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Moonpig.com – Do MBA Business Plans Really Work? Part 2: Over the Moon

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Abstract. The case study continues the story of Moonpig.com, a fast-growth entrepreneurial success story started in 1999 by Nick Jenkins. Part 2 describes the growth of Moonpig.com from 2003 to 2009. On his journey Nick was faced with numerous challenges, not least the need to raise finance, building a strong advisory board, and to develop a growth strategy for the business both in the UK as well as abroad. At the end of part 2 Nick is at a cross-road: should Nick sell the business now and move on to new endeavours or should he stay and continue to grow the business further? A detailed Teaching Note with an analysis and suggestions for questions is also available to stimulate discussion in the classroom. (Moonpig.com Part 1 and 3 are also published in this edition of the International Review of Entrepreneurship).

Keywords: entrepreneurship, business plans, Dot.com companies, greeting cards/publishing, business angels, venture capital, company valuation, business growth strategy, exit/harvest.

1. Introduction

Although the last few years had been hard work for Nick, his efforts were beginning to come to fruition by May 2005. Between 2001 and 2005, sales had increased by an average of 46% year on year, while operating expenses decreased by an average of 13.5%, year on year.

Consequently, in 2005, Moonpig was able to celebrate its first profitable year of operations (see *Exhibits 1–2*). By 2009 Nick could confidently ask "*Would anyone ten years ago have believed an MBA business plan forecasting sales of £21 million and profits of £5 million, which we havejust achieved?*" He had finally proven that he could set up, run, and succeed in a challenging business in which he had no prior experience. He now felt sufficiently confident to think seriously about his future strategic options.

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1. The case has been prepared by Robert Brown, Visiting Fellow, and Dr Stephanie Hussels, Lecturer in Entrepreneurship, at the Bettany Centre for Entrepreneurial Performance & Economics with help from the MBA students Philip Irvine, Tom Keohane, Joel Leeson, David Stark, and Chris Wyper. The authors would like to thank Nick Jenkins for his generous support and kindly provided insights into Moonpig.com. The case is intended as a basis for class discussion rather than to illustrate either effective or ineffective handling of management situations.

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Moonpig.com

2. Raising Survival Funds in 2002

Progress to profitability had been much longer and tougher than Nick had ever foreseen. The company's survival had owed much to its investors' faith and Nick's own deep pockets to weather the "Internet boom period". In late 2000, at the height of the Internet investment excitement, new angel investments in Moonpig had been as high as £25 a share, giving the loss-making company a theoretical value of nearly £5 million! Nick called these investments *"hope money"*. In March 2001, he had matched new shareholders' investment by capitalising his £360,000 loans and guarantees and purchasing shares at this price. The fund-raising process had diluted his original 70% share capital ownership to 42%, giving him an average investment cost per share of £3. In September 2002's new fund raising round, he was anxious to at least preserve the value of his investment in spite of Moonpig's continuing losses.

The breakthrough came when the VCs, disillusioned by many of their investments in the "Internet sector" and attracted by new opportunities, agreed to sell their 35% holding to the Chairman's new investor at £3 a share, effectively writing off nearly three-quarters of their original £720,000 investment. New trade investors with knowledge of the greetings card industry were also willing to invest in Moonpig at this price, enabling Nick to raise £120,000 more than the £300,000 the refinancing required. To maintain his own stake at nearly 40%, he capitalised his further loan of £260,000 by also adding new shares at this price to his holding.

3. Raising Survival Funds in 2003

The extra £680,000 of equity finance raised in September 2002 enabled the company to continue to increase sales, but at nothing like the rate projected in

Nick's revised business plan forecast. The main shortfall was in the overly optimistic business-to-business corporate sales area, although the number of registered users had climbed to 85,000.

Despite a forecast of a £165,000 profit, the company suffered a further loss of £570,000. Nevertheless, Nick was confident enough to write a third business plan indicating important shifts in strategy:

- The product would be changed from primarily humour *"to more general greeting cards to increase customer spend and retention"*.

- A *"redesigned website and software"* to better track and measure customer behaviour and permitting, for example *"email reminders to be sent to customers on anniversaries"*.

- Postcard-size products for birth announcements, change of address, etc. plus a photo-upload facility, which would encourage extra regular customer spending, as would experiments with gift catalogues to accompany the cards.

