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To build or to partner – Dilemma case study

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ABSTRACT

This is a classic dilemma case that most promising start-ups face, it is always a catch 22 situation on valuation and long term growth as against quick fixes and exit. This is one such case the shows the power of the product in video advertising but is facing issues around scaling leading to a dilemma on what the company should do, whether to build the business or just partner with a larger firm to keep the fire burning.

Keywords— *Dilemma Case, Digital Marketing, Video Advertising*

John works for a company that has global patents issued in the US for non-linear video technology in a player environment. What this essentially means is that multiple people get different experiences on the same content at the same time and is unlike linear tubing where the publisher has control over what the audiences see. Here consumers decide what they want to see within the content through easy navigation and discovery and thus by changing the rules of the game. This experience of multiple people having different experiences on the same content at the same time is defined as non- linear video experience.

The company has a business to business angle where anybody is in the video streaming space or having video content can be customers of John's company and therefore indirectly servicing consumers of the customers, who are the end users.

This company is two years old and has focused on building a robust product to cater for different industry verticals, which include training and development, entertainment, advertising, and the broadcast industry, where the entire industry defined above is moving toward the Over The Top (OTT) space given the proliferation of the internet through mobile devices. The entire company had zero revenue and hired John as the chief growth officer to scale the business globally and start bringing in revenue.

1. CASE STUDY CLASSROOM NOTES

- **Revenue in the Video Advertising segment amounts to US$34,825m in 2019.**
- **Revenue is expected to show an annual growth rate (CAGR 2019-2023) of 10.6%, resulting in a market volume of US$52,018m by 2023.**
- **Source: Statista**
- **Original Digital Video content— ODV spend is up 31% y/y; and although advertisers consider ODV "essential", the spend on this content type is still challenged by "quality of content" • Advanced TV— Nearly 60% of advertisers report that they will increase their budgets for ATV this year, primarily because they find OTT to be beneficial in delivering tough to reach audiences Mobile and Desktop have reached parity in spending, with nearly two-thirds of the total digital video spend allocated evenly across the two devices**
- **Programmatic— Growth in digital video programmatic spending is expected to rise +4% year/year, now reaching 53% overall • This year's report also includes spend among direct to consumer marketers (DTC). While this is only 17% of the total sample size for this report, we can see, directionally, that DTC marketers expect to allocate more than 50% of their digital spend on digital video advertising (a +50% y/y increase)**

Source: IAB

John wanted to focus on advertising business to begin with because the potential customers in the Over the Top (OTT) segment were not easy converts due to the complicated technology legacy issues that an incumbent may have had, had a much longer sales cycle. In such situations, unless the content distribution network (along with the server) is moved to John's company, the problem of having a lot of big data to be transferred from the incumbent is not resolved and most customers are not willing to undertake such an initiative again due to issues around data transfers. The technology that has gone into building the non-linear video player has its challenges unless hosted on the cloud at John's company end for a seamless experience. Otherwise the performance of the player gets challenged and delivers blurred images when on low bandwidth.

John realized that this would be difficult, so he developed a two-fold strategy that would cater to the company's long-term vision of empowering consumers to see what they want to see and when they want to see it without having to get out of their current video experiencing environment on the video player.

While he wanted Amazon, Netflix, Google, and every other major company in the internet business to use his company's video player (especially in the growing Southeast Asian and Indian market where Over the Top (OTT) content consumption was growing rapidly), he also saw a great opportunity to build the world's first demand-side platform (DSP) that would have a DIY module built in to make a linear video into a non-linear video and deliver higher level of engagement for brands who would want to use John's company product to meet their business objective. Due to high Cost Per Mille (CPM) that brands pay, publishers would also partner with John's company to improve their Effective Cost Per Mille (eCPM)

2. CASE STUDY CLASSROOM NOTES

In India, Zee5, MX Player, and Amazon Prime have reached over 300 million mobile handsets, with each Indian consumer having a minimum of three of the above apps. With the new data juggernaut in Jio, the video advertising opportunity was huge if one had to size it up geography wise, though John had his eyes set on a global opportunity.

John was excited and got approval from the board to build the advertising solutions first, given his background and the success he had with digital advertising. John had been an entrepreneur in the past with two successful exits for investors of his previous firms through an IPO and a sellout to a German conglomerate. John also had a great overview of the global digital advertising market, and so he knew he had a good chance of succeeding in markets globally where adoption of the product offering would not be an issue.

John built a team of professionals and segregated his sales and supply team. John always believed in failing fast and learning from those failures. He always thought like an entrepreneur, irrespective of whether he was working for an organization or otherwise. Soon, his supply team could bring in over 100 publishers with whom this revolutionary video player was integrated for advertising solutions; John's company DSP (Demand Side Platform) would then deliver for-demand partners programmatically and drive tremendous engagement.

