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SURF PORTUGAL – REDEFINING THE BUSINESS STRATEGY

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Abstract

The present master thesis provides an overview on how to use management theory to save the Surf Portugal magazine from its potential bankruptcy. After researching on the company, we used the VCW framework to find new businesses for it. Surf Portugal decided to implement all of our solutions: making a hardcover magazine, updating their website and creating a surf accommodation-related online platform. Being the company similar to a start-up, the academic discussion focus on the different financing stages and models. A personal reflection on the experience of doing this business project with Surf Portugal ends the thesis.

Keywords: VCW, financing stages, financing mechanisms, Surf Portugal

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1. Brief Context

a. Client

The client is Surf Portugal (SP), embodied in the person of its CEO, João Valente. Founded in 1987, SP is the first Portuguese surfing magazine ever, being one of the longest endemic surf brands in Portugal. The company was created by a group of passionate surfers whose main goal was to accompany the development of surfing in the country. Being the founders part of the environment they wanted to portray, they managed to reach success in the early ‘90s, when they were perceived as the core Portuguese surf publication.

The company kept on stretching its boundaries and devoting itself not only to Portuguese surfing, but to other geographical areas, keeping its readers updated on the sport, its competitions, the lifestyle, the culture, the adventure, the characters, as well as the other several variants of wave riding (e.g.: bodyboarding, paddle, etc.). This helped the company grow until the point it was purchased by Impresa in 1995. Belonging to this group provided the magazine with the financial resources to start monthly issues and solidify itself as the main media channel for surfing in Portugal.

SP appears on the online scene as a latecomer, only starting its own website by 2008. Despite not having live webcams streaming surfing spots, or the financial resources to produce top-notch videos, the company managed to grab the third spot on the most-visited surfing websites in Portugal only behind those who have beach webcams. Nonetheless, when it comes to social media, the brand takes the undisputed first place, which is key to grasp the trends and tastes of the market, as well as promoting both the brand, its products and, above all, its advertising partners.

b. Market Overview

As you will understand throughout this Work Project, since we are redefining the business model, the market scope for our Business Project goes way beyond the surf press in Portugal.

Our market stretches through all the possible lengths of the surfing industry since we were given a blank canvas to work on. Therefore, it is important to understand the whole surfing industry if we want to assess what of the possible new business units we want to tackle.

From the several news we have read and the several interviews we have made, we understood the surfing industry is still trying to recover from the 2008 crisis. As Miguel Moura told us, the industry was already suffering from a meltdown prior to the crisis, the main reason for that being that surfers were the ones managing their businesses despite not having any business knowledge. Prior to 2008, the big brands' main growth driver were not the endemic products, such as wetsuits and surfboards, but the lifestyle apparel (hoodies, sweatshirts, t-shirts, polo shirts, trousers, etc.), which had both higher margins and turnover. As the marketing director for Despomar, Pedro Dias, told us, the products of the apparel segment were, in quality terms, as good as those you could find on Nike or Adidas. The only difference was the brand and nothing else. They were even produced in the same factories and with the same templates. Stamps saying Billabong, Quiksilver or Rip Curl were the only distinction. These stamps were the sole fact that pushed these companies to charge €120 for a hoodie instead of the regular €30 one would find elsewhere.

Managers of these companies failed to understand that their companies had grown as much as they could with their leadership and that the years prior to 2008 were the ones to bring professionals into the companies, so they could keep their steady growth. Instead they kept trusting customers would keep on dressing like surfers, something that changed by 2008. With the crisis, the lower purchasing power of families did not let them pay such high prices for such ordinary goods. These customers turned to brands such as H&M and Zara to buy their clothes and started neglecting the surfing brands' offer due to their newly adopted price sensitivity.

To top it all off, some of these companies (e.g. Billabong) went public meaning that they had an extra layer of pressure to have positive financial performance – the stockholders. All of these occurrences lead to a great depression in the industry. Surfing events, magazines and athletes, whose main revenue source was sponsorships, started receiving less, which in turn diminished these brands' awareness and equity.

Surfing also suffered from its own intrinsic characteristics. Unlike, for instance, football, which has a very specific time-period, surfing events can take up hours since they depend on environmental variables (waves, wind, weather, tides, etc.). This idiosyncrasy makes it harder to broadcast surf competitions on live TV, making these programmes only available online. This in turn, makes it difficult for people to know surfers besides those who are at the core of industry, such as Kelly Slater. Therefore, it was not difficult for customers to detach themselves from these brands since they had not much contact with them either way. This effect is even greater because the biggest share of apparel customers by the 2000s were millennials, which by then (2008) were children who, obviously, did not pay for their own clothes.

c. Current client situation

When we associate the fragility of the industry with the Portuguese economic downturn, it becomes clear why SP is struggling. From budgets of 60,000 €/year for advertising, the company started receiving only 12,000€/year and lately absolutely nothing. Subsequently, the number of copies sold per month decreased from 11,000 in the 90s and the 2000s to a mere 1,000 in the past few years, which obviously led to a decrease on the advertising stream and on the number of employees. Since August 2015, the company ceased publishing its monthly issue. In spite of that, the website is still running, but without enough profitability to pay the monthly bills (cf. Appendix 1 to see SP’s annual loses). Therefore, the company is currently at a halt in search for new business models.

SP’s biggest media competitor is undoubtedly ONFIRE, the other Portuguese surf magazine However, this magazine founded in 2003, and despite their bimonthly issue and sponsorship with Moche, does not enjoy neither the same credibility nor reputation as SP.