Overseas opportunities were also developing for Moonpig; approaches had been received from Nine MSN, the largest portal in Australia, and from Canada Post, both of which were keen to discuss the possibilities of a joint venture partnership. Nick's more modest 2004 forecast of £600,000 sales with a halving of the losses incurred in 2003 and a first profit planned for 2005, enabled Moonpig to raise a further £150,000 equity investment from an Angel trade investor at an improved price of £4 a share.

For the first time, the forecasts – for 2004 and 2005 – proved correct (*Exhibits 1 and 2*). The company's equity share structure was as follows:

Table 1: Moonpig's equity structure in 2005

Shareholder	**Total Amount Invested**	**Share of Equity**
Nick Jenkins	£616,000	34.4%
M Property Ltd	£523,000	33.8%
Christian Sullivan	£150,000	7.3%
Paperlink Ltd	£45,000	5.8%
Various Angel	£605,000	9.7%
Friends	£130,000	3.3%
Options[a]	£88,000	5.7%
Total	£2,157,000	100.0%

a. Share options were developed to help motivate and retain key Moonpig.com employees, particularly the increasingly important IT Director.

It was time to celebrate, particularly as Nick had drawn no salary since 2001. He had accrued a nominal £60,000 p.a. salary for that year, accounted for as an expense for the company and shown on the balance sheet as a loan – a way to avoid potential shareholder discontent when the company eventually became profitable. Consequently, pay-back time was at hand. At the same time,based on what had been learned so far, market opportunities had to be examined and future growth strategy planned.

4. The Greeting Card Market

The latest market research showed that although at a mature growth stage, the global greeting cards business was nonetheless expected to achieve a 2% year on year growth in 2005. The UK greeting card market was estimated to be worth £1.4bn., generated from sales of 2.87bn. cards (*see Exhibit 3.1 and 3.2*). The premium card market (Moonpig's market segment) accounted for 30% of the total UK card market, or around £420million. Moonpig had benefited from first mover advantage in the online greeting card market. Industry research showed that consumers were increasing appreciative of its quality, design, and variety, which had ensured strong growth in the premium sector.

Greeting card production was dominated by Hallmark Cards, with a 34% market share and UK Greetings, with a 32% market share. The UK retail card market remained very fragmented with a large number of small players (from sole traders to newsagents) and a small number of large companies – Clinton Cards, the largest, had a 25% market share following its acquisition of Birthdays in November 2004. Other significant retail competitors included The Greeting Card Group, Paperchase, Cards Galore, supermarket chains (Tesco, Sainsbury's, etc.), department stores (Marks & Spencer, John Lewis, Woolworths, etc), stationers, booksellers, and art shops such as WH Smith and Waterstones, convenience stores, Post Office shops and charity shops.

Moonpig's proposition had been replicated by another Internet-based company called 'Remind 4U.com', but with very limited success. Nick felt that the nearly £3 million investment that had been necessary for his company to achieve success was a strong competitive barrier against new market entries.

Several years previously there had been a potential threat when it was believed that e-cards would capture a proportion of the market share, but this never materialised due to their unpopularity. E-cards were perceived as having a low-value status as they lacked the personal touch so important with greeting cards.

5. Business Growth 2005-2009

By 2005, Moonpig had a UK customer base of 137,000, with 1,500 new customers ordering cards every week. The average age of the customers was 33 and while 55% of all customers were female, they nonetheless accounted for 75% of sales!

Nick had learned the hard way that growth was necessarily slow and organic. Brand and sales were primarily built through recommendations and by viewing the product itself, often after having been given a personalised card or having seen someone else's.

Future growth would also be incremental, driven by word of mouth and through search engine advertising. Nick conceded that well placed Internet advertising had been effective. The underpinning assumption behind the growth and profitability forecasts was that in future customer acquisition would increase at the current rate. With high fixed and low variable costs, this meant that the losses seen in the past would increasingly turn into levels of profitability.

The Fulham headquarters had a capacity to produce 2,000 cards per hour in a 7-hour shift; consequently, printing capacity would not limit growth in the medium term – or so Nick thought!

With profitability had come the opportunity to develop new channels of publicity, especially TV. What Nick had not anticipated, was the huge impact that advertising Moonpig.com on day-time television would have. These advertisements coincided with a spurt in broadband Internet connections, thus allowed customers to further personalise Moonpig cards with down-loaded photographs. The first Moonpig TV advertisement in November 2006 cost £30,000 to make, and £50,000 for the day-time television trials. The success of the 'Moonpig.com' jingle on TV was such that many parents were soon reporting that their new child's first word was 'Moonpig'.

