**Courses on Entrepreneurship**
**Professor C. Bhaktavatsala Rao, Ph,D**
**Department of Management Studies**
**Indian Institute of Technology Madras**
**Lecture 32**
**Raising Finances and Developing Financial Strategy Part 2**

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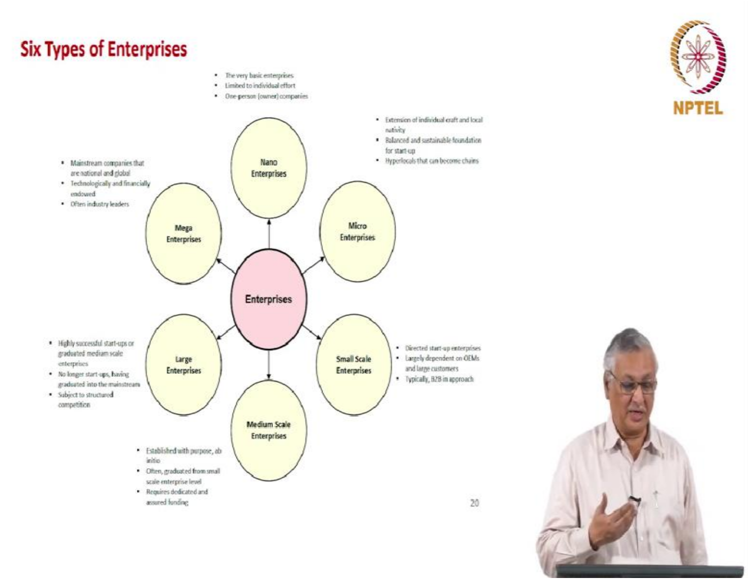


So, there are 6 types of enterprises. One type of enterprise is Nano Enterprise, second type of enterprises are Micro Enterprise, third is this Small Scale, fourth is the Medium Scale, fifth Large Scale and sixth is the Mega Corporation. So, Nano Enterprise are those, which are the very basic enterprises. Typically, these are one person or one owner companies. And whatever happens there is solely based on the individual effort.

Then we come to the Micro Enterprises, which are extension of individual craft and social nativity into the enterprise. When we look at let us say, a saree boutique shop or an ethnic variety of sarees, which are being converted into a business opportunity, you can say that it is an individual craft, which is blended with local nativity and creates a micro enterprise.

So, when we talk about Amazon doing let us say great Indian festival Sale or Flipkart doing that kind of sale, they are also relying on these kinds of micro enterprises, which are converting their individual craft and local nativity into enterprises and plugging into the overall Ecommerce system. And this is a balanced and sustainable foundation for start-up because you are having the core capability or competence of technology.

And you are plugging into a marketing network, which is national and which can probably sustain your production. These also are micro enterprises, which can become hyper local enterprises at the beginning, but they can also become a chain of hyper local enterprises. If you look at sweet and snacks stores, which typically start in one place, but spread themselves across the city over a period of time.

You can see that micro enterprises one great avenue of growth. The third type of enterprises are the small scale Enterprise enterprises. These in the past have been the bulwark of entrepreneurial movement. These enterprises are typically the ancillary enterprises for established big corporations. They are largely dependent on original equipment manufacturers; they are largely dependent on anchor customers and they have a B2B approach when they start their businesses.

And they are medium scale companies, which are set up with the objective of being a medium scale enterprises because the nature of business as well as the nature of product demand certain scale of investment, demand certain scale of production and they would have graduated also from a small scale. But they require a completely different way of funding and different way of growing.

Then we have large enterprises, which are the mainstream companies. When a start-up goes through its journey from nano enterprise to micro to small scale to medium scale, it is going to evolve into a large enterprise. And then we have got mega enterprises, which are the, ones which are backed by highest level of technology and are well financially endowed. And typically, mega enterprises are often industry leaders.

