

Business Analysis for Engineers
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Lecture -34
Case study to understand strategy

Good morning, class. We ended the previous class, where in I had provided, the information, that we would be using for this class, to understand the key success factors, that made redBus successful. By now, you will understand the way in which, this entire transformation has taken place, in the Bus transportation industry. Thanks to the business intervention of redBus, that the travel experience, as well as, the Bus operational experience itself, has undergone a positive change.

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Now, if you ask the question, what made this possible? What are the key success factors? The first and foremost KSF, for such a huge transformation, a successful transformation I must say that, was that, it was driven by technology. It was a technologically driven transformation, which was able to scale up, to handle huge traffic. So, a technology solution, capable of scaling up. Because, the key is just not the technology, but also its potential to scale up, as the volume keeps expanding.

Remember that, this service, is to a market, which has explosive potential, in terms of the

volume. We are talking about travellers, who use the Bus. So, you understand, what type of numbers, that I am talking about. And, this was possible. Thanks to redBus choice, of using Amazon Cloud. And, I think, it was also the first organisation to use Google's big query, which is a tool that can, do an analysis of massive data sets. Because, that is what Passengers do, when they choose between, different buses, seats, prices, routes. They make a real-time analysis of, tons of data.

And, they also had, a call centre in place. So primarily, the fundamental engine, that drove this business was, the technology that formed the backbone of this operation. The second thing was, the service performance. That, it ensures that it is, real-time. Thanks to the technology. And, that it was, not only real-time, but also very, very reliable. The third thing that redBus, though I did not share it in the previous class, that they were able to do was, to experiment, and then demonstrate to the Bus operators that, this is a workable proposition.

So, the experimentation part, was a key success factor. What they did was, you see in this new business, that redBus was wanting to do, it requires a great amount of trust, from the Bus operators, on redBus capabilities. So, you had to build that confidence level, on Bus operators. It is not just, trying to sell a new software, and asking Bus operators to use that because, you have the software in hand. Rather, redBus did a different approach, where it went to the Bus operators. And said, look, I will block a few seats, in the Bus operators, that it had discussions with.

So, it blocked a few seats. Paid, for those seats. And then, got back, used redBus, the BOSS, the redBus technology, the centralised database. And, brought Passengers, to this. And, make sure that, the blocked seats were, sold. So, this, it was able to do on a pilot basis, to demonstrate its capabilities, that this would definitely be a, successful business proposition. The fourth key success factor was, its ability to finance, its business. Financing options. I did not share, enough information on that because, that is not the scope of our discussion.

But, the very business idea, that it was generating, was enough to convince, a group of venture capitalists. Then, they had good mentors from tie, which is not for profit organisation, that encourages entrepreneurship. And, you see that, this is a capital intensive in terms of the

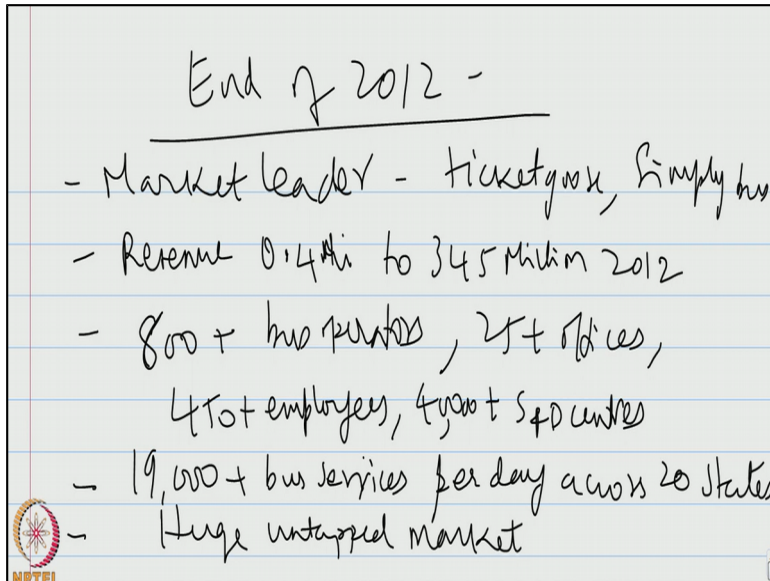
technology, that it had to put in place, to get this business done. So, it was a capital intensive industry. But, one thing that they were able to do is that, they had a negative net working capital balance.