Sales grew from £1.8 million in 2006 to nearly £21 million in 2009 (*Exhibit 1*). This extraordinary growth required the relocation of the expanded production facilities and staff (35 in all) to Guernsey, where lower property costs improved the margins; the head office staff, some 30 in total, comprising the IT team, marketing and customer services, was likewise relocated in London from Fulham to larger, open-plan offices in Southwark. With this growth in the organisation, Nick, feeling that he was a typical entrepreneur whose main skill lay in starting new ventures rather than in running an established business, wisely recruited a commercial director.In 2006, Iain Martin, was appointed with a view to his becoming Managing Director, which was duly achieved in 2007. This enabled Nick to become Chairman with a working week of 3 to 4 days, giving him more time to focus on the company's future direction.

By 2009, Moonpig was working with between 20-30 card publishers, although 40% of sales came from the company's own designs. The company had served some 2.5 million customers, achieving a record of 99,000 orders on 9 February, 2009. The shareholders benefited from a £4.7 million dividend payment that year, meaning that their dividend payments exceeded their original investment three times;consequently, they were delighted with the company's progress.

6. Where to Next?

There were opportunities to expand the business overseas. Although the UK had one of the biggest greeting card markets in the world, the US, and northern European countries such as Germany, Norway and Denmark were also major markets. However, none of these regions had a viable 'Moonpig'-type operator.

Moonpig had already created a direct subsidiary in Australia, where the language and sense of humour were largely the same as in the UK. The Australian market was managed from Moonpig's London office, with the exception of the print and distribution business, which had been outsourced to an Australian subcontractor. This model could suit other geographical areas where printing and distribution could easily be outsourced to suitable parties. Nick had aspirations to repeat this business model in the USA, where the potential market size was estimated to be approximately eight times that of the UK.

Nick had also given considerable thought to product development. He had always been reluctant to expand the range beyond personalised cards though Iain Martin had introduced a range of flowers which had proved popular, with the flower fulfilment outsourced to a third party.

Both Nick and Iain had been wary of expansion into selling bulkier, less unique items, which also had the disadvantage of much lower margins than his greetings cards. Online companies such as Firebox.com provided a wide range of fun 'gift' products that seemed to provide a 'brand fit' with Moonpig. Moving into this space, however, could throw up a host of practical problems such as a lack of sourcing expertise, the management of suppliers, supply chain planning, storage, fulfilment, and the fact that there were a number of established players in the market that had spent years gaining specialised knowledge in this area.

7. Exit Routes?

While Nick pondered these growth opportunities, he was also looking at the exit opportunities for the shareholders. At this point, because the shareholders were all private investors there was no pressure to liquidate as one might find with venture capital investors. The dividend stream was strong and the shareholders realised that selling would only create the need to reinvest the money to get a similar income stream.

With his more relaxed work schedule as Chairman, Nick had already set up a Moonpig charitable trust to involve the Moonpig staff in charitable projects in

Africa and the UK. He had also made two business angel investments in other new companies (in green energy and retailing). He was delighted by the way Iain Martin was managing the company, as were all the shareholders with the forecast of £11 million earnings in 2011.

However, small clouds were appearing on the horizon. In September 2009, the retailer Marks & Spencer moved into the personalised greeting cards market offering 1,200 of their own designs at a competitive price of £1.99 per card. Moonpig at this point had 10,000 plus designs, growing at 2,000 a year, but at a cost of £2.99 for a larger sized card (*see Exhibit 3.3*). Moreover, in October 2009, WHSmith acquired the remind4u.com business and rebranded it Funkypigeon.com to offer a range of personalised gifts including an exclusive selection of high-profile brands such as Coronation Street, Dancing on Ice and limited edition photography of The Beatles and Elvis to enhance its previous purely online personalised cards offering.

Moreover, the online photo service industry was encountering a phenomenal increase in users by offering customers greater choices for printing, sharing and storing their photos as well as a variety of personalised photo products, ranging from calendars, mugs and mouse mats to books, and puzzles. For example, Snapfish, a division of Hewlett-Packard, had moved into Europe in 2006 by acquiring bilderservice.de GmbH, which was operating Pixaco, a leading European online photo services and products site. Also, the Photoways Group, which was founded in 2000 by two young French entrepreneurs, was planning to expand into the personalised greetings cards space.

