them through one all-encompassing tool: Slack.

The business, which recently raised over $400m at a post-money valuation beyond $7bn, has become the default company communication tool – and there's not a whole lot new or novel about it. Don't get me wrong – I love the Slack interface, and it's made a world of difference to SyndicateRoom's internal comms over the past year – but underneath the slick it is essentially a very well organised messaging app that allows integrations with other productivity tools.

Seems the company took a page out of Apple's book: design a beautiful interface on top of something we know people already want/use, and presto! Success.

Getting Slack to work at the scale that it does is definitely a feat in technical engineering (I'd hate to see their AWS bill), but it wasn't a huge shift in technical capability that enabled it to disrupt.



DIRECT-TO-DOOR PRODUCTS

GRAZE.COM

The breakthrough/novelty for everybody's favourite regular snack box delivery service came about when examining just how big a 'letter' could be before it became a small package. While Graze didn't invent anything new, except maybe a few snack combinations, they did find a way to ensure it wasn't the cost of delivery that put people off ordering their snack boxes.

No longer would snacks be something you had to consciously remember to buy when you went shopping, or the end result of poor choices when hunger struck; snacks became something that came to you.

Add to that a nation focused on 'healthier eating' and an incredibly efficient operation, and you've got yourself a company now rumoured to be valued at over £300m.

DOLLAR SHAVE CLUB

While Graze takes the credit for pioneering the subscription snack box, Dollar Shave Club has found a way of keeping us continuously stubble-free using the same trick. There's nothing (or at least very little) more irritating than running out of razors or shaving cream when you need them most.

Dollar Shave Club takes the effort out of staying well groomed. Razors, shaving cream, face wash, and a whole host of other grooming products delivered to your door on a regular basis.

Evolutionary? No. Disruptive? Incumbent brands certainly think so.

Unilever, the name behind more than 400 brands of household products and foods globally, acquired Dollar Shave Club for $1bn in cash two years ago. When the big players in the market want your model, you know you've done something right.

DIGITAL BANKS

STARLING

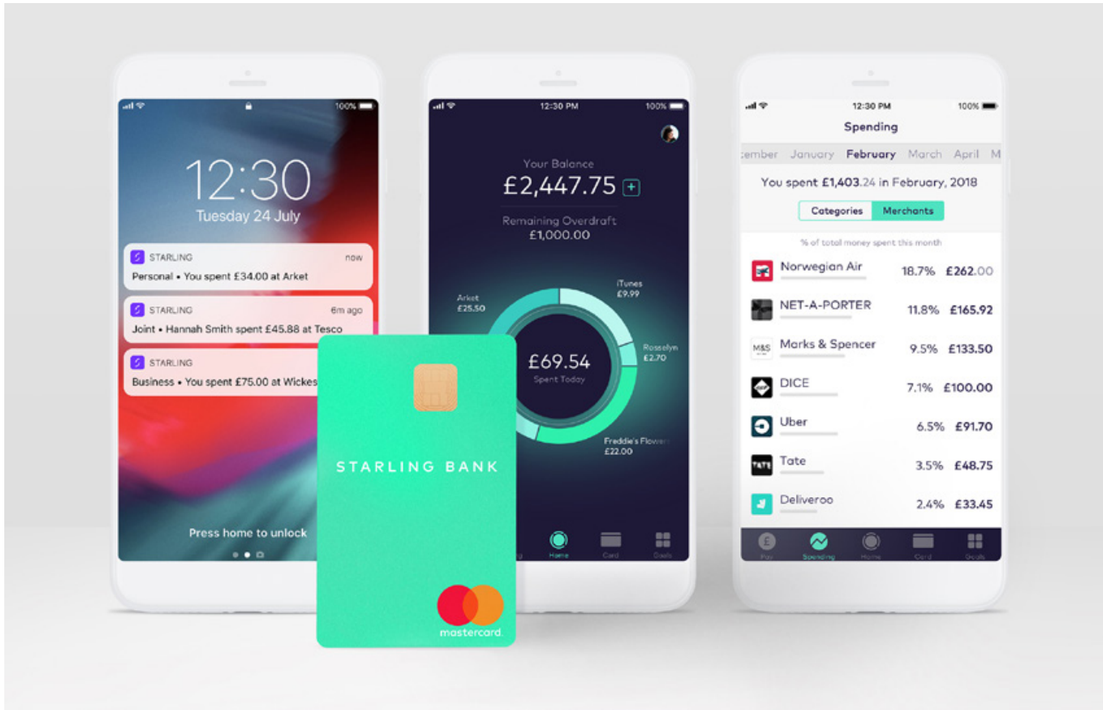
There's a common lesson to be learned from a lot of the tech-focused businesses in this list: slap a great user interface onto your product and you're halfway to success. Well, maybe not that simple, but it would be easy to think this was the main reason for the massive success of mobile-only banks such as Starling.

Beyond the interface, Starling has built its banking infrastructure on modern Cloud-based systems from which most tech companies operate, reduced or eliminated a large amount of the fees customers complained about most, thrown in a friendly, 24/7 customer service team, and generally removed many of the stigmas associated with traditional banking.

To be frank, big banks missed the boat and are now playing catch-up.

The tech that underpins Starling has been around for a long time. This isn't to put down the business in any way – the app is great and the rollout of useful new features that its agile process and systems enable is fantastic. But the innovation is not technical in the traditional sense, and yet, it certainly is disruptive – at least for the time being.

THE MORAL OF THESE STORIES is that mass disruption does not require a step change in technology. Instead, it can result from the reapplication of existing technologies in a new or novel way, a shift in distribution method, or simply by providing a better customer experience.



THE MAGIC NUMBER

28

HOW MANY STARTUPS SHOULD YOU INVEST IN?

Early-stage investing has a reputation for being highly risky, and for good reason: the majority of startups fail in their first five years. But industry data shows that investing in startups can also be highly profitable – if you're smart about it.