The biggest remaining assets inside the company are three: its CEO, João Valente, his network and the SP brand. João Valente is a lifelong surfer whose network goes beyond boarders and whose knowledge and expertise in the industry correspond to the many years dedicated to the sport. The brand, notwithstanding all the difficulties, is still perceived as the top content provider of surfing and a core developer of the Portuguese surfing image worldwide.

d. The Business Project Challenge

Our main goal will be to make this company financially stable again. To do so, we were given, by the CEO, complete freedom to address this issue. The main challenge arises from the paradox that currently exists in the surfing industry: despite the number of surfers worldwide, which is higher than ever with around 23 million people, according to Statistic Brain (2016), the core brands are going through their most financial decadent times ever.

The impact this kind of crisis has in small stakeholders such as SP, puts their business in jeopardy, especially when sponsorship is such a huge part of press revenue. Adding to this, there is limited income coming from the digital sources and a decreasing number of magazine readers (Hoover’s 2016). The fact that it is hard to have a surfing experience (events are poorly promoted and absent from TV), makes it of the utmost importance to improve the current business model and find a new one to recapitalise the intangible asset that is the SP brand, using its already established network, capabilities and distribution channels as key promotional utensils.

2. Reflection on the work done and Individual Contribution

a. Problem Definition

Surf Portugal is a Portuguese surf magazine founded in 1987, belonging to the company Targetocean, Lda with headquarters in Cascais. Until the 2008 world economic crisis the company had experienced sustainable growth, which was backed up by a thriving surf industry eager to grow and make sponsorship agreements. After the aforementioned economic crisis and its deeper depression in 2011, the company decreased its revenue stream substantially due to lack of investment from companies within the industry, who were affected both by the crisis and by poor management decisions.

In a time where news are shifting to the online platforms and the paper press is lacking more and more its previous influence as a media channel, the main question is: **how can the company increase revenues profitably within the next five years?** Following this problem statement, which has been given to us by the company's CEO in this time of struggle, we have developed two research hypothesis on how that can be done.

b. Methodology

i. Hypotheses[1]

Hypothesis 1 (H1): SP can generate sustainable revenues from activities related to their current business model.

Hypothesis 2 (H2): SP can generate sustainable revenues from new business activities.

In order to test these hypotheses, we used a specific problem-solving theory, developed by our academic advisor, which we will briefly explain in the following lines.

[1] In our final report, the hypotheses took the form of sub-questions. Therefore, H1 refers to SQ1 and H2 to SQ2.

ii. Methodology

The framework we have developed for SP was done according to Professor Luís Filipe Lages' Value Creation Wheel problem-solving model, or VCW, for short (Lages 2016).

The VCW model is a disruptor when compared to the classical models (BCG Matrix, classic Business Plan framework, Cooper Stage-Gate model, McKinsey matrix, etc.) since unlike them, the VCW does not consist in analysing trade-offs between solutions, or taking linear decisions. Instead, the VCW is adapted to today's world, where uncertainty, experimentation, and improvisation most of the times take place over well-defined logical strategy. In doing so, the VCW tries to integrate paradoxes that otherwise would not be able to co-exist in the same model. It is a highly customizable tool, which accepts inputs from inside the company (e.g. banks of ideas) and integrates them with other models like the ones stated above. Therefore, it evades the question on whether to use, in this case, the employees' opinion, or a famous model to solve a problem, by relying on both of them and trying to take advantage of both inputs.

To better understand the model, we have to understand the DIANA theoretical framework. This framework clearly states the steps that need to be done in order to find the solution to our problem. Firstly, we ***D****efine* the problem, secondly we ***I****ncrease* the number of possible solutions, thirdly we ***A****ssess* them, then we ***N****arrow* those ideas, so that only the fittest survive and finally we ***A****ct* on the ideas that were finally approved.

Building on this template, we finally arrive to the TIAGO practical tool, which is developed to embody in a straightforward way the DIANA theory. TIAGO is another acronym standing for each one of its five phases, which define the VCW – ***T****ap*, ***I****nduce*, ***A****nalyse*, ***G****round* and ***O****perate*. Here is where this model innovates: these phases are highly dynamic and despite being supposed to be used sequentially, they are flexible and can be reorganised during the project's development to better fit our needs.

Before even entering the first phase, we make an overview on the industry our business is inserted in and we assess the company's strengths. Only after, do we start entering the actual VCW. In the first phase (***T**ap*), we defined the problem and challenges that we had to deal with. Then, we entered the ***I**nduce* phase. In this particular phase, the goal is to come up with as many ideas for solutions and filters as possible. Filters are the constraints the key decision makers will need to have in mind to accept or reject the proposed ideas. To come up with both the ideas and the filters, several stakeholders can be used. Using different people for brainstorms, interviews, banks of ideas or online questionnaires, there is a multitude of possibilities on how to gather solutions and filters.

Following the second phase, we enter the ***A**nalyse* one. Here, the board analyses each filter and solution individually to assess their potential. For a more efficient analysis, we have used the Poker method, which consists in either keeping the idea/filter (*call*, in poker language), multiplying or expanding it (*raise*), killing it (*fold*) or reviewing it (*check*).

In the fourth phase (***G**round*), we built the Value Creation Funnel (VCF, for short). Building on the ranked filters we have evaluated previously, the VCF provides us with the final and highest potential solutions. Nonetheless, the VCF is also flexible enough to integrate solutions that in spite of not passing the selected filters, the board decides to consider. This flexibility is sustained by the idea that not only logic, but emotion too does play a part in the business world. Another possibility is that the board did not feed us with all the available information and there might be some hidden strategies, or filters, that we did not take into account. In this phase, we also developed prototypes of each project.

