

Rice Games Internship Session 2M

Business Development II

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Task

1. Explain what blue and red oceans are and how they are different. Red oceans represent well established industries. These oceans require intense competition between companies using strategies that have been proven over time to be the most effective way to generate profit. Contrastingly, blue oceans are untapped market spaces, that is, there is little to no competition because the value proposition is unique to one company. Blue oceans are based on an innovative product and are high risk, high reward.

2. Think of two startups that, through their venture, has both created and has taken a good portion of a new market through the use of the blue ocean strategy. Describe those two startups and describe what part of their product/service was for the 'blue ocean'.

One well known example is Tesla. Tesla was one of the first companies to make completely electric vehicles. Since releasing their first car in 2008, they have taken most of the electric car market. Competing automotive companies are still scrambling to catch up. Tesla used the blue ocean standard by noticing a disconnect between consumer desires and what was being offered by other businesses. In place of the traditional way of selling cars, through dealerships, Tesla has direct to consumer sales through the internet and showrooms.

Another example is AirBnB. This internet startup created a marketplace where users could effectively find travel accommodations for local properties. The effective part of their blue ocean service is that it does not require any of the costs associated with them owning properties. Compared to hotel or property ownership, they just help users find properties that suit their needs and then take a portion of the money paid to the property owner.

3. Name one advantage and one disadvantage of strategizing to join red oceans. One of the main advantages of red oceans is that revenue is more consistent. Since red ocean market spaces are well established, businesses in these areas have a large amount of historical knowledge for what sells and what customers want. On the other hand, red oceans are difficult to create high profit. Red oceans have much lower profit margins and it is very hard to achieve a high market share because there are many other companies offering nearly the same goods and services.

4. What are the three main types of crowdfunding? Explain them and what separates each from each other succinctly.

The three types of crowdfunding are donation, lending, and equity. In donation crowdfunding, the crowdfunders give money without any money or product in return. Sometimes recognition is given to donors. For lending crowdfunding, those that give money are either promised a finished product or interest on a loan given. Sometimes the loan is forgivable if the business does not generate enough revenue. The final form, equity, gives the funders a stake in the business and often involve VCs or other accredited investors.

5. What type of crowdfunding is *Shujinkou*? Why?

Shujinkou is lending crowdfunding. Funders that reach the minimum payment will be promised the game when it is finished. Additionally, there may be higher level funding amount that would give funders rewards, for example special editions of the game or clothes.

6. To further develop Rice Games at this stage, what do you think is the most appropriate form of crowdfunding. Explain your reasoning. (*No correct answer!*)

At this stage, the most appropriate form of crowdfunding would either be donation or equity. Since there is no concrete demo, donation would allow Rice Games to expand operations without any return to the funders. However, it is unlikely to receive donation funding because this is a for profit venture. For this reason, it is more conceivable that people would be interested in equity based crowdfunding because of Rice Game's potential and initial community engagement.

7. Find and discuss a startup that used the most rewarding crowdfunding type to fund itself and a startup that used the least rewarding crowdfunding type to fund itself.

WhatsApp is an example of the most rewarding crowdfunding type, equity. A venture capital firm invested eight million dollars in WhatsApp, which eventually sold for twenty two billion dollars. This is an extreme example of the kind of potential equity crowdfunding can have. On the flip side, Oculus was crowdfunded by individuals, many of which were only gave donations. Oculus's smallest investment level on Kickstarter gave nothing back to funders for donating ten dollars.