

Local or Foreign Investors?

That is the Question!

The Case Study of OTO-Motors

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This case was written by Dr. Eliran Solodoha from Peres Academic Center for the purpose of class discussion. It does not intend to illustrate effective or ineffective handling or business processes or decisions.

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OTO-Motors – Background

OTO-Motors, established in 2021 as an Israeli cryptocurrency-based gaming startup, stands as a beacon of change in the gaming industry, specializing in creating virtual car racing games. At the heart of their innovation lies the strategic incorporation of blockchain technology and non-fungible tokens (NFTs). This has given rise to a one-of-a-kind online car racing game where players can acquire virtual vehicles using Ethereum, conferring exclusive ownership and rights to these digital assets. The company's visionary outlook is firmly grounded in pioneering the world of cryptocurrency gaming, delivering immersive and interactive experiences that blur the line between reality and the virtual world.

Amidst these promising prospects, OTO-Motors does not shy away from the formidable challenges posed by the volatile cryptocurrency and NFT market. These challenges have a direct impact on the company's fundraising efforts and its trajectory for future growth, adding an element of dynamism to the company's journey.

The core thrust of OTO-Motors is its unwavering focus on developing virtual cars and maps tailored to virtual racing games. The company's flagship product is a virtual gaming masterpiece, inviting players to partake in thrilling online car races. Each player's entry into this high-octane world begins with the acquisition of a unique virtual vehicle facilitated by the purchase of NFTs, each of which serves as an irrevocable proof of exclusive ownership and rights over the digital property. These NFTs, securely recorded on the blockchain, assure the authenticity of each virtual asset, enabling fluid transfer, sale, and trade within the digital realm.

Having ventured into the investment landscape, OTO-Motors successfully concluded two fundraising rounds, amassing a total of \$400,000. The inaugural round, executed in 2021, raised a commendable \$100,000, followed by a second round in 2022, securing \$300,000 in funding. These investments have not only catalyzed OTO-Motors' growth but have also propelled the development of its virtual car racing game. The impressive strides made by the

company are epitomized by its remarkable valuation, surging to a substantial \$10 million by the close of 2022. This growth is a testament to OTO-Motors' commitment to reshaping the gaming landscape and its persistence in surmounting the challenges of the cryptocurrency and NFT market.

The NFT Market

The NFT (Non-Fungible Token) market, primarily driven by Ethereum, has displayed remarkable resilience and growth. In 2021, it experienced a surge with trading volumes reaching \$11.7 billion in the fourth quarter. Despite a temporary decline in 2022, January 2023 has witnessed a resurgence with record-breaking NFT sales, surpassing \$4.8 billion on OpenSea alone. Notably, NFTs have become integral to the development of the metaverse, where virtual asset ownership, including real estate and art, is increasingly prevalent. The global NFT market size is expected to grow at a compound annual growth rate (CAGR) of 34.2% from 2023 to 2030. The market growth can be attributed to the rising demand for digital artworks. Furthermore, the expansion of the market is driven by the global surge in demand for NFTs, driven by their distinctiveness, transparency, and other notable characteristics. Unlike traditional assets, NFTs cannot be divided among multiple owners, ensuring the authenticity and security of ownership for buyers, protecting them from counterfeit NFTs.

The Competitive Landscape of NFT Games

The NFT games market is teeming with fierce competition, with various players vying for dominance and user engagement. Below, I highlight some of the notable competitors in the industry, and Table 1 lists the competitors in the NFT games market, including the number of users in each of them.

Table 1. Competitors in the NFT Games Market

Top NFT games	Description	Number of active users
Alien Worlds	An NFT metaverse. It allows users to play with unique digital items (NFTs).	2.5M
Arc8	A mobile play-to-earn esports platform.	1.5M
Axie Infinity	A digital pet universe. Players raise, battle, and trade fantasy creatures called Axies.	1 M
CryptoBlades	The game allows players to use weapons to defeat opponents. They can collect SKILL tokens used to make in-game upgrades.	400K
Splinterlands	A digital collectible card game.	400K
MOMO Farmer	A free-to-play game that allows gamers to play to earn.	30.7K

OTO-Motors' Strategic Approach

The strategic approach taken by OTO-Motors is rooted in a profound understanding of the global gaming industry's dynamics. As the industry continues to experience exponential growth, with a projected 3.32 billion players worldwide by 2024, OTO-Motors recognized the vast potential for its innovative cryptocurrency-based games. This strategic insight is supported by data from the world's most reliable source for game and electronic sports analysis and market research, which highlights the gaming industry's astounding reach. Figure 1 illustrates the distribution of these gamers, revealing that 55% of them are located in the Asia-Pacific region. Remarkably, Europe and North America, accounting for only 21% of the total consumer base, stand out as revenue leaders, collectively generating over 40% of the global gaming market's revenue in 2021.

