AUSTRALIAN UNDERGRADUATE BUSINESS CASE COMPETITION

AUBCC Sydney 2015 - Case 2

Xendit and beyond

Client:

Moses Lo (CEO) and team

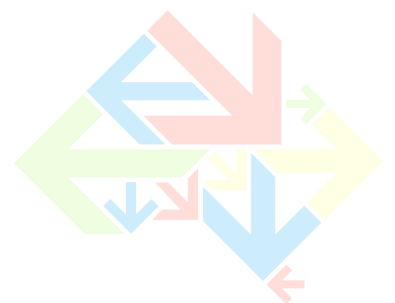Case Writers:

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THE UNIVERSITY OF MELBOURNE — FACULTY OF BUSINESS & ECONOMICS

UNSW AUSTRALIA | AGSM — Business School

QUT Business School

"I believe that a business worth pursuing should add value to our world"

Moses Lo, Xendit Founder

Xendit – Case Problem Summary

Moses is very excited about the future of Xendit (pronounced "send it") in the Peer-to-Peer (P2P) space. The Xendit team has created a scalable platform (app and website) that facilitates intra-person and intra-currency money transfers using an experienced team of engineers, capable of building great products quickly and effectively. The team's initial business hypothesis was to undercut traditional players in the cash remittance space in South-East Asia by offering extremely low transfer fees. Targeting the Indonesian market out of Jakarta (also where Xendit is based), the team found the market saturated with many competitors also offering extremely low prices.

The key question on Moses' mind: What is the new path for growth with Xendit? Discussions with the team have broken this down to three parts:

1. Which customer, or market, segment should Xendit target within Indonesia? (25% of discussion)

2. How should Xendit go about acquiring more customers within the environment based on the identified segment/s? (70% of discussion)

3. Is there a need for Xendit to adapt its P2P product to this segment, and if yes then how should it go about the process? (5% of discussion)

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Company Overview

Xendit to Jakarta

The origins of Xendit started many years ago when Moses befriended a South Sudanese refugee in Australia. This was a man who was working two jobs in order to put himself through university and was regularly paying 15% in fees to send money to support his family in a Ugandan refugee camp. Moses was asked to help him find a cheap method to send money home and found that Western Union – with currency exchange rates much worse than the spot rates offered by banks – was the only recognised product in the market.

Moses, a UNSW Business School graduate, joined the University of California, Berkeley's MBA program, where he met his cofounders Bo Chen and Juan Gonzalez. At Berkeley, he seized the chance to "buckle down and hack together" something that would lift the status quo and help people like his Ugandan friend. After 3 months they had managed to put together a prototype for a mobile platform that could transfer money and exchange currency, and Xendit was born. Soon after, they were accepted into the Y Combinator program before deciding to launch in Indonesia.

People think about 3 things when they visit Indonesia, the traffic, Bali and the haze. But this was all part of the opportunity that had brought Moses to his new home. In this environment, Moses looks forward to hearing your recommendations for Xendit.

"In Indonesia, there's greater than 100 percent penetration for mobile phones." Moses said, "These people don't have a bank account, credit card penetration is 3 percent, but there's a huge population with technology."

Xendit is ready to serve multiple markets. The Philippines, where Bitcoin is unregulated, "is also hard to ignore," he says, whilst already thinking about India, Vietnam, Hong Kong, and mainland China. Although, China, he admits, is a whole different ball game. There can be very scary repercussions to doing business in China." Xendit's service will be rooted in mobile apps for Android, iOS, and BlackBerry as well as a version for mobile web browsers.

How Xendit works

Xendit uses Bitcoin to convert currencies. Bitcoin's revolutionary cryptocurrency allows people to transfer Bitcoins based on a universal ledger that logs all transactions. Because the transfer logged by Bitcoin needs to be double entry (by the payer and the payee), the record of the transaction is irrefutable. This log of all transactions effectively negates fraud - making Bitcoin an extremely secure currency.

Xendit takes money from a payer in currency A, converts it to Bitcoins, then immediately converts those Bitcoins into currency B and passes that on to the payee. As Bitcoin's freely floating currency does not require access through intermediaries like banks, Xendit bears virtually no variable costs from conducting a transaction; Xendit merely requires a liquid market of Bitcoins being traded across multiple currencies.

