Entrepreneurship
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Indian Institute of Technology Madras
Lecture 19
Commercialization and Disruption as Success Drivers Part 4

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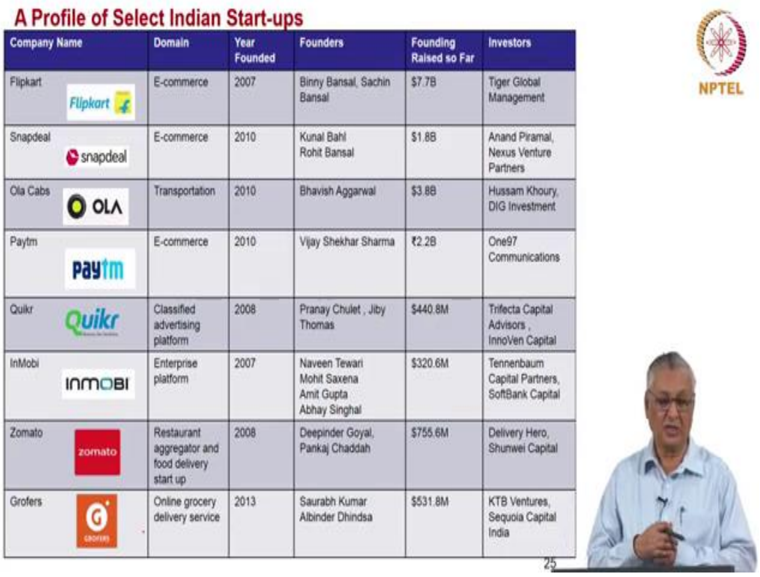

Company Name	Domain	Year Founded	Founders	Founding Raised so Far	Investors
Flipkart	E-commerce	2007	Binny Bansal, Sachin Bansal	$7.7B	Tiger Global Management
Snapdeal	E-commerce	2010	Kunal Bahl Rohit Bansal	$1.8B	Anand Piramal, Nexus Venture Partners
Ola Cabs	Transportation	2010	Bhavish Aggarwal	$3.8B	Hussam Khoury, DIG Investment
Paytm	E-commerce	2010	Vijay Shekhar Sharma	₹2.2B	One97 Communications
Quikr	Classified advertising platform	2008	Pranay Chulet , Jiby Thomas	$440.8M	Trifecta Capital Advisors , InnoVen Capital
InMobi	Enterprise platform	2007	Naveen Tewari Mohit Saxena Amit Gupta Abhay Singhal	$320.6M	Tennenbaum Capital Partners, SoftBank Capital
Zomato	Restaurant aggregator and food delivery start up	2008	Deepinder Goyal, Pankaj Chaddah	$755.6M	Delivery Hero, Shunwei Capital
Grofers	Online grocery delivery service	2013	Saurabh Kumar Albinder Dhindsa	$531.8M	KTB Ventures, Sequoia Capital India

Now, we will focus on certain Indian start-ups, how they have disrupted the markets they have faced. Leading the pack is Flipkart, which had its domain, ecommerce. It was founded in 2007 and it has raised funding of about 8 billion dollars until Walmart valued the firm richly at 21 billion dollars and took a stake in the company, big stake in the company. Then we have got Snapdeal, again founded in 2010 and raised the funding level of for 2 billion dollars. Ola cabs, Paytm, Quikr, InMobi, Zomato, Grofers, these are examples of Indian start-up companies.

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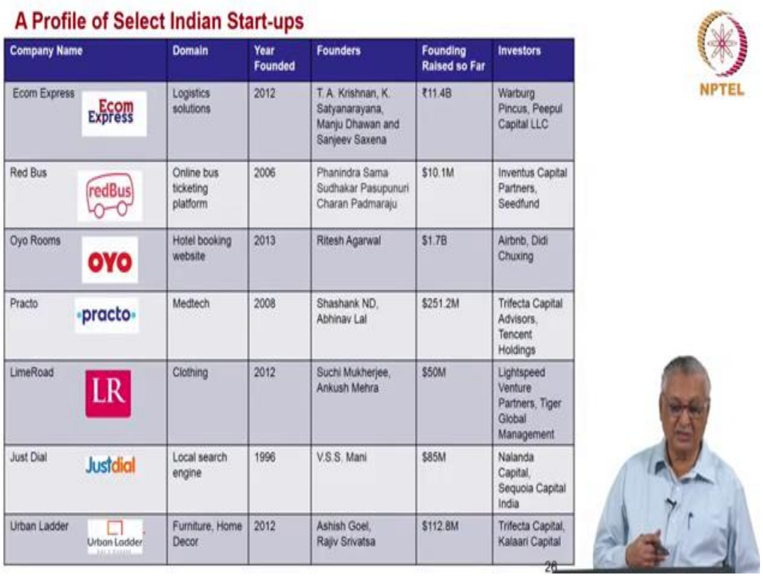

