V Cloud Mobile App

"Be creative and proactive with V Cloud"

Business Plan February 2016

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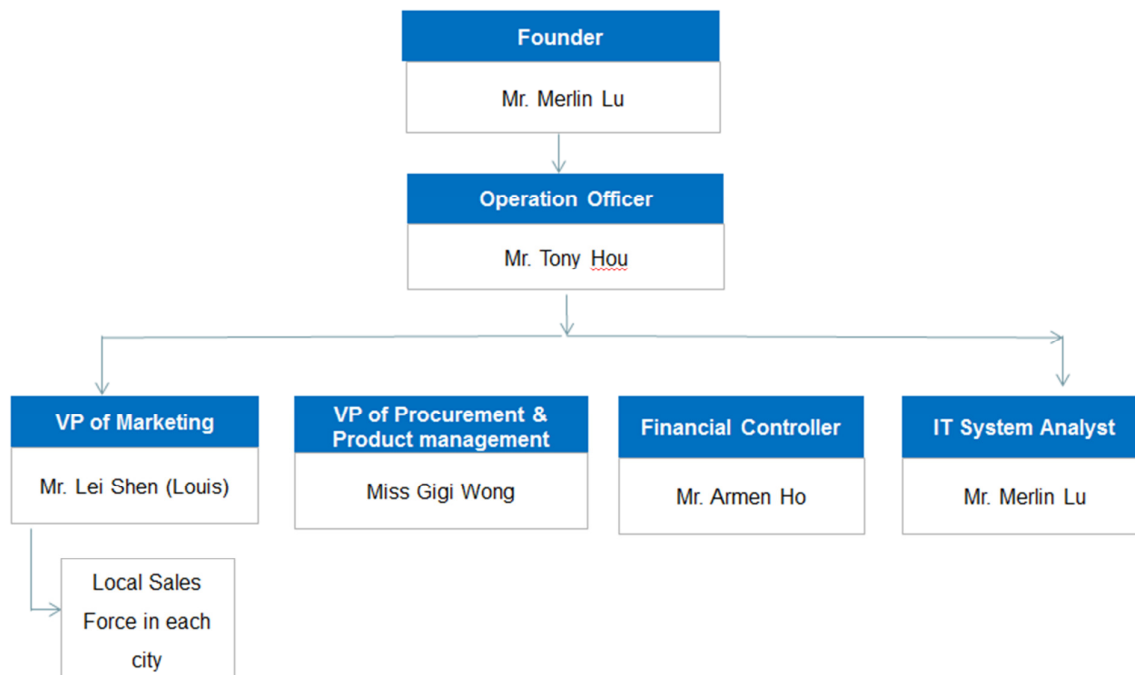*Tony Hou - tonyhou@chicagobooth.edu*

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V CLOUD COMPANY OVERVIEW:

Our Mission:

We are an user friendly App platform company that offer direct sales channel between consumer product brand owners with small local retailers in China in order to support the growth of these local grocery shops and family own stores. Our app platform allows more flexibility and accessibility for small local retailers to order their inventory.

Our Company

Our company is founded in China in 2015. Our founder notices there is an increasing bargaining power of large retailers in both supplier and buying side which results in overprice and unaffordable products and unviable business for many suppliers. After thorough research, he identified the huge potential of an underserving market segment in China and decided to leverage the conveniences of mobile app platform to reach out to the underserving market segment, to disrupt the current supplying and buying power of the large retailers and to support their growth of small scale of local grocery and family own store.

Founder

Mr. Merlin Lu

Operation Officer

Mr. Tony Hou

VP of Marketing	**VP of Procurement & Product management**	**Financial Controller**	**IT System Analyst**
Mr. Lei Shen (Louis)	Miss Gigi Wong	Mr. Armen Ho	Mr. Merlin Lu

Local Sales Force in each city

V CLOUD PROBLEM – SOLUTION DIFFERENTIATION

Customer Segments:

According to the China Government Statistic Survey, the government has assigned a total of 660 cities within China and graded them with a 6 levels scale according to for example their GDP, Consumption, Disposable Income, Population etc. Within Tier 1 to Tier 5, there are a total of 287 Cities. . (Please see Appendix A below for the Tier 1 – Tier 5 Cities distributions). Our target customer segments falls within Tier 4 ,5 and 6 (for Tier 6, we will need more statistic to determine our market size), which covers almost 84% of total china market. There are approximately a total of RMB 4.3billions population in Tier 4 – 6 cities with an average annual disposable income of RMB 20,000 and an average annual consumer goods consumption per cities RMB 80 billion. If we take RMB 80 billion x 287 cities = RMB 28960 billion possible market size. (Please see Appendix B Below for Tier 4 cities average spending per capita)