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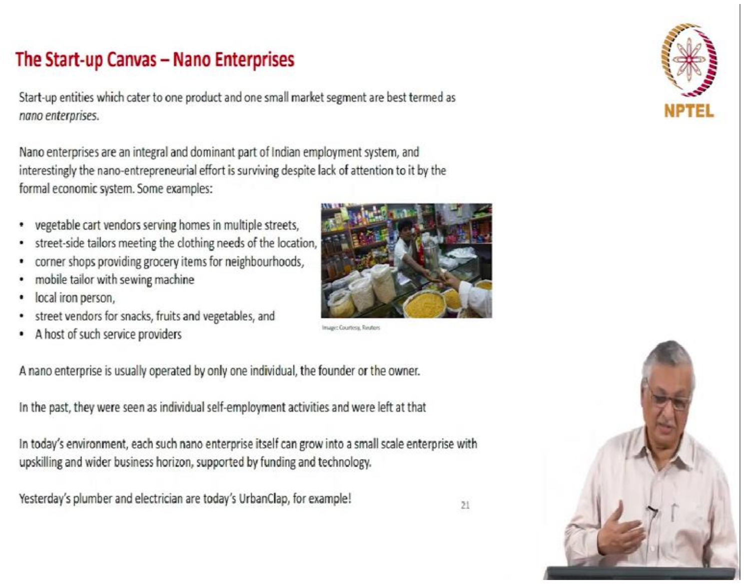


So, when we look at the start-up canvas of nano enterprises, we will find that such nano enterprises are there everywhere. It is usually operated by only one individual. Previously, they were individual self-employment activities, and people were content being that way for the rest of the lives. But today, a nano entrepreneur just does not want to be that. He or she is able to see whatever is happening in the outside world. And he is questioning himself or herself, how do I grow from being what I am to what I could be?

And to take just one example, if yesterday’s plumber or electrician is today's UrbanClap in a way of speaking, I am not saying that one plumber and one electrician have become UrbanClap. But if you see the business model of UrbanClap, it is nothing but providing a variety of services from home maintenance to home health service to something else, something else.

So, these are basic capabilities that have been there in individuals, but they have become businesses. So why cannot a security guard of today become a security services provider of tomorrow? It is all limited to the thinking and if the thinking is vast enough, typically a nano enterprise can also grow into a micro enterprise and thereafter into a small scale enterprise.

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And we when we talk about micro enterprises, I said that there are companies, which are very concentrated in the initial phase. But then they, because of the acceptance the product or service has, they move into different areas. So, when you look at travel agencies, for example, they start in one area and quickly move into other areas or even move across the cities. If you look at restaurant chains, Chennai has got its own chains of famous restaurants.

One example is shown in an image here. Those typically start from one location and based on the customer acceptance success, they move into different locations. Same happens to the web designers, graphic houses, app designers, they move from one place to another place. Therefore, institutionalized craftsmanship, that is craftsmanship, which is institutionalized in terms of a business undertaking, with or without digital support are typically micro enterprises, which we see.

And they are typically hyperlocal but they have the ability to be in several localities. They combine both product and service. The key to micro enterprise success is not merely the product, but the relationship with the customers and the customer loyalty, the brand equity they are able to generate very quickly.

And they also represent probably an ideal balance between the investment needs of a business and the funding capability of founders. They do not require mega investments, but they also require a certain level of investment, which take the company to a notable stage. And for a diversified start-up movement, which a country like India needs micro enterprises seem to be the basic foundation, which we all should aim at.

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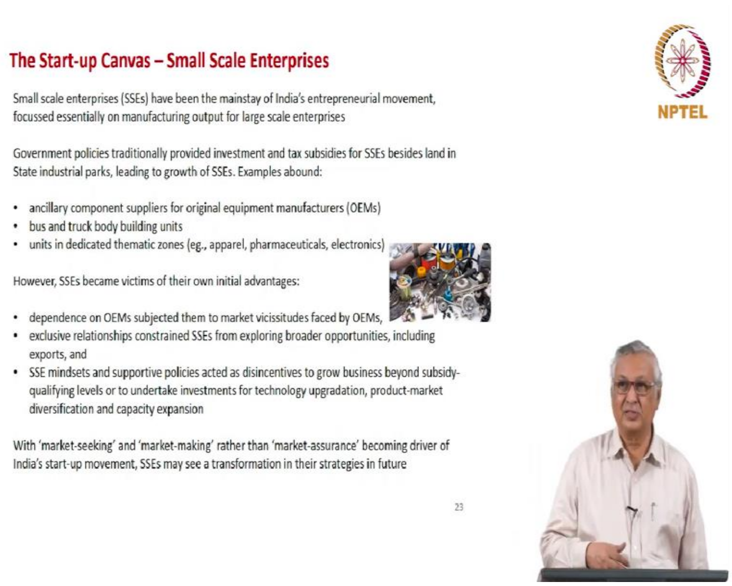


Then we have small scale enterprises. As I said, these are typical ancillary component suppliers for leading original equipment manufacturers. Other examples are bus and truck bodybuilding units and companies which are in the dedicated thematic zones like an apparel zone or electronic zone.