Which means, that they were able to, you know, have their working capital requirements, met. When we talk about accounting, working capital is the amount of capital, that is required to run the day-to-day operations of the organisations. So that, they were able to meet, with the amount that they collect from the Passengers. And, before they give it to the Bus operators, that interim period was enough, to take care of their, working capital requirements.

And, this is from a financial perspective. I do not want to spend more time, on that. Because, that was not the scope, of our discussion. And lastly, the opportunity, that it was able to seize. Seizing the opportunity, from the business climate. This, in my view is, a key success factor, that has to be in organisations, that are entrepreneurial of this type. You see, they found that, this entire Bus transportation industry was, so disorganised.

And, on the other hand, that there was a great boom, in terms of the internet traffic, the telephone connectivity, the communication technology, and all that. Now, they were able to bring, both of them to provide a, coherently synergistic platform, whereby, they transformed the way in which, Bus transportation was happening in the country. So, these are by enlarge, the key success factors, that made redBus, a successful organisation. And now, I will bring you from 2006, up to 2012.

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So, end of the Business Year of 2012. If you ask me, what is the success of redBus? It can be measured, in different ways, where it was the market leader, in the online Bus transportation industry. It was clearly ahead, of the market. Remember, by the time it started, 2006-2007, this is no longer, an exclusive domain. You had, others also jumping into, this line of business. But, nobody had the bandwidth, of redBus. And, that is why, you find you know, there are some online, you know, Bus ticketing companies, Ticket Goose or Simply Bus.

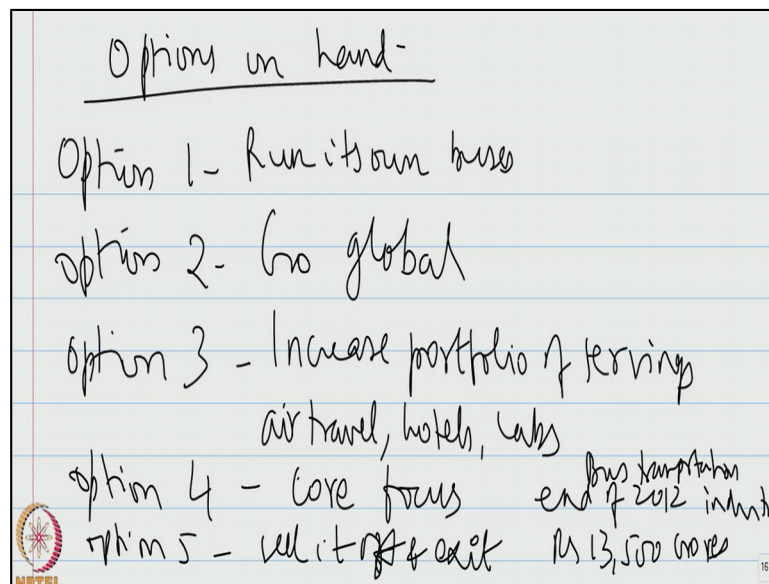
You also had, another Bus company called the, Bus Ticket Wala. So, all these are competition. But, definitely not anywhere close, to redBus, which was clearly, the market leader, end of 2002. In terms of revenue, 0.4 Million, at the end of the year in which it started, 2006-07, to around 345 Million Rupees, by the end of 2012. The success of redBus, is its capacity to bring together, all the Bus operators. Now, that is where, you know, the small-time competition, it is very difficult for them to break.

It is not that; it is not possible. But, the reliable service, the way in which, they have built this network with the Bus operators, that is also one of the key success factors, that I forgot to mention, is so critical for redBus success. That, today, it has over 800+ Bus operators into its fold, 25+ offices of its own, Call centres and all that, 450+ employees, 40,000+ Sales and Distribution centres.

