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BLUE OCEAN STRATEGY

Applied for Chinese Online M&A Platforms Industry

Term Paper

Innovation Management

handed in to
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List of abbreviations

BOS	Blue Ocean Strategy
CGO	Chief digital officer
COO	Chief operating officer
DB	Deutsche Bank
DBLs	Deutsche Bank Labs
DCS	DealGlobe Connect System
DG	DealGlobe
IB	Investment Bank
KPI	key performance indicator
M&A	Mergers and Acquisitions
MWG	Morning Whistle Group
PE Funds	Private Equity Funds
PRC	People's Republic of China
SMEs	Small and Medium Size Enterprises

1 Introduction

For a long time, M&A deal sourcing has been an inefficient process. Since 18th century, Advisors have relied on expert knowledge and vast personal networks to source deals. However, due to the trend of globalization, these networks are limited: an advisor find it hard to know the perfect acquirer in Southeast Asia or Middle East, or the right Chinese buyer for an European firm.

Not only does information asymmetry for cross-border deals exist, there are speed barriers, language barriers, trust & reliability barriers, as well as the fact that some hidden gems are just hard to find (The Economist, 2014). Currently, as more dealmakers and deal activity are using online M&A platform, it becomes increasingly important for M&A professionals to incorporate online deal sourcing into their broader dealmaking strategies (Intralinks, 2015).

This paper attempts to use BOS as theoretical basis to analyse and examine the two Chinese online M&A platforms. In addition, this paper will also introduce the creative steps for conducting a productive BOS. Furthermore, Deutsche Bank FinTech development will also be mentioned and will be analyzed through BOS. In the end, opionions about what DG and MWG do, how they perform, and where they could go will be expressed.

The paper is organised as follows: In section 2, I will introduce two Chinese online deal-sourcing platforms. In section 3, I will give the overall look of BOS, which including its definition, key analysis tools and six key principles. In section 4, I will build up a link between BOS and two Chinese online M&A platforms, and try to use BOS theory to explain and examine the two Chinese startups. In section 5, I will introduce Deutsche Bank FinTech Strategy, and try to use BOS to analyse and examine its development and enhance its execution. Result and outlook about the paper are in section 6.

2 Background of companies in this industry

2.1 Market

To start the topic of the market of online M&A and analytic platform, a survey conducted by Intralinks can be a strong argument to analyze the overall opinions from public to this new industry from worldwide (Intralinks, 2015).

Intralinks is a leading virtual data room for serving M&A community to simplify and accelerate the deal process with 20 years history. Intralinks started a global survey in 2013 to understand how technology and specialized deal networks impact M&A deal sourcing. Later in December of 2015, Intralinks conducted a follow-up survey to measure how attitudes towards, and adoption of, these technologies have changed over the last two years. Over 700 dealmakers from worldwide have participated in this survey, the conclusions are showed as follows:

- *Cognized value of online deal sourcing is growing*
- *Online deal sourcing is becoming mainstream in the market*
- *Online deal sourcing has succeeded in closing transactions*
- *Conventional social media platforms are losing favor*

In America, online deal sourcing industry has been developed over 20 years. But in China it is almost a blank market (ibid.). According to J.P. Morgan's report in 2016, China becomes the most dynamic market in M&A, especially for the oversea investments (J.P. Morgan, 2016). MWG's founder, Yunfan Wang believes that China is setting off a world's sixth wave of M&A. Different from the former five waves of M&A in the world, the major player of the sixth wave is China. Chinese capital is expected to create a new history of M&A (Mr. Wang, Y. 2017, pers.comm., 10 January).

In following parts, there are two Chinese online M&A platforms will be described in details. As most of Chinese online deal sourcing businesses are start-ups, and most of which have developed for less than 4 years, they are currently still in Venture Capital financing stage, so called "burning money", which is a very common phenomenon in China for internet start-ups (ibid.). In view of such situation, financial data of these firms are not available, but some KPIs in the following parts will be mentioned in details.

2.2 Development of companies over time

DealGlobe: The first company will be introduced is DealGlobe. DealGlobe is a online deal sourcing platform launched in China and Europe for helping Chinese businesses undertake and succeed in Cross-border M&A (DealGlobe Company Website).

DealGlobe's founder, Lin Feng, who worked before on sourcing assets on the internet at Summit Partners, during that time, he started to think that the internet and technology could play important roles in M&A, especially giving the huge ammounts of „digitally connected“ population in China. Later on, Lin Feng met technology entrepreneur Alan Buxton in order to validate the concept of digitally focused M&A and founded it workable in both technogically and marketable. In February 2014, Mr. Feng founded DealGlobe with Alan and Diane Liu as co-founders (ibid.).

In December 2014, DealGlobe and DG China opened their main office in Shanghai and technology support office in Beijing. The Mandarin version of DealGlobe system was first launched in March 2015; one month later, English version could be used for foreign investors. The UK Trade & Investment Sirius Programme was very supportive in the early development of DealGlobe, with DealGlobe receiving a 2015 UKTI Outstanding Achievement award (ibid.).

