Entrepreneur Journeys

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Seed India

How To Navigate
The Seed Capital Gap in India

Sramana Mitra

To Ajit Narayanan,
one of my favorite Indian entrepreneurs in 1M/1M

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India's entrepreneurship pipeline
will only scale with bootstrapping.
There is no other way, given the hand of cards.

- Sramana Mitra

Future of Indian Entrepreneurship in Light of Current Worries

India is celebrating 66 years of independence with a flurry of negative coverage in the international media. *The Economist* leads with *Made outside India* ("As growth slows and reforms falter, economic activity is shifting out of India").

Fareed Zakaria's *GPS* blog on *CNN* has an interview with Ravi Venkatesan, a former Chairman of Microsoft India: "India remains a ferociously tough place to do business, ranked #132 out of 200 countries in terms of ease of doing business by the World Bank. It's hard to see a scenario when India can sustain its progress without addressing these issues." Embarrassing.

The rupee is at a new low. The growth rate has plummeted. The World Bank's Chief Economist Dr. Kaushik Basu cautions that it might drop further. Corruption is at its worst. The political future of India is precarious. Infrastructure remains dreadful. Foreign investment is fleeing.

The Gangotri glacier is melting without any attention from those responsible for India's water policy. The government seems blissfully unaware of one of the greatest dangers facing the country: a monumental water crisis.

Against that dismal backdrop, I want to discuss the future of Indian entrepreneurship. It is an area in which the country has made some distinct progress.

I graduated from college in 1993. At the time, young people seeking a promising future in India didn't even think about entrepreneurship as an option. It took at least another decade, if not a good 15 years for entrepreneurship to become a significant consideration in the consciousness of the Indian youth.

Today, 20 years later, I see that college campuses in India are buzzing with talks of entrepreneurship, business plan competitions, and many even have incubators and e-cells of their own. On the Internet, aspiring and practicing entrepreneurs are actively seeking knowledge and networks to execute on their aspirations.

This is a gigantic socio-cultural change that bodes well for the country.

Fueled by the IT revolution during the same 20 years, India has millions of IT and ITES workers who have at least some knowledge of technology. Millions of others are savvy users of technology. At least 100,000 of these people are either aspiring or practicing entrepreneurs within the IT sector alone. Other sectors like retail, entertainment, healthcare, energy, and education, are also seeing active entrepreneurship.

The media is paying attention to entrepreneurs, celebrating their success, making heroes out of them. Local role models and success stories are emerging. Of course, we need to do more of this, but the situation is dramatically better than what it used to be even five years ago.

This is no small achievement. Socio-cultural change is the hardest. India has cracked the formula to set this change in motion.

So, what does the future hold for Indian entrepreneurship?

To answer that question, let me point out a few mistakes that have been made.

In a nutshell, the Indian eco-system tried to run before it learnt how to walk.

Instead of trying to learn how to build businesses, Indian entrepreneurs got sidetracked by Western media's obsession with financing, and started chasing venture capital. VCs, in their turn, raised sizable funds and tried to invest in Indian startups without taking into consideration ground realities.

The Western model of venture capital requires very large market opportunities and very high growth rates. While at first blush the Indian market did appear very large, the reality is that the market is a slow-growth one. Internet penetration in India has been low. E-Commerce in India is a small industry still, relative to the US, Europe, or China. Businesses buy technology cautiously, drawing out sales cycles that deeply frustrate entrepreneurs trying to make ends meet. To build companies under these conditions requires patience, passion, conviction, blood, sweat, and tear.

Overnight, speculative success, as we often see in Silicon Valley is seldom seen in India. This is also due to the fact that the investors are more conservative and less speculative to begin with. I have a hard time seeing an investor in India invest millions of dollars without a monetization model figured out. I also do not believe this is a bad thing at all.

Speculative bubbles create instability and chaos that I am not a fan of.

Today, many VCs in India are considering returning capital to their investors. I expect that the industry will shrink substantially and get right-sized. There are not enough venture fundable deals in India at the moment, and until some macro-issues get sorted out, there won't be.

However, there are now thousands of entrepreneurs in the country, and many more will get bitten by the entrepreneurial bug in due course. And from what I know of the entrepreneurial psyche, it is a path that once you set on it, is hard to turn back. Failures, setbacks, disappointments notwithstanding, entrepreneurs tend to continue to want to build on their dreams.

India's greatest achievement in the last decade has been the consistent unleashing of the entrepreneurial movement. The risk tolerance of the Indian population has increased. No longer is it the Holy Grail to lust after fat salaries at multi-nationals. The dreams of building something of their own seduce people in India, even if that implies a built-in risk of failure.

This socio-cultural change, I believe, is irreversible.

And it is in the hands of these entrepreneurs that India's future squarely rests.

I believe, the depth of knowledge of how to build a business from scratch with customers, revenues, and profits is rapidly increasing in India. Give it 10 years. There will be hundreds of thousands of entrepreneurs – perhaps not heavily venture-funded ones, but nonetheless, entrepreneurs with sustainable businesses.

Say, 1% of these will attract venture capital. But many more will build value, create jobs, and sustain hope.

And in the absence of abundantly flowing startup capital, it is likely that these businesses will be built on conservative principles, disciplined structures, making them robust at the face of economic bubbles and busts.

Western Capitalism is dominated by speculative capital.

Indian Capitalism, quite possible, will be dominated by entrepreneurs.

Seed Capital in India: How To Navigate

Even though interest in entrepreneurship is at its highest in India, the country has a nominal seed capital infrastructure. As you know, I concern myself with issues of scalability and pipeline building. The question that I have been pondering for the last ten years is: *how do you develop a sustainable pipeline of entrepreneurs?*

Of course, this discussion pertains to my field: IT and IT-enabled services. India has numerous small retailers, service providers, etc. who are shining examples of scrappy entrepreneurship at its best.

But how do we take advantage of the increasing penetration of information technology into the consumer and business populations in India? And how, through technology, do we empower Indian entrepreneurs to build global businesses?

India has done well in the last twenty odd years to build its technology industry through services. Today, we're seeing a maturing of the industry, and entrepreneurs now want to build products as well. Or, they want to build online businesses – e-commerce, mobile apps, so forth. Sometimes they want to build hybrid businesses – both online and physical. Or, they want to combine products and services.

As far as I am concerned, all those permutations and combinations are fine. However, in today's India, building capital-intensive businesses is difficult. Even more difficult is to build a business that requires capital out of the gate.

In other words, if you can bootstrap your way to validation and revenue, ideally, to profitability, then there is plenty of capital available. However, if you need capital to validate, you are operating in a zone that will be full of very dark hours.

You see, all risk capital in India is in effect growth capital. You will need to absorb the risks yourself, and present a growth opportunity to angels and VCs. If you can bootstrap your way to, say, $1M in revenue, there is enough capital out there to give you $5M or $10M to get to the next level (provided, of course, your business fits the high growth, high TAM parameters required by investors).

But if you need funding in the seed stages, before validation, there is very little capital in the system.

My friend Sharad Sharma, an active angel investor, sums up the situation well: "US does more seed deals by 11am on the first day than what India does in a year. I haven't dug up the 2012 numbers. But in 2011, $30B was invested by angels and $24B by Series A venture capitalists. If one assumes each angel deal was $300K per deal, then about 100K deals were done in 2011. That is about 500 deals per working day. In India, Indian Angel Networks did 13 deals last year, Mumbai Angels about a similar number, Harvard Angels did three, Chennai Angels did six, etc. The optimistic number for the number of angel deals would be 100. Even the most optimistic observer who'd count every informal deal would not put it past 200. So the Indian seed stage ecosystem is really small. This is not what the media makes it out to be."

More recently, there is an over active incubator network that has come about. The Indian government is offering money for people to set up incubators, which has led to a lot of clueless people setting up incubators. They promise seed funding to naïve entrepreneurs who, more often than not, are entirely unfundable. They lack the experience or skills to mentor entrepreneurs and teach them what needs to be taught. Several VCs, who for obvious reasons do not want to be quoted, have complained to me that "incubators" and "advisors" in India are dishing out plain bad advice to unsuspecting entrepreneurs. Some even run scams like asking for 5-10% equity to "introduce" to angel investors. And most claim to "graduate" entrepreneurs from their programs in 3-6 months with nothing to show.

Given this rather messy environment, entrepreneurs have a few pragmatic choices on how to navigate the seed stage bottleneck:

(1) **Bootstrap with Services**: Many Indian IT entrepreneurs come from the services industry background. Using IT services to generate cash and develop customer intimacy, it is eminently possible to build products. We have numerous case studies of this being a tried and true procedure, and recommend it strongly.

(2) **Bootstrap with a Paycheck**: Many aspiring Indian entrepreneurs are currently sitting on the sidelines, not yet ready to play. I suggest, you

hold on to your paycheck, and start validating your idea. Learn what it takes to build a business. There are concrete, defined ways in which you can do so. Especially if you are building online businesses, this is an excellent strategy. Quit your job only AFTER your fledgling business achieves a certain level of validation.

(3) **Friends and Family**: Historically, in India and elsewhere, entrepreneurs have built businesses with the backing of their friends and family. The biggest difference between professional investors and friends and family is that the latter cares about YOU.

Please understand, the Indian market is a slow adopter of new technologies. As such, you cannot expect to be able to get to a product-market fit in three months. It may be 18-36 months before your venture really starts to find its stride.

Until then, you are better off sticking to one of the three above principles of bridging your capital gap.

In summary, there is a miniscule pool of seed money in action in India currently. Most of this money will go to validated businesses, not to concepts, and not to entrepreneurs experimenting with concepts.

Stop wasting time chasing capital unless you have reached sufficient maturity.

In India, by and large, the definition of seed capital is misunderstood by naïve entrepreneurs. They think entrepreneurship is sexy, and investors are sitting around, waiting to write checks for them to start their businesses.

This expectation needs to change.

As angel investor Nandini Mansinghka puts it, "Seed capital needs to return to its old fashioned definition of people who know you putting in money in your venture, because they believe in you rather than your 100 crore idea. The only difference as we mature as an ecosystem, is these known people will not just be family, but the extended network built both personally and digitally."

And if you don't have such friends and family to help you get off the ground, then focus on the other two options: bootstrap with services, or bootstrap with a paycheck.

In India, for the next few years, those are your options.

Seed Investors in India: Why So Few?

As I have written in previous columns, the seed capital eco-system in India is a real bottleneck right now. There are no more than a couple of hundred seed investments that are happening a year. Even if the number doubles this year, it is still a terribly inadequate number to build a real pipeline of hundreds of thousands of entrepreneurs that can meaningfully impact the country.

So how can we change this?

To answer that question, we need to first understand why there is such a shortage of seed money in the Indian IT entrepreneurship eco-system.

You see, Silicon Valley's angel investors were all either entrepreneurs themselves, or part of an entrepreneurial venture that succeeded sufficiently for its early employees to make significant money. Most of them went through the experience of building a technology product, taking it to market, watching it take off in the market, and then reaping the benefits of that success.

Contrast that with India.

India has not yet seen a single IT product company succeed exceptionally. It has, however, seen numerous IT services companies succeed. It has also seen some Internet companies succeed. But very few of these entrepreneurs have become angel investors, and fewer still have become successful angel investors.

We've seen some Silicon Valley investors like Ram Shriram and Chamath Palihapitiya make money off Google and Facebook respectively, and invest in a few Indian startups (InMobi, Ezetap). It is safe to say that Silicon Valley tech IPOs tend to send some seed money over to India on a routine basis. But this is not scalable, mainly because angel investors prefer to invest close to home, where they can spend time with their investments in person.

What about the IT services entrepreneurs? Why have they not become angel investors in large numbers? After all, IT Services has minted numerous hugely successful entrepreneurs in the last three decades.

Well, the answer lies in the simple fact that IT products and IT services tend to be entirely different animals. IT services can start generating revenues and profits very early on, making it possible to grow a business organically, making investor money a non-issue. Most of these entrepreneurs have built successful bootstrapped businesses, not successful investor-funded businesses. They don't necessarily feel comfortable writing checks to entrepreneurs who plan to build a product for 18 months, before any revenue will start to kick-in. Where is the validation that the product will make it in the market?

Another factor, in my opinion, although not based on actual data, is that investors want to invest and multiply their fortunes. In India, the asset class that has offered the maximum opportunity to do so in the last three decades is real estate. An investor with a newly minted fortune, therefore, goes and buys a bunch of low-risk properties, rather than investing in high-risk startups.

What about the Internet success stories, then? They have enjoyed the benefits of the fledgling venture capital industry, and are they not of the profile that should be investing in more Internet startups?

Should, perhaps. But they don't. Not in large numbers. The reason is possibly the asset class risk issue. They have lower risk alternatives for multiplying their money. As long as India's real estate market sustains its boom, seed capital for startups will continue to compete with it.

That leaves a handful of angel investors who are intensely passionate about the technology industry, have made their money in technology, and perhaps, find real estate boring!

As such, in the short term, we have to bank on the resourcefulness of entrepreneurs, their friends and families, and other tried and true techniques like *bootstrapping using services* and *bootstrapping with paychecks*, to develop the entrepreneurial pipeline of India.

However, if you give 3-5 years to this current crop of entrepreneurs who are reconciled to the bootstrapping path, I predict that towards the end of the decade, India will have a wonderful portfolio of capital-efficient businesses ready to attract growth capital.

Say, an entrepreneur currently bootstrapping, in the next 3-5 years, will have a product in the market that is starting to hit its stride, ready to raise $5 - 10 million to scale the business.

