

Despegar.com : A start-up in Latin America

Synopsis

Despegar.com is an Internet based start-up in Latin America addressing the growing tourist and traveling markets. The company is preparing their business plan to look for the first round of financing. Despegar.com, wanted to become the most important web-based travel agency in the region. Less than three years ago, Expedia effectively kicked off the e-travel model throughout US and was soon followed by Travelocity, and a number of similar companies. None of them seemed to be interested in replicating their business in Latin America. However, it wouldn't take long before somebody would try it. The management team believed that Despegar.com was ready to fill that vacuum, but they needed to claim the e-travel throne with speed...Internet speed.

This case serves as an interesting learning vehicle, combining the exposure of a business plan with the early stages of capitalization through Venture Capitals. The case puts particular emphasis on the risks associated to emerging markets, both Internet during 1999 and Latin America Region.

The case has two main objectives:

- It illustrates the entrepreneur process of crafting the business idea into a Business Proposal necessary to raise capital, the Venture Capital role, and the Latin American region risks.
- It shows some of the adequate financial analysis necessary to value a risky business. There is an excel file with this case that allows students to adjust original cash flows and develop sensitivity analysis on the project's value.

This project is by its mere nature a very risky project. Not only because Despegar.com is a startup in Latin America where there have been few internet startups, but also because the whole business model is based upon leveraging a new sales channel based on a new technology from which there is a lot of uncertainty; especially in regard to the speed with which it will be adopted by the mass public.

The main steps to solve the case are:

- Analyze the project risks that affect the cash flows (Pre-completion and post-completion)
- Determine the cost of equity of a multi-country project
 - o Country risks and cost of capital
 - o Adjustments (Operating and Financial risks)
 - o Weighted average to obtain discount rate

Nelson Dao, Alexander Streubel, Sergio Morales, Santiago Bellasi and Emilio del Rio prepared this case under the supervision of Professor Campbell Harvey of The Fuqua School of Business at Duke University as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

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- Evaluate the key variables of the model using Tornado Chart
- Affect the cash flows with the risks of the project and determine the NPV risk profile through Monte Carlo Simulation