Our target customers are the local grocery stores and family own shops located in Tier 4 – 6 cities and suburbs. There are currently an estimated 2.7 million of these local grocery stores and family own shops running in China. Our goal is to sell through the brand name consumer goods through them in order to reach their local neighborhood end consumers. These end consumers comprised mainly industrial workers and small business workers who work 8am to

6pm, most likely with overtime until 8pm-10pm. (Please see Appendix C for the spending power online in lower tier cities compare to tier 1 and 2 cities.)

As of current, our target customers do not have accessibility to much variety of products like Tier 1 and 2 cities due to limited store shelf space and also cash restrain on holding inventory. Also distributors and wholesalers often want to limit the SKU offer to the small local grocery store and family own store, so they can consolidate the order quantity without much repackaging costs and lower transportation costs. In additions, with the increase competition on e-commerce, these small local grocery store and family own store faces fierce competition against the e-commerce platform with much more variety and home-delivery service. Brand owners face possible loss of sales since the control of what to sell and who to sell was rely on the middleman i.e. the wholesalers and distributors. Their position in this case in capturing the segmented small local retail shop is very passive. There are also a significantly increasing bargaining power of the large retailers and large distributors in setting very unfair product listing policy to the suppliers and also setting an unreasonable retail price to the consumers

Data from Customer Interviews:

In December we went to Changsha (a city in the middle of China) for marketing research, we visited about 103 grocery owners, 73 of them have smartphones, 66 of them have wechat on their phone, 44 of them have wechat bank accounts or Alipay. When we demonstrated our Apps, over 50% grocery owners are interested to use it. Out of these samples, 50% of them like agency sales model in particular they do not need to carry any extra inventory and have unlimited cloud space shelf; 30% of them are interesting in our online distribution model and some of them are very sensitive of distribution price; 20% of them are very interested in our Cloud store, they said once they have a cloud store they can promote the store by using Wechat

Solution Differentiation:

Our mobile app serve as a direct ordering platform between the brand owners and also the small local retailers in order to increase the flexibility or ordering and accessibility of product variety for the small local retailers. Our mobile app has two interface 1) Brand owner may lists as many products as they want onto our platform for small local retailers to select and place orders. 2) These small local retailers may set up their App Store on our V Cloud platform so that they can offer whichever selection they chose from the brand owner to their final end consumers. 3) End consumer may place order on the mobile app directly to their local grocery and family owned store which the system will directly link to the brand owners. This shall reduce the redundant of ordering process between the small retailers with brand owners. In additions this can help the brand owners to collect better marketing data from their end consumers. Our goal is not to cut out the local grocery and family owned store in order to gain higher profit. Our goal is to support small scale retailer shop and create a competitive environment to the large retailers and distributors. With the use of this direct order placing system as we are leveraging the trust among the local grocery and family owned store with their community. Creating this direct sale channel will create competition to the large retailers and distributor hence reducing their bargaining power and reducing the unreasonable retail price level.

Our platform allows small local retailers to gain unlimited SKU of products mix without carrying extra inventory; Branded consumer-goods producers can access to in-land China with immense market potential through using our app; local residents and community could enjoy on demand ordering and delivering service for any consumer goods as they do so in the mega cities. We are offering much more convenient and quicker ordering and delivery service by leveraging small local retailers delivering facility.

The IP of this mobile app will belong to our company. The system will be an open platform in order to encourage positive network effect. Our intellectual property is our app and our business model which are both current not patentable. Once our competitors see our success in our business model, it will only take them 3 – 6 months to launch a similar app. We can only secure our business through securing the brand products that we partner with and use product differentiation as barriers against our competitors. We will also need to create user stickiness and higher switching costs (from the positive network effect, first mover advantage, and proven record of increasing revenue profit of both user and seller). Innovation speed will be the key for differentiation, we will need to constantly update with innovative sales activities on our mobile app.

Demo –screen shot:

V CLOUD GO-TO-MARKET

Our key message: Support Local grocery and family own store to grow their business and provide greater access of products that may be only available to mega cities but now also to the suburb cities.

We will leverage the word of mouth by local residents and field sales forces in order to enter this fragmented market. Since our product is an app platform, we will utilize online social networking platforms such as Weibo and We Chat. In order to engage the first few customers, we will provide limited time offer of free test for first adaptors.