According to The Alternative Investment Report by NESTA, an early-stage portfolio should contain at least 28 investments in order to have a 95% chance of securing at least 10x return. But that's not all you can do to maximise your chances of bagging a successful exit.

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A broad portfolio of investments spanning different stages, levels of liquidity, sectors, sizes and types has a reduced chance of containing highly correlated investments, where macro factors such as housing market changes, unemployment or general market performance can affect all investments in one fell swoop.

By building a portfolio of uncorrelated investments across multiple sectors, you reduce your chances of a single sector experiencing a negative change and it bringing down your entire portfolio; think, for example, of how a shift in oil prices can affect a vast number of investments within that sector.

We combined this diversification principle with NESTA's magic number to bring you a brand new kind of investment fund.

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PER FUND

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DIVERSIFICATION

TARGETED
20%+ IRR
(INC EIS)

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Fund Twenty8® is the first and only fund to automatically build you a diversified portfolio of at least 28 EIS-eligible early-stage investments, across a broad range of sectors, targeting a return of over 20% IRR including up to 30% EIS tax relief.

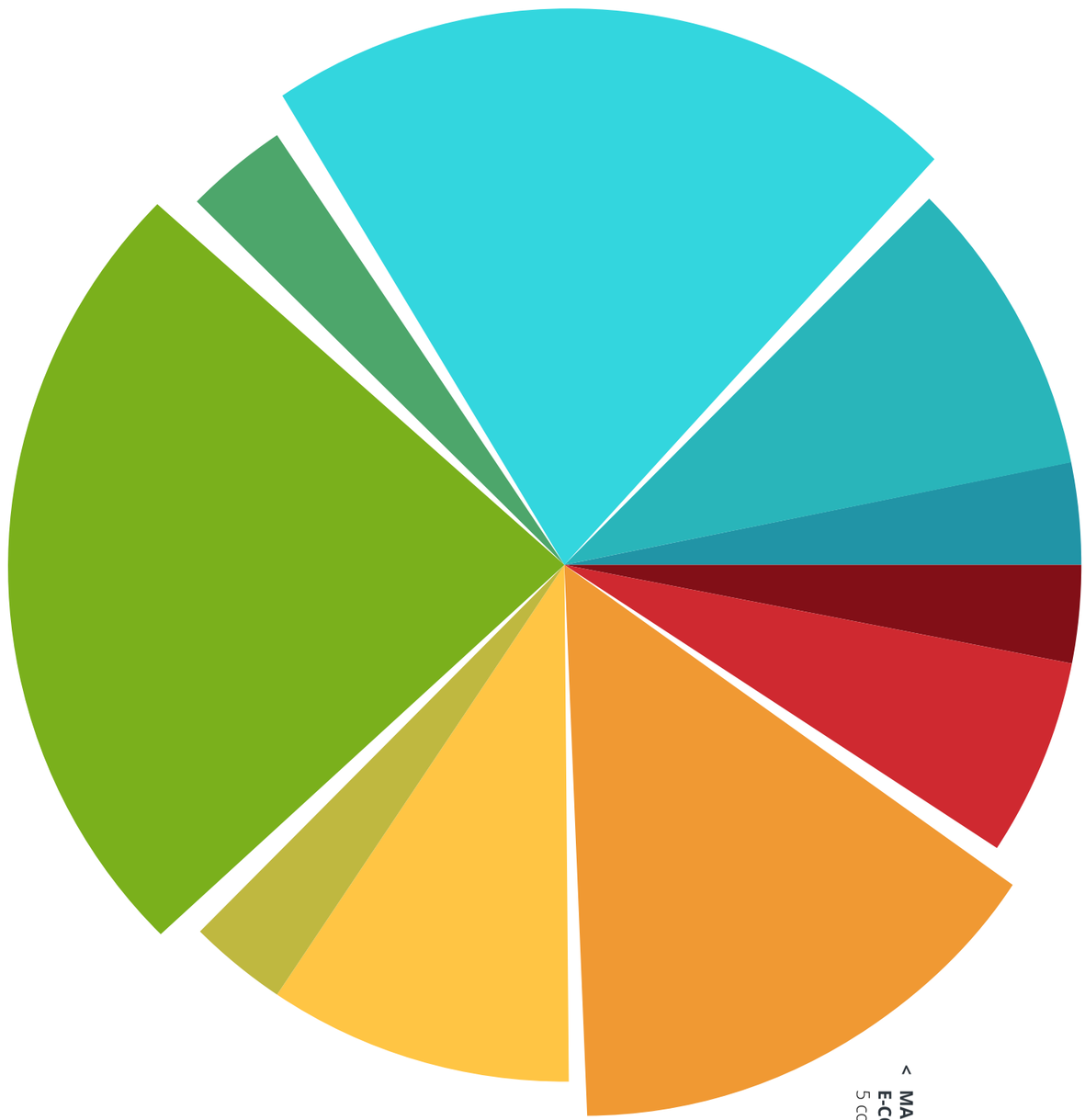
Nested within SyndicateRoom, Fund Twenty8®'s algorithmic approach draws on data from the investment decisions of thousands of sophisticated and high-net-worth investors to determine which companies to back.

The fund has raised a total of £7.9m from 377 investors to date.

HISTORICAL PORTFOLIO

Fund Twenty8-2016 finished deploying earlier this year. Its final portfolio consists of 32 investments spanning ten sectors, and includes 18 startups, 11 scale-ups and three growth companies. For a breakdown of the portfolio by sector, turn the page.

FUND PORTFOLIO BY SECTOR 2016



- **ENGINEERING & MANUFACTURING** 1 company
- **ENVIRONMENT & RENEWABLES** 2 companies
- **HEALTHCARE** 3 companies
- **MEDIA & TELECOMMUNICATIONS** 1 company
- **MEDTECH** 1 company
- **TECHNOLOGY, HARDWARE & EQUIPMENT** 3 companies
- **TRANSPORT & LOGISTICS** 1 company

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CAPITAL AT RISK

RESHAPING THE UK ECONOMY

James
Faulkner
Master Investor

We are conditioned to believe that the UK is reliant on a small number of big multinational firms that might leave at the drop of a hat if we were to adopt the 'wrong' economic policies.

