University College London

Entrepreneurship: Theory and Practice

MSIN7008

PAYLO Business Plan

March 30, 2017

Word Count: 4943

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Table of Contents

Executive Summary 3
Market Analysis 4
Opportunities 4
The problem 5
Interviews and problem validation 5
1. Local businesses 5
2. Local businesses' customers 7
Our solution 8
Members' platform 8
Retailers' platform 9
Competitive advantage 9
Competitor's Analysis 10
Technology 12
Current state and prototype cost 13
Uniqueness 13
Intellectual Property 14
Feasibility 14
Monetisation 15
References 17
Appendices 19
Appendix A – Team Membership 19
Appendix B1 – Business Model Canvas - First Iteration 20
Appendix B2 – Business Model Canvas - Second Iteration 21
Appendix C – Video & Landing Page 22
Appendix D – Personas and Prototypes 23
Appendix D1 - Prototype Screenshots (Customer's view) 24
Appendix D2 - Prototype Screenshots (Business owner's view) 25
Appendix E – Financials 26
Appendix F – Interview questions 35
Appendix G – Positioning 36
Appendix H – Final Presentation Slides 37

Executive Summary

Paylo is an application which aims to help local cafés in overcoming some major problems they face today, such as cash flow issues, the inability to retain profitable customers and to keep up with the new technologies (e.g. mobile payments), as well as the high marketing costs.

The concept is a double-sided app with two platforms, one for local cafés and another for their customers. The local cafés app can be downloaded on a tablet, and it serves as an EPOS (electronic point of sales) which accepts mobile payments, as well as an analytics tool which gives advanced insights and business advice, and a marketing tool from which cafés can reach out to their customers without spamming them. The other platform app, on the other side, allows local cafés' clients to collect loyalty points/stamps, pay by scanning a QR code on their phone (linked to their bank account), and discover offers and events in local cafés around them.

Our target audience would initially be independent coffee shops in Central London, before taking further decisions about expansion. In fact, the market is rapidly growing in the UK, and there is a relative optimism about its future and its prosperity. Although many indirect competitors might constitute a barrier to enter the market, our company can offer a differentiated solution to the market segment that is currently unserved. Other companies in the UK don't link the data to individual customers, don't provide payment services and sometimes spam their users with notifications.

Some uncertainty still exists regarding the willingness of the customers to pay for our services, even though our interviews have shown they are highly interested in them. This has been taken into consideration in our revenue streams. The application follows a freemium model, which provides the basic functionalities for free, while continuously showing the customers what the premium services would have improved and achieved. The aim would be to maximize the number of customers who take advantage of the paid features.

The app will bring together different technologies, related to payment services, location services, as well as data visualisation and analytics. Although these technologies aren't innovative by themselves, it's the fact that they all interact to maximise the growth and customer retention for local cafés in London, the context of their use and the target audience (small businesses) that are novel.

In conclusion, Paylo tries to solve some problems independent coffee shops suffer from by offering simple-to-use and affordable application. Our further steps include optimisation of our business model based on the detailed market analysis and once the application is up-and running, growing our user base thanks to potential funds, and expanding our target customers once we judge it's suitable.

Market Analysis

When it comes to the market analysis, it is first crucial to outline the major areas of the business that the market can be shaped around. Thus, we primarily focus on two: Mobile Payments and Loyalty apps. Since our main target is local coffee shops, it is reasonable to also look at the industry to see what's the potential and the needs in it. The competitors section describes the loyalty apps in more details and for some of them (e.g. YoYo) the mobile payments is also covered.

Opportunities

Opportunities come when there is demand for something and when people are ready to pay for it. Hence, we can look at both sides: customer and business owner to see if there is any evidence that they might benefit from something like Paylo. Firstly, if we take small coffee shops in the UK we can see that 92% of them are optimistic about the coming years for the business and 30% plan to open more cafes in the next two years. Furthermore, 80% expect growth in turnover (n.a., 2015). When there is an expansion and growth, there is a good opportunity to enter the market. Overall spent in coffee shops was £7.9bn supporting the point that surprisingly for some there is a lot of money in the market (Davidson, 2015). A more detailed approach was taken in the Monetisation part when calculating the premium price and analysing the industry. It can be argued thought that based on the provided data the market can be considered fairly stable and confident, which will prevent us from unexpected market changes in the coming years.

Most importantly, it has been reported by the Hospitality & Catering News (2015) that 93% of independent local cafe owners are looking into investment in their businesses and their three main priorities are: attracting more customers (72%), increasing profits (61%) and offering a better product range (50%). We found it interesting that when we were interviewing people and shaping our offer, we decided that the main reason why business owners can benefit from Paylo is because it can help them attract more new customers and retain the old ones, which essentially leads to potential profit increase. Also, the premium smart analytics can be used for improvement of the product range and also optimised logistics.

This, at the end, supports the argument that our selected market segment is ready and willing to invest into something that can help them achieve aforementioned goals. This will all come down to pricing and marketing.

When it comes to barriers associated with the market, it can be argued that due to oversaturation of similar offers it can be considered quite hard to convince the owners and can require certain investment for the marketing as the businesses can mainly benefit from Paylo when there is a good number of customers using them. Finally, our interviews highlighted the point that local small cafes might be unwilling in going for something new and technological, especially when it is pricey. Our team has addressed it with lowering the price compared to other offerings in London.

The problem

Nowadays, small businesses face big challenges directly or indirectly linked to competition with big companies, which benefit from economies of scale and from huge promotional budgets, as well as competition with other independent enterprises (Mitchell, 2016). Small businesses claim they offer a better and friendlier service, characterised by flexibility and adaptability, but this doesn't seem to be enough. Although small businesses constitute 99.3% of all private sector companies in the UK, less than 34% of all private sector turnover goes to them (Fsb.org.uk, 2016). The main challenges small businesses need to overcome are finding and retaining profitable customers, having too many overheads, difficulty in staying up-to-date and tiredness of completing different tasks, especially in the cases where there aren't many employees (Ewer, 2016). Our solution would try to address these problems.

Interviews and problem validation

1. Local businesses

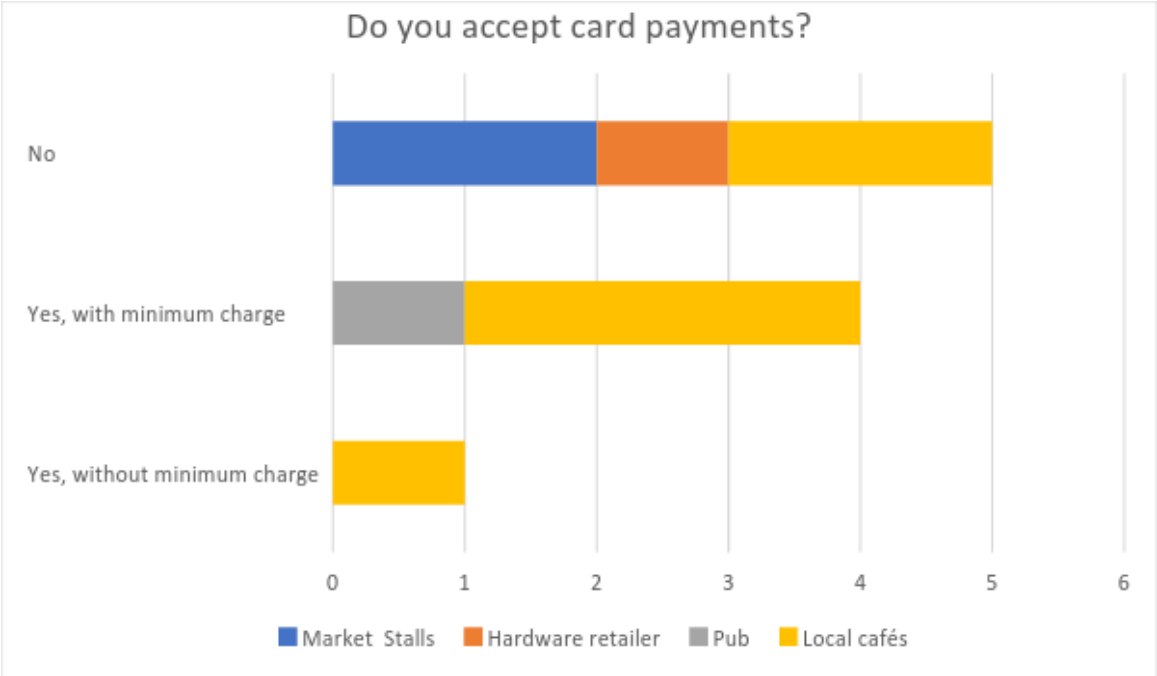
To interact with our potential customers, evaluate their needs and discover problems we might not be aware of, we decided to interview them in a semi-structured manner (Appendix F). The choice of this particular method is justified by the fact that we were pivoting at that point and hence needed to know what small businesses themselves judged as important problems.

Although our initial research helped us in identifying local cafés as our target customers, we agreed to interview some other types of small businesses to validate our hypothesis. We interviewed a total of 10 small businesses: 6 local cafés, 2 market stalls, one pub and one hardware retailer.

Card Payments

50% of the small businesses we interviewed don't accept card payments, because the fees are "not worth paying" according to them. Although the other 50% accept card payments with or without a minimum charge, they also perceive it as a problem, and claim that it considerably influences their revenue. The above is also represented in figure 1.

Figure 1 Interview results "Do you accept card payments?"



Loyalty programs

Around 60% of businesses we visited have loyalty programs, including 5 local cafés and 1 market stall. They all use stamp cards, which actually do not provide any data, and we observed that around 20% of their customers use it. 67% of local cafés believe that an advanced loyalty system which provides data would them improve their sales and compete against big chains.

Sales and marketing

70% of the small businesses we interviewed claim that marketing and sales management are their weak points compared to big chains (figure 2), while their strong point is that a customer receives a better and friendlier experience when visiting a small business. Around 80% of local cafés would like to engage more with the community, and to reach out to their customers by using tools like social media.