After penetrating the first 10 cities, we will then reinforce our presence through SEM and Online Forums.

V CLOUD COMPETITIVE ANALYSIS:

Our current players in the market are any sale representatives, wholesalers and distributors to the retailers. These competitors have already achieved economy of scale of distribution network and established a strong presence within our target markets. Although these current players are supplying to our target segments, they supply to our target segment with limitation such as order volume and logistic inconveniences. With the minimum order quantity (MOQ) requirement from these players, our target segments are limited to order very few (i.e. 2 – 3) SKUs in order to achieve the quantity that these player required given the sales scale of our target segment are very small. As a result, the local end consumers are unable access the full range of consumer products through these local grocery shops and family own stores.

There are currently also other prominent electronic commerce channel which indirectly competes with our business model for example, Tao Bao Marketplace, TMall, Mengdian.com, JDmall.com which are B2C and C2C online retail for local Chinese and international business to sell good to consumers in mainland China. Our target segments and its neighborhood customers may purchase products through these electronic commerce channels, however, this serves as a disadvantages to our target segments since they may need to pay a higher price (retail price) versus wholesales price in order to access more SKU products for its neighborhood customers.

Furthermore, C2C electronic commerce post many risk of poor quality, fake, and fraud products for our target segments.

Our position differentiation is to provide the services to our target segments that the current players are not incentivized to do so due to small volume order and logistic inconveniences. Our goal is to support the growth of these small local grocery shop and family own stores. As there are many fake and fraud issues in the current China retail market, besides building a brand quality trust, building a retailer – consumer trust is also very important which we believe the current C2C electronic commerce channel lacks. We are leveraging the retailer-consumer trustful relationship between our target local grocery stores and family own store with their local neighborhood customers to penetrate these markets. .

There are very low barriers to entry, since we cannot patent the design of our app nor our business model. Once we gain traction, there will be many other possible imitations in the market. We hope to gain first mover advantage in these markets and to achieve network effect as quickly as possible to capture majority of market shares since no competitor is in this space yet. Furthermore, we will secure as many brand products as possible to work exclusively with us for the first few years to expand our network effect.

V CLOUD TEAM

Fook Chi Wong (Gigi), our VP of Procurement and Product Management has extensive experience in product design, product engineering, supply chain and logistics management in household product for both OEM and ODM export and China Retail Sales. She is currently served as the Chief Operating Officer of King's Flair International (Holdings) limited, a listed co in Hong Kong Stock Exchange. Gigi received a Bachelor of Honor Science from University of Toronto and currently an AXP 15 student from Chicago Booth EMBA program.

Lei Shen (Louis), our VP of Marketing has extensive experience in managing wholesale and retail business while oversees marketing strategy of luxury goods in China. He previously served as sales and marketing manager for Rolls-Royce and Bentley. He is currently working for the sales and marketing of Mercedes Benz in China. Lei received a MBA degree from Business School of Shanghai Fuda University and currently an AXP 15 student from Chicago Booth EMBA program.

YouMing Lu (Merlin), our IT System Analyst (also founder), has extensive experience in channel operation, focusing on channel distribution of personal safety and health care products. He is the founder of Manon Business CO, Ltd, the sole distributor of Durex in China. Merlin received a Bachelor of Science, Automation from Huazhong University of Science and Technology, an EMBA degree from China Europe International Business School, and currently an AXP 15 student from Chicago Booth EMBA program.

Tian Yu Hou, (Tony), our Operations Officer, has extensive experience in managing a finance function and regulate business growth, focusing online game and social platform. Tony previously served Senior Manager in Ernst & Young, managed a portfolio of assurance engagement focusing on the Retailing & Consumer Market, Real Estate, and Manufacturing Industries. Tony received a Bachelor of Economics in Fudan University and currently an AXP 15 student from Chicago Booth EMBA program. Tony also is Chinese Certified Public Accountant and US Certified Public Accountant, licensed in Virginia.

Armen Ho, our Financial Controller, is currently the Chief Financial Officer of Tianyun International Holdings Limited, a Hong Kong listed company that is mainly engaged in manufacturing, distributing and selling processed fruit in China.. Mr. Ho is currently a member of the Hong Kong Institute of Certified Public Accountants. He obtained a bachelor degree in accountancy from City University of Hong Kong and a master degree in financial economics from University of London. Armen worked for international audit firms for over 6 years from 1998 to 2006 specialized in audit, advisory and corporate finance. He worked at a London based investment bank as corporate finance manager from 2006 to 2008. Afterwards, he has held senior positions in various companies specialized in asset management and investment from 2009 to 2014 including recently the group chief financial officer of an investment holding company with businesses in property development and education in Hong Kong and China.