The reality is that the multinationals punch above their weight when it comes to government lobbying, but their economic significance is in fact of a lesser magnitude than they would have us believe.

If the UK is to survive – and indeed thrive – in a post-Brexit world, the government needs to listen to its SMEs.

THE NATION'S INNOVATORS

When we think about disruption, we think about innovation – and the best innovators in the UK economy are its SMEs (small-to-medium enterprises), or just smaller companies to you and me.

Let's begin with a few facts. Small businesses accounted for 99.3% of all private sector businesses at the start of 2017, and 99.9% of businesses were classed as small- or medium-sized (SMEs); total employment in SMEs was 16.1m in 2017, representing 60% of all private sector

employment in the UK; and the combined turnover of SMEs today is £1.9trln – around 51% of the combined private sector turnover in the UK.

It is easy to see why larger businesses are often less good at being innovators: they generally operate in mature industries where growth is low and there are high barriers to entry. As such, they are often more concerned with paying a steady dividend to shareholders rather than reinvesting money in the business – and even where they do they are slow to react to change, given the large and cumbersome nature of their internal bureaucracies.

In contrast, smaller companies tend to operate in growing niche industry segments, or they may be a pioneer in an entirely new industry. They can react to change quickly, as their nimble structure and more proactive workforce allows for a more fluid and dynamic business environment. Moreover, the relative lack of an established modus operandi and vested interests means that smaller companies are much more open psychologically to the concept of change.

FINTECH FORWARD

Wealth management is not the first industry that springs to mind when it comes to innovation. Even optimistically speaking, from a historical perspective innovation in this industry has been low to almost non-existent for decades. This is very good for asset managers and stockbrokers – who get to charge high fees and pay themselves large salaries and bonuses – but not very good for the consumer, who foots the bill.

However, the UK is becoming a hub of fintech (financial technology) innovation, which could lead to a major shake-up in this stuffy old industry. One company leading the charge is Netwealth, which aims to win business from the City's high-end wealth managers through offering a more convenient, technology-driven service, combined with lower fees, despite being backed up by investment knowledge from seasoned professionals heralding from some of the established players, like Schroders and UBS.

WNEEDS MUST

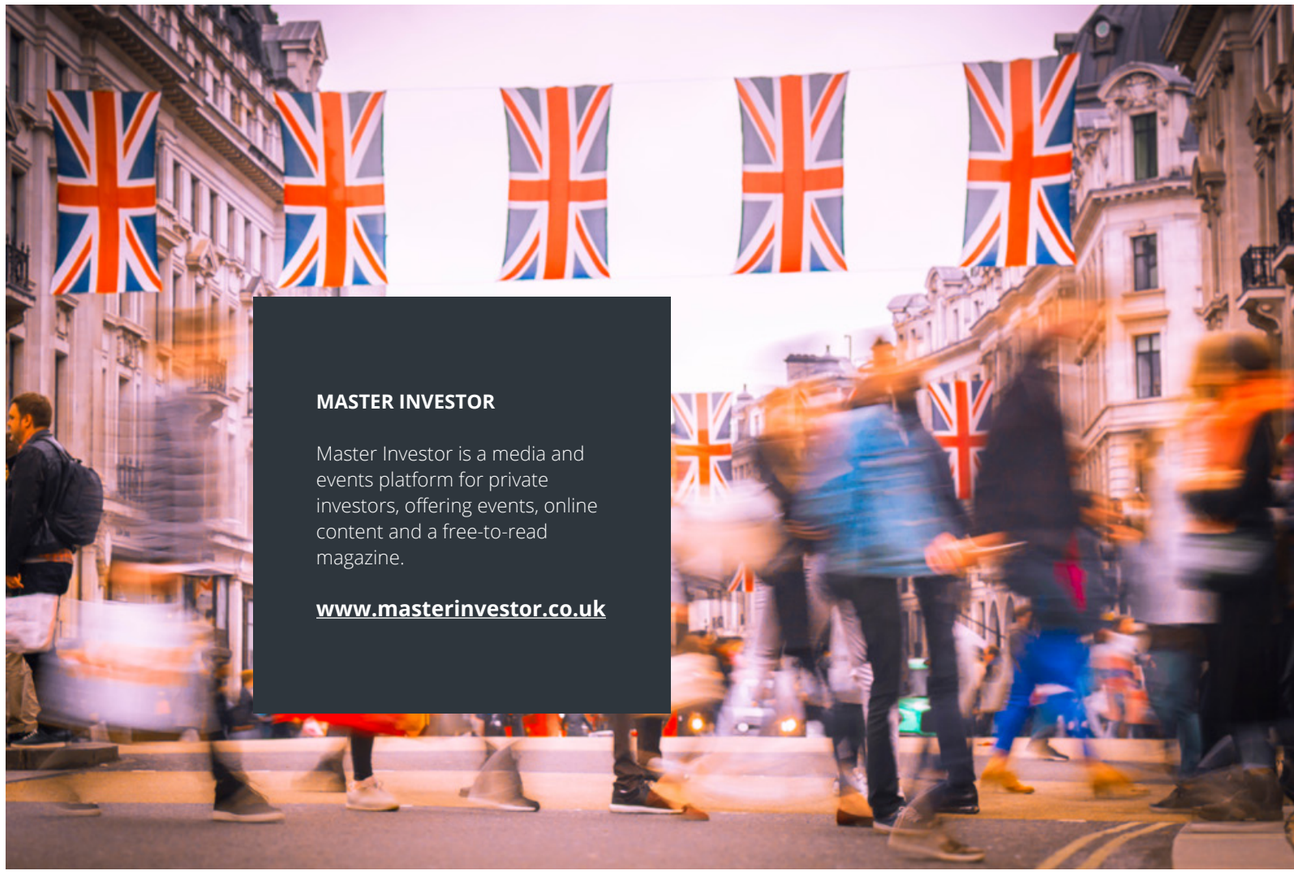
Necessity is the mother of invention, as the saying goes, and it is necessity that is driving much of the innovation taking place in the financial sector right now. New regulation that kicked in this January – the second Markets in Financial Instruments Directive, known in the industry as MiFID II – requires that wealth managers disclose to clients the exact amount they are charging in fees, and the fees charged by the underlying funds in which they invest. Innovators such as Netwealth will be hoping that such greater levels of transparency will drive investors to their platform in search of a better deal.