Morning Whistle Group: is also an online platform that offer information on cross-border investment and overseas M&A and founded by Yunfan Wang 3 years ago. Unlike DealGlobe's founder Lin Feng, Mr. Wang was a Journalist instead of an investment banker before started his own business. Thus, he is more focus on exploring ideas, data, new generation of information technology, cross-border M&A investment in information infrastructure. These services cater to the transaction buyers such as Chinese government, enterprises, and buyout funds, sellers such as foreign governments, enterprises, and private equity funds, and professional institutions such as investment banks, law firms, accounting firms, financial adviser companies, and commercial banks (Mr. Wang, Y. 2017, pers.comm., 10 January).

Wang’s start-up story is a typical one of transforming from journalists to entrepreneurs in China. He was an associate editor in „21st Century Business Herald“ before he founded Morning Whistle Group, the No. 1 financial media in China. Different from ordinary people, journalists are more sensitive to information. The trigger point of starting the business is a report that Wang was responsible for. At that time just after European debt crisis, his media company published a report of privatisation of Greece’s 50 billion state-owned assets. Then he got two phone calls from a Chinese state-owned insurance company and a private company in Zhejiang, China. These two firms were complained about they have intention to do oversea investment but no channels at all (ibid.).

At that time European assets were comparatively cheap due to european debt crisis. These two phone calls gave Yunfan Wang two feelings: 1, There were hardly any channels of oversea investments to Chinese state-owned companies. 2, The Chinese private companies have already the intention and ability to invest in oversea markets. Therefore, he determined that China’s development will bring huge market demand on cross-border M&A. The market existed severe information asymmetry and services vaccum, which makes the information related to deal be most valuable (ibid.).

Yunfan Wang and his partners founded MWG by the end of year 2013, the new start-up is strategically positioned to offer news and one-stop services for cross-border M&A. 3 years later, MWG has been able to grow as biggest online M&A platform in China, counts cross-border information and knowledge plattform (Morning Whistle website), global assets trading platform (ChinaMerger) and six terminal informatiques among its units (Morningwhistle Company Website).

2.3 Business model

The target groups of Morning Whistle Group are composed of buy-sides, sell-sides and professional associations. Sell-sides are project investments and the company sellers, refering mainly to overseas governments, enterprises and PE funds. Buy-sides mean investments and acquirers, they consist mainly of Chinese governments, enterprises and M&A funds. Professional associations include investment banks, law firms, accounting firms, Corporate Finance and commercial banks. Their products and services consist of four major parts, they are Information platform – Morning Whistle, projects platform – ChinaMerger, Research Reports, market activities, and Morning Whistle think tank (ibid.).

Differ from Morning Whistle Group, DealGlobe are more focus on consulting services and matching technologies, in other words, they give more weight to premium, private services rather than information & knowledge spreading. DG services consist of two layers: DealGlobe and DG Capital. DealGlobe is classfield in two platforms. One is DCS (Deal Connect System): giving the online tools and information services, the system provides a secure, concise and globally way to interact with Chinese buyers for sell-side advisors and asset owners. The service is free to use for sell-side members meeting the qualificated requirements. Another is DG Marketplace: offers free services for third parties to connect from buy-side & sell-side but doesn't provide access to the DCS and Chinese buyers. DG Capital services are separated into three parts as a tranditional Corporate Finance, they are buy-side advisory in representing Chinese clients, M&A financing solution for Chinese investors, and sell-side advisor for oveaseas PE, investment banks and asset owners (DealGlobe Company Website).

From the perspective of business model, with aggregating Chinese enterprises resources as more as possible, MWG's business activities are rooted in China, and pay more attention to information & knowledge services and preliminary investment banking services. DG looked more like a traditional corporate finance with the help of maximizing network utility in using online deal platform, meanwhile, its team building is more international.

The different strategy between these two firms result in different profit model, DG generates revenues mainly through online commission fees and offline consulting fees (Mr. Feng, L. 2017, pers.comm., 7 January). But MWG place emphasis on charging fees of subscription, advertising, knowledge spreading and resource accessing. The both had one common: their utimate aim is to charge membership fees (Mr. Wang, Y. 2017, pers.comm., 10 January).

The both firms also received financial supports from some large enterprises associations. In addition to this, the Chinese Ministry of Commerce, China Ministry of Industry and other departments have offered varying degrees of support.

2.4 Key Performance Indicators of two start-ups

DealGlobe: Until to the beginning of 2017, DG owned over than 3500 members globally and more than 1500 members in Europe. More than 500 Chinese buyers have subscribed DG's customized services. And their projects reserves covered over than 50 countries. From 3 people in September 2014 the DealGlobe team today numbers over 40 people. Except for charging these subscription fees and offline consulting fees, it has also received financial support from the UK Department of Trade and Investment and the British Trade Association (Mr. Feng, L. 2017, pers.comm., 7 January).

