Vellore Institute of Technology
(Deemed to be University under section 3 of the UGC Act, 1956)

MGT 1022 – Lean Start-up Management

Assignment- 3

Winter Semester 2018-19

TOPIC: Critically analyse any TWO START-UP FAILURES (one Indian + one Global)

CARDBACK (Indian)

- **Launched in:** 2012
- **Founder(s):** Niddhi Gurnani,Nikhil Wason
- **Category:** Fintech
- **Headquarters:** New Delhi
- **Funding:** The startup raised $170K in a funding round led by prominent angel investors such as Rajan Anandan, Sunil Kalra, and Alok Mittal in June 2014.
- **Shutdown Reason:** Inability to raise funds and lack of demand was the main reason cited for the startup shutdown in April 2017. The founders believed that the market is not mature enough for a portal like Cardback as most people in India do not have multiple credit cards and the investor ecosystem in India was not suitable for this kind of product which needed deep pockets to educate customers in safety and security of the products.
- **What Are Founders Upto:** Post startup shutdown, Nidhi has joined the social time bank Hour Village, while Nikhil Wason has moved on to work with expat lending platform Stilt as head of its India operations.

CardBack was one of the first such fintech product in the space in India which recommended the best credit card to pay for a particular service or product. Yet it failed. So having a different idea is not enough to make startup, a success.

Cardback was a payment recommendation platform that helps credit, debit, prepaid cardholders save decent bucks every time they pay. The platform used to identify the suitable card or wallet for a payment, based on several factors, including card and wallet features, ongoing offers, cashbacks, discounts, surcharge waivers, earning, redemption and conversion of reward points using cards, and their fee structure.

Founded in 2012, Delhi-based online platform for loyalty cardholders Cardback has shutdown, owing to fund crunch and less demand in India for multiple credit cards.

Funded by prominent angel investors such as Rajan Anandan, Sunil Kalra, and Alok Mittal, Cardback was a platform for credit, debit and loyalty cardholders to check rewards.The startup was co-founded by Nidhi Gurnani and Nikhil Wason who have moved on to jobs in the private sector. Gurnani confirmed the shutdown to *Moneycontrol*.

The company had raised USD 170K during its five year journey.“The market we were targeting was not mature enough in India as most people in the country do not have multiple credit cards,” said Gurnani.The platform recommended the best credit card or wallet to pay for a particular service or product.India has just about 27 million credit cards in circulation compared to about 740 million debit cards.In comparison, there are over 200 million e-wallet holders in the country, as a result of demonetization.“The kind of investor ecosystem in India was not suitable for product like ours which needed deep pockets to educate customers in safety and security of our products,” Gurnani added.

For those of us who aren't savvy enough to unlock the hidden value our cards hold — like free lounge access, upgrades to business class, access to emerald golf courses, free iPods — we now have an app that can do this for us. It's called Cardback, a predictive Android app that alerts users about which of their credit, debit or loyalty cards will give them the best deal, the maximum bang for the buck for a specific payment, based on their card options and current location. The app, a location-aware mobile platform that helps people save money and spend wisely, has been downloaded 30,000 times. And this when it is available only in the Android version. "Our iOS and Windows versions, upgraded with improved functionalities, will be available for download before Diwali," says Nikhil Wason, co-founder of Orangut Labs, whose flagship product is Cardback. His company currently has six employees, including the other cofounder Nidhi Gurnani.

Most people who use cards to pay for goods and services carry multiple credit, debit, prepaid and loyalty cards but rarely use them "smartly". So, they end up spending more than they should have or lose out on earning money in the form of cashback, reward points, interest rates or other deals, says Wason. "Cardback helps people decide on which card to use before making a payment so that they get the maximum benefit out of a transaction."

Here's how it works: the user has to enter basic card details, like name of the issuing bank, type of card. The app then fetches the best deals available on cards at standard outlet chains located close by. But here's the best part: The app doesn't take any card numbers or sensitive information, and doesn't enable any money flow through its system, which makes it very secure.

Cardback is currently supported in Delhi, Mumbai and Bangalore — urban centres with maximum card penetration — but the team plans to launch in Hyderabad, Chennai and Pune in the next quarter, following which it will expand to Chandigarh, Ahmedabad and Kolkata.

The developers have added a comparative dimension to the app. "If you let the app know how much you need to pay and where, it will take less than five seconds to let you know which of your existing cards you should use to complete that transaction. It is like giving Google maps your start and end-point destination and the app finding you the best route," says Wason. Cardback can also help users optimize their credit cycle, so that their interest payout is minimized.