But it's not just asset managers that MiFID II stands to impact.

One of the implications of MiFID II is that it looks set to decrease the amount of research in circulation on many of the UK's smallest publicly listed companies. Private investors already have to contend with a dearth of quality research when it comes to investing at the smaller end of the spectrum, and this gap in the market has been spotted by Research Tree, a company aiming to give private investors access to research written by professional analysts, much of which would normally only be readily accessible to institutions.

Another one to watch is PrimaryBid, a company shaking up the world of the infamous stock 'placing' by giving everyday investors access to paper on the same terms as the institutions. Many a private investor will be familiar with the scenario: an equity placing is announced late in the day at a significant discount to the prevailing share price – but to make matters worse, the company has raised all the cash from institutions and private investors haven't had a look-in. Having spotted a gap in the market, PrimaryBid addresses this injustice by aggregating the orders of private investors, to pick up stock on similar terms to the institutions. Magic! Of course, the company has to agree to open up the offer, but PrimaryBid actively encourages investors to lobby companies to talk to them when considering a fundraising. These are just two of many examples of how fintech companies are levelling the playing field for 'the man on the street'.

Brexit has left much of the UK looking to the future with a sense of apprehension. But regardless of which way you voted in the referendum, the fact remains that prosperity is ultimately generated through innovation – and the UK has plenty of it!



ACCELERATOR SPOTLIGHT

Up and coming

Innovation flourishes at the convergence of talent, capital, policy and culture. Although these days you can launch a startup from pretty much anywhere in the world, tech hubs from Silicon Valley to Silicon Fen promise proximity to relevant connections, access to spaces engineered for serendipity, and an overall ease of doing business and sharing knowhow.

Accelerators take a special place among these tech hubs. They come in many shapes and sizes to provide a sounding board and support network for entrepreneurs, creating a space – not necessarily physical – for fast growth. A 'professional family' if you like, they look to push you to grow up, achieve your potential and eventually leave home (but still visit).

The key people who make up these accelerators play a major part in the startup ecosystem and so are privy to unrivalled insights. Working closely with entrepreneurs at the forefront of innovation, they bear witness to both the early growing pains and the successes; they observe a lot of patterns and have access to invaluable data sets, quantitative and qualitative.

We spoke with four of the country's top accelerators and asked them the question:

WHAT AREAS OF INNOVATION MOST EXCITE YOU RIGHT NOW?

The Family nurtures entrepreneurs through education, unfair advantages and capital. Moving at startup speed, it is transforming a portfolio of non-linear companies, special projects and virtual infrastructures into a connected community of entrepreneurs, operators and investors who inspire and support one another.

At the moment it's the area of innovation around employee retention and engagement. Companies attempting to solve their issues do not seem to be succeeding yet: budgets for HR have grown constantly in recent years and hiring talent is always a top concern for CEOs/founders. Yet, employee engagement hasn't moved in 20 years.

The main tendency to try and solve engagement issues is to put managers in charge of the problem. This does not seem to work: most disengaged employees leave companies because of their manager and not because of the job itself.

I am excited by solutions like Sidekick that put the individual at the heart of the problem. I believe that, with the right amount of support, communication and feedback, employees can be coached to get the best out of their managers and make their life at work much easier.

Pietro
Invernizzi
DEALFLOW, THE FAMILY

london & partners MIBP

London & Partners' Mayor's International Business Programme (MIBP) is tailored to fit the international growth ambitions of startups. A relatively new programme, it provides a bespoke mentoring scheme delivered by leading entrepreneurs and business leaders; expert advice and workshops; targeted trade missions; and access to live leads and opportunities.

The programme is open to fast-growing companies in London operating in four broad sectors: technology, life sciences, urban and creative industries.

.

I have a big interest in education and healthtech. Both sectors will be or already are completely shaken by technology. In finance, online banking and apps have progressively made their ways into our lives, but if you are in your early 30s like me, there is a good chance you went to a very similar school your parents went to, and that the GP's office hasn't changed much either.

Everything to come here is very exciting, most of all because this could have a huge impact on populations that had no access to education and healthcare previously.

Some of the solutions I am seeing are highly scalable, and paired with the current projects of getting everyone connected, here is some good hope for the future.

Alban
Remy

HEAD OF INNOVATION AND LIFE SCIENCE, MIBP

Techstars is the worldwide network that helps entrepreneurs succeed. Techstars founders and their teams connect with other entrepreneurs, experts, mentors, alumni, investors, community leaders and corporate partners who can help their companies grow. Each year, more than 300 companies join Techstars' three-month mentorship-driven accelerator. Companies receive ~$120,000 in investment, hands-on mentorship and access to the Techstars Network for life.

Techstars London is a startup accelerator programme providing access to investment, mentorship and collaboration with other top entrepreneurs.

We're really excited by food tech right now. There are huge opportunities in the sector – from vertical farming to lab grown meats, as well as data-driven products that will help improve flavour, recommendations and products as a whole.