So, you will find that if there is an mobile manufacturing electronic zone, you will find companies which are doing these wiring harnesses, companies which are doing the chargers, companies which are providing certain basic internal components of the mobile system. But the advantage of small scale units has also become the disadvantage over a period of time because they are so dependent on the original equipment manufacturers, the businesses tend to move up and down with the business success or not so great success of the original equipment manufacturers.

Secondly, because these relationships tended to be exclusive, the bargaining power of the original equipment manufacturer tends to be pretty strong and the small scale enterprises tend to become larger. And thirdly, which is a point very specific to India. The policy incentives in the previous regime are so skewed towards small scale enterprises that by way of definition of the investment limits and the turnover limit, that many small scale units decided to stay on as small scale units rather than graduate into medium scale or mega institutions.

So, what we require today is that small scale enterprises must be open to looking at life beyond the original equipment manufacturers, who may have provided the basic wherewithal to start the unit that is important. And in the long run, when they improve their volume base or when they enhance the volume base, they will be able to invest more in technology and does help the original equipment manufacturers with whom they have started their start-up journey.

Secondly, the focus of start-up movement is moving from assured market, which somebody provides to a challenging domain of market seeking, that is find where the market is to see where the emerging markets are to one of market making that is create your own market through your novel method of doing the product or service. Small scale enterprises as we understand now of being dependent on big companies may itself change in the future. They will need to rejig their strategy is to be more of market makers and market seekers then market assured companies.

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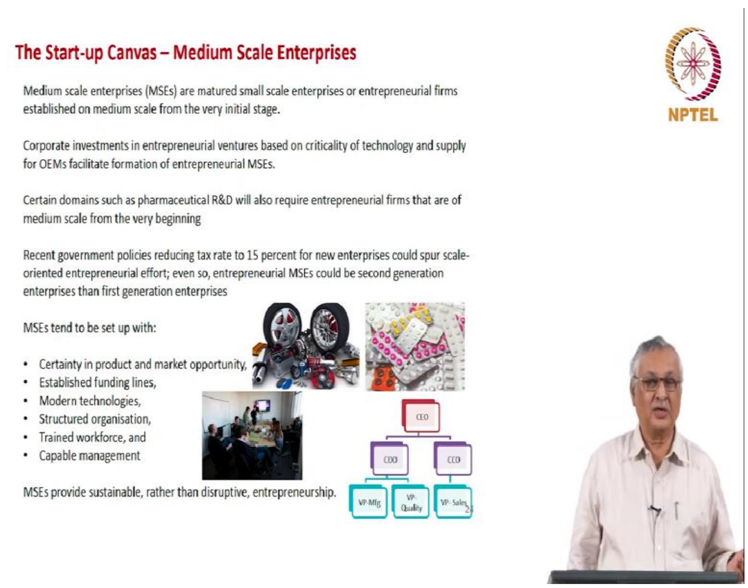


Then of course, the Medium Scale Enterprises. Medium scale enterprises are typically organized enterprises. You can find a typical organization structure is a medium scale enterprise comprising a CEO, you will have a Chief Operating Officer, Chief Commercial Officer; and

COO will have somebody dedicated to manufacturing and operations, and somebody dedicated to quality and regulatory affairs; and Commercial Officer will have sales distribution and other areas.

And medium scale enterprises are marked by the following factors. One there is a certainty in product and market opportunity. Secondly, they have established funding lines. They are backed by modern technologies, fourth they have structured organization, trained workforce and capable management. Medium scale enterprises provide sustainable entrepreneurship rather than disruptive entrepreneurship.

Disruptive entrepreneurship occurs from micro enterprises and small scale enterprises, which are disrupting the technologies, which are adopted by the medium scale and large scale companies. In our earlier discussions, we have gone through how disruptive technology starts either at the bottom-end of the market or at the top-end of the market, and gains acceptance either on basis of technology or on the basis of price and or on the basis of both the factors and eventually cover the entire market space.

But MSEs, which are moving along in this phase, they provide sustainable entrepreneurship rather than disruptive entrepreneurship. That does not mean that they would not have technology, they would have the evolutionary nature of technology, which also we have discussed in the earlier points of view.