P2P with Xendit

Xendit's mobile platform allows users to pay anyone or request money from them in just 4 clicks in the service or with their phone numbers. Xendit holds money on behalf of the user, and then works with banks to wire money. Users simply submit the amount to transfer and who to transfer money to, and Xendit takes care of the rest.

In the big picture, Moses says that "we have to convince people in a cash culture that we're more seamless," he said. "Through market share, cash is still the biggest, and we need to change that." Since starting the beta a few months ago, the company has 13,000 users around the globe, 80% of which reside in Jakarta. For a startup like Xendit in its growth phase, their focus is on acquiring users rather than winning market share. Rolling out a new technology means their success will be defined by the speed they can convert cash payers to the Xendit platform and consequently, the degree to which those customers use Xendit. These metrics will be key to receiving more equity investment in the future – funds earmarked for hiring and marketing.

Over this time, the Xendit team has tested their product across a wide variety of users and have identified three promising customer segments:

1. The 'global citizen'

The 'global citizen' typically works in a well-paid professional environment and travels internationally twice per month on average – usually for work. They carry 1 work-issued smartphone and another for personal use, their tech-savviness means they are comfortable exploring and using new apps. The global citizen often works with a team of executive assistants from their office and gets reimbursements from their employer.

Xendit believes the global citizen requires:

- Cash in another currency on short notice
- Fast transfers to people in another country, in another currency
- Remittance payments to family and work, with a priority on convenience and rate rather than speed
- Security and privacy
- Transaction details to share with employers for reimbursement

Xendit's hypothesis is that this market segment is willing to try new technologies as long as they come recommended from a trusted source.

2. B2B

There's a fast growing set of startups in the ecommerce world in Indonesia - Traveloka (Indonesia's Expedia), Tolopedia (Indonesia's eBay), Mataharimall (Indonesia's Amazon), Gojek, Uber and GrabTaxis (Indonesia's Uber) to name some of the recent successes. All these businesses struggle to collect money from customers for a few reasons:

- Users are used to paying in cash, this adds friction and awkwardness to a transaction
- Credit card processing is expensive
- Banks in Indonesia don't have 24/7 operations. The banks may go down for 3 hours every night due to scheduled and unscheduled outages or not be open at all on weekends. This means that payments can't be processed during these times

Securing these businesses as a payment partner can be very difficult. They require competitive rates, dedicated support and a track record of success - the latter two can be offered by competitors such as PayPal. It would also require Xendit to bring in sales staff experienced in merchant sales as this is not a capability they currently have. However, securing these businesses as a partner will bring credibility

to Xendit as it allows them to piggyback off the partners' growth. Are the razor-thin margins worth the high volume?

3. Mobile P2P

The Xendit team have identified friction in making domestic micropayments. These payments are made to friends and family to settle group expenditures, such as lunch or a group activity. Demand for this type of transaction is driven by social 20-30 year olds who are proficient with smartphones. Usually the payments are < $50 AUD and require no currency conversion.

Despite being a clearly large and growing market, the Xendit team is unsure if it is the best market to pursue as it does not take advantage of their competitive advantage – cheap foreign currency conversion. Local banks are continuously making improvements to their apps to facilitate this transaction.

Mobile P2P requires:

- Security and privacy
- Very competitive rates
- Ease of adding friends to the platform (it is difficult to grow the platform if the payer can't easily add the payee)

If Xendit chooses to focus on this market, they must also pick a country to focus on. Their limited resources mean that expensive marketing campaigns are out of the question; development resources can be used to make a targeted product for a market, but building and maintaining multiple marketing campaigns or multiple products at the same time is not possible with current resources. Indonesia had 123 million people under the age of 30 in 2012 and this segment is quickly increasing. Thus, Xendit prefers to stay focused on Indonesia, but are open to well-reasoned proposals to enter other markets.

Key Competitors

Banks and telecommunications companies

Banks have entrenched user bases and brand recognition and trust in Indonesia. However, their failure to support the money transfer market leads Xendit to believe that customers will be receptive to their product. The banks in Indonesia have the finances to put together a competitor to Xendit but are limited by their own bureaucracy, lack of software engineering expertise and the political difficulty of putting together an e-wallet solution that will integrate with the products of other banks.

Disruptors

Established disruptors in the market either do not operate in the e-wallet space yet, or are trying to but have limited penetration in Indonesia. PayPal brings a translatable product but has prioritised other markets. Moses believes that Xendit has at least 6 to 9 months' headspace before big players like PayPal decide to aggressively push into South-East Asia.