In the last little while, we've invested in Kencko, who use the same tech that NASA uses to feed astronauts to create powdered fruit and veg drinks and smoothies that retain the flavour, aroma and nutritional qualities of whole organic produce. We've got Intelligent X, who are using AI to iteratively improve beer based on user feedback – which is just the first step towards creating ever more personalised products. We also invested in Pesky Fish, who are helping fishermen achieve a fairer price for their catch by allowing them to sell direct to restaurants and consumers.

Eamonn
Carey
MANAGING DIRECTOR, TECHSTARS LONDON

Marko
Sršan
PROGRAM DIRECTOR, TECHSTARS LONDON

âcasă

SRCONNECT

âcasă – your home run

âcasă is a home management platform designed to create seamless living. Currently live on iOS, Android and web, âcasă automates and streamlines the process of moving in, managing and moving on for the resident, utility companies and landlords. It's also the latest company to work with our bespoke capital-raising service, SR Connect.

The business helps residents set up, manage and auto-split utility bills in one place, taking the stress out of running your home. Residents can get clarity on household spending and track all household expenses within the app, helping them get more from their money as well as choosing the best offers to suit their needs.

The vision expands much more widely than just utilities; the platform intends to become a fully fledged concierge for households.

The company is backed by some of the leading investors globally in fintech, proptech, brand, consumer, finance and property, including Nationwide Building Society, Seedcamp and Playfair Capital.

At the time of writing,
âcasă's round was still open.

For more details,
get in touch with Miruna Girtu at:

srconnect@syndicateroom.com

Nicholas **Katz**

CEO, âcasă

INTERVIEW

There is more and more innovation to be found at the intersection of property and technology. What are the most powerful trends (re)shaping the industry today?

Nicholas: Space becoming a service, rather than an asset, is the biggest trend I see shaping the industry and the future of proptech. Occupiers are becoming the kings and queens, with companies looking to serve them rather than milk them for all they're worth.

It's a customer-centric revolution that is *finally* taking hold in real estate, mainly through the tech companies that tend to think this way, but many traditional real estate organisations are taking this on now as well.

Following these trends, in your view, what areas of the property/real estate sector are most prone to being disrupted in the next five years?

I think we all know about the areas of 'disruption', so I won't wax ecstatic about those. I'm most excited about entirely new areas of services being created (arguably not disruption, but instead 'blue ocean' development – like our technology for moving in, managing and moving on from a home) as well as the incremental innovation that is happening as traditional real estate outfits look to techify their offerings.

By the time you set up your own proptech company, you were already very familiar with the property market. How did the vision for âcasă come about and how did it change over time?

One of the things I am most proud of is that our vision has never really changed – it's just the path to get there that has. My vision has always been to put the power back in the hands of the consumers, who are the ultimate occupiers of the home, through a platform that can pull together into one place and take on the hardest, most admin- and data-heavy, and expensive parts of dealing with a home.

The mission we now have of making moving in, managing and moving on what we want to accomplish in the coming two years has been refined over âcasă's lifetime, and has helped us focus more on the rental market in particular and the unique problems that exist for renters today.

How is âcasă looking to change the way people interact with the built environment?

âcasă is here to be your sidekick for your next move. We make all the bits in-between moves super simple and seamless. If you set up your home through us, and all your bills/accounts are managed for you, then when it comes time to leave, it's stress-free.

We want living and moving to feel absolutely stress-free. Moving cannot and should not continue to be the third most stressful thing any human goes through (behind death and divorce). Instead, we want moving in, managing and moving on to take a few clicks and feel like a joy, rather than a pain.

âcasă and competitors at global proptech competition MIPIM March 2018

One of the things I am most proud of is that our vision has never really changed – it's just the path to get there that has.

Moving cannot and should not continue to be the third most stressful thing any human goes through.

What are the biggest challenges you encountered when looking to disrupt such a large traditional industry?

Getting to your core customers cost efficiently is always a challenge. This is why we are so happy to have partnered with and taken on investment from Nationwide Building Society, who have more than 15 million customers in the UK and access to more homes than arguably any other institution. This is also why we're keen to be partnering with and taking further investment from other strategics and family offices, or other investment vehicles, in the real-estate space.

In your case, what actions helped most with overcoming some of those challenges?

Mixing in digital marketing with business development and fundraising.

You're fortunate to have an impressive group of investors supporting you. If you were to meet with a first-time investor, how would you make the case for the scale of the opportunities created by this new wave of innovation in the property market?

This is exactly what I did with Nationwide, who made their first-ever venture investment into us from the new £50m venture fund they launched. With them, I didn't have much convincing to do! [You can read more about their investment here.]

With most investors, I take them through something I call 'property loops', explaining how every person and every organisation go through the same three phases of their property journey: you research the market, you transact and then you manage. When you spend some time looking at all the value chains involved in each of these areas, you can see a hot mess of non-integrated companies trying to take on various bits as well as a number of blue-ocean areas. We actually recently published a blog post about it.

Beyond my 'loops' framework, considering that real estate is the largest global asset class – valued at $217trln! – it wouldn't take a specialist to recognise the scale of the opportunity when it comes to all the areas that tech is only just now beginning to touch. Dozens and dozens of unicorns will be created here.

The platform model is revolutionising the way we live and do business. From your own experience, what should be the focus when building a platform-based innovation?

First, read the book *Platform Revolution*.

Second, find a core service/core mechanic, and do it insanely well. Make sure there is an ecosystem of providers involved in that core mechanic.

These are the fundamentals needed to launch a platform. If you do it well, you can then build moats around your business through the creation of the entrepreneur-coveted network effects.

Dozens and dozens of unicorns will be created here.

feature

THE PLATFORM EDGE

No industry and no geography is immune to the disruption caused by platforms. They have become a central part of the global economy and their influence will only grow with time. While software may have started the digital revolution, it's platforms that are eating the world.

The largest companies in the world by market cap run platform models: Apple, Amazon.com, Alphabet, Microsoft, Facebook, Alibaba. In 2017, 53 startups around the world attained unicorn status with a valuation of $1bn or more. The majority of them are platform businesses.