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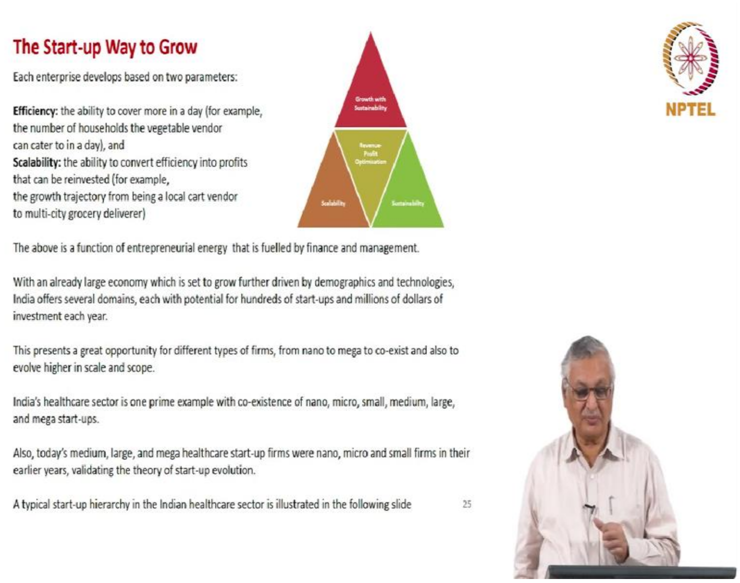


So, the start-up way to grow is a kind of four pyramid structure. One Scalability – Every start-up has to scale itself and the more you are able to scale, the better are your prospects from the point of view of investment. The second is revenue profit optimization. Scalability and having more footfalls, more clicks and more regions to cover or more products to cover by itself does not assure that revenue profit optimization occurs.

And why are we saying the revenue profit optimization? We need profit to be sustainable. We need revenue as a result of scale. Scalability without sustainability is of little use in the long term, and sustainability does not occur unless there is scalability. So, if you are able to be a successful nano entrepreneur, and you decide not to scale up, obviously sustainability could be there. But that sustainability is of no use, when you want to grow as an aggressive start-up.

Therefore, scalability is important. Sustainability is important. And the bridge between the two is revenue profit optimization. At what points of time, would you optimize your revenue and profit equation? Would you like to have higher revenues at cost of margins or would you like to have lower revenues with the advantage of higher margins? So, growth with sustainability is the key parameter that drives.

And for different firms this equation, revenue profit optimization, the balance between scalability and sustainability and how it is seen as a growing company with sustainability, they all differ.

And each company depending upon its scale and size and the industry in which corporate it operates has to find its own way of start-up growth phase.

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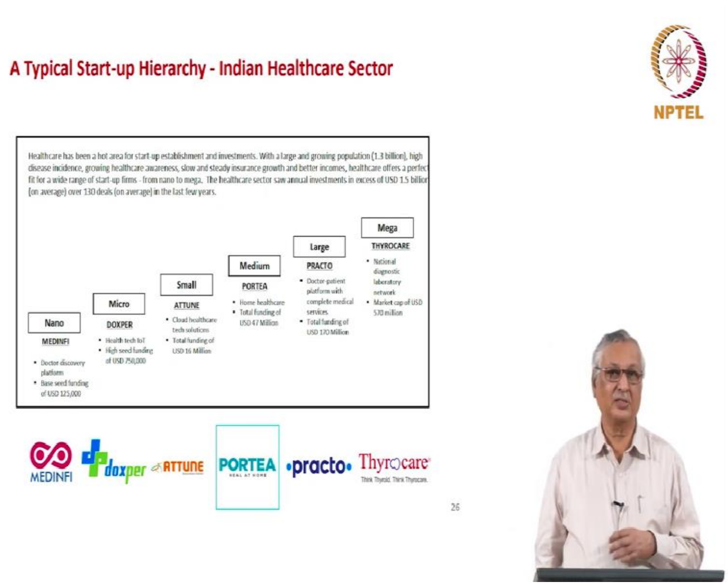


Now, when we look at any industry, it is quite possible for an industry to comprise different types of forms. And the difference is that in a traditional industrial structure, it is quite possible for a mega corporation to have such overwhelming market coverage and market dominance that small company may find it difficult to survive.

But the magic and the beauty of the start-up scenario is that, if you are in an innovative digital space or if you are in an innovative technological space, it is quite possible for you to exist as a nano enterprise as also as a mega enterprise. So, I have taken a few examples from the Healthcare sector. Healthcare sector defining the whole spread of patient care, home health care, then diagnostics and also hospital support systems.

So, when you look at that, we have got here six types of companies corresponding to what we have discussed earlier. And healthcare also has been, as I said, from the earlier slides, a hot area for starting new companies and with the large growing population and the kind of healthcare coverage we have, we can also understand that start-ups would have good potential in the healthcare space.