Please see Appendix for team members' full resumes.

V CLOUD OPERATIONS

The most important actions we take right now are 1) to design our mobile app that is user friendly for both our brand owners and also our target segments;; 2) to partner with brand owners and encourage them to join our app. 3) to build a sales force locally in some cities who knows the neighborhood and be responsible to test our app and also

to implement our app in later stage. 4)support and encourage more brand owners join our Apps and promote this Apps

Revenue

During our Year 1 launching of our mobile app, we will waive Transaction Fees and Technical Support Fees in order to attract more users to use our platform. However, we will need collect security deposit from brand owners when they sign up to use our platform (this fee is collected by all electronic commerce in China as a safety deposit) to protect the consumers' orders. During Year 2, we will continue to waive Transaction Fees but will charge brand owners RMB5,000 per brand per year technical support fees for server and mobile app maintenances and upgrades. During Year 3, we will start charging a 1% to 2% transaction fees depending on the product category .Our main revenue will come Transaction Fees.

Cost:

At the beginning, we will require our app design and interface ready to use. We will need a server that can support our app system, tracking record of orders, delivery, fees, price etc. We will need to have an office for our admin, IT, legal, finance team and customer support team (i.e. a team of 8). Our sales team on the other hand will not be staying in the office much but on the road to educate and demonstrate our app to our target customers. We need big sales teams, the incentive of the sales team is commission, we just pay very small amount basic salary. Warehouse may be needed but mainly we rely on our brand owners existing warehouse, not our own. Since we need to rely on word of mouth during the initial implement stage, any future marketing support we will try to source from the brand owners instead of from internal resources. The team estimated a RMB 2 million to be used on creating the app, future modification. RMB 4 million will be estimated for 2 years operations which including setting up the company, hiring, and also marketing.

Partners and Suppliers:

Both Merlin and Gigi are currently branded consumer products' distributors of personal safety, health care products and household products in China. Our initial portfolio branded goods is set. We are currently screening other possible brand owners at this moment.

To secure payment and build a reliable payment and refund policy for our small retailers, we will use Alipay, a 3rd party, a secure payment and collection platform by Alibaba.

An I3P warehouse and logistic distribution network will need to be in place. We will use one of the largest and most reliable logistic company, SP Express. SF Express has opened at least 500 Heike (Chinese: 嘿客) — an online shopping service community store, across all Chinese provinces — except for in Tibet and Qinghai. The company had plans to open 4,000 Heike stores nationwide in 2014

<u>V CLOUD TIMELINE AND RISKS</u>

Our Key Milestone:

1. December 2015: Conduct market research and survey focusing on the purchasing habit of our target segments and their mobile usage habit.
2. January – February 2016: Interface design for our mobile app, secure logistic company and brand owners partnership in using our mobile app.
3. March 2016: Hire local sales team, provide training and launch alpha testing in 1 or 2 selected cities
4. April – July 2016: Collect feedback, debug, and ready Beta version
5. August 2016: Continue to hire more local sales team, provide training and launch Beta testing in 3 selected cities
6. September – December 2016: Collect feedback, debug, and ready final version
7. January 2017 - Year 1 launch in 10 cities, sales team expansion continues and support the brand owners to promote this Apps.
8. January 2018 – Year 2 launch in 20 cities, sales team expansion continues and support more brand owners to promote this Apps.
9. January 2019 – Year 3 launch in 50 cities, sales team expansion continues and support more brand owners to promote this Apps.

As of today, we are on track with the above schedule.

Our business risks include:

- Relatively high up front fixed cost (if our project failed, those cost are irreversible, minimal scrap value)
- Uncertainty in logistic delivery reliability, failure to deliver will break our trust relationship with our target customers. Hence we will select SF express as our logistic partner since they are the most reliable service with proven track record in China.
- Although initially we have conduct research that there is a need for our target segment to grow online. However, there is still uncertainty in target segments response to this additional service app to their current business model. These local grocery shops and family own store may not be as open minded as we anticipate. As a result, we must hire local sales team from some cities so they can use their "language and culture" to communicate with the small retailers. We will also launch 2 test phrases as mentioned in our key milestone. We will allow a full quarter of observation of user comment and feedback before we conduct full launch of our mobile app.
- Brand Owners may not want to sign up our app since our initial user base will be small. We hope by providing free trial, as our user base grow, our brand owner will stay with us after receiving positive result from using our service. Also, as both of our teammates Merlin and Gigi are in this business, they may serve as an example for other brand owners as successful case of references.