Wason is betting that Cardback will become an essential app for every smartphone user. He’s also betting on two other statistics — the exponential growth of online e-commerce, especially in smaller cities, and the surge in growth of debit cards. Isn’t he focusing only on a small segment of the economy — the urban card user who is part of India’s white-money economy? “All that will change. It already has,” he says with the typical confidence of a young entrepreneur. “In fact, RBI statistics show that while there are 20 million credit cards, there are 400 million debit cards and increasing at the rate of around 12% per quarter. That is a huge potential,” Wason says.

He is equally upbeat about the traction his app is likely to get from the growth in e-commerce in tier-2 and tier-3 cities. Even with the cash on delivery option that people may use, once they realize that they can get a better deal by using a card, they are likely to switch. “Our app will gain traction not just from the growing penetration of cashless payments but also from the growth in online buying. Our research shows that customers in smaller towns that have fewer malls buy the most online, ” he says. Wason isn’t limiting himself to India — he wants his app to be the go-to app globally. “This is a global product,” he says.

“We can take it anywhere.” But what about the prospect of me-too apps mushrooming? “Once our users download the app and train it by providing the basic information, they get vested in this. The more information they provide, the more accurate it gets. Subsequently, there will be an inertia to move elsewhere,” reckons Wason. “Besides, it isn’t so easy to replicate our domain expertise and technology.” And the revenue model? “We haven’t got there yet,” he says with remarkable insouciance.

“Right now, we’re not generating any revenue. We’re only focussing on getting more users and ensuring they get value. We want to ensure that Cardback becomes the de facto place to go to for anyone making any cashless transaction.” Press him further and he says mysteriously, “I expect to generate revenues by the second half of 2015.”

Investors seem to be validating Cardback by putting their money where their mouth is. Cardback just received $170,000 from a consortium of angel investors through LetsVenture, an online platform that connects ‘angels’ with start-ups.

Among the investors are Google's Rajan Anandan, Sunil Kalra, Rishi Srivastava, Alok Mittal and other well-known 'angels'. For the six employees, this is money they will be using for expansion, product enhancement and user traction. So far, the company supports more than 500 credit and debit cards across the top 10 banks in India, covering categories like fuel, dining, shopping, utilities, spas, hospitals, travel, e-commerce and movies. With the fresh infusion of funds, it's anybody's guess how much further wider and deeper they will go.

Rivals raised huge pile of money, deal talks fail

The company tried to move headquarters to Singapore, a country where multiple credit card culture exists. However, the plans failed with talks with a large investor falling out.

That's when the co-founders decided to call it a day. Gurnani has joined social time bank Hour Village. Nikhil Wason has moved on to work with expat lending platform Stilt as head of its India operations.

CardBack was one of the first such fintech product in the space in India. It's Pune based rival Walnut, which started in 2014 has managed to raise USD 9 million from investors such as Sequioa Capital and SAIF Partners.

Personal finance assistant MoneyView started in 2014 has managed to raise over USD 8.5 million from Accel and Tiger Global."Most startups in this (personal finance management) space are yet to find their right target segment and revenue model," Gurnani added.

Shyp (Global)

Former type: Private

Industry: Technology, Internet

Fate: Dissolved on March 27, 2018

Founded: (2013; 6 years ago) in San Francisco, California

Founders: Kevin Gibbon, Joshua Scott, Jack Smith

Defunct: March 27, 2018

Headquarters: San Francisco, Calfornia

Key people: Kevin Gibbon(CEO)

Website: (Shut Down) shyp.com

Shyp was a shipping company that operated in the years 2013–2018. The company picked up, packaged, and shipped items through USPS and other major carriers. The company was founded in San Francisco by Kevin Gibbon, Joshua Scott and Jack Smith. Until 2017, the company operated in New York, Miami, Los Angeles, Chicago, and Philadelphia.

The company raised a total of $62.1 million in venture-capital funding, with the Series B investment led by investor Kleiner Perkins.

The company provided a mobile app by which users could enter a package's pick-up and destination addresses and upload a photo of the package to be shipped.

In 2015, the company launched an Android app to complement its iOS app. Also in that year, Shyp added "Shyp Returns" functionality to its apps whereby shoppers could return items they purchased online from select merchants, including Amazon,target and Nordstorm.

Shyp was one of the few on-demand technologies made up entirely of employees, not independent contractors. In 2015, the company converted its couriers from independent contractors to full-fledged employees.

In 2017, to become profitable, Shyp laid off most of its staff and ceased operating in New York, Los Angeles, and Chicago. In 2018, Shyp CEO Kevin Gibbon announced that the company would shut down and lay off all its employees.

I don’t consider myself a lazy man.