In light of this market landscape, OTO-Motors made a decision to focus its efforts on the European market. This choice was motivated not only by the region's robust gaming community but also by the favorable regulatory environment that eases market entry and fosters innovation. OTO-Motors' cryptocurrency-based games, particularly its virtual car racing game, require seamless integration with decentralized currencies like Ethereum and the adoption of non-fungible tokens (NFTs). By targeting Europe, OTO-Motors aims to capitalize on the

existing gaming enthusiasm, providing players with a unique opportunity to own virtual assets and engage in thrilling online car races.

Challenges in Attracting Diverse Investors

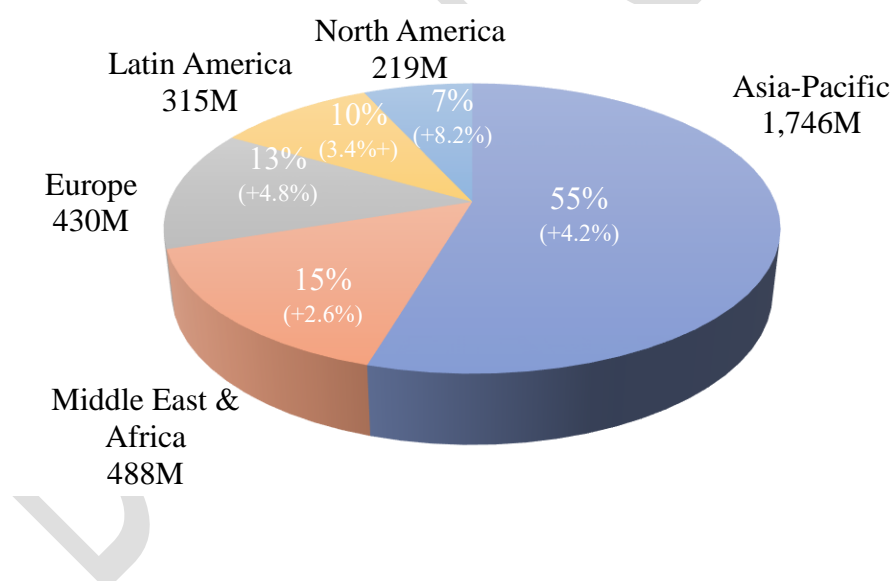
The most substantial challenge faced by OTO-Motors stems from the inherent volatility of the cryptocurrency and NFT market. Cryptocurrencies, including Ethereum, are subject to unpredictable price fluctuations, which can impact the purchasing power of players and the company's revenues. Furthermore, the NFT market's volatility can affect the perceived value of virtual vehicles, potentially influencing players' willingness to make in-game purchases. OTO-Motors needs to devise strategies to mitigate these risks and maintain stable growth. To solidify its position as a leading cryptocurrency gaming company, OTO-Motors plans to embark on a third round of investments, with the goal of raising \$500,000. The funds will be used to develop an augmented reality program that seamlessly merges real-world elements with computer-generated content. The augmented reality program holds the potential to revolutionize the gaming industry by offering players a unique and immersive gaming experience. By combining cutting-edge technology with blockchain-based ownership rights through NFTs, OTO-Motors aims to create a compelling and dynamic gaming environment.

OTO-Motors is on a dual mission to secure potential investors from both Israel and abroad while simultaneously optimizing its approach to ensure efficiency in the fundraising process. The company recognizes the significance of a diverse investment base, comprising both local and international backers, to support its vision of becoming a trailblazer in cryptocurrency-based gaming. By actively seeking investors from Israel, the company underscores its commitment to contributing to the local technology ecosystem and fostering domestic partnerships. At the same time, OTO-Motors understands the invaluable benefits that foreign investors can bring to the table in terms of global perspectives, expertise, and market reach. To achieve its fundraising objectives efficiently, OTO-Motors employs streamlined

communication channels, conducts targeted investor outreach programs, and leverages technology to facilitate seamless interactions with potential backers. Emphasizing the urgency and potential impact of its innovative gaming concept, the company is determined to attract investments swiftly to propel the development of its augmented reality program and establish itself as a frontrunner in creating transformative gaming experiences that bridge the gap between the real and virtual worlds.

In navigating the intricate world of cryptocurrency gaming, OTO-Motors understands that strategic decisions regarding investor selection and attraction methods are pivotal in achieving its mission. These decisions shape the foundation upon which the company's growth and success are built.