Figure 2 Interview results "Weak Points"

Conclusions and observations

The biggest problems small businesses, and local cafés seem to face are the lack of advanced analytics, efficient sales strategy and marketing. Furthermore, card payments processing fees seem to highly affect businesses' revenue and local cafés don't always think it's worth it. On the other side, however, a big majority of local cafés believe that loyalty programs improve customer retention, without being able to give clear figures about the growth created by these programs.

The major observation we made is that even successful local cafés have the constant worry about losing customers or seeing their profit declining, because the competition is very tight, whether it's with big companies or other small businesses. Some successful businesses would also like to make the act of people buying the product quicker, to serve the biggest number of people during peak time.

These conclusions are illustrated by the personas in the appendix D.

2. Local businesses' customers

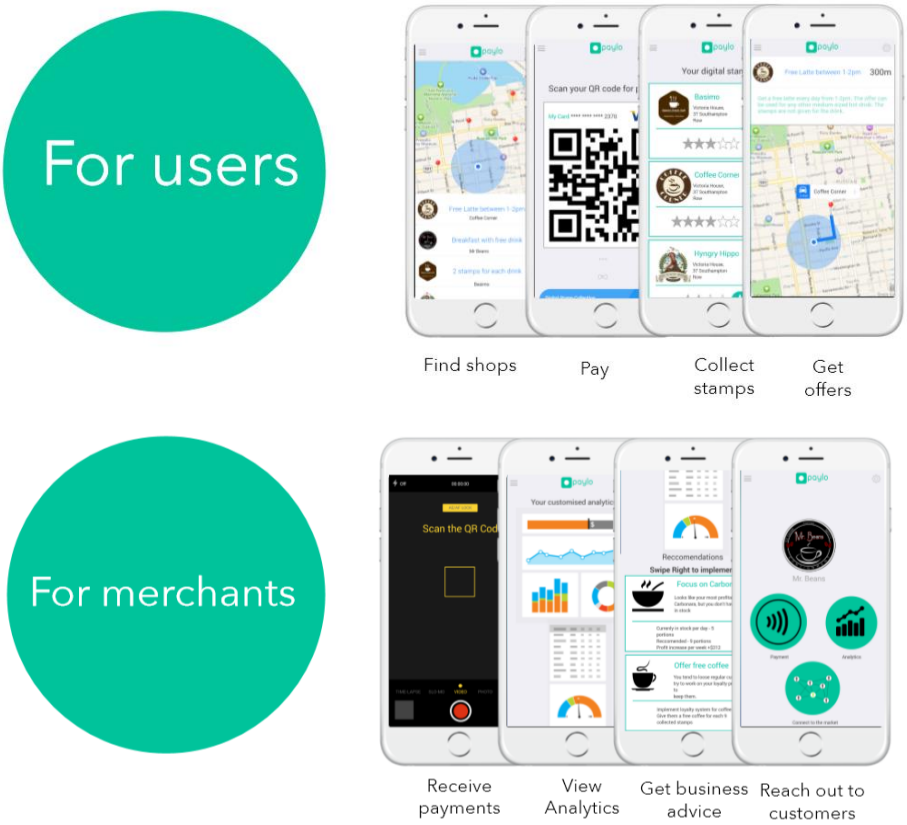
To get more insights about the problem, we also interviewed 20 coffee buyers. They get around 70% of their coffee from big chain, and although 100% of them use loyalty cards, only 60% use small businesses' loyalty cards. They believe that sometimes it's not worth the effort of carrying multiple cards at a time, and they have on average 6 loyalty cards in their wallet.

Around 90% of them use card payments regularly, and 60% of these admit that the fact small businesses don't always accept card payments make them prefer bigger chains. Hence, improving local cafés' loyalty program and making them accept card payments seem to be able to attract new customers, and therefore improve their sales

Our solution

To solve the problem stated in the paragraph above, we decided to create a two-sided mobile app (figure 3), which serves local cafés and their customers separately. For the purpose of simplification, we will call the local cafés' customers "members". All the prototype screenshots are available in Appendix D, and the value proposition canvas is in Appendix G.

Figure 3 Two-sided solution with prototype (Appendix D)



Members' platform

The members' app would allow them to enter their debit/credit card details, and then pay local cafés via a QR code which automatically changes over time to maximise security. The app can also be protected thanks to a password. This app would provide members with 4 main advantages:

- It allows them to make card payments in places where this wasn't possible
- It collects points/stamps automatically whenever the local cafés have a loyalty program
- It allows members to benefit from offers/promotions or get to know about some events without spamming them (via a dashboard on the app, and a system of follow/unfollow)
- It makes the process of paying and collecting stamps easier and less of a hustle

The members' app is free of charge.

Retailers' platform

On the other side, the local café platform would serve as an EPOS (Electronic Point of Sale) which accepts card/mobile payments. Cash payments would need to be entered manually on the app. This platform would provide businesses with 4 main advantages:

- It provides them with analytics and statistics, as well as smart business advice inspired from the trends detected by the algorithm
- It allows them to customize loyalty programs on the app, with their own branding/theme.
- It allows them to accept card payments, since they would feel that the investment is "worth it" – the basic analytics and loyalty programs are free of charge
- It would help them to reach out to their customers and let them know about offers.

The retailers' app follows a freemium model.

Competitive advantage

No competitors which provide the exact same services and in the same context exist. For example, Yoyo and Loyalzoo, the only major companies which offer very similar services, target another customer segment (big chains) and another country respectively.

In the UK, the major competitors generally provide a subset of the features we offer. Loyalzoo and Swipii, for example, don't provide payment services. Furthermore, Swipii doesn't link sales data to individual people, which means that personalized offers are impossible, and that an interesting dimension of the sales strategy is not analyzed (e.g. how many customers bought this item and never came back again?).

Not to forget, we will be specifically targeting local cafés at the beginning, while competitors generally target all small businesses.

Competitor's Analysis

Referring to the appendix E, we can see start-ups with similar concepts as Paylo already scaling. Summary of the key competitors are displayed in figure 3. All of the 4 start-ups capture the data with the point of sale system, a computerised network connected to many checkout terminals and run by the main computer. This allows to analyse customer specific, demographic and targeting data and use it to market the merchants more effectively. Belly has a significant customer base with over 8 million members and 2,600 fee-paying customers while the leading Australian app, Rewardle, which is a public company, has 4 times less members, however twice as more paying subscribers as Belly. However, as shown in the table, none of the London-based start-ups have reached similar success. Nevertheless, Swipii has recently raised £500k aiming to expand their business further (Mackie, 2017). Another UK start-up, Loyalzoo has over 300 fee-paying merchants, although most of its business is in the US (Moulds, 2017). Yoyo is a rapidly growing app that allows payment-processing, digital stamps and offers advanced analytical tools to merchants to know their customer better. However, this start-up focuses only on big businesses and sees their significant customer segment in students. Based on our market analysis and the success of our competitors overseas, we believe there is room to enter new businesses to the digital loyalty and point of sale markets in the UK. Rewardle is also one of the few apps that combined payment-processing as well as digital loyalty schemes and marketing tools and targets local businesses. Paylo will aim to capture similar features to Rewardle to differentiate itself from the UK-based competitors and quickly increase its customer base. Furthermore, all of the main loyalty app start-ups focus on small businesses whereas Paylo's niche customer segment will only be coffee shops at initial stages, as these have had significant growth in London.

Figure 4 Summary of the key Competitors (as of March 2017)

	Payment-processing?	Digital loyalty schemes?	Type of merchants	Number of merchants	Number of members	Total raised money	Public?	Cost per month
Belly	No	Yes	Restaurants, retailers, salon&spa, convenience&gas, pet stores, grocery stores, health&fitness centres	2,600+	8+ million	$25 million	No	$129-209
Rewardle	Yes	Yes	Restaurants&cafes, salon&spa, grocery stores, pharmacies, health&fitness centres, florists	5,400+	2+ million	$22 million	Yes	$49
Swipii	No	Yes	Fashion boutiques, cafes, salons, gift shops, butcher shops	1,000+	1+ million	$3.11 million	No	£69
Loyalzoo	No	Yes	Small businesses	300+	1,500+	$1.4 million	No	£60
Yoyo Wallet	Yes	Yes	Big businesses	300+	100,000+	$15 million	No	£25

Apart from direct competition from the main competitors described above, Paylo may face indirect

competition from start-ups that focus on collecting all of the loyalty cards into one app. Stocard, for example, has over 10 million registered users and offers businesses effective mobile advertising to tailored audiences. However, Stocard, like Yoyo wallet, only focuses on chains and corporations.

Other competitors to Paylo might be payment-processing start-ups which provide data analytics, such as Square in the US. They provide financial and marketing services by analysing data and insights about customers, sales and items.

Technology

The technological aspect of the product can be represented as a mixture of different tools. Since the app is focused on both the customer and the business, it is crucial to outline technologies needed to make it happen. It has acted as a supporting factor that our team comprised of three Computer Science students and enabled us to approach the question in a more knowledgeable manner. The main technologies that were discussed are listed below:

- Microsoft Azure
- Power Bi
- Swift
- Java
- Xamarin/Ionic
- Mobile Scanning functionality
- Google's API

Microsoft Azure is also mentioned in the monetisation part as this is the cost that we cannot easily avoid. In this instance, Microsoft's service will be used mainly for hosting functionality to deploy our code and store the database on Microsoft's servers that will increase security and leverage the cost and time from our side to re-create it from scratch (Azure, 2017).

Power Bi will be used as an interactive visualisation tool for business owner that can reinforce the graphics and support business advises with the appropriate data (figure 5). According to WKID hierarchy, today's world is oversaturated with useless information, our reasoning for using Power Bi is to transition from Data and Information to Knowledge and Wisdom (Rowley, 2007). By providing actionable recommendations for the premium users we can achieve both critical components – incentivise long-term usage and analyse the market better. Interestingly, the more business owners use the premium features the more data we can gather altogether, which in a long-term provide a potential room for growth, which is very similar to the reinforcing loop from the systems thinking theory (Bellinger, 2004).

