

**Financial Technology
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**Prof. William Fisher
Final Assignment**

Hypothetical Business Plan
submitted by
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On a preliminary note, I would like to clarify that I do not have studied business administration or anything related. Accordingly, I have never written a business plan. Therefore, the present business plan might not meet professional standards.

0. Structure

The business plan begins with a problem description (1), before describing my business idea as a possible solution (2). The detailed description of the business entails two elements as well as the market appearance of the business. Following, the reasons for profitability are explained (3), as well as the country of choice for launching the business (4). Then, the protection of the business via trademarks (5) and via Intellectual Property law (6) is introduced, followed by strategical aspects of Intellectual Property (7). The business plan ends with a conclusion (8).

1. Problem description

Ownership of goods is the standard way of life in our modern society. By default, you own the things you use. From an average consumer's perspective, renting a flat forms an exception. For example, in Germany about 50% of the population lives in its own property (EU: 70%, US: 65%). Otherwise, used goods are mainly self-owned. Think, for example, of your furniture, your clothes, your technical devices. For most of these goods, it makes also sense to own them, which comes with well-known exclusivity: You buy, you possess, you dispose.

However, we own much more goods than we need. This is true in particular for the developed countries. Furthermore, many goods we own we do not use daily, but only from time to time (or not at all). Might it be a lawnmower, a mountainbike, a juicer,

tennis rackets, a waffle maker, a printer, or a ski helmet. Would it not make sense to share these goods with others?

Until now, goods are shared mainly in social environments, for instance within the family, amongst close friends or neighbours. However, it is regularly based on courtesy and on a relationship of trust. This, at the same time, limits the potential of such sharing dramatically. Is there anything wrong about this limitation? From a sustainability-driven standpoint, it makes perfectly sense to share goods in order to increase their use and to avoid purchases of goods which are only needed every once in a while.

However, at a first glance, the alternative of renting your stuff (from the owner's perspective) or renting from others (from the user's perspective) does not sound very appealing. The reasons are various and subjective, might it be for comfort reasons (furniture), hygienic reasons (clothes), the need for continuous availability (technical availability). One of the biggest reasons lies in potential damage of the shared good. One must notice that this risk also exists under the existing sharing in social environments. However, it is assumed that in these courtesy driven situations, a certain trust in the other person's diligent behaviour exists. Moreover, there may be a certain level of confidence in an amicable resolution in case of any damage. It is clear that these levels of trust and confidence do not exist per se between strangers. This lack prevents strangers from renting goods to each other. Would it therefore not be innovative to facilitate the renting of goods outside of this narrow, social contexts? In other words, is there a solution to provide a set up in which renting becomes a low-risk exercise for the involved parties? A potential solution shall be described in the following, by introducing "*Shario*".

2. Description of the fintech business

The business idea I would like to present is an online platform named "*Shario*" and consists of two elements: While the first one aims at sharing all-day goods, the second element deals with the insurance of such sharing. Together, both elements culminate in the digital market place *Shario*, which basically allows for the insured renting of goods. Both elements, the sharing element and the insurance element shall be explained in detail here:

a) First element (the “sharing element”)

The first element of Shario is a digital place to bring together owners of goods who are willing to rent them and those who prefer to rent them instead of buying them. This online platform allows its users, after registering, to offer goods to rent (1) and/or to contact such offers (2). Thereby, the owner of a good can publish offers and people interested in renting can contact them via a request form. Basically, the platform shall work as other known online market places (e.g. Amazon, ebay, vinted, poshmark). This might mainly work within a local context. Users can register themselves on the platform. Certain data is required, as name, address, payment data. Of course, only selected data will be published to other users. Therefore, the users need to locate themselves (at least via city/post code/street). This allows the platform to show users' offers in a certain radius. In case where interests of both parties match, they can enter into an agreement, determining the duration and the cost of the rent. The agreement shall be entered into via the online platform, documenting the agreed circumstances. The platform shall facilitate this agreement in an user-friendly manner, e.g. by allowing to tick boxes for the relevant facts. When having entered into agreement, the actual rent takes place. This might cover a time slot of hours, days or weeks. After the actual renting, both parties can evaluate each other. This will lead to an individual scoreboard for every user, indicating their reliability as a lessor and/or as a lessee. Over time and with increasing use, evaluations will become crucial as an indicator for the platform users' reliability.