Morning Whistle Group: Until to the beginning of 2017, MWG owned 5621 subscribed Chinese buyers, 4648 overseas sellers, and 11320 overseas projects reserves are coverd in 93 countries. From 3 co-founders in September 2013 the overall team members are 89 people now. Except for the general subscription fees and advertising fees, MWG has successfully charged annual member fees from 55 Chinese buyer with 0.2 million RMB, which count ca. 1% of overall subscribed Chinese buyers. Furthermore, it has also reveived varying degrees of support from some well-known Chinese financial institutions, consulting firms, big four accounting firms and some other M&A houses (Mr. Wang, Y. 2017, pers.comm., 10 January).

3 Blue Ocean Strategy

3.1 Definition of Blue Ocean Strategy

This paper will use Blue Ocean Strategy as the theoretical background, and introduce its analytical tools and six key principles.

BOS is a strategic approach of distruptive innovation. The goal of BOS is to create a new market space (blue ocean) yet keep costs low, but not to out-perform the competition in the existing industry (red ocean). The main ideas of BOS are all about value innovation: promoting value for buyers while driving down costs for companies. Dialing up value for buyer means raising and creating elements the industry has never offered. Reducing costs stands for elimating and reducing the factors of current industry competition, and achieving scale ecomomies via higher sale volume. It tells firms that the best way to beat competition is to capture new demand, make the competition irrelevant, break the value-cost trade-off, and align the whole system of a firm's activities in pursuit of differentiation and low cost. (Kim et al., 2005, Page 1-3)

BOS gives a key question to entrepreneurs: Why do some companies succeed in creating new market space while others fail? The book found: first, the great firms fail because they are short-sighted on existing market and relustance of change. Second, the profit and growth consequences of creating new market spaces are significantly higher. And third, market spaces can be created by all types of companies in all types of industries (ibid.).

3.2 Blue Ocean Analytical tools

Strategic canvas is a diagnostic tool of building up a BOS. Drawing a productive strategic canva need to get three things done. Firstly, it should show the strategic profile of an industry by listing the factors very clearly (including possible future factors) that affect competition among industry players. Secondly, based on listed factors and strategic profile of current and potential competitors, manager should identify which factors they invest in strategically. Finally, drawing the value curve to show details of how strategy canvas invest in factors in the current competition, even in the future (Kim et al., 2005, Page 23-45)

Four actions framework: To craft a new value curve, managers usually have to anwser four questions, so called here the four actions framework:

- *Eliminate: which of the factors that the industry takes for granted should be eliminated?*
- *Reduce: which factors should be reduced well below the industry's standard?*
- *Raise: which factors should be raised well above the industry's standard?*
- *Create: which factors should be created that the industry has never offered?*

The Four actions framewok is a key tool to identify the actions towards creating a new value curve. Eliminate and Reduce represent the factors that manager should reduce and eliminate strategically thus reducing costs, Create and Raise are the factors that manager should invest in (ibid.).

Three characteristics: Finally, a good BOS should consist of three characteristics, they are focus, divergence, and a compelling tagline. Specifically, company should not diffuse its efforts across all key factors of competitions, but instead shaping of its value curve diverges from other players based on looking across alternatives, until the compelling tagline is clear and relevant (ibid.).

3.3 Six Principles to create a BOS

There are six principles of formulating and executing BOS that allow companies to break from the competition and unlock uncontested market (Blue Ocean). The six paths are attempt to redress six assuptions that keep companies competing in red oceans (Kim et al., 2005, Page 45-47). Specifically, six assumptions are showed as following:

- *Define their industry similarly and focus on being the best within it*
- *Look at their industries through the lens of generally accepted strategic groups, and strive to stand out in the strategic group they play in*
- *Focus on the same buyer group, be it the purchaser (as in the office equipment industry), the user (as in the clothing industry), or the influencer (as in the pharmaceutical industry)*
- *Define the scope of the products and services offered by their industry similarly*
- *Accept their industry's functional or emotional orientation*
- *Focus on the same point in time—and often on current competitive threats—in formulating strategy*

The six principles will be introduced separately in details to correct above assumptions (ibid.).

1. Principle: the SIX PATHS to reconstruct market boundaries: The first principle of BOS is to reconstruct market boundaries, which is try to solve search risk many firms struggle with. Based on this issue the book found six paths framework to remarking market boundaries instead of looking within these boundaries. Specifically, to break out of the accepted boundaries, top management should look across alternative industries, across strategic groups, across buyer groups, across complementary product and service offerings, across the functional-emotional orientation of an industry, and even across time (Kim et al., 2005, Page 47-80).

PATH 1: Look across alternative industries: means that the company dosen't only competes with other companies in same industry but also with those other companies in various industries that produce alternative products or services. But what do *alternatives* mean? In the one hand, products or services have various forms but provide the same function, which means these products or services are largely substites for each other. In the other hand, alternatives also mean products or services that own different functions and forms but the same purpose.