The fifth and final phase is the ***O**perate* one, where the business model is generated and implemented according to the board's decision, which could be *Go*, *NoGo*, or *Check*. This last option (*Check*) only happens, if the board decides to verify any of the previous stages in the

TIAGO framework. Since we acted as a consulting team, the implementation process will be dealt with by the CEO, who can choose to do it himself or outsource it for another firm to do.

iii. Analysis

We started by doing an analysis of the surfing industry in general, in which we understood the reasons for its meltdown and its consequences on SP's business. We also developed SWOT, Competitive and VRIO analyses for SP and PESTEL analysis for Portugal, in which we understood, the company's overall context and its main assets – its network, its knowledge of the industry and its brand.

Given the VCW methodology, we had no boundaries to our ideas, so after defining the problem (cf. Problem Definition), we developed not one, but two VCWs: one to integrate all the solutions related to H1 and another to ingrate all the solutions related to H2. The logic behind this reasoning is that the filters with which we will funnel each solution related to the H1, will be definitely different from the ones related to the H2. To give a clear example, filters such as brand fit and brand awareness, are very important to any solution related to the company's past activities. However, when doing a *Surf Bnb* (one of our new business model solutions), this new website/app will not be using the SP brand since it would not make sense to create a worldwide scale website with "Portugal" in its name. Therefore, these two filters have little relevance when we consider new possible business units, but they are highly relevant if we consider launching an online magazine (which belongs to the H1 VCW). This is why we created the two VCWs: so that we could have two different VCFs (two different sets of filters).

To come up with both the solutions and the filters we not only brainstormed ourselves, but we have also run several interviews, which involved fellow students, regular surfers and some of the key characters in the surfing industry. From big wave rider and president of Portugal Surf Academia, João de Macedo, to the career manager for Nick von Rupp, Miguel Moura, passing through Despomar's marketing manager Pedro Dias and big wave rider Sebastian Steudtner, we got a more consistent knowledge of the industry, its possible businesses and its challenges.

Solutions more similar to the company's old activities were related to increasing online advertising, endorsements, sponsoring parties, relaunching the softcore magazine, reviewing products online, launching a hardcover magazine/book, amongst others. New business unit solutions regarded building surf gyms, clubs or themed bars, running events, consulting surf brands, creating a *Surf Bnb* website/app, or selling surf related memorabilia. In total, we gathered 48 solutions, which were not all presented to the board since, as we said previously, we used the Poker method to fold some of them (some of the H2 VCW ones). While presenting the business project, we have learnt that we should not have done this. We cannot put ourselves in the board's shoes (even though we had talked to the board regarding the ideas we have rejected through this method) and this is a key takeaway for us: during phase 3, no matter how much time we have to spend, we should include the board in everything. In terms of filters, we considered 17 of them, ranging from potential profit of the project to cost and passing through others such as competition, scalability, etc.

After giving the filters for João Valente to rank from a one to five scale, we used those whose grades were four and five to form our two VCFs (one for each VCW, as we had previously stated). The outcome of the funnelling process resulted in merely three of them: the production of a hardcover magazine and the improvements on the website, relating to the H1 VCW and the creation of the *Surf Bnb* app, relating to the H2 one. We recommended SP to go forward with these projects and we will explain how in the following lines by defining their prototypes.

c. Recommendations to the company

To more efficiently develop each solution, we split our four-element group into two groups. While Patricia and Magdalena took care of the new business units, Adrian and I focused on the decisions related to the old business model. For that reason, in this work project, there will be more focus on the hardcover magazine and website improvements than on the *Surf Bnb*.

i. Hardcover magazine

Being analogous to the company's past activities, both the hardcover magazine and website solutions can and will be kept under the SP brand. Let us start with the hardcover magazine, which is definitely the more important of the two. From our several interviews, we have realised that surfers are avid collectors of surf-related memorabilia. Surfboards, wetsuits and books are some of the things they collect with more emphasis on the books, which are easier to accumulate. Surfers follow certain magazines and writers as a cult, mainly because of the photographs that illustrate most of these magazines or books. Photography and surfing have been working alongside since the sport's birth due to the landscapes in which surfing can be practised, which tend to be very appealing. This magazine wants to take advantage of this collecting personality of surfers, in order to become successful by selling them a higher quality product at a higher price than the typical SP magazine. Using the business model canvas, we defined surfers as our target customers. To enlarge its potential customer-base and in order not to lose SP's credibility as a Portuguese brand, the magazine will be bilingual (Portuguese and English). Customer relationship will focus on yearly subscriptions of the magazine for a discount. The new SP magazine will be a hardcover, a high quality paper one, with four issues per year (one for each season) and with a low number of copies available (estimated to be around 1,000).

Given the low number of copies, the distribution channels cannot be the typical newsstands, but airport kiosks, surf and adventure shops and other lifestyle and concept stores. Online sales will be done through the website and some selected partners. Beyond the paper quality and cover, the magazine will differentiate itself through its new editorial line. Unlike past monthly issues, these seasonal issues will follow neither the major competitions worldwide, nor the major trends in the industry, but for instance, on the stories of atypical surfers (e.g. nomad surfers, who travel and work around the world in search hidden surfing spots) and unknown surfing events.

The key revenue streams are not only the sales of the magazine per se, but the advertising in its pages. The preliminary cover price will be 15€, since most interviewees showed to be willing to spend that amount on such a magazine. In addition, this would make SP compete with other brands with a smaller price point (on average, magazines of this kind, such as *Fly Blackbird Fly*, sell for 25-30€). Key partners (e.g. Mercedes, Northcore, Billabong, Turismo de Portugal), in turn, will have a budget of roughly 8,000€ altogether to advertise in the new SP.

