



EUREKA.COM: MOVING FROM START-UP TO SCALE-UP¹

“Where do we go from here?” thought Esra Maya Evren, the founder and CEO of Eureka.com, in her office in Istanbul. Her company had been a fast-growing e-commerce startup in Turkey since 2008, not only providing customized gifts to individual buyers and professional marketing products for corporate clients, but also serving as a platform for designers and artists to market their creations. In August 2018, the company was offering more than 15,000 different products on its website.

Recognized as the Entrepreneur of the year in Turkey by Endeavor in 2016, Esra Maya was aware that the business environment for low margin products was dynamic and had low barriers for entry for new competitors with similar services. Her customer base to the site was not homogeneous, which demanded her to divide her time, attention and resources between different customer groups with diverse demands. She managed a large and diverse segment of individual customers who recognized the brand and developed brand loyalty over the years. Her variety of customized products had been important for individual shoppers, while complicating the order fulfillment process. Further, she defined her corporate customers as predominantly small and medium enterprises (SMEs). Corporate customers ordered in small quantities, which were usually finalized by small modifications to imported products. In this segment, she anticipated potential expansion with larger corporations.

Although her attempt to establish a new sales channel by opening up kiosks in shopping malls in Istanbul failed, she learned from this experience that she had to grow organically and strengthen the supply side of her business. She asked her management team to collect data on the market and demand forecasts before making further decisions. She set up a meeting with the team to develop a growth strategy for her startup regarding her individual and/or corporate customer base.

Company Background

Since the early 2000s, the new generation of Turkish entrepreneurs, the availability of domestic and foreign investments, and a young and tech savvy population fueled the momentum for e-commerce in the Turkish economy. Eureka’s online business-to-customer (B2C) model was launched in 2008 to allow individual shoppers to purchase a customized product in two ways (**Exhibits 1a & b**). First, they could create their own products by customizing a mug, trophy, t-shirt or watch with any text, picture and/or design for special occasions like birthdays, bachelorette parties, or Valentine’s Day. Second, the individual customers could ask for “fun and cool” products such as an Oscar from the Academy Awards with the gift receiver’s name.

This case was prepared by Sinan Erzurumlu, Associate Professor of Innovation and Operations Management at Babson College, and Yaman Erzurumlu, Professor of Finance at Bahcesehir University. It was developed as a basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. It is not intended to serve as an endorsement, source of primary data or illustration of effective or ineffective management.

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In 2012, the company changed its business model by adding a physical channel and opening a number of kiosks at large shopping malls across Istanbul. Esra Maya anticipated increased brand recognition with this move to multi-channel sales. In the following year, the company received funding from a venture capitalist firm to acquire its largest competitor, increase its production capacity, and reduce production cost by buying printing machines. Nevertheless, the company shut down its kiosks in 2014 because they did not generate enough revenue. In particular, the operations for physical kiosks required holding on-location inventory and managing the new distribution network. Esra Maya and her management team came to the conclusion that physical and online channels demanded different managerial skills and knowledge about marketing and managing operations. Therefore, they decided to focus only on the online sales channel.

In 2016, Esra Maya invested 500,000 Turkish Lira (₺) for the rights to use Disney, Marvel, Harry Potter, the Lord of The Rings, and Looney Tunes characters. The users could pick a predesigned item or order a custom design in the company's "Create your own product" segment and get a popular character and drawings. She also signed contracts with well-known local artists and cartoonists to use their drawings and creations (**Exhibit 1c**). Esra Maya initiated what she called "Pazaryeri" (Marketplace) as an online market for these artists and cartoonists to market their products on Eureka. In 2015, she also started a business-to-business (B2B) model serving corporate customers. Typically, small to medium-sized tech companies ordered small quantities of promotional customized products such as business cards, calendars, pens, pencils, or power banks bearing their company logos.