Essentially, that would mean that India will leapfrog seed capital, and become ready for venture capital.

If, in the next five years, we succeed in preparing tens of thousands of bootstrapped entrepreneurs in this mode, by the end of the decade, India will have thousands and thousands of venture funded, high growth companies.

This would be a reasonable way to develop the industry as well.

It is, thus, far more important for today's entrepreneurs to pay attention to case studies like Arvind Agarwalla, CEO of FACT Software, and Pallav Nadhani, CEO of FusionCharts. Both are wonderful bootstrapping success stories, and while case studies like redBus and Flipkart get much more media attention, practically speaking, Pallav and Arvind's stories have as much direct applicability to the current Indian scenario where neither seed nor venture capital is flowing freely.

You will find all case studies included in this volume.

Venture Capital in India: Age of Reckoning

Ashish Gupta left Silicon Valley to partake in the bonanza that venture capital in India was supposed to create. He founded Helion Capital, a $605 million fund that has been in business for a while.

The style of venture capital that Ashish and his compatriots at Sequoia, Accel, and others wanted to practice was the classic Silicon Valley model of putting $5 – 20M to work per technology company that is ready to grow at a furious pace.

The trouble is such companies are few and far between in the India of 2013.

Recent Success

India's startup ecosystem is celebrating a recent success. Founded in 2006, online bus ticket seller redBus is making big news due to its acquisition by Naspers for $137 million this year.

The venture capital industry in India has had a somewhat frustrating run. With too much money chasing too few deals, and with mostly rather slow-growing businesses, Indian venture capital is struggling to come to terms with the fact that the classic western VC model doesn't fit India all that well. redBus, although a successful company in its own right, has taken seven years to build $10 million in revenue. The American version of the VC model expects a $100 million company in that timeframe. And that explains the recent exit. Helion, the main VC in the company, has had difficulty deploying its capital, and is contemplating returning money to its American limited partners.

Naspers, the acquirer, is not a purely financial firm. It is looking to build a portfolio in the Indian Internet travel sector, and as such, this is a strategic acquisition for the company. Naspers is okay with a slower growth rate than what the classic western VCs are looking for. Hence, Phani Sama and his team can continue to build value and organize the still largely unorganized bus-ticketing sector.

Value vs. VC

You have heard me worry about the divergence between building value and solving problems vs. fitting into the VC model of hyper high growth and uber TAM. I am personally thrilled to see redBus find a new owner that allows them to continue building value, notwithstanding the fact that their growth rate doesn't fit the VC model.

I am also relieved to see that Phani and his team managed to operate the business in a tight, capital-efficient manner, getting to profitability relatively quickly, without having to rely on raising a lot of outside capital to survive. It gave them options.

For Indian entrepreneurs who are playing in the angel/venture ecosystem, you need to keep all these points in mind. Even if you succeed in raising some capital, you have to worry about growth rates. Also, you need to keep an eye on profitability. If the growth rate is super high, you can count on venture capital. If not, better take what you've got, build a profitable company, and stop depending on outside capital. If VCs see growth rates slow down, they won't invest more.

India's Internet penetration is slow, e-commerce growth rates are slow, logistics and infrastructure are still not reasonable to add velocity to commerce, and the adoption of online credit card payments is also sub-optimal. All this adds sand in the gear as the industry tries to accelerate.

As entrepreneurs, you need to keep a few simple rules in mind: First survive, then get comfortable, *then* try to get mega rich.

Under no circumstance should you lose sight of the need to survive first and foremost.

What about the VCs?

Well, they are struggling with the lack of exits, and the lack of fundable deal flow. Both are problems. Both will continue to be problems for the foreseeable future.

Part of the reason behind the deal flow problem is that the seed capital eco-system is inadequate, so VCs looking for mature deals to invest $5M in are sitting there sucking their thumbs.

The exit issue is more complex. The Indian IT majors don't acquire product companies because their DNA is services, and they believe they can build any kind of services business organically.

The US IT majors are nervous about India's volatile job markets, regulatory complexities, lack of IP protection, etc. and hesitate, also, to acquire Indian companies.

Thus, most of the exits in India have to be IPOs, which means the company has to get to a certain scale and become profitable.

Parag Dhol of Inventus Capital, a $75 million fund, says: “$500 million+ exits (MakeMyTrip, JustDial) will remain Six-Sigma events in India for a while. Hence we shoot for $100 - 250 million exits and choose capital efficient companies (like redBus) to make the 10x that we seek. This model, we believe, does not work beyond $150 million fund-size in the Indian context. Hence we intend to stay "small" forever.”

I have always believed that VCs were making a mistake in trying to jump in with large funds without a seed capital eco-system, and without a large network of seasoned entrepreneurs.

In July 2006, I wrote a blog piece called *Too Much Money, Too Few Deals*, observing that the large amounts of venture capital flooding into India would find it difficult to deploy because of the lack of fundable deals. I had highlighted the need for small seed funds, not large venture funds. Well, today, in 2013, after seven years of water has flowed under the bridge, what I predicted then is actually unraveling.

Ladies and gentlemen, the great country of India – the great emerging market powerhouse – has, currently, ahem, ~50 venture fundable startups in its belly.

Opportunity

However, there is a clear opportunity for $50-$75 million funds to play in the market, bridging the gap in seed capital, but operating as VC funds, not angels. In other words, if you want to become a VC in India, for the next five years, until a real pipeline develops, go raise a $50 million fund and do Seed and Series A investments. Ensure that your portfolio companies become profitable within a capital efficient structure.

Chances are, in five years, you can exit to larger strategic funds looking to invest in India in later stage, lower risk deals. Not so different from RedBus exiting into Naspers.

This also means, no big management fees that VCs at large funds tend to enjoy.

However, if you enjoy building companies, and have a passion for technology, this may be the best option in front of you.

Other than, of course, being an entrepreneur!

Case Studies

Interview with Sachin Bansal, Flipkart

*Flipkart is India's flagship e-commerce success story and a billion dollar Unicorn. This interview is a conversation with **Sachin Bansal**, the architect of that success, on how he and his partner Binny got started. This interview was conducted in October 2010.*

Sramana Mitra: Sachin, let's begin by exploring the genesis of your story. What is your background?

Sachin Bansal: I am originally from Chandigarh, which is the capital of Punjab. My business partner, Binny, is also from Chandigarh. We are not related in any way, it just happens to be a coincidence that we are now working on Flipkart together. We both grew up in Chandigarh and went to the same schools yet did not know each other well. I went to the Indian Institute of Technology in Delhi, where I studied computer science, and that is where I really got to know Binny because he was studying computer science as well.

We graduated from IIT in 2005, and we took different jobs in Bangalore. I joined a company called Techspan. Our paths converged again in 2006 when we both joined Amazon, India. Amazon was building Amazon Web Services which is very big now. We built things like Amazon S3. Their services have powered more than half of the startups in the United States.

Sramana Mitra: When did you begin thinking about doing your own startup, and was your original concept Flipkart?

SB We started thinking about that in the middle of 2007. That was driven by the fact that everybody we knew in Bangalore was working hard building great technologies, but they were building them for U.S. companies. We could not relate to that. Amazon is a great business, but as users we could not relate. Binny and I decided to start something on our own and see how it went.

Sramana Mitra: You wanted to build a company that catered to the Indian market?

Sachin Bansal: Yes. We wanted to have customers we could relate to. We thought about our parents, friends, and cousins. We wanted to build something that they could use.

Sramana Mitra: Once you had decided what type of company you wanted to build, what path did you take to build it?

Sachin Bansal: We both approached the problem from a typical software engineering mentality. We felt we could write some code and make a million dollars. We did not want to make something that requires a lot of running around. We wanted to write some code and make a successful company, and we felt we could do that with a comparative shopping engine.

Sramana Mitra: Why did you decide to write a comparative shopping engine?

Sachin Bansal: They were big in the U.S. but there were not any in India. We started doing some market research. We found that there were almost no other sites to compare against. Rearden Commerce was the only company that had any real offerings in India, but it was not really doing a good job. We concluded that comparative shopping in India would probably be a bad thing because there was no user market.

Sramana Mitra: It could definitely have been a sign that the market was immature.

Sachin Bansal: Exactly. That is when we decided to just build an e-commerce company. It was just two people who knew nothing about business starting a business out of their homes. We were good only at writing code and we had a basic idea of how to provide a customer experience. We had limited capital. We had to figure out if two guys sitting at home could do a better job than a whole team of engineers in a well-funded startup. We were very optimistic and thought we could. We both quit our jobs in September and launched the site in October 2007.

Sramana Mitra: When you launched your e-commerce site, what were you selling?

Sachin Bansal: We were selling books online. We had searched for product categories to focus on, and books came out as a very strong category for a small business like ours. The cost of setting up an online bookstore is lower, and the risk of products getting lost in the mail is lower as books do not cost as much as other items such as cameras. Books don't get damaged easily in transit. Books are also a very high margin business with the benefit of negative working capital. Finally, they are not very expensive, so the amount of money a customer has to spend to try out your service one time is very minimal.

Sramana Mitra: Explain how it is a negative working capital business. How did you source the inventory, and what were the terms?

Sachin Bansal: We spoke with a lot of book suppliers in Bangalore. They were distributors who had been supplying inventory to bookstores throughout the area. We approached them and explained that we were a small company and asked them if they would be willing to work with us. The first time they all said no. They had two people like us coming to them almost every day and asking the same types of questions. They could not differentiate which offers were serious and which ones were not.

We re-approached them and demonstrated that we were indeed good with technology. They had also heard that before. We then asked them to simply tell us their terms. We managed to get deals with two suppliers out of 25 in the city. We just started with them.

The terms required us to pay in cash every time we placed an order, and that we had to go to their warehouses to pick up our orders. In the end we did most of the heavy lifting because we were the new faces to the suppliers.

Sramana Mitra: How much money did you put into acquiring inventory to sell?

Sachin Bansal: They had computer systems which maintained inventory of their stock. We received a download of that every day.

Sramana Mitra: So you were taking orders online and then going to the suppliers and fulfilling orders from their warehouses?

Sachin Bansal: We would just pick the books up at their warehouse, but we had to take them to our place to pack and ship them.

Sramana Mitra: In terms of working capital, however, you did not have to buy an initial inventory.

Sachin Bansal: If we had to buy that inventory it would have taken a lot of working capital.

Sramana Mitra: Were you able to get the entire inventory of both suppliers listed on the Flipkart website?

Sachin Bansal: Yes.

Sramana Mitra: That is very resourceful maneuvering and a good example for Indian e-commerce. How did you acquire customers for the front end of the website?

Sachin Bansal: Customer acquisition was a challenge. We did not have a clue what we were doing there. At that time our only philosophy was to provide good customer service to entice customers to return, and that did start happening, but growth was slow. We studied other websites around the world and a big thing that came out was the need for us to solve SEO. Any online business has to solve that to be successful.

We taught ourselves how to do SEO, and we learned Google AdWords from scratch. We were able to drive a lot more traffic to our site. A lot of people just continued, but some customers did make a purchase and tried out the service because our costs were so low. Once they tried us out, they continued to use us.

Sramana Mitra: How did the business ramp up in terms of sales?

Sachin Bansal: The first three months were very tough because we would sell only about five books a day. After the first three months business started picking up because of word-of-mouth advertising. We hit our breakeven point in six months. It was still just the two of us, but we were still working out of the house so that is when we finally found ourselves an office. We also hired our first two employees. One job was to handle the operations and to pick up the books so that we did not have to do it ourselves every day. The other handled marketing initiatives. Both are still with us today.

Sramana Mitra: What was your 2008 and 2009 revenue?

Sachin Bansal: Our revenue in March of 2008 was quite low. Our March 2009 revenue was about 2.5 crore (~$560,230).

Sramana Mitra: Let's fast forward to March 2009. How have the relationships with the distributors and the operational mechanics of your business changed?

Sachin Bansal: We actually opened another distribution center in Delhi. To our surprise, almost every distributor in India knew about us, so it was not hard to make a new relationship in Delhi. We had multiple suppliers in Bangalore and had just finalized some arrangements with international suppliers. We were a well-known company throughout India and were regarded by many as the best online bookstore in India. Today we work with more than 500 suppliers and have operations in five cities, with distribution centers in Bangalore, Delhi, Bombay, and Calcutta.

Sramana Mitra: It sounds like you were a well-known brand throughout India and had become part of the book distributors' [network] as a high-volume retailer.

Sachin Bansal: We were definitely a well-known brand, and we were receiving the best terms the distributors could offer us. Today we receive better terms than almost every other bookseller in India.

Sramana Mitra: How does that industry work, and how were you able to improve your terms?

Sachin Bansal: We started with 35% margins on the manufacturer's recommended price (MRP) in 2007. Today, we are able to get anywhere from 40% to 60% margins based on discounts from suppliers. We started by paying for all items with cash in advance. Today, we enjoy a credit line of three to six months.

Sramana Mitra: In March 2009 you had about $560,000. How did the numbers grow in March 2010?

Sachin Bansal: In March 2010 we did about $6.76 million.

Sramana Mitra: How do you compare with the major bookstore chains in India?

Sachin Bansal: Our numbers today are comparable to theirs. We sell more than $1.128 million worth of books a month. We are all in the same ballpark in terms of volume. I don't know the major bookstore numbers exactly, but our common distributors tell us that we are a bigger buyer than they are.

Sramana Mitra: Tell me more about your international strategy. You are the only retailer in India that carries the international versions of my books.