Often things do not go as planned and John's demand team could not scale the business and was falling short on revenue by a large margin month to month, and in six months, the board was growing impatient and did not want to hear excuses. It was not evident that the business was facing difficulties and so the board asked John to come up with a Plan B.

John had a mentor and friend called Alex, who was a successful founder and CEO and who had sold three companies in 20 years for hundreds of millions. Alex was now a management consultant, and John called him and said, "Hey Alex, I am in a situation that I am sure you will thrive in, and I need your help and advice."

Alex responded, "See you tomorrow at noon for lunch, and we can discuss what makes you think I will thrive in a situation that you are in."

The following day at noon, John reached the designated restaurant on time but did not find Alex. He called Alex ten minutes past their scheduled time, but Alex did not answer. John waited for 20 more minutes, and Alex came in, apologizing profusely. "John, I got caught up with a client of mine; he is making too many decisions in anger, resulting in knee-jerk reactions that are impacting the strategic framework of the company that I have set up."

John looked straight into Alex's eyes and asked, "Who is this client?"

Alex responded, "Do not worry about them; let us talk about your situation."

However, John insisted.

Alex responded, "What I can tell you is that he has not been focused on his strategy. He has a reputation for being the most astute strategist, but he is going through some personal problems, which is resulting in him making decisions as per his moods. He is 'okaying' things that he should not when he is angry and listening to the wrong people who are making him happy by massaging his ego."

John said, "Alex, I do not get it; your inference is not giving me any direction without knowing who this person is and what business he is in."

Alex said, "John, what should matter to you is exactly my inference; it is a learning opportunity for all of us. Never make any decisions when you are angry and do not let the wrong people boost your ego to keep yourself happy."

John got thinking, but realized at the back of his mind that maybe there was something to learn from Alex's statement.

Alex quipped, "So, what has been happening with you?"

John replied, "I am having difficulty steering the boat out from troubled waters. I do not know why this is happening, but you know of the product my company has developed, and I am looking at taking the offering global. I have not been able to see lift, and my plan B may not create the necessary value for the company."

"What do you mean?" asked Alex.
"Alex, my direct sales team has not found the traction I thought this revolutionary product would bring in. While it is being appreciated, the sales cycle on player adoption is taking a lot more time and the advertising business, through our DSP, is not seeing the lift I foresaw," said John.
Alex asked, "So, what is your plan B?"
"Plan B is to partner with a large DSP and give away our expertise to them and depend on them for our growth. It also takes away value creation because we will not own the client. I am looking at a partnership with Adobe, which I am confident of cracking, but that will be it because I will then be handing over this entire product offering into the hands of a partner," said John.
Alex asked, "How much time do you have and what is the cash-in-hand situation?"
John winked and said, "Time is not the worry, but cash is. I have pumped my money into the business to keep it afloat and to show my confidence in the product so that the board stands by me. I have stopped taking a salary."
"Wow, you are in bad shape, you seem to be massaging your ego by putting your money in somebody's foolish guidance," thundered Alex. "John, what is the story here?" he asked.
"Alex, the story is that if I manage to crack the partnership, we would be in for a bounty upwards of 100 million a year but we would be dependent on the partner like I mentioned," said John.
"Dude, there is no dilemma in my mind that survival is more important than dreaming about the future. It is a no-brainer, go ahead and crack the partnership," Alex asserted.

John left the meeting with his mind wandering. While he knew, he had massaged his ego by putting his money into the business, he was still not convinced of Alex's point of view.

John always thought of platform businesses is where there would be a network effect, and he was a little puzzled with the situation at hand given his was a platform business, but customers were not finding value in the business. Plus, there have been mergers and acquisitions in the industry leading to consolidation within the adtech ecosystem.

3. CASE STUDY CLASSROOM NOTES

Sizmek, which had acquired RocketFuel for $128 million, AppNexus was bought out by AT&T, MediaMath was refocusing on its core offerings, and Oracle had jumped into the digital advertising ecosystem by acquiring data driven businesses like GrapeShot a contextual advertising platform and Blukai, which was a DMP (Data management Platform).

Data was clearly the differentiator going forward where advertisers could target specific audiences using a Data Management Platform (DMP) for better value on every dollar spent

John knew that this product had its strengths and weaknesses: the biggest strength was its non-linear capability, while the biggest weakness was the lack of data and that his company was the last to enter the DSP ecosystem.

John had a huge opportunity given the size of the business and its accelerated growth projections, so there was no way he was going to get out of the business. However, his direct sales efforts were not yielding results, so he had just one option: he had to stick and make it count or else this company would not take off the way he had envisaged around its monetization, given the longer sales cycle and the lack of funding. Having raised $2 million in pre-series A, cash was running out fast, and the business was not being considered attractive without a monetization angle.