PATH 2: Look across strategic groups within industry: just as BOS can often be used by looking across alternative industries, they can be unlocked by looking across strategic groups. Strategic group stands for a group of companies within an industry that persue a similar strategy. The determination of same strategy group are mostly based on 2 dimensions: price and performance. In this respect, the key to look across existing strategic groups is to break out of narrow field of vision by understanding which factors determine customers' decisions to trade up or down from one group to another.

PATH 3: Redefines the industry buyer group: In reality, for most industries it's hard to find a definition of who the target buyer is, though, there are chain of buyers who directly or indirectly involved in the actual perchase decision. These chain of buyers are involved in purchasers, users and important influencers. Somehow these three groups may overlapp, but they often differ. Thus, managers should redefine the industry buyer group, but not only focus on buyers.

PATH 4: Look across to complementary product and service offering: In most cases, some other products or services for a company, which not belong to their core products or servicies, affect their customers' purchasing behaviors. So, finding untapped value in complementary products and services is a key to define total solutions. That is, manager should think about what happens before, during, after the products or services are used and offered. Most importantly, they have to find what are the pain points and how can they eliminate them through a complementary offering.

PATH 5: Rethink the functional-emotional orientation of the industry: Except for products or services, companies in an industry also compete on appeal. The appeal is usually divided in rational appeal and emotional appeal, specifically, some industries compete strongly on price and function, other industries compete pricipally on feelings. In order to create a blue ocean, manager should redefine or challenge functional-emotional orientation of their industry, which means if their companies compete on emotions in an industry, the managers have to find the elements that perhaps can stripe out to become more functional and vice versa.

PATH 6: Participates in shaping external trends over time: Most industries or companies are subject to external trends or einrivoments. Based on observable current insights, proactively identifies how trends will change value to customers over time is a key question can show manager how to create a blue ocean opportunities. Decisive to business, irrevesible and clear direction are three principles, which are critical for company to assess trends over time. Managers should know how will these external factors impact the industry and how can they leverage them?

2. Principal: focus on big picture, beyond numbers. This principle is trying to mitigating the planning risk of investing a lot of efforts, time, capital and resources but achieving only tactical red ocean moves. It tends to reach a common understanding of current position and where to head to based on drawing a strategy canvas. This approach will align the creativity of a wide range of people within an organization, bring a strategy the best practices communicated across business units, make the strategy easy for execution, untill blue ocean be created. In order to unlock people's creativity, the process of creating BOS involves a lot of visual stimulation, which has four major steps, they are visual awakening (As-Is Analysis), visual exploration (6 paths framework & identify divergent factors), Strategy fair (4 actions framework & To-Be strategic), and visual communication (before-and-after comparison & focus). Specific to corporate strategy, manager can use the pioneer-migator-settler map as viualization tool for mapping growth potential of portfolio (Kim et al., 2005, Page 81-100).

3. Principal: Reach beyond existing demand. In most cases, as companies used to embracing customer preferences through finer segmentation in a competitive enviroment, they often face the risk of creating too small target markets. This principal is trying to minimize the scale risk by maximizing the demand for a new offering. To accomplish this, manager should challenge two convetional strategy practices of focusing on existing customers and finer segmentation, instead accomodating buyer preferences and thinking commonalities over differences; noncustomers before customers; and desegmentation before persuing finer segmentation. Unlocking noncustomers offers big blue ocean opportunities , there are three tiers of noncustomers that can be transformed into customers based on differ of their relative distance from target market, they are “Soon to be” noncustomers (tier 1), “Refusing” noncustomers (tier 2), and “unexplored” noncustomers (tier 3). All in all, manager should not focus on a specific tier but should look across tiers instead. The rules here is to focus on the tier that represents the biggest catchment at the time in their industry. But they should also explore whether there are overlapping commonalities across all three tiers of noncustomers (Kim et al., 2005, Page 101-116).

4. Principal: Get the strategic sequence right. This principal is trying to put forward the strategic sequence and validate a commercially viable blue ocean idea. Company should build it’s BOS in the sequence of buyer utility, price, cost and adoption (Kim et al., 2005, Page 117-146).

5. Principal: Overcome key organizational hurdles. Compared with red ocean strategy, BOS represents a big difference from the status quo. So the challenge of execution exists, which brings four hurdles. The first hurdle is from cognitive: waking those employees up whom feel uncomfortable of shifting certain strategy. The second hurdle is limited resources. The third is motivational hurdle due to unmotivated staff. The final hurdle is politics, any reform will bring opposition from some powerful vested interests. But tipping point leadership is a productive approach to overcome these four hurdles fast in executing a break from statos (Kim et al., 2005, Page 147-171).

6. Principal: Build Execution into Strategy. A successed execution of BOS is not only up to top management, but to everyone from the top to the front lines. The more removed people are from the top and the less they have been involved in the execution of the strategy. This principal can help managers to minimize the management risk of distrust, noncooperation and even sabotage, so introduction of a fair process is a key part in executing of strategy. There are three core elements that define E principles of fair process: engagement (involving individuals into strategy), explanation (everyone should be explained), and clarity of expectation (state clearly the new rules of the game) (Kim et al., 2005, Page 171-185).