A Profile of Select Indian Start-ups

Company Name	Domain	Year Founded	Founders	Founding Raised so Far	Investors
Ecom Express	Logistics solutions	2012	T. A. Krishnan, K. Satyanarayana, Manju Dhawan and Sanjeev Saxena	₹11.4B	Warburg Pincus, Peepul Capital LLC
Red Bus	Online bus ticketing platform	2006	Phanindra Sama Sudhakar Pasupunuri Charan Padmaraju	$10.1M	Inventus Capital Partners, Seedfund
Oyo Rooms	Hotel booking website	2013	Ritesh Agarwal	$1.7B	Airbnb, Didi Chuxing
Practo	Medtech	2008	Shashank ND, Abhinav Lal	$251.2M	Trifecta Capital Advisors, Tencent Holdings
LimeRoad	Clothing	2012	Suchi Mukherjee, Ankush Mehra	$50M	Lightspeed Venture Partners, Tiger Global Management
Just Dial	Local search engine	1996	V.S.S. Mani	$85M	Nalanda Capital, Sequoia Capital India
Urban Ladder	Furniture, Home Decor	2012	Ashish Goel, Rajiv Srivatsa	$112.8M	Trifecta Capital, Kalaari Capital

So, what we do in the next few minutes is look at these start-ups in different segments and see how they have grown. So, coming back to this, from Flipkart, which is valued so high to let us say, a company like Redbus, which has done 10 million dollars, you find that there is a huge range of possibilities for companies. But essentially all of these companies have been connecting the consumers with a service very effectively and more effectively than it was ever done. So, we will look at these examples as we go forward.

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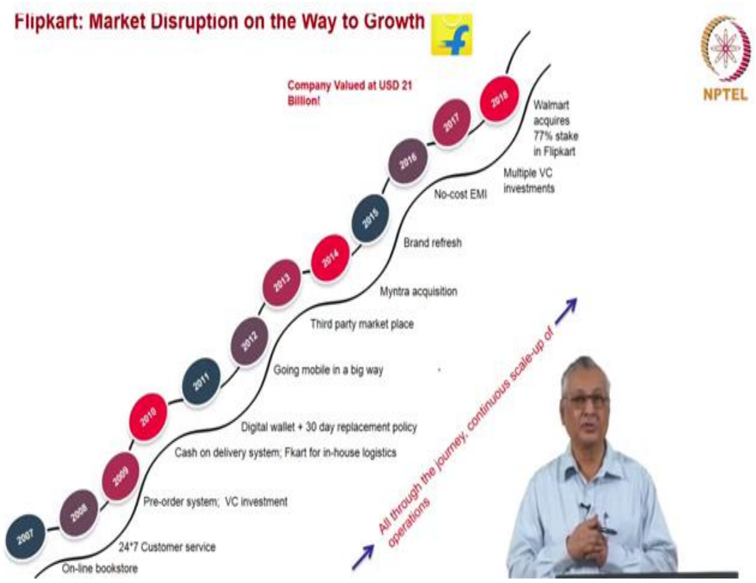

So Flipkart, it is a market disruption as a way to growth. When Flipkart was established in 2007, there was only offline bookstores that is Higginbothams, AH Wheeler, various other bookstores were there and you had to physically go there and buy your books. So, they started in 2007 in an apartment offering online books with a very modest investment. From then onwards, year by year, there has been growth and the growth has occurred through digitization.

So, it started with online bookstore, but ability to serve the customer on a 24 by 7 because of the digital application, ability to have the pre-order, have cash on delivery supplemented with the digital wallet, and then add to the number of merchandise that was sold in the digital platform. The company grew substantially until it took multiple investments to reach a scale, which valued the company at 21 billion dollars, this is a case of market disruption. The market has been once for all disrupted in India from purely physical to physical plus electronic together.

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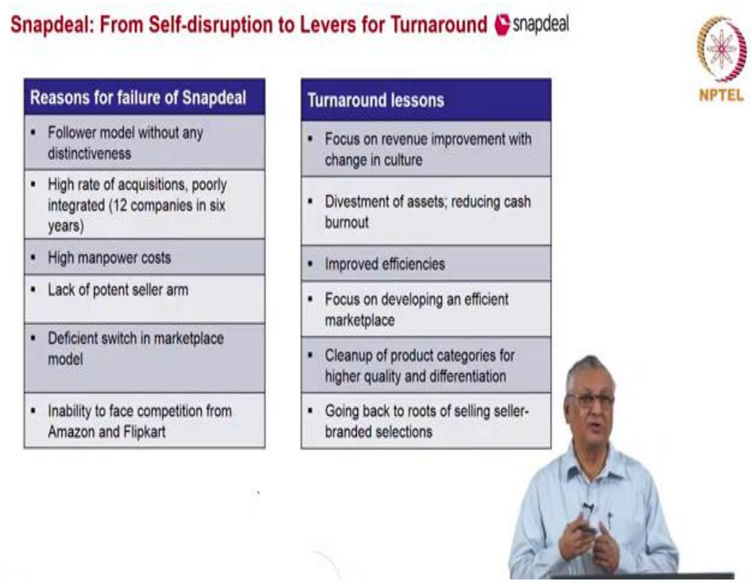

Then Snapdeal followed suit, but it was not very successful. It was a follower model that was adopted by Snapdeal but whereas Flipkart focused on organic growth and kept on adding only those things which are required to make the service more digitally effective. Snapdeal looked at a number of acquisitions in the related, unrelated areas and in a span of 6 years it has acquired 12 companies.