Xendit's Decision

Each of these segments has different associated risks that need to be integrated into any decision. Like most start-ups our marketing budget is very small (~150K USD) and we have always taken a lean approach to how we spend money. Thus, every recommendation should have short term positive ROI.

For now, access to Xendit is free and transfer rates are roughly 1-2%. In terms of building a business, "it depends on what consumers want it to be," Moses said, Xendit can work out an optimal pricing model based on the relevant competitors.

Ultimately, it is up to your team to prepare for a meeting with Xendit to discuss the best options for Moses and his team in consideration of the competitive landscape and how to grow Xendit's customer base in Indonesia in the next 6 months.

Appendix

Exhibit 1: List of P2P Transfer Startups

	Company	Description	Location	Joined	Followers on Social Media
TransferWise	TransferWise	Online P2P money transfer platform	London	Nov '11	836
	peerTransfer	International Payments Made Easy	Boston	Jul '12	134
zipzap	ZipZap	Mobile Remittance App	San Francisco	Nov '11	446
ABRA	Abra	Carry Digital Cash—Use human ATM's for deposits & withdraws	Mountain View	Jul '14	247
XOOM	Doom	P2P Money Transfer	San Francisco	Aug '15	63
	Cheddar Up	Move your group's payments and forms online	Denver	Jan '14	362
coins.ph	coins.ph	Bringing financial services to the unbanked through mobile and the Blockchain	Manila	Apr '14	104
HelloBit.	HelloBit	Send money globally and have it delivered in cash	San Francisco	Jul '14	144
Avuba	Avuba	Personal finance: We fix banking	Berlin	Sep '13	142

For a full list: https://angel.co/p2p-money-transfer

Exhibit 2: Dropbox Campaign

The 7 Ways Dropbox Hacked Growth to Become a $4 Billion Company

Zach Bulygo
July 2012

Did you know Dropbox has spent very little on advertising, yet it is worth $4 billion? What have they done that's made their business so successful?

They've implemented many **growth hacks** that we'll discuss in this article. What's a growth hack? Instead of using traditional advertising to "buy" each new customer, it's possible to use growth hacks to acquire customers in ways that scale. In other words, the cost of acquiring each additional customer is much closer to $0. All you have to pay for is the execution of the growth hack, and then it keeps growing your business at little to no extra cost.

For example, one growth hack is to incentivize some of your current users to refer others. This incentive may come in the form of company swag or a free month of your service. Another example would be badges or buttons that websites can embed in their website code. These badges and buttons link back to the website, which makes it serve as an advertisement. We'll explain some Dropbox growth hacks below.

Dropbox has received many awards, including best overall startup for 2011 & the Webby. It's also now known that founders Drew Houston and Arash Ferdowsi turned down a 9 digit offer from Steve Jobs.

Here are some stats regarding Dropbox's scale:

- Revenue reached about $116 million in 2012 and was expected to reach $200 million in 2013.
- In January 2014, Dropbox raised $250 million at a $10 billion valuation
- 1 billion files are saved to Dropbox every 24 hours
- Over 200 million users
- Over 500 employees
- Installed on 250 million devices

Not many SaaS companies can reach that kind of growth in 4 years, with or without advertising. So what has led to the consistent growth that Dropbox has experienced? I'll share some techniques that Dropbox has integrated into their product that has led to the word of mouth growth of this popular cloud storage company.
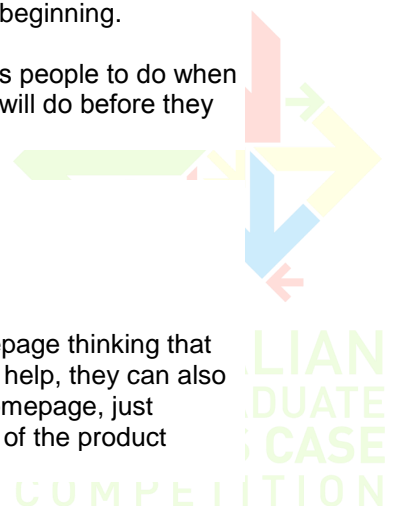
1. Signup Driven Homepage

First time visitors to the Dropbox website will notice the simple layout, which lays the groundwork for the rest of the Dropbox product. The 2 minute above-the-fold video gives an explanation of the Dropbox product, something that Dropbox has had on their website from the very beginning.