4 BOS and Chinese Online M&A Platforms

To link the Chinese online M&A platforms and the BOS, we will focus on big picture in Three steps (Principle 2) /Kim et al., 2005, Page 81-100):

I. Define Phase: Define competitive factors, key players and their strategic profiles in the Chinese M&A service sector

II. Identify Phase: Use Six Paths Framework to redefine market boundaries and identify divergent factors (Principle 1 and Principle 3)

III. Establishment Phase: Use Four Actions Framework to construct the new value curve

I. Define Phase: In the case of the Chinese M&A services industry, there are 9 principal factors (Factors of Competition):

- Geographies: Global reach and local on the ground
- Sectors: Complete coverage
- Relationships: SMEs and large Corporates
- Transaction strategy and Execution services: Buy-/Sell-side M&A Execution, Coporate strategy advisory, Due Diligence, Independent capital advisory, legal advise
- Online services: Information & Knowledge spreading, Online Deal sourcing and matching
- Technology: cloud-based live deal marketplace
- Price: commision fees, consulting fees, subscribtion fees and membership fees
- Researches: research reports on countries, sectors and single company
- Market activities: M&A Salon and customized market activities.

These factors are viewed as key to the promotion of their M&A services as more exclusive advisory services for the customers. Those clients, in this case, represent large Corporates (state-owned-, listed- and multinational companies) and SMEs (mostly private companies) in China. That is the underlying structure of the Chinese M&A consulting service industry from the market perspective. Vertical axis of the strategy canvas captures the offering level that customer receive across all these key competing factors. A high score means that a company offers customers more, and hence invests more, in that factor.

II. Identify Phase: There were more than three hundred M&A advisories participate in the Chinese M&A service industry, but we can simply classify them as big four accounting firms, Boutique M&A Advisors, Bulge Bracket Banks and large Chinese securities firms according to their scale and scope of services (imaa, 2016). Big four are the four largest accounting firms in the world, they offering audit, consulting, advisory, assurance, tax, actualrial, corporate finance and legal services (Christodoulou, 2011, Page 5-7). A boutique M&A Advosors are the non-full service investment bank that specializes only in M&A services (Hutchinson, 2009). Bulge Bracket Banks include world's largest and most profitable multi-national investment banks whose investment banking clients are mostly large corporations, institutions, and governments (Wall Street Journal, 2009). Chinese secrurities firms include firms whose principal lines of business are in securities brokerage, financial advisory services, investment banking and/or securities trading (Gao, 2011, Page 11-15).

To fundamentally shift the strategy canvas of Chinese M&A service and persue both value and cost, DG and MWG resist the old logic of competiting with local and gobal M&A houses and choosing between high-quality service and low charged fees. By contrast, DG and MWG reoriented their strategic focus from looking competitors in M&A service industry to information sector (look across alternative industries), from serving Large Corporates to SMEs (look across strategic groups within industry), from helping non-financial enterprises to all involved parties including their main competitors such as financial institutions and M&A houses (redefine industry buyer group), from conventional corporate finance services to Information & Knowledge spreading- and online deal matching services (look across to complementary service offering), and from functional orientation to emotional orientation, furthermore, they are participating in shaping external trends over time. Thus, they gain insight into how to redefine the problem the industry focuses on and thereby reconstruct client value elements that reside across industry boundaries.

III. Establishment Phase: By driving DG and MWG to fill in Four Actions Framework with actions of eliminating, reducing, raising and creating, which are displicted as follows:

- **Eliminate**: Relationships with Large Corporates, Due Diligence, Legal Advice
- **Reduce**: M&A execution, Corporte Strategy Advisory, Independent Capital Advisory, Price
- **Raise**: Global reach, Sectors coverage, Relationships with SMEs, Information & Knowledge Spreading, Technology of cloud-based live deal
- **Create**: Online Deal Sourcing and Matching

Figure 1 shows the extent to which the application of these four actions led to break from the competition in the Chinese M&A service industry. Here we can graphically compare DG and MWG's BOS with the more than three hundred key players competiting in the industry (imaa, 2016).

By looking across to complementary service offering and looking to alternative industries, DG and MWG created a new factor in the sector – Online Deal Sourcing and Matching based on the technology of cloud-based live deal marketplace, which offers the Chinese enterprises the easy access to the high-quality overseas assets and projects by charging low subscribtion fees, and raised the services of Information & Knowledge spreading, through this services, Chinese enterprises got more red-hot news and professional insights regarding overseas investments projects from all over the world and all sectors, which shaped the great global reach and the extensive sectors coverage. Therefore, they eliminated and reduced the specific services related to Transaction strategy and M&A Execuion, which leads to low charged fees and less competition.

By looking across strategic groups within industry and redefining industry buyer, DG and MWG established and maintained friendly and productive relationships with SMEs, since other M&A advisors usually charge extreme high commision fees to their customer (generally from 2% until to 7% based on overall deal volume), which caused a significant burdle to SMEs. In addition, the both Chinese emerge online M&A platforms reached beyond existing demand by redefining the stratgic buyer goups. As MWG only offers preliminary investment banking services, which leave a big room for other M&A advisors of providing more specific and professional services to enterprises, this allows MWG transformed other competitors in the market into the customers.

