

**Course Name: Business Fundamentals for Entrepreneurs – Part 1 – Internal Operations**

**Professor Name: Professor Devdip Purkayastha**

**Department Name: Management & Entrepreneurship**

**Institute Name: Indian Institute of Technology Bombay**

**Week – 01**

**Lecture – 02**

Week 1 Module 2 Part 2

Now that you have reflected, let us move on to a few other topics related to a company. First is company classification. This is important for you to know if you are going to start a new company or if you are already working in a company. So there are some legal classifications which you should know about and then there are some informal ranking, etc. Some of the most important laws in India are as follows. The first one is the Companies Act of 2013 and many changes which have come in after that.

But broadly the Companies Act defines almost all the legal aspects of a company. How to set it up, what can you do, what can you not do, how do you report, how do you manage? It also importantly defines the classes of a company. Another important law is called MSME law which defines companies in terms of the sizes which I will talk about in a minute.

And then there are other laws and one law that is very important for those of you wanting to start your own company, entrepreneurs, is the startup law. Apart from these two important laws, there are other laws and one law that aspiring entrepreneurs should be aware of is the laws around what is a startup. So let's look at some of these classifications. If you look at the Companies Act, it defines certain types of companies. First, there is something called a one-party company, one-person company.

This is different from you are doing the business under your name versus forming a one-person company. Because a one-person company, as I explained earlier, is a separate legal entity except it is owned by one person which is probably you. The next one is a private limited company and this is what you should think about when you do a startup. A private limited company has a certain number of members, a minimum of two, maybe not more than 200, who own the company, and this helps because two or three of you may want to co-found a company and then you want to sell stakes to other companies or other investors and then the owners keep going up till they hit the ceiling of 200. So that's called a private limited company.

And in your daily life when you look at different companies, you will see the term called private limited company. Beyond a certain size, especially after you have taken money from

the public and listed yourself in a company, you become a public limited company. That's after you have done an IPO.

There is also a special kind of company, as I explained earlier, for not-for-profit and these are called Section 8 companies because Section 8 is a clause under the Companies Act. And this allows certain concessions to a not-for-profit company provided they are spending the money for the social good that they have declared. So, these are the Companies Act classifications. If you look at the MSME Act, MSME is actually micro, small, medium enterprises. A micro is a company where the investment in plant and machinery is one crore and the revenues are not more than five crores.

So, it's basically a small company, a small unit. And startups are typically micro companies. Then as you keep growing, you join a small company. A micro company becomes a small company once it starts achieving investments of 10 crores in plant and machinery and your revenues go up to 50 crores. And then you become a medium-sized company once your investment touches 50 crores and your revenues go up to 250 crores.

All companies start like this until they become large companies. And the MSME Act provides for certain legal provisions for different kinds of classification. There are some other classifications and also ranking. For example, listed versus unlisted. Listed means you are listed on the stock exchange.

So, if you go to the Bombay Stock Exchange or the National Stock Exchange, BSE, NSE, you will see a list of companies which are listed. And you can buy their shares and you can sell their shares. But you cannot buy and sell a share of an unlisted company. And then you have what is called holding companies versus subsidiaries companies. When a group becomes very large, and I will talk about it later on, about conglomerates, you may have 10 small companies in that group.

But there may be an overall company which is called a holding company which owns all or some of all the smaller 10 companies. Then the overall company which owns shares in other companies is called the holding companies and others are called the subsidiary companies. Coming to startups, very important for aspiring entrepreneurs. You will register yourself as a company, but you can also get recognized by the government, the DPIT team. If you fulfill certain criteria to be a startup, which I have written there, which means that you are bringing something new, a new process and a new product, it is scalable, there is a new technology, etc.

So, if you fulfill some of these other criteria, you become a startup. And you remain a startup for about 10 years and maybe 100 crores of turnover. So you still start as a micro-company, become a small company, but you enjoy certain special benefits as a startup, provided you fulfill the criteria. So, these are classifications.

These are legal. But there are also rankings and as an employee or as a student, you should always start looking at ranks because then you start realizing who are the best in the world or best in India. So if you are an aspiring entrepreneur and you want to enter a domain, you

should look at the ranks to find out who is the best company in that domain, in India, outside India. If you are applying for a job with a company, you should always look at the rankings to see where does this company that I am applying to fit in. So you start looking at the rankings. And there are many kinds of rankings.

