

# Finding patterns in business models risks

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# The objective...

## IS

- ▶ To understand and identify risks in business models and incorporate them appropriately in our assessment of the value.

## IS NOT

- ▶ To consider investment risk arising from market risk (overvalued security / industry / market)

Risks in business models can be understood by a combination of Porter's Five Forces Analysis and Staying Power<sup>1</sup>

4x size of parent

Strong labour unions

Auction based pricing

Large pension liabilities



Cultural integration

Debt funded acquisition

Cyclical commodity

Foreign Currency debt

Lollapalooza

# Patterns in business model risks



Coffee Chain

Domestic companies facing threat from entry of global players



Consumer Electronics

# Patterns in business model risks



Airlines

Capital Intensive +  
Economically sensitive  
+ undifferentiated  
Business



Retail Market

# Patterns in business model risks



Steel

Operating leverage +  
Financial Leverage +  
Cyclical business



Mining

# Patterns in business model risks



S Kumars

Leverage + Acquisition



Sintex

# Patterns in business model risks



Mobile  
handsets

Low Entry barriers +  
Rapid technology  
change + Large  
number of rivals



Light bulb



# Patterns in business model risks



Horsehead

Nature + Leverage



US shale oil  
bankruptcy

# Patterns in business model risks

Concentration in  
any part of  
company's value  
chain



Customers facing cyclicity in  
end markets + Prices of end  
product fluctuates + Depends on  
capex of end users +  
undifferentiated products

# Patterns in business model risks



Ayurveda

Customer Shifting Preferences

Fashion Risk/  
Consumer Fads



Fast Food

# Patterns in business model risks



Plywood

Good enough goods +  
influential middlemen +  
large scale + no  
genuine benefits to  
customer from  
alternative products



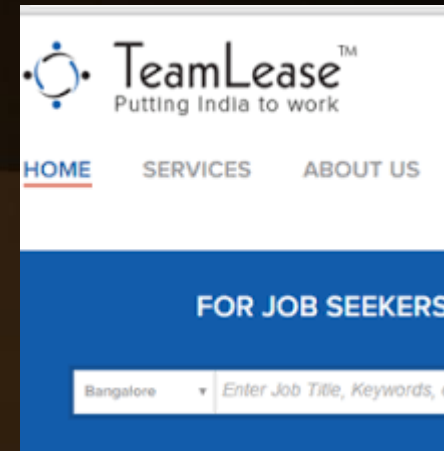
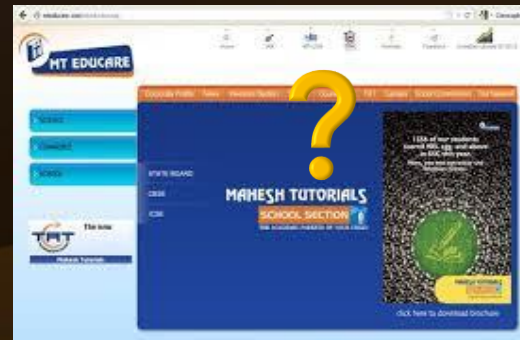
Ceramic Tiles

# Patterns in business model risks



Failure to scale up

Businesses where governments play a large role in determining corporate fortunes



# Patterns in business model risks



Indian IT

Competition from low cost countries



Chinese manufacturing

# Patterns in business model risks



**SHRIRAM**

Commercial Vehicle Finance

Mistaking cyclical with  
secular growth



Commercial  
Vehicle Financing

Reclaimed  
Rubber

# Patterns in business model risks



Valeant Pharma

Win-Lose Model



Industrial  
Pollution

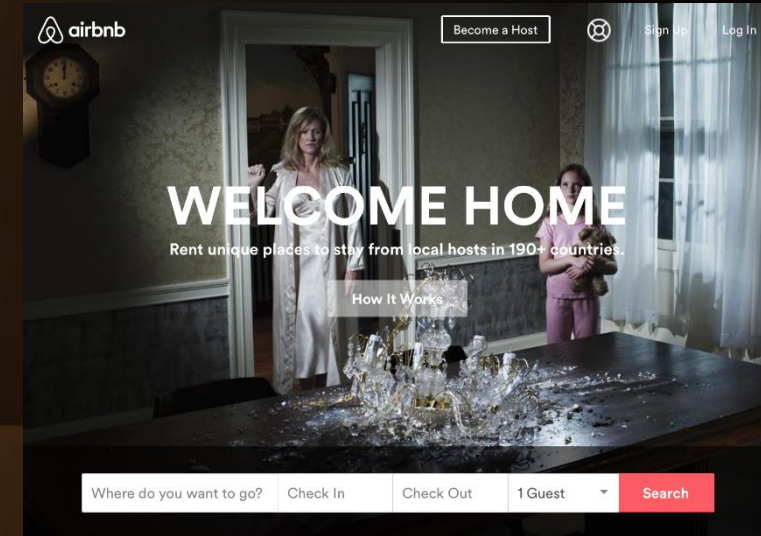


# Patterns in business model risks



Time Sharing

Win-Lose Model +  
Technology Disruption  
+ Failure to scale up



Airbnb – Hotel  
industry

# Patterns in business model risks



Microfinance

Continuously raise capital + Govt interference + Liquidity chasing sector



Ecommerce

# Reference

- ▶ 1. Prof. Bakshi's blog post on staying power:  
<https://fundooprofessor.wordpress.com/2015/06/11/what-is-staying-power/>