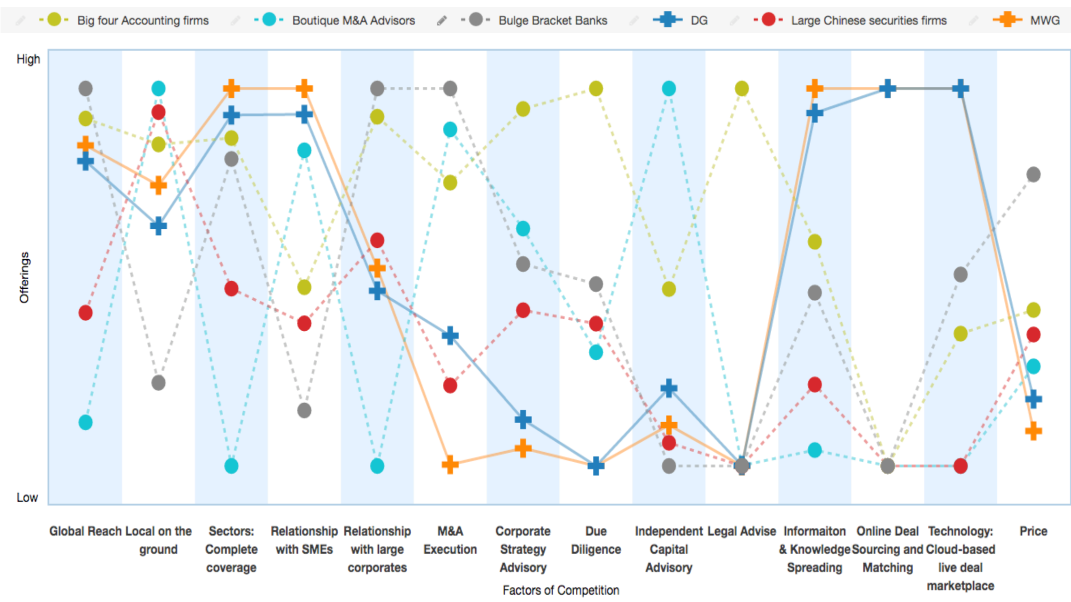

Figure 1: *The Strategy Canvas of DG and MWG (Own representation based on W. Chan Kim and Renée Mauborgne, 2005)*

5 Blue Ocean Strategy and Deutsche Bank FinTech Development

5.1 Background Information of Deutsche Band FinTech Strategy and its Innovation Pipeline Management

Financial Technology, nowadays so called "intech", describes a business that aims at providing financial services by making use of software and modern technology.

Today, fintech companies directly compete with banks in most areas of the financial sector to sell financial services and solutionns to customers. Mostly due to regulatory reasons and their internal structures, banks still struggle to keep up with fintech startups in terms of innovation speed. Fintechs have realized early that financial services of all kinds – including money transferring, lending, investing, payments and so on – need to seamlessly integrate in the lives of the tech-savvy and sophisitcated customers of today to stay relevant in a world where business and private life become increasingly digitalized (Aldridge etl., 2017, Page 1-3).

Especially millenials (people born between approx. the early 80s and late 90s) and the following generations prefer quick and easy banking services rather than walking to a branch, making appointments with bank consultants and lenghty processes setting up accounts or putting together a portfolio (Dapp, 2014, Page 3-7).

In this environment, DB launched Deutsche Bank Labs (DBL), it is a shared platform for innovation, and aim to accelerate the quick adoption of various new innovation technologies in the digital age. The labs form part of the digital element of Strategy 2020, under which the Bank plans to spend up to EUR 1 billion on digital initiatives over the next five years. Through broadening relationships with external technology startups, deepening partnerships within the innovation ecosystems, and providing the ability to conduct rapid experimentation, DBL could enhance DB’s internal innovation capacities. DB has chosen to build labs both in the leading centers of entrepreneurships: Silicon Valley, London and Berlin, and in their hub location: Frankfurt, New York and Bangalore. (Praetzas, 2016, Page 1-15)

In the following parts, I will try to use BOS to analyse and examine its development and enhance its execution.

5.2 Three principles of BOS of assessing external trends

There is a saying being popular in SIX PATHS of BOS: *Participates in shaping external trends over time.* Two types of firms exist in this changing world. One is affected by external trend. Another could proactively identify the external trends according to their observable current insights, thus, they have enabled them to stay well ahead of competitors. DB is such a proactive company in case of Fintech Innovation Pipeline Management. In this case, we will use three principles in BOS for assessing external trends over time, they are Decisive to business, irrevesible and clear direction (Kim etal., 2005, Page 40-45). Managers should know how will these external factors impact the industry and how can they leverage them?