Figure 5 Power Bi example

The Paylo app can benefit from utilising the similar looking analytics that is applicable to a specific business owners with relevant information and recommendations

When it comes to developing the app itself, several languages were discussed such as Swift, Java, C#. However, considering that we want to launch Paylo on all three platforms (iOS, WP and Android) the coding phase for each will take a significant amount of time and can also stifle product's potential as

some of the customers will be limited to its usage when they are on a different mobile OS. This led us to considering tools like Ionic and Xamarin, which allow cross-platform development although through different methods. Both can be perceived as a reasonable solution with Ionic being faster in development although implementing primarily web technologies in an app style and Xamarin focusing on native development and enhanced maintainability although at a cost of being time consuming (Richardson, 2016). The final decision to go with Xamarin was justified by the fact that the end product does feel like a proper native app and is much faster when it comes to usability. Finally, Xamarin is free for students which we could take advantage of in our first years.

One of the main functionalities from the hardware point of view is a mobile phone camera at least 3 megapixels and ideally autofocus for precise scanning to be possible (Nyaruka, n.d.). This will be used by the business to scan the QR code should the user decide to pay using Paylo. While in some cases this requirement can be seen as a limitation, according to our research today the majority (93%) of the UK population has access to the smart phone (Ofcom, 2016). The cheapest models that can be used by the business can cost around 50$ like Yezz 4E (Yezz, 2017) and can benefit from the full functionality that Paylo provides.

The final point to discuss from the used technologies is Google maps API. Some of the functionalities of Paylo will require interaction with the map like searching the nearest cafes that provide offers. For this it is reasonable to utilise Google's API that are being used worldwide and provide wide functionality. The API is free to use, but can potentially result in additional costs if we exceed the limit of 25,000 requests per day (GoogleDevelopers, 2017). This one is hard to give exact estimations for as this will not just depend on the number of users, but their accumulative usage rates and timing.

Current state and prototype cost

Therefore, it can be argued that the technologies involved in the production of Paylo are in a developed stage, they do exist and one of the ways Paylo can benefit is by utilising an efficient combination of them. When it comes to the prototype, the early iteration was already created using JustInMind software (justinmind, 2017) and the screenshots for both users and business owners are available in Appendix D.

The costs of the aforementioned technologies is discussed in more details in the Monetisation part, but the idea is to where possible minimise it, hence utilisation of Power Bi and Xamarin.

Uniqueness

The above analysis supports the argument that the technologies used are not extremely innovative or has never been heard of before. In contrast, it is the combination of resources that makes it unique. The competitor's analysis made it possible for us to analyse what others end up using when entering the similar market. We believe, in our case the combination of resources can be considered both cost efficient and powerful. In particular, Azure is being highly used by many players in the industry and several successful cases proved its sufficiency when it comes to storing data with flexible access rates e.g. Whole foods, Dodo Pizza (Azure, 2017). Power Bi will nicely complement it with provision of interactive analytics that we believe business owners will recognise and appreciate. The QR scanning system is somewhat more innovative than the use of other tools mainly due to the fact wide usage of conventional POS systems. One ways to utilise QR code generation and QR code scanning is similar to what Tesco has implemented in March 2016 (TheGrocer, 2016). The app essentially links clubcard with the debit card for more efficient purchasing. Interestingly, the initial roll out has been met with a very

positive feedback from the users (Skeldon, 2017). Paylo in this instance is planning to utilise the same concept as Tesco's Paqwiq app, but the QR code can be scanned by the phone with all the internal operations done in the app and on the servers. This would also play a differentiating point to YoYo as it requires retailers to use the EPOS system like Samtouch EPOS solutions for scanning which will put additional costs on the local businesses that they are willing to avoid (Samtouch, 2017). The technology then represents a mixture of TESCO's payqwiq and Yandex SmartPass - an app that allows scanning QR codes in the cinemas with for to fight lines in the cinemas (Yandex, 2014).

Intellectual Property

The elaborated list of competitors in the world like Loyalzoo, Remarkble, Stamp.me, YoYo proved that the issue is indeed in demand to be solved. The experience from the competitors can be used to tailor and shape our strategy, differentiate properly and target the market that is still awaiting for an affordable solution. It does mean, however, that the IP protection is something that might cause certain difficulties as this idea will be hard to patent. There is a number of patents in this area and a in-depth analysis will be needed with the help of professional lawyer or a business advisor on launch. Some of the main researched patents include the areas of mobile loyalty systems and storing vouchers in mobile phones with the following patent codes - US 20140244373 A1, US10181737, WO2006122289 A3.

Furthermore, a trademark for the name "Paylo" would prove very useful in case of a different company or organization using a similar name to promote similar/other products, creating confusion to the customers. An application to register a trademark is relatively inexpensive, costing around £200 (Gov.uk, 2017) and would save the company from future legal disputes which could arise.

Feasibility

Despite being at an early stage, the idea proved itself as a viable one due to a surprisingly big market trend, which means there is currently a problem that is needed to be solved. We believe that the performance of our competitors leave us a room for development and targeting our specific customer segment. Furthermore, the technologies discussed in this section already exist and can help to cut down the cost of inventing or developing brand new technology. Finally, the feasibility to create this specific product is also reinforced by the mixed skillset that the team possess and can benefit this specific idea, which is Business, Computer Science and Analytics.

Monetisation

Pricing strategy determines the market position (Mohout, 2015). A low price may result in more fee-paying customers whereas a high price can be seen as a luxury. Price is the dominant factor for start-up's profitability, so effective monetisation plays a crucial role in the success of Paylo.

In Year 1, the business will focus on product development and customer acquisition in order to boost the start-up's early mover advantage and the "network effects" (the value of the product increases with more users) described in Paylo's business model. The first source of revenue will be rendering our services to local businesses, which will in exchange pay a subscription fee every month. Paylo will deliver advanced analytical tools, which will show in-depth analysis of merchants' digital customer engagement. As a B2B business, we decided to use the SaaS (Software as a Service) or monthly recurring revenue model. Paylo will have a contract with the enterprises, where they pledge to pay for 12 months. They may have an option to pay in full, however, based on the market behaviour, we believe the majority of shops will break the value into monthly payments (Dreamit, 2016).

Paylo will offer full access to its services for free for 1 month before the freemium option, which we believe will allow rapid market penetration and increased sales for Paylo. It is expected that merchants will realise the value Paylo's services add to their businesses and agree to subscribe to a monthly fee. As the start-up develops new marketing tools, it will attract more businesses, thus, bring more revenue.

Pricing our service correctly to maximise profits as well as the market share is certainly complex. Paylo aims to connect local businesses across the UK, so it is important that the price is affordable to the majority of merchants.

Paylo has 3 ways of charging customers:

(1) only monthly fees
(2) only annual fees
(3) mix of monthly and annual fees

To decide on the pricing model let us consider the following factors:

1. Know what the market is willing to pay

Based on our customer interviews, we concluded that there is uncertainty about the financial viability of coffee shops to pay for our service. However, based on tremendous growth of overseas competitors, Belly (USA) and Rewardle (Australia), which charge $159 and $49 a month respectively, we believe there will be constant, or even exponential, demand growth. It might be more beneficial for Paylo to use monthly fees as well to create a perception of the cost being more affordable and less considerable when merchants look at their financial statements. Moreover, monthly fees also involve less risk and commitment for the business. Since our beachhead segment is independent coffee shops which do not make much profit compared to big chains, they might be more attracted to monthly payments.

Another way of determining costs is looking at the costs of creating the product and marking up the price. Looking at the financial statements, the total operating costs were estimated to be £93,256 in Year 1 and £134,998 in Years 2 and 3. Based on the assumptions that Paylo will have 140, 460 and 1,100 merchants in years 1,2, and 3 respectively, Paylo will start making positive net profit after tax at the beginning of year 3, if it charges £55 a month in Years 1 and 2.

2. Know the relationship between price and quality

Pricing is about setting the right perception (Mohout, 2015). Paylo wants the price to reflect the high quality of the service, which is why we do not want to make it as cheap as Cally, £29 a month, small London-based competitor. We do not want to set the price too low not to draw suspicion of newcomers about the quality of the product or the customer support.

3. Know your competitors' pricing model

Swipii has the most expensive 12-month subscription fee for merchants out of London-based start-ups, costing £69 a month. Loyalzoo charges £31 a month + annual charge of £370. However, if a merchant wants additional services, such as hands-free marketing, this will cost extra £200 a year. A cheaper option is Cally, another competitor based in London, but which did not receive any funding. This start-up seems inactive as there is very limited information about the business, the app hasn't been updated since 2015 and the number of total downloads on Google play is less than 1000 since its publication in 2013. Nevertheless, Cally charges merchants £29 to run a loyalty scheme software. The low price might be explained by weak presence in the market and lack of advanced analytical tools compared to Swipii and Loyalzoo. Stamp.it, also London-based, was quickly acquired by Shopwave, and there is no data available on the subscription fees they had.

Conclusion

During the customer acquisition period Paylo will offer monthly subscriptions after a free 1-month trial. Paylo will offer 2 pricing options. The first one will be free and will include the digital loyal program, payment processing and very basic statistics on the business of the merchant. The second option will be the premium account, which in addition to the features of the free version, will include advanced data analytics on customer insights, business advice and areas of caution, hands-free marketing and customer acquisition.

Based on the market price and Paylo's costs and aim to penetrate the market rapidly, we have concluded that the optimal monthly charge should be £55 a month without an annual charge or any additional fees, which is at least 11% cheaper than the key London-based competitors. We believe this is an attractive price, which represents the value the merchants will get from using Paylo's services.