b) Second element (the “insurance element”)

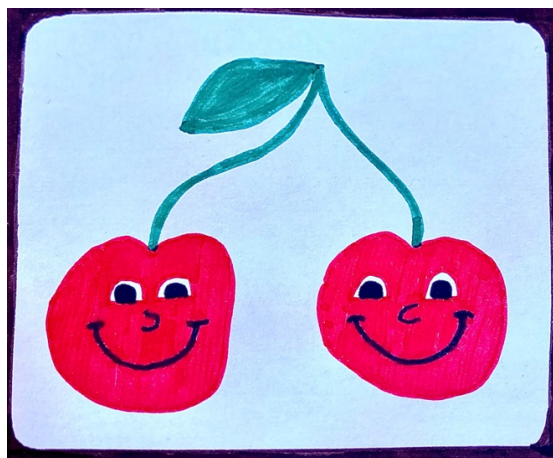
The second element of Shario is the provision of an insurance for any kind of damage or loss of the rented good. The platform offers this insurance to the person interested in renting the good (the lessee). Instead of requesting a deposit, the lessee pays an insurance fee (from his viewpoint, as an add-on to the rent). The owner of the good (the lessor) is informed accordingly. The calculation of the insurance shall be done via an automated, data-driven calculation. In other words, the insurance fee is calculated via an algorithm, taking into account the good's value, the lessee's liability score and potentially further indicators (e.g.

creditworthiness, renting history). The formula might be improved over time. However, it must be noted that the longer the platform operates, the more reliable the calculated fees will become (e.g. by more meaningful transactions history of users). In case everything works well, lessor and lessee confirm via a “green light button” that the whole transaction went well. Otherwise, the application provides for an process of dispute resolution, with the payment of the insurance sum to the lessor as a potential outcome (in case of having provided sufficient evidence). The insurance element is considered an unique added value of Shario. It is assumed that the existence of such insurance element is decisive for Shario’s ability to attract users.

c) Market appearance

The online platform, allowing for the insured renting of goods, shall be realised via an application and a website. At least two versions of the applications should be developed to be downloadable via both, Apple’s and Google’s app store. More versions for other app stores can be realized accordingly.

The platform’s name shall be “Shario”, which is easy, sounds catchy and is memorable. Its logo shall consist of two cherries, somehow taking into account the similar sound of “Shario” and “Cherry-O”, the necessity of an easily memorable image. Moreover, it may remind the viewer of the idea of happiness achieved by successful collaboration and social interaction.



Source: Own Illustration

3. Explanation of the business' profitability

The business has a realistic chance of long-term profitability. Profits can be achieved via three channels. First, advertisements can cover parts of the visual user interface. Thus, third parties may pay to advertise on the platform. Second, profits could be gained by the insurance fees paid by the lessees. Third, the rent agreed by the parties could be increased by a small percentage fee, which goes to Shario's owner.

However, several aspects must be considered as conditions for profitability.

First, the business' success strongly depends on network effects. Only a certain number of users will allow for a broad range of available goods which makes the business attractive for users. Therefore, it is crucial to attract enough early adopters before the direct network effect (discussed along various examples during the seminar) kicks in: With an increasing number of users, the platform becomes increasingly valuable to them. For Shario, this is clearly the case.

Second, with regard to revenues, it must be recalled that in the beginning it is crucial to achieve a critical number of users. Market power must be gained, before it can be exercised. Therefore, the three possibilities of monetising the business (advertisement, insurance fees, rental provision) must be applied very carefully and in a modest manner. It is assumed that initially, some years without relevant revenues must be accepted in order to make the business successful in the long term.

Third, the risk of fraud and collusion, in particular in regard to the insurance, must be minimised effectively. This might become the decisive factor for the business' success. If users betray each other on the platform, it is highly likely that the platform's image will go down, it will lose users, and eventually fail. If users collude to commit insurance fraud, the insurance business will make losses and cause the fail of the platform. However, if these issues can be addressed, realistic chances of profitability persist.