The number of options on the homepage are limited. It's clear what Dropbox wants people to do when a visitor comes to the site—signup. It's similar to what many private beta startups will do before they launch to the public:

1. A video on the homepage demoing the product
2. Gauge the interest in the business by seeing how many request an invite

Takeaway:

It can be tempting to put your latest press release, feature or product on the homepage thinking that this will add more credibility and ultimately improve conversions. While some may help, they can also lead to a cluttered homepage. Anytime you think you need to add more to your homepage, just remember that Dropbox got 70,000 users overnight just by creating a demo video of the product intended for the Digg audience.

2. Easy Signup Process

The signup process is only a few steps and a user can sign up on their desktop—no web browser needed.

Once a user signs up (either via web or desktop program) and installs Dropbox on their computer, Dropbox puts a photos folder and a 'Getting Started' text file to help get them started.

This helps the new Dropbox user get a little acclimated to the product and some of its functions.

Takeaway:

Back when it was popular, MySpace added Tom as a friend for you as soon as you signed up. Facebook encourages people to find their friends via email. Mint sends weekly financial summaries. Amazon sends daily emails related to your recent searches. Some eCommerce websites email you with a 10% off coupon if you haven't ordered from them in a while.

3. Refer a Friend

According to Houston, referrals increased Dropbox signups by 60%. Dropbox makes it really easy for users to tell one another about the product; even giving them incentives. For example, when one person who has Dropbox refers another, they both get a 500MB increase, pending signup.

Friend referrals instil more trust than an advertisement ever could. Furthermore, the sender has an incentive to spread the word about Dropbox—getting extra space. The referee also has an incentive for signing up—more space than if they just signed up through the normal process. This total costs Dropbox 1GB of space – far less than a Google AdWords buy.

Takeaway:

Before you put $5k into Google or Facebook ads, first see if there's a way you can build in a refer-a-friend program. People will quickly jump on once they discover that there's an incentive. With SaaS and E-commerce companies, you can also track the effectiveness of your program using it as an experiment. If you don't know where to start with referral programs or are looking for a word-of-mouth program to help you, check out Curebit.

4. Social Media

We've all seen the stores with a "Like us on Facebook" or the "Follow us on Twitter" decals on front doors. It's becoming all too common-something that people mindlessly see. Some companies offer an incentive to Like them, such as announcing specials for Facebook fans only.

Dropbox did something a little different. With each Follow on Twitter, Connect with Facebook or Twitter, Dropbox gives the user a 125MB increase.
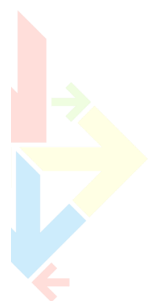
At the time of this writing, Dropbox had a little over 720,000 Twitter followers. While not all of them can be attributed to this hack, it certainly hasn't hurt their quest to increase followers.

Dropbox incentivizes users to connect with them on Facebook and Twitter – giving the user yet another platform to spread the Dropbox product.

Takeaway:

It's no longer enough to have a Twitter or Facebook account and put a decal on your store front window. If you run an E-commerce site, consider having something such as fans of your Facebook page receive 10% off every order.

The trick here is a user could Like you when they place an order, then unlike you once they complete to order and receive the discount. The way around this is to build an API to make sure it only works for fans who have Liked you consistently and not intermittently.

5. Sharing with Simplicity

Dropbox makes it simple for people to share files. Both the sender and the receiver have little work to do. To share a gallery with people, all a user has to do is copy a link.

By sending people the photos that are hosted on the Dropbox website, Dropbox is getting more exposure (for free) to potential users.

Sharing folders:

When a user wants to share a folder with a friend on Dropbox, anyone unregistered will have to register for Dropbox. This creates a strong viral coefficient for Dropbox.

Sharing links to files:

If a user wants to share a file, they simply use the 'Get Link' function found on either the desktop or web. No ads, no signup required first, no waiting for the download link. Just a clean looking page with a focus on one thing: the file.

Takeaway:

Not all companies have sharing functionality. If you're one who does, it's important to make it really easy for your users. Take inspiration from Facebook or Dropbox. Simplicity is at the core of what top technology companies do. When users share with other non-users, it gives Dropbox a chance to show off their speed, simplicity of design & usefulness. What does your product show off when users refer others?

6. Dropquest

Dropquest is a contest run by Dropbox that makes users go through different puzzles and scavenger hunts. Those who complete and place in the top 176 get free space and/or free swag. The announcement on their blog generated quite a lot of Likes and Tweets.