Sachin Bansal: We found that dealing with international suppliers was much easier than dealing with Indian suppliers. International suppliers are much more organized, they are larger, all of their systems are automated, and they use a lot of technology in their operations. They are extremely predictable. We signed our first international deal with Ingram Books in 2008. Today we work with three U.S. suppliers and two suppliers in the UK.

Sramana Mitra: What were your terms like with international suppliers?

Sachin Bansal: That has also improved a lot. We started with a three-day credit line, and now we have the best credit lines they offer. I cannot disclose the discounts we receive from them, but our discount terms have improved over time.

Sramana Mitra: Internationally, the book industry is going through huge changes. Now that you have years of experience in the book industry, what are you hearing in terms of dealing with e-books and e-readers? Amazon expects that e-books will overtake paper books in the near future.

Sachin Bansal: I have been following that, but as I am focused on India I follow that news in terms of the Indian market. India is slower moving with e-books. It would take some time for India to use digital in the way the rest of the world does. The majority of Indians are not very tech savvy.

Sramana Mitra: The infrastructure does not exist. There is no ubiquitous broadband like there is in the United States.

Sachin Bansal: That is one challenge that India faces. The cost of devices is also too high for the Indian market. A book that is $30 in the United States will be distributed in India at $6 to $7 as a paperback.

Sramana Mitra: That is one of the reasons that I chose not to do another deal with Hachette India, which published my first two books. I did not want to play that game. I produce high-quality content, and I want readers to pay for it. I am not willing to discount the price of the book that much. Hachette offered me a bad deal, so I turned it down. They were very angry about that.

Sachin Bansal: The per-capita income in India justifies the different book prices in India.

Sramana Mitra: The people who buy my books are making money. The software and technology industry employees in India make enough money to buy my book.

Sachin Bansal: It is a question of demographics, because those industries do get higher pay. If the target market is the entire populace, then it makes sense to price it lower. If the target market is one like yours, then there should be different considerations. There are other authors who are priced the same in India as they are in other parts of the world.

Sramana Mitra: I did not know the book business, so I played the game for the first two books. Once I learned the business, I changed the way I played the game.

Sachin Bansal: We are more than happy to sell your books in India!

Sramana Mitra: Let's talk more about e-commerce in India. How has the ecosystem and market evolved in India when it comes to e-commerce adoption? How have the macroeconomics changed?

Sachin Bansal: When we first started we met with a lot of VCs. They all told us that India did not have enough buyers online to support e-commerce companies and that we should wait for buyers to come online. We just could not understand how VCs expected buyers to come online if there was nobody willing to sell to them. In my mind, the issue with Indian e-commerce is for the sellers to become better. If you try to copy a model from China, South America, or the U.S. you will find it does not work.

Sramana Mitra: What do you think is different about the Indian consumer as far as e-commerce is concerned?

Sachin Bansal: The main difference is trust. Indian consumers are more cautious buying online. They were burned a lot when the first companies came out seven years ago. Building a service which people can trust and enjoy is very important. It is not like opening a street shop. With e-commerce you are asking the consumer to trust you with their money before they even see the goods. That is not traditional in India.

Sramana Mitra: What you are describing happened in the U.S. in the mid-1990s when Amazon started. The notion of giving a credit card to a website was foreign to the consumer, but now it is normal.

Sachin Bansal: Yet the U.S. had an advantage because e-commerce is an extension of mail order. That was a huge industry. People were OK sending money knowing they would receive a product. The mail order industry does not exist in India and people do not have a lot of money to spend, so they buy very cautiously.

Sramana Mitra: At this point, India has developed a digitally savvy consumer base which is very affluent. How will this impact the future of Flipkart?

Sachin Bansal: I expect that people will adopt e-books, but at a rather slow pace. The digitally savvy consumer base may have money, but most of them have the same background as ordinary Indians and have kept some of that mentality. They are misers. They want reassurance that if they give their money to a company, they will either get the product or receive their [money] back. E-books make for a very quick purchase cycle, so that helps, but the price of the devices must drop.

Sramana Mitra: What is the size of the e-commerce market in India?

How many consumers are buying and selling online?

Sachin Bansal: It is still a small population. I do have a lot of hope, however, because travel and education are both very strong online markets in India. It is estimated that in the past year 2 million to 3 million people have transacted online in India.

Sramana Mitra: Does that include the online travel market?

Sachin Bansal: It does not include that market, and overall it is a rough estimate.

Sramana Mitra: Based on your customer base and your knowledge of their behavior, what do you think will happen over the next five years?

Sachin Bansal: We see the market doubling in size. As a company, we expect to have a customer base of ten million people.

Sramana Mitra: How will you attract this customer base? Are you still focusing only on SEO, or are you advertising as well?

Sachin Bansal: We still do not spend a lot of money on marketing. Word of mouth is our strongest method of advertising. We have a very high customer retention rate. Those same customers bring us the best quality new customers, and most of those new customers become repeat customers.

Sramana Mitra: You have now decided to take venture funding. What was your reasoning for that decision?

Sachin Bansal: We determined that now is the ideal time to capture the market. Most companies have not figured out how to do e-commerce in India, while we have figured out how to do some things right. We want to use this funding to build a long-term business.

Our plan is to use the money we raised from the VCs to invest in growth. We need to expand our infrastructure to support e-commerce. We also need to improve our physical warehouses throughout India.

Sramana Mitra: What has been your experience with the logistics infrastructure in India?

Sachin Bansal: The delivery infrastructure is not in good shape, and it is the largest challenge we face today. We are working with all delivery companies in India, and we are working to help them become better. We do not know about logistics, but we do know about customer service. We provide input to our delivery companies about their performance and how it impacts our customer experience. Nobody has ever thought about customer experience in India.

Sramana Mitra: Does your customer base access Flipkart only through desktops and laptops?

Sachin Bansal: We have mobile commerce, but it has very little traction.

We believe strongly in working with great people. We are now ramping up the company, have 300 employees, and will have 1,000 within a year.

Sramana Mitra: What do you need 1,000 workers for?

Sachin Bansal: Our employees are divided across many areas. We have our management team, customer support, software engineering, salespeople, and warehouse operations.

Sramana Mitra: How large is your software team?

Sachin Bansal: We have a small team, but it will expand as we grow and need support. We are a technology company at the core. We try to solve as many problems as possible with technology. We have optimized our warehouse operations and our customer support by using technology.

Sramana Mitra: Are you reinventing customer support and warehouse systems rather than buying off-the-shelf systems?

Sachin Bansal: We are not buying commercial systems. We were not able to find any that met our requirements. Developing them ourselves gave us flexibility. As a company we are learning 10 or more new things a day. By developing our solutions, we have the flexibility to adapt our solutions to our needs.

Sramana Mitra: You are illustrating a very Indian mentality by reinventing the wheel at every level. There is one philosophy of management that wants you to build everything yourselves, and another philosophy that wants you to focus on what you do well. In your case, you do Indian e-commerce very well. You should use the ecosystem for the rest of your needs.

Sachin Bansal: The more we have looked, the more we have not found an ecosystem in India for e-commerce operations.

Sramana Mitra: There is an international ecosystem. When you play at the high level of the game, you should be purchasing those systems from international players.

Sachin Bansal: Indian consumers are different and have needs unlike those of any other consumers in the world. The systems that work for other countries do not work in India.

Sramana Mitra: You can try and sell me that ideology, but right now I am not buying it. Indian companies believe they have to do everything themselves.

Sachin Bansal: Our understanding is that the systems that are available on the market will not do what we want them to do. We want our growth flexibility incorporated into our systems.

Sramana Mitra: What does your competitive landscape look like today?

Sachin Bansal: Our brand is well known today. A bunch of other companies have started after us, but we are the largest, especially in books.

Sramana Mitra: What other segments of e-commerce are maturing well in India?

Sachin Bansal: Electronics such as mobile phones. The market is still segmented, and no clear dominant player has emerged yet. We hope to compete there as well. Some people are trying to sell apparel online, but that will be very hard to do in India.

Sramana Mitra: What percentage of the book market in India have you been able to capture?

Sachin Bansal: The online market is about 10% of what the established retail book market is. We have more than half of the online book market. The remaining online book market is segmented among very small e-commerce companies.

Sramana Mitra: This is a great story, and I hope you go much further. Good luck!

Note:

Flipkart does not disclose its financials, but claims that it reached a gross merchandise value of $1 billion in 2014.

The company is largely venture funded and has raised $2.5 billion to date from investors that include Tiger Global Management, Naspers, Accel Partners, Iconiq Capital.

Relatively speaking, Indian e-commerce has grown at a slow pace. Compared to India's 2013 GMV of $2.3 billion, the Chinese market was $300 billion, surpassing the US as the world's largest e-commerce market. Many factors stand of the way of India's online shopping adoption. For one thing, Indian consumers do not like to pay with credit cards for merchandise they shop for online. Remember 1993 America? Consumers were slowly getting comfortable with putting in their credit cards on online shopping sites. India's situation is not so different from the 1993-95 America. Whereas China has made a gigantic, concerted leap into the 21st century, India is still muddling along with a low-trust society that prevents high velocity business growth, a terrible infrastructure with poor logistics and supply chain capabilities, and an overall lack of reforms that can accelerate growth.

While the current policy malaise in the retail sector works in Flipkart's favor, giving them a strong competitive position, I happen to be of the opinion that if major foreign retailers were allowed to come and do business in India, they would make solid investments in improving the logistics, supply chain, as well as increase the overall TAM for e-commerce.

Ultimately, Flipkart and other Indian retailers would benefit tremendously if India's consumers got more used to buying products online, without the need for sand in the gear like cash-on-delivery, having to build their own delivery service, etc. If, for example, hundreds of e-commerce businesses were doing billions of dollars of business, strong logistics companies would also get built with robust financing and growth.

And finally, Internet adoption itself has been slow. China's Internet population has surged to 564 million (75% on mobile). India is at less than 1/5th the number, and that too a very shallow user base. The e-commerce number can only grow fast if the Internet penetration grows sufficiently fast and deep.

Flipkart's success is wonderful to see.

India's leaves much to be desired.

Interview with Amit Gupta, Co-Founder, InMobi

InMobi is probably going to be the first billion dollar global technology company built out of India. Read their thrilling entrepreneurial journey. This interview was conducted in February 2014.

Sramana: Amit, let's go back to the very beginning of your personal story. Where are you from and what kind of circumstances were you raised in?

Amit Gupta: I was brought up in Kanpur which is a city in northern India. My family has been doing business for several generations. I had the opportunity to step outside of the family business. That shaped my decisions for schooling as well as the companies that I could work in after my schooling was completed.

I was lucky enough to get admission into IIT Kanpur. I received a bachelor's degree in Mechanical Engineering. I never pursued a job in engineering but I do think that some of the disciplined manner of thinking that I had developed has helped me all through my life.

After college, I joined a software engineering company in Bangalore. There was a big IT boom in 2000 when I graduated and I wanted to be a part of that. I worked as a software engineer for a couple of years before I realized that while I appreciated software engineering, I did not really enjoy it. Around that time, I had the opportunity to work as a manager at CitiFinancial India. By that time, I realized that my career goal had shifted. I no longer wanted to be a software engineer. Instead, I wanted to help businesses implement business IT systems.

About a year after I joined Citi, I had the opportunity to join a startup in Bangalore called Andale.

Sramana: What did Andale do?

Amit Gupta: Andale worked on auction management solutions. It had a SaaS platform for buyers and sellers on the eBay platform. In those days eBay was a really big deal. We had a hosted platform with about 50,000 paying customers. It was a fairly unique opportunity in India. I had the opportunity to learn the concept of a marketplace. I learned that it was possible to extract a thousand dollars from thousands of customers while hosting the software in the cloud. That whole experience was incredibly influential in shaping the way I think. I saw how things evolve at scale.

Sramana: What did you do after Andale?

Amit Gupta: I started a company in the business intelligence space. I ran that company for about a year. During this time, my co-founder at InMobi, Naveen Tewari, was working for a startup in the US. While I was running my new company Analyticsworks, I heard that Naveen was looking to come back to India. He started asking me about the startup scene in Bangalore and we started sharing some ideas.

Sramana: What year was this?

Amit Gupta: This was in 2006.

Sramana: What is Naveen's background?

Amit Gupta: Naveen and I had studied together at IIT. While I started pursuing my career in software, he decided to join McKinsey in India. He then did his MBA and joined some startups. When he was looking to move back to

India, he maintained his passion for the startup culture. He was looking for a strong investor story. He came back to India for a vacation and we got together. He started talking about an idea and I found it so compelling that I decided to join him to create this company.

Sramana: Did you shut down your analytics company?

Amit Gupta: I did not shut it down, I just moved out. I had a co-founder there as well. That company continued on for another four years. It was a difficult business model to execute. It became a boutique outfit.

Sramana: When you and Naveen decided to found InMobi, what was the concept?

Amit Gupta: Our business was to tackle mobile search. Our first business model was around SMS as it was a major driver of consumption. We designed a feature that would let you send us a short code query and we would return the results. It shared some characteristics with Groupon. In Mumbai, we had deals from 3,000 merchants. We had 70 people who would approach the merchants and get them to run an ad on mobiles. It was a unique business model.

Our business model was to have the user send a keyword. We would then send that user three to four deals based on that keyword. We were definitely ahead of time. We had to train the people who were selling credit cards and personal loans to sell advertising.

Sramana: Your business model was based on advertising?

Amit Gupta: Our business model was an advertising model.

Sramana: When you and Naveen got together to start the company, how did you capitalize it? Did you raise money or did you bootstrap?

