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PubHub: A Mobile Application Business Plan

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PubHub Business Plan

EXECUTIVE SUMMARY

TANNER HOLMES LUCAS PARTLOW JARED STONE ZACHARY WASHAM

INTRODUCTION

PubHub gets you out of line and back to the party. Using cutting edge technology to address point-of-sale inefficiencies, our mobile application improves the nightlife experience of our users and drives sales for our vendors.

PROBLEM

PubHub customer development research revealed that college students spend a significant amount of time and money at bars that greatly exceed capacity at peak hours. Over three-fourths of students surveyed agreed that prohibitively long queues are the largest hurdle inhibiting their nightlife experience and purchase of goods from local vendors. Bargoers are willing to pay for a service that allows them to eliminate the process of waiting in line for their drink orders, but no such service currently exists in the local addressable market. Further, vendors are willing to incorporate new technology that increases their sales and operational efficiency but have no means to do so.

OTHER SOLUTIONS

SpeedETab is a South Florida startup that has been featured on the West Texas Investors Club. Similar to PubHub, the SpeedETab mobile application provides an electronic payment platform for food and beverages. However, SpeedETab is confined to a small geographic area in the northeastern United States and for that reason is not considered a direct competitor to PubHub, which will initially confine operations to the southeastern region. In addition, there is a theme of customer complaints that the SpeedETab service does not meet expectations or provide the benefits advertised by the company. We at PubHub seek to develop a superior mobile application and implement a more effective and aggressive marketing strategy to avoid the pitfalls of SpeedETab, but we also see their efforts as validation of our key business assumptions.

THE PUBHUB SOLUTION

PubHub offers two key features to users:

1. Virtual Queue
 - The PubHub virtual queue allows users to submit their order without ever standing in line. A bargoer is now able to order the next round anytime from anywhere within the vendor's GPS fence, which means they can spend time with friends – not in a physical line – while the order is being processed.
2. Virtual Payment
 - Virtual payment adds efficiency to the point-of-sale process by eliminating the need for bartenders to collect and process payment, reducing the time it takes to process orders. In addition, prices are guaranteed to be transparent and users eliminate the risk of their card being lost or misused.

Because bar partnership is critical to our success, PubHub also offers two key benefits to our vendors:

1. Increased Sales
 - By eliminating the inefficiency of collecting and processing payment, aggregating drink orders, and boosting demand via transaction convenience, PubHub provides a clear path to greater revenues. Popular nightlife vendors have the unique problem of exceeding capacity during peak hours such that they are not able to provide the amount of sales demanded by their customers. By handling payment, PubHub frees up bartenders to produce a greater number of drinks in the same amount of time. The virtual queue allows bartenders to aggregate similar drink orders and take advantage of scale economics for

more time-efficient production. Finally, transaction convenience decreases customer disincentives to ordering, which will boost demand *ceteris paribus*.

2. Improved Analytics

- During the frantic peak hours of bar operation, analytics and proper data collection become low priority. Existing POS software is often slow and cumbersome and is misused by bartenders in peak situations, leading to misleading and unreliable data on customers and inventory. Further, existing systems have no way of tracking individual customer trends that could provide key insights into marketing and promotional effectiveness. The increasing power of big data tools makes business analytics more necessary than ever to succeed as a modern business, and PubHub provides the raw data vendors are unable to collect on their own. Using unique customer identifiers that track purchases over time, PubHub data provides key insights into sales drivers and customer habits. In addition, PubHub data can be used as a tool to more accurately track inventory, the shrinkage of which is a significant but avoidable expense for vendors.

COMPETITIVE ADVANTAGE

Although technology is a significant part of the PubHub value proposition, what makes our service unique is our sticky vendor network and user base. PubHub benefits from what we call the “Vendor / User Reinforcement Cycle,” in which our vendor network drives growth in our user base and our user base drives growth in our vendor network. Imagine:

1. Your favorite bar, Bar A, introduces you to this great new mobile application, PubHub, which allows you to order remotely and avoid waiting in line. You, your friends, and most other regular customers download the app.
 - Result: The bar is unlikely to switch to a competing application because doing so would require customers to switch as well.
2. Many of the customers at Bar A also frequent Bar B. Since these customers have already downloaded PubHub and are regular users of the app, Bar B decides to integrate the application as well. Most of the remaining customers of Bar B download the app.
 - Result: Viral growth is driven by customer demand for convenience and vendors’ efforts to boost sales.
3. After some time, most bars and bargoers in the area have integrated PubHub into their nightlife experience. Customers get drinks faster and spend more time with their friends, and vendors enjoy more efficient operations, higher sales, and improved business analytics.
 - Result: PubHub has built a sustainable competitive advantage: Bars will not switch to a competitor for fear of alienating their customers, and users will not switch to a competitor because all of their favorite bars use PubHub.