So, it has become a conglomerate of sorts in the electronic space and it has led to high manpower cost, lack of potent seller arm and deficient switch in marketplace model and therefore, it was unable to face the competition from Amazon as well as a Flipkart. So, having understood that these are the issues, the company also took certain actions to turn around. So, turnaround is not something which is only for the established companies, even start-ups go through failures, even start-ups required turn around.

One, fundamentally, there must be a focus on revenue improvement and profitability, not many start-ups are profitable still. Therefore, there must be focused on revenue improvement as well as profitability which requires a change in culture that is buying market share through discounts or through low prices has to be replaced by buying market share through genuine demonstration of product value proposition.

Second, no point in acquiring assets that do not add value. So, reducing cash burn out so that the cash available from the investment rounds is productively utilized, improved efficiency, obviously, delivering an efficient marketplace. See, while digital provides for random application of consumer interest and random supply, you have got to define your marketplace very appropriately.

You cannot be one shoe fits all sizes or one glove fits all sizes kind of model. The examples which we have talked about like Lime Road. They are successful because they focused on certain product segments, certain market segments, therefore, you got to develop an efficient marketplace. That marketplace could be, let us say connecting, poorly known, but highly qualified design themes from the rural area into an urban mellow but it is a focused marketplace, efficient marketplace.

Then the product categories also have to be cleaned up. Just because it is a digital website where you can through instant clicking, you can select your product and get it delivered. It does not mean that it does not require the actual supply chain of sourcing that kind of product, packaging the product and delivering the product to the customer. And it therefore requires a huge logistics and warehousing supply chain for this activity to be conducted.

And finally, you have to have a model. Every company has its business model, Flipkart had its business model, Snapdeal also had got its business model, but when that business model got self-disrupted by the company in its quest for hegemony over a different product categories, there were issues. Therefore, the company went back to the roots of selling seller branded selection so that the turnaround could happen.

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Ola cabs, there is another example, very nice example of how an Indian start-up achieved international status such that it could give even a good fight to Uber in certain developed markets. So, if you look at the market share of Indian taxi market, when Ola entered the market, 60 percent was unorganized, 23 percent was with aggregators, 7 percent was with owners and 10 percent was with affiliates.

So, the first criteria for success of Ola was that it entered at the right time. What it did? It acquired one company which was doing pretty well in the organized ride hailing market that is cab aggregation market which was TaxiForSure. So, it not only achieved 60 percent market share after its entry on an organic basis, it also acquired 14 percent additional market by taking on TaxiForSure.

So as a result, even though a global name like Uber entered Indian market, it could the confine Uber to 5 percent and their local home grown called Meru to 16 percent and enjoys 74 percent of the market. So, the right entry at the right time and right acquisition at the right time, which probably contrasted with the Snapdeal’s model where it entered right time, on the close on the heels of success of Flipkart, but it did not choose the right models of acquisition.

So, if you look at the business model of Ola, 6 factors. It was first to enter the taxi aggregator market in India therefore, the first mover advantage which is often talked about for established firms that became very effective for Ola. It has a strong mobile app comparing with the best of taxi aggregation apps in the world.

Then it had done a good acquisition which strengthen the market position that too in select regions where it was not strong, then it ensured strong network effort and effect with other hospitality sites, MakeMyTrip, BookMyShow kind of companies. Then highly segmented offerings for full market coverage.

It was, it pioneered that even auto rickshaws could be branded as Ola auto rickshaw. Then we have Ola branded CNG auto rickshaw and Ola is moving in a big way into electric mobility. So, there are highly segmented offerings for the full market coverage and continuous fundraising to scale up. So, this is a business model which has caused Ola's success in market disruption.

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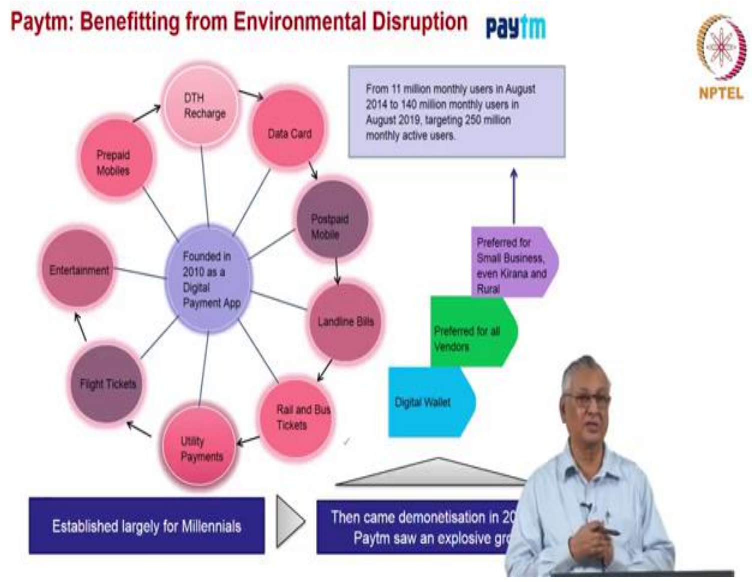

Then we have Paytm, today with digital payments is synchronizedly known with Paytm. It was founded in 2010 as a digital payment app. And the idea was that it would help people having prepaid mobile applications, direct to home recharge for televisions, it would offer a data card, then started to expand its offerings to cover landline bills, to cover rail and bus ticket purchases, utility payments.