So in this, we have got at the nano stage, MEDINFI, it is a company which is just focused on doctor discovery. It just helps you to find the right kind of doctor for you to make your appointments and it could secure a base seed funding of 125,000 dollars. Then, we also have a company called doxper, which is a kind of micro enterprise. It moves to the next generation of healthcare where IoT, Internet of Things is used to manage health technology and it has been able to get higher seed funding, because the technology requires that level of funding.

Then we have got ATTUNE, which is a small scale enterprise. It offers cloud healthcare, technological solutions, and it has a total funding of U. S.  dollars 16 million. Then, when we come to the medium scale enterprise, we have a company called PORTEA, which is by now a very well known company, which offers home health care on a national basis and it has been able to secure a funding of 47 million dollars.

Then comes Practo, which is a large enterprise today, doctor-patient platform, which provides complete spectrum of medical services and has been able to secure 170 dollars million as its total funding. And Thyrocare is probably a mega corporation in the healthcare space. It has gone through a very successful public enterprise and it is a national diagnostic laboratory network and today it has got a market capitalization of 570 million dollars.

So, the interesting point in this slide is that there is potential for tech based companies starting as nano and also operating as mega and that is also possibility by applying appropriate vision strategy execution triad, you can move, course through these six phases very successfully. And again, as I said, these logos of companies are being present here for the visual connect and for visual appeal and all logos are the properties of the respective companies and are being used only for the educational purpose and for visual connectivity, as we discuss those companies in terms of the start-up contributions they have made.

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So, when we look at the top funded start-ups in 2018, FinTech, Edtech, Ecommerce, Consumer Services, Enterprisetech, Traveltech, Media & Entertainment, Healthtech, Deeptech, you will find that there are companies with which we are able to regularly connect. PolicyBazaar is a well-known company in the FinTech space. Lendingkart is another company. PhonePe that is also a very well-known company.

In Edtech, BYJU'S is the leader. Topper is also there. Unacademy is another company, which is moving high. In Ecommerce, of course, the top five knowns are pretty well-known. In Consumer Services, Swiggy and Zomato, the food delivery companies are known. Enterprisetech, Freshworks is a company which has moved up high. Traveltech, OYO is very well-known. In Media & Entertainment, Gaana is one of the leading companies.

Paytm is also there strongly in media and entertainment although there could be a view that a part of Paytm also functions in Ecommerce space. In Healthtech, there are companies which are getting funded. These five companies as you can see are not companies which are not there in the previous healthcare slide.

And typically, PharmEasy and Netmeds are companies, which are getting into the medicine dispensing that is disintermediation of the existing long distribution chain and make patients get their medicines very quickly and at attractive prices. And Deeptech is the area which is coming up newly comprising on artificial intelligence, machine intelligence and things like that.

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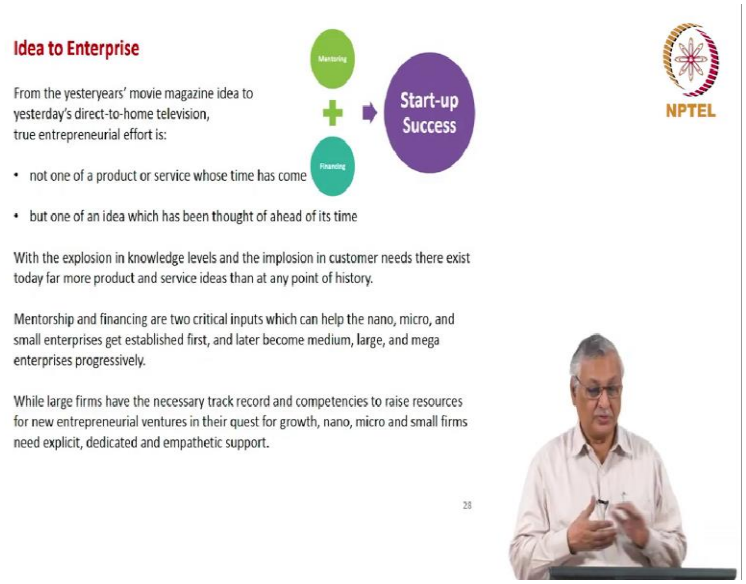


So clearly, the funding of start-ups is a challenge because we do not see a product as we saw in the earlier days. From the times we had an earlier year's movie magazine, today's direct-to-home television. It is not that the idea was very well defined before us. It is not that time has come for that idea to fructify. But the success lies in our thinking of the idea ahead of its time.