When it comes to costs, SP's past business model consisted of a monthly 60-page issue done by the two editors already in the company's payroll as well as João Valente. Therefore, it is only logical that the same team will be able to handle a new seasonal issue, which João Valente told us, would aim to have around 100 pages. Beyond that, SP will outsource photographers, art directors/designers for the magazine and other journalists for extra content, something, which has been customary for the company to do ever since its exit from the group Impresa. After talking with several service providers in these areas, we found the average prices for each of these services to be the following:

- Photographic reports cost 1,500€/100 pages, on average;
- Outsourced text/article writers ask for 500€/100 pages, on average;
- Magazine issue designers ask for 1,000€/issue, on average.
- Magazine template and graphical designers ask for 2,000€, on average (one-time cost).

To these costs, we will also have to add the distributor's commission (25% of the cover price), a transportation cost of around 2,000€ and finally a 4€ cost per copy printed. Assuming these costs hold and SP manages to sell 900 copies every three months we predict the company to have an annual gross profit of 34,500€[2].

ii. Website improvements

Relaunching SP as a hardcover magazine cannot happen without a new redesigned website. The website has to portray the new company's positioning as a top-notch surfing content provider in two languages. Therefore, beyond updating its visuals (making it cleaner and available for all mobile operating systems), we also recommend to make it bilingual, just as the magazine, to keep the brand's offerings consistent.

The reasons behind this are obvious: English makes the websites more far-reaching in terms of audience. A larger audience leads to more page views, which in turn leads to more revenue from this stream.

In terms of editorial line, the website can take on news more associated with the mainstream part of the industry (e.g. competitions and famous surfers). Regarding the advertising space, we recommend the company to make use of advertorials[3].

iii. *Surf Bnb*

The *Surf Bnb* (whose preliminary name is "*Surf Advisor*") is not only a website/app for bed and breakfast (like Airbnb), but also a platform connecting surfers and tourists to accommodation, experience and equipment providers. Using the business model canvas we decided to target both the surfers/tourists, which will be the end customers, as well as the service providers. The value preposition is convenience – we aim to bring groups of friends and couples and service

[2] Beyond the CEO, SP's staff includes two online editors. To arrive at this value, we did not take into account the salaries of both editors since we only wanted to compute the profit from entering the hardcover magazine project and the salaries will be paid irrespectively of entering or not. More on the financial analysis of the magazine project in Appendix 2.

[3] Advertorials are a combination of news pieces with sponsored content. An example could be story on a surf trip around Portugal with a Mercedes-Benz car.

providers (e.g. hostels, surf camps, camper vans, boat rentals, etc.) together on a single platform. Unlike most services of this kind (for instance, *Airbnb*), where one can only book accommodation and then has to book its surf lessons separately, here one would be able to find everything in one place. In addition, the website enables surfers/tourists to rate the services they have used for everyone to see and service providers would have access to a much greater customer base and feedback on their services. In addition, tourists can ask for tailor-made bookings (e.g. demanding surfboards to be on the hostel at their arrival) and providers could for instance, be able to focus their marketing efforts on surfers with a specific surfing skill level (e.g. some surf camps would target beginners and others experienced surfers). The main resources for the success of this enterprise are João Valente's network and his knowledge of the industry. Furthermore, the company will need funding and software developers to put the project running and create its distribution channels. These channels (app and website) will be promoted through social media, to create awareness. Users will then "spread" the brand by discussing the website on forums, blogs and magazines, in addition to the social media platforms. The revenue streams will be both the bookings' commissions and the sponsored offers for service providers. Beyond the investors and the service providers, the company should try to engage other key partners such as surf influencers and bloggers to generate more traffic. Customer relationships must also be taken into consideration: customer service and support will be key to build an engaging community and to position the brand as an expert on the surf tourism industry. Costs will depend on the decision to hire or outsource people to program the app. No matter this decision, the company must build a minimum viable product (MVP), so customers can use it and then give feedback to the developing team.

While the previous two decisions will keep on using the SP brand, the *Surf Bnb* platform will have its new standalone brand because, as we have referred previously, it would not make sense to book a hostel in Bali on a website branded with the name "Portugal".

Concerning the success of this business project and our recommendations, we can say that in the end of our business project presentation and when questioned by Professor Luís Filipe Lages on how many of these solutions would the CEO implement, João Valente replied “All of them. Pretty much all of them… And more.” In addition, when comparing the business model canvas we had done with the help of the VCW with the one from his business partners for the *Surf Bnb*, João Valente said that the VCW contributed to make ours more synthesized in comparison to theirs. “Theirs looked like there was brainstorming in every box of the business model [canvas], whereas in ours the actual solutions were already there.” These answers were extremely gratifying and rewarding because they meant our work did make a difference. Since our hypotheses were considered viable and given that the solutions will be implemented by SP, we have developed an action plan for the company that can be seen in depth in Appendix 3.

d. Concerns

No business project goes forward without several doubts and concerns. In the following lines, we will refer our biggest concerns for the aforementioned projects.

i. Hardcover magazine

When it comes to the magazine, several issues arise, the main one being the size of the market, which might have been overestimated by us. Of course, there will be a low number of copies on sale (around 1,000); nonetheless, our estimated price of 15€ might deter some customers from purchasing the magazine.

Another issue is that the hardcover magazine might not be sufficiently different from the old magazine to become successful. The difference between the past softcover magazine and new one is similar to the difference between CDs and vinyl. While CDs sales are diminishing, vinyl has never been in more demand. The same reasoning applies to the new magazine (the vinyl), when compared to the old one (the CD). What remains to answer is if customers will realise that difference, as accurately as we perceive it.

Then there is the issue of distribution, which will ultimately be in João Valente's hands, but to which there is no clear right answer. On the one hand, this magazine is positioning itself as a new age magazine, thus the point of sale would better fit the supra mentioned high end outlets, while on the other hand, given the small scale of the project, sales must be achieved for it to become profitable. This would mean that it would be optimal to sell the magazine at a high foot traffic shop, like Fnac and traditional newsstands. We opted for the first option, but there is no guarantee that sales will achieve the desired level in those places, despite them being a better fit to the brand.