Figure 1. Global games market per region (with growth rates)



The Issue of Choosing Type of Investors for OTO-Motors

In the dynamic landscape of early-stage ventures, OTO-Motors emerges as a pioneering force, fully cognizant of the paramount role played by investment decisions in shaping the destiny of a company. Particularly during a startup's formative stages, where resources are often in short supply, securing the necessary funding is a vital driver to propel innovative concepts forward.

Yet, the path to securing investments is fraught with complexities, with entrepreneurs striving to catch the eye of potential investors, and investors navigating the challenge of identifying the most promising prospects.

OTO-Motors' motivation is deeply rooted in a commitment to address these hurdles and to fine-tune their approach in a manner that optimally engages both entrepreneurs and investors. Their aim is for enhanced understanding and efficiency in the realm of early-stage venture financing, recognizing that the ability to secure investments is not only crucial for individual companies but also holds broader economic implications.

At the heart of this mission lies the intricate challenge of asymmetric information, where investors often lack crucial insights into potential opportunities. OTO-Motors is aware of the potential consequences of this imbalance, which can lead to suboptimal investment decisions, resource misallocation, and diminishing returns. Specifically, the challenge of strategic formulation and comprehending investor decision-making takes on heightened importance. Choosing the effective type of investors can affect the trajectory and success of OTO-Motors' initiatives. As a cryptocurrency-based gaming startup, OTO-Motors stands at the crossroads of local expertise and global reach, facing the critical decision of whether to engage local investors with their understanding of domestic markets or seek the diverse perspectives and networks that foreign investors offer. This decision hinges on more than just financial considerations; it encompasses the strategic alignment of investor partnerships, risk management, and the realization of the company's vision in the ever-evolving world of blockchain technology and non-fungible tokens (NFTs).

The Advantages of Local Investors vs. Foreign Investors

When weighing the choice of engaging either domestic or foreign investors, distinct advantages emerge for each. Local investors bring to the table their geographic proximity, deep-rooted

cultural understanding, and a comprehensive grasp of local regulations. This not only eases in-person communication but also ensures seamless compliance with local laws. Local investors often offer substantial, consistent investments, leveraging their industry-specific expertise. While they tend to be more risk-averse, their stability and long-term commitment make them invaluable partners. In contrast, foreign investors provide an extensive global network, access to diverse markets, and international industry insights. Their propensity for higher risk tolerance fosters an environment of innovation and adaptability, injecting fresh perspectives into the venture. However, foreign investors might opt for shorter-term investments and might lack an in-depth understanding of local nuances, which can be a factor to consider in the partnership. The choice between local and foreign investors hinges on the strategic alignment of these advantages with the company's specific needs and goals. Table 2 shows the advantages of both local and foreign investors.

Table 2. Comparing local and foreign investors: Advantages by various aspects

Aspects	Local Investors	Foreign Investors
Geographic Proximity	Easier face-to-face communication and collaboration with the company.	Access to global networks and diverse markets.
Cultural Understanding	Familiarity with local culture and business practices.	Expertise in international markets and cultural diversity.
Regulatory Knowledge	Familiarity with local regulations and legal frameworks.	Knowledge of international regulations and experience in navigating complex legal systems.
Investment Size and Depth	Potential for larger investments and long-term commitments.	Access to diverse funding sources, including venture capitalists and global investors.
Industry Expertise	Greater understanding of the local industry and market dynamics.	Access to international industry insights and trends.
Risk Tolerance	May have a more conservative risk approach, providing stability.	Often more open to taking calculated risks, potentially fostering innovation.
Long-Term Commitment	Potential for strong, enduring partnerships.	May bring a fresh perspective and willingness to adapt.
Local Support and Networking	Access to local networks, mentorship, and government support.	Global networking opportunities and access to international resources.

OTO-Motors Investor Meetings and Feedback Gathering

Between February 2023 and March 2023, OTO-Motors has conducted 90 meetings with potential investors, consisting of 43 Israelis (local investors; 33 men and 13 women) and 47 Americans (foreign investors; 38 men and 11 women), all possessing entrepreneurial or managerial experience in startups. The average age of all investors is 47.58 (SD = 14.59). Each meeting lasted an average of 30 minutes, during which OTO-Motors introduced the company and outlined the purpose of the discussion. The venture's main aspects were comprehensively presented, accompanied by a promotional video about the OTO-Motors venture to enhance understanding. At the end of each meeting, OTO-Motors asked the potential investors to rate on a scale of 1-7 (1-strongly disagree, 7-strongly agree) the level of attractiveness of the venture, the level of satisfaction with the information provided, the perception of the investment risk, and the assessment of the level of innovation of the venture. In cases where there was a lot of interest in the venture, the parties exchanged details for further contact.