Decisive to business: DB identified the external megatrends with a deep understanding for younger millennials, whom are more likely to use mobile devicies when interacting with their banks. A survey conducted by Oracle Financial Services showed that more than 68% of all millennials say desktop or mobile is their most frequent channel of interaction with their banks (). The result inspired banks that the developement of technologies both on desktop and mobile are decisive to their business (Praetzas, 2016, Page 1-5).

Irrevesible: With the development of technology and financial services, there were more than 1 million FinTech startups on the market as of today all over the world, this sends a signal: This is a irrevesive trend for banks to dealing with FinTech companies (ibid.).

Clear direction: A Global FinTech Survey published by PWC answered a quesition: How are you currently dealing with FinTech companies? The three highest ranked solutions are „we engage in joint partnerships with FinTech companies“ (32%), „we do not deal with FinTech“ (25%), and „we buy and sell services to FinTech companies“(22%). Giving the precondition of irrevesive trend with developing FinTech, the solution of joint partnerships giving DB a clear direction to dealing with FinTech (ibid.).

5.3 Three characteristics of accessing a good strategy

In BOS, a good strategy should consist of three characteristics, they are focus, divergence, and a compelling tagline. In case that DB finds the suitable solution of building relationship with FinTech companies. DB didn’t diffuse its efforts across all ways of dealing with FinTech, such as acquiring FinTech, launching own FinTech subsidiaries, setting up venture funds to fund FinTech services, and buying and selling services to FinTech companies.

Based on rethinking functional-emotional orientation of FinTech, DB shaped of its value curve diverges_from other ways by engaging in joint partnerships with FinTech companies, thus gives more flexibility and imaginary space to its joint start-ups, and better adopt to internal Bank business lines (Kim et al., 2005, Page 23-45).

Finally, DB came up with a clearly and relavantive tagline: Discover, Connect and Executive.

5.4 Get the strategic sequence right.

As mentioned in fourth principal of BOS, companies need to build their BOS in the sequence of customer utility, price, cost and adoption (Kim etal., 2005, Page 117-146).

Customer utility: The starting point is customer utility. Does DBL offerring unlock exceptional customer utility? Is there a compelling reason for the mass of people to use its products and services? The anwser is an unequivocal „yes", as mentioned before, the millenials are more likely to use desktop or mobile devices for getting quick and easy banking services over walking to a branch, appointments with bank consultants. DBLs are currently focused on several emerging technology themes which are highly relevant to financial services, such as digital retail banking, Machine learning, cloud technology and services, API economy, Cyber security, and distributed ledger. These new technologies will definitely embrace DB's internal technology innovation as a source of future differentiated value to their clients (ibid.).

Price: The key question here is this: Is DB's innovative financial services with technologies offering priced to attract the mass of target customers so that they can pay less money for DB's services? By eliminating or reducing intermediary agents and physical-distributions with using various modern technologies related to financial services and trading, FinTech charge the lower fees than convertinal banks, which let the millennials have a compelling ability to pay for DB's offering (Dapp, 2015, 7-13).

Cost: Can DB produce their offering at the target cost and still earn a healthy profit margin? The 2016 edition of McKinsey's annual report on Capital Markets and Investment Banking found that extensive job cuts have not resulted in decreases in operational costs in the industry, This is because, when banks cut jobs, there are some costs related to those roles that remain. In addition, these banks are removing people that generate revenue, and that leaves a smaller base from which to cover fixed costs. McKinsey suggests that banks should look to increase digitization to achieve savings. The economic advantages of digital distribution over physical distribution are one of the primary advantages for fintech firms. According to McKinsey, many fintech lenders have up to a 400-basis-point cost advantage over banks because they have no physical-distribution costs. This cost advantage enables fintech firms to pass savings to customers with regard to cost and time to process loan applications (McKinsey, 2016, Page 14-21).

Adoption: The last step is to address adoption hurdles. What are the adoption hurdles in rolling out FinTech? Can DB address these up front? There are four approaches or options for banks to the FinTech challenges, they are Buy, Build, Compete and Partnership, and DB adopted partnership (Skan et al., 2015, Page 4-6):

- **Buy:** Many banks have been actively investing in or absorbing startups. But it is difficult to success since slow decision-making in banks and a clash of cultures (European Commission, 2015, Page 7-13).
- **Build:** A number of banks are examining the methods employed by tech leaders like Amazon, Spotify, Google and Zappos, to imitate their prowess at innovation, flexibility and speed to market. However changing employee behaviors is a major challenge (Accenture, 2015, Page 6-11).
- **Compete:** Advocated by Harvard professor Clayton Christensen in his book, The Innovator's Dilemma, this stance suggests that the banks' digital channels can compete directly with branches and independent financial advisors. While many banks chosen this route, while also investing in FinTechs, they may struggle to overcome conservative behavior patterns. But intense competition locks those banks in the red ocean, which costs money, resources and energy (ibid.).
- **Partnership:** DB highlights that one way banks can achieve digitization is by partnering with fintechs. On the one hand, such a relationship would

ensure full support from the bank partner and access to their client-base. Yet exclusivity can limit the potential for growth in other markets, and of course with other banks. In accelerator-type relationships, for example, the trade-off for receiving investment may be a bank equity stake in the fintech company – a decision that can have long-term implications. Ideally, a fintech would partner with an institution that is fully engaged but open to further collaboration where it is necessary to support the growth of both the fintech and partnership solution. For example, the fintech-bank might engage new players to roll out an offering in a region where the bank lacks a local footprint. Regardless, these decisions need to be made and agreed upon by all stakeholders early on in the partnership process, and must remain closely aligned to the fintech's five- and 10-year plans throughout (Skan et al., 2015, Page 4-13).