4. Identification of region or country where to launch "Shario"

The platform will initially be launched in Germany, for several reasons.

First, Germany allows to access a big potential market only with the German language version of the online platform. Thereby, more than 80 million people can be reached via publishing the application in the German app stores. Second, it is my

impression that in Germany there is already a high level of awareness for the unsustainability of certain patterns in day-to-day consumption and the downsides of owning too many goods. As an example, car and bike sharing has become increasingly popular recently.

Second, it makes sense to launch in the European Union, as for many legal questions the same rules apply. Most relevant, Regulation (EU) 2017/1001 on the European Union trade mark allows for an EU wide protection of the platform's trademarks via the one-stop-shop of the EUIPO. This, in turn, facilitates it to expand the platform to more countries within the EU.

Third, Germany has lots of metropolitan areas. In these areas, the platform is supposed to be more successful than in less populated areas. This is because the high amount of households per square kilometre ensures short ways between lessors and lessees, reducing the side efforts required to realize the actual rent. Moreover, driven by costly rents, living space and, in particular, storage space are scarcities and might prevent people from buying (and storing) goods. Besides that, typically the level of social interaction between neighbours seem to be less frequent and less intense than e.g. in villages. Therefore, the need to bring together "unknown" potential lessors and lessees may be increased in metropolitan areas.

Fourth, I am more familiar with relevant jurisdiction, which allows me to assess legal questions without external lawyers and related cost.

5. Trademark(s) to be used

For the name "Shario", a European Union trademark should be registered, in line with the EU's Trademark Regulation. Here, the above-described advantage comes into play, as protection in the entire EU comes at once. The trademark must be registered with the EUIPO. Despite the fact that the platform starts in Germany, this way of registering trademarks facilitates the expansion to other EU countries tremendously.

Same applies to the logo, for which an EU trademark shall be registered with EUIPO as well. So, name and logo shall enjoy EU wide trademark protection.

6. Intellectual-property protection to be used

There are several aspects of the online platform which can be protected as Intellectual Property.

First and as mentioned, the platform's name "Sharior" shall enjoy trademark protection, being registered with the EUIPO. The same protection should be sought for the platform's logo.

Otherwise, the algorithms behind the platform (e.g. the radius search for offers) as well as the formulae to calculate the insurance fees, shall be protected by trade secret law. This is based on the assumption that the calculation method is not available for patent protection, which would be preferable otherwise. With regard to the protection via trade secret law, there is again the advantage of an EU wide common minimum standard, provided by Directive (EU) 2016/943 on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure. This directive has been transposed into German law via the Trade Secret Act, which ensures a solid level of protection. The existence of the Directive does not make it redundant to check the respective national legislation transposing the Directive before expanding to a country. However, the Directive's provisions can be regarded as a minimum level of protection. By definition, a trade secret 'trade secret' means information which is secret in the sense that it is not, as a body or in the precise configuration and assembly of its components, generally known among or readily accessible to persons within the circles that normally deal with the kind of information in question (1), has commercial value because it is secret (2), and has been subject to reasonable steps under the circumstances, by the person lawfully in control of the information, to keep it secret (3). The calculation formula for the insurance fee meets these requirements. In particular, contractual non-disclosure agreements between Sharior and the involved developers with regard to the calculation method are a reasonable and sufficient step to keep the formula secret.

7. Intellectual-property strategy

As a preliminary note, it is recalled that the business' success is highly dependent from a direct network effect. For this kind of business, it is crucial to become the first

provider of such service, and thereby winning the race for the market. By an convincing, user-friendly design and the direct effect of network, it is assumed that it will be difficult for competitors to become relevant players in the market. This result can be noticed for various businesses, acting in the digital environment, such as several social networks, search engines, chat engines, marketplaces, music streaming and so on. Therefore, market dominance must be achieved in the medium term. To achieve this goal, time is a crucial factor in order to grow faster than potential competitors.

On a second preliminary note, it may be attractive to integrate the whole platform at a later stage into an existing platform (most likely into a platform which allows for the private selling of pre-owned goods).

These considerations strongly influence the strategy with regard to intellectual property.