As of current, there is no specific electronic commerce platform targeting B2B. Most of them are targeting B2C and C2C which I've listed in the competition above. Since Tao Bao Marketplace and TMall are under Alibaba, since established in 2003, their sales revenue together are approximately RMB 1000 billion per annum. JDmall.com established in 1998, a listed NASDAQ company, with revenue approximately RMB 260.2 billion. Mengdian.com, owned by weimob, established in 2014, with revenue approximately RMB 100 million within one year. Most of these companies exit strategies are to be listed as a public company.

V CLOUD FINANCIAL MODEL

Please see Appendix E for 5 year Forecast Profit and Loss Account, Balance Sheet and Cash Flow statement.

Income Statement

Our transaction fee is based on number of cities we covered plus no. of people we expected to use our application plus average number of transactions per user plus a % of transaction fee. We expect to grow number of cities from 5 cities in Year 1 to 200 cities in Year 5. Number of people grow from 10,000 per city in Year 1 to 54,600 in Year 5 with 100% growth in Year 2 and decreasing from Year 3 to Year 5. We expect every user would make a transaction per month on average. The estimated value per transaction is RMB50 and would increase 5% per year. We will waive the Transaction Fee in Year 1 and Year 2 and charge at a normal rate of 1.5% on average.

Regarding the Technical Fee, we expect to grow the no. of brands from 30 in Year 1 to 10,000 in Year 5. We will waive the first year's fee and charge RMB5,000 beginning in year 2.

With such revenue model, we expect to have nil revenue in Year 1 and the revenue is expected to increase from RMB2.5 million to 169 million in Year 5.

The sales expenses are mainly salaries and expenses from sales forces. The marketing expenses including commissions paid to sales staff are projected at 2% of revenue in the first 3 years and reduced to 1% in Year 4 and Year 5. We project a lower % in Year 4 and Year 5 because by the time our sales force will be administrating the customers rather than finding new customers when we are getting popular. We also want to strategically control an optimum capacity.

Management and administration expenses are mainly attributable from salaries and server fee. We assume a 0.5% of revenue for paying the server fees.

Income tax is assumed at 25% of profit at the PRC tax rate and there is a room to lower it to 15-20% with further tax planning.

Overall, we projected a loss of approximately RMB3.5 million in Year 1 and RMB6 million in Year 2. We expect to make a profit of RMB5.7 million in Year 3, the first year to return a profit which is expected to increase to RMB32 million and RMB85.7 million in Year 5.

Our Balance Sheet and Cashflow statement models are quite straight forward. We only have some accounts receivable due to we allow 3 months on the Technical Fees. We also expect one month turnover days for our administration expenses payables and 3 month turnover days for marketing expenses payable.

Our fixed assets (i.e. capital expenditure) are mainly the setup fees for the mobile application and the office renovation and furniture.

Capital required

The financing cash flow in the cash flow statement has projected that we will need a capital injection of RMB 5 million in Year 1 and another RMB 5 million in Year 2. As we expect to be breakeven in Year 3 and have positive operating cashflow, we don't expect to inject extra capital in Year 3. The total investment of RMB10 million would be funded by capital and we are also open to raise part of the funding from bank loans.