And, in terms of coverage, the breadth at which it offers, in terms of numbers, 19,000+ Bus services per day, across 20 States. You can imagine, the type of volume, that it handles per day. This, by any stretch of imagination, to put redBus as, a successful organisation. That, it is able to handle, 19,000+ Bus services per day. At this point of time, it still believes, the end of 2012, there is a huge untapped market. The reason that, it is a huge untapped market is because, there is a constant change in the socio-economic scenario, that is happening in the country.

There is more internet penetration. There is more need, to commute. More businesses, adding more to the workforce. As a result of which, there is constant race, for Bus tickets. Now, with this scenario in hand, redBus is confronted with, a number of options. And, I will tell you, what are those options. And then, leave it to the class, to decide on, what could be the best option, based on some of the learnings, that we had in the previous sessions on strategy.

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So, the options, that are available for redBus. Option-1. Remember, when we did the Porter's 5-Forces, I was talking about, the backward integration. So, in line with that, the Option-1 that redBus had, was to run its own buses. Vertical mobility, or backward integration, as I said before. That, it is not only now, in the business of selling tickets, but it could be a KPN by itself, it could be a Sharma transport by itself, it could be a redBus Bus. And, using redBus service, to book its own tickets, get Passengers for its own Bus service.

So, the Option-1, that it has before it is, whether it can run its own Bus services. Option-2 is probably; it can go global. The Bus service in US, and advanced economies in Europe. Of course, they have private Bus operators. And, all of them having their own online portals. But, there is not any big systemic aggregator, like redBus, even in the advanced markets. So, whether redBus could be, providing this aggregation service, to advanced economies, is another option that it has before it.

But, one thing that it has to also ask itself is, whether those economies, the transportation industry there, measured in terms of the volume of Passengers that use, whether it would be able to provide, that much of economies of scale, that is required to have such a huge technology intensive solution. As a result of which, the capital that is required, is so huge. Whether, there is enough economies of scale, in these advanced countries, or even smaller countries like, a Malaysia, or a Singapore, or a Hong Kong, where still Bus transportation is not uncommon.

The reason that, it has so successful here in this country is because, the volume of traffic is so huge. So, the key question before addressing this issue of going global, is whether such countries can provide them enough economies of scale, considering that the volume of traffic that they handle is not, as huge as it is in our case, for which they need to do, some country specific socio-economic analysis. The other option, Option-3, is to increase its portfolio. Increase portfolio of servings.

By this, I mean that, it can provide, you know, booking solutions for, Air Travel, for Hotels, for Cabs. This probably is another option, that it has in hand. The reason that this could be, a good option. I will just give you some data points, for you to take a decision. Is that the Online Travel industry in India, is booming. It was 62 Billion in 2007, to around 380 Billion in 2011. So, the annual growth rate is close to 50%. The Online Travel industry is booming.

And, Online Travel industry has the biggest share, in terms of the total online, the e-commerce that happens in country. Almost, 75 to 80% of the e-commerce transactions in our country, is related to Travel and Tourism. So, the Online Travel industry is, a booming business proposition, that redBus should consider, as a viable option.

And, there is also consumer logic to this, that people making, you know, Bus bookings, will be interested in making Hotel bookings, will be interested in making Air Travel bookings, will be interesting in, you know, booking Cabs, Tourism packages. So, there is a consumer logic, as well. And, there is also a revenue logic built, into this. Let us assume, 10% of the existing, you know, Bus ticketing customers of redBus, decide to buy even Air ticket.

So, if 10% of the customers buy Air tickets from redBus, that the revenue that it can generate, is probably 10 times more, than what the same number of customers would, have given redBus, buying Bus tickets. So, it means that it is, you have the capacity to increase your top line, with very minimum effect in the middle line. Which means, the expenses, the costing, there is a huge benefit to increase the, revenue pie, but by not making, proportionately huge investments, and incurring huge expenses.

That is the, nature of the Air Travel. The last option. I am not thinking it is last, probably the 4th option is, do not do anything, but just you know, focus on the core. Core focus. Here again, this is also an interesting proposition for redBus. The reason being that, it is a huge market, here. I will give you some data point, to support that. The Bus transportation industry. The previous one was about the, Online transportation, and Tourism industry. But, the Bus transportation industry alone, end of 2012, is close to around 13,500 Crores, with around 20 to 23 Crores of tickets being sold, every year.