Finally, making this magazine bilingual might use too much space on the pages, reducing the area left for pictures ads and sponsored content. Not only that, but also the relevance of making it bilingual might be at stake since most Portuguese consumers of surf content (which will represent the biggest percentage of customers) know English, making it redundant to have both languages.

ii. Improvements on current website

One of our main concerns is the graphical similarity between these outputs. It is of the utmost importance that both the web designer in charge of updating the website and the magazine designer share ideas and graphics, in order to keep both these media consistent. It is our recommendation that they work together, alongside with the company's CEO, so that miscommunications do not occur and every party can achieve its goals according to the CEO's vision.

Additionally, the different editorial line of the website (mainstream surfing content) when compared to the hardcover one (more focused on story telling) might cause some confusion to customers regarding the brand's positioning. As Leeflang et al. (2014) state, in today's online age, brands are defined by consumers' perceptions and opinions, which sometimes undermine the marketer's position statement, so this is no small importance issue. Since the website news will be more on mainstream subjects than those on the magazine, customers might perceive these differences as conflicting with one another. Subsequently, this might lead to a lower level of brand identification.

iii. *Surf Bnb*

Issues concerning the *Surf Bnb* start even before it is put into place. For the development of both an app and a website, there is the need for enough money to either hire or outsource people, as well as to develop trial runs of the technology. Banks and/or venture capitalists must be convinced for the project to go forward.

Adding to this, there is the general concern that we might have understated the tourism online market. Let this website be a tailor-made platform for surfing enthusiasts or beginners as it is, there are currently on the market other options that despite not being specially dedicated to tourists might be just as or more competitive (e.g. *Booking*, *Trivago, Hotels, Destinia*, etc.).

Moreover, it is relevant to consider time to market (TTM). In today's world new ideas become business at a very fast pace; therefore it is key for the CEO to put this project into practice before some other party comes to the market with a similar idea or value proposition.

Finally, a point that is concerned with all the aforementioned endeavours – social media. These forms of media are currently at their prime and as internet reaches more and more people worldwide, it is key to have guidelines on them. According to Colliander & Dahlén (2011) consumers are more prone towards social media information than towards other forms of online media (websites, online newspapers/magazines, etc.), so social media induce higher purchase intent and brand attitude. These aspects are crucial for the projects' success.

e. Individual Contribution

Concerning my individual contribution for the business project, I will explain them in a chronological fashion, following the sequence of phases on Professor Luís Filipe Lajes' VCW theory.

Prior to phase one, I helped developing the surfing industry analysis. Through the thorough reading of many news articles, I helped the group understand the collapse of surf brands beyond what was told to us through the interviews we have done. Finding out ruinous deals and management decisions such as Quiksilver's purchase of ski brand Rossignol for 560M€ in 2005, only to sell it for 147M€ in 2008 to its former CEO, helped us comprehend why SP's revenue stream from advertising decreased so much.

Then, with the help of my colleagues, we defined the problem definition. The challenge was to have a broad enough goal that could be able to fit any solutions that might come out of the VCWs. Given Adrian's and mine backgrounds in finance, we opted to make finance-related goal and then associate it to the company's current capabilities and new opportunities.

On the second phase, I contributed in the brainstorm for solutions and filters. In addition to that, I took part on most of the interviews done by the group, which added more solutions and filters to table. Not only by leading some of those interviews, but also by driving the group to different places. Being the only group member with a car, it was my duty to take the group to places such as Ericeira, Cascais and Arrifana where we had a weekend workshop.

Going back to the solutions, I should highlight that I focused on those more closely related to H1 (or the company's past activities) and their development since early on the project. More on this will follow on the next lines.

After this phase, we had to dig deep into the VCW theory. Given everybody's different schedules and workloads, it was hard at some stages of our business project to get together and study the Professor's paper. Therefore, I took the lead and studied it by myself, helping then my colleagues understand the model.

Given my position as the person that had first understood the model, it was my role to explain to the company's CEO, João Valente, what the filters were and why its ranking of them would be so important for the final outcome of the business project. To this end, I developed an Excel file with both VCWs and their respective VCFs that would be on the basis of our final presentation slides.

Moreover, I gathered cost information regarding web and magazine designers, as well as outsourced journalists and photographers that would be willing to write articles for new magazine and/or website. These costs in turn would enable us to calculate the financial prospects of the magazine project that I have referred above.

Finally, I helped elaborating the slides for our business project, which consisted in those shown on our final report and presentation. My work stressed more on the slides related to the Theoretical Background and application of the VCWs. In addition, I helped developing the prototypes for the website and the magazine as well as the potential concerns for all projects.

3. Academic Discussion

a. Possible links with the MSc in Finance

At this stage of the work project, we have to relate the field of my masters (Finance), with the initiatives we have pursued with SP. Several possible links to finance arise such as how to evaluate a company with such unpredictable cash flows, what are the drawbacks and concerns of doing so, would a DCF valuation apply, and so on and so forth.

However, the projects SP will undertake are similar, in terms of financing mechanisms, to those of any new start-up company, thus, from our perspective, there is great potential in relating SP's future endeavours to the subject of entrepreneurial finance.

Put simply, SP is launching a tourism related app/website and a hardcover magazine with its matching web portal. With currently no product in the market, the company is just like a start-up. Like any start-up, bank loans might help financing these projects, but there are options in the market other than that. Therefore, João Valente might have to search for funds elsewhere, just like any entrepreneur. On the next pages we will focus on these financing subjects, so that we can understand what would be the best ways to fund SP's new projects.

b. Beyond banks

It is common sense that banks are not the best financing option for SMEs: after the crisis, they have been too risk-averse and there are many uncertainties associated to SP's new business units. In addition, banks only borrow money to companies, so their payment will always be principal plus interest. Given that they have no equity stake on the company, borrowing to a company that will be a big success in the future is no different from borrowing to a future moderate success one (Bettignies & Brander 2007).