The impact of postal service strikes and threats had been averted by Moonpig offering to e-mail its customers' cards to potential recipients on time. Overall, Nick was confident that newcomers would find, as he had, *"that acquiring customers online was a most difficult process and constituted a considerable barrier to entry and growth"*.

Late 2009 Nick concluded in an interview with the Financial Times: *"A lot of people who start a business confuse their own personal freedom with an exit. There is nothing stopping me from pursuing other things. That is one of the joys of stepping back a bit"*. He had been keen to grow the business further in 2009 to maximise shareholder value, but was unsure of the best way to achieve this. Expansion into the USA and continued growth in the UK excited him. *"How can we leverage Moonpig's past success and push profits into the stratosphere or with the growth of the competition and the changing market should we be thinking of exiting now?* He wondered what current MBA classeswould advise him.

Exhibit 1: Profit and Loss Account Altergrahics Limited/Moonpig.com (2000-2009)

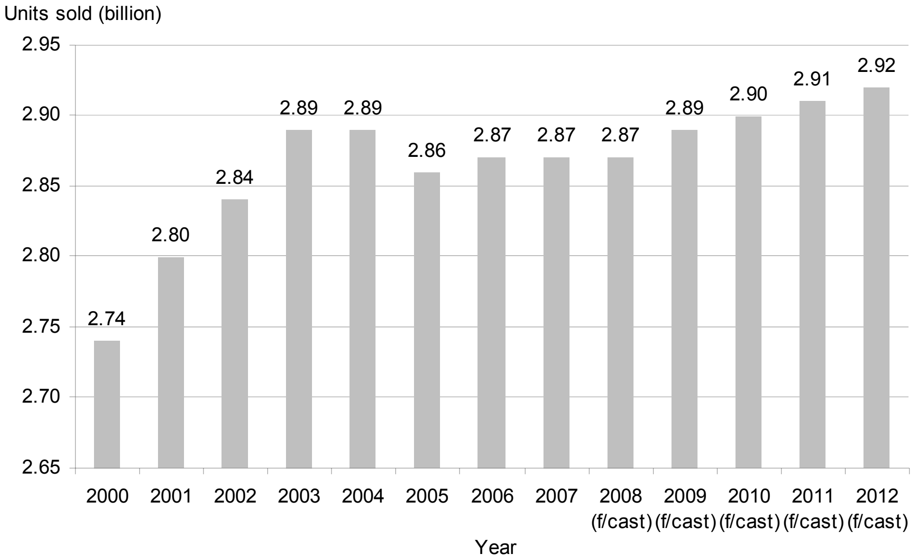
	2000 £ ('000)	**2001 £ ('000)**	**2002 £ ('000)**	**2003 £ ('000)**	**2004 £ ('000)**	**2005 £ ('000)**	**2006 £ ('000)**	**2007 £ ('000)**	**2008 £ ('000)**	**2009 £ ('000)**
Turnover	0	96	372	459	635	1,112	1,821	3,135	8,347	20,906
Cost of Sales		-51	-135	-204	-265	404	-674		-2,801	-6,803
Gross Profit	0	45	237	255	370	708	1,146		5,546	14,103
Administration Expenses	-220	-1,126	-984	-801	-678	-590	-810		-3,229	-7,652
Other Income					0	0	2		55	149
Exceptional Items						61				
Profit (Loss) before Interest	-220	-1,081	-747	-546	-308	165	338		2,373	6,600
Interest Receivable and similar Income									66	100
Interest Paid				-24	-22	-28	-21			
Net Interest				-24	-22	-28	-21			
Profit (Loss) before Tax	-220	-1,081	747	571	335	76	318	605	2,439	6,700
Taxation	0	0	0	0	0	0	0	-78	-312	-1,851
Profit (Loss) after Tax	-220	-1,081	-747	-571	-335	76	318	527	2,127	4,849
Cumulative Profits	-220	-1,301	-2,048	-2,619	-2,954	-2,878	-2,560	-2,033	94	4,943

Exhibit 2: Balance Sheet - Altergrahics Limited/Moonpig.com (2000-2009)