Appendix A - Different Tier Cities Distribution Map

	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5	Total
	★	▲	●	•	◆	
	5	19	22	55	186	287
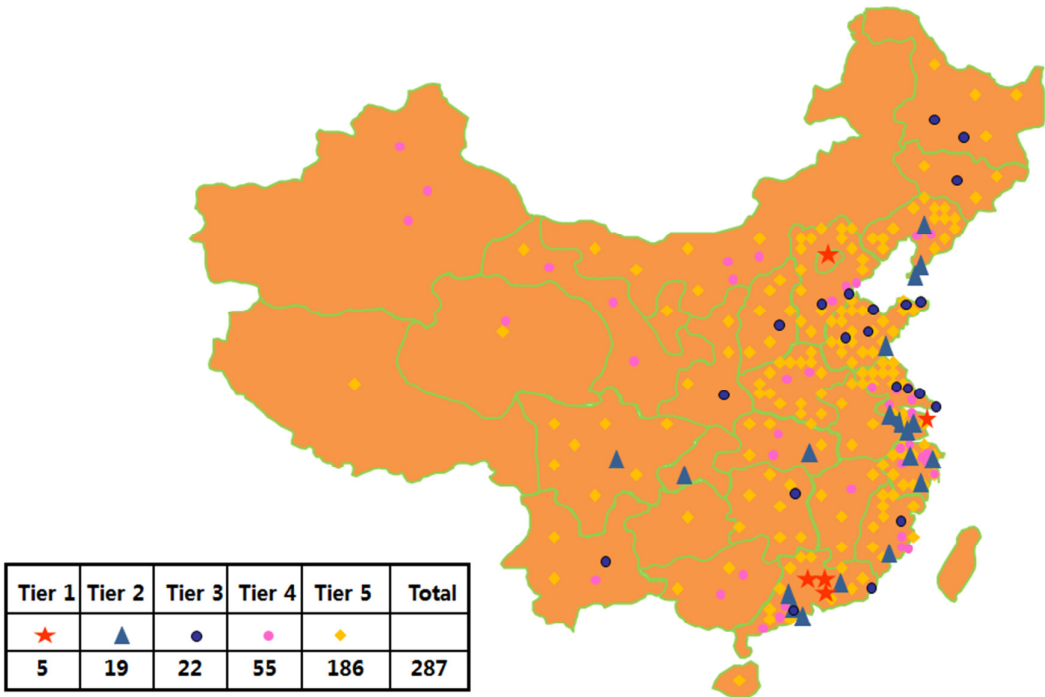
Appendix B – Average spending per Capital on E-Commerce at Tier 4 cities
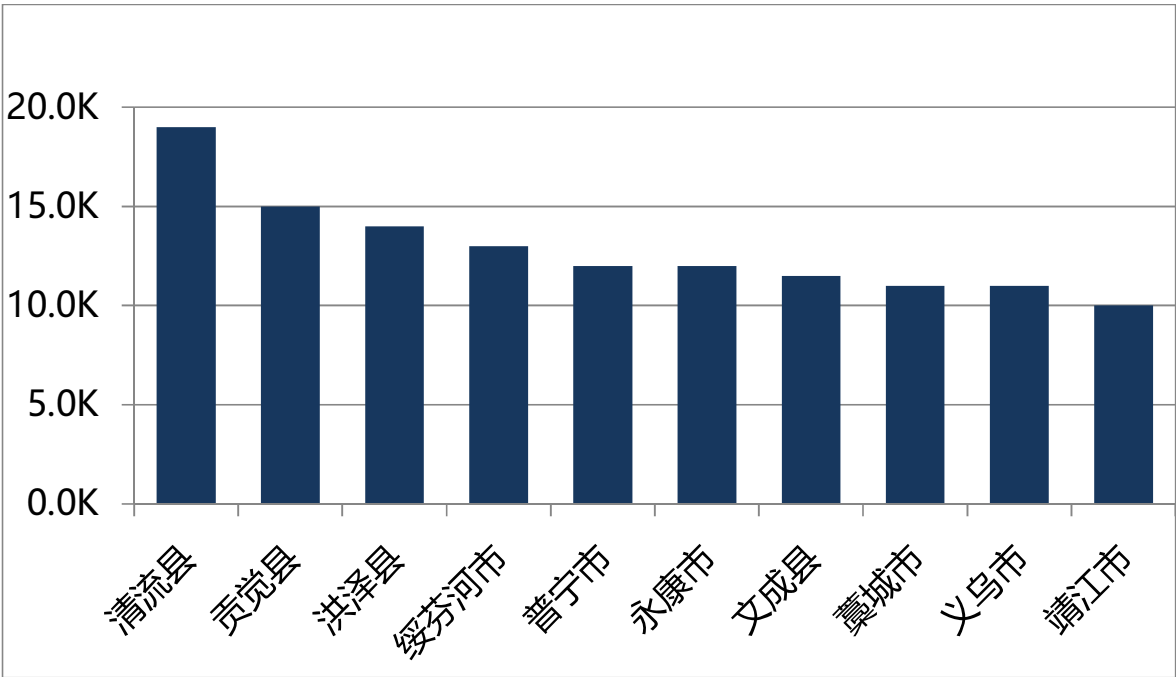
Appendix C – Comparison between different Tier Cities E-commerce Shopping Data

