Generation tech: voices from a new entrepreneurial era

India's technology start-up scene has never been hotter. **But is there another story** behind the polished facades of the country's new innovation hubs? In a **wide-ranging survey** of some of India's best and brightest entrepreneurs and investors, *Ericsson Business Review* uncovered **global dreams, bubbling frustrations and an unexpectedly complex reality**.

"The market is not driven by technology alone. The most important things are marketing and, above all, scalability – and that is the nut that many of India's entrepreneurs still have to crack"

LALIT MEHTA IS THINKING BIG. Cofounder and director of Decimal Technologies, a five-year old enterprise mobility company headquartered in the fast-growing technology epicenter of Gurgaon, just over 30 kilometers south of New Delhi, Mehta explains that even though his business is cash-positive and boasts several big-name customers, he's a long way from feeling satisfied.

"Based on what we have achieved so far, we cannot yet call ourselves a great company," he says with a smile. "Our vision is much broader – over the next five years we are looking to scale up internationally and create an ecosystem where other people can develop on our platform. The concept is proven, and we are now looking for exponential, rather than linear growth."

It's a bold statement, but one that accurately reflects the burgeoning confidence of a new generation of Indian entrepreneurs. Gurgaon is just one of a range of hubs – all gleaming towers, high-speed broadband and Starbucks coffee shops – rapidly mushrooming across the country to cater for an unprecedented boom in technology start-ups. But for Mehta, the roots of change extend much further back in time.

"India has a very entrepreneurial culture," he says. "The commercial drive has always been there – it's practically part of our DNA. The difference today is the mindset. My parents would never have thought of building a billion-dollar company, simply because billion-dollar companies didn't exist in India then. I think the aspirations of my generation – and especially of the coming generation – are much larger."

But are these ambitions realistic? Looking beyond the eye-catching headline numbers of India's ongoing economic growth story, what is it really like to start and grow a technology business in the country today? We asked a wide range of entrepreneurs, investors and ecosystem stakeholders for the inside story – and the results were both illuminating and surprising.

We have divided the responses into five categories – idea, set-up, funding, growth and exit – each corresponding to a different stage of the classical business lifecycle.

STAGE ONE – IDEA

If business ideas were a commodity, India would probably already be the richest country on earth. Each morning, the sunbaked lawns of the Indian Institute of Technology (IIT) Delhi campus are dotted with groups of students earnestly discussing company models and technologies against the distant hum of the capital's eternal traffic – with similar scenes repeated at institutions and technology hubs across the nation.

Just like Silicon Valley, India is starting to reap

GRAHAM SAMUELS / AGENT BAUER

the benefits of concentrated pools of creativity, in which the physical proximity of a wide range of ideas helps individuals sharpen their own thinking. At the same time, the rapidly rising ubiquity of mobile phones and broadband in India is creating what students and business leaders alike refer to as a strong incentive to innovate and explore.

Increasingly, institutions are also working to capture these ideas in a more systematic way. Sipping tea in his office at IIT, Chief Operating Officer K. K. Roy outlines how the Foundation for Innovation and Technology Transfer (FIIT) helps budding entrepreneurs take their concepts to the next level.

"Our mission is to provide a facilitative platform for translating academic knowledge and innovative ideas into products, processes or services for societal absorption," he says. "Academia and industry have two very different philosophies of knowledge sharing. One is open, the other is closed. We bridge this gap by offering an ecosystem that respects the proprietary knowledge of both while enabling idea generation and the creation of economic value. The system provides an alternative career option to students: instead of seeking employment, why not become an employment generator?"

FIIT has incubated over 50 businesses, several of which have gone on to large-scale success. It's a model that is being replicated in other centers in India, driven partly by the 2013 Companies Act, which requires all Indian companies with turnover or profits above a certain level to spend 2 percent of the latter on corporate social responsibility activities such as incubators. For Roy, there's never been a more motivating time to work with technology transfer.

But if India's ideas are today receiving more institutional acceleration than ever, cultural attitudes can still slam on the brakes. Deepankar Garg, cofounder of smart-home-solutions company inoho, based in Bangalore, summarizes the situation.

"The acceptability of working with a start-up is still quite polarized," he says. "An entrepreneur's peer group will be very supportive, but the response from the older generation can sometimes be quite negative. In particular, leaving an existing job to pursue an idea is often frowned upon. There is also an expectation that people will marry and start a family relatively early, and this reduces the time available to try something without any strings attached."

STAGE TWO – SET-UP

It's when an Indian entrepreneur has developed an idea, and perhaps begun limited commercialization, that things start getting complicated. Lalit Mehta takes up the story.

"Forming a business in India is still far too time-consuming," he says. "A new company has to deal with 15 different government departments, and worse, most entrepreneurs don't even know which regulations apply to them, since the relevant information is not available in one place.

