

SMU489

THE FOUNDING OF FLIPZ: LIVING THE ENTREPRENEURSHIP DREAM?

It was January 2016; Lee Ju Ning had graduated from university six months earlier and was now fixated on growing Flipz, the start-up she co-founded, into a revenue-generating peer-to-peer platform for selling second-hand items. Turning an idea into a reality had taken Lee and her business partner Caden Chan only a weekend, but commercialising it into a profitable and scalable business was undoubtedly more challenging. It was even more complex in a small and saturated market like Hong Kong.

During the first one-and-a-half years, the entrepreneurship journey had been akin to a roller coaster ride for the founders, with the highs of successes quickly followed by the lows of what appeared at times to be insurmountable obstacles. They faced numerous hurdles, ranging from parental disapproval of their career choice, numerous rejections for funding, technical difficulties in app development, and slow user adoption. Despite a successful launch, downloads for their app had slowed down considerably after just three months.

Confronted with these setbacks, a disheartened Lee mused, “Perhaps it is time to move on and get a job in the corporate world.” Was it really time to abandon Flipz?

Hong Kong: A Thriving Start-up Scene

Hong Kong was a Special Administrative Region under China with a population of 7.4 million people occupying a land area of 1,104 square kilometres. It was the fourth most densely populated city in the world in 2015.¹

Consistently ranked among the top five countries for ease of doing business for the period 2011-2016, Hong Kong was a highly conducive place to start a company.² However, its start-up ecosystem was barely existent in the early 2010s.³ In the years that followed, as the government and venture

1 The Statistics Portal, “The Top Fifty Countries with the Highest Population Density Worldwide in 2015”, <https://www.statista.com/statistics/264683/top-fifty-countries-with-the-highest-population-density/>, accessed August 2018.

2 Euromonitor International, “Business Dynamics: Hong Kong”, 2018, via Passport database, accessed August 2018.

3 Jay Kim, “Hong Kong’s Startup Ecosystem Is Thriving - But This Is How It Becomes A Global Hub”, Forbes. May 19, 2017, <https://www.forbes.com/sites/kimjay/2017/05/19/hong-kongs-startup-ecosystem-is-thriving-but-this-is-how-it-becomes-a-global-hub/#7ec724ddb52f>, accessed 7 June 2018.

This case was written by Professor Kenneth Goh and Dr Cheah Sin Mei at the Singapore Management University. The case was prepared solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

capitalists started pouring in funds to support innovation, Hong Kong soon became the hotbed for start-ups.

As of 2016, there were about 2,000 start-ups employing more than 5,000 people, at an estimated value of US\$32 billion, and as the fifth fastest-growing ecosystem, the start-up scene in Hong Kong had finally taken off.⁴

Drawing Inspiration on Starting Up

Immersion in Silicon Valley

In 2014, Lee and Chan were in their final year of university in Hong Kong. As was the case with most of their peers in business school, their post-graduation plans were to pursue a career in professional services, such as finance, accounting, and consulting. However, a one-year work-study stint in Silicon Valley was an eye-opening experience that steered them towards a career in technology entrepreneurship.

During their stay, they were immersed in Silicon Valley's innovation culture and the vibrant start-up ecosystem. In addition to attending classes as part of an exchange programme, they also interned at a start-up where they took on major responsibilities such as managing the entire company's operations. They also had opportunities to network with well-known entrepreneurs and venture capitalists, such as Jack Dorsey, the founder of Twitter, and Mark Zuckerberg, the founder of Facebook. As Lee shared,

It was not just meeting Mark that inspired me to start a technology business. I was also energised by the intense passion, creativity and innovation in Silicon Valley as a whole.

From this experience, they began to see technology entrepreneurship not just as a viable career path, but also as a way to make an impact by using technology to solve societal problems.

A Lucky Break at a Hackathon Competition

Upon her return to Hong Kong in January 2015, Lee explored ideas with Chan that they could work on together. One of the ideas that most excited them was a quicker and simpler way for people to sell their used items. The impetus for this idea stemmed from their own experiences in selling their personal items like electronic devices, clothes, and accessories.

They found the current way of buying and selling used items through online classified advertisements to be a frustrating experience. It was difficult to list items for sale and to search for items. Few sellers took down their listings even after the item had been sold, so buyers never knew if an item was still available or not. Bargaining with potential buyers and sellers was a big turn-off as well. Lee recounted an incident when a seller had turned hostile and had called her personal mobile phone number several times a day to harass her.

⁴ theDesk, "theDesk's Guide to Hong Kong's Startup Ecosystem", January 27, 2018, <https://www.thedesk.com.hk/thedesk-guide-to-hong-kongs-startup-ecosystem-facts-and-figures/>, accessed June 2018.