In short, they seem to be everywhere – but what makes a business a platform and how can investors assess these opportunities?

VIRTUAL INFRASTRUCTURE

Rather than investing in production and aggregating large amounts of resources under one roof (with the supply chain as the central aggregator of business value), platforms build the infrastructure and tools to support and grow a networked marketplace or community. It's these networks that connect businesses and individuals, enabling them to exchange value among themselves.

Orchestrating these large networks brings about new challenges. Traditional tools, whilst relevant for linear business, can't be used to understand or analyse these companies, which operate on a different business model, supercharged by technology (e.g. more powerful chips, the internet, the world wide web, broadband communications, the Cloud).

Platforms have, in turn, reconfigured value creation, value consumption and quality control, and transformed the whole structure of the business landscape by de-linking assets from value, re-intermediating markets and aggregating them.

Going back to basics, platforms help parties who have something valuable to exchange (tangible or not; goods, services or social currency) find each other, get together and do a deal. Don't let the simplicity of this definition fool you into thinking that platforms have low business potential. On the contrary, investors have been on a quest to identify and support the platforms that they think have the potential to dominate entire industries.

It's clear that platforms can't be ignored, whether you are an investor, entrepreneur or consumer – we are surrounded by them, using them, investing in them, competing against them.

Miruna
Girtu
Strategic Partnerships Manager

platform pros

COST-EFFECTIVE

Low marginal cost of production means that expenses don't grow as fast as revenue.

SCALE

Platforms can operate at a scale that positions them to dominate their industries.

LOW CAPITAL REQUIREMENTS

Platforms don't require a large capital base to get started, and relative to linear businesses, require even less to expand once they've established their networks.

EXPONENTIAL GROWTH

Platform business models enable companies to expand at a pace unprecedented in human history – exponentially rather than linearly.

DEFENSIBILITY

Although growing a network is a very difficult problem to solve, the upside is that, if successful, there is a lot of value produced by positive network effects.

NEW FRONTIERS

Platforms unlock new sources of value creation and supply, and can make great use of data-based tools to create community feedback loops.

PLATFORM TYPES

There are two categories of platforms:

Exchange platforms provide value primarily by optimising exchanges directly between a consumer and a producer (e.g. Uber, Alibaba). These should focus on building liquid marketplaces that have sufficient overlap of supply and demand.

Maker platforms generate value by enabling producers to create complementary products and broadcast or distribute them to a large audience (e.g. iOS, YouTube). These are more focused on organically building 'stars' who can then act as powerful audience-draws in these networks. Since the core transaction has a broadcast paradigm – a producer creates something and sends it out to many people – there doesn't have to be direct interaction between the producer and the consumer.

A PLATFORM FOR SUCCESS

While there is no universal recipe for creating a successful platform business, we can look at the main elements that should be considered when trying to understand and analyse a platform.

The following insights are collated from three recent books on the subject of platforms, namely: *Platform Revolution* (by Geoffrey Parker, Marshall Van Alstyne, and Sangeet Paul Choudary), *Matchmakers* (by David S. Evans and Richard L. Schmalensee) and *Modern Monopolies* (by Alex Moazed and Nicholas L. Johnson).

What's the friction?

The opportunity for a platform ordinarily arises when frictions keep market participants from dealing with one another easily and directly. Without a significant friction to address, no matter how great a platform's technology, making a case for investing in it is difficult.

It is crucial to identify early on the type of participants that would benefit most from eliminating that friction. These early customers often have the power to guide the strategy for growth and thus shape the platform in a significant way.

Remember that timing matters too; it's not just *what* friction is being tackled, *when* a friction is being addressed can be a decisive factor in the success of a platform.

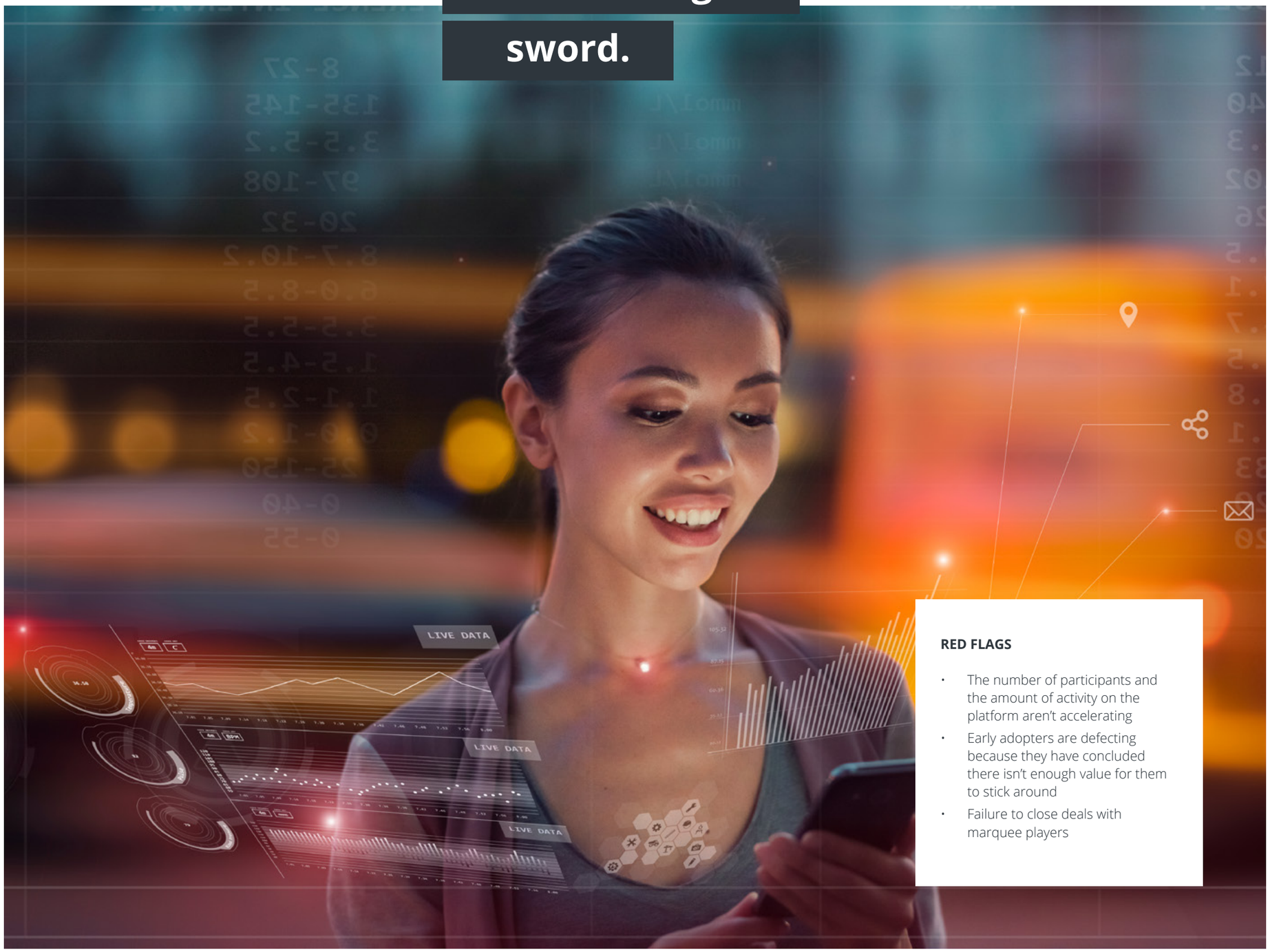
Network effects are a double-edged sword.