Legend:
- Average # of Transactions per person
- Average order Quantity per person
- Average Spending per person
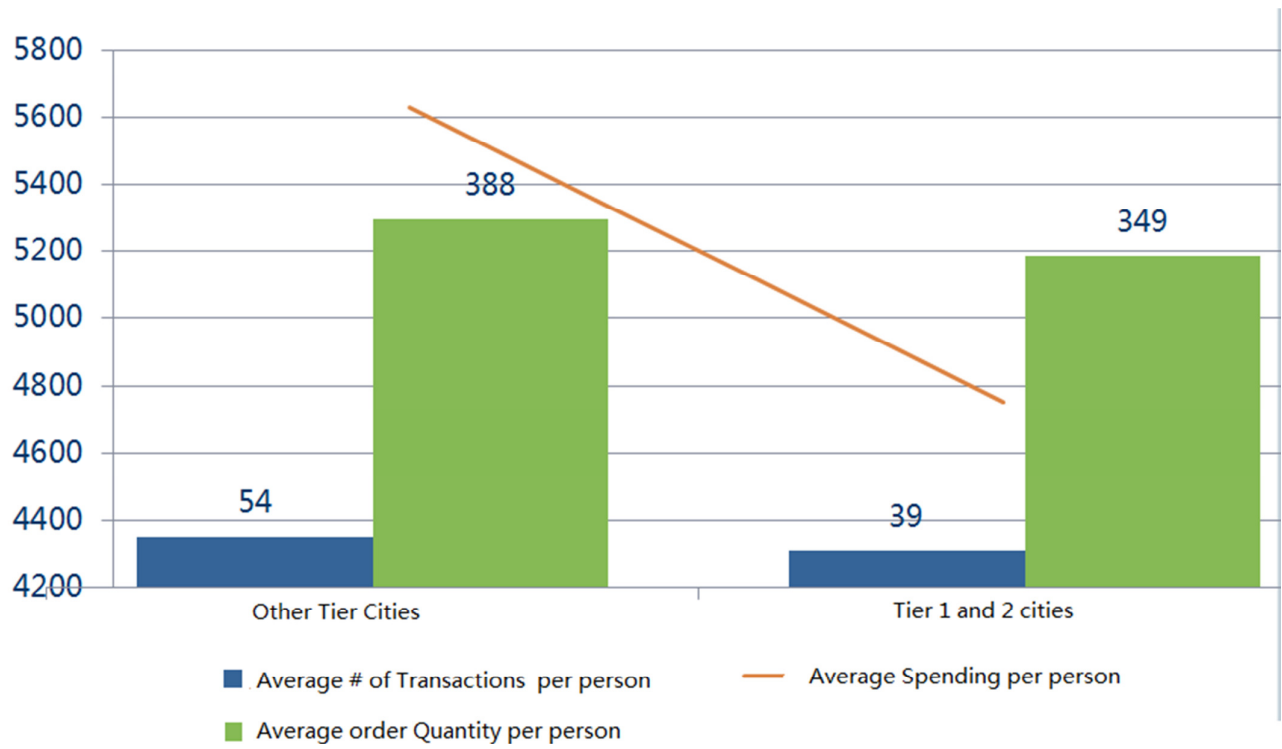
Appendix E

INCOME STATEMENT		Year 1	Year 2	Year 3	Year 4	Year 5
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
REVENUE						
Transaction Fee		-	-	14,884	43,758	119,460
Technical Support Fee		-	2,500	10,000	25,000	50,000
EXPENSES						
Sales and Marketing		(1,238)	(4,781)	(12,077)	(23,737)	(47,534)
Management & Admin		(1,740)	(3,180)	(6,434)	(6,579)	(6,957)
OPERATING PROFIT/LOSS		(2,978)	(5,461)	6,372	38,443	114,969
Depreciation & amortisation		(500)	(500)	(600)	(600)	(600)
EBIT		(3,478)	(5,961)	5,772	37,843	114,369
Interest expenses		0	0	0	0	0
EBT		(3,478)	(5,961)	5,772	37,843	114,369
Income Tax		0	-	-	(5,794)	(28,592)
Net Income for the year		**(3,478)**	**(5,961)**	**5,772**	**32,049**	**85,777**
Retained profit b/f		0	(3,478)	(9,439)	(3,667)	28,382
Retained profit c/f		**(3,478)**	**(9,439)**	**(3,667)**	**28,382**	**114,159**