I will give you a few examples. Magazines such as Fortune regularly publish lists of companies which are the largest by revenues, by profits, by market capitalization. And they also produce surveys and reports of what are the most admired companies. So you can see some of the names which are the world's most admired companies. And similarly in India, there are many companies which are India's most admired companies.

There are also well-known companies because they have got brands which many people around the world use and they could be global or they could be Indian. Amazon is an e-commerce brand but we also have Flipkart in India. Apple, but we also have got Samsung, Google or, Microsoft or Walmart. So these are companies which are well-known brands and they are very valuable brands. Similarly, there is a list of most valuable brands, most respected brands in India.

And these rankings help you make a career choice if you are a student looking for a job and if you are an entrepreneur, these are the companies that you have to learn from and over time disrupt. You should also look at, for example, who are the largest employees in India or globally to get these kind of reports. And not only who are the largest if you are applying for a job but you may also want to look at who are the best employees. And there are a lot of surveys that are done by newspapers and, magazines and companies. So this is one which is published by the Economic Times.

It is called the best companies to work for. And if you are looking for a job, these are the companies or the reports you should probably want to look at. And you can see the names there. Some of them are Indian companies like Ciet or Federal Bank or Tata Steel. And there are global companies like DHL and you can read the rest of the names in that slide.

Coming to startups, as of date when I am recording, there are about 95,000 plus startups which are recognized formally by the government. These 95,000 startups recognized are in many different sizes but the most valuable of them are called unicorns. A unicorn is a startup which is valued at 1 billion dollar plus, more than 8,500 crores in terms of values, 8,500 crore rupees. You will know the names of most of these. There are about 100 plus unicorns in India, and there are many more globally.

And if you look at the screen, you can see some of the unicorns which became big enough to have that valuation of 1 billion dollar or 8,500 crores approximately rupees in the last couple of years. So now continuing, you have now seen the unicorns and the big companies. So now we come to the important question of how can you as an employee start thinking that if I want to create a startup, how do I create it? If you are a student and you want to create a startup, how do I start creating a startup? There are detailed courses and detailed methodologies of what works whilst you are creating startups. It could be in US, it could be

in Europe, it could be in India. But broadly and simplistically, here are three or four different steps.

To create a startup, the starting point is to identify a customer problem, a customer problem which is an urgent problem for the customer. It is a problem which many customers have. It is a problem which customers are willing to pay for if you solve that problem. So, step one is to start with a customer problem. And typically, these are problems across domains.

It could be a problem faced by a farmer in terms of seeds, irrigation, pesticides, chemicals the efficiency of ploughing or the effort of ploughing. So these are agri-tech startups. It could be in the area of education. How can you train millions and crores of Indian students or global students into different and new skills? And if you create a startup around that, that becomes an ed-tech startup. And the customer problem are the millions of students who are trying to become more successful or learn more.

Similarly, you can have a medical startup. There are a lot of diseases. And if you can identify a need by many patients or people who just want to be well-being or live longer or live better, then you do a medical startup. Similarly, it could be a transportation startup. It could be a defense startup where the customer is an army or an air force, and they have an urgent need.

So, the first starting point is to identify a customer in a certain domain who have problems. And the many of these customers, they are willing to pay for it. And the problem is not something they can wait for one year to solve but they want to solve it now. So there is a step, first step of creating a startup. What's the second step? The second step is now that you know what the problem is for millions of potential customers, you now start developing a solution because customers already have solutions.

There are existing companies, the competitors, India, global, who are giving them the solutions. So to create new solutions which like I said in my last module, to create a new solution, a new business, your solution must be either faster than what exists or it can be cheaper than what exists. Or it can be better than what exists or it gives more emotional satisfaction to the customer. And I give examples in the last module that better could be a better device, a wearable which has more functions.

So, that's better. Cheaper is the same product but at a lower price point. So, step two is to create a novel solution that is better, faster, cheaper, or more satisfying to the customer. Once you have got the customer identified and have developed and tested your solution with those customers, then the next step is to create a business model. You know the customers, you know the product, what is now your business model? And what is included in your business model? And this is what I'll cover in the later modules. The next step is how will you sell and market it to millions of potential customers? So, what's your selling model? What's your marketing model? How will you brand it? How will you advertise it? Then, the financial modeling.

