

ZeeScene Analytics: Charting the Future

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Abstract. This case explores the initial growth challenges of ZeeScene Analytics, a UK based born-global firm. Its primary product dealt with evaluating the quality of research and advice given by research analysts to investment managers. A new transparency regime under EU and UK laws had created an opportunity in the home market for products like these. Since paying for research and advice was one of the main expenses for investment management firms, it could be valuable for the asset-management/ investment banking industry in other countries too. This born-global company faced external uncertainties in its home economy and could encounter regulatory headwinds in the countries it sought to expand into. Despite his conviction in the innovative, data-driven approach of ZeeScene in evaluating investment research, the CEO must convince potential investors of its prospects. This case navigates the challenges and opportunities that such born-global fintech firms face in their initial years.

Keywords: born-global, legal environments, regulations, MiFid-II, venture capital.

1. Introduction

As Zach made the last amendments to his slides for the presentation to a leading venture capital (VC) firm, a bead of sweat appeared on his forehead. He was about to pitch ZeeScene, a born-global international investment research analytics startup, to raise funds in its seed round. He was convinced of ZeeScene's novel approach to objectively evaluating investment research, but the challenge of convincing potential investors about the company's prospects was bigger than he had anticipated. He wondered whether the VC firm would agree with him in his assessment of the market opportunity.

Zach reviewed the numbers again. He knew them by heart, but he wanted to be thorough for this presentation. He expected the line of questioning to be on the future of ZeeScene and changes in the asset management industry. He wondered if there was a compelling example to explain ZeeScene to investors. He deliberated on using a metaphor: "*ZeeScene is the _____ of the investment research industry*". "What would fit - Google, Amazon, Yelp?" he thought. The novelty of the idea itself was part of the challenge. ZeeScene did not have a single

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competitor in the market that offered a similar product. Although being unique in the market and being the first mover had its advantages, it also meant Zach faced a lot of resistance from his audience, often simply because it would not fit on the rigid product categories that already existed.

After some time, Zach concluded that he would start his pitch with an explanation of the industry, recent regulatory changes, and then explain the idea. He believed that this would bring everyone up to speed on the status of the asset management industry.

2. The Genesis of an Idea

Zach had worked with several leading financial firms globally, including projects on MiFID II compliance. While working with top-tier asset management firms, Zach was deeply involved with regulatory compliance. He spotted an early opportunity to tap into the growing need for both transparency and efficiency.

Based on his first-hand experiences, he saw investment research as the last opaque part of financial markets. There were no independent or objective measurements to monitor the performance of investment research. Asset management firms and research providers primarily carried out this task independently. While the former used traditional subjective methods such as broker votes, there was a conflict of interest with the latter.

The asset management industry had been growing steadily since the last recession, almost a decade ago. During this period, regulators in the UK and EU had implemented several regulatory frameworks to safeguard the interests of end-investors. One of those regulations was MiFID II. Introduced in Jan 2018, MiFID II was aimed to “improve the functioning of financial markets in light of the financial crisis and to strengthen investor protection”¹.

One of the requirements of this legislation was the unbundling of investment research and trade execution. The research was traditionally offered for free by banks that also had an execution arm. The regulators believed that that can be considered as an inducement, and hence the two must be separated from each other. The result was the unbundling of research.

Unbundling brought a new set of challenges and opportunities to the asset management industry as a whole. Primary challenges included monitoring consumption of research, allocating budgets for research, and deciding the fair price for research.

Zach believed that as financial markets get accustomed to paying for research, they would attempt to optimize their cost of research. This could create a need for a sophisticated tool that provides an objective evaluation of the value-addition from research. The pricing of research would be directly dependent on

1. Investopedia, *Investing Laws & Regulations- Markets in Financial Instruments Directive (MiFID) Definition*, September 17, 2023, <https://www.investopedia.com/terms/m/mifid.asp>