To the displeasure of many a recent startup, I like to do stuff for myself. I like to clean my house. I do my own Laundry. If I need something from the store down the street, I go to the store down the street. If I want a Phily, I think “I should go to Philadelphia!” and then don’t and then eat Quiznos and feel sad.

But *man*, do I hate shipping things. I’ve never really understood why. I have things sitting around my house that I’ve intended/promised to ship for months. I’m fully aware and appreciative of how wonderful it is that we can put a box on a truck, have it disappear for a few days, and then have it arrive on *the other side of the world*. It’s magic. I just suck at actually doing that.

Shyp is a startup squarely aimed at my particular breed of lazy. You push a button, they show up and pack/ship your items for you, charging you just a couple bucks more than what you’d pay to ship it yourself.

If you’ve been paying extra close attention lately, the name “Shyp” might ring a few bells.

Earlier this week, a bunch of headlines were written about the hyper-connected author Tim Ferriss having used the new General Soliticians laws to help a startup raise $250k in 53 minutes (making him one of the first, if not *the* first, to utilize the change) by way of a blog post and AngelList’s Syndicate program.

That startup was Shyp.

One small detail got buried as that story spread, though. Shyp didn’t raise a seed round of just $250k — that $250k was just a chunk that they set aside to experiment with the new laws. They raised almost 9x that much, closing their seed round at $2.1M in total. I couldn’t find any solid confirmation as to how exactly their entire round came together, so I dug a bit deeper. Here’s what it ended up looking like, as I’ve pieced it together:

- Shyp raised $2.1M in total.
- $1.35M of it came from more traditional fundraising sources (Lead by Hunter Walk’s Homebrew and Sherpa Ventures, backed by a bevy of Angels)
- Tim Ferriss privately raised $500k of it from his own contacts. Some of the investors in that chunk include Antonio J. Gracias (Board of Directors on both

SpaceX/Tesla) and Daymond John (FUBU founder, and one of the Shark Tank sharks)

- That leaves $250K, which is what they set aside to raise through general solicitation on AngelList by way of a Tim Ferriss blog post.

So, how does Shyp actually work?

You open the Shyp app and snap a picture of the item you'd like to be sent away. This picture is sent out to Shyp's network of contracted employees (which they call "Shyp Heroes"), any of whom can then elect to pick up the package. They show up at your location, grab the item, put it in a padded bag, and take it back to be packed and shipped. If you're shipping one item, they charge you the amount that UPS or FedEx would charge, plus a $5 pickup fee. If you send two or more separate items, they waive the fee. Packaging costs are included, and each item is insured at up to $10,000 from the second it leaves your house.

Wondering how they can afford to do that? So was I.

Shyp tells me that the key there is in the volume. By shipping (hopefully) hundreds of boxes a day, they're able to ship each package at a discounted rate. They charge the end-user the retail price they'd otherwise pay anyway and make their profit in the difference.

The economics seem challenging, to say the least. If their discount margin nets them a few bucks per package on average (it'd vary based on the size of the item and box), they've then got to pay for packaging and logistical overhead, and, you know, pay the people picking up the boxes. Shyp tells me their "Heroes" are paid per pickup. Unless these people are somehow doing dozens of pickups per hour, they'd need to be paid at least a buck or two per pickup to start breaking minimum wage. Shyps founders and its investors seem certain it'll all work.

During my conversations with Shyp, I mentioned Shiphawk, a TechCrunch Disrupt alumni company that, while not a direct competitor, is of a similar vein. Shiphawk acts as a sort of Kayak/Hipmunk for shipping, fetching quotes from established packing/shipping companies for people looking to ship things like art. Turns out, Shiphawk (unintentionally/unknowingly) had a bit of a role in Shyp's fundraising story. Says Shyp co-founder Jack Smith:

It's interesting that you bring up Shiphawk actually. Kevin (my co-founder) was watching TC Disrupt NYC live online earlier this year and heard [AngelList co-founder] Naval [Ravikant] critiquing Shiphawk's pitch. He said:

"I'm surprised you didn't take it one level further [and dispatch someone] to your house or to your business, grab the thing, wrap the thing, package it and take it out. Because, I know as an infrequent seller and buyer, that's the

kind of service I would additionally pay for. It might be more of a differentiator than looking between a few carriers and printing a label"

Kevin emailed Naval live and said "um you just described our business, check out Shyp". Naval loved it, asked to meet, then subsequently invested.

(I've confirmed this with Naval.)

Cold calls for the win?

Shyp is currently running a small, private Beta in San Francisco, having contracted around 10 "Heroes" to start moving things around. They're doing pickups in SF only for now, pledging to roll into a second city "very soon" based on the zipcodes of users that sign up for their waiting list.