Amit Gupta: We had another co-founder as well, Abhay Singhal. He was a long-time friend from our IIT days. We were all very excited about the India story as well as how prolific mobile use was. The three of us got together and got money from Mumbai Angels. We received our money in January of 2007.

Sramana: How many angels were involved in this deal?

Amit Gupta: We were essentially their first major investment and they were still figuring it out. We had close to 15 angels. There were people who put in as high as 70 lakh rupees (~$115,000). Others invested a low single digit number. That was a fairly unique experience for us.

Sramana: What was the composition of these angels?

Amit Gupta: We raised $500,000 dollars. Most of our investors were from Mumbai. We had one investment banker in the deal and some people who ran software companies. Most of the investors were people who had already earned their money and were trying to help entrepreneurship grow. We were very lucky to have them because when we first started the business, their connections helped us out significantly.

Sramana: What was your run rate for the $500,000 that you raised?

Amit Gupta: We were trying to build our own B2C property, so that also involved marketing money. We had to solicit that money without a defined run-rate. We started with some basic promotions. We quickly realized that we had a very new concept and we were creating a new market. We decided to find another business model, that of Groupon, and become a network. We targeted companies who already had SMS users such as India Times.

We would have them send the SMS and then add the details of a particular deal. We started gaining some national attention following this strategy. That was important because India was very much a cash economy, which meant we had to wait for people to give us money. It was not a very smooth process and required different operations at different levels in every city. That is why we moved to a network model where we could sign up various aggregators.

Sramana: It sounds like you were basically operating an SMS advertising network.

Amit Gupta: Yes. There is a limitation as to what you can do. You can call that number or you can send a short code message. That really limited the targeting that could be done. That impacted the ROI because we were targeting $10 CPM. We really had to push this as a sustainable medium for advertisers. There was oversupply of SMS as a medium which resulted in a $5 CPM, then a $2 CPM and finally a $1 CPM. Other companies built their business models on the back of advertising as well.

Sramana: It basically became junk inventory.

Amit Gupta: It became oversupplied. The demand and supply forced the pricing down. We were basically playing in a commodity market. It was not an interesting proposition at that point. When we would talk with friends and families about what we were doing, the first thing they would say is "Oh, you're the company sending me those spam messages".

Sramana: It seems like you had gone through two pivots by this point. What was happening to your cash situation?

Amit Gupta: It was depleting every month. There was a phase when we were close to depleting all of our cash. We had vendor payments, office rent, and all of the expenses of running a business. We looked at our journey up to that point as well as at the mobile Internet. We looked at the devices and platforms that had started to see some traction. We put together a small team to build a platform to support the mobile Internet. We did that in tandem with running our SMS business. We actually ran out of cash at this point and we had to go to our partners and vendors and tell them that we would pay them later. Most of us were not taking salaries.

Sramana: How many people did you have in the company at that point?

Amit Gupta: We had four co-founders, and then we had eight people on our support staff. We had a small team, but when you are starting up a company, every expense is very important. When we ran out of cash, we started using our own credit cards to support ourselves. We were lucky to have almost 15 credit cards amongst the four co-founders. That came very handy for us and gave us some oxygen.

During that time, our new platform was finishing its initial development. We started to introduce that platform to our advertisers. We started to take 10% to 20% of whatever orders we received and started to run them on our mobile Internet.

Sramana: So you were running an ad network on mobile as well?

Amit Gupta: Absolutely. We were working with publishers from the beginning. We started to see 5x to 10x better performance and we felt that this was the future. We ultimately dumped the SMS capabilities so that we could focus only on mobile Internet.

In the 2007 timeframe, we also tried to approach VCs again. However, the VC presence in India at that time was not very strong. In addition to that, nobody understood mobile Internet in India. We decided to go to Sand Hill Road and meet a few VCs there. We met with KPCB and they ended up investing in us.

Sramana: You had a $500,000 infusion and the company ran out of cash. What did KPCB do with your Mumbai Angels investors? Did they buy them out?

Amit Gupta: No, the angels remained investors. I don't recall if they participated in Series A, but they were able to keep their investments.

Sramana: How much equity did Mumbai Angles have in the company when KPCB came into the picture?

Amit Gupta: They had what typical seed investors in India get. We were lucky to have a decent valuation at the time of seed funding.

Sramana: How much did you raise in your Series A?

Amit Gupta: We raised $7 million.

Sramana: When you made your pitch to the VCs, what was your proposed target audience? Did you raise money based on the Indian market?

Amit Gupta: We proposed that India would be our first market. We wanted to build that network first and then come to the US. All of us were very familiar with the US. We had studied there, lived there, and we knew that it was the largest market. The VCs actually told us that we were kidding ourselves. They reminded us that our entire company was based in India and that there were already a lot of companies in that space in the US. That helped us refine our expansion plan. We developed a strategy where our expansion after India would be into the Asian market. That is ultimately the strategy that we used to raise our financing.

Sramana: Have you been able to follow that strategy?

Amit Gupta: Absolutely. We have remained headquartered in India and have since expanded to pursue the Asian market. After India, we focused on Indonesia, Malaysia, Thailand, and Singapore. Since then, we have expanded into countries such as Nigeria. We are growing country by country.

Sramana: What were some of the strategic decisions you made during that growth period?

Amit Gupta: We had big dreams and aspirations. We found that it was important to get validation that what we had was indeed marketable. When we took our product to the right markets, we got fairly good business. We may have had aspirations to go to the US, but we had less competition in other markets and there was plenty of size there to enable us to grow.

We started growing by looking at Southeast Asia. When we were done with that, we thought about going to Europe. We took a trip over there for a couple of weeks and met with potential customers. We realized that there was not any company doing exactly what we were doing and that we probably had a good opportunity. We decided to make the investment and hire a team to start operations in Europe. After that, we never looked back. We came out of our shell. We stopped doubting ourselves.

Sramana: Can you trace the revenue ramp during this growth period?

Amit Gupta: When we shifted to our new business model, we did $1 million in 2007 and $1.5 million in 2008. In 2008, that revenue came from India and

Indonesia. In 2009, we had 10x growth as we had expanded into multiple countries. South Africa was one of our major success stories that year. Today, we are found in almost all markets including complicated markets such as Japan and China.

We are the largest ad network in China. We are in a leadership position in Korea. We own 37% of the market in Australia. We are the market leader in India. We are in a top three position in the UK, France, and Germany. We have now entered the US market. Our US team has started to experience growth at a phenomenal pace. We hope to be a top three player in the US by 2014 or 2015.

Sramana: What was your 2013 revenue number?

Amit Gupta: We believe we will be at a billion dollar run rate this year. We are certainly reaching towards the next level of scaling our business.

Sramana: At what point did you raise more capital and what was the thinking behind it?

Amit Gupta: Our Series A money lasted for almost one year. We raised $8 million dollars for our Series B round from the same investors. That money lasted us a year and a half.

Sramana: Given the growth you have been describing and the model you had for expansion, I imagine that everybody was willing to give you money. Whom did you select and why?

Amit Gupta: Yes. For our next round, we spoke with a lot of potential firms but we ended up taking money from SoftBank. They are a Japanese company that invested $200 million. There is a big reason for selecting Softbank. We liked their control and understanding of the Chinese, Japanese, and Korean markets. We felt they could assist us in those markets.

Sramana: What is your revenue split amongst the markets?

Amit Gupta: Our revenue split is very diverse now. In 2013, North America represented almost 35% of our revenue. EMEA and GPAC split the remaining revenue equally. We call ourselves a global company now and I believe our revenue splits back-up that claim.

Sramana: What is interesting about your strategy is that you came into the US last. This is a strategy that a lot of Indian companies need to follow. You went after Asia, Africa, and Europe first and came to the US last. That may be a viable strategy for a lot of markets.

Amit Gupta: This was a very effective strategy for us.

Sramana: You are obviously passionate about the India story. Tell me more about your thoughts on the current India story?

Amit Gupta: When I compare the startup environment when we started our company with what it is like today, I see a lot of differences. The entrepreneurship spirit has gotten a lot stronger. The social pressure of avoiding entrepreneurship is starting to subside. That is a very good thing. If you don't take risk, you can never pursue this. I also find that entrepreneurs are willing to talk about what they are doing and that is huge.

If you talk to VCs or angels, you will hear them say that India does not have a lot of investing ideas. I have not heard anyone that has a decent team and a solid plan get turned away from a deal. There is a lot of money there for entrepreneurs in India. That has changed significantly.

More importantly, the domestic markets have started to pick up. It is very difficult to start and scale a business in India if the domestic market is not there. That is starting to change in India. There are companies who are getting good traction in the Indian market first. When those initial set of companies start to get well-established, they are going to lead to a lot of subordinate companies that will get established off of that ecosystem.

Apart from all of that, there is now a huge momentum around Indian entrepreneurs taking on the global stage. It is no longer a US and India service model environment. We are starting to see a lot of product-led groups. Indian entrepreneurs are finding good success building products for mobile devices because there are so many markets for those products.

Sramana: I have noticed a couple of trends that are very strong. Zoho is one of the first who did product development in India while selling globally as a SaaS product. I have seen a lot of companies following that model. They don't even need to have a presence in the US because they sell and acquire customers online. This model has produced a lot of interesting mid-scale companies who are doing anywhere between $3 million and $20 million in revenue. A lot of these companies are bootstrapped as well.

Amit Gupta: I have seen that as well. It seems that some of those companies are catering to the enterprise or B2B segment.

Sramana: I think they are focusing on the small business market over the enterprise market. The enterprise market is a lot more difficult to do in that mode, but the small business market is rather straightforward to do.

Amit Gupta: What I like about mobile is that there are a lot of additional markets. Mobile is everywhere in the world. Imagine the power of mobile presented to all of those companies. You can start a consumer-facing business in India without any problem. India has a strong workforce.

Sramana: We have a company in our product portfolio that builds a great autism app. They are selling that app using this model.

Amit Gupta: The point is that we have investment capital in India that understands the benefits of coding. We have a strong understanding of the US market as well as other markets. We are in a unique position of creating value across multiple products. There is no reason that you cannot build great global businesses in India.

Sramana: If you look at the global market, the mobile app business has become very crowded. You have to find a niche where you can make a differentiated story. There are other companies that are more mature but it is very difficult to get discovered today.

Amit Gupta: I think that the enterprise mobile space is still available. Most of the work done has been in consumer-facing applications.

Sramana: I am commenting on the cost of customer acquisition. When the cost of customer acquisition increases, then the need for capital also increases. We are living in a highly connected world. When I was in graduate school, the Internet was just starting. It took a long time for that Internet to get penetrated widely and there was no real access in India.

Amit Gupta: Things have definitely changed, including in India. India has 200 million unique users. My point is that there is space for businesses to get started.

Sramana: India may have 200 million unique users but they are a shallow user base. I point to the recent launch of Kindle as an example. I fully agree that the user base will continue to grow and mature.

Amit Gupta: I am with you as well. The paid user base is small but you can launch your platform in other markets as well. The business opportunity is always there. Things are improving in the context of India.

Sramana: It may take a few years. China has a very deep, involved user base. I could see that India will get to the same point by the end of the decade.

Amit Gupta: I agree. It has to happen.

Sramana: Thank you for taking the time to share your story. Best of luck as you continue to build your company.

Interview with Phanindra Sama, redBus

Phanindra Sama, otherwise known as Phani, is the co-founder and CEO of redBus. redBus is India's largest bus ticketing company and a Forbes Top 5 Startup in 2010. In 2013, redBus was acquired by Naspers for $130 million. This is the story of the company's fascinating beginning. This interview was conducted in December 2010.

Sramana Mitra: Phani, let's start with your personal story.

Phanindra Sama: I was always good with technical studies and was especially good mechanically. I got into BITS Pilani (Birla Institute of Technology and Science), and I studied electronics because I always wanted to be an electronics engineer. I was always fascinated with electrons flowing through a wire and making a light glow or a fan turn. I used to have a tool kit and repair small electronics.

I graduated from BITS and got a campus placement with ST Microelectronics. I worked there from May 2002 through April 2004. While I was with ST, I worked with FPGAs. The job there did not satisfy me. First, it was in Delhi, where everyone was laid-back. Second, in a full year there I really did not do anything. Our managers gave us some books to read and some architecture to study. Every week we had to present what we had studied. We never actually did any designing.

We did not have any mentorship. You would imagine that you would be given a task and that the managers would then review your work and tell you what was right and how to do the parts that you did not do right. None of that was happening.

It was employee friendly with very few targets. It was not an aggressive company. I decided to apply to Texas Instruments in Bangalore.

Sramana Mitra: That is a really good company.

Phanindra Sama: Some of my friends from BITS had joined TI, and I kept in touch with them. They were telling me that they were already designing and they kept talking about their designs. I decided to apply there because that is what I wanted to be doing. On my resume, I stated that I wanted to design a chip that would actually be manufactured. I wanted to have a microchip that I designed in my wallet a year from now. That caught the attention of my hiring manager.

When the manager interviewed me, the entire interview revolved around that statement: what I wanted to make, how I was going to make it, and why it was the right decision. I passed the interview and was placed in the ASIC division. There is a subdivision under ASIC for test chips. They make test chips which are very small and built on nanotechnology. They are used to test fabrication accuracy. They have very sharp turnaround times, and it was a good opportunity for me. I could see the complete cycle of my work, and it was fascinating. I was doing very well there. Within two years of starting at TI, I was made a lead.

Sramana Mitra: What led you to leave a job that you loved at TI to start redBus?