So, the Bus transportation industry, is valued end of 2012, close to Rupees 13,500 Crores. This is the Bus transportation industries, revenue size. And, it is poised to grow. Because, the historical growth rate, is being 25% every year. So, there is a huge untapped market. And, the high rate of adoption, of the modern communication technology and internet, because there has been a huge growth of the internet, from 2007 to 2012. As a result of which, there is clear signal, that more and more of Passengers, are adapting themselves, to this online mechanism.

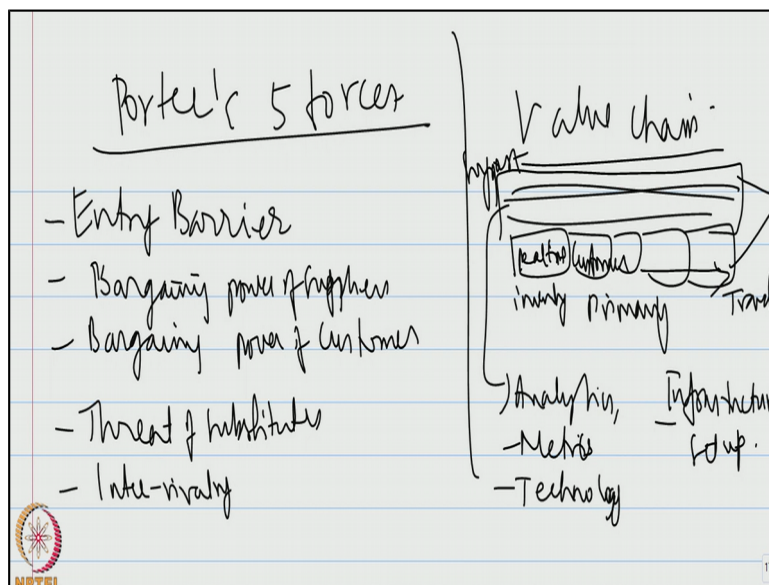
And, the Online Travel and Tourism industry growth, is predominantly driven by, the Bus transportation industry, or the Travel industry. As a result of which, it makes a lot of sense, for

redBus to tell itself, look, we are the best, in what we are doing now. So, one option could be is, to just focus on the core competence, that we have. Because, we have enough reasons to believe, that there is a huge untapped market that, we can still go and serve.

And, of course, the other easy option, not easy, easy in terms of saying it is, probably, sell it off and exit. This, I do not want the class to, consider this as an option, for your discussion. Because, that includes, you know, some inputs on how to value organisations. It includes, corporate valuation to find, you know, the net present value of the future stream of cash, that redBus is going to earn, over a period of time in the future. So, let us not get into those, financing nitty-gritties valuation stuff. We will restrict, the discussion, to these four options.

Now, the reason that the previous classes will be useful for you. Yes. What I will be doing is, just leave the class, with some idea as parked in your mind, so that you can do this homework, and you can decide. You are the CEO of redBus. As a Protagonist, for this case, you decide, which option you want to choose. Option 1 to 4, you decide, based on some analysis, that I want you to make. Now, how do you make that analysis. You need to know, how the industry is.

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You need to understand, the behaviour of the industry for which, you can use Porter's 5-Forces. To see whether, the entry barrier is high or low. Think about the, technology intensive network. I am just giving you some flashpoints, for you to think, before you make this analysis. Brand

image of the redBus. Whether, it is easy for new players, to create the same level of brand image. Or, the bargaining power of suppliers, high or low.

It could be low because, Bus operators anyway, they depend on intermediaries and Agents, for booking. Or, it could be even high from, the technology supplier perspective, given that it is a technology intensive business model. That, anybody who supplies the technology, redBus has to rely on, the ones who provide this technology. As a result of which, they have higher bargaining power as a supplier, or the bargaining power of customer. Of course, this is a classic case of, demand being so great, greater than the supply.