Growth Strategy

The failure of the physical sales channel showed the management team they had to accept the potential for failure if they wanted to experiment and make entrepreneurial moves. Also, the experience made Esra Maya realize the importance of quantitative analysis for strategic moves as she scaled up her business. Until recently, Esra Maya focused on finding new ways to reach customers and grow her sales. Her startup was moving from the start-up to the scale-up phase with the market share and brand recognition she had built. She was not only looking for consolidating her resources on certain segments that could differentiate her brand. She also wanted to both come up with an operations strategy to manage the complexity of increasing the number of stock keeping units (SKUs) and streamline the production operations, all while maintaining the company's value proposition of customization, flexibility and variety.

Esra Maya sought sales growth in four product categories for the Eureka's B2C and B2B segments (**Exhibit 2**). The daily demand was estimated at 1,250 units of total daily sales and distributed across four product categories with respect to the projected sales mix. Regardless of the product category, as soon as payment was complete, each customer request was processed, checked for quality, and entered into the queue for production via a first in first out approach. In 2018, 90% of the sales for Eureka came from the individual shoppers and 10% were sales to the business customers, predominantly small and medium tech start-ups with 10-20 employees (**Exhibit 2**). 55% of individual shoppers were female and 63% were between the ages 18-35. Of all sales in 2018, 20% were generated from the Marketplace with artist-designed and trademarked items.

Esra Maya's management team gathered the market forecasts for three product categories (**Exhibit 3**). The market competition and trends challenged Eureka to reallocate its capacity for different product offerings (**Exhibit 4**). Esra Maya was not yet sure how to manage capacity allocation and the inventory levels for an increasing variety of products. Eureka had no formal sourcing and inventory policy. She would hold high levels of SKUs so as not to worry about running out of products. To improve her inventory policy, Esra Maya examined data for the past 360 operating days on three products representing each sales category: the



Marketplace mug designed by well-known artists, a custom sweatshirt as the customized product that would be used for both individual and business clients, and less demanded “fun and cool” products such as customized trophies.




The data revealed that the Marketplace products (e.g., artist drawings or trademark designs) were predicted to make up, for 2019, a maximum 30% of total sales with a weekly standard deviation of 278, whereas customized products (e.g., sweatshirts with names and personal notes) could make up a maximum 60% of total sales with a weekly standard deviation of 348. The “fun and cool” orders such as customized trophies could take up to 20% of the capacity with a weekly standard deviation of 70. The lead time for her orders was two weeks, regardless of whether they were produced in-house or outsourced, except for “fun and cool” products which took four weeks to process. On average, 70% of the orders were met by in-house production while the remaining 30% were outsourced (**Exhibit 5**). Esra Maya aimed to maintain the 90% rate of meeting customer orders within 5 days.

Despite the company showing a trajectory of increase in gross profits until 2017, it was facing increasing competition as it started threatening established local brands. It also experienced decreasing profit margin in 2018 (**Exhibit 6**). Eureka paid a commission of 20% for sales under the Marketplace product segment to professional designers and artists in addition to production costs. As a part of the capacity strategy, Esra Maya invested 500,000 ₺ for five printing machines in 2018. The machines could print on mugs and sweatshirts as well as labels that were later put on trophies. In 2019, the projected capital investment would be the purchase of a 3000 meter square facility for 1,500,000 ₺ to improve the logistics, production and distribution activities. For this capacity expansion, Esra Maya borrowed funds in 2018 and invested in Marketable Securities (**Exhibit 6**). She anticipated the investment in the new facility to increase the total gross fixed assets significantly in 2019. She intended to keep investment in fixed assets for the next year limited to the new facility investment.

Moving Forward

Esra Maya pondered Eureka’s position as she waited for her management team. She knew that her startup had grown significantly and she now needed to reconsider her business model. She was interested in hearing about the growth and earnings potential of each customer segment and the operational structure required to serve each segment. She was also facing stiff competition and wanted to learn how to differentiate her business from competitors. She thought about the optimal product mix, while maintaining operational flexibility with less production complexity. She was curious about what her management team would present to her.