So to repeat, the idea to enterprise mission is not based on seeing a product in physical appearance and then saying that this needs to be funded to its logical conclusion. It is also not one of the product being available right on time when the market requires. The whole magic and the challenge in start-up is to conceptualizing and developing a product ahead of its time in a way that the market is able to appreciate the importance for this product.

So, there is a lot of what shall we say, advocacy involved in getting a product idea financed. It requires a lot of mentoring, how you would get into this mind space of the investors and there is also lot of management, which is involved in how we will ensure the success of this start-up. So, for nano, micro and small enterprises in the start-up space to grow into bigger corporations, there is a lot of need for financing. But probably there is even greater need for mentoring. So that they becomes correspondingly bigger companies over a period of time.

So while large companies have the necessary track record and competencies to raise resources, by the sheer strength, the way the telecom companies have been raising finances, the way the automobile companies have been raising finances, or the whole, whole series of big corporations have been raising finances, you will be amazed at the way thousands of millions of dollars are being raised globally.

But when it comes to the start-up era or the start-up companies, it requires a lot of explicit, dedicated and empathetic support for the start-ups to get the kind of finance, which is required. So, it is a kind of counterintuitive or paradoxical situation. On one hand, you have a number of investor means, investor entities which are all too eager to invest in start-up ecosystem. On the other hand, you have start-ups which would, indeed struggle to find who is the right investor for its requirements.

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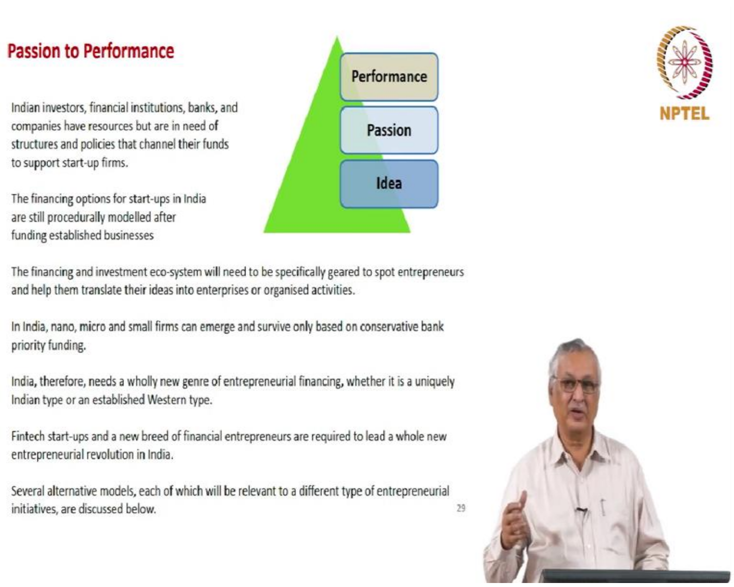


So, this idea to enterprise is kind of very challenging concept in start-ups. And it can also be made more effective by idea to performance paradigm. So, this idea to finance can happen when the idea is made into performance by entrepreneur passion. So, typically in the Indian situation even today, we can say that the nano and micro as well as small firms can survive based on conservative bank policy funding.

So, when we look at the idea to enterprise model, what makes this idea to enterprise model work is the conversion of the passion into performance. The idea is there, it wants to become an enterprise. But for that the entrepreneur passion has to convert that into performance. And typically, the Indian financing system is still modeled after the traditional enterprises, the way the projections are made and the way the revenue parameters are set and the way finance, bank finance would like the money to come back.

But for the nano, small scale, micro enterprises to become bigger, we need an entrepreneurial financing system, which is quite different from the traditional bank financing systems. So, we need to explore alternative financing models, which are relevant for different types of initiatives. So, we will see what is possible.

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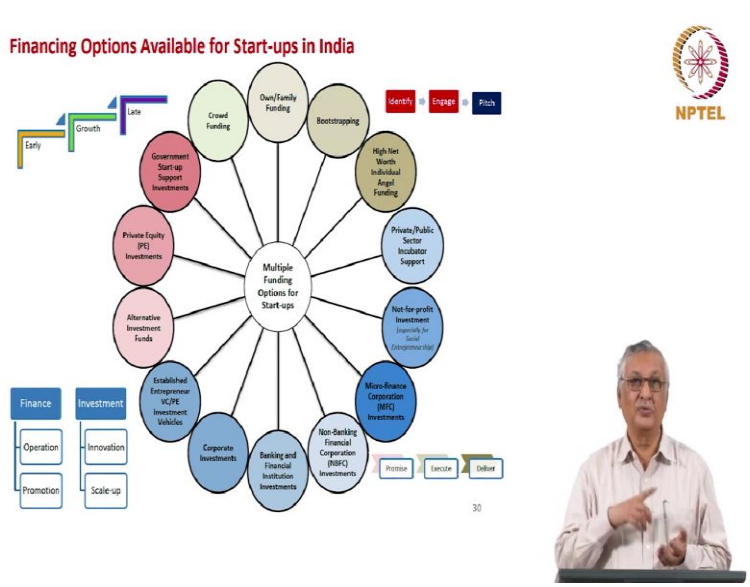