Phanindra Sama: One holiday in 2005 I planned my trip home to see my parents very late because I had been busy with work. I was very accustomed to traveling by bus, and I used to take several buses in order to get home to see my parents. When I went to my regular travel agent to get a bus ticket, he told me that he did not have a seat on the bus for me and recommended that I try another travel agent. That was the first time he was not able to get me a seat. I could have understood it if he had told me that all the buses were full, but he told me that another travel agent might have a seat.

The first question that came to my mind was, "Why does this travel agent not have a seat when another travel agent has a seat?" I went to the other travel agent and he told me that he did not have a seat. I asked him if another travel agent might have a seat and he told me that it was possible. He gave me a few other travel agents, but overall, getting the names and numbers of the other travel agents was difficult.

I went home and went to sleep. The next morning I was the only person in my flat because all of the other bachelors had gone home. I was doubting myself and was not sure that I had tried hard enough. I thought that there might be some travel agent who had a seat available still. That actually pushed me to go ask a travel agent exactly how the business works to understand why I could not get a seat.

Sramana Mitra: How does the travel agency business for buses work? Do the bus companies allocate a certain number of seats to each travel agent?

Phanindra Sama: Yes. The next morning I went back to see the travel agent and asked him how it worked. He explained to me that travel agents who sell regularly have quota allocations. If they sell those seats, they can call the bus manager and get more seats allocated to them. Other travel agents who do not sell that frequently receive no allocation. Any time a traveler walks into their office they have to call the bus manager and ask for a seat. That is how it was happening.

Typically a travel agent makes eight calls to sell one seat. If they get a seat after one call, they have just been really lucky. There are other problems as well. Whatever price is written on the ticket becomes the price. I am a regular traveler to Bangalore so I know the price. If I had decided to go to another city, then whatever the price the travel agent likes would become the price for me. There are no published fares anywhere.

Another set of problems comes around preferences. Travelers have preferences for front seats, rear seats, and some don't want to sit behind the driver. Naturally, even I have preferences. I need a window seat when I travel. Every time I ask a travel agent to give me a window seat he would give me a seat number, like 4, which looks like it is a window seat because it is an even numbered seat. To my surprise, when I get in the bus, I may find that it is not a window seat in the front of the bus, but the very last seat on the bus because that bus operator decided to number the bus from back to front because he knows he can't sell seat number 31. Bus operators can take consumers for a ride when they sell the seats.

Sramana Mitra: You identified a significant number of problems in bus travel. Which problem did you think was the biggest?

Phanindra Sama: The biggest problem of all was that people could not buy return tickets. Every time I arranged a bus to visit my parents I had to call them and have them book a return ticket so that I knew I could get back. I travel on Friday and Sunday evenings, which are the high demand days. That was the only way to ensure I would receive a return ticket.

Consumers in India face a lot of difficulties. If you look at the characteristics of these difficulties, you will see that they all have a common information element. There is information about availability, departure locations, seat preferences, return trips, and many other areas as well.

All of those problems got to me as an engineer. I realized if there was one server that every bus operator could arrange the business with, it would solve all of these problems. I asked the travel agent if there was software that made all of the arrangements available, would he secure his tickets through that software for a small charge? He said, "Absolutely!" Anything that could save him time on all those telephone lines was welcome. He also realized that there were times he could not monetize a customer because he did not have a seat to sell him, even though somebody somewhere probably had a seat to sell.

I realized that I had a good idea, so I decided to go ask bus operators if they would use that type of system if I built it. If they were not going to use it, then there was no use in building it. My travel agent made some introductions to various bus operators. When I asked them if they would use the system, they also said yes. They were also frustrated with all of the phone calls. Every travel agent they worked with would call them at least 10 times a day. That meant the bus operator always had to have someone manning the phone, which resulted in a high variable cost. That also prohibited the bus operators from adding more travel agents to their list because the bus operators would have to hire more people to cover the phone calls. The bus operators realized that with a software system, they could appoint a larger number of travel agents because the system would take care of allocating seats to them.

Sramana Mitra: You asked the travel agents if they would pay for that service. Did you ask the bus operators if they would pay for it as well?

Phanindra Sama: Yes, and they were fine with paying for it. Both the travel agents and the bus operators were willing to pay for the system. I had not decided at that point how much they should be paying for the system, only that it was a service that they would have to pay for. The benefits were clear to each side.

Sramana Mitra: After you had talked with bus operators and travel agents, what was your next step?

Phanindra Sama: I thought about the problem and then how to create the solution. On the software side, I knew there would be various different types of people accessing the system and it had to be done by a third party. There would be a travel agent's representative and a bus operator's representative. It was complex technology because the entire industry would eventually rely on this system. The software had to be robust and scalable.

I never had any intention of getting into the software business. Previously I had thought that if I did something entrepreneurial that it would focus on microchip design. That was my background and that is where I had all of my experience. I had spent so long studying electronics that I did not want to let it go.

Over that long weekend, I had four days all alone. I sat down and wrote a note to all of my classmates who were also my roommates. I explained the reason that I did not go home, and what research I had done in terms of talking to the travel agents and the bus operators. I explained that we should create some technology and give it to this industry, and we could also make some money. I wrote my message to all six of my roommates. I did not look at them individually and try to figure out who would be a good co-founder.

I explained what I felt was a possible solution in that note, but that we should implement the solution as a non-profit organization. The money earned would be done so by a non-profit organization and that we would not get involved or do the coding work. We would just get developers from the local area to contribute to an open source technology project. At that point, that was the only model I could think of for that idea.

Sramana Mitra: Were all six of your friends from a microelectronics background, or did any of them have a software background?

Phanindra Sama: They all had different backgrounds. One was from software, one worked with embedded systems, and another with application software. Interestingly enough, none of them were involved with Web technologies. In those days there were not a lot of companies working on the web.

When my friends came back they were excited. They wanted to create something, and none of us were thinking about leaving our jobs. We figured we would spend a weekend making it and then like the other projects we would put it on a server and invite the world to contribute to it.

Sramana Mitra: Did all six of you decide to undertake the endeavor together?

Phanindra Sama: Yes, and including me there were seven of us.

Sramana Mitra: The seven of you were doing it only on the weekends?

Phanindra Sama: Exactly. We all lived together, so it would make it easy to work on it that way.

Sramana Mitra: What was the next step in the development of redBus?

Phanindra Sama: We split up our work. When it came to creating the technology, we realized that none of us knew the technology. We did not know databases, Java, or any of the core aspects of building a Web application. We decided to start studying that technology. We went out and bought books on .NET, databases, and Java. Three of us were supposed to start actually developing the technology, so we started reading the books and experimenting with code. We truly started RedBus with a 'Hello World' program. After we got the 'Hello World' program working, we then decided to go a step further.

There was a huge, and very interesting, learning curve. I often share this with fellow entrepreneurs. If something is core to your business, you have to own it yourself. We heard so many times that because we were in Bangalore, we should use the small shops around to build the architectures. What I learned was that if your biggest contribution to the industry is technology, you must own it. If you are the one who works it, then you will learn the complexities of it in no time. Today, the coding is done on the same architecture that began as 'Hello World'.

Recently the CTO of Amazon was in India, and he took our team out for dinner. He was very impressed with the architecture, scalability, and the robustness of our solution. Four years ago we could have hired someone who had spent 15 or 20 years just doing architectures. The important thing to realize is that if it interests you, you can learn it.

In two or three months, the end view of the project was getting smaller and smaller. We were starting to understand how we could develop the project using an open source methodology and we were getting better at our technical skills. At the same time, some of the team was getting increasingly disengaged due to the sheer difficulty of meeting with the bus operators. They were not from our world.

Selling the concept to some of them was a challenge. If you have to get data from somebody regarding the way they operate their business, they get worried because they think you might be taking business from them.

Sramana Mitra: Selling does not come naturally to engineers.

Phanindra Sama: Throughout school and the early jobs, everyone treats engineers very nicely. They are always pampered. It is a big cultural shock, and it is very difficult to turn into a sales force. Four of the seven on our team lost interest in the project. One took a job in the United States. In the end there were only three of us left, and we are still together today.

Sramana Mitra: Did you move away from the idea of a non-profit at that point?

Phanindra Sama: We were still not sure that we had a real business, or even a business that would be that large. We did think we had an idea of how to make the open source concept work for us. We were involved and building the technology ourselves, and we were putting a lot of thought in our work. We then started getting to the point that we did not want others working on our project.

Sramana Mitra: Did you keep your jobs the entire time?

Phanindra Sama: Yes, we did keep our jobs. One member of our team did the majority of the work developing the technology. Randomly he stopped going to the office because he was so obsessed with building the software. He would get a call from the office asking where he was, and he would have to come up with something. He would stay up very late at night working on it, and then get up early the next morning and work on it again.

He then applied for a long period of leave from his office, and after a bit more time he resigned. For all practical reasons, he was the first person to resign. I was very sure that we should not do anything unethical. I felt it was incredibly unethical to work on your own company while you were at the office. I went to my manager and told him what I was doing, and I offered to resign if he felt it was unethical in any way. My manager did not feel that there was any problem, and that as long as I was not building the same microchip or using the intellectual property of the company, there would be no ethical problems at all.

He then told me that he was personally concerned about me. He did not understand why I would want to start building software for bus operators when I was doing so well at my job. He felt the bus operators were rowdy and harsh. They had a reputation for being rude, not paying taxes, and not being the type of people you would want to build a business around. He kept reminding me that many of them went against the government and could get shut down on any given day and just vanish. He did not see that as a good home for sophisticated technology.

I had confidence, however, because when I met these bus operators they always spoke very good English, and their children were getting quality educations. They all had mobile phones.

Sramana Mitra: So you felt you could relate to them and communicate with them?

Phanindra Sama: Yes, exactly. I felt comfortable with them. Reality was very different than perception. My boss and I had a good conversation and I expressed my confidence in the bus operators. He told me he was still worried about what I was doing, but gave me his approval and had me talk with an HR person to make sure there was no problem with what I was doing. The HR person did not have any problems with it either as long as it did not affect my productivity at the company. The HR person also confirmed that it was completely irrelevant to the work I was doing for them.

That was a big eye opener for me. A lot of entrepreneurs have a fear that they will not be allowed to do their entrepreneurial projects while they are still employed at their company. That safety net is required. You can't completely resign and go off on your own.

Sramana Mitra: I agree with you completely. Bootstrapping the early stages of a company is often a concern for entrepreneurs, and I constantly say that one way to bootstrap is by maintaining a paycheck from another job while you do your entrepreneurial work on the side.

Phanindra Sama: Absolutely. Tell your manager or HR what you are doing. You don't want unethical actions. You will have more confidence. If it is a problem, then you have to find another job. You don't want to be called a thief.

Sramana Mitra: How far were you able to bootstrap your company while maintaining your job?

Phanindra Sama: The product was completed and ready. To solve this problem, the logical process was to give the software to bus operators. If the bus operators started to use the software, we would have access to inventory. The next step would be to create software for travel agents. The third step was to create a Web interface for consumers.

We made it to the point where we gave the software to bus operators. We had the prototype ready and functioning. By May 2006 we had the prototype software ready for the bus operators. I still had my job, but I was making rounds to the bus operators and started selling the software.

The bus operator who told me it was a good idea and that he would take it decided not to buy it. He kept postponing it and telling us he would buy it later. I could not sell a single thing for two months. We had spent so much time building the product, and then nobody would buy it. They would tell us that computers were very expensive and asked us if we were going to provide one. The ones who had computers did not have Internet access and wanted us to provide that as well.

During that time, The Indus Entrepreneurs (TiE) Bangalore chapter had called for business plans under their Entrepreneurship Activation Program. That was the first time they launched that program, and they called for people who had ideas and just needed mentoring. That fit us perfectly. We had ideas and prototypes, but we needed help to take it forward. We gained three mentors from TiE and they helped us put the business together.

Our mentors told us we were facing a common problem. Customers don't like incremental products. They need a solid reason to purchase the product because they are going to take a huge risk by purchasing it. Bus operators have a very established way of operating, and essentially we were asking them to change the entire way they operated. Our computer-based system was new, nobody else in the industry used it, we were not a proven company, and we were promising a benefit only sometime in the future.

Our mentors asked us to go visit bus operators and ask them questions. They wanted us to understand what it was that the bus operators really wanted. When we did that, we found that the only thing bus operators really wanted was increased sales. When we told that to our mentors they told us to give them what they wanted, which was more sales. That meant we had to start on the consumer side. We had to start selling to consumers, and once people started buying tickets, then when we sold it to the bus operators it would simply be to streamline their supply chain.

The question for us at that point was how to sell with no inventory. If consumers came to the website and did not find an entry, they would just leave. It seemed like a non-workable solution, but we followed our mentor's advice. We created a website and hosted it. We then went to the bus operators and got minimum allocations for two weeks. It took us one month to go live on the site because no payment processor would give us an account. They did not know how the bus industry worked and we were a new company, so they were worried about charge backs.

Sramana Mitra: How did you gain access to a payment gateway as a new Internet company?

Phanindra Sama: I took a banker's recommendation and accepted personal liability for charge backs. I had to keep a certain amount of money in my account as well. Once we took the site live, we then had to focus on getting customers.

Sramana Mitra: How did you acquire new customers? The Internet was new in India. The idea of purchasing bus tickets online must have been very strange to customers.

Phanindra Sama: When we were working, we would take a stroll after lunch. There used to be people standing there trying to sell us credit cards. We decided to do the same thing. We created distinct handout cards explaining that we sold bus tickets on the Internet and we asked everybody to give us a chance and book with us one time. We had people hand out those advertisements at all of the tech spots in the city.