In a world where globalization plays such an important role, financing too cannot evade it. A good example, is venture capital financing – foreign investment in VC increased from 10% to 22.7% from 1991 to 2008, mainly due to the cost reduction of monitoring those investments by investors and due to the alternatives to typical VC firms, such as crowdfunding and angel investors (Chemmanur & Fulghieri 2014). Banks are just one possibility among many.

c. Financing stages

Despite the number of financing options, some choices are better suited to some financing stages than others are, so before going in depth about each potential partner we need to know more about financing stages.

Financing stages depend on the degree of development of the company and have always a specific goal to them. Generally, theory (Ross et al. 2006) considers the following stages: *seed funding* (prove the idea has a market), *start-up* (product development), *first-round* (also known as Series A round, where gathered money is targeted towards sales), *second-round* (aka Series B round. The aim is to fund the working capital of start-ups that are not yet making a profit), *expansion* and *exit of VC* (through, for example, selling its stake on an IPO).

Given the fact that currently SP does not have neither a hardcover magazine, nor its *Surf Bnb*, its biggest concern should be to find its best partners for both the *seed funding* and *start-up* stages.

d. Corporate Venture Capital/Venture capitalists

Contrary to popular belief, Corporate Venture Capital (or CVC) is not Venture Capital, but a subset of it. Denis (2004) defines this type of investing as that done by large enterprises that participate in entrepreneurial firms through one or more of the following methods: alliances, acquisitions, direct investments (using the company's funds) or indirect ones (using the external venture funds). Nonetheless, and broadly speaking, CVCs generally invest by buying equity stakes in firms with a huge growth potential (Singhal 2015).

Some of these investing companies are actually created by firms who have been the target CVCs in their early days, such as Google Ventures. Other companies are related to hedge funds, such as Fidelity Biosciences.

Venture capitalists' definition, however, is broader than the CVC's definition. Venture capitalist can either be a person that represents the CVC, or a high net worth independent individual.

Both VCs and CVCs act beyond their financial investment. Their main asset beyond the money they provide to high-risk start-ups is their management skills. If not for this, entrepreneurs would rather have straight vanilla debt from banks since this would not mean giving up part of the company's equity (Bettignies & Brander 2007). Therefore, this type of investors must be active to justify to entrepreneurs the high cost of giving up equity. Using past experience to provide the start-up with a network of suppliers, distributors and managers, there are many ways to help the start-up (Denis 2004).

However, empirical studies show that CVCs and VCs are not a very common financing source for several reasons. Firstly, and in the case of CVCs, they lack commitment from within the main company (Sykes 1990). Secondly, they lack a clear mission statement, which makes them, sometimes, pursuit mismatched goals (Siegel et al. 1988). Thirdly, they do not compensate the venture manager in accordance to venture's payoff. Finally, there might be conflicting interests between both the company and the sponsored start-up (for instance, the start-up might be creating substitute products for the CVC owner's ones) (Hellmann 2002).

Adding to these reasons, CVCs generally prefer investing at later financing stages (when the company is much more consolidated, like the first-round stage) (Denis 2004). This means that newly born start-ups are not very prone on raising money from CVCs.

e. Angel investors

Angel investors or business angels are wealthy individuals who invest their own money on a small amount of companies. Their main goal is to act as seed investors, meaning that they invest in the earliest stages of the company's development. Their investments (equity and/or convertible debt) are small ranging between 500,000 USD and 2,000,000 USD and they do not require any public disclosure, given their status as private transactions (Denis 2004; Wong et al. 2009).

There are several positive aspects of using business angels. Some of those include their attraction to high-risk projects, receiving the entirety of the money at the moment of investing, having no need to include collaterals in the contract, dealing with only one person (which can also be a con, as we will see), or using the angel's network and experience to further develop the company (Dibrova 2015).

Nonetheless, some negative aspects also arise: firstly, the angels' motivations for supporting the start-up may change through time. Secondly, there may be dishonest investors or investors that may expect an unfeasible return on their investment. Thirdly, they may be hard to interact with on a personal level. Finally, they may not have helpful network or managerial skills to help the start-up when it most needs (Dibrova 2015).

f. Crowdfunding

Crowdfunding consists in gathering small amounts of money from a large number of people, therefore diluting each person's individual effort, while maximizing the amount of money available for the project. Good examples go from small projects like the *Pebble* watch, to movies that did not have studios backing them up like the *Veronica Mars* movie (Younkin 2016).

Crowdfunding through websites such as Kickstarter or IndieGoGo has been changing the financing paradigm since it enables the entrepreneur to access funds without neither having to pay interest nor giving up equity. Although not all projects do so, there is an increase of reward-based crowdfunding to compensate for the money donated to the cause, meaning that donators receive a prize in accordance to the size of their contribution (Thürridl & Kamleitner 2016).

Younkin (2016) adds that studies show that while the crowdfunding financing model is very good as a way to gather funds for niche products or services in the beginning of their lives, it is less likely that it would work properly when replacing "dying revenue streams". This means that these platforms work better as the source for one-time donations than as the source for sustainable growth for correcting financial problems.

g. Implications for theory and future research

SP is a start-up, but it is more than that simultaneously because it presents itself to investors with a very well known intangible asset: its brand. Being an intrinsic part of the Portuguese market, SP's funding options are much more limited than those we have considered in our theoretical analysis, which generally apply to the broader European and North American geographical areas. Some funding mechanisms, like crowdfunding, are yet to be developed in Portugal, while business angels and VCs start to appear more prominently in the market, helped by the rise of imported TV shows such as *Shark Tank*.