What's the core interaction?

In a nutshell, all platforms do two things: reduce transaction costs and enable innovation in complementary products or services. Getting the core interaction right is the most important piece of platform design, as the platform will need its users to repeat this process over and over to generate and exchange value. Looking carefully at how the platform is designed to do this can provide clues as to the likelihood of success.

Although multiple platforms might tackle the same friction, the way they approach the core interaction can shape niches (e.g. addressed at underserved groups within the incumbent networks) where they can get an edge over the competition.

Successful platforms begin with a single core interaction that consistently generates high value for users. One of the biggest mistakes founders of platform startups can make is to try to build multiple core transactions from the start. These new interactions can be layered on the top one, but only after that is finessed.



RED FLAGS

- The number of participants and the amount of activity on the platform aren't accelerating
- Early adopters are defecting because they have concluded there isn't enough value for them to stick around
- Failure to close deals with marquee players

Chicken or egg?

Platforms relying on two or more types of users (e.g. creators and consumers) often face a 'coordination problem', wherein neither group will agree to use the service unless the other group does too. This tends to occur with matchmaker/exchange platforms; there is no product for one group if the others don't show up.

Solving the chicken-and-egg problem always looks easy in retrospect. In fact, it is one of the hardest problems any business ever faces. Platforms overcome the chicken-and-egg problem when the value to new users of participating in the platform exceeds the cost of participation. The point when this occurs is called 'critical mass'. Once a platform scales past critical mass, network effects are accretive and help the business gain a majority market share.

'If you build it, they will come'

One of the biggest mistakes platform entrepreneurs make is to embrace the 'if you build it, they will come' fallacy, as a platform doesn't generate any value for anyone unless the right participants join it. Once a platform or any business gets a reputation for being sub-par, it is hard to fix.

Every platform has to have a strategy for making the trek to critical mass. The founders must be realistic about the challenges involved and must have developed tactics for getting enough of the right participants, in the right proportions, on board before the investment runs out or the platform's reputation is compromised.

The more, the merrier

Network effects are a double-edged sword. The same network effects that drive growth also make platforms much harder to build.

Positive network effects are the main source of value creation and competitive advantage in a platform business. The key to minimising most negative network effects is quality curation.

Quick points to consider:

- Most network effects are local, not global, so density matters more than overall quantity
- First-mover advantage can't guarantee a win
- Not all network effects are positive
- Not all users are equally valuable to the whole network

Go big or go home

The real benefits of a platform business emerge at a very large scale. Most platforms either make it big or don't succeed at all. Technology alone is not enough, especially when the platform has little value without the participation of other users.

The data layer

Continual improvement of data acquisition and analysis methods is an important challenge for any organisation seeking to build and maintain a platform. What does the platform's data acquisition strategy look like, and how is it likely to develop?

What does the platform's data acquisition strategy look like, and how is it likely to develop?

Money money money

Founders should think about potential monetisation strategies from day one and plan their design decisions so as to keep as many monetisation options open as possible for as long as possible. Platforms don't usually generate revenue straight away, owing to the chicken-and-egg problem, but as a platform's network grows, revenues should far exceed costs.

Be aware that multi-sided platforms don't hold to the logic of traditional economics. Traditional economics holds that it's never profitable to sell products at less than cost; multi-sided economics shows that even paying customers rather than charging them anything can be profitable in practice.

Staying agile

While all businesses should learn from and respond to the market, this is especially vital for multi-sided platforms. Attaining critical mass is a particularly difficult problem that often requires adjusting initial plans in light of how participants actually behave.

It's inevitable that participants will use the platform in ways the entrepreneur never anticipated. Platform designers should always leave room for serendipitous discoveries, as users often lead the way to where the design should evolve.

User activity

In general, user commitment is more important than user acquisition. What matters is activity – the number and rate of satisfying interactions platform users experience – therefore, platforms must attract users by structuring incentives for participation. Interaction success attracts active users and thereby enhances the development of positive network effects.

Watch for the 'leaky-bucket' problem in any developing platform business – i.e. the need to keep bringing in new users to fill demand because existing customers keep leaving.

Watch what you measure

The metrics platforms should focus on vary throughout their life cycle.