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Appendices

Appendix A – Team Membership

The team

Anastasia Jung
BSc Statistics, Economics and Finance

With her interdisciplinary knowledge, Anastasia has helped in understanding the complexity of the market, establishing the financial strategy and forecast of Paylo, and has given valuable insights about the importance and types of data analytics

Anton Morozov
BSc Business Studies, MSc Computer Science

A strong business background, complemented by a technical knowledge, has helped the team in building the bridge between the two components. Anton has helped in shaping the business model of the company, analyzing the market and taking technical decisions

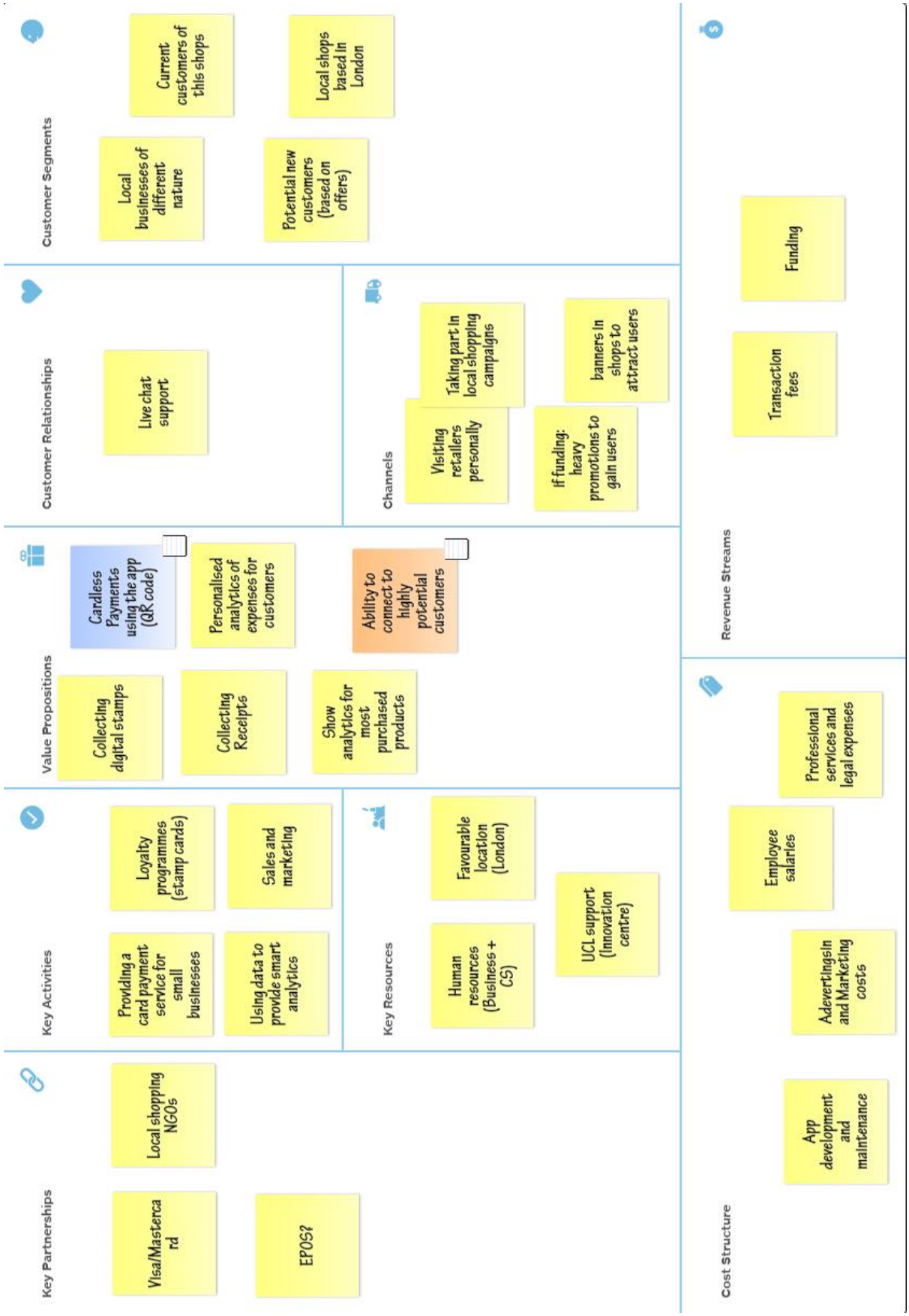
Sadir Abdul Hadi
MEng Computer Science

Sadir has helped in understanding the problem we need to solve, by organinsing interviews, researching the status quo, and creating personas. He has contributed in formulating the final concept of the app, and took care of the branding of the company.

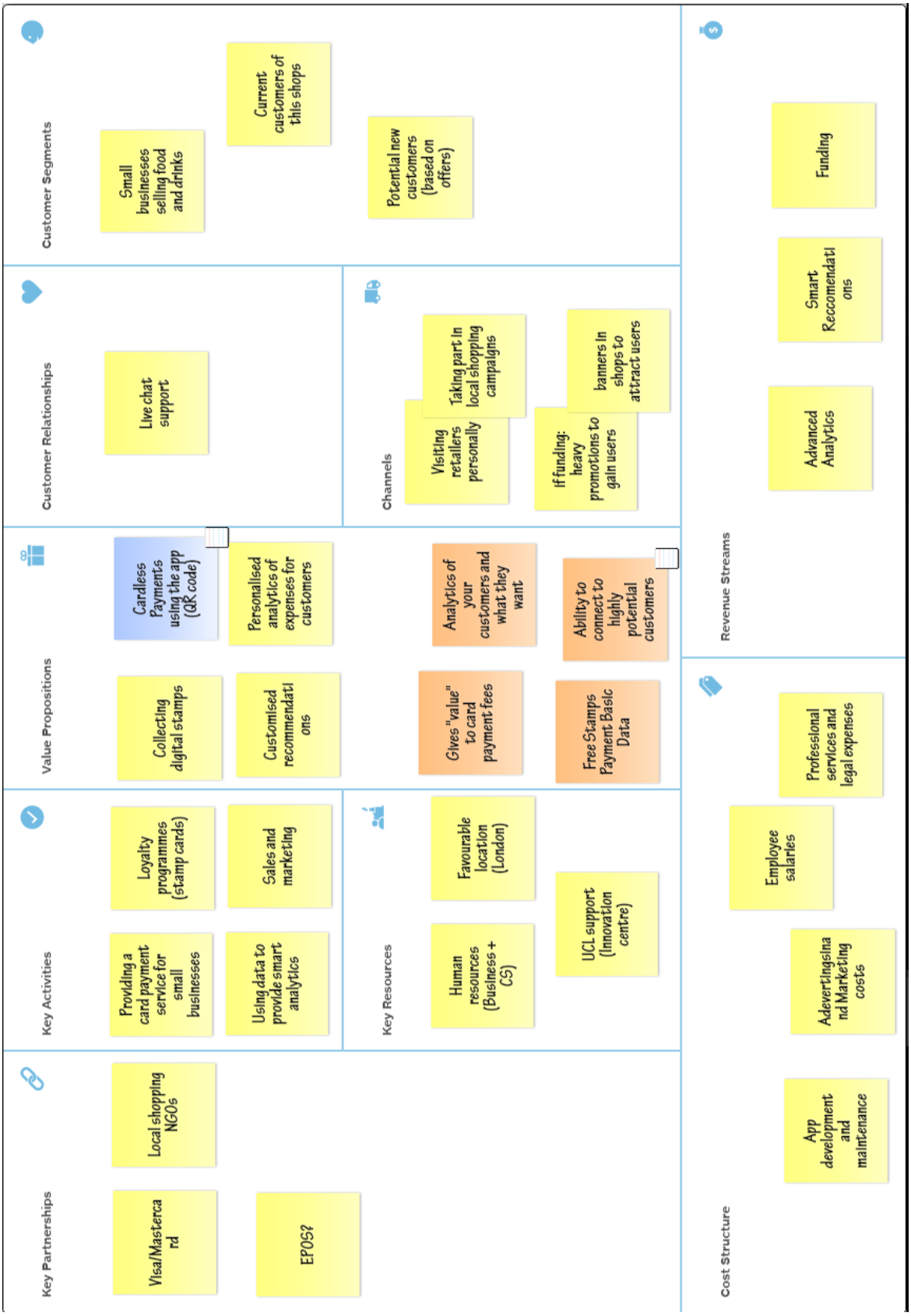
Andreas Zinonos
MEng Computer Science

Andreas' communication skills have helped him in working on our company's interfaces with potential customers. He has built Paylo's website, directed the app's video, and has made presentations. His technical background also helped in understanding the potential technologies.

Appendix B1 – Business Model Canvas - First Iteration

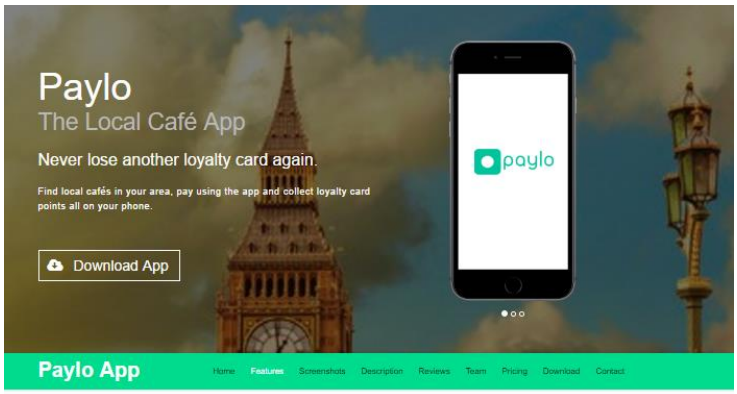


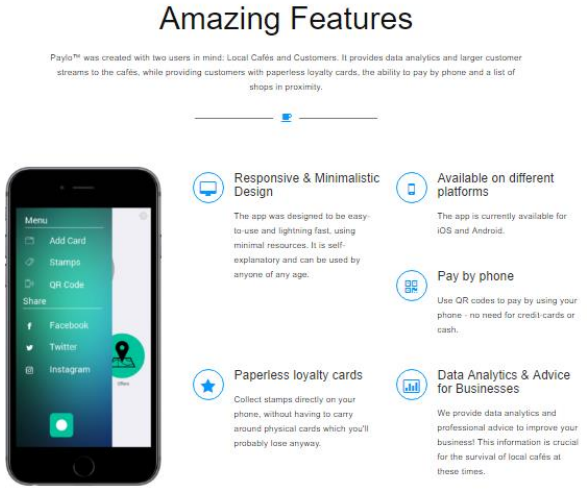
Appendix B2 – Business Model Canvas - Second Iteration