In addition to the “Vendor / User Reinforcement Cycle,” PubHub’s competitive advantage is augmented by a world-class management team.

MANAGEMENT TEAM



Tanner Holmes, Chief Executive Officer

Tanner is a senior studying business management, entrepreneurship and marketing. He has served as Director of Operations for MRJ Management, overseeing nine franchise locations and approximately 45 employees. He served as Vice President of his fraternity and has previously cofounded two startups. Tanner is responsible for the strategic direction of the company. He leads the management team and oversees all functions but is directly responsible for targeting regional markets and establishing vendor relationships.



Zachary Washam, Chief Financial Officer

Zach is a senior studying finance who has gained financial planning and analysis experience with Fortune 500 companies such as Raytheon Missile Systems, ConocoPhillips and Wells Fargo Securities. He served as President of his fraternity and Vice President of the University Finance Club. Zach manages the company's finance and accounting functions and is responsible for capital raising activities as well as periodic financial reporting.



Lucas Partlow, Chief Marketing Officer

Lucas is a senior studying marketing and finance. He served as Philanthropy Chair for his fraternity and helped raise \$75,000 in support of Habitat for Humanity.

He leads the marketing and sales functions, managing the company's short and long term marketing and sales strategies. Lucas will execute the advertising and promotion plans as well as manage relationships with end users and vendors. In addition, he will oversee the training of college campus representatives.



Jared Stone, Chief Compliance Officer

Jared is a senior studying business and biology.

He is responsible for maintaining compliance matters for PubHub, works closely with Harold's team to ensure that development meets all legal codes, and ensures that PubHub's intellectual and physical property are secure. In addition, Jared oversees the integration of the mobile application to individual vendors' POS systems.



Harold Ishebabi, Technical Consultant

Harold has over 17 years of professional computer engineering experience and earned his Ph.D. in Computer Engineering from Germany's Universität Potsdam in 2011. He has previously cofounded two successful technology startups, Secodix in 2010 and Simplex Point in 2013. Harold will be responsible for the management of PubHub's engineering staff and the development and maintenance of the PubHub mobile application and website.