That was a good first lesson on being humble. Just a few weeks ago I was on the other side because I was one of the employees coming out on break with these people trying to sell to me. I suddenly found myself standing among the credit card guys and hoping that someone would look at me so I could give them a card. It was obvious that people did not care for me because I was intruding. It was very difficult the first few days, but I got used to it. I had to do it because it was important to reach our allocations with the bus operators.

We did a lot of advertising that way. We all took turns standing there during lunchtime. It had a very high impact. If we were able to hand our card out to one person, he or she would inevitably have a lot of questions. As we answered the questions, the fact that we were the founders would come into the conversation. Suddenly that person realized that we were not just handing out cards blindly and would at least go back and check the website. Then that person would have more questions but he or she knew where to find us to answer them.

The result was that we had a very high hit rate. People would tell their friends all about it, and in a way advertise for us. They would tell their friends they had met the founders. That is how the first word of mouth spread started happening. We then started doing something similar at the bus stops. One of my co-founders ran into a journalist while distributing cards at the bus stop, and that journalist was fascinated, so she wrote about us. That was the first time we had been written about in the news. We gained a lot of traction from that. It was a very consumer-friendly story and people could relate to it. A lot of other journalist started to pick it up and we gained media coverage because of it.

Sramana Mitra: How many customers does redBus have today?

Phanindra Sama: We sell about 200,000 seats per month at this point (November 2010).

Sramana Mitra: How many seats were you selling when you met the journalist?

Phanindra Sama: At that time we were selling 10 to 15 seats per month. It was enough to keep our allocations from the bus operators because at least a few seats were getting sold.

Sramana Mitra: How long did it take for your business to grow to the point that bus operators felt more secure and willing to work with you?

Phanindra Sama: We have achieved that point in the past six months. We experienced a huge change where bus operators now come to our office asking to work with us and inquiring about our terms. In the past there were many phases. In the first phase, nobody accepted us. In the second phase, some people accepted us. The next phase was when we gained a favorable reputation with bus operators, and they were aware of us before we contacted them and felt there was no harm working with us. The last phase is what we just arrived at, where they seek us out. If somebody starts a bus operation in India today, our office is a must for them. They will tell us where they are thinking about putting a route and ask for our opinion.

Sramana Mitra: How did you get to that point? How did you go from being treated like a travel agent to being a key player whose advice is sought?

Phanindra Sama: A lot of our success is attributable to our mentors. They had us focus on the right things every time. Every day one of the mentors would call me. He was so involved with what we were doing that he wanted to know how many seats we sold every day. That got us to focus on sales. He told us if we made sales, everything else would come our way.

Some of our competitors began operating nine months after we launched because there is a very low barrier to entry for this marketplace. The only difference between them and us is our focus on sales. They would do various tactics. One raised $6 million and no longer exists. In that case, he followed the process of giving software to bus operators and then realizing that the operators were not using the software because they did not have computers, so he bought them computers and shipped them to their offices. Then he bought their Internet and hired people to operate the computers.

At that time, we focused on consumer-side sales. It does not matter if bus operators get used to certain types of software if we have the consumer sales. Our mentors kept us focused. We were scared when the other company brought in $6 million. Our mentors told us to ignore that because it did not matter. The only thing that mattered was focusing on the customer.

Sramana Mitra: Did you keep word of mouth as your primary means of customer acquisition?

Phanindra Sama: Absolutely. The focus has always been on selling to customers. We focus on engaging customers when they come to the site. There is a lot to that. When we launched we were a brand new offering, so customers were there just to try us out. We had to engage those people somehow, so we put live chat on the website.

Sramana Mitra: It sounds like you were almost running a call center in

the back end.

Phanindra Sama: A live chat call center, but that was not scalable. However, that did make those customers stay with us. We could sell tickets to customers as well as have a person who could call the bus operator to get more seats if they needed more seats than we had on the website. We ran that chat service for one year. Our book to look ratio, a big metric for us, is far better than industry average.

Sramana Mitra: How did you achieve an industry-leading conversion rate?

Phanindra Sama: We have taken our analysis down to fine details. We have a specific orientation for the bus on the entry page. We have done a sensitivity analysis which shows which orientation gives us the best bounce rate. There are so many other things that are done at the back end that have contributed to our conversion rate. We did not achieve that conversion rate by accident.

Sramana Mitra: How did you finance your first year of operations, which included live chat support and manual inventory negotiation?

Phanindra Sama: Initially, we had a lot of savings. We had no idea how much money it would require to start a business, and we thought that what we had would be sufficient. We started in August 2006 and we ran the show with our money. Later, when we were selected by TiE, we received a lot of interest from venture capitalists. There were a lot more VCs in 2006 than there were ideas for them to fund.

We had no idea what VCs were, so we went back to our mentors. We asked them to explain what function VCs played, and they explained the entire model to us. They told us we could raise money and what the right amount to raise.

We came up with a number of 13 lakh rupees to build this company throughout India and make it profitable. That was the wildest number we could think of.

We went back and presented that number. We were talking with all of the VCs, and they all smiled at us. One of them sat down with us and helped us build a realistic plan. We revised the plan and came out with a plan of 3 crore rupees to spend over the next three years to build one phase of the company. As founders, we were shocked to think that we would need 3 crore rupees to build a single phase of the company. If we had that money, we would put it in the bank and earn interest!

That VC told us that he was ready to write us a check for 3 crore rupees for 30% of the company, which implied a valuation of 10 crores. We were just six months into business and we could not believe our company was that valuable.

Sramana Mitra: Which VC was this?

Phanindra Sama: The company was **SeedFund**. We were comfortable with them, and our mentors told us they were good VCs to work with. We raised the money. We did not do any further negotiations. I kept telling them that we would not be spending all of that money, but in retrospect we spent all of the money in two years. I now realize that companies take a lot more money than you can think of.

Many first-time entrepreneurs have those issues. We can’t think of the right numbers because they seem too wild. Big numbers become a barrier. Right now, people are saying you need to build a thousand-crore company. In the bottom of my heart, I think that is a very big number, and I have to ask if we are truly making sense or is it just wishful thinking?

Sramana Mitra: What is the size of the business right now?

Phanindra Sama: Right now it is at 150 crore. In the next four or five years, reaching a thousand is viable. The numbers seem wild, but they are viable. We are now looking at an even bigger number.

Sramana Mitra: What percentage of the bus ticket business do you have now?

Phanindra Sama: We are at 1% of total business. We have 70% of the automated bus ticket business. The automated ticketing occurs through a computer-based system, and ticketing is increasingly shifting to that automated bus ticketing system.

Sramana Mitra: How are you organized as a company?

Phanindra Sama: We have three businesses today. The first one is our consumer-facing travel agency, redBus.in. In addition to the website, we also sell in our call center. We have seven call centers in the country where people can call in and buy a ticket. We have delivery boys who will deliver those tickets to their homes, collect the money, and return. We started that business because consumers needed the service.

The second business we have is the software business where we sell software to bus operators. Some pay on a monthly basis based on the number of buses they have. Others pay on a per-person basis. The fees vary, but they all pay. We do not give anything free. Our mentors have brainwashed us that giving things away for free does not add value to the system.

The third business is a reseller business. We have access to many bus operators, so we give other players who want to sell bus tickets access. We power the back end for them, and we make money on every transaction that they sell.

Sramana Mitra: The redBus.in operation seems to have logistical complexities.

Phanindra Sama: It is very complex. You can't predict ticket sales precisely to the point that you make the delivery boy schedules optimized. You can't tell how many trips to the same areas they will have to make. If consumers book a ticket but don't actually pay for it, or the delivery boy can't find them, then you lose money because bus operators charge for cancellations. Our innocence got us into that business, but we have not developed a lot of business around it. Today we are the only ones who offer that service. Other players have had to close delivery.

Last year I was invited to speak at an Asia Travel Conference in Singapore. I then realized that there was a company in China whose entire story revolves around their ability to personally deliver tickets. They had 5,000 people in the call center taking calls and making reservations. In September I went to China to speak at a conference, and I found they now have 12,000 people in the call center. The majority of their business happens on the phone. That has given me a lot of confidence that delivery is the right way to go. A lot of people tell me how inefficient that manner of business is, and how cost consuming it is. However, if you work in a profitable manner, everything is scalable, and you need consumers to use it.

Sramana Mitra: How does your revenue split among the three businesses you have described?

Phanindra Sama: The majority of revenue, 70%, comes from redBus.in. That is our flagship product. The majority of our value as a company is in making sales. We help sell to the consumer, and that is where we have value in the industry. In our third business other companies are making the sell, and as a result we have to part with a lot of revenue.

Sramana Mitra: What you describe about the call center and the home delivery service is OK for India. In countries that have low-cost labor, there are more opportunities for mixing high tech efficiencies with high-touch customer service. That becomes harder in countries where labor is more expensive. It is an interesting model.

Phanindra Sama: It can also serve as a platform to migrate people onto using these technologies. If a company suddenly puts up a website, then they are doing something that is very different from the way people are used to transacting their business. If you have a call center then they can relate to you and speak with someone. You can then let those call center agents refer customers the website because that customer already trusts you as a business.

Sramana Mitra: How easy has it been to get Indian consumers to use credit cards?

Phanindra Sama: We have had to teach consumers how to use credit cards. This was particularly true when we first started. In India, when someone purchased a bus ticket over the phone or over the Internet, that was usually the first time they had used their credit or debit card. They have to know where to put the 16-digit number and where to put the CVV number. We would teach them how to do that. We have built internal analytics on the website that allow us to know when consumers have stopped the transaction because they can't get the credit card information correct. We then call that consumer and help him or her through the process. We spend a lot of time teaching people how to use their cards.

Sramana Mitra: Once you teach them, they become lifelong customers.

Phanindra Sama: Exactly. That makes it worth the effort. Absolutely. That helps us get more customers, which then helps us get more bus operators. That helps us get more distribution partners, which in turn helps us get more bus operators. It becomes a cycle.

Sramana Mitra: What is the status of the company? Are you planning on taking it public?

Phanindra Sama: I don't think that we will take it public any time soon. There is a lot of work to do internally. We are still working on it.

Sramana Mitra: Do you have pressure from your investors to take it public yet?

Phanindra Sama: No. I think we had a lot of good things happen to us, and our investors are part of that. We have a very good rapport with them. We have taken a second round of funding from Helion. We are a very capital-efficient company. In all, we have had $1.5 million come into the company. We have significant traffic and sell 2 lakh seats per month.

Sramana Mitra: That is fantastic execution.

Phanindra Sama: We have a very conservative, South Indian mentality. That is what people tell us. I attribute it to mentors. They have kept us focused on making money, not on getting eyeballs. We have kept to core principles.

Sramana Mitra: This has been an excellent story. Good luck!

Interview with Arvind Agarwalla, FACT

Arvind Agarwalla is the founder and CEO of FACT Software. Arvind founded FACT after recognizing that in the mid-1990s computers were primarily sold to automate accounting practices, yet they did not have a standard software package to accomplish the accounting functions. FACT is the first successful product company in India, entirely bootstrapped with some help from family. This interview was conducted in October 2013.

Sramana Mitra: Arvind, let's start with the beginning of your story. Of course you are from Kolkata, my home city. What kind of circumstances did you grow up in? You are one of the earliest product entrepreneurs in India. Tell me more about your story.

Arvind Agarwalla: I wind the clock back prior to my birth. My family moved to Kolkata in 1900. Entrepreneurship runs in our genes. We were a large industrial family, and like any large industrial family we had our share of brother vs. brother rivalries. My grandfather was thrown out of the family in 1955 when my father was 16. We went from owning an airline, steel plant, and a piece of every industry in the country to becoming paupers overnight.

My father built up his family and his finances brick by brick. I grew up in a very middle-class environment. Education was paramount in our branch of the family. My father finished high school when he was 14. I was a straight-A science student. Midway through my 9th grade year, we migrated to the United States. We spent the next 15 months in New York before my father decided that was not a place [in which] he wanted his kids to grow up, so we returned to Kolkata. I struggled to finish my 11th and 12th grade in science, and that was the end of my science career.

The science bug in me was very alive and robust, though. I could not see myself just doing business. When I was in my third year in college, I took over a gas station and was earning more money than my dad was. In 1984, I went to Hong Kong and bought myself an Apple IIe compatible and paid 180% duty to bring that back. I had to pay an additional 100% fine to bring a banned item into India. We became the first gas station to have its own in-house computer. Our invoicing system was developed in Basic. I paid a consultant 5,000 rupees to come and write the program. He would come from 6 p.m. to 9 p.m. and write the program.

We did not have a hard disk, we just had the 5.25 inch floppy disk. I had four drives. One was the operating system, one was the program, and two were the data drives. I would eat my dinner while he was there working, and then around 10 p.m. I would start working on his program to make it faster and more efficient, and do that until 5 a.m. or 6 a.m. That was my first foray into computers. That got me very excited.

My dad kept asking me why I was wasting so much time on the computer. I did not know why, other than it was something that I found to be very exciting. As things would have it in 1987 I set up my company in Kolkata. In those days computers were really expensive. There was no question of home computers or color monitors. Companies bought computers to automate their accounting, which was extremely laborious and had a large number of transactions. While I was running my gas station, I had gone around looking for accounting software. I did not find anything, so I figured there was an opportunity.

That is why FACT Software was created. In those days I would read success stories from the US about how companies were making a huge fortune selling software packages. I realized that all of the computers that had been sold for accounting had no accounting software, so I figured I would build a software package that I could sell.