Absolutely, no switching costs. Because, its online, whether, it is redBus, or anybody else. And, as long as, you know, the service that it is offering is identical, switching cost is very minimum. So, how can I differentiate, to make sure, that I have inbuilt switching cost, in terms of the customer experience. It could be intangible also. Or, even alternative modes of transport, gives a better bargaining power to customers. Then, threat of substitutes. You could view from different perspectives, the threat, whether it is medium or low.

As I said before, other modes of transport. Even, other modes of communication like, video-conferencing. And, the inter-rivalry. See whether, the inter-rivalry is, that force, is high or low. Because, it is a huge demand and supply, huge market. Whether, that is going to be price war. And of course, being a very capital intensive industry, you know, it need a huge lead times for profitability. The relationship, that you build with stakeholders, is important. Whether, there is going to be rivalry, in breaking such relationship.

So, these are all things, that you need to analyse, when you have to do this Porter's 5-Force analysis, to understand, to characterise, the Bus transportation industry. Because, this is also going to provide you with some information, for you to decide on, which of those options, that you need to exercise. The second thing, that probably you could be doing is also, do the value chain. Remember, we had all those value activities. You have primary. You have support activities.

So, primary is all basically are, you know, the real time inventory upload. Then, customer booking, all up to travel. And here, what runs the support activities. The analytics, the metrics that they use. The technology infrastructure. The infrastructure setup, in terms of the distribution network, call centres. So, you have to do, a deep value chain analysis. So that, when you do this value chain analysis, you will understand, that there are some key value outputs.

And, each of these value activities, are responsible, for providing those value outputs. That, the technology was able to aggregate, all the suppliers. That, somewhere in the value chains, certain things were happening. It was able to remove, the information as symmetry, and add more symmetry to the information, that was required by Passengers, and Bus operators. It provided a platform, for interfacing the customers. In this case, both the Bus operators, as well as the Passengers.

And also, it is an operationally complex business mechanism. But, it appears to be very simple. So, where is this value coming out from, that such an operationally complex mechanism, appears to be simple. Of course, there is operational complexity, the trust, and transparency. So, these are all the value propositions, that I already told to you. But, you should look at these value activities, and see where, which of these activities is able to generate, these value proposition, that redBus is able to deliver.

Because, these are the ones, that you will nurture. These are the ones, that you will be able to reinforce, more positively, strongly reinforce, reiterated in whichever option. Or, some of those value activities would be specific, and gives you a competitive advantage, in some of the options, that we discussed, not necessarily in all. So, you need to understand, the key value activities. And, for that, you will be using the value chain. And, when you are doing all this, the four options, that you have in hand, you have to dispassionately look at them.

And, I will just give you some aspects, to be considered. And of course, the challenges associated with each of these options, so that, you are able to consider those aspects, and see how you will overcome this challenge. And, within these four options, whichever you find, makes a lot of business sense. Whichever you think that, the challenges are complex but, if we are able to

overcome that, the return on the investment, that we are going to make on that particular option, is going to be the highest. So, these are things, that you have to do it, yourself.

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	<u>Aspects</u>	<u>Challenges</u>
Option 1 Down bus	<ul style="list-style-type: none"> - Bus transport industry - Existing data - Capacity utilisation 	<ul style="list-style-type: none"> - Capex, manpower, maintenance, Competition
Option 2 Global	<ul style="list-style-type: none"> - Global internet penetration - Demographics, socio-economic 	<ul style="list-style-type: none"> - Capex, new organizational culture, shift in bargaining power, Cross border business hybrid

So, if you look at Option-1, which was the backward integration, where redBus runs its own services. For that, the aspects that you will have to, first look is, the Bus transport industry. You will have to do a study on whether, the Bus transport industry is a profitable venture or not. You will have to see, what should be the optimal vacancy position, so that Bus trips are profitable. Do you have enough data? Yes, we have data, the Data Analytics.

So, we have existing data, that can help us. So, you have to do. Take the existing data, to study the Bus transport industry. You have to do, as I said before, the capacity utilisation, and the associated challenges, if you are running your own buses. It means, basically, it is a capital intensive. You own your buses, manpower, drivers, cleaners. And, since we are talking about buses, maintenance cost of these buses. Is competition severe? You have enough Bus operators. Competition, we will be able to compete.