During the meetings, the investors demonstrated special interest in five key aspects related to the project. Firstly, they requested detailed financial reports, such as balance sheets and profit and loss statements. Additionally, investors sought comprehensive information about previous investment rounds, including the amount of money invested and the purpose of the fundraising. Furthermore, investors demonstrated interest in the competitive analysis, public opinion surveys, and the number of game users. They scrutinized OTO-Motors' competitive advantage and its ability to differentiate itself from other players in the market. Investors also inquired about the capabilities of the company, including its business plan management, revenue generation strategies, and risk mitigation plans. Some potential investors expressed concerns about the cryptocurrency market's volatility, while others wanted to understand the unique abilities and skills of each team member at OTO-Motors. Another aspect of interest to investors

was the potential profits from their investment in the venture. They were keen to understand the percentage of ownership they would have in the company based on their investment amount. Lastly, investors were curious about the general background of OTO-Motors, including its history, milestones, and information about the team's expertise in the field. They sought assurance that OTO-Motors was a dedicated primary venture with a strong focus on its area of expertise. Table 3 presents the BCDEF¹ model, encompassing all the factors that potential investors raised during the interviews, reflecting their evaluation of the OTO-Motors venture and their considerations for potential investment.

Table 3. BCDEF Model - Key factors for potential investors in making investment decisions.

Background	Company's Ability	Details	Earnings	Financial
<ul style="list-style-type: none"> • Company's history • Milestones • Entrepreneurial team 	<ul style="list-style-type: none"> • Business plan • Business model • Risk management plan • Leadership abilities & skills • Patent protection 	<ul style="list-style-type: none"> • Competitors • Public opinion polls • Number of users • Demand forecasts • Competitive advantage (Value-added) • Market value 	<ul style="list-style-type: none"> • Potential yields • Ownership percentage 	<ul style="list-style-type: none"> • Balance sheets • Profit & loss • Investment rounds

Local and foreign investors raised similar questions about financial issues, market analysis, management aspects, general background, and potential personal profits. However, it was only the local investors who asked about the attractiveness of the venture itself in reaching its target audience. Most investors found the project attractive, with a majority of 68 investors expressing admiration for it. However, when asked if they were willing to invest in the project, only 51 of them expressed interest. The average amount they were willing to invest was \$38,789, with

¹ The Model is called BCDEF because it includes the initial letters of each key aspect mentioned in the meetings.

foreign investors willing to invest much more than local investors (\$79,267 versus \$14,349, respectively). Although both local and foreign investors were given the same details about the venture, the number of questions they asked varied, with local investors asking an average of 24 questions and foreign investors asking 16 questions. Many investors expressed concerns about the volatility of the cryptocurrency market and the business model of OTO-Motors, which required the purchase of a vehicle using an NFT to participate in the car race. They contended that this requirement could limit the game's exposure, particularly in light of competitors making similar offerings. More foreign investors (n=31) raised this issue than local investors (n=17).

Of the potential investors who chose not to invest in the venture (n=39), three reasons emerged for their choice not to do so: investment risk, lack of knowledge and understanding of the technology, and lack of interest in the venture. Even among the investors interested in investing in the venture (n=51), concerns about the riskiness of the investment persisted. Local investors regarded the venture as less risky than foreign investors, with some local investors willing to invest large sums due to their perceptions that the venture was less risky. One local investor claimed, "Only a madman would invest large sums in this type of venture. I consider myself a risk-taker, so my investment will reflect that." Another local investor stated, "The ocean looks pretty blue at this point, so the risk appears solid." On the other hand, a foreign investor said, "Sometimes, I'm tempted to play with fire, and that's what excites me. But in this case, the story is different." Another foreign investor claimed, "I'm willing to bet a certain amount to test the nature of the investment, but I won't invest more than that." Regarding the innovation of the venture, both local and foreign investors used words such as "advanced technology," "a venture that has never been seen before," "the next hot thing," "a groundbreaking venture," "an innovative platform," and "high-level performance" to describe it.