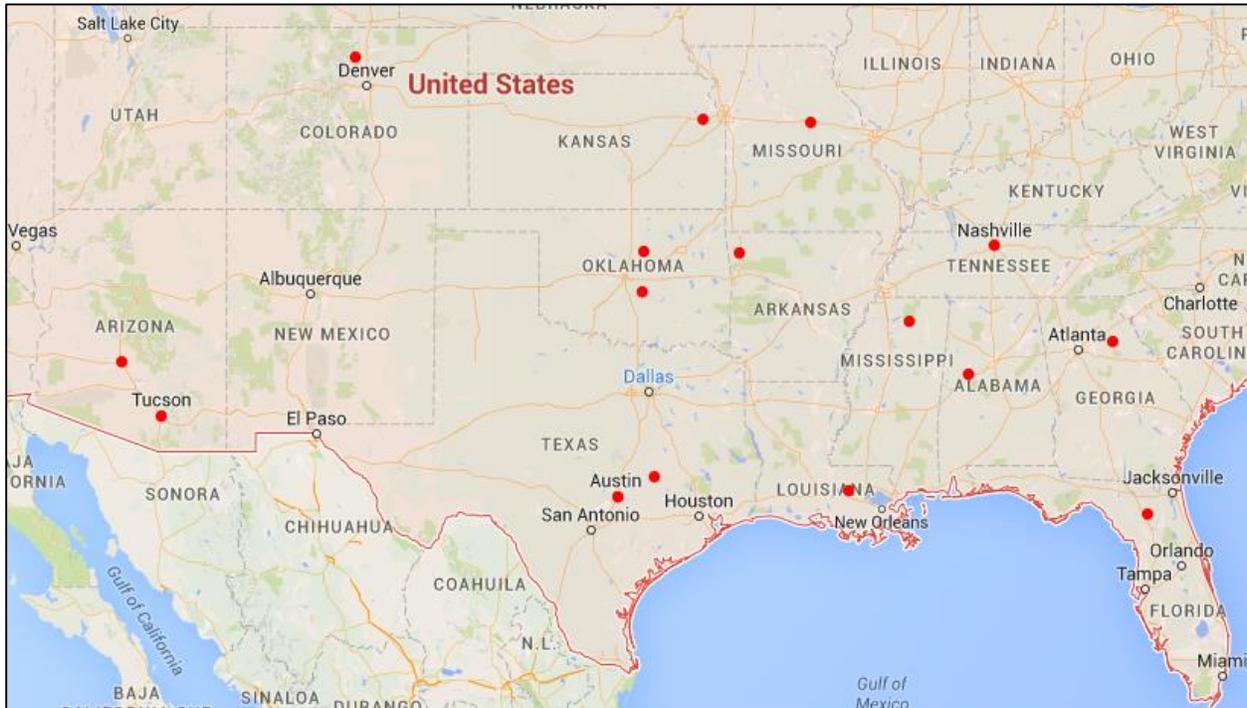


Jeff Amerine, Venture Capital and Management Consultant

Jeff has 25 years of deep technology and business leadership and early-stage investment experience, including P&L responsibility in Fortune 500 firms along with startups. Jeff serves as Manager at Tonic Regional Funds, Founding Principal of Startup Junkie Consulting, and previously served as Director of Technology Ventures at the University of Arkansas. He assists with PubHub financing and management in an advisory capacity.

MARKET OPPORTUNITY

PubHub targets an early-adopting market of college bargoers across 15 primarily southeastern American cities:



We call this market of early adopters our “Local Addressable Market.” It consists of approximately 453,530 undergraduates, 113,383 of whom we assume are over the age of 21 and 85,037 of whom we assume are regular bargoers. If we assume these college bargoers go out 28 weeks out of the year (to account for breaks in the academic year and bad weather) and spend an average of \$10 per weekend, \$23,810,325 of drinks is purchased annually. Assuming a five percent fee, that amounts to potential annual revenues of \$1,190,516.

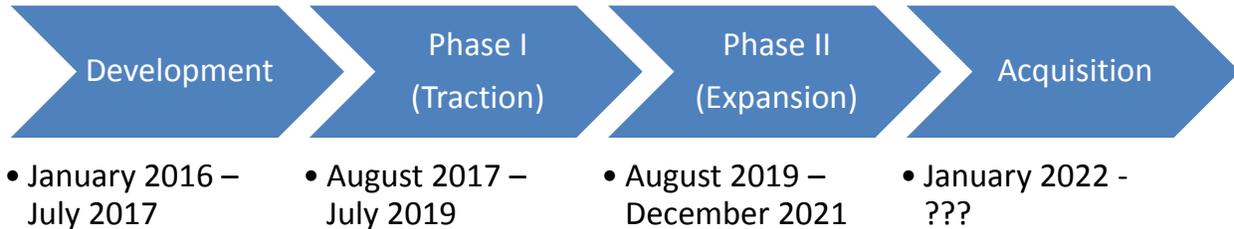
MARKETING STRATEGY

PubHub follows a unique marketing strategy that supports product development while simultaneously acquiring customers from the grass roots. When a “PubHub Party” is organized, key influencers are invited to an exclusive social gathering at a local vendor to beta-test the new mobile application. Supported by a substantial budget, our marketing team creates a positive and memorable experience while also running product efficacy tests using the party guests. Involving guests in the development process creates a sense of investment which builds relationships with early adopters, leading to the birth of super-fans who evangelize on behalf of the PubHub brand. Further, the data collected at the PubHub Party informs future iterations of the mobile application’s development, leading to a more effective product.

BUSINESS MODEL AND LONG-TERM STRATEGY

PubHub revenues are generated as a percentage of sales made using the mobile application. When a customer uses PubHub at their favorite vendor, a five percent fee is added to their tab.

PubHub’s long-term strategy breaks down into four phases:



Development

In January of 2016, PubHub will begin the process of development, marketing and product research. We aim to develop the Minimum Viable Product by March 31, 2016, Iteration I by July 31, 2016, Iteration II by November 30, 2016, Iteration III by November 30, 2016, and Iteration IV by March 31, 2017. Each iteration will be tested in a series of PubHub Parties involving key influencers in our 15 target cities. We intend for the fourth iteration to be a product that is ready for mainstream adoption within our Local Addressable Market. Revenues will be immaterial during this phase, and capital needs will be relatively high to fund an aggressive development and marketing schedule. By the end of the development phase, we hope to have achieved a base of 8,500 users.

Phase I (Traction)

Phase I begins in August of 2017 and ends in July of 2019. Our focus will be expanding within the LAM by growing our user base and expanding our vendor network. By the end of Phase I, we hope to have achieved a base of 32,894 users, earning revenues at a clip of \$460,512 annually.