Generally, the intellectual property assets are not the core of the business' profitability. Certain features (like the "search in surrounding" feature, chat function, contract templates to be completed by ticking boxes, reciprocal evaluation of the parties) are not difficult to implement into an application. Therefore, it does not make much sense to focus on the intellectual property protection of these features. Nor would Shario profit from licencing related intellectual property. Therefore, special attention must be paid to the protection of trade secrets. The developed solutions should be kept secret, to not facilitate and accelerate the rise of rather identical solutions. This is done by agreements with the involved developers and by the statutory protection, provided for by the EU Trade Secret Directive and the related German Trade Secret Act.

To accelerate its own business, it would however be useful to get permissions to use existing algorithms, e.g. the "search in surrounding"-feature that is already existing in a lot of applications. Here, it might be cheaper to buy a licence than developing an own solution. Detailed cost-benefit analysis is needed before deciding on the path to go, but it is assumed that the solution of buying licences for certain, well-established features is superior to own programming. It must be seen whether holders of intellectual property will be willing to licence their features to "Shario", as some

might see “Shario” as a threat to their own business (e.g. platforms which currently provide for the selling of pre-owned goods).

With regard to the formula which provides for the calculation of the insurance fee, the calculation method is subject to protection as a trade secret. It must be noted that the calculation takes into account data which is fully available to Shario itself, e.g. the renting history of the users and their detailed evaluation, but not to third parties. Moreover, by means of implementation of the insurance agreement into the platform, there is hardly any possibility for external insurance providers to take over this service.

At the same time, it is possible that an established insurance provider comes up with a more efficient calculation method with regard to the insurance related sums. In this case, it might be profitable for Shario to refrain from own insurance activity. Rather, Shario might then enter into agreements with insurance providers, allowing them to provide their insurance the same way Shario provided it on the platform. Accordingly, Shario would not gain profits anymore from the insurance activity itself. However, insurance providers might pay a certain fee for the possibility to offer their product on “Shario”. Alternatively, Shario could calculate a procentual fee to any insurance agreement concluded on the platform.

As described, the success of Shario will depend on how fast the number of active users will increase. Against this background, Shario must highly rely on the measure of collaboration with users. Concretely, Shario should be open to “User Innovation”, but in any case assess any proposals to improve the business. In this regard, users’ feedback and the ability to adapt to users’ needs will constitute a crucial factor for future success of the platform.

8. Conclusion

Shario provides a concept which is new on the market. While platforms for private selling are well-known as well in the EU and in the US, there is no relevant market for private renting yet. Shario aims at enabling such private renting by providing an adequate set-up to successfully do so. This set-up entails connecting the parties, providing for user-friendly, standard rental agreements (customizable to a certain

degree by platform users), and providing an user-friendly insurance with regard to the rented goods.

In summary, Shario offers great potential to be profitable. Possible sources of profit are advertising revenue, rental commission, and insurance fees.

The main opportunities for the business lie in rapid market penetration. Once a critical number of users has been exceeded, network effects ensure long-term success.

With regard to intellectual property, the protection of trade secrets is the central instrument of choice. Further functions of the platform can either be developed by the company itself or acquired by means of licenses from other companies. Deciding for one or the other path depends, however, on in-depth analysis of the respective features, in particular of the licence cost against the programming cost of such features. It is assumed that the purchase of licences might be more efficient.

With regard to revenues, it must be recalled that losses are likely for the initial phase after launching the platform. As described above accordingly, the cow must be nurtured before it can be milked. Examples of such strategy can be found all over when looking at the dominant (and partially exploitive) online businesses of our today's world.

In the long term, or sooner if necessary, it may be recommended to sell the business to an existing platform that can integrate the service into its own existing operations. In case that happens, further opportunities open up via the intellectual property already held by the existing company, which may be relevant for Shario to further enhance the platform. In addition, from a consumer's perspective added value may arise from a combination of a selling and a renting platform, enabling the creation of an one-stop-shop for selling, buying and renting goods.

In case of success, Shario will contribute to shifting from a paradigm of exclusive possession to the paradigm of sharing. This is not achieved by requesting an unrealistic level of altruism from the good-owners, but by providing a set-up which is beneficiary for all parties involved.