This had to be covered in a progressive manner, because the company needed to negotiate and enter arrangements with the respective companies, be it the utility company or the railway company to make sure that its digital platform worked. Then suddenly, a tectonic shift occurred in India when demonetization happened in 2016. So, the digital platform, the digital payments platform which Paytm generated then became the strongest foundation for it to jumpstart its business further.

So, from 11 million monthly users in August 2014, it became to 140 million monthly users in August 2019. Targeting 250 million monthly active users. So originally it was to be a millennial’s preferred payment option, but today it has become a complete family option for payments covering both urban regions as well as the rural regions.

So, it has become a digital wallet, it has become a preferred payment medium for vendors, it also has become a preferred payment medium even for small business, Kirana in rural areas. So, this is also again, being at the right time in the right manner with the right product. So, digitization of economy has given a strong boost to Paytm.

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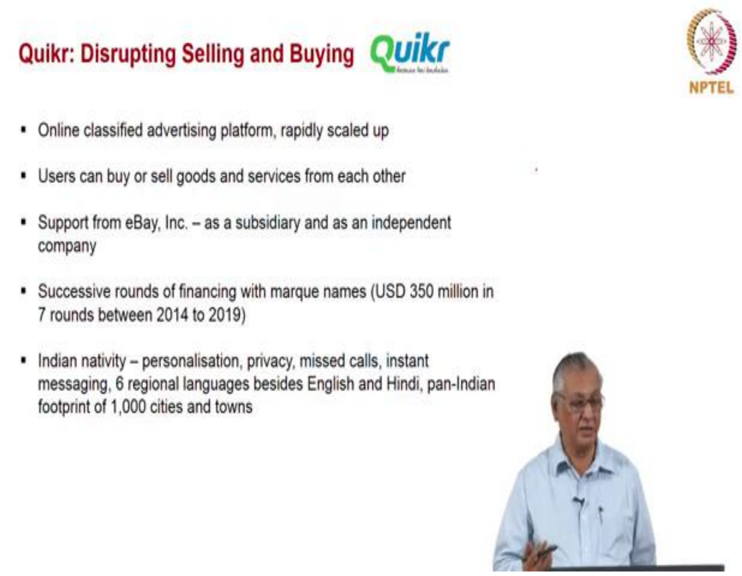

Similarly Quikr is an online classified advertising platform which could be scaled up very quickly. Users can buy goods and services from each other, the fact that it was supported by eBay, which has got its own excellent parentage of payments, digital payments and digital supply of products that has helped the company a lot, and successive rounds of financing with marquee names, has also helped the company.

But at the core, it followed an Indian philosophy, it had a lot of Indian nativity in the way it did a lot of personalization. It ensured privacy and it introduced probably for the first time the missed call feature, missed call is a very popular way of people letting know their counterparts that is I wanted to talk to you but I did not want to disturb you, so missed call facility.

Then instant messaging again a popular service in India, then regionalization of communication, not only English and Hindi, but a few regional languages and the Pan-Indian footprint of thousand cities and towns to be covered with the selling and buying phenomena. So, the model may have been supported from a funding point of view by eBay, but the Indian nativity helped Quikr become really quicker in the way to handle the market.

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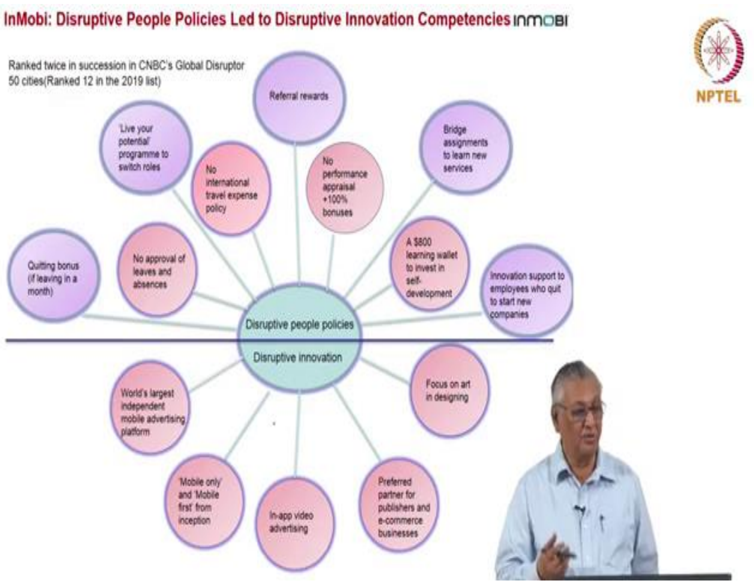

Then InMobi, InMobi adopted a start-up disruption policy which was based on people disruption, in the sense that whatever was restrictive to people was disrupted in the company. Let us say gave up the performance appraisal systems, there were no performance appraisals introduced, bonuses were given 100 percent regardless of performance. If somebody referred a good candidate, he was given a referral award.

If somebody entered the company, discovered that he is not the right fit or that the company is not the right fit for him and then he left within one month, he or she was given a quitting bonus. Normally we have joining bonuses and retention bonuses to change the employee let us say in a manner of speaking, but here the company gave quitting bonuses for people who felt that they are not well suited.