Phase II (Expansion)

During the expansion phase, PubHub will extend our reach beyond the 15 cities and 85,000 undergraduates targeted in the Local Addressable Market. By December of 2021, we hope to have achieved a base exceeding 133,755, earning revenues at a clip of \$1,872,568 annually.

Acquisition

PubHub will opportunistically consider acquisition possibilities beginning January of 2022.

PROJECTED FINANCIAL STATEMENTS

Pro Forma Annual Income Statement

Report Date	12/31/2016	12/31/2017	12/31/2018	12/31/2019	12/31/2020
Currency	USD	USD	USD	USD	USD
Revenues	\$ 1,488	\$ 58,630	\$ 225,351	\$ 456,443	\$ 924,511
Sales & marketing	\$ 135,000	\$ 138,007	\$ 64,427.37	\$ 130,495.75	\$ 264,315.32
Operations & support	\$ -	\$ 13,248	\$ 53,321.34	\$ 108,000.80	\$ 218,752.46
Technology, net	\$ 50,000	\$ 30,991	\$ 24,113.34	\$ 48,840.86	\$ 98,925.74
General & administrative	\$ -	\$ 8,358	\$ 33,641.45	\$ 68,139.77	\$ 138,015.10
Depreciation & amortization	\$ 31	\$ 1,877	\$ 9,083	\$ 23,677	\$ 53,238
Total cost & expenses	\$ 185,031	\$ 195,198	\$ 184,586	\$ 379,154	\$ 773,246
Income before provision for income taxes	\$ (183,543)	\$ (136,568)	\$ 40,765	\$ 77,288	\$ 151,265
Total current income taxes	\$ -	\$ -	\$ 11,892	\$ 22,546	\$ 44,125
Net income	\$ (183,543)	\$ (136,568)	\$ 28,874	\$ 54,743	\$ 107,140

Pro Forma Annual Cash Flow

Report Date	12/31/2016	12/31/2017	12/31/2018	12/31/2019	12/31/2020
Currency	USD	USD	USD	USD	USD
Net income	\$ (183,543)	\$ (136,568)	\$ 28,874	\$ 54,743	\$ 107,140
Depreciation & Amortization	\$ 31	\$ 1,877	\$ 9,083	\$ 23,677	\$ 53,238
Provision for doubtful accounts	\$ 2	\$ 95	\$ 364	\$ 737	\$ 1,492
Accounts receivable	\$ -	\$ 5,622	\$ 16,403	\$ 22,736	\$ 46,052
Prepaid expenses & other assets	\$ -	\$ 187	\$ (195)	\$ 3,581	\$ 7,253
Accounts payable	\$ -	\$ (181)	\$ (192)	\$ 3,514	\$ 7,117
Accrued payroll	\$ -	\$ 4,522	\$ (246)	\$ 4,508	\$ 9,131
Net cash flow from operating activities	\$ (183,510)	\$ (136,063)	\$ 21,675	\$ 60,861	\$ 124,812
Capitalized website & development costs	\$ -	\$ (1,395)	\$ (5,616)	\$ (11,375)	\$ (23,039)
Purchases of property & equipment	\$ (72)	\$ (2,836)	\$ (10,899)	\$ (22,076)	\$ (44,715)
Net cash flows from investing activities	\$ (72)	\$ (4,231)	\$ (16,515)	\$ (33,451)	\$ (67,754)
Founders Paid-In Capital	\$ 35,000	\$ -	\$ -	\$ -	\$ -
Angel Paid-In Capital	\$ 300,000	\$ -	\$ -	\$ -	\$ -
Net cash flows from financing activities	\$ 335,000	\$ -	\$ -	\$ -	\$ -
Net change in cash & cash equivalents	\$ 151,418	\$ (140,294)	\$ 5,159	\$ 27,410	\$ 57,058
Cash & cash equivalents, beginning of year	\$ -	\$ 151,418	\$ 11,124	\$ 16,284	\$ 43,694
Cash & cash equivalents, end of year	\$ 151,418	\$ 11,124	\$ 16,284	\$ 43,694	\$ 100,751