Dropquest has gotten Dropbox lots of publicity in the tech world for this (just Google Dropquest).

Takeaway:

Contests can be a great way for companies to generate buzz about their brand and get users enthused about the product. If you haven't already, you may want to try holding a fun contest with your users where they get more of your product in return. You just may end up generating some PR for your product.
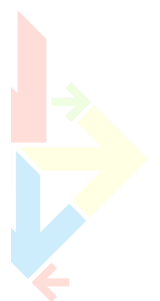
7. Availability on Multiple Devices & Platforms

The nature of the Dropbox product makes it important for them to be on multiple platforms. People need to access their products from anywhere at any time. Being available everywhere is key for Dropbox, according to Co-Founder & CEO Drew Houston.

There are an estimated 20 million Ubuntu (Linux) users worldwide. Dropbox released their Linux program as soon as they launched to the public. These millions of Linux users did not have a free cloud storage solution at the time. By adding Linux support and continuing to this day to be on as many platforms as possible, Dropbox is making it easy for anyone who wants a Dropbox account to have one.

There are an estimated 2.0% of Dropbox users who use Linux exclusively. Going by the 50 million user base number, there are a million Linux Dropbox users. These are a million people who can spread the product by sharing galleries, referring friends, adding them on social media, and all the other growth hacks Dropbox has done.

Beyond Linux, Dropbox has maintained Blackberry support despite their shrinking market share. It's also supported on even the least popular devices such as the Symbian.

Support on multiple platforms is not just important for the Dropbox product; it can also be considered an opportunity for growth. One Symbian user can spread the Dropbox product to one Mac user who may spread it to 100 people.

Takeaway:

Dropbox understands their users and the needs they have. They also have a leg up on many of their competitors who don't support every platform. What are you doing as a business owner to achieve a distinguishable competitive advantage?

CEO Houston has big plans for Dropbox. They've gotten to where they are not by advertising, but by going to where their users are (Digg in the early days), keeping things simple, and implementing a few growth hacks. Startups are hard, but implementing a few of these growth hacks into your own company may make things a little easier on you.

To read the full article: https://blog.kissmetrics.com/dropbox-hacked-growth/

Exhibit 3: Uber bringing Messina

Uber is Giving Away Free Gelato Messina!

Clare Acheson
July 2015

Uber, literally EVERY one of your awesome collaborations makes us want to take a ride around the city, even if we don't need to go anywhere! The company's latest on-the-go treat is all thanks to Gelato Messina, who have developed a mouth-watering UberX Scoop flavour which will be given out to new Uber users in Melbourne and the surrounding area this Friday, so long as they use the promo code 'ICECREAMOZ' and select the 'ice-cream' option when booking a ride.

Still haven't used Uber? If you're new to the taxi service, you can sign up with the promo code to get $20 off your first ride, or your free tub of Messina deliciousness. If you're an existing user but still want a piece of the gelato action, you can choose to have a tub delivered to your doorstep for a mere $15.

The custom UberX Scoop flavour doesn't hold back on Messina's signature flavours. The special Uber tubs will be filled with hazelnut gelato that's blended with white chocolate, hazelnut fudge, milk chocolate chips and cream filled wafers. Gimme a spoon already!

The Uber ice-cream drop will be available in Melbourne (CBD, Fitzroy, Carlton, South Melbourne, Windsor, South Yarra, Richmond), Bendigo, Geelong and Ballarat. Thank YOU, #ubericecream.

For full article: http://www.theurbanlist.com/melbourne/a-list/uber-free-gelato-messina#sthash.Dld9v52Y.dpuf

Exhibit 4: How to download Xendit

Indonesia Population (1950 - 2014)

— Indonesia Population

```
225,000,000

150,000,000

75,000,000
                    1970    1980    1990    2000    2010
```

Yearly Population Growth Rate (%)

— Yearly Growth Rate (%)

```
2.25

1.50

0.75
        1960    1970    1980    1990    2000    2010
```

Key Statistics

- The population of **Indonesia** is estimated at **252,812,245** as of July 1 2014

- Indonesia's population is equivalent to **3.49%** of the total world population

- Indonesia ranks number **4** in the list of countries by population

- The **population density** in Indonesia is **133 people per Km^2**

- **53%** of the population is **urban** (133,860,626 people in 2014)

- The **median age** in Indonesia is **28.1 years**

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