	2000 £ ('000)	**2001 £ ('000)**	**2002 £ ('000)**	**2003 £ ('000)**	**2004 £ ('000)**	**2005 £ ('000)**	**2006 £ ('000)**	**2007 £ ('000)**	**2008 £ ('000)**	2009 £ ('000)
Fixed Assets										
Tangible Assets	233	318	203	117	39	258	244	452	415	1,670
Intangible Assets	88	69	57	19	1	3	1	1		
	321	388	261	136	40	261	245	452	415	1,670
Current Assets										
Stocks	5	5	12	25	20	23	34	62	87	255
Debtors	109	57	58	32	33	106	59	223	551	962
Investments										114
Cash at bank and in hand	0	97		35	118	187	323	883	1,844	3,461
	114	160	70	91	170	317	416	1,167	2,483	4,791
Creditors: amounts falling due within one year	-419	-302	-662	-317	-523	-637	-549	-905	-2,696	-6,082
Net current Liabilities	-305	-142	-592	-226	-353	-321	-133	262	-213	-1,291
Total Assets less current Liabilities	16	246	-331	-90	-313	-59	112	714	202	379
Provisions for Liabilities	-235	-181	-50	-75	-75	-144			-25	-4
Net Assets	-219	66	-381	-165	-388	-203	112	714	177	375
Capital and Reserves										
Issued Capital	1	2	2	4	5	5	5	5	5	5
Share Premium	0	1,365	1,665	2,345	2,494	2,494	2,539	2,539	49	66
Profit and Loss Account	-220	-1,301	-2,048	-2,514	-2,887	-2,702	-2,432	-1,830	123	305
Shareholders' Funds	-219	66	-381	-165	-388	-203	112	714	177	377

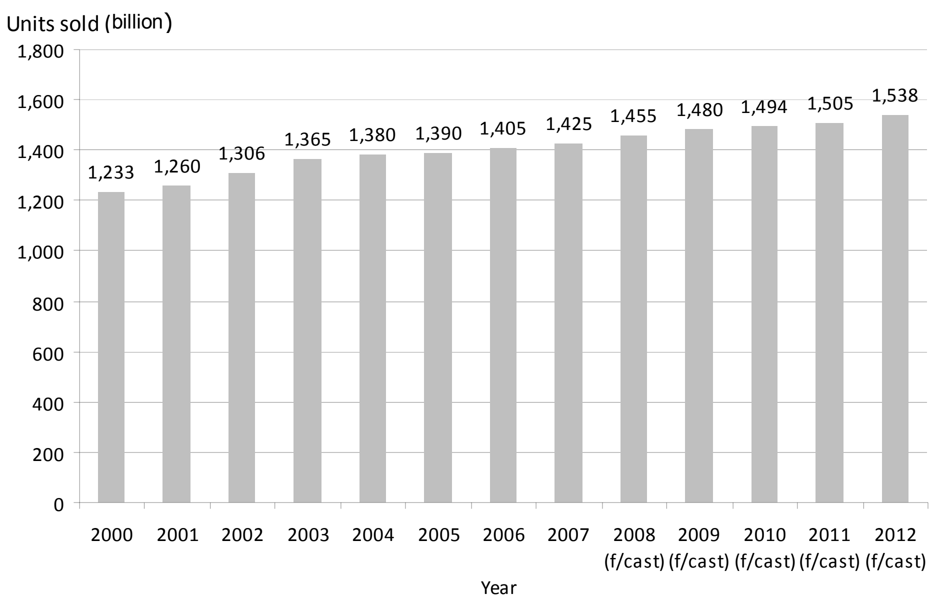
Exhibit 3: The UK Greeting Card Industry

3.1: Size and forecast of the UK greetings cards market, by volume, 2000-2012



Source: Greetings Cards - UK, Mintel (2007)

3.2: Size and forecast of the UK greetings cards market, by value, 2000-2012



Source: Greetings Cards - UK, Mintel (2007)

3.3: Overview of the competition

Name	Price (£)	Quality	Postage	Card selection
Moonpig.com	2.99	Thick & Glossy	0.48	9/10
Hallmark	3.00	Thick & Glossy	0.49	9/10
Funky Pigeon	2.99	Thick & Glossy	0.47	7/10
Snapfish	1.99	Thick & Glossy	0.49	6/10
eCards.co.uk	1.99	Thick & Glossy	-	NA
Getting Personal	2.95	Thick & Glossy	0.49	7/10

Source: Adapted from www.ecards.co.uk