With a new vibrant start-up scene, Portugal is gradually becoming an incubator for the development of start-ups in Europe. Nonetheless, there are no empirical studies on their success or demise. Therefore, a possible study worthwhile doing would be on how Portugal, a country with high taxes and no history on entrepreneurship, could become such a strong powerhouse for start-ups in Europe.

Adding to this, and building on Kerr & Lerner (2011), it would be interesting to know if there is evidence that there is any positive correlation between angel investments and the success of the companies they invest for the Portuguese market. For the US market, being backed by famous angels has a positive impact in terms of revenue and web traffic, for instance.

Leaving the geographical research and focusing on the consequences of the funding decision, empirical findings show that owner-specific characteristics, such as his/her desire for control of the company, influence its capital structure (mac an Bhaird 2010). Today's development of financing options has huge implications on theory, namely the Modigliani-Miller theorem.

Given that it has been almost 60 years since it was first presented, it would be relevant to assess how the owner's idiosyncrasies and risk predispositions will affect the company's capital structure, mainly by relating those people's funding options with Modigliani-Miller theorem.

The theorem states absence of asymmetric information (Modigliani & Miller 1958), something which is clearly false for SMEs: the owner will always know more than the investor. However, does this mean the owner's valuation of the company projects is more accurate than the investor's one?

4. Personal Reflection

a. Personal experience

This project served as great opportunity to work. Therefore, I dare say it served almost as an internship, which despite being off-site, was very demanding. Unlike several other business projects, where my team and I would be working with a multinational company for a project that would not have much significance in the overall company's activities, working with SP was the complete opposite. I felt the responsibility of redefining an entire business model, which because of the company's size, affects it as a whole; therefore, this proved to be the most satisfying and relevant project I have ever done in my life.

i. Key strengths and weaknesses observable during the project

As with any person, I have several strengths and weaknesses. As for the strengths, I consider I have had a leading role, despite the group having been able to work with no defined leadership. During the early stages of the business project, I took on the task of understanding Professor

Luis Filipe Lages' framework, something none of us were understanding at first due to its various phases, which increase the overall complexity of the VCW system.

Furthermore, I took on the difficult role of being the group's devil's advocate. Being the company in such a difficult situation, there was at times the will to take on as many projects as possible to help overcome those difficulties. In those times, I became known as the fatalistic voice that would say that doing so, would not be feasible. Despite not being a comfortable role to be playing, I felt my colleagues understood my concerns as time proved me right.

Regarding the weaknesses, I think that I was too much of a micromanager. Instead of letting people work on their own, I would often ask them if they had done what they were supposed to do. This in turn brought unnecessary stress to the team. Adding to this, I felt impatient sometimes: contrary to the Portuguese approach to projects, which is very much hands-on and straight to the point, my colleagues' approach is much more planned and time-consuming. In my opinion, I have to evolve on this matter because from my personal experiences abroad, most people work in a much more planned and structured way than Portuguese people. Since I aim to work abroad, I must improve in this area, even more if we consider that the final output is better if we work in supra referred structured methodology.

b. Benefit of hindsight

From my perspective, my perseverance and dedication to the BP added value to the work project, especially when associated to my technical skills as a finance and management student. These idiosyncrasies helped me overcome the most difficult situations, let them be technical or personal. If I could go back in time, however, I would not have been so much controlling. Adding to this, I would have taken time to understand my colleagues' mind frame and decision-making process, trying combining their view with mine on much better grounds.

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Appendices

Appendix 1: Projected Income Statement from Current Business Operations

REVENUE	2016	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16
Advertisement revenue	18 000	1 500	1 500	1 500	1 500	1 500	1 500	1 500	1 500	1 500	1 500	1 500	1 500
Website advertising	18 000	1 500	1 500	1 500	1 500	1 500	1 500	1 500	1 500	1 500	1 500	1 500	1 500
Financial revenue													
Other revenue													
Total revenue	18 000	1500	1500	1500	1500	1500	1500	1500	1500	1500	1500	1500	1500
EXPENSES	**2016**	**Jan-16**	**Feb-16**	**Mar-16**	**Apr-16**	**May-16**	**Jun-16**	**Jul-16**	**Aug-16**	**Sep-16**	**Oct-16**	**Nov-16**	**Dec-16**
Salaries and wages	25 794	1 842	1 842	1 842	1 842	1 842	1 842	3 685	1 842	1 842	1 842	1 842	3 685
João Valente (net)	17 255	1 233	1 233	1 233	1 233	1 233	1 233	2 465	1 233	1 233	1 233	1 233	2 465
João Nunes (net)	8 539	610	610	610	610	610	610	1 220	610	610	610	610	1 220
Employee benefits	18 021	274	1 525	1 525	1 525	1 525	1 525	1 525	2 501	1 525	1 525	1 525	1 525
Social security (employees)	3 299	-	275	275	275	275	275	275	550	275	275	275	275
Social security (company)	7 123	-	594	594	594	594	594	594	1 187	594	594	594	594
IRS	4 584	-	382	382	382	382	382	382	764	382	382	382	382
Meals	3 015	274	274	274	274	274	274	274	-	274	274	274	274
Outsourced services	4 170	348	348	348	348	348	348	348	348	348	348	348	348
Webmaster	2 070	173	173	173	173	173	173	173	173	173	173	173	173
Accounting	2 100	175	175	175	175	175	175	175	175	175	175	175	175
Rent	2 364	197	197	197	197	197	197	197	197	197	197	197	197
Telephone	1 344	112	112	112	112	112	112	112	112	112	112	112	112
Insurance	720	60	60	60	60	60	60	60	60	60	60	60	60
Travel	2 400	200	200	200	200	200	200	200	200	200	200	200	200
Financial expenses	5 637	-	-	-	1 898	-	-	1 879	-	-	1 860	-	-
Taxes	5 173	-	5 173	-	-	-	-	-	-	-	-	-	-
Total expenses	65 623	3 033	9 457	4 284	6 181	4 284	4 284	8 005	5 260	4 284	6 144	4 284	6 126
Total profits	- 47 623	- 1 533	- 7 957	- 2 784	- 4 681	- 2 784	- 2 784	- 6 505	- 3 760	- 2 784	- 4 644	- 2 784	- 4 626

