The outlook for entrepreneurs

Looking for the next Infosys

India has aspiring entrepreneurs aplenty. More of them need to make it

SACHIN BANSAL AND Binny Bansal are not identical twins, or even related, but they should be. They both grew up in Chandigarh in north-west India, studied computer engineering at the Indian Institute of Technology Delhi and spent a brief stint working for the same American technology firm. Two years after meeting in Delhi in **2005** they took **$10,000** of their savings, set up shop in a flat in Bangalore and began an e-commerce business that delivered books to people's homes-like Amazon, but with an Indian twist.

Making the leap, says Binny Bansal, "wasn't difficult". Today the firm they co-founded, Flipkart, is one of India's hottest internet businesses, selling everything from books to phones. The site clocks up sales of $10m a month from over lm registered users. Flipkart is said to be negotiating a fourth round of funding from venture-capital firms at an appropriately stonking valuation.

Such success stories should be what India is all about. But there is a nagging worry that there are far more consultants, bankers, academics and journalists celebrating India's entrepreneurial zeal than people actually starting new companies. Take the latest figures from the Indian Institute of Management Ahmedabad (IIMA), India's leading business school. Of the **314** graduates from its flagship programme, only seven started a business. An amazing187 joined the gravy train and got jobs in consulting or finance—the kind of statistic common in rich countries which is now taken as a symptom of their decline. One bigwig at a large Indian firm says he implores his younger relatives: "Make something. Don't just look at numbers and criticise things." But he admits defeat. They are all becoming spreadsheet wizards at banks.

The sense that entrepreneurs have not made the kind of mark they should have in the past decade seems to be true across the Indian economy. In a paper published by the **I M F** in January, three economists, Ashoka Mody, Anusha Nath and Michael Walton, looked at the Bombay Stock Exchange, a decent proxy for India's formal business sector, with thousands of firms listed on it, many very small. They concluded that in the **1990s** there was a surge of new firms without affiliation to established family-controlled houses, but that in the past decade the process of new entry "virtually stopped". Similarly, the share of profits from new, independent companies, having risen rapidly in the **1990s,** has since stagnated. Many business folk reckon that the relatively few newcomers that have made it big since **2000** are in old-economy "rent-seeking" sectors that require more brawn than innovation.

It's not difficult to rustle up some possible reasons for all this. India scores abysmally in the World Bank's global surveys of how easy it is to start a new firm. Given the propensity of established firms to diversify into new areas, it seems likely that start-ups are sometimes crowded out. India's banks are not huge fans of lending to small firms; they often demand onerous amounts of collateral or security on fixed assets, exactly the kinds of things start-ups cannot provide. There is a decent enough venture-capital industry, but even so, new firms face hurdles that do not exist in other countries, which may require them to invest more heavily upfront. Flipkart is a good illustration of this-with a happy ending.

It began as a Western firm might, as the middleman between book wholesalers and its customers, using third-party couriers to deliver to people's homes nationwide. But Flipkart soon overwhelmed the local wholesalers and courier firms in Bangalore. To cope, it has now built five warehouses nationwide and hired an army of delivery staff. In India "you don't have reliable service providers like **D H L** , " says Binny Bansal. A round of fund-raising in **2009** helped pay for these investments. By **2010** another problem had to be addressed: not many Indians have credit cards, and those that do worry about security. The solution was to accept cash, or more recently credit cards, at the doorstep. Meanwhile, Flipkart must also contend with the big business groups, like Reliance Industries, which are interested in retail. The hope is that Flipkart's heavy and early investment in its brand, including a big television campaign, will be enough of a defence when the big boys move in.

They don't just sell—they deliver, too

To succeed in India, then, Flipkart, like most bigger firms, has had to integrate vertically, taking on more processes itself, from storage to delivery and payments. That costs serious money. And from an early stage it has had to anticipate a competitive threat from the big family giants. The upshot is that although India's e-commerce opportunity is huge, the barriers to small firms are quite big too, requiring more capital, earlier, than might otherwise be the case. In the dotcom industry such funds are at least relatively easy to obtain. Ashok Kurien, the former Thums Up marketer, and since then a serial entrepreneur, is involved with several websites. One of them, called Bollywood Life, received

• **2m** unique visitors within **90** days of launch. He has already had "ridiculous offers" from outside investors, he beams.

