Sterling

I’m Going to Start A Business with No Money:

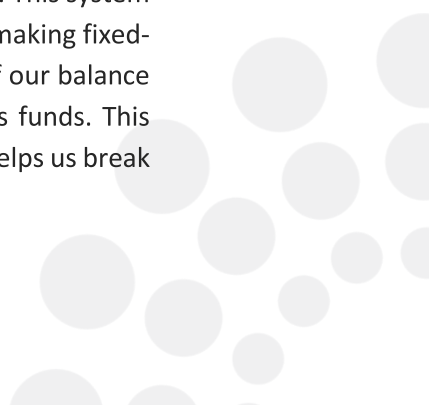
The Virtual Business Model

Banks were easier to start about ten years ago. Now, the central bank asks for almost ₦1bn *plus your grandmother's milk tooth* as a requirement. This has created a difficult situation in the market, but it is possible to run on a model that does not require a lot of capital or, as they say in finance, 'capital-lite'. Asset Light Business or Virtual Business Model is a model where a company seeks to pursue its strategy with the lowest possible asset ownership level. Here, the focus is usually **access**, not ownership. By doing this, companies stand to gain a significant advantage compared to their competitors who are well-established players in the market.

The opposite—asset-heavy—is similar to what we practice in Nigeria. To expand, you have to invest and own assets, then hope your investments give you the returns you need to run your business. In the case of a pandemic and the ensuing lockdowns, or situations that stop the business from running smoothly, let's say #EndSARS protests, the assets would be idle, and we know that a company with high fixed costs relies on its revenue to cover those costs. According to BCG consulting, a sector-wide analysis of research conducted for 2,687 of the largest companies revealed that more asset-light companies, on average, earned greater returns on assets than their peers did. It is similar to our Non-Interest Banking business, which has a greater return on assets than other non-interest banks due to its shared resources with the conventional bank. Thus, we're able to broaden our expansion efforts by focusing our investments in technology and talent acquisition.

This capital-lite model is not new to the business environment. If we need to lend and perform financial intermediation, it doesn't have to come from our balance sheet or our customers; it's this flexibility that makes the capital-lite model even more appealing, especially in our highly regulated space. In Europe, the asset-light strategy has been a popular way to unlock capital by selling the asset(s) with long-term leaseback and management agreements. It helps an organization start operation by outsourcing resources from different firms, getting brand value fast and having higher margins due to their exclusive nature. Yes, the margins compensate the business for the additional risks taken.

For us, capital-lite would involve using our technology and products to build ecosystems that will function and operate outside of our balance sheet. This system will help us to expand more into our focus sectors without necessarily making fixed-asset investments. Specta, for example, can provide lending outside of our balance sheet and gain customers without key investment from shareholder's funds. This model accelerates growth and promotes long-term sustainability as it helps us break



monopolistic conditions since we are moving the playing field to quality of service and access. You can fight to keep your skin in the game during the initial years, while making a lot of money later on.

BENEFITS?

01

The room to focus on technology investment such as software, systems, sub-systems and people

02

Less capital-intensive investment in equipment and fixed assets

03

Improved return on assets

04

Less profit volatility

05

Flexibility

06

Cost-effective measures such as sharing resources with other entrepreneurs, thereby ensuring that companies pay for these assets only when needed, saving on maintenance costs and general operating expenses

07

*****This model is successfully operated by financial institutions, hospitality companies and even technology companies*****

Motorola was among the first companies to adopt an asset-light strategy; it did so out of necessity for its less profitable business. In 2002, Motorola announced that it would outsource the manufacturing of Complementary Metal Oxide Semiconductor (CMOS), an integral component of its phone production business. In what would be the first phase of its asset-light strategy, it announced a significant manufacturing consolidation and the elimination of many internal manufacturing jobs.

According to Chris Galvin, the then CEO, "after completing our 4-month long technology and strategic reviews in August, I recommended to the board of directors in September that Motorola focus its future on retaining and augmenting all five Motorola sectors that compose our communications products and integrated electronic systems businesses and that our asset-light semiconductor business could prosper as a separate entity."

Motorola was initially a communication giant focused on cell phones and cell phone structures, including radio equipment, software, automotive electronics, portable energy equipment and the integrated circuits needed for the operations. Motorola simply could not afford to produce integrated circuits for all of its products and would rather have a third party design their most important component. The move resulted in the handover of more than 29 production plants to other firms who supervised production. By the beginning of 2003, Motorola had consolidated operations at 29 chip manufacturing plants—operating since 1997—into just eight plants.

In the execution process, the manufacturing arm, Semiconductor Sector of Motorola, cut capital expenditure by more than 25% by the end of 2002. The move also enabled Motorola to improve innovation as it freed up capital to improve their technology. Motorola entered the Crolles Alliance with STMicroelectronics, Philips and Taiwan Semiconductor Manufacturing Co. Ltd. (TSMC) to develop next-generation technology at 90nm and smaller geometries. This alliance augmented

Motorola's internal manufacturing capability. It was part of a 4-year asset-light strategy.

"Going forward, you will see us concentrating in those unique product areas where we can bring true leadership and moving to an outsourcing process—a model where we don't have to keep the same number of fabrication facilities running standard-type products," he told analysts while fielding questions. Galvin said the asset-light semiconductor model would earmark capital investments for production in "unique high-technology processes." The strategy worked and successfully slowed the bleeding from the manufacturing bottom line. After losing $1.3 billion in the first half of 2002, SPS reported a loss of $125 million during the first six months of 2003.