As we can see, the website advertising revenues are insufficient to generate profit (annual loses of almost 50,000€). These values were computed with data provided by the company and are an estimate of the company's financial conditions if it keeps its business model as it is as of the time we developed the business project.

Appendix 2: Hardcover magazine financial forecasts

Issues per year	4
Quantity produced per issue	1 000
Quantity sold per issue	900
Price	15
Ads revenue per issue	8 000
Per book costs	
Printing (per book)	4
Per issue costs	
Photography (per 100 pages)	1 500
Journalists (per 100 pages)	500
Design	1 000
Transportation	2 000
Distribution (retailers' cut)	25 %
Per project costs	
Design project (one time cost)	2 000

ANNUAL P&L	
Revenues	
Sales revenue	54 000
Ads revenue	32 000
Total revenue	86 000
Direct costs	
Printing	16 000
Photography	6 000
Journalists	2 000
Design	4 000
Transportation	8 000
Distribution	13 500
Design project	2 000
Total direct costs	51 500
Annual gross p/l	34 500

Revenues

Sales Revenue = €15 * 900 copies * 4 issues= €54,000
Ads Revenue = €8,000 * 4 issues = €32,000

Total Revenue = €54,000 + €32,000 = €86,000

Costs

Printing = €4/copy * 1,000 copies/issue * 4 issues = €16,000
Photography = €1,500/issue * 4 issues = €6,000
Journalists = €500/issue * 4 issues = €2,000
Design = €1,000/issue * 4 issues = €4,000
Transportation = €2,000/issue * 4 issues = €8,000
Distribution = 25% of Sales revenue = 0.25 * €54,000 = €13,500
Design Project (one time cost) = €2,000

Total Direct Costs = €51,500

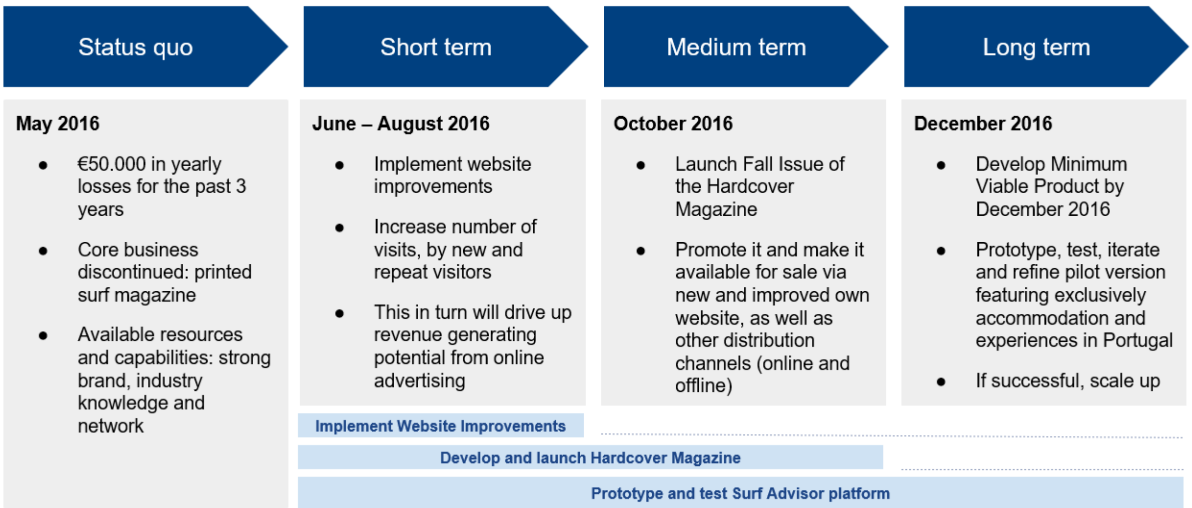
Annual Gross Profit/Loss = €86,000 - €51,500 = €34,500

Values subjects to higher degree of uncertainty are in yellow. All other values have been obtained by requesting service providers on those areas for budgets.

		Retailers' cut					
		5 %	10 %	15 %	20 %	25 %	30 %
Price	10	28200	26400	24600	22800	21000	19200
	11	31620	29640	27660	25680	23700	21720
	12	35040	32880	30720	28560	26400	24240
	13	38460	36120	33780	31440	29100	26760
	14	41880	39360	36840	34320	31800	29280
	15	45300	42600	39900	37200	34500	31800
	16	48720	45840	42960	40080	37200	34320
	17	52140	49080	46020	42960	39900	36840
	18	55560	52320	49080	45840	42600	39360
	19	58980	55560	52140	48720	45300	41880
	20	62400	58800	55200	51600	48000	44400

This second table shows a sensitivity analysis concerning changes in two variables: cover price and the retailers' cut from the cover price. We can see that no matter the retailers' cut for prices between 10€ and 20€, producing the hardcover magazine will always payoff.

Appendix 3: Roadmap/Action Plan



The action plan we have devised to help the CEO better implement the several solutions.