And, there again, you are providing your service to, Bus operators, for your customers. And then, you are going to become a Bus operator, yourself. So, you are going to be a competitor, to your own customer. Whether it is worth it. Not that, you should not. Whether, it is a worthy option. You have to take the decision, based on all these aspects. And, your capacity to overcome the

challenges, that this option will present you with. The second one was, going global, Option-2. This one was, backward integration, own buses.

Here, you need to understand, the global internet penetration, whether the markets that you want to go, whether they are highly advanced, or not as high. Or, as you see in the case of India, you need to understand, their demographics, their socio-economic. Or, you need to know whether, there is any other global player, with similar domain expertise, in those countries. And, the challenges that you will have again is, as I said, this is a technology intensive, you want to do it in a different country, so you have a capital expenditure.

You have a new organisational culture, when you cross, geographic boundaries. You have across nations, a new organisational culture, a shift in bargaining power. Because, when you go to foreign locations, you might not be able to exercise, the same amount of bargaining power, as you could do, in your own country. Then, is there a cross-border business subsidy? Why should redBus India, you know, invest it surplus in, its operation outside, where we subsidising cross-border business. So, these are some of the challenges, when you do Option-2.

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	<u>Aspects:</u>	<u>Challenges:</u>
Option 3 new offerings	internet penetration in India, demographic shift	network of airports, hotels, cabs, competition, niche to cat play operational complexity
Option 4 (global)	Untapped market Tier 2 & 3 cities (towns), data analytics revenue, State Govt buses, Amadeus	Build further scalable models OTAs, business travellers

Next one is Option-3, which is, you know, new product services, new offerings. Remember an Ansoff matrix, it is for the same market, but new products. So, we call that, the product development strategy. Again, in this case, you will have to study very closely, the internet

penetration in India, the demographic shift because, you know, there might be a huge customer base that would like to shift from, Bus to Air Travel, want to stay in hotels, want to take family on vacations.

So, the demographic shift. Some of the challenges, that it will be encountering, is that as to build a new network of, you know, Air Travel companies, Airlines, Hotels, Cabs, etcetera. And then, there is huge competition, existing competition. And, your positioning as redBus itself, you are changing yourself from a niche. Niche in this case is, addressing a specific need of, you know, a Bus travellers to, an all play. Niche to an, all play guy. So, you are increasing the operational complexity now.

You are adding more dimensions, to the existing complexity. How you will be able to overcome these challenges. Then, lastly the Option-4 is, I would say the, C K Prahlad's view of, building on core competence. Of course, there is also C K Prahlad's view on, the Option-3 that, using the core competency, or trying to go elsewhere. Option-2 also, using that core competency, or going to go global. Option-1, I would not say because, that you are not using the core competence, to run the Bus. Running your own buses, is a different ball game altogether.

Option-4 is more about, focus. Porter's generic strategy, on focus, just on the Bus travellers. Because, you know, that there is untapped market. See, Tier 2 & 3 Cities, Towns. Another booming today, you are talking about, big Data Analytics. So, whether you can have, a Data Analytics Revenue model. Use this data, sell it to Bus manufacturers. You can sell it to, the Bus operators themselves. You could use this data, to demonstrate to the State Government transport centres, transportation department. And, tell them, look, this is a proven tested model.

So, you could study the aspect of, expanding your business, and include not just private, but even State Government buses. And, you could also probably build a brand redBus, just like the Amadeus did for the, Airline industry. Talk about Bus transportation, then it is redBus. The technology, the brand, that it has built, it is synchronous, with redBus, for the Bus transportation industry. For which, the challenges you have to build, further scalable models.

Probably, you cover more OTA's. Build business firewalls, I call them. Business firewalls. Make sure that, competition is not able to break, the relationship that you have developed with, other Bus operators. Now, that is the challenge, that you will have to do, if you decide to choose Option-4. So, you are here with, four options. Run your own buses. Go global. And, all of these are, in addition to the existing ones. Run your own buses. Go global. Expand your product and service offerings.