"Excessive red tape is slowing the growth curve for a lot of businesses. Most entrepreneurs don't even know which regulations apply to them, since the relevant information is not available in one place"

"The government is aware of this and has taken some positive action – some steps can now be completed online through a self-service portal, and the processes are definitely simpler than they used to be. Even so, excessive red tape is slowing the growth curve for a lot of businesses."

This situation is confirmed by recent World Bank statistics, which show that 13 procedures and 30 days are required to start a company in India's commercial capital Mumbai, compared with an average of 4.8 procedures and 9.2 days in advanced economies [1]. Bureaucracy and unclear regulations are pushing an increasing number of Indian technology start-ups to establish themselves overseas, with as many as 75 percent of firms that intend to raise seed or venture capital predicted to be domiciled outside the country in 2015. Nine of India's top 30 business-to-business software companies by market capitalization have already relocated to the US, UK or Singapore, while 54 percent of technology companies that raised series A investments in 2014 have moved away from India [2].

Amit Ranjan, the cofounder of SlideShare, agrees that improvements are urgently needed. He adds that tax breaks for new companies can be an effective tool for stimulating growth, and suggests that government should rethink its overall role in the entrepreneurial ecosystem.

"I see policy makers functioning more as enablers of innovation," he says. "In many cases, the best decision that government can make is to get out of the way as elegantly as possible."

STAGE THREE – FUNDING

If anything can match the volume of ideas flooding into the Indian entrepreneurial scene, it's the flow of capital. In just a few years, India has rapidly become a center for venture capital investment, both from domestic and international investors. According to one analysis, venture investment in the country grew by a remarkable 261 percent in 2014, reaching a total of USD 3.85 billion [3].

Girish Phansalkar, cofounder & CIO of Mera Job India – an employment marketplace that uses both digital and traditional channels to match jobseekers with vacancies – explains that this influx has been largely positive for entrepreneurs looking to jump-start their business, and that the sheer size of the Indian market minimizes the risk of a bubble developing. However, he believes that despite the volumes involved, the funding landscape remains relatively one-dimensional.

"Debt markets for small and medium enterprises in India are still nascent, with banks usually providing the bulk," he says. "In this context, access to debt funds for start-ups is not common practice. Most start-ups therefore bootstrap or raise equity through seed and angel investments."

Deepankar Garg adds that many investors are wary of hardware-focused businesses, with software and services the preferred target areas.

"While this might be the right strategy for short-term returns, it does not help the hardware industry grow. The perception that 'hardware is tough' certainly does not make it easy for start-ups in this space to get the hearing they deserve," he concludes.

The investment community's take on the market is largely positive, explains Sasha Mirchandani, managing director and founder of Kae Capital, a USD 25 million technology venture fund headquartered in Mumbai. The quality of India's entrepreneurs and start-ups is improving rapidly, he says, and strong interest from limited partners means fund sizes will probably grow further over the coming years, although many overseas investors are staying cautious. On the other hand, these factors are having a knock-on effect on valuations.

"We are seeing a clear upward movement in seed deal valuations, and entrepreneurs are looking to dilute less," Mirchandani continues. "But while some of the figures might seem very high by the standards prevailing in India until recently, in most cases they are still an order of magnitude lower than the valuations commanded by the most sought-after start-ups in the US or China. It could therefore be argued that the valuations of India's best companies and entrepreneurs will continue to see sustained growth over the next few years."

STAGE FOUR – GROWTH

Every entrepreneur we talked to agreed that their long-term business plan is deeply influenced by the increasing accessibility and capabilities of digital technologies. For some, the models that they have developed wouldn't have been possible five years ago, even if the opportunity has existed for much longer.

"When we looked at how recruitment in mass hiring traditionally happens in India, we found that 70 percent is done through referrals," says Mera Job India's Girish Phansalkar. "Although this is a good way to find trustworthy people, it's not usually scalable for a bank looking to hire 500 people in a month. But only now, with the ubiquity of mobile phones and the ability to create and curate an online profile in real time, do we have the preconditions to address this opportunity properly."

Continuous development and innovation will be vital for successfully growing technology businesses in India. Amit Ranjan explains that entrepreneurs need to be proactive, remain experimental in their approach and stay open to learning new skills. In such a dynamic market, standing still is essentially equivalent to going backwards – a situation that is common to every country with a developed ICT sector.

However, one potential India-specific barrier that cropped up repeatedly in our discussions was a

"The valuations of India's best companies and entrepreneurs will continue to see sustained growth over the next few years"

skills shortage. Strange though it may seem in a country with a fast-growing talent pool and a plethora of strong educational institutions, numerous companies are struggling to fill one particular competence gap. As Lalit Mehta puts it:

"Speaking generally, India does not yet have a history of creating successful products. And when you are in the product or platform business, it is hard to find people with the right design perspective, who have the ability to understand consumers and translate this into great user experiences, or who bring experience of owning an offering throughout the lifecycle."