Pro Forma Annual Balance Sheet

Report Date	12/31/2016	12/31/2017	12/31/2018	12/31/2019	12/31/2020
Currency	USD	USD	USD	USD	USD
Cash & cash equivalents	\$ 151,418	\$ 11,124	\$ 16,284	\$ 43,694	\$ 100,751
Accounts receivable, gross	\$ 149	\$ 5,863	\$ 22,535	\$ 45,644	\$ 92,451
Allowance for doubtful accounts	\$ 2	\$ 95	\$ 364	\$ 736.51	\$ 1,491.77
Accounts receivable, net	\$ 146	\$ 5,768	\$ 22,172	\$ 44,908	\$ 90,959
Prepaid expenses	\$ 3,406	\$ 3,593	\$ 3,397	\$ 6,978	\$ 14,232
Total current assets	\$ 155,122	\$ 26,443	\$ 64,751	\$ 141,960	\$ 299,885
Computer equipment & other equipment	\$ 72	\$ 2,908	\$ 13,807	\$ 35,883	\$ 80,598
Developed software	\$ -	\$ 1,395	\$ 7,011	\$ 18,386	\$ 41,425
Property & equipment, gross	\$ 72	\$ 4,303	\$ 20,818	\$ 54,269	\$ 122,024
Less accumulated amortization & depreciation	\$ (31)	\$ (1,909)	\$ (10,992)	\$ (34,669)	\$ (87,906)
Property & equipment, net of depreciation & amortization	\$ 41	\$ 2,394	\$ 9,827	\$ 19,601	\$ 34,117
Total assets	\$ 155,162	\$ 28,837	\$ 74,578	\$ 161,561	\$ 334,003
Accounts payable	\$ 3,706	\$ 3,525	\$ 3,334	\$ 6,848	\$ 13,965
Accrued payroll	\$ -	\$ 4,522	\$ 4,277	\$ 8,784	\$ 17,915
Long-term liabilities	\$ -	\$ 5,901	\$ 23,205	\$ 47,424	\$ 96,478
Total Liabilities	\$ 3,706	\$ 13,949	\$ 30,815	\$ 63,056	\$ 128,358
Investor Equity	\$ 335,000	\$ 335,000	\$ 335,000	\$ 335,000	\$ 335,000
Retained earnings	\$ (183,543)	\$ (320,111)	\$ (291,237)	\$ (236,495)	\$ (129,355)
Total stockholders' equity	\$ 151,457	\$ 14,889	\$ 43,763	\$ 98,505	\$ 205,645

FUNDS SOUGHT AND USE OF PROCEEDS

PubHub is seeking a \$300,000 investment in exchange for a 40% equity stake in the company. This implies a current valuation of \$750,000 based on projected financials. Proceeds will be used for the following purposes:



August 2017 marks the beginning of Phase I, at which point PubHub intends to achieve cash flow positive operation. Subsequent funding may be sought to facilitate a more rapid pace of growth.

Key Milestones

1. Develop Product (Complete Iteration IV)
2. Prove Critical Assumptions
 - PubHub reduces time spent in line.
 - PubHub increases the speed of order fulfillment.
 - Users are willing to pay a five percent premium.
 - Vendors are willing to integrate PubHub to increase sales and improve analytics.
3. Build User Base and Vendor Network
 - 8,500 Users by Beginning of Phase I
 - 32,894 Users and 90 Vendors by Beginning of Phase II

EXIT STRATEGY

PubHub will give critical consideration to all acquisition opportunities as well as the alternative of continuing operation as an independent enterprise indefinitely. However, to prepare for a potential opportunistic acquisition scenario, PubHub has been designed as a future GrubHub portfolio company.



GrubHub (NYSE: GRUB) is a publicly listed company with a market capitalization of approximately \$2 billion. We chose GrubHub as a potential acquirer because of its tangential business in the food vendor space. Similar to PubHub, GrubHub provides a digital platform for ordering food and processing payment. However, GrubHub has yet to move into the nightlife space targeted by PubHub. We believe the competitive advantage developed through the PubHub Vendor / User Reinforcement Cycle with make PubHub a potentially attractive addition to the GrubHub portfolio by January of 2022.

GrubHub has a history of strategic acquisitions and is not afraid to dig deep for financing when a valuable opportunity presents itself. A few key GrubHub acquisitions include:

- | | | |
|-------------------|----------------|--------------------------------|
| 1. FanGo Software | August 2011 | Price Unknown |
| 2. Dotmenu | September 2011 | Price Unknown |
| 3. Seamless | May 2013 | Estimated around \$500 million |
| 4. DiningIn.com | February 2015 | \$80 million |

Our exit target is a valuation of \$6.95 million by the end of Phase II. For an angel who invested at the current valuation of \$750,000, this calculates to a 41.4% annualized return or 9x ROI over a period of 6 years.