INCOME STATEMENT ASSUMPTIONS

Assumptions		Year 1	Year 2	Year 3	Year 4	Year 5
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Rvenue						
Transaction fee		-	-	14,883,750	43,758,225	119,459,954
No. of cities		5	20	50	100	200
No. of people in each city use our app		10,000	20,000	30,000	42,000	54,600
Annual growth rate		na	100%	50%	40%	30%
No. of transactions per person per yr		12	12	12	12	12
Estimated value per transaction		50	53	55	58	61
Value growth rate		na	5%	5%	5%	5%
Average Transaction fee %		0.0%	0.0%	1.5%	1.5%	1.5%
Technical fee		-	2,500,000	10,000,000	25,000,000	50,000,000
No. of brands		30	500	2000	5000	10000
Fixed annual fee		0	5000	5000	5000	5000
Sales Expenses		(1,238,400)	(4,780,800)	(11,779,200)	(23,299,200)	(46,339,200)
No. of sales in the brand team		3	6	9	9	9
No. of sales per city in customer team		8	8	8	8	8
Annual salaries per head		24,000	24,000	24,000	24,000	24,000
Travel and transport (20% of salaries)		4,800	4,800	4,800	4,800	4,800
Marketing Expenses		-	-	(297,675)	(437,582)	(1,194,600)
% of fee revenue		2%	2%	2%	1%	1%
Management & Admin Expenses						
Salaries		1,200,000	2,400,000	4,800,000	4,800,000	4,800,000
Average salaries		120,000	120,000	120,000	120,000	120,000
No. of staff		10	20	40	40	40
Rent		250,000	250,000	500,000	500,000	500,000
Server fee		-	-	74,419	218,791	597,300
% of revenue		0.50%	0.50%	0.50%	0.50%	0.50%
Others admin		290,000	530,000	1,060,000	1,060,000	1,060,000
% of salaries & rent		20%	20%	20%	20%	20%
Income Tax						
Tax rate		25%	25%	25%	25%	25%
Loss c/f		(3,478)	(9,439)	(3,667)	28,382	
Tax asset		870	2,360	917		

Balance Sheet

	Year 1	Year 2	Year 3	Year 4	Year 5
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS					
Fixed Assets					
Mobile App- Cost	2,000	2,000	2,000	2,000	2,000
Fixed Assets- Cost	500	500	1,000	1,000	1,000
Depreciatoin	(500)	(1,000)	(1,600)	(2,200)	(2,800)
	2,000	1,500	1,400	800	200
Current Assets					
Account Receivable	-	625	2,500	6,250	12,500
Cash and cash equivalent	286	1,091	9,008	45,197	142,953
Current Liabilities					
Accounts payable	(764)	(2,655)	(6,575)	(13,865)	(31,495)
Net Assets	**1,522**	**561**	**6,333**	**38,382**	**124,159**
Share Capital	5,000	10,000	10,000	10,000	10,000
Reserves	(3,478)	(9,439)	(3,667)	28,382	114,159
Total Equity	**1,522**	**561**	**6,333**	**38,382**	**124,159**

Balance Sheet Assumptions

Assumptions					
	Year 1	Year 2	Year 3	Year 4	Year 5
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Depreciation					
b/f	-	500	1,000	1,600	2,200
For the year	500	500	600	600	600
c/f	500	1,000	1,600	2,200	2,800
Rate- straight line	0	0	0	0	0
Accounts receivable					
Technical support fees	-	625	2,500	6,250	12,500
Days	90	90	90	90	90
Accounts payable					
marketing	(619)	(2,390)	(6,038)	(11,868)	(23,767)
no. of months	6	6	6	6	6
Management and Admin	(145)	(265)	(536)	(548)	(580)
no. of months	1	1	1	1	1
Tax	-	-	-	(1,448)	(7,148)
No. of months	3	3	3	3	3
Cash	435	795	3,217	3,289	3,479
Months of admin expenses	3	3	6	6	6

Cash Flow Statement

Cashflow Statement			Year 1	Year 2	Year 3	Year 4	Year 5
			RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Operating Activities							
	Operating profit		(3,478)	(5,961)	5,772	32,049	85,777
	Depreciation & amortisation		500	500	600	600	600
	Account receivable		-	(625)	(1,875)	(3,750)	(6,250)
	Accounts payable		764	1,891	3,919	7,290	17,630
Investing Activities							
	Fixed Assets		(2,500)	-	(500)	-	-
Financing Activities							
	Share capital		5,000	5,000	-	-	-
Net Cash flow			286	805	7,917	36,189	97,756
Cash b/f			-	286	1,091	9,008	45,197
Cash c/f			286	1,091	9,008	45,197	142,953