Or, deepen, your market share, by concentrating on, what you are doing right now, thinking that to be the core competence, you remain focused, and expand the market share, within India. So, what you should be doing, I leave this as homework, as you call it. You can go back, do a 5-Forces analysis to understand, the characteristic feature of this industry. Do a value chain analysis, to find those value activities, that contribute substantially to the key value proposition, that redBus is able to deliver.

And, map them with, all these options, that are available. So that, you will be able to find, an option that actually tries to engulf, as much as possible, all the value activities. Then, that itself is a worthy option, that you should consider. And, within these four options, understand the aspects, that need to be studied, very deeply. It is kind of, doing a business proposal. Understand the demographic shift, understand the socio-economic changes, that is happening in different geographies.

Understand, whether you have enough volume, if you decide to replicate the same, Bus ticketing business in new geographies. And, if you feel that, this can be done, then you need to have a blueprint on, how you are going to overcome these challenges, that I have highlighted. And then, you will have to put, all of them in place, so that the entire jigsaw, is fixed. And then, you choose, which model that you need, which option you need to take, based on the business objectives, that you have in mind.

The business objective that, redBus has by 2015, it wants to be a 1 Billion Dollar organisation. Whether, you would be able to meet, those objectives by choosing, one of the option. Or, your option could be, even to do, all the four together. Or, could do, more than one. So, you need to

take such decisions, based on some of the inputs that I have given, in the previous classes on strategy.

And, as I said in the beginning of the previous class, you might not even consider these options, but Gut-Feel decide to, you know, I will stick to the core business. And, you will end up being a successful organisation, in the years to come. But again, the endeavour for this class is, even if it is a Gut-Feel, you understand the decision-making of face Bus, from a strategic perspective. Then, you will realise that, though you call it Gut-Feel, somehow it fits itself, into the Prahlad's model, or the Porter's model, or the Ansoff matrix.

Because, Strategic model is about, taking a very big broad decision, that provides the direction for organisations. This direction tells the organisation, this is the way to go, on which, you will have to implement, your business plans. Strategy is not, as I said before, it is not just desiring to merge, it is not desiring to sell business, be the market leader. That is not strategy. The broad direction, that it gives, that provides you that competitive advantage, over a sustained period of time.

In this case, redBus, the competitive advantage that it gained, by being the first mover, is that, it was able to aggregate all the Bus operators. Because, it had a technology platform, that could support this. That was its core competence. It could have this competitive advantage, for 6 years, right from the time it started. So, as the CEO of redBus, you do not go and look at redBus website now, and see, what it is doing. Think, tell yourself that, you are on April 10th, 2012.

And, you want to make a presentation to, another round, to some venture capitalist, seeking another round of capital. Tell them, what you are going to do, for the next 5 years. Whether, it is going to be option 1, 2, 3, 4. And, if you need to tell them, and convince them, why that, this is the option, that would build a sustainable business model for redBus, they knew necessarily have, to do this Porter's 5-Force, or the Value Chain, or study the Ansoff matrix.

Because, you need to develop the strategic mind set, before you take the real decisions, inside the business organisations. And, that is what, I would want you to do, as homework. Take this inputs,

and start doing this exercise. And, then decide, which option you would choose. And, then you go on, and visit the website, and understand what redBus is doing now. There is no right answer for this case study, that you have in hand. You might have decided to go, Option-2.

And, you had enough reasons, to support that decision. But, then after you do this, you go to redBus website, and you find that, they stuck with Option-3, it is not that, you are wrong. Except that, Option-3 was also a successful one. Nobody knows, what would have happened to redBus, had it chosen Option-2, because it does not choose to do that. So, there is no right answer, that this is the right option, that you will have to choose. All options are right.

But, it depends on, what type of analysis that you are able to do, and what type of mechanisms that you are able to put in place, to overcome the challenges. That is more important. And, for that, you should have a strategic mind-set, that can talk the language of strategy, which in essence, is the capacity for business leaders, to put in place a mechanism, that can provide a competitive advantage, over a sustained period of time. Thank you, very much.