Sramana Mitra: When you first started the company, how did you get the product into the market? How did you build the product and acquire your first customers?

Arvind Agarwalla: I set up the company at the end of 1987. My first colleague was a very good friend of mine and remains a close friend to this day. He used to work for a consulting company and traveled all over Kolkata. He was the techie, and I was the commercial guy between the techies and the customers. In February 1988 we made our first sale. If I recall correctly, it was for 3,999 rupees. It was a very basic ledger system that we sold to some friends and family who knew that I was getting into this business.

We got out first customer and we started to improve the product. I went out and hired some people, but it was extremely difficult in those days to sell software. Everybody was used to free pirated copies of software, or they were using tailor-made software. They had no concept of package software outside of the US. For the first two years, I was the only salesperson for the company.

When I was doing sales, my first objective was finding out who owned a computer. There was no point in talking to someone who did not own a computer. Computers were very expensive. I remember that my first computer was 100,000 rupees at an exchange rate of 11 rupees to the dollar. Sterling Computers came out and slashed the prices of computers in India, and all the prices dropped by 25%. Even in those days Word and other programs were available via copies. When I bought my first computer, they charged me for the software and then gave me five disk copies. That was the environment back then.

Sramana Mitra: How did you go about getting the names of computer owners?

Arvind Agarwalla: I would call up the computer dealers at that time and tell them that I needed to buy a computer. I would ask them for a list of 20 people whom they had sold a computer to in the past three months so I could determine how good their service was. I would then call those people and introduce myself. I informed them that we had built some amazing accounting software, and I invited them to our office to take a look at the software.

It was not easy back then. I was the only sales guy, and we did not have laptops. When I made these calls, they would always ask me to come to their office instead. I would keep calling them until they came to our office. I was able to offer them free parking, and I told them that we had the best coffee and biscuits in town. The building we were at had a lot of parking inside. We served fresh biscuits and hand-whipped espresso. We would serve it and word got around that we had something interesting to see. A number of the customers that we acquired in those two years are still our customers 25 years later.

Sramana Mitra: How did you deal with the piracy situation? It was pretty bad in the 1980s and 1990s.

Arvind Agarwalla: The first thing we decided to do was implement copy protection on our software. Of course a lock can be broken, but we had to copy protect it or we would not be able to make revenue. Our software to this date is copy protected. The second thing was that we released regular upgrades. When people paid our maintenance fees, they got the new versions free of charge, as well as support.

Accounting is mission and time critical. Once you have moved onto computerized accounting, if the software goes down, your entire operation goes down. Our pitch was that you are paying a small insurance fee to us to make sure your accounting operations will always be up.

Sramana Mitra: How were your revenues ramping up when you were starting this business in the late 1980s?

Arvind Agarwalla: The first five years were a huge struggle. Every month was a nightmare. We would somehow meet payroll. Beyond the initial investment we made in the company I never borrowed any additional money. I was the only son and in the traditional Indian family the father's money is the son's money, and the son's money is the father's money. Except for the initial investment, I did not put in any more of the family money, and I actually started paying dividends.

Sramana Mitra: How much money did you use to get the business started?

Arvind Agarwalla: We spent 2 million rupees, and a beta capital investment of 600,000 rupees. I also had a shareholders loan of approximately 1.2 million rupees. We also spent money on the property.

Sramana Mitra: Your father probably thought that the property was a safe investment.

Arvind Agarwalla: The building was constructed by my grandfather in 1959 and the lease expired in 1980. The tenants did not vacate, but we had the entire fourth floor. I got that floor vacated through legal means. I could have sold the property, but didn't so that was an investment from the family. In 1987 the investments that we put into the business were pretty substantial. Everything fell into place.

Sramana Mitra: What were some of the milestones that brought you to the next level of growth?

Arvind Agarwalla: In 1991 we established our first office in Nepal. The inflection point for us was 1993. We established a branch in New Delhi and one in Mumbai. We went to Nepal first because they were landlocked. Every company there would import through the ports in Kolkata. Their subsidiaries in Kolkata would always have updated accounting records because they were using our software, and the home offices in Nepal did not have the updated records. They would come to Kolkata and asked for us to support them locally in Nepal. We upped our price by 25% when we opened that branch.

The way business works in Nepal is if you sell to company A, then all the businesses in Nepal come to know about it. It is a small community of entrepreneurs. They meet every evening. They may be fierce competitors, but they are also friends and family. We were quickly introduced throughout that community.

Sramana Mitra: It sounds like your market started to mature by 1991.

Arvind Agarwalla: It was getting mature by then. We had started advertising, we had strong word-of-mouth recommendations, and we had a good user base. People recognized us as a software company. Our customers felt we delivered very effective software, and our pricing was extremely attractive.

During the initial euphoria of purchasing computers, a lot of companies had hired freelancers to develop software. They would spend money developing their customer solutions and then watch them fail. We had some pretty large companies come and buy our software.

Sramana Mitra: Were you still selling direct, or had you started selling through channel partners and distributors?

Arvind Agarwalla: It was impossible to get people to sell software. We tried and tried, but it was not successful. I have a lot of respect for companies in our space that have established a channel network. Today it's a bit different, but in those days it was either hardware sales or piracy. Hardware margins were hitting 15%.

Sramana Mitra: What was the next major inflection point?

Arvind Agarwalla: The next key inflection point was establishing operations in Singapore. I came [to Singapore] through a Department of Electronics–led business mission. When I arrived, I put out a small ad in the classifieds explaining that I was visiting from India to demonstrate our accounting software and that interested parties could contact my hotel if they wanted to know more. I was able to conduct several demonstrations because of that advertisement. I had my box of floppy disks, and I had to install the software on the computers of individuals requesting the demonstration because I had no way to take my own computer with me.

The prominent software at that point, particularly in Hong Kong and Singapore, was Accpac. One of the Accpac dealers called me and asked me to do a demonstration. I had no idea what the capabilities of Accpac were, but they stopped me in the middle of the demonstration and called their entire team to come over and take a look. I ended up making a presentation to about 12 people, and after the presentation they took me out to lunch. Each time I made a presentation to anyone, I would receive an invitation to lunch or dinner. I knew I was on to something hot, but I did not know what it was.

Two companies bought copies of our software. I promised to return in two weeks to implement a list of enhancements. I went back to India and completed a huge number of enhancements, and then I returned to Singapore two weeks later with a colleague. We spent the next 14 days installing the software, one of us at each site. By the end of our time there, we had signed a joint venture with one of the companies to establish a subsidiary in Singapore. It was a fantastic opportunity because they knew how to sell in a global market.

We established the company in Singapore in November 1992 and started operations in January 1993. I spent the next year splitting my time between India and Singapore. We established a downstream subsidiary in Malaysia in 1993. Our return doubled in 1993 just through our operations in Singapore. We had a huge amount of traction in the industry.

Sramana Mitra: In the history of any company, a few key people become the legs on which the table stands. Who were those people for you, and how did you find them? Kolkata was not the hotbed of management talent.

Arvind Agarwalla: If you look at a product company, research and development is one leg. Sales and support are the other leg. I am very passionate about marketing, so I took that on as my responsibility. By the time we had moved to Singapore, my partner had built a very solid engineering team. We worked like a family. Today we have 160,000 people worldwide, but we still function by the power of five. I strive to have five direct reports whom I trust implicitly. In turn, each one can have five direct reports whom they trust implicitly. That was the strategy we followed.

Sramana Mitra: Around the mid-1990s, the Internet started coming about. What was happening in the market that impacted your company?

Arvind Agarwalla: In our industry I have found that we would have one strong local competitor in every market. There would be one strong competitor in Kolkata, Bombay, and Delhi. The only competitor who went nationwide was Tally. When it came to India, they were the top product in the country and we were second.

When we came to Singapore, Accpac was our strongest competitor. When we went to Malaysia, it was Accpac again. Accpac International was owned by Computer Associates. It was sold a few years ago to Sage and it is now known as Sage ERP.

Sramana Mitra: How did you compete with those companies?

Arvind Agarwalla: In Singapore we were the only real-time accounting software. The moment you made an entry it would go up against the balance sheet instantly. The other packages did batch processes. We also touted our size and emphasized our ability to be nimble compared to Accpac.

Sramana Mitra: What about the local competitors in Bombay, Delhi and other cities? I am sure you also ran up against Tally. How did you compete against them?

Arvind Agarwalla: Tally sold through channels, and they did a great marketing job. In a way it is nice because they educate people into computerized accounting, and we can convert them later. We are a far more comprehensive solution. We also have better experience working across diverse regions. In that manner we are a global company as opposed to a local company. When you look at our brochure, you will see that we have a footprint in seven countries.

Despite that global presence, we still act like a very small, nimble company. We do 260 enhancements a year, which is almost one per day.

Sramana Mitra: Are you still selling packaged software, or have you converted into a SaaS model?

Arvind Agarwalla: The moment a company hits $5 million, they are profitable and have a lot to lose. What does it take to hack a public server? Not much. I think the SaaS models have a lot of risk with their security layers. I do see SaaS companies getting a lot of traction, but the types of companies that turn to them are not the types of companies that use us.

Sramana Mitra: Have you lost clients to the companies that offer a SaaS model?

Arvind Agarwalla: We have not lost any clients to the public cloud. We offer our clients a private cloud option. We allow our clients to determine what kind of security they want. They allow what branches they want to connect to the system and how to secure them, via VPN or placement of firewalls.

Sramana Mitra: In your geographies, the public cloud has not become a major issue yet. I think the public cloud is still a phenomenon in the West.

Arvind Agarwalla: It is a phenomenon in the West. I would still like to see some numbers that show how many Western companies with over $5 million in revenue are going to the public cloud, where they have no control over the security aspect.

Sramana Mitra: What are some of the other strategic moves in your company's history?

Arvind Agarwalla: We used to support our current version of software as well as the two versions prior to the current release. In 2001 we decided to only support the current version. Supporting two outdated versions caused us a lot of problems. When someone found a bug in the oldest supported version, we would then have to go and fix that bug in three versions of the software. We made a bold decision to support only the current version to optimize our operations. It was not a popular decision, and we faced a lot of customer backlash.

We also used to maintain two versions of the software. We had a DOS version and a Windows version. We had thousands of users on the Windows version and far fewer on the DOS version. Microsoft would not support the DOS version, but our customers were not willing to move. We made another bold decision to move to a Windows-only version.

Sramana Mitra: What has been your strategy in terms of financing? Have you organically built the company after your initial investment period?

Arvind Agarwalla: When we were in India, we had a partner in Singapore who used to buy stock from us. He would get bank financing on our stock. When I went and spoke with my bank to establish a line of credit, they told me it would not be possible. I could not understand why a bank in Singapore would provide financing, but one in India would not. It seems that at that time there were no product norms for financing.

Ever since we started the company, we have managed to grow organically. Once you have recovered the operating cost of a month, it is possible to earn enough money to make the necessary investments. We have never had a financing issue. Our challenge to growth has been human resources. If we were to open a new office today, I could write the check for that office very easily.

However, I would need to send two key people to open that office. I would need a head of sales and a head of support. These people need to come from the head office. That is our challenge.

Sramana Mitra: You own the company 100%. How do you incentivize your employees aside from salary? Do you have a private stock option plan?

Arvind Agarwalla: We do not have a stock option plan, and that would not make sense because I really have no intention of exiting the company. Our sales team operates with an excellent commission package. The support teams are also on an incentive program based on top-line targets. The R&D work is different, but they are compensated very well. Everyone in the company is well compensated.

Sramana Mitra: You have a very profitable company and can invest in a variety of areas if you want to. What does the future look like from where you sit?

Arvind Agarwalla: We want to be in every country in the world. That is very challenging from a human resources perspective.

Sramana Mitra: I'm not sure that is a reasonable goal because there are markets full of competitors.

Arvind Agarwalla: Every market is full of competitors. When we came to Singapore, there was no reason for us to sell a single copy.

Sramana Mitra: You went to Singapore very early on in the technology adoption cycle. If you come to America, you will find that Intuit will probably kick your ass.

Arvind Agarwalla: Intuit covers the bottom end of the market. I have been to the US and done my research. At the bottom end, everyone uses Intuit. The moment a company hits revenues of $5 million to $7 million, they will find QuickBooks to be incredibly insufficient. The next set of accounting software is designed to serve companies that make in excess of $100 million. That gap in between is incredibly under-served.

Sramana Mitra: I think you need to do more competitive analysis on that market segment. There are a lot of competitors in that space. I do agree that there are a lot of markets like South America and Africa. I would go to those countries first.

Arvind Agarwalla: Going to the US is a different ballgame. We definitely could not start off with a nationwide approach. My analysis shows that the mid-market is under-served in the US. If I compare salaries of accountants in the US, I will find it higher than in Singapore. We always have to keep salary arbitrage in mind because the more efficient we make our operations, the more money we save companies. We are definitely looking to grow beyond the regions we are currently serving. My main challenge to expansion is problem of human resources. We have to find the right people.

Sramana Mitra: What do you think makes a successful entrepreneur?

Arvind Agarwalla: I have three points that I focus on: passion, focus, and integrity. For an entrepreneur to be successful, they must be passionate about their product or service. I still love getting up and going to work. I love talking about our product. My wife tells me that it is my first love.

In order to excel at what you are doing, you need to remain focused. It is very tempting to lose focus and try to pursue other opportunities. You need to have a reality check every now and then. My final point was integrity. Once you start making money, it can be very easy to cheat a customer, stakeholder, or colleague. We went through very tough times and we stayed afloat because of our integrity. I was always very honest and told people when I was going through hard times and when I would work to help make payment arrangements.