“There has to be an easier way for people to buy and sell their used items!” insisted Lee. Despite acknowledging the problems of online classifieds, Chan had his reservations that these problems could be resolved through technology. Hong Kong, after all, was a status-conscious society and there was a general aversion towards second-hand items. Furthermore, online marketplaces like eBay had been around for more than a decade but had never become mainstream in Asia.

Lee and Chan decided to resolve this dilemma by taking part in a hackathon, hoping it would allow them to develop their idea and get feedback. The competition was held over a weekend and involved 80 teams vying for a prize of US\$10,000. Teams would pitch their idea to a panel of judges on a Friday evening. The top 20 teams would progress to the next round where they would have 48 hours to build a prototype that was to be demonstrated on Sunday evening. Despite their best efforts, Lee and Chan’s idea for Flipz was placed 22nd.

Fortunately for the duo, two of the finalists merged with two other teams, which boosted Flipz to the last spot in the first shortlist, allowing them to progress to the next round. Lee and Chan worked very hard on developing a prototype of an app that would showcase what they thought were the most distinctive features of their idea – simply snapping a photo and uploading it using a mobile phone would ease the process of listing items for sale and communication between buyers and sellers. The judges were very impressed with their prototype and Lee and Chan’s idea was selected as the winner of the competition. This win convinced them to formally set up Flipz as a company, with the prize money of US\$10,000 as seed funding to further develop the prototype.

Disapproving Parents

Despite winning the hackathon, Lee had trouble convincing her parents to support her decision to become an entrepreneur. Lee came from a middle-class family and had grown up in a comfortable environment. But given the competitive education system in Hong Kong and the rising cost of living, her parents expected her to get a well-paying job after graduation, either in professional services or with a multinational company.

At a family dinner to celebrate her father’s birthday, Lee broke the news to her parents about her decision to join Flipz full-time after graduation. This news was met with confusion and disappointment by her parents. As Lee recounted,

My parents did not take this well. My father was clearly disappointed with my decision and quite upset that I had ruined his birthday celebration. But I reassured my parents that this was just a project I would work on for a year and would join the corporate world after that.

Navigating the Rocky Path of Entrepreneurship

Funding Rejection

Lee and Chan spent their prize money from the hackathon on further developing the prototype. Although they had some coding skills, they needed a development team with stronger coding expertise and decided to outsource development to another software company. Three months into

starting Flipz, they found themselves in need of more funds. They turned to their university as it was providing grants of up to US\$10,000 to technology start-ups founded by recent alumni.

Unfortunately for the Flipz founders, the panel of assessors consisting of investors, entrepreneurs, and professors rejected their grant application citing a lack of novelty and market opportunity. As one assessor put very bluntly,

There is nothing new with this idea. Peer-to-peer marketplaces have been around for more than a decade with the likes of eBay and Craigslist. The fact that neither have become as popular in Asia as they have been in North America clearly shows that there isn't a market for buying someone else's hand-me-downs. Anyone with half a brain can tell you why: It is difficult to list items for sale and to find items to buy in a peer-to-peer marketplace. These marketplaces are very disorganised, unlike a store where items are curated and displays are thoughtfully organised. Scams and personal safety are also a big concern. You can't verify that the item is accurately described by the seller and the person you are meeting could easily steal your items, your money, or worse - harm you physically. Sending items by mail is also difficult because they could get damaged or lost in transit and it will be a mess for buyers and sellers to sort out. Moreover, this is a very limited market space that is already dominated by the major players.

This rejection put Flipz in a precarious position – without the additional funds, they would not be able to continue product development and would have to shut down their operations before the company was even officially incorporated. At the back of her mind, Lee wondered if Flipz was indeed a bad idea and not meant to see the light of day. “Perhaps the hackathon judges had been wrong?”, she speculated.

Nevertheless, Lee and Chan made a desperate last-ditch attempt to secure funding. They cornered the professor who chaired the assessor’s panel as he left the office one day and delivered an elevator pitch about why Flipz should be funded. Moved by the founders’ conviction, the professor decided to take a chance on them and offered them a seed grant of US\$7,000.

Scaling the Learning Curve

Buoyed by the injection of funds, the Flipz team worked towards their next milestone of launching a beta version of their mobile app. “We were first-timers with no formal training on how to design or develop a social app,” remarked Caden. “We had to teach ourselves how to use Photoshop, read about product design, and conduct many user tests.”

Their weekdays were spent developing the product, while weekends were spent at flea markets getting feedback on the design of their app. Each round of feedback led to new iterations, which then had to be tested with users. Lee and Chan also worked tirelessly to convince 80 micro-business owners and the blogshop community to test their app, securing the sale of 800 items before the app’s official launch in October 2015.