The Main Dilemma

At the heart of OTO-Motors' journey lies a fundamental and multifaceted dilemma – the strategic choice between prioritizing local or foreign investors. The extensive series of meetings conducted with potential investors has laid bare a spectrum of concerns and considerations that encapsulate the intricate web of decisions facing OTO-Motors. This dilemma forms the crux of the company's strategic pathway, influencing the avenues of growth, the realization of its ambitious vision, and the maximization of its intrinsic value. Specifically, the questions for which answers have not yet been received are:

- Should OTO-Motors focus its efforts on recruiting local investors who may better understand the local market or foreign investors who offer greater investment capital?
- What is the most effective way to attract the target investors?
- What is the ideal way to present the main product of OTO-Motors to investors?
- How can OTO-Motors differentiate its business model from competitors in the blockchain gaming industry?
- How will OTO-Motors intend to reach a broader audience of gamers and investors?
- How will the company adapt to emerging trends and technologies?

Each of these questions represents a critical piece of the puzzle that OTO-Motors must solve as it navigates the complex landscape of investor relations and strategic growth. The answers to these questions will ultimately shape the company's trajectory and determine its success in the highly dynamic and competitive blockchain gaming industry.

Appendixes

Exhibit 1. Distribution of venture capital investments in Israel by origin of funding entity

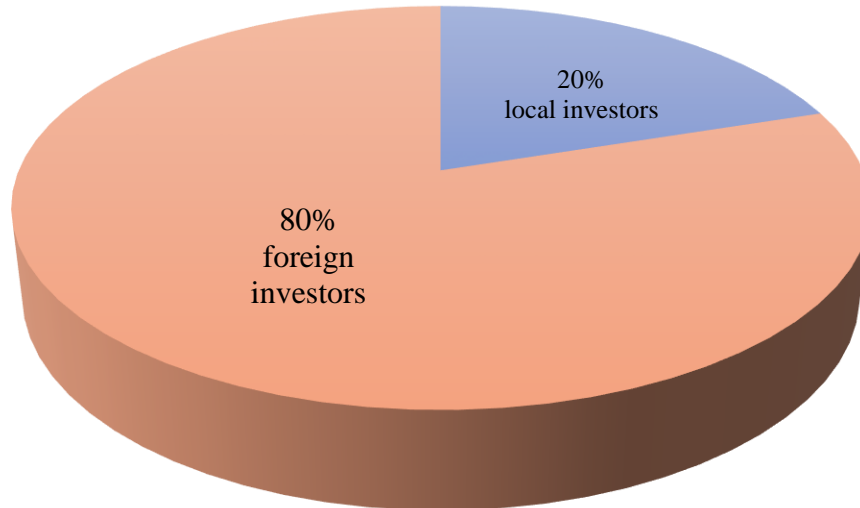
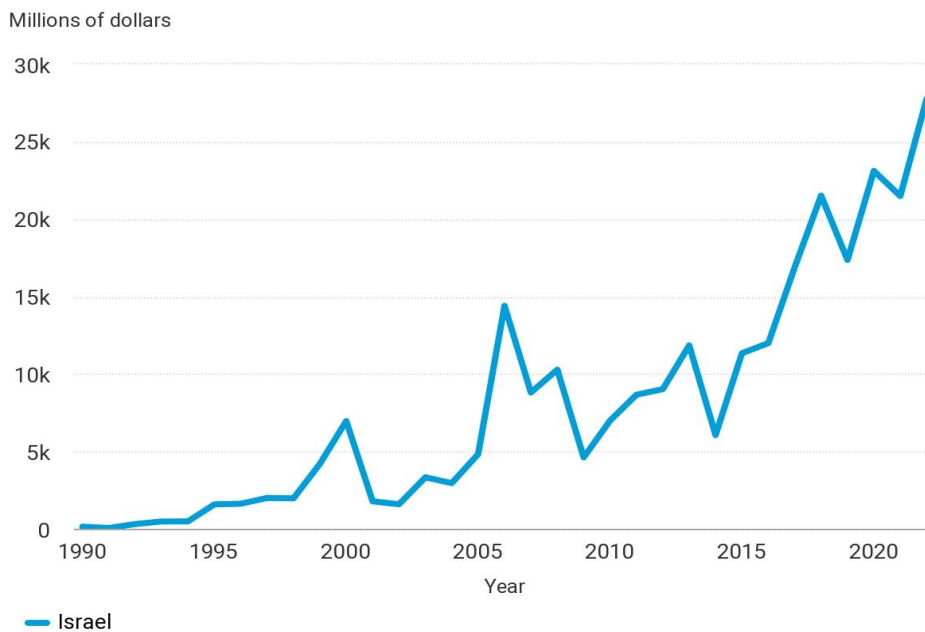


Exhibit 2. Foreign direct investment flows in Israel between 1990-2022



Source: UNCTAD World Investment Report 2022