It ensured that the company had only the right kind of people with the right kind of culture continuing the company. Then it also had scrapped its international travel policy, anybody who does international travel in company knows that there are so many detailed fine print clauses which govern how international travel is to perform. If their company receives that your travel time is more than X number of hours you are eligible for this type of class, if it is less than this you are not eligible.

Okay you are eligible if two segments of airlines are connected like that it’s the kind of bureaucrats fertile ground to evaluate and then approve. But this company has removed all the international travel restrictions, and there has been no deleterious effect on the finance, in fact there was greater productivity. Similarly, no approvals of leaves and absences. A dollar 800 learning wallet is given for every individual to invest in self-development.

Innovation support is provided to people who quit to start new enterprises so that they remain in the ecosystem of the company. Then, ‘Live your potential’ program was launched so that people can switch roles from one kind of responsibility to another kind of responsibility. So, a culture of innovation was brought in through people related policies. So, you can call them disruptive people policies disruption being positive in this context.

As a result, what has happened to the company? It has become world's largest independent mobile advertising platform. It has been mobile only and mobile first, but it has recognized the trend that mobile is the one which is going to be the megatrend of the future. Therefore, by latching itself on to this mega trend, the company has been able to grow very successfully. Then it also saw the video advertising as a very effective medium.

So in-app video advertising came in, became a preferred partner for all the ecommerce companies and publishers. And because this kind of digital advertising could be monotonous by bringing in art and sensitivity into the act of designing, it was able to improve its visual aesthetics in the advertisements. So, InMobi is another very interesting case of Indian start-up unicorn which has used disruptive people policies system to upgrade the user experience and therefore achieve unicorn status.

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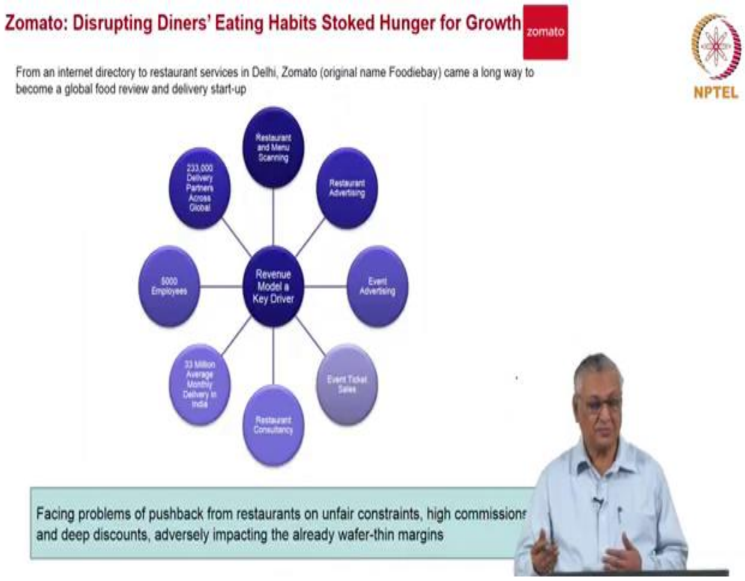

Then we have Zomato, Zomato started with the restaurant reviews, food reviews, and from an internet directory to restaurant service in New Delhi, Zomato came a long way by becoming the preferred food delivery partner. Today, when you look at the revenue model of Zomato, you will see that it not only does restaurant and menu scanning which was the core activity, it does revenue advertising.

Brings in independent revenues, it does event advertising, event ticket sales, it does consultancy for restaurants, and does as its core business of course 33 million average monthly deliveries as 5,000 employees and 233,000 delivery partners. Again, it does not mean that by being digital and by being a start-up, you can avoid some of the problems which companies have to face if they do not adopt collaborative activity.

There are problems of pushback from restaurants on unfair constraints, on deep discounting practices adopted by Zomato and certain specific membership programs, which impact the already wafer-thin margins. So, there has been some kind of issue going on between the Indian restaurant's association as well as the food start-ups particularly Zomato. And then they have been starting on this kind of issue over time.

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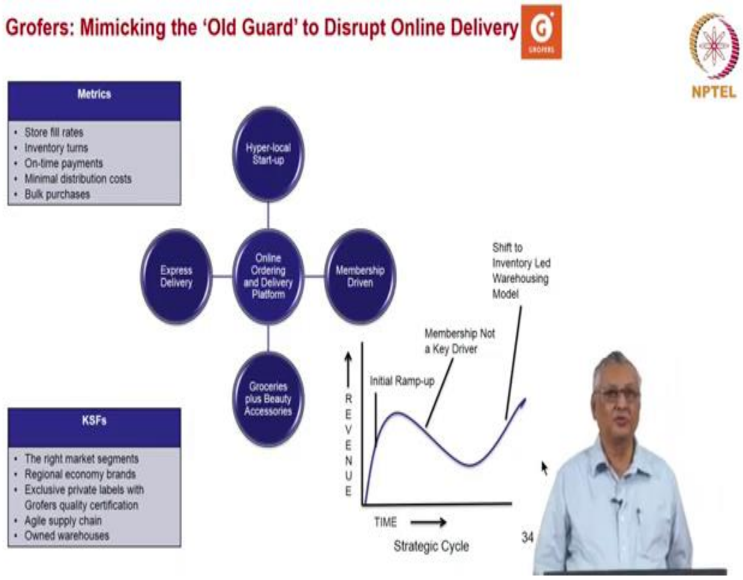

So, another Indian start-up which has done very well is Grofers and it has mimicked the Old Guard to disrupt online delivery, especially focusing on groceries. So, the business model says that if you concentrate on Indian households and meet their daily requirements, you have daily business that is assured. So, the model was online ordering and delivery platform and it was a hyper local start-up, which is membership driven, and provided groceries and beauty accessories as its main activity and the selling point obviously is the express delivery.