This slide provides an interesting graphic of the number of financing options which are available. Some of these financing options we have discussed in the previous slides, but a few other things which we have not discussed emerge here. Like Bootstrapping, we are talking about incubator support accelerators support. We are talking about corporations directly supporting the start-ups. We are also talking about state governments and central government acting directly in, in support of start-ups.

So, the way we do it is that you got to identify what is the right source of finance for the kind of start-up, which we have. Second engage with the right kind of investors, it could be an institution or an individual and then make a pitch for those kinds of investments. And depending upon whether we are in the early phase or growth phase or late phase, we can have our own ways of seeking the right kind of finances and right kind of investments.

And the so called investment actually comprises two paths, I would say one is the financing portion and other is investing portion. The investment portion typically looks at the fundamental innovation of the start-up. It also looks at this scale up whereas the financing portion looks at the operational cycle, operating cycle of the company, which talks about the raising of the team in terms of size and scale, then also doing the promotion of the product.

And as with all the kinds of marketing and other activities, we start with a promise saying that this start-up is going deliver on these kinds of expectations. Then we will execute and hopefully, we will deliver. As a result, multiple funding options, we have can be utilized in the appropriate manner as we go forward.

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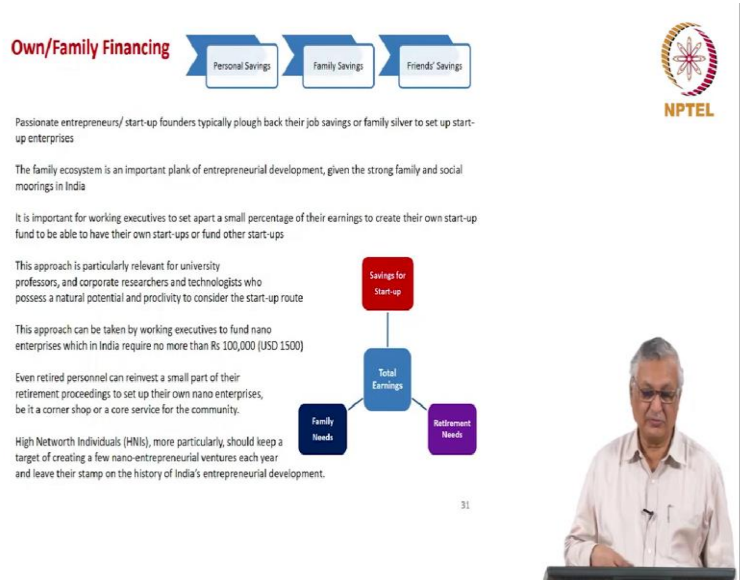


So, own family financing we do not require to say much. But the total earnings a person has can be put into three classifications. One is what is required for the family needs. Second, what is required for the retirement needs that is the post work area. And the third is the savings for the start-ups. There are high net worth individuals who have been able to understand this emerging start-up space and have clearly earmarked a portion of their earnings for the future start-up investments.

And it is quite interesting that in today's situation, when we think that employment will move from on the job, big company employment to self employment and enterprise, we should look at how we can become entrepreneurs. So many of the people who are listening to this course, must also plan, if I were to be an entrepreneur, what would I need?

I need an idea, a level of passion, but also, I need finances. So just as one saves for retirement, one would also be best placed to save for being a start-up founder of oneself. And if one decides not to be a start-up founder, obviously that would become the retirement savings. So, a time has come in the journey of entrepreneurship, for every employed professional also to set apart some savings to equity, which was not there until today.

And this is ideally useful for working executives who can really afford to spend certain money stored as future equity for start-ups. And even retired personnel can decide that part of my income, post retirement income will be channeled into the start-up era.