John decided to split the business model and kept thinking of how Google thwarted the threat of the iPhone in the OS space by acquiring Android then subsequently partnered with every mobile phone manufacturer instead of making a touchscreen phone to compete with iPhone. John knew he just had two options left: one was to acquire a DSP through a debt route of fundraising and then insert the DIY module into the DSP, or partner with large DSPs, like Adobe TubeMogul, the Trade Desk, or MediaMath, where the non-linear DIY module would be integrated with the above-mentioned DSPs (Demand Side Partners) and offer it to customers on pay-per-use basis, where he estimated at least $1 CPM (Cost Per Mille). Even if 10% of Adobe TubeMogul's customers decided to use the DIY module of John's company, his company would make upwards of $75 million a year, which would be all revenue, unlike revenue-sharing agreements he would have had to make with publishers if he had taken the direct sales route or undergone an acquisition.

John continued to think hard before he took the final call.

John's point of view was that he could build a billion-dollar business rather than a couple of million-dollar businesses because the video advertising market was going to be worth $6 billion by 2023. If John somehow managed to build this business over a four-year period, he would end up disrupting the video player and advertising market in such a way that he could reach a revenue of a billion dollars and value the company at $10 billion through the network-effect calculation that is now prevalent in the valuation process of organizations.

There was also another angle to his problem. John now held 10% equity in the company at a valuation of $10 billion, so he could take $1 billion now. If he went the partnership route, he would never make more than $100 million and here he saw ten times the earning opportunity. However, there were risks.

4. CASE STUDY CLASSROOM NOTES

Alex's advice was not helping John because the exit numbers were not made known to Alex, and John was focused on not feeling that it is a lost opportunity.

Alex had in mind what happened with Brightcove, the legendary video solutions company, which had a four-sided platform with content providers, advertisers, affiliates, and consumers.

Had Brightcove not adopted the four-sided strategy for network effects by addressing content providers, advertisers, affiliates and consumers in one go and rather focused on just the consumer as their core proposition, then they would have been as big as YouTube is today.

Unfortunately, Brightcove went after publishers, which gave them the necessary money to survive but did not allow them to scale like a YouTube due to a lack of network effect of the platform.

John had this in mind constantly, given the scalable opportunity with advertising as a business to create long-term value and did not want his company to follow the Brightcove example. He wanted to build the business out himself so that he could achieve necessary scale by owning the customers and build value resulting in greater valuation that would eventually positively impact on his stake.

John was always a risk taker as an entrepreneur and wanted a second opinion from his Venture Capital (VC) friend Mark. John thought Alex was wearing his consultant hat and did not size the opportunity right.

John is based in New York and he set up an appointment with Mark who is based out of Boston.

John reached Mark's office as per the scheduled appointment. Mark had previously invested in John's venture and had a successful multi-million-dollar exit for his fund, so they shared a great rapport.

"Hey John, it is good to see you," Mark said and shook John's hand.
"Hi Mark, likewise," responded John.
"So, what brings you here?" asked Mark.
John said, "Mark, I am in a situation, which may be solved with a VC's perspective."

John explained his situation to Mark, and they got chatting on the SWOT analysis of the business when Mark categorically stated, "If I had to invest in this company, my Limited Partners (LPs) would never approve it because they are so not in favor of the adtech eco-system due to the domination of Google and Facebook."

John was surprised at that statement and said, "Forget investing, what do you think of the business, Mark?"

"I think it is a long haul. The data states that there is consolidation in the business due to the big two (Google and Facebook) taking 70% of the market and the risk involved in building this opportunity that you are seeing as disruption may fizzle out just fighting legal battles if it comes to that. However, honestly, I think this is a great product and I would give it a shot for a year more and raise my stake by plowing in more money and then make a call because a year is not going to dampen my partnership opportunities and I can always recover the investment at that stage in the company."

John was even more confused and said, "Mark, you have just given me more time to die than convincing me just to go all out."
"John, nobody can convince you: it is your call eventually, because both have upsides and downsides. It is like the upward and downward swing of the stock market, and you need to know when to jump ship before it sinks and nobody but you are the best judge."

John had two situations and was thinking hard on the option of running the company himself instead of partnering because the valuation of the company would be more if he owned the customers, but it would also mean that John would have had to run this complicated business for years before it found its true value. He could also partner with a few DSPs (unlikely because a partner would demand exclusivity) or maybe one large DSP and look at nothing beyond that and depend on the partner company to grow John's company. The former option of running the company himself is sound but not safe, and the latter option of partnering with a large DSP (Demand Side Platform) is safe but not sound.

What should John do in such a situation?