So, if you look at the strategic business model, it had its own roller coaster. It started with the initial ramp up, which was pretty good, revenue moved up very significantly. But as it became a membership driven company, it discovered that membership is not the key driver. Its ability to manage your supply chain and manage the ability to manage your warehousing that is more critical.

So, the company recognize that requirement for change in its strategy and from a member only company it moved into different market segments, different customer segments, and then specialized in inventory lead warehousing model, which provided greater capabilities. So, the success factors for the company have been the right market segments. Regional economy brands, exclusive private labels with Grofer's quality certification, and agile supply chain and owned warehouses.

And like a physical company, a digital company also should have its own metrics, the metrics here are store fill rates, how fast you fill your store, what are the number of times the inventories moved out, on-time payments, the distribution cost as part of the total cost and bulk purchase economics so these are the matrix. So, what you find here is that even if it is a digital operation, it mimics the physical structure, but adds greater operational excellence to its model because of the digital capabilities.

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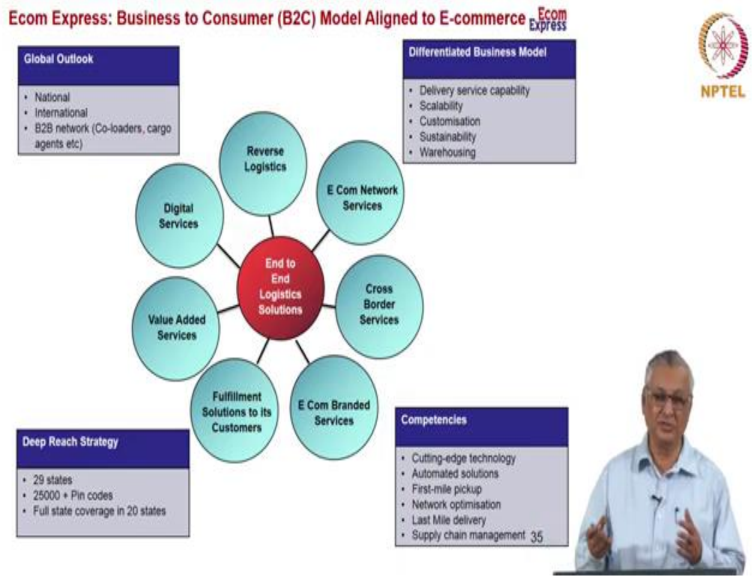

Logistics typically in India has been pretty disorganized because the bulk of cargo movement has been through single truck ownership and 85 percent of total truck ownership is expected to be or anticipated to be in single vehicle owners, so logistics was unorganized. What it meant was also that the organization of logistics network is broken, in the sense that you can carry a load from point A to point B effectively, full load, but when you return, there is no assurance that you have got the load which is coming back keeping the truck full.

So, you go for part loads or at times you would come empty. So, the cost of return empty load is booked on to the overall cost of the logistics which is charged by the truck to the supplier therefore, there is an inefficiency which is built into the logistics model. Obviously, you required some kind of aggregation to solve this problem that is how the logistics companies moved into this space. Ecom-Express is one very effective business to consumer model, which is aligned to ecommerce.

The differentiated business model was delivery service capability, scalability, customization, sustainability and warehouse. So, what it starts operated providing reverse logistics, network services, value added services, fulfilment solutions with a deep reach 25,000 plus pin codes, full state coverage in 20 states. So, the competencies were cutting edge technology, automated solutions, first mile pickup and last mile delivery, first mile pickup and last mile delivery, network optimization and supply chain management.

So, Ecom Express is part of vast network of logistics companies that have started coming, which are differentiated from let us say the traditional Blue Darts and DHL which we are seeing, they are limited but in terms of the cargo capability in India, but here Ecom Express, Rivigo these are the kinds of companies which are establishing new benchmarks in how logistics is conducted by providing better aggregation, greater use of return loads and also making sure that the transportation practices themselves or scientific.

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Redbus. This is one fascinating example, when people wanted to go by bus, it was considered as a try and, try your luck kind of situation, but it brought order through digital means. They aggregated the bus operators, provided instant services to the customers, but the whole business model had to overcome certain constraints and because they overcame such constraints, the model became highly successful.

One, the entire bus operating system had no global distribution system, they were digitally unconnected. Forget about being disconnected they were unconnected. Secondly, the entire bus booking ecosystem had to be created upfront and thousands of operators, who had no e-connectivity, who had no interest in digital connectivity, they had to be motivated to be part of this. And there was this unpredictability of road schedules and travel times.

Whenever you book something through a digital mean, both the expected time of departure, expected time of arrival, they are all printed and more or less, it is a kind of scheduling system that happens. But Indian road transport was not very famous for scheduled activities. So, these are the kinds of constraints and then by adopting some of its capabilities, very strong technical capability of the founders, wide and deep social media research, mass market being targeted rather than just some niche market.