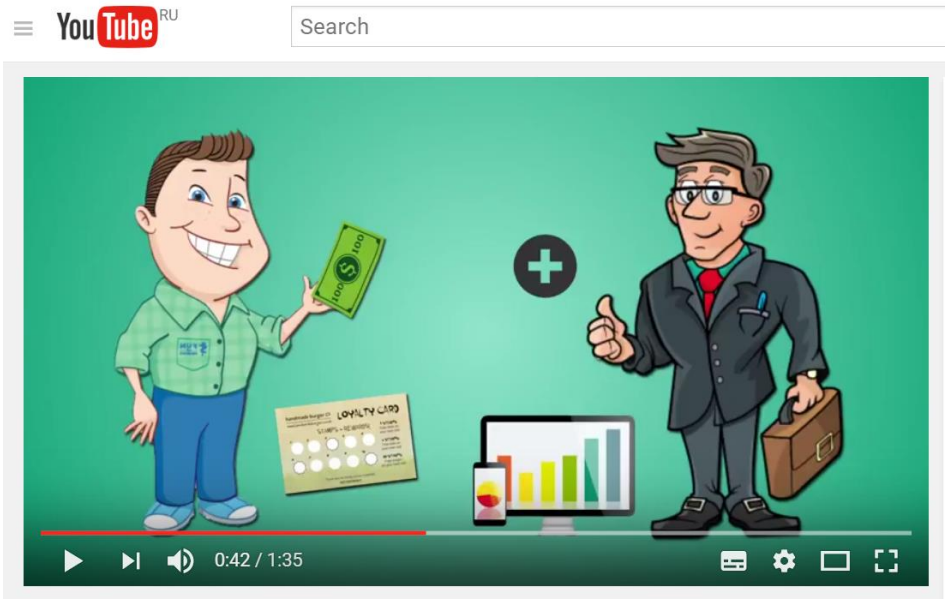
Appendix C – Video & Landing Page

Web Page: https://paylo-d6d35.firebaseapp.com/





Video: https://www.youtube.com/watch?v=eJIclY1lbRE



Appendix D – Personas and Prototypes

Personas (business owner)

Jane Moore

Age: 45
Work: Small café manager
Family: Single
Location: Central London, UK

Personality

Introvert	Extrovert
Analytical	Creative
Reactive	Proactive
Eccentric	Conventional

Goals

- Get in touch with customers on modern platforms
- Introduce card payments into her café
- Having a loyalty program without having customers taking a new card everyday
- In brief, improve sales and marketing strategies

Frustrations

- Accepting card payments is too expensive and not worth it
- Big companies will anyways have better marketing
- Having quality business consulting is not affordable

Bio

I used to be a barista in one of the big coffee shop chains in the UK, and I used to really like my job. However, at some point, I realised I needed new horizons, more flexibility and more creativity. I decided to open my own coffee shop, but I didn't know that doing business is that hard, and thinking about so many factors that might affect sales is quite complex.

Motivations

- Modernisation
- Fear
- Achievement
- Growth
- Power
- Social

Preferred Channels

- Traditional Ads
- Online & Social Media
- Referral

Personas (customer)

David Mears

"I'm looking for stability"

Age: 35
Work: Café owner
Family: Married, 2 children
Location: London, UK

Personality

Introvert	Extrovert
Analytical	Creative
Conservative	Liberal
Passive	Active

Goals

- Stop worrying about each and every single event which might affect the business (new cafés opening around, new brand of coffee...)
- Build and retain a good base of clients
- Be able to reach out to customers and attract them with some offers once the business is slowing down
- Get business help and not do everything on my own

Frustrations

- The market is so unstable. A new coffee shop has opened around the corner, and now I used a lot of customers
- I get too tired by the fact I'm responsible everything, and I can't afford to pay another employee

Bio

I'm very new to the coffee business. Although my education is very unrelated to what I'm doing (I studied psychology), I felt that this is the place where I can be free and communicate with people, see their needs and potentially become their friend. Although I'm really enjoying my job, it's not financially stable at all.