Uncertainties after a Successful Launch

Initial user response to the app was overwhelming. By the third day of its launch, the app had close to 10,000 downloads, making it to the top of the free lifestyle app rankings in the iOS App Store.

While winning the hackathon helped to generate buzz around the launch, the founder's frequent visits to flea markets and strong ties to the blogshop community also contributed to its popularity.

Despite the promising start, doubts lingered about whether the rate of adoption could be sustained. "There was a day when we only had seven signups," remarked Lee. "That was rather disappointing even though we already had 400 active users". Lee and Chan debated on how they could extend the app's popularity beyond the targeted group of young adults, and make it appealing to the general population.

Hitting a Growth Plateau

The initial growth in downloads turned out to be short-lived. Three months after its initial launch, the number of daily app downloads had shrunk to single digit. Flipz's founders were faced with a dilemma: Should they increase spending on marketing to raise awareness of their app? They had mostly relied on word-of-mouth to market their app, and perhaps now was the time to promote the app to a broader audience. Showing healthy usage and download statistics was needed to secure the next round of funding. While Lee was supportive of this idea, Chan was insistent that they delay launching the app to a wider market. Explained Chan,

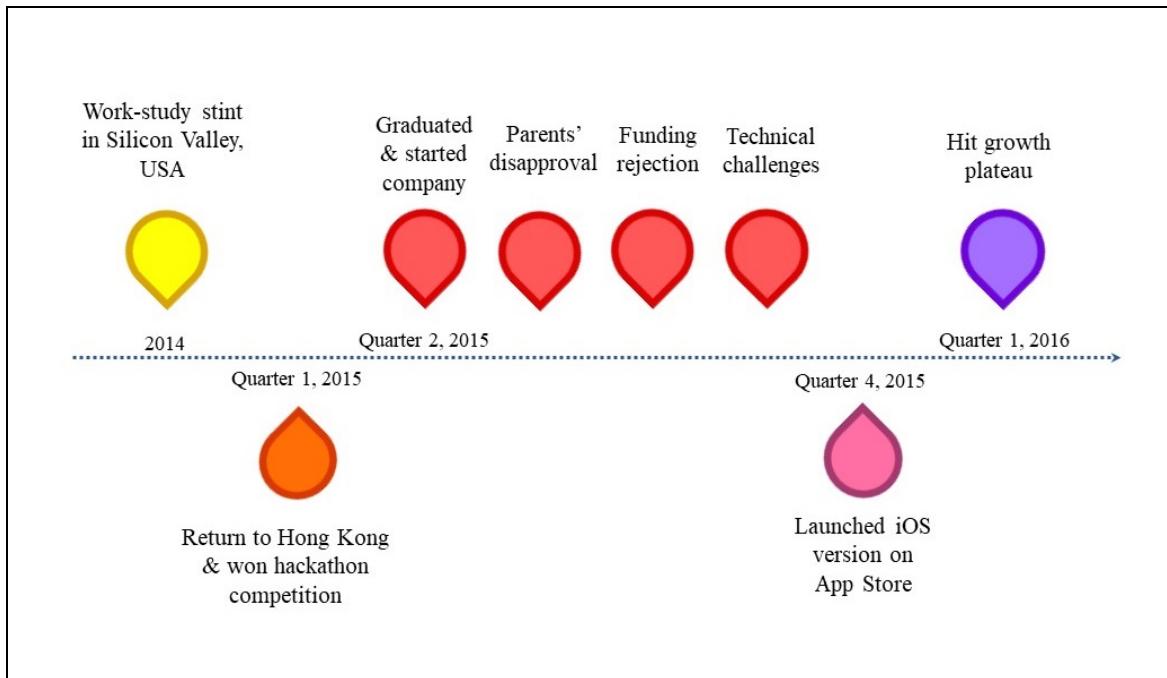
There are still technical and design issues that we need to resolve. Reaching out to a wider audience with all the existing problems will be futile because they will not use the app anyway. Rather than use our funds for marketing, we should use it to speed up product development.

Looking into the Future

Back in her office at the university's start-up incubator, Lee pondered over next steps. They had enough runway for another month of operations before their grant money was completely depleted and their lease at the incubator expired. Both founders had not drawn a salary since Flipz was founded. Lee felt more pressure to become financially independent like many of her peers, and there was the guilt of not being able to contribute financially to her family.

Flipz was also at a critical point as downloads had dipped considerably. The founders had important decisions to make. Lee mulled over her options, "Should we use our remaining funds on marketing or product development? Perhaps it may even be time to call it a day and move on with our careers while it is not too late."

EXHIBIT 1: FLIPZ'S ENTREPRENEURIAL JOURNEY



Author's concept diagram