And most importantly, by connecting thousands of bus operators and road transport corporations, over 80,000 routes, it was able to provide the best possible fit for the users. Also, it has bolstered its digital presence by having 30,000 physical outlets, which could be used by people to book the tickets, and a digital mobile app for people to use.

Customers benefited in terms of offers, whereas the operators benefited in terms of the commissions, as a result, the company was able to have continuous growth. Look to book conversion rate has been an interesting metric for them and bus tickets booked per day has also been an interesting thing. As a result, the company was acquired by another investor.

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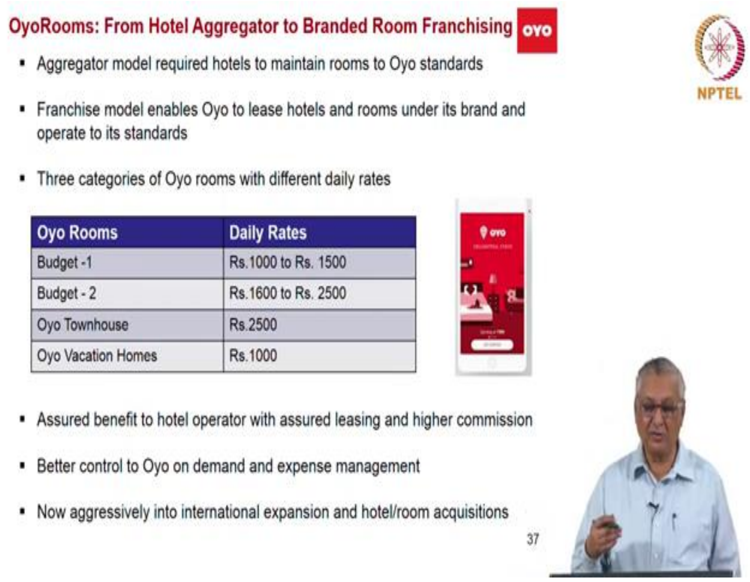

Oyo rooms, it is proving to be one of the most significant start-up successes. It started as an aggregate model, it required hotels to maintain rooms to Oyo standards and the value proposition is that the hotel is owned by the company, but the room is offered by Oyo to a particular standard. So, it was a kind of franchised model which enabled Oyo to lease hotels and rooms under its brand and operate to its standards.

It offered 3 categories of Oyo rooms and if one is familiar with the way the hotel budgets are structured, you can find that these are affordable and for people who travel regularly, these offer an excellent alternative to regular structured hotels. So, two types of budget tires and one town house and one vacation house. And assured benefit to hotel owner with leasing and higher commission.

But today the company is moving far beyond this, bolstered by the investments it has received, the company is buying into developed markets, particularly US and Europe, for aggressive international expansion and the hotel room acquisitions. It has even taken a professional leader from Indigo to run its operations. Will talk about those aspects, when does the founder need to hand over the baton to successful professional to take the company to the next level, we will talk about that in one of the forthcoming sessions.

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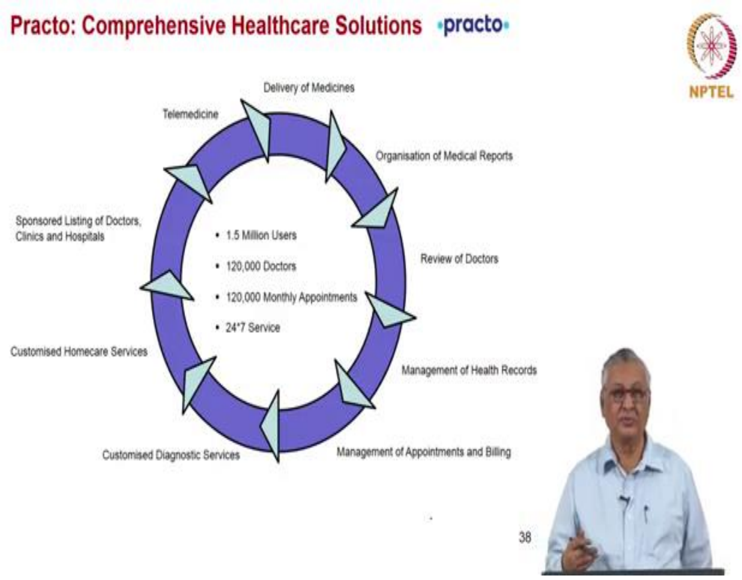

Then we have Practo. Practo is one stop service for fulfilling a whole number of medical needs. It could be for doctor scheduling, it could be for fixing appointments, it could be for scheduling at home clinical service, it could be for having physiotherapy services rendered at home, a whole lot of things. So, you can see that it started in a humble way, just as a company which does organization of medical reports.

Because doctors typically take a lot of time to organize their medical reports and then a lot of time is spent in going through the history and then transcribing whatever the patient is saying through multiple levels. The assistant does that ones, then the main doctor does it and even at that time, the completeness is not assured because of the time available.

So, organization of medical reports became the number one starting point for Practo, but eventually it went into a situation where it started reviewing the doctors. It managed the health records for hospitals as well as for patient’s management of appointments and billings, customized diagnostic services, homecare services, which is another leading revenue builder for the company now, and sponsored listing.