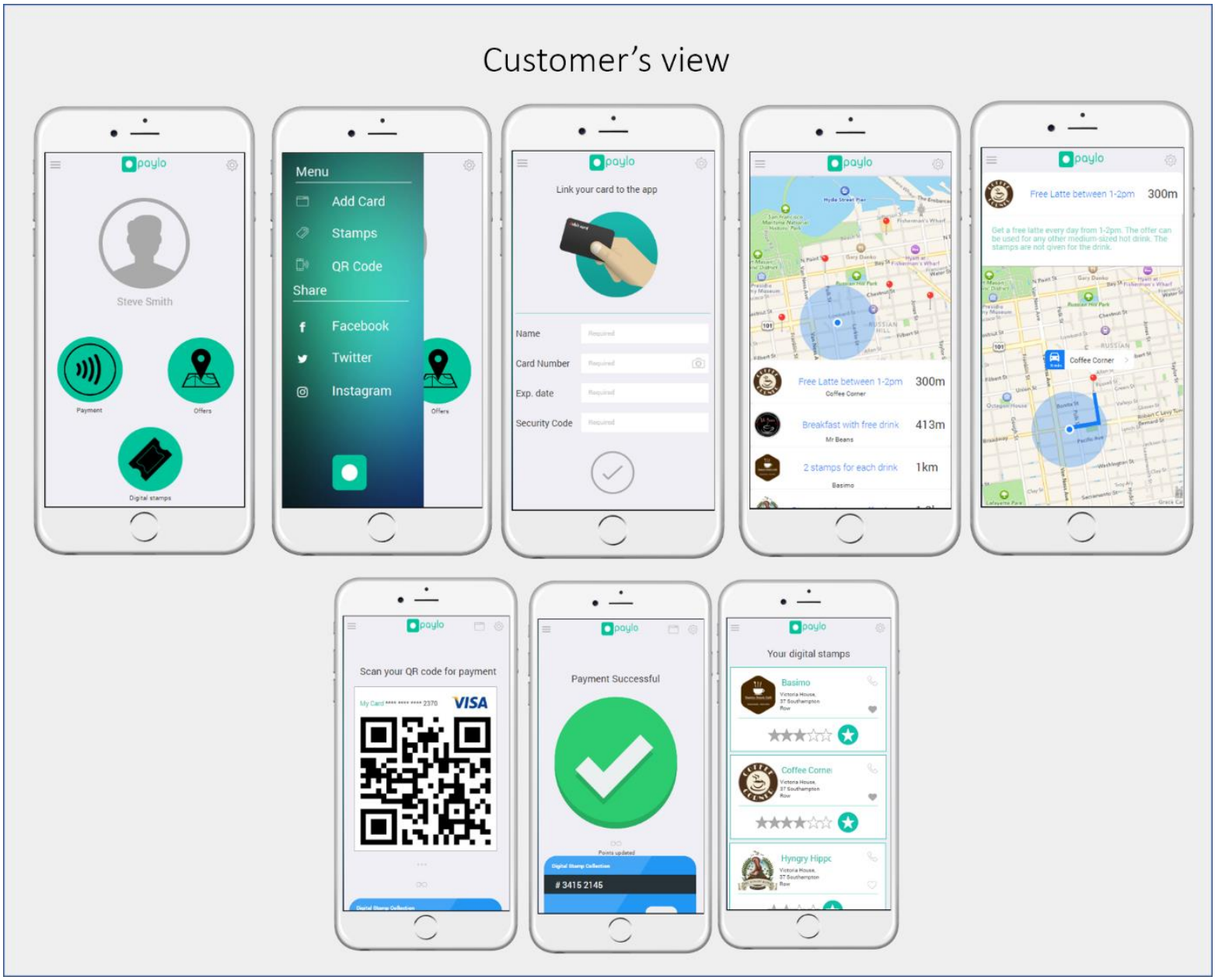
Motivation

- Incentive
- Fear
- Achievement
- Growth
- Power
- Social

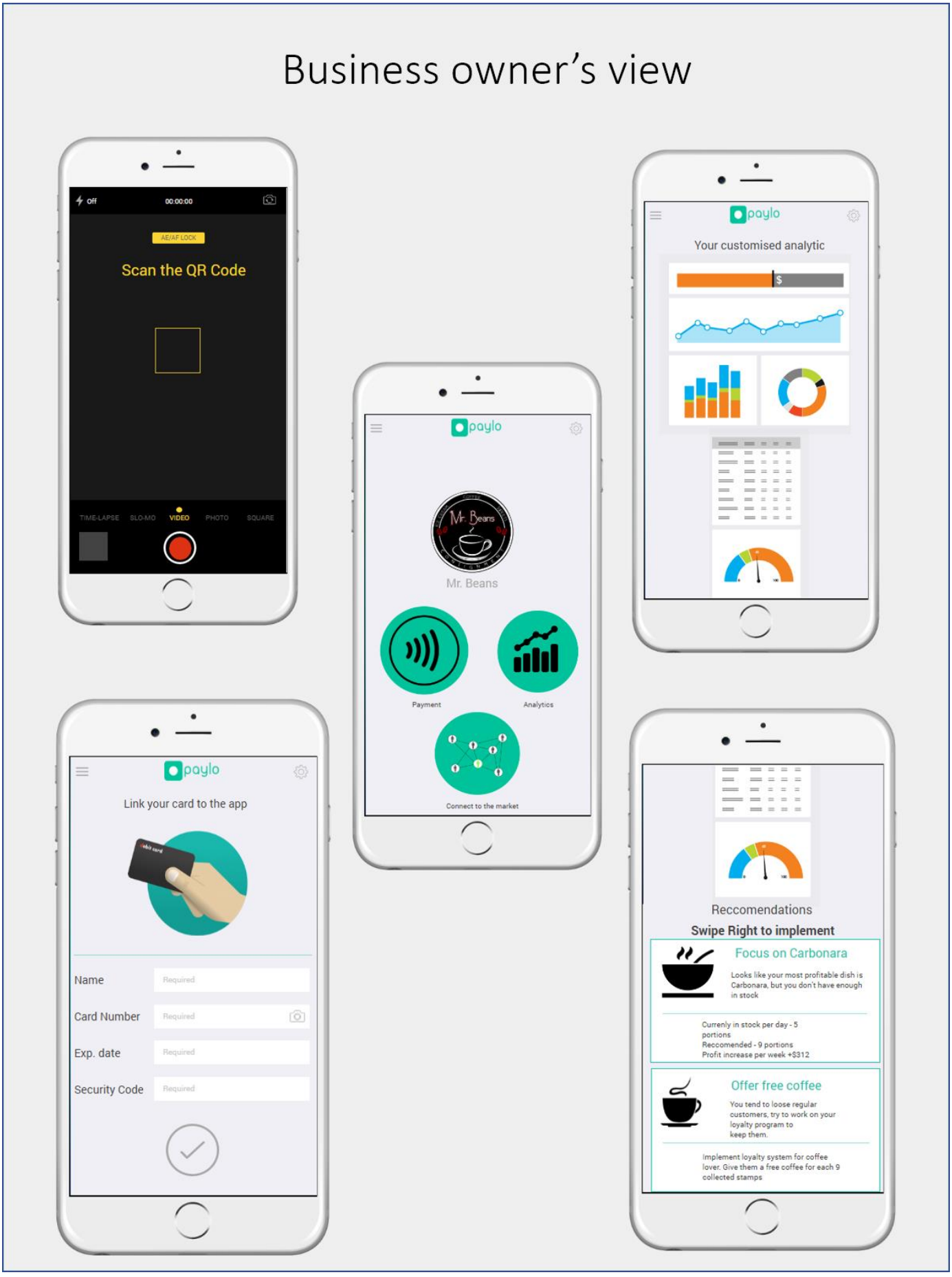
Preferred Channels

- Traditional Ads
- Online & Social Media
- Referral

Appendix D1 - Prototype Screenshots (Customer's view)



Appendix D2 - Prototype Screenshots (Business owner's view)



Appendix E – Financials

E1. Cashflow

Simple Cash flow statement			
	Year 1 £	Year 2 £	Year 3 £
Cash from operating activities			
Cash from sales	7,700	25,300	60,500
Cash from transactions	7,392,000	24,288,000	58,080,000
Transaction cost paid to credit-card company	(203,280)	(667,920)	(1,597,200)
Transaction cost paid to the merchant	(7,170,240)	(23,559,360)	(56,337,600)
Sub-total	**26,180**	**86,020**	**205,700**
Cash investing activities			
Platform maintenance	(181)	(576)	(576)
Technology costs	-	(822)	(822)
Professional fees	(19,775)	(5,000)	(5,000)
Sales and marketing costs	(1,200)	(1,500)	(1,500)
Wages & Salaries	(108,000)	(183,000)	(183,000)
Equipment	(300)	(300)	(300)
Sub-total	**(129,456)**	**(191,198)**	**(191,198)**
Cash financing activities			
New investments	-	1,000,000	1,234,000
Sub-total	-	1,000,000	1,234,000
Net Cash Flow over year	(103,276)	894,822	1,248,502
Opening cash balance	-	(103,276)	791,546
Closing cash balance	**(103,276)**	**791,546**	**2,040,049**

E2. Profit & Loss

	Year 1 £	Year 2 £	Year 3 £
Revenue			
Sales revenue	7,700	25,300	60,500
Transaction revenue	18,480	60,720	145,200
Total revenue	26,180	86,020	205,700
Cost of Goods Sold	0	(2,000)	(2,000)
Gross Profit	26,180	84,020	203,700
Gross Margin %	*100.00%*	*97.67%*	*99.03%*
Operating expenses			
Platform maintenance	(181)	(576)	(576)
Technology costs	0	(822)	(822)
Wages & Salaries	(72,000)	(127,000)	(127,000)
Professional fees	(19,775)	(5,000)	(5,000)
Sales and marketing costs	(1,200)	(1,500)	(1,500)
Depreciation: equipment	(100)	(100)	(100)
Total operating expenses	(93,256)	(134,998)	(134,998)
Operating Profit	(67,076)	(50,978)	68,702
Operating Profit %	*-256.21%*	*-59.26%*	*33.40%*
Interest Expense	-	-	-
Net Profit	(67,076)	(50,978)	68,702
Taxation	(5,236)	(17,204)	(41,140)
Net Profit After Tax	(72,312)	(68,182)	27,562
Net Profit After Tax %	-276.21%	-79.26%	13.40%
Dividends	-	-	-
Retained Profit (Loss)	**(72,312)**	**(68,182)**	**27,562**

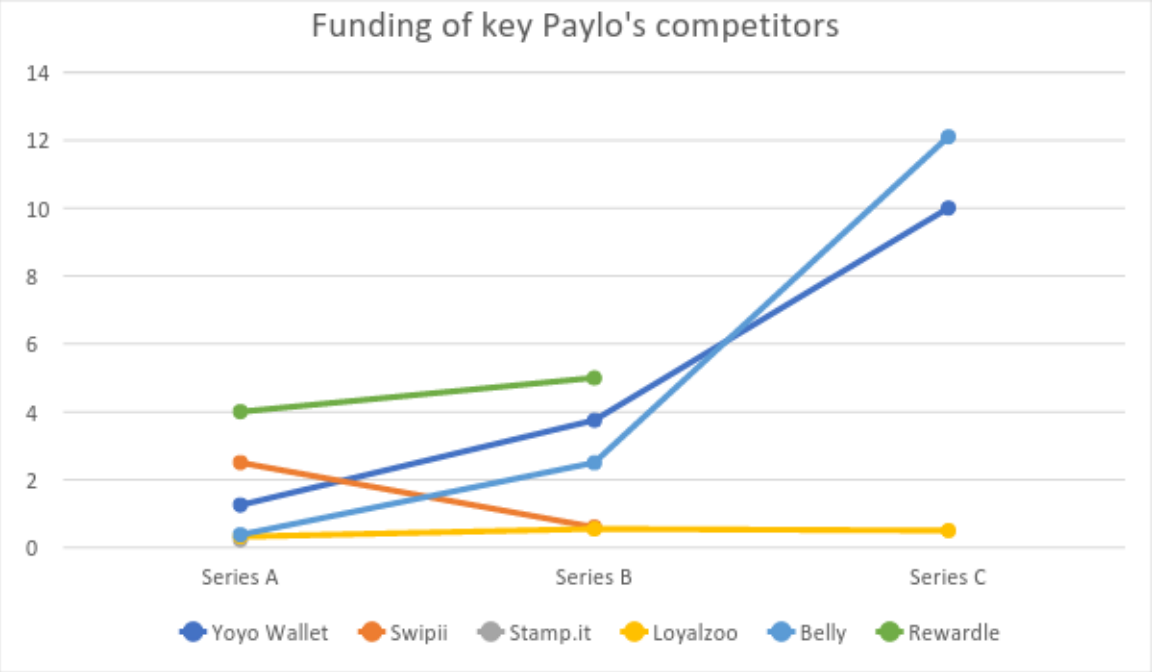
E3. Worst & Best scenarios

Parameters	Worst Case £	Base Case £	Best Case £
Capital Expenses	2000	1000	0
Yearly fixed cost:			
Platform maintenance	181	181	181
The increase of the cost of platform maintenance	395	395	500
Technology costs	0	0	0
The increase of technology costs	822	822	1,000
Wages & Salaries in Year 1	72,000	72,000	72,000
Wages & Salaries in Year 2	127,000	127,000	127,000
Professional fees	19,775	19,775	19,775
The decrease in professional fees	14,775	14,775	14,775
Sales and marketing costs	1,200	1,200	1,200
The increase in sales and marketing costs	300	300	300
Customer Acquistion Cost in Year 1	12.00	8.57	7.05
Customer Acquistion Cost in Year 2	5.00	3.26	2.50
Customer Acquistion Cost in Year 3	2.14	1.36	1.00
Sales:			
Monthly subscription fee in Years 1,2,3	55	55	55
Year 1 total number of paying subscribers	100	140	170
Year 2 total number of paying subscribers	300	460	600
Year 3 total number of paying subscribers	700	1100	1500
Year 2 total sales growth rate	300.00%	328.57%	352.94%
Year 3 total sales growth rate	233.33%	239.13%	250.00%

E4. Comments on Financials

Paylo's funding projection:

We estimate our future funding based on our competitors' performance:



Our Series A funding is calculated by taking the average of the Series A funding in our London-based competitors (Yoyo, Swipii, Stamp.it, Loyalzoo):

$$Paylo's\ Series\ A\ funding = \frac{1.25 + 2.5 + 0.225 + 0.32}{4} = 1.074 \approx 1mil$$

Paylo expects $1 mil in first round of funding seed, which will be in year 2 of operations.