Mehta supplies a further paradox – for many Indian businesses, the major obstacle to growth is in fact their own customers.

"Indian consumers, on both the enterprise and retail sides, are extremely demanding. They do not push you to make your product better, the demand is just to deliver more for less money. The kind of mutual interaction that you see in the US is missing, in part because the feedback channels are less developed. But it's a cultural difference, too. Let's put it this way – it will be some time before the open-source philosophy, where a community works together to develop a product, takes hold in India."

At FIIT since its foundation in 1992, K. K. Roy has seen it all. For him, delivering long-term growth ultimately boils down to two basic factors.

"Coming up with technologies is usually not a problem. But as many businesses discover, the market is not driven by technology alone. The most important attributes for success are marketing and, above all, scalability. Going from one to 10 is the easy part – what really makes the difference is the ability to go from 10 to 10 million, especially in a market the size of India. And that is the nut that many of the country's entrepreneurs still have to crack."

STAGE FIVE – EXIT

Securing sustainable, large-scale growth for their business represents the highest ambition for many of India's entrepreneurs. But for some, the endgame is about making a big-ticket exit, either through listing on a public market, or alternatively by a merger or acquisition. The number of merger and acquisition deals involving Indian companies rose to 1,177 in 2014 with a total valuation of around USD 50 billion – the most intense activity for a decade [4]. International digital giants such as Facebook, Twitter and Yahoo are also showing increased interest in snapping up selected businesses in India.

Still, the figures pale in comparison with those seen in more developed markets, and the initial public offering route also remains relatively unexplored. Sasha Mirchandani cautions that on the whole, investors are currently focused on growth potential than secondary opportunities. Despite some early success stories, it seems fair to say that in India, exits have yet to make a real entrance.

GENERATION TECH

Summarizing our survey of the Indian entrepreneurial landscape, we can conclude that the picture looks very different depending on the stage at which a business finds itself. With a few reservations, stages one (idea) and three (funding) are looking good. On the other hand, stage two (setup) remains problematic, while challenges exist in stage four (growth). For stage five (exits), it's too early to draw any firm conclusions.

We hope that presenting a range of voices from the front line, so to speak, has given a clearer picture of the reality facing entrepreneurs in India today. There should be no doubt that the situation is considerably more nuanced and complex than often reported. But regardless of the challenges that clearly exist, we were struck throughout our interactions by the sheer resolve and determination of India's entrepreneurs. If the remaining obstacles can be cleared and the ball finally gets rolling, there seems to be little that can stop them from succeeding.

This idea of momentum led us to identify a final factor that will play a major role in determining the future of India's new 'generation tech.' Deepankar Garg finishes the story:

"The missing ingredient is exposure. In my case, starting my own business only seemed achievable once I went to business school. Even though we've come a long way, there still aren't enough 'close enough to touch' stories about how Indian entrepreneurs have built truly global companies."

It's a sentiment warmly echoed by K. K. Roy. Fifty incubated companies later, he leans forward and taps his finger deliberately on the desk. "The most important success we ever had," he says, "was our first one."

The authors would like to thank the interviewees featured in this article for their invaluable contributions.

ABOUT THE AUTHORS

SUJAI SEN is Head of Strategy for Application Development & Management in Ericsson's Consulting & Systems Integration organization, Global Services India. He has over 14 years of ICT industry experience and has worked in service delivery, strategy, business development and consulting. Sen holds a BTech in Chemical Engineering from Jadavpur University and a management degree from the Indian Institute of Management Ahmedabad, both in India.

NICHOLAS SMITH is the editor of *Ericsson Business Review*. He has worked with thought-leadership in the technology and investment sectors for over 10 years, including five years as a venture capital analyst with Dow Jones & Company. Smith holds a BA in Philosophy and an MA (Cantab.) from the University of Cambridge, United Kingdom.

REFERENCES

[1] World Bank, *Ease of Doing Business in India,* accessed March 2015, available at:
http://www.doingbusiness.org/data/exploreeconomies/india/#starting-a-business

[2] The Economic Times, "Mass exodus: Tech startups may shift overseas as young ventures face regulatory hurdles in India", January 2015, available at:
http://articles.economictimes.indiatimes.com/2015-01-05/news/57705517_1_east-india-company-uk-trade-tech-startups

[3] PrivCo, *Indian Startups Officially Arrive, VC Investments up +261% YoY,* November 2014, available at:
http://www.privco.com/indian-startups-arrive-vc-investments-up-261-yoy-softbank-leading-the-charge-investing-in-search-of-indias-alibaba

[4] The Economic Times, "Record high M&A deals in India in 2014", February 2015, available at:
http://articles.economictimes.indiatimes.com/2015-02-06/news/58879062_1_ma-deals-deal-value-information-technology

284 24-0035 | Uen