5.5 Build Execution into Strategy.

A successed execution of FinTech strategy is not only up to top management in DB, like their COO or CGO, but to staffs from the top to the front lines. There are three core elements that DB should consider to better exucute their FinTech strategy: engagement (involving individuals into strategy), explanation (everyone should be explained), and clarity of expectation (state clearly the new rules of the game) (Kim etal., 2005, Page 171-184).

Engagement: DB set up DBLs for indentiying the suitable FinTech startups, staff from the DB will engage with start-ups and academic institutions to evaluate potential technology solutions for the Bank and its clients' business needs. They will then trial and develop this technology further in the labs, collaborating with clients where appropriate. Such a process encourage everyone's thinking and builds better colletive wisdom, and results in better strategic decision by management and greater commitment from all involved to execute those decisions (Dapp, 2015, Page 6-23).

Explanation: DB should present everyone the meaning and important of thier FinTech strategy whom involved and affected in the project, for example hold the roundtable discussions, seminars or internal presentations. The deep understanding of FinTech allows employees to trust manager's intentions, and make them more confident that managers have considered thier opionions.

Clarity of expectation: DB managers should state clearly the details of their FinTech strategy and innovation pipeline management. First of all, the clearly goal and mission are required: *The accelerating pace of technology innovation combined with massive investment is causing disruption across most industries. New market participants are in many cases challenging established incumbents. Deutsche Bank is embracing technology innovation as a source of future differentiated value to our clients.* Secondly, setting up the DBLs and nominating top management let the people know who is responsible for it is also extremly important.

Putting the above three collectively lead to judgments of fair process, This inspires them to cooperate voluntarily in executing the resulting strategic decisions.

6 Summary of results and outlook

3 years ago, Yunfan Wang found the painpoints that Chinese enterprises are hardly to find the investment channels towards overseas market. 2 years ago, as Lin Feng worked at sourcing deal online, he started to think about building up an online deal sourcing plarform for helping Chinese buyers reach suitable oversea markets and overseas projects find the serious Chinese acquirers.

Through using six paths to reconstruct market boundaries, MWG and DG created new factor in the Chinese M&A service sector (online deal sourcing and matching based on cloud-based technology), raised existed competitive factors (Information & Knowledge Spreading DG, highly global reach, complete sectors coverage and good relationships with SMEs), and eliminated or reduced transaction execution services and price.

All in all, MWG and DG did not diffuse their services across all key factors of competition, but mainly focus on information and knowledge spreading and online deal matching, which caused their value curves diverge from that of the other players in M&A service industry by reconstructing market boundaries.

Finally they conduct a clear and relevant tagline that let them only focus on building an online deal sourcing and matching platform instead offering conventional corporate finace services, they all dedicated to charge membership fees as their core source of income rather than commission fees and subscription fees, just as they both aim to be Alibaba for M&A, it can be thought of as 'Match.com for companies', helping users quickly find suitable investment targets and partners to effectively facilitate cross-border mergers and acquisitions (Mr. Feng, L. 2017, pers.comm., 7 January).

The fast rising of Chinese online M&A platform benefited from huge cross-border M&A wave by booming Chinese investors and introducing "One Belt and One Road" policy by PRC government. But if the tide is out, what should they do? There is no doubt that stepping-out of overseas market is a long-term trend for Chinese enterprises both from macro (policy and external eviroment) and micro (enterprises) perspective, meanwhile, it will definitely be some changes, somehow 3 years later information asymmetry will no longer be a problem, 5 years later, there will be a lot of Chinese start-up offering the same services, resulting in low profit margin in this industry. However, there were two core competencies that cannot be limited and substituted easily. One is that these two platforms have aggregated broad networks and huge resources. Another is that both companies have established the cloud-based live deal marketplaces and the handful of analytics tools offering comprehensive business insights. As the changes could happen somehow due to policies and external environments, as long as their services and customers can cover more and more parts of the world, they could mitigate the environmental risk significantly (Mr. Wang, Y. 2017, pers.comm., 10 January). In the end, people should believe that a good start-up could awalys envolve and improve themselves in a constantly changing einvironment.

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Statutory declaration

We herewith declare that we have completed the present paper independently making use only of the specified literature and aids. Sentences or parts of sentences quoted literally are marked as quotations; identification of other references with regard to the statement and scope of the work is quoted. The thesis in this form or in any other form has not been submitted to an examination body and has not been published.

Frankfurt, November 7th 2016