Series B funding is calculated by taking the average of growth rates of London-based competitors:

$$Yoyo\ wallet\ growth\ rate = \frac{3.75-1.25}{1.25} = 2 \quad (1)$$

$$Swipii\ growth\ rate = \frac{0.6-2.5}{2.5} = -0.76 \quad (2)$$

$$Stamp.it\ growth\ rate = 0 \quad (3)$$

$$Loyalzoo\ growth\ rate = \frac{0.55-0.32}{0.32} \approx 0.72 \quad (4)$$

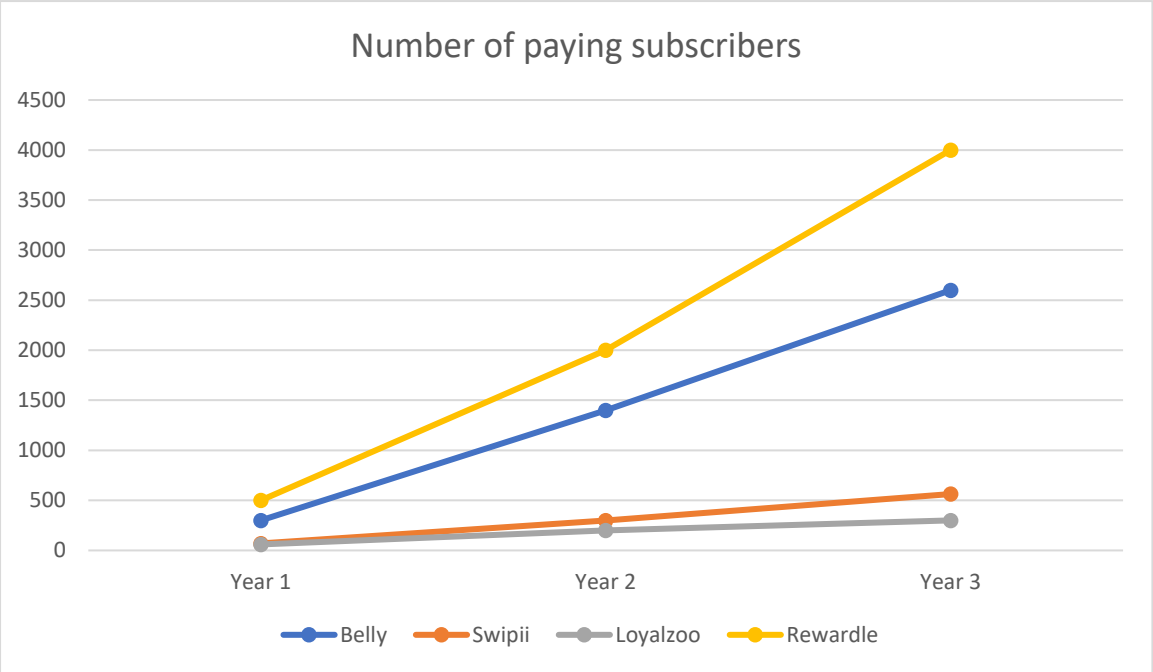
Combining (1), (2), (3), (4):

$$Industry\ average\ growth\ rate = \frac{2 + (-0.76) + 0 + 0.72}{4} \approx 0.5$$

Our Series B funding:

$$Paylo's\ Series\ B\ funding = 1mil \times (1 + 0.5) = \$1.5mil = £1.234mil$$

Revenue



Looking at the graph, we can see growth in the number of merchants using the loyalty app services in all 4 start-ups. There is a clear gap between UK and Australia and the US, which means there is room for more businesses to enter the UK market.

Swipii has recently announced that they will create 45 new jobs, from currently employing 10 people, aiming to expand the number of merchants drastically (Mcculloch, 2017). Therefore, Paylo will face more competition than Swipii did when they entered the market. Based on our London-based competitors' performance, we expect to acquire 140 customers in our first year. Following similar growth as Swipii and Loyalzoo, which is around 330%, Paylo will increase its number of paying subscribers to 460 and reach at least 1,100 by the end of 3rd year.

Paylo has identified 2 different sources of revenue: monthly subscription fees and cashless payments via mobile devices. In-depth analysis of the reason for choosing £55 a month fee was discussed in the "Monetisation" section.

Sales revenue from monthly subscriptions:

	Year 1	Year 2	Year 3
Monthly fee	£55	£55	£55
No. of paying merchants	140	460	1100
Total sales	£7,700	£25,300	£60,500

Sales revenue from transaction fees:

Average annual transaction revenue coffee London coffee shops receive is £88,000 (Russell, 2017).

It is assumed that 60% of the payments made in London cafes are via debit card or mobile payments.

$$Total\ payments\ via\ debit\ card\ or\ mobile\ payments = £88{,}000 \times 60\% = £52{,}800$$

All major credit cards have a rate of 2.75% per each transaction (Ebrahimi, 2016). This means, on average, a cafe in London incurs the transaction costs of approximately £2,488. Paylo will charge the merchant 3%, which is 0.25% higher than the credit card company. On average, Paylo will receive £88,000 from each shop, pay 2.75% to the credit card company, pay 97% to the merchant and keep 0.25% as revenue.

$$The\ revenue\ Paylo\ will\ receive\ from\ 1\ shop\ on\ average = £52{,}800 \times 0.25\% = £132$$

$$The\ revenue\ Paylo\ will\ receive\ from\ all\ merchants\ in\ Year\ 1 = £132 \times 140 = 18480$$

$$The\ revenue\ Paylo\ will\ receive\ from\ all\ merchants\ in\ Year\ 2 = £132 \times 460 = 60{,}720$$

$$The\ revenue\ Paylo\ will\ receive\ from\ all\ merchants\ in\ Year\ 3 = £132 \times 1{,}100 = 145{,}200$$

Cost of Goods Sold (COGS)

In year 1, COGS will be 0 (all the costs are variable). As the business expands COGS will include:

- Cloud/hosting/database costs
- Licences for products embedded in the application
- Customer support costs
- Payment fees

The total is estimated to be: £2,000

(Cummings, 2009)

Operating costs:

1) Platform maintenance:

The Apple Developer Program fee = 100 USD per year

Server account in Google Azure fee = 10 USD per month (=120 USD per year)

We have chosen Venus account with 15 total connections and 1GB, which will be sufficient for our app in year 1

Total in year 1: $220 ≈ £181

In year 2, we expect the number of users to increase, which is why we will need to upgrade our Google Azure account to Saturn with 5GB, which will cost 50 USD per month (=600 USD per year)

Total in years 2 and 3: $700 ≈ £576

2) Technology costs:

In year 1 we will use free data analytics tools, such as Power BI. We will also create algorithms ourselves. As we expand our business, we will likely use more advanced tools, for example by Mixpanel (which is also used by Yoyo). The annual subscription is $999 (=£821.55)

3) Wages & Salaries:

Opportunity cost of 4 UCL graduates working in Paylo: £27,000 per year, which is the average starting salary of a UCL graduate. However, we will assume that each of the 4 founders will have financial support of £9,000 from various sources. Therefore, each of the founders will receive £18,000 salary. As we expand our business in year 2, we will hire an external data scientist with a salary of £30,000 per year and a marketing expert with £25,000 per year.

Total in year 1: £18,000*4=£72,000

Total in years 2 and 3: £18,000*4+£30,000+£25,000=£127,000

4) Equipment:

This includes stationary, computers, Internet connection, etc = £300

Total in years 1,2,3: £300

5) Professional fees:

According to the Telegraph, the breakdown of costs an average UK start-up spends in 1st year:

- Audit and accountancy costs: £4,000
- Legal costs: £6,200
- Formation of the company: £5,500
- Companies house incorporation fee to register the business: £75

Total in year 1: £19,775

In year 2, professional fees will decrease to 5,000, because we will not require additional business advice on setting up the business.

Total in years 2 and 3: 5,000

6) Sales and marketing costs:

- Advertising on social media: £200
- Promotional material (printing costs on coffee cup sleeves, leaflets): £1,000

Total in year 1: £1,200

In year 2 as revenue increases, we will increase marketing costs to £1,500

Total in years 2 and 3: £1,500

7) Depreciation:

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets over 3

years.

$$Equipment\ depreciaion\ per\ year = \frac{£300}{3} = £100$$

Tax expense

We assume that the total tax is 20% of total revenue (ENTMagazine, 2014)

Dividends

No dividends are planned to be paid during the first 3 years.

Customer Acquisition Cost (not included in financial statements)

Year 1:

$$CAC = \frac{MCC}{CA} = \frac{£1{,}200}{140} = £8.57$$

Year 2:

$$CAC = \frac{MCC}{CA} = \frac{£1{,}500}{460} \approx £3.26$$

Year 3:

$$CAC = \frac{MCC}{CA} = \frac{£1{,}500}{1{,}100} \approx 1.36$$

CAC = Customer Acquisition Cost
MCC = Total marketing costs related to acquisition
CA = Total customers acquired

Further assumptions made:

- merchants always pay on time
- there are no bad debts, meaning no local businesses which use our services will go bankrupt
- no merchants ask for a refund
- Paylo pays for their expenses and taxes on time
- the exchange rate remains constant and is £1=$1.216.
- All the predicted changes, trends described are true and do not change over time (for example, sales revenue trends, no change in Apple Developer Program fee, etc)

- No changes in the market or real world happened that would affect our business (for example, no competitors entering the market which would potentially affect our sales revenue, no earthquakes, no war, etc)
- The team does not need an office and pay for rent
- Co-founders can survive in London on £18,000 salary

Appendix F – Interview questions

A. Card payments

- Do you accept card payments?

If no:

- Why not?
- Don't you believe it'll get you more customers?
- Do some people leave when they know you don't accept cards?

If yes:

- Do you require a minimum charge?
- Do you believe fees considerably affect your revenue?

B. Loyalty Programme

- Do you have a loyalty programme?

If no:

- Have you ever had one?
- Do you think a loyalty programme would increase you sales? If yes why don't you have it?

If yes:

- Why? Aren't your customers regular?
- How often do people use it?
- Would you think of upgrading your loyalty programme with modern technology?

C. Customers

- Who are your customers? Are they regular? Do you know their demographics?
- How do you attract new customers?
- Would you be interested in analytics about them?
- What types of questions would you like to get answers to (about your customers??

D. Marketing

Feel free to ask about marketing strategies

E. Open Questions

F. Events

Do you organise events and how do you let people know about them?