Outside the dotcom industry, though, raising money is more of a slog. And there are big barriers to entry, just of a different sort. Memories of how much effort it took to succeed are common the world over, but in India, it often seems that an extra push was required. Haresh Chawla, the chief executive of Network **18**, a broadcaster, says that when it launched its news channels in **2004-05,** in partnership with CNN and CNBC, it threw everything at it. "Consumers only give you one chance," he says.

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In **2008** his firm launched Colors, a Hindi entertainment channel that became top-rated within nine months of its launch. It spent **$125m** up front on programming and promotions rather than engage in a long war of attrition with the established channels. "You cannot tiptoe in India," he says.

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Banking may present start-ups with the most formidable hurdles of all, in the form of India's financial regulators, and consumers' preference for established lenders, particularly state-owned ones. Rana Kapoor, who in **2004** founded Yes Bank, now one of the larger private players, jokes that getting a licence was a "Himalayan task", taking over a year, while building the business was a "Herculean" one. "As part of our business culture, nobody helps the underdog," he says. Yes Bank broke through, Mr Kapoor says, partly by focusing on squeaky-clean corporate governance from day one, and listing the firm as soon as possible to gain attention and credibility.

And yet, for all these barriers, new firms are emerging in unexpected places. Vinayak Chatterjee, who graduated from IIMA in **1981,** first joined a consumer-goods firm. After deciding against a life-sentence of selling soap, he went on to establish Feedback Infra, an engineering and consulting firm in Delhi that specialises in infrastructure projects. With **1,250**-odd staff, half of them engineers, and a list of blue-chip and government clients, it exemplifies the kind of high-end services that India could excel at. Mr Chatterjee reckons his costs are a quarter of rich-world firms'. Big parts of this business are "no different fundamentally from **IT** outsourcing", he says. The priority for now, though, is to build scale at home. With about $som of revenue, growing by about **30%** a year, the firm is on its way to that goal. A flotation would be a natural next stage in a few years' time.

Almost every investor and financial rag has a list of their favourite entrepreneurs. The question for India is whether a few impressive examples here and there add up to a trend. The data for the past decade look disappointing, suggesting that things have deteriorated since the **1990s.** The hope is that this is a backward-looking signal about the dynamism of Indian capitalism. Vijay Angadi, a veteran of small-company investing in India who runs Novastar, a **$20om** fund, is confident that a new generation of firms will come through eventually. He reckons that the first initial public offering of a venture-backed start-up in India took place only in **2004.** He is optimistic that the venture-capital industry has become more open-minded, and is no longer obsessed solely with technology firms. Wealthy angel investors are becoming more important, too. A decade ago, approached by an entrepreneur who was not in the family, "they would have laughed him out." Now, however, they might write a cheque.

And when it comes to small firms, India certainly has a lot of raw material. W. Sean Sovak of Lighthouse, a private-equity fund based in Mumbai that is focused on small companies, reckons there are some **2,000** firms listed on Mumbai's stock exchange that are active and have market values of below **$20om.** He first visited India in **2004** and was "blown away" by its vigour. He and his co-founder, Mukund Krishnaswami, an American whose parents emigrated from India, both chucked in careers in America investing in small firms and headed to Mumbai to set up Lighthouse in **2006.** Mr Sovak cautions that all is not rosy; many small firms are in commoditised businesses, he says, and even high-quality firms "face lots of challenges" and may struggle to manage their growth. But he too is optimistic. "We've seen some of the best entrepreneurs of our lives here," he says.

Will they succeed? Mr Bansal of Flipkart reckons so. "Between **2004** and **2009** there was not a lot coming out in terms of entrepreneurs," he says. But over time they will begin to challenge the established business order. "In five to ten years you will see a shift happening," he predicts. It is vital for Indian capitalism that he is proved right. •

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