Motorola’s profitability improved within three quarters: "In the fourth quarter of last year, we came close to double-digit operating margins in that business. The new business model for semiconductor contains more liberal licensing of intellectual property to generate royalty income and associated cash flow which is essentially needed to focus on highly integrated proprietary products–such as the new chipset reference platform for 2.5 and 3G," Galvin said, referring to Motorola's move to open up access to all of its cellular phone technologies for chip customers and next-generation handsets.

"The 'asset-light' model is an attempt to reduce the fixed expenditures in the business more significantly than we did before," Galvin explained. "We will not build 300-mm fabs ourselves. We will do that in a partnership. We will outsource 50% of our CMOS business over a period of time in partnerships with foundries. However, we will continue to invest in specialised technologies, like gallium, arsenide, silicon germanium and other III-V compound materials that are quite unique and unavailable for outsourcing, giving us differentiation.”

Differentiation is precisely what occurred; the stocks improved significantly. Commercial, Government, and Industrial Solutions Segment (CGISS) sales were $863 million, up 8% compared to Q3 2002. Its operating earnings of $62 million were also an improvement compared to $39 million in the previous year quarter. The increase in operating earnings was due to higher sales and a reduced cost structure caused by implementing an asset-light strategy.

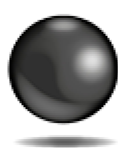
This business model combined a balance of shared cost in developing advanced technologies, revenue from intellectual property licensing and more new product offerings than it had in the past across its leading positions in wireless, networking, transportation and standard products. With its own publicly traded equity, the manufacturing arm had the opportunity to acquire additional strategic product lines and technology using semiconductor equity valuations instead of Motorola's blended equity valuation. Apple and other mobile companies would later adopt this model for production and manufacturing; it enables businesses to grow faster, shedding unnecessary weight and improving coverage without making essential capital investments like the competition.

BlackFin Capital Partners is a sector-focused fund specialising in Financial Services across Europe. BlackFin's investment strategy focuses on asset-light businesses in the financial services & technology sector across continental Europe. Their interest includes asset-management, institutional and retail brokerage, distribution of insurance and banking products, digital and traditional channels, payments processing, debt management and collection, fund administration, business process outsourcing, and financial technology in a complete sense. BlackFin operates as an active and influential investor, substantially transforming its portfolio companies by growing them organically, improving operating margins, and using an active buy and build strategy. The firm supports successful management teams to take their businesses to the next level, and they expand their operations by allowing other companies to implement their innovation. BlackFin Capital Partners is a fully independent firm run by its four founding partners. Laurent Bouyoux, Eric May, Bruno Rostain, and Paul Mizrahi who have worked together as managers and entrepreneurs in the financial industry for decades. Altogether, the team consists of 12 experienced professionals from different European nationalities.

At the end of 2018, BlackFin Capital Partners became the largest independent FinTech fund in Europe. They act as managers for assets and other companies; it expands by creating systems that exist independently. One of the company's strengths is its ability to expand into European countries without increasing fixed assets or capital investment. It manages €800m through two financial services growth/buyout funds and one FinTech focused venture capital fund.

Laurent Bouyoux, the Managing Partner of BlackFin Capital Partners, stated: "As entrepreneurs and founders ourselves, we feel particularly connected to entrepreneurs seizing FinTech opportunities. The size of the fund allows us to support the most ambitious entrepreneurs, all over Europe, through successive financing rounds". BlackFin's strategy is very clear—it invests in businesses that will increase its coverage, and does so outside of its balance sheet. Blackfin has built a unique platform to take advantage of investment opportunities in Europe's financial sector, based on its differentiated investment strategy, substantial fund size, a large and experienced team and local presence across France, Benelux and Germany.

For example, in 2017, BlackFin Capital acquired CED Group, a full-service European claims management provider that gave the company access to Paris, Brussels and Frankfurt. The acquisition helped to strengthen its drive towards more innovation and technology-supported services. In addition, the new ownership had no direct consequences for operational management and employees of CED . The funds raised are being deployed across Europe; BlackFin essentially backs strong and ambitious teams that are developing differentiated technologies or software solutions addressing the needs of large financial institutions (B2B), small businesses (B2SmallB) or consumers (B2C). All aspects of retail banking, payments, investment banking, wealth and asset management, insurance, insurance distribution, back-office optimisation and technologies related to regulatory requirements are also targeted. One of the capital enterprise's strengths is its FinTech team, which manages a €180 million venture capital fund to identify and understand innovations and new technologies that accelerate the financial sector's transformation. This team evaluates about a thousand investment opportunities each year, in addition to the 120 to 150 options studied for the buyout fund.



Another example of its asset-light strategy is its investment strategy in FRISS. BlackFin led the €15 million Series A in this Dutch company, a European market leader in fraud detection for insurance companies. The FRISS Score's main fraud feature leverages artificial intelligence technologies (machine learning) and big data analysis to assess risk levels when underwriting new policies and managing claims. The BlackFin team needed this technology but instead of building its own, it assisted FRISS to raise capital while opening up BlackFin to the Dutch market. With an asset-light strategy, they identified investment opportunities in their geographies and provided portfolio companies with insights and commercial access to help them grow faster while managing innovation and products.

CONCLUSION

Companies that apply this business model must have capital, market awareness, negotiation skills and the relevant know-how. The theories of industrial organisation and strategic management describe the necessary conditions for firms to obtain a sustainable competitive advantage and suggest appropriate strategies for corporations to achieve superior financial performance in managing their assets. Although the asset-light business model is not new but it has not been appropriately defined in the literature.In a dynamic environment, where companies seek competitive advantage, the asset-light approach becomes increasingly necessary,— a crucial piece at the heart of expansion and innovation.