How will you price it? If your cost is this, where will you price it so that you can make some money and the customer also benefits? All of this gets into a business model. So once you have got the customer problem, you've got your product, a new product, a differentiated product, and you've got a business model, you are now ready for a startup. All of this you can do as a project. You can do as a project in your school, in your college. You can go to an incubator and do this as a startup project.

There are 1,000 plus incubators in India. Most education institutes have an incubator, and you can do all of this as a project, a startup project in an incubator. Once you've found those answers, you then have to register your company, and then you formally become a commercial startup, and you can register with the government as well as a startup. So, how do you register a company? There are online portals, and the chartered accountants will help you register a company, but broadly, there are three or four steps. First, if you are the co-founder and you are going to own all or some of the company or two or three of you are going to own that company, you have to get a digital signature, which means you have to register yourself with the government of India as a director and get your digital signature. Along with that, you'll also get a directorial number, which means that in the government records, you will now be registered, or you and your co-founders will be registered as an owner of a certain company.

Once you've got all of this, then you have to go to a portal, which is the Ministry of Corporate Affairs. It's a government portal. And then you have to register a company through a series of steps, starting with doing a name search. So to find a name for your company. And it has to be a name which does not already exist, so it takes time to find a name which you like, which your customers will understand, but which nobody else has got.

And there is certain other information, and then your company is officially formed, and you're officially known as the directors, or the shareholders, or the owners of that company. And along with that, then you'll get a certificate of incorporation, which means congratulations, you are in business. So there are two aspects of doing a startup. First is the business model, the customer, and the solutioning part of it.

Second is the legal part of registering company. So with this, now I'd like you to reflect and think that if you are a student and you want to do a startup in the next one or two years' time, in your college incubator or incubator in your town, or if you're an employee thinking about, I work for a certain amount of years, now I want to test out whether I can do a startup. Or if you're an employee who says within the company I'll not leave my job, but I want to launch a new line of business, create a new business within my existing company, which means you are an entrepreneur. So whether you're a student, an entrepreneur, or an intrapreneur, I'd like you to now reflect and make a journal of a potential startup that you can do. In a startup, what customer problem will you solve? Who has the problem? The farmers, student, army, middle class people, old people, females, males. Who has the problem? What is the problem? And then come up with an innovative solution to solve that problem, which is better, faster, cheaper, or more satisfying.

And then, what is your business model? How will you sell it? How will you market it? How will you price it? How will you make money? Etc. How will you distribute it? What will your supply chain look like? And so on. So I'd like you to write down in your journal your first plan for a startup. And that will be your first step towards becoming an entrepreneur. You may not become an entrepreneur straight out of school or as an employee today, but you start thinking like an entrepreneur.

That is what I would encourage you to do. And I'd like you to reflect on these points that are written on the screen.

So, with that, I come to the last part of this module, which is that of conglomerates. This is also important for you to know that you may be a startup today or you may be working for a certain company. What may happen is the company that you work for may be part of a bigger group, which is called a conglomerate. So a conglomerate is basically a collection of companies which manages one group and may even have one brand name.

And I'll show you a few examples later on. And in that conglomerate, there will be a parent company and there will be subsidiaries companies. So let's look at a few conglomerates in India. Some of you may be working for a Tata company. And Tata is a conglomerate of 100 plus companies. Some of you may be working for a Reliance company, but Reliance is also a conglomerate.

Same with Godrej or Aditya Billa or Adani's, Mahindra's, Godrej or ITC. ITC runs hotels. It makes cigarettes.

It makes soaps and detergents. It markets food. So it's a conglomerate. And you as an employee can start thinking about which conglomerate do I work for, which you probably know. And as an entrepreneur, if you have started up your own company and you have grown it, a lot of companies, startups are actually bought out by these conglomerates. So many of these conglomerates have actually bought startups. So you should still be, even if you don't want to work for any of these conglomerates, be aware that your company can actually be sold to one of those conglomerates.

So, with this now, I'm at the end of the module where I've tried to share with you what is a company, what are the company types, classifications, structures, roles, definitions, etc. And most importantly, if you ever wish to start a company, either today, one year, two years, three years down the line, how do you start a new company? From a business perspective and from a legal perspective. So thank you very much. Good luck. Till our next module. Thank you.