Exhibit 1. Sample products from Eureka

		
a) Customized Product	b) "Fun and Cool" Product	c) The Marketplace

Source: Eureka.com

Exhibit 2. Performance of product categories

Customer Segment and Product Category		Launch Date	Price Range (₹)	2017 sales mix	2018 sales mix	2019 maximum projected sales mix share	2019 estimated price per unit (₹)
B2C Segment	Customized product	2008	10-100	60%	60%	60%	40
	"Fun and Cool" product	2008	5-500	40%	10%	20%	50
	The Marketplace	2015	20-120	-	20%	30%	80
B2B Segment	Promotional customized product	2015	5-1000	-	10%	30%	50

Source: Eureka

Exhibit 3. Product forecasts

Product Category	Forecasted Market Characteristics in 2019	Size of Target Market in 2025
Customized Products for B2C segment	47 million internet users Average shopping basket size 45 ₺	3.4 billion ₺
“Fun and Cool” Products for B2C segment	10 million online customers Average shopping basket size 30 ₺	600 million ₺
Promotional Customized Products for B2B segment	15 million online customers Average shopping basket size 66 ₺	2.5 billion ₺

Source: Eurkeka

Exhibit 4. Major Competitors

Competitor	Activity	Average Transaction (Basket size)	Product Variety
Hepsiburada.com	e-trade (online market 220% larger than Eureka)	50 ₺	Large selection
Tisho.com	Second largest customized product website (50% of Eureka's gross profit)	50 ₺	Customized
HediyeFabrikasi.com	Second largest online gift shop (40% of Eureka's gross profit)	45 ₺	Large selection

Source: Eureka

Exhibit 5. Operational costs for product categories

Product Category	Average Unit cost including shipment (₺)	In house production cost per unit (₺)	Outsourced production cost per unit (₺)	Minimum order quantity	Average Cost per order including custom fees (₺)	Average Holding cost (% of the unit cost)
The Marketplace	9	5	17	100	281	15
Customized product	6	4	15	500	176	10
“Fun and Cool” product	2.98	4.5	10.5	30	326	15

Source: Eurkeka

Exhibit 6. Financial Statements

INCOME STATEMENTS (thousand ₺)				
	2015	2016	2017	2018
Sales	23402,5	26327,8	27644,2	24879,8
Cost of Goods Sold all variable	6318,7	6582,0	6358,2	7463,9
Gross Profit	17083,8	19745,9	21286,1	17415,9
General & Admin. Expenses all variable	3510,4	4739,0	5805,3	5473,6
Marketing&Distribution Exp. all variable	6435,7	7240,2	7049,3	5598,0
Depreciation	904,1	963,6	1115,5	1225,0
EBIT	6233,7	6803,1	7316,0	5119,4
Interest	445,3	732,5	1448,3	2150,2
Earnings Before Tax	5788,4	6070,5	5867,7	2969,2
Tax (22%)	1273,4	1335,5	1290,9	653,2
Net Income	4514,9	4735,0	4576,8	2316,0

BALANCE SHEET (thousand ₺)				
ASSETS	2015	2016	2017	2018
Cash	379	667,4	1089	600
Marketable Sec.	469	800	1200	2200,1
A/R	3343,2	3250,4	3730,7	3554,3
Inventories	1263,7	1645,5	1816,6	3732,0
Total Current Assets	5455,0	6363,2	7836,3	10086,3
Gross Fixed Asset	9945	10600	12270	13475
Accumulated Dep.	3611,0	4574,6	5690,1	6915,1
Net Fixed Asset	6334,0	6025,4	6579,9	6559,9
Total Asset	11789,0	12388,6	14416,2	16646,2
LIABILITIES	2015	2016	2017	2018
N/P	940,8	1393,7	2286,4	3185,4
A/P	902,7	940,3	785,0	982,1
Accrued Expenses	396	565	677,0	1805,0
Total Short Term Liabilities	2239,4	2899,0	3748,4	5972,5
Long Term Liabilities	2239,9	2675,9	3748,2	3981,8
Total Liabilities	4479,8	5574,9	7496,4	9954,5
Common Equity and Paid-in Capital	3000,0	3000,0	3000,0	3000,0
Retained Earnings	4309,2	3813,7	3919,8	3691,7
Total Shareholder's Equity	7309,2	6813,7	6919,8	6691,7
Total Liab. & Shrhld Equ.	11789,0	12388,6	14416,2	16646,2

Source: Eureka