Once the company got standing, then it had the ability to attract sponsorship opportunities, then telemedicine, and now it also delivers medicines. 1.5 million users, 120,000 doctors 120,000 monthly appointments, 24 by 7. So Practo is another case where a kind of vacuum has been filled in by a start-up coming up with its own service offerings.

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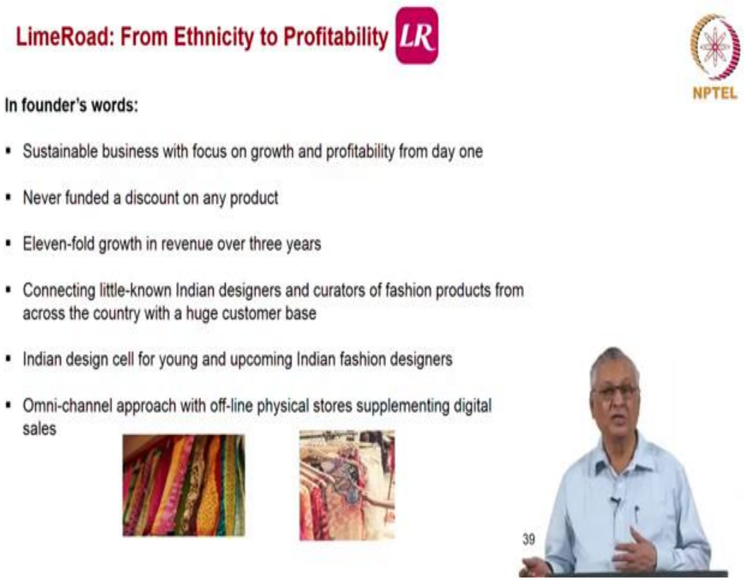

Earlier, I talked about the advantage of not being all over, choosing your marketplace very wisely. Lime Road is one company which has used ethnicity to become a profitable operation. In fact, the company's founders claim that they are one of the very few internet companies, particularly in the fashion field which are profitable.

Then they claim they never funded discount, but what they made available was less known but highly quality conscious brands which were being made in unknown areas, ethnic areas, and they were brought into the urban mainstream therefore, there was an arbitrage which was available in terms of the cost of production, combined with elegant design, which could be priced well for the urban markets.

So, the whole theme is connecting little known Indian designers and curators of fashion products from across the country with a huge customer base. So, it also created keeping in view its own value proposition an Indian design sell for young and upcoming Indian fashion designers. It also is pursuing an Omni-channel approach with physical stores supplementing the digital sales so Lime road is another nice example.

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Just dial is well known, we have classified Yellow Pages. There used to be telephone directories in the past, and those telephone directories used to have yellow pages which provided the classified ads. But as the digital economy came in, the need to digitize the entire telephone directory became normal but there was a business opportunity lying to go beyond this sponsorship and have an information repository to connect any query with an answer.

So, it was a generic research engine, but profitable unlike most other specialised digital review start-ups. Its success was in terms of maintenance of high-quality database through ‘strong on-feel’ employee base. It was a voice based search infrastructure with multi-channel input and output, and it provided a lot of direct and personal relationships between the MSMEs and the customer base, both B2B as well as a B2C.

The revenue model now is based on premium subscription, list of classified ads, analytical reports and data selling to buyers, 130 million dollar turnover, call cost 1 to 9 million per day, 7.2 million page views.

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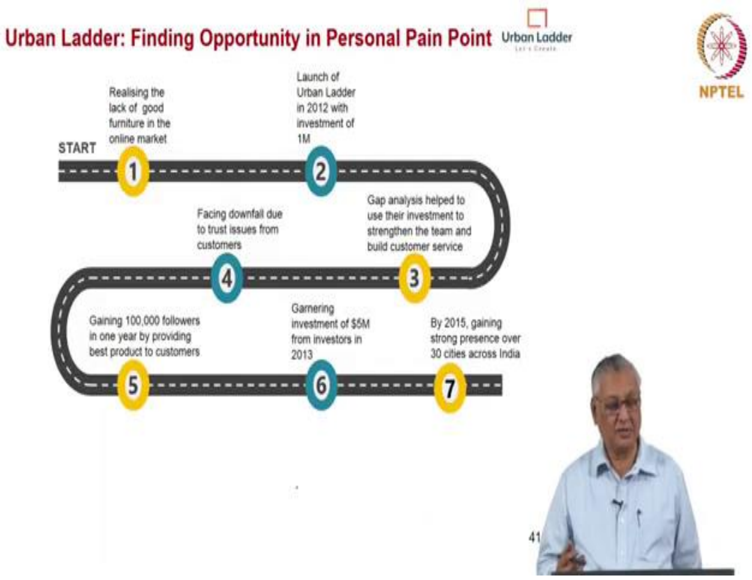

Urban Ladder, it found an opportunity in personal pain point. It started with the lack of understanding of good furniture in the online market. If Indian families wanted to have their houses furnished they had to go for carpenters who took their own sweet time and the quality of material was unchecked. So Urban ladder was launched with an investment of 1 million dollar, which is high for standards in 2012. And then is did a gap analysis, took it’s time to build trust, but over a period of time it attracted investors as well as customers and today it has presence over 30 cities across India.