During the startup phase, platforms should concentrate on tracking the core interactions on the platform (including liquidity, matching and trust). A platform's goal is not simply to pump up the numbers of participants and interactions; it must take steps to encourage desirable interactions and discourage undesirable ones.

During the growth phase, focus on metrics that are likely to impact growth and enhance value creation (e.g. relative size of various portions of the user base, lifetime value of producers and consumers, and the sales conversion rate).

During the maturity phase, look at metrics that drive innovation by identifying new ways to create value for users, as well as those that identify strategic threats from competitors. Maturing platforms often evolve in the direction of greater openness. This demands the continuous evaluation and adjustment of processes to ensure a consistently high quality of platform content and service value.

WELCOME TO THE
FUNDEDclub

TRAVEL & LEISURE

CAMBSCUISINE
TOTAL RAISED: £750,000
136% funded

If you have visited Cambridge, you will be familiar with Cambscuisine. The company owns and operates nine highly rated pubs and restaurants in and around Cambridge.

Cambscuisine offers a variety of dining styles across the Cambridgeshire casual dining market. The company aims to become the best at providing pub and restaurant facilities to three new communities in Cambridgeshire: at Eddington, Alconbury and Waterbeach. Working with the property developers Urban and Civic, it is extremely well placed to fulfil the eating and drinking out market within a modern village, with ample experience of running village pubs and restaurants.

Funds raised through the company's SyndicateRoom round will be used to help Cambscuisine pursue its growth plans, specifically by developing opportunities within Cambridge city centre and increasing the smoked food offering in restaurants and pubs with the development of the Smokeworks brand.

Cambscuisine surpassed its target raise and hit its overfunding cap on SyndicateRoom in August 2018.

www.cambscuisine.com

LIFE SCIENCES

PERTINAX PHARMA
TOTAL RAISED: £806,000
Successfully funded

Pertinax develops novel materials to prevent and treat infection. Its initial target market is antimicrobial wound care, where there are growing concerns about existing technologies over safety (regarding materials like silver), efficiency (in how the antimicrobials are delivered over time) and sustainability (improper dosage of antibiotics accelerates human resistance).

Pertinax aims to reduce infection and complications, thus improving patient quality of life. The company's technology comprises a set of condensed phosphate salts of chlorhexidine, which have much lower solubility than commercially available chlorhexidine salts. The solubility properties result in a slow and steady release of chlorhexidine when the salts are exposed to an aqueous environment (sweat, fluids from wounds, etc). It is released slowly and steadily, at a concentration sufficient to kill pathogenic microbes, and this is sustained for the duration of the use of the dressing. This creates the opportunity to determine the most clinically appropriate dose and duration of chlorhexidine delivery by selection of the particular salt or salts, as well as formulation parameters such as particle size, dispersant and matrix.

By delivering a trusted and familiar antimicrobial in a new way, Pertinax is able to provide sustained protection which has the potential to support fewer and less frequent dressing changes and faster wound healing.

The round was led by Mercia Fund Managers, a national investment group focused on the funding and scaling of innovative technology businesses with high growth potential from the UK regions.

www.pertinaxpharma.com

SOFTWARE & COMPUTER SERVICES

DRIFTROCK

TOTAL RAISED: £792,954
132% funded

Driftrock is a software platform already working with companies like BMW, Open University and Heineken to drive their digital marketing by bringing together their online and offline consumer data.

Driftrock operates in the digital marketing technology industry. While marketing platforms like Facebook have amazing targeting capabilities, what they lack is all the data companies have on their customers such as what they've bought, and where they are in their customer lifecycle. Without this data, advertisements become generic and bear little fruit due to ineffective targeting. This is a problem exacerbated when customers make purchases offline.

Driftrock's Customer Data Platform connects customer data with marketing, enabling the implementation of GDPR-compliant targeting strategies.

Driftrock's mission is to make advertising something people want to see. It does this through its proprietary people-based marketing platform, which combines the rich, authentic data held by social channels with customer data held by brands to communicate relevant messages to their target audiences at the right time.

The technology has proved highly effective as brands increasingly demand marketing technology that closes the loop between online and offline, and allows seamless communication over the customer journey.

www.driftrock.com

INFLOAI

TOTAL RAISED: £663,612
111% funded

infloAi gives companies a sustainable way to monetise their online presence by curating digital content for blogs, websites and social media channels. Its machine-learning technology can aggregate text, images and video from any public website, producing an unrivalled range of content to complement brands and engage audiences.

Brands need to consistently publish relevant content across all of their digital channels to boost and grow online engagement with customers. This has historically been a labour-intensive task since browsing and editing material is time-consuming and monetising content effectively is difficult.

infloAi was established with the aim of making it easy for companies to monetise their audience with the supply of targeted advertising alongside relevant content delivery. Its platform automatically curates and categorises a wide variety of content mediums (text, video and imagery) using proprietary machine-learning technology. The workflow tool then allows content teams to quickly source and filter information, edit the content to match their brand tone, and publish stories across digital channels quickly and efficiently.

The company is already generating revenue across both of its two services, infloAi Feed and infloAi Edit. It was nominated one of the top 50 emerging UK innovations at the 2017 Penrose Awards and has pilots in place with Premier Inn and Novus Leisure.

www.inflo.ai

Issue // 04 // September 2018

Risk warning: Investing in early-stage businesses involves risks, including illiquidity, lack of dividends, loss of investment and dilution, and it should be done only as part of a diversified portfolio. SyndicateRoom is targeted exclusively at sophisticated investors who understand these risks and make their own investment decisions.

Tax relief depends on an individual's circumstances and may change in the future. In addition, the availability of tax relief depends on the company invested in maintaining its qualifying status.

Past performance is not a reliable indicator of future performance. You should not rely on any past performance as a guarantee of future investment performance.

To read the full risk warning, go to https://www.syndicateroom.com/risk-warning.

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