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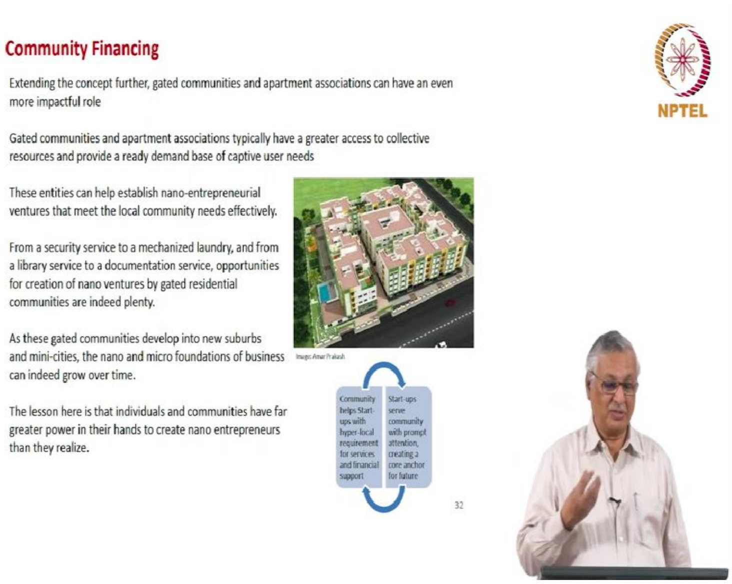


The second is Community Financing. Each community in today's situation has got purchasing power has also investment power. So, when we look at the gated communities of the type, which we have shown here, typically they comprise, let's say about 500 to 1,000 apartments or villas. And together, they have got cumulative community needs, as also cumulative anchor supporting power.

So, from a security service to a mechanized laundry, from a library service to daily grocery requirements, from a documentation service to a kind of internet service, there are a number of ways in which nano ventures can be supported by the gated communities. And once a gated community becomes a new suburb, naturally the start-up which has been encouraged by the gated community can also grow into a bigger hyper local company.

So, there is possibility of community financing helping the start-ups grow. And it is a kind of synergistic way of living. Community helps start-ups with hyper local demand. It also provides certain seed capital assured market. Whereas start-up serve community with alacrity, they will serve a community with loyalty and first attention. So, this provides a kind of win-win situation for the communities as well as start-ups.

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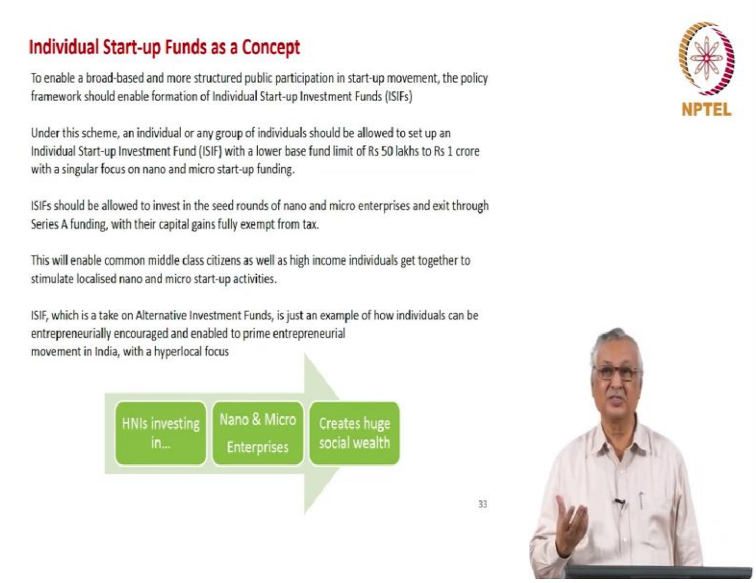


The third one is individual start-up funds as a concept. When you operate big funds, there are certain policies available, there are certain fees which are accruing to the venture capital firms. There are certain return expectations. But an individual does not have any of those benefits. It is already a taxed amount and he does not have any income arising out of this kind of investment, which he is making as this capital.

Therefore, there is a lot of merit in allowing individuals to set-up their own start-up funds with certain limited levels, it need not be several crores as the alternative investment funds are. There could be funds between 50 lakhs rupees and one 1 crore rupees and an individual could get tax breaks, once he sets-up this kind of fund. And when the fund matures and when the returns are obtained, there need not be the kind of capital gains tax, which are there on other types of funds.

So, it is like an alternative investment fund, but very much modeled for an individual to be able to set apart certain money for start-up development. This could be one way of helping individuals get into the start-up financing scheme without undue risks.