Appendix G – Positioning

Value proposition statement:

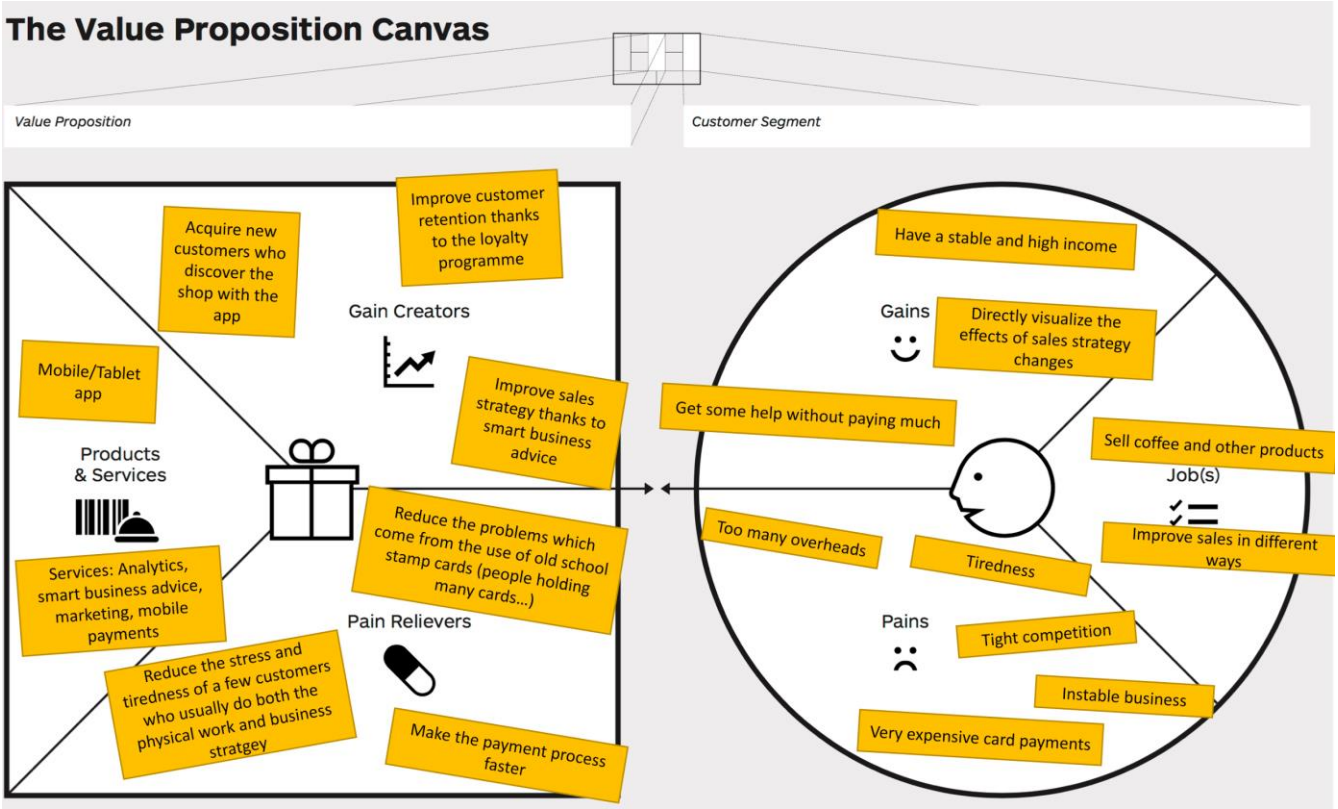
For local cafés in Central London, who suffer from a lack of business advice, a lack of customer understanding, difficulties in adapting to new technologies, and a low marketing budget, we have developed Paylo. Paylo is an app which serves as a point of sale, data analyser, marketing tool, and smart business advisor, with all these functionalities interacting together to maximise their efficiency.

Unlike other competitors, we specifically target local cafés, have relatively low prices, and provide many features which interact. Unlike other competitors in London specifically, we offer a mobile payment solution, and link the data collected by cafés to individual customer and their purchases.

To understand how we've reached this final value proposition please refer to Appendix H - the presentation slides.

Our initial value proposition statement was, before heavy pivoting, was:

For shoppers in Central London, who hold many loyalty cards and keep losing or not taking receipts, our app allows them to pay with the phone and automatically saved all this data.



Appendix H – Final Presentation Slides

Sadir Abdul Hadi
Anastasia Jung
Andreas Zinonos
Anton Morozov

Outline

- The team
- The problem
- Our idea
- Interviews and pivoting
- Prototypes
- Assumptions
- Uncertainties
- Conclusion

The team

Anton Morozov

Anastasia Jung

Sadir Abdul Hadi

Andreas Zinonos

The problem

Small businesses in the UK:

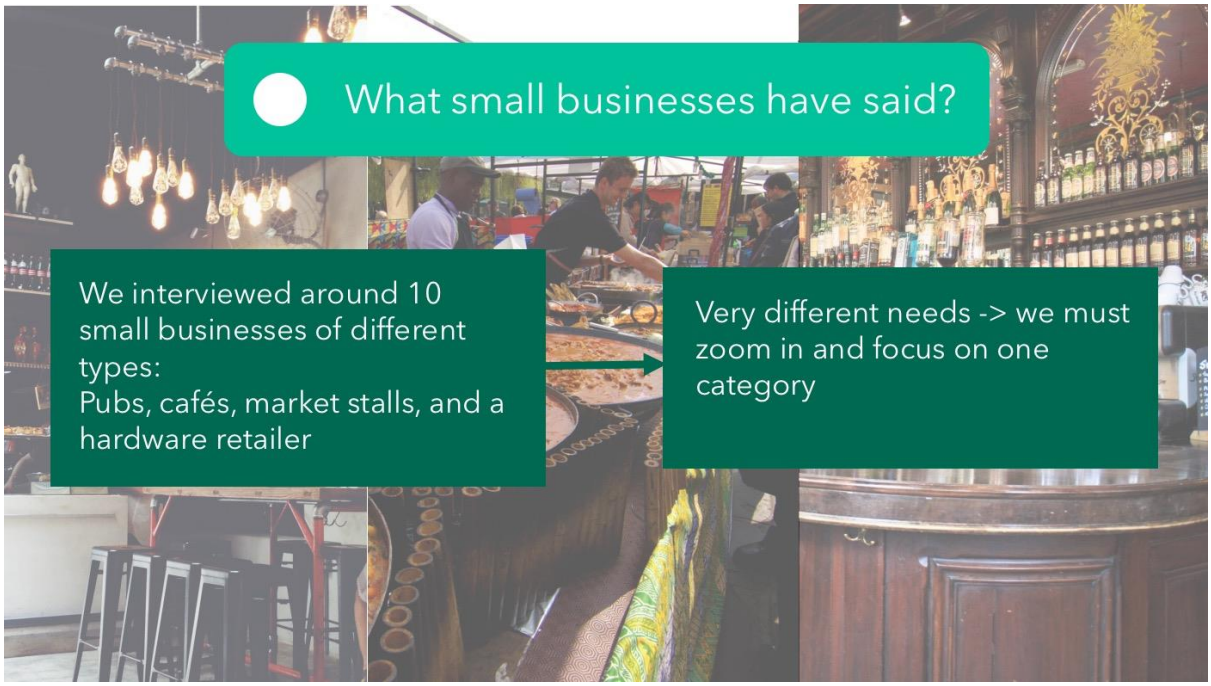
99.3% of all private sector businesses

33.1% of all private sector turn-over

GAP

Micro businesses, in particular, suffer from:

- Cash flow issues
- Not finding and retaining profitable customers
- Having too many overheads
- Not being able to stay up-to-date



What small businesses have said?

We interviewed around 10 small businesses of different types:
Pubs, cafés, market stalls, and a hardware retailer

Very different needs -> we must zoom in and focus on one category

New customers

Local cafés in central London

Their needs, according to our interviews:

- Reaching out to the customers and improving marketing
- Getting business advice

Our Solution

Application

- Serves as an electronic point of sale
- Analyses sales data
- Provides smart business and marketing advice

-problem-

How to be **different**?

Pivot

Additional feature
Linking the data collected to individual users

How?

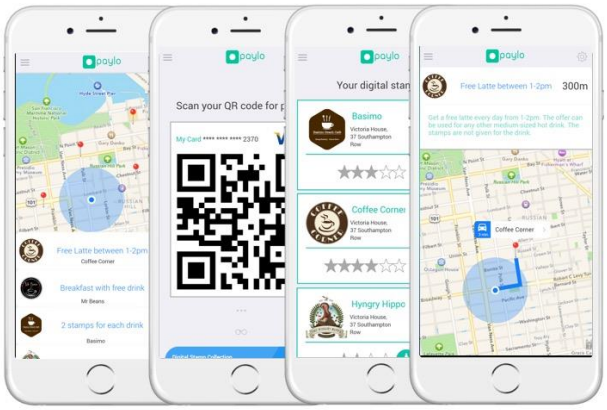
Turning the platform into a two-sided one:
- Customers can pay via the app
- Customers gather points and stamps on the app
- Customers discover offers around them

Additional problems solved?

- Unavailability of card payments in some local cafés
- Too many loyalty cards in a person's wallet
- Inability of small businesses to reach out to their customer

Final concept and prototypes

For users



Find shops | Pay | Collect stamps | Get offers

Final concept and prototypes

For merchants

Receive payments | View Analytics | Get business advice | Reach out to customers

Assumptions we've done

Assumption

Although **some** small businesses claim **not to need** analytics, because they "know what's happening" (their customers are regular) , we believe that some tailored **analytics** can boost their sales

Why?

- Some competitors (YoYo) target businesses that serve regular customers, and analytics proved to be valuable
- Small businesses only know about regular customers, but don't know about why some customers aren't regular

Other assumptions

Financial assumptions

- Funding
- Need for employees
- Number of businesses which will use the app

Market assumptions

Indirect competitors won't change their concept and become direct competitors

Indirect competitors : similar companies in different countries, which target different customers, or have a slightly different idea

Uncertainties yet to be resolved

Financial viability

The market is growing

1/3

of independent coffee shops have turnover increased by more than 20% between 2015 and 2016

55%

Increase in debit card payments in the next 8 years, in the UK

But:

- independent coffee shops may not be financially able to pay a lot
- owners might not be aware about the advantages of digitalising / modernising their business

Effect on the business model

Many types of revenue streams were suggested:

- Monthly subscription with freemium
- Monthly subscription without freemium
- Pay when you use functionalities (pay as you go)
- Percentage of profit gained from the app

customers' need →

Monthly subscription with freemium

- Local businesses would be interested in trying out the free features (electronic stamp card – basic analytics)
- Some sample sophisticated analytics and trends will be shown at the right moment to convince the retailer to buy the subscription

Our choice was based on the small sample of shops we interviewed. Further study is needed

Conclusion

- **Validated problem**: Local cafés need business advice and support
- **Solution**: App which provides analytics, detects trends, and offers advice, as well as other functionalities for cafés' clients
- **Monetization**: Freemium
- **Uncertainties**: Financial viability
- **Further steps:** Further financial and market analysis, monetization method validation

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