Sramana Mitra: Congratulations. It has been a real pleasure talking with you.

Bootstrapping a Global $7M Software Company from Kolkata, India

For years, I have been a strong advocate of bootstrapping. Pallav Nadhani, CEO of FusionCharts, is one of my favorite entrepreneurs with an inspiring story.

Pallav was born in the small Indian town of Bihar where he lived until the age of 15. After that, he lived in Kolkata with his father, a man with an entrepreneurial spirit of his own. Pallav's father had started his own Web design company and Pallav helped out. He'd gotten his first computer at age nine and used it to teach himself Basic and C++.

One day, while browsing the Web, he discovered ASPToday.com, which was published by Wrox Publication. The idea for FusionCharts came when Pallav noticed that desktop applications didn't look as good as Web applications, and came up with an idea to change Excel's charting to a "webified interface." He described his idea in a tutorial article that ASPToday.com published. Pallav earned $1,500 for that article and used it to fund what would grow into a multi-million dollar operation with close to 500,000 people using its products.

Many people who read Pallav's article started contacting him. They wanted to know if he could customize some aspect of his tutorial. So, he decided to create all of the requested customizations and use them as the foundation on which to build a product that he could sell. Because he didn't know how much he should charge, Pallav started out only charging $15 because that was the minimum amount that a payment gateway he had signed up with would accept. That was in 2001.

Once Pallav's first customers deemed the product a good one, Pallav put it up on a website and started marketing it by writing articles about "why people should not be using outdated charts in Excel when there was a better technology." He had no money at the time, so guerilla PR – writing articles that indirectly promoted his product – was the only option available to him.

FusionCharts gained traction with the help of recommendations from clients whom Pallav helped integrate his application into the product for free, only charging them a licensing fee. In return, they wrote recommendations that led to more clients. Pallav continued to write guest posts. He also visited Web forums and talked about the features of his product.

Because one of the clients for whom Pallav provided free integration services had a wide reach, Pallav's business grew steadily early on. He launched the first version of his product in October 2002. By March of 2003, the company had earned $10,000. In 2003, the company earned $100,000; in 2004, $300,000; and in 2005, FusionCharts earned $750,000 in revenue and so on. Increased earnings allowed Pallav to start paying for online advertisements, which helped the company to grow even faster. By 2006, FusionCharts had almost earned $1 million and had a staff of 10 people.

Of course, pricing has come a long way. Where Pallav once charged $15 dollars for a product that's designed for developers who can integrate charting with software applications, he now charges from $199 to $13,000 for the reseller license. Enterprise licensing can cost as much as $100,000. FusionCharts has another product that's designed for SharePoint users who require visualization on the platform. The fee for that is $1,299 per server. The third product is for non-technical users who need visualization that's better than what they can get with PowerPoint. For that, the charge will be $49 per user.

The introduction of the iPad presented Pallav with a serious challenge because FusionCharts' products require Flash and Apple doesn't support it. Pallav's answer was to partner with one his competitors to create a hybrid product that works on iPad, iPhone, Android, PCs and the Web, a strategic move that gave FusionCharts a big boost in business and, consequently, revenue.

In 2012, FusionCharts was a $7 million enterprise with a global clientele, many of them Fortune 500 companies. Pallav has increased his team to 60 people and increased his product offering to a total of 14. In 2011, FusionCharts opened a location in Bangalore. Pallav has no interest in financing because, as he puts it, financing would not help him grow at this point. He runs a lean operation that for the seven years of its existence ran at 80% profit margin.

That's quite an accomplishment for a young man who started his company with $1,500.

Interview with Pallav Nadhani, FusionCharts

Pallav Nadhani is the CEO of Fusion Charts, a software suite that allows creation of interactive charts for web and enterprise applications. Pallav has had many VCs chasing him, offering financing, but has chosen to continue to bootstrap. My mantra: "Do not go to VCs as beggars. Go as kings. Better, have them come to you." Well, they certainly come to Pallav! This interview was conducted in July 2012.

Sramana Mitra: Pallav, let's start with the beginning of your story. Tell us a bit about where you are from and what kind of background you grew up in. What is the genesis of your entrepreneurial spirit?

Pallav Nadhani: I grew up in a small town in Bihar, India, until I was 15. After my basic schooling was completed, I moved to Kolkata. My dad had moved there a few years prior to start a web design agency. When I first moved to Kolkata, I helped my dad with some of the graphics and web application design. This was back in 1998 and that was my first exposure to the web. There was a lot of activity going on in that ecosystem. I was totally interested in what the web could offer. It was a new paradigm for me since I came from such a small town.

I had a computer at my home from the time I was nine years old. I was doing a lot of programming. I started off with Basic and C++. When I saw the web, I was blown away by the interconnectedness of it all. I was amazed at what you could do with sophisticated designs. I helped my dad for about two years, and during that time I picked up a few different web technologies.

During that time I also stumbled across a site called ASPToday.com, which was published by Wrox Publication. There used to be a lot of great articles on that site. I had used Excel a lot during my school days, and I could easily differentiate between desktop applications and the web. Desktop applications were boring, while web applications had a lot of spice. I had an idea which was to change the charting of Excel to a webified interface. I wrote an article for ASPToday.com on that topic, for which I was paid $1,500. That is a lot of money for a 15-year-old. I used that cash to start my entrepreneurial endeavors.

Sramana Mitra: Bihar is not exactly one of the most technology-oriented places in India. How did you learn to program and get computer savvy in Bihar? Was it because your dad was doing it?

Pallav Nadhani: My dad made sure that I had a computer at home. He showed me what I could do with computers, and when you have one that young you really start to get a passion for it. It was an opportunity for me to let my curiosity teach me. My dad bought a lot of coding books that he used for his work, and I picked up my programming skills by reading those books. I would practice coding in my spare time. My dad was very encouraging, and without him I would not have been able to do this.

Sramana Mitra: What did your father do for a living?

Pallav Nadhani: He dabbled in a lot of things. He worked on some commercial projects such as building water treatment plants, and then he started helping companies move from paper accounting to computer accounting. He is one of the bestselling authors in India for accounting books. After that he started his web design agency.

Sramana Mitra: It sounds like your father is a very entrepreneurial

individual and you grew up in an entrepreneurial environment.

Pallav Nadhani: That is definitely the case.

Sramana Mitra: Let's fast-forward to the point where you moved to Kolkata. You were 15 and working for your father's web design firm. What happened next?

Pallav Nadhani: I used to do a lot of design projects. The first ones were just simple websites where people wanted the ability to capture leads through their websites. We did a lot of work for import and export buyers. Those businesses realized that they needed a website and email address, but they had no idea what a website was or what an email address was. We would explain what a website and an email were and how they could be used in their businesses.

Once we did a few of those smaller clients, we picked up some larger clients. We did a few web applications. We wrote some email managers and things like that. Those are tools we can all take for granted now. Back in those days, those applications were not common as they are now. I wrote those web applications with Microsoft ASP. That is how I got hooked on dynamic applications.

A few of our more advanced clients needed fancy animation, which is when I started learning Flash. That is also around the time I ran into ASPToday.com. In an effort to provide better graphics and charts, I combined ASP and Flash technologies. After I wrote my article, I got a lot of feedback. People started contacting me wanting me to customize some aspect of the tutorial I wrote. I figured out that if so many people needed these customizations, it did not make sense for me to do a bunch of one-offs. I felt it would be better to do all of those customizations and build it into a product I could sell.

When I released the first version of the product, I had absolutely no idea how to price it. I did not even know how to do licensing. We signed up with a payment gateway and the minimum payment they would accept was $15. Since that was the minimum payment, that is what I priced the product at.

Sramana Mitra: So you learned to sell charting tools online and collect payments online from Kolkata?

Pallav Nadhani: Yes. The problem is when you are taking $15 payments, or any payment under $100, clients are not willing to send you a check if they are from the U.S. The cost of sending a check to India was higher than that. The first sale I made in which I accepted a check cost me money because the clearance of international payment was greater than the check itself.

Sramana Mitra: What year was this?

Pallav Nadhani: This was in 2001.

Sramana Mitra: Once you had created your first product out of the charting functions, how did your first customers find you?

Pallav Nadhani: They were folks who had read my article on Wrox. The first payments I received were from people who read about my work there. Once the product was good, I put it up on a website and then wrote some articles to indirectly promote that product. I wrote articles about why people should not be using outdated charts in Excel when there was a better technology. I got a lot of traffic from people who had read that article and came to our website. All of our initial customers came from free marketing like that.

Sramana Mitra: What you really did is called guerrilla PR by writing guest articles at somebody else's site that had the right audience.

Pallav Nadhani: That was the only choice I had because I had no money to spend on marketing, and I had no clue how to do marketing.

Sramana Mitra: What happened after you received two checks by mail? You mentioned that cashing those checks was more expensive than the actual value of the check, so you had to move to a payment gateway. How did you build a customer base after that?

Pallav Nadhani: I had been collecting a list of customers who wanted our product but were not able to mail checks. Once I had the payment gateway online, all I had to do was contact them and let them know about the new payment option. This was a 2001, which was not a good time for building anything on the Internet. Fortunately for me, people at that time were interested in building the next generation of web applications that were commercially viable.

I actually helped some of my clients integrate my application into the product without charging them an integration fee. All I charged them was the licensing fee. In return I got their recommendations, which in turn generated a few more clients for me. Once these clients put our application link on their websites, a lot of people saw it. That started building our business. Throughout this time I continued to write guest articles. I also went to various web forums and talked about the features. Any time I saw someone in a forum asking how to build a column chart, I would go in and recommend my product as well as posting some integration code samples.

Sramana Mitra: You licensed your product to a couple of companies and provided free integration in return for their public acknowledgment of your application. What kind of reach did they have?

Pallav Nadhani: They had a very widespread audience. Some companies used it for their intranet reports. If they had a sales tracking application, the charts were restricted to internal audiences. However, other companies had their applications and charts facing the public. They also had a varied audience.

The biggest benefit we received was from a company that was building survey-based products. They sold their product to anyone that needed internal or external surveys. They had a good reach into small- and mid-sized enterprises. Their testimonial, combined with acknowledgement of our charting application, helped us get credibility with their customers.

Sramana Mitra: How much revenue were you able to generate during your first year of operations when you had no formal marketing budget?

Pallav Nadhani: Our first version launched in October 2002. Our accounting cycles run from April to March. From October 2002 to March 2003, I was able to generate around $10,000.

Sramana Mitra: What happened in the following financial year? What did your ramp rate look like after your first year?

Pallav Nadhani: In 2003 we made $100,000. In 2004 we made $300,000 and in 2005 we generated $750,000. Every year we kept **multiplying our revenues**.

Sramana Mitra: As you were going from milestone to milestone, what were the strategies you were following in marketing?

Pallav Nadhani: After the first year, I realized that I should dedicate some money to pay for paid listings. Back then there used to be a lot of directory sites which would allow you to pay for listings. I found a multi-platform directory to get listed in their charting directory. That helped us get some traction, but not a lot more. Once Google AdWords came around, we started building our strategies for purchasing AdWords. We also sponsored some email newsletters. Fortunately for us, by the time these methods were mainstream, we were generating enough money that we were able to afford to use things like Google AdWords.

Sramana Mitra: What were the cost structures of your AdWord campaigns?

Pallav Nadhani: For the first year and a half we did not track metrics from Google AdWords. We just put 10% of our revenues into marketing. I was the only person working in the business for the first three years, and the business was growing very fast. I just relied on the data provided by Google to determine which AdWords were working and which ones were not. In 2006 we built our own back-end system to see what customers were doing on our site and how that related to Google. For every dollar we spent in 2006, we got a five-fold return.

Sramana Mitra: What was happening in the other aspects of your business during this time? Was your business financed entirely through organic means, or did you take investors?

Pallav Nadhani: The seed financing was from the article I wrote. When the product started selling, there were no real expenses. I was running the business and server from my bedroom, and I had no employees. That let me save a lot of money, and I got my own office in 2005. That office was able to accommodate 20 people, and by the end of 2007 I had hired 20 employees. I really had no hiring strategy, I just needed people who could help me build the code faster. The coding was a challenge because I did not know what skills to look for.

Sramana Mitra: What was the experience level of the people you were attracting at that time?

Pallav Nadhani: The first guy whom we tried to hire did not join us because he did not want to be the first employee. After that I looked for people who did not want to work for a big company. My first hire did not even have a degree, and the second person was someone who had an art degree. They were people who had a personal passion for coding. They did not have degrees, but they were capable of writing good code. I gave them the freedom to work as long as they met their goals. I did not care what time they came and left work, as long as the work got done.

Sramana Mitra: In 2006 you were close to a million dollars in revenue and had a staff of 10 people. What happened next?

Pallav Nadhani: Over the years I had received a lot of requests to build new features and capabilities in FusionCharts. Instead of building them inside of FusionCharts, we built a new product. That allowed us to monetize it better. Not every customer was going to need such features, but those who were would be willing to pay for the additional time we spent developing it.

Sramana Mitra: What is your product portfolio, and what is the pricing of its various components?

Pallav Nadhani: We have three different products. One is meant for developers who can integrate charting with software applications. That has been the bread and butter of the company for the last seven years. We used to sell this for $15. Today it is $199 or $13,000 for the reseller license. Enterprise licensing goes up to $100,000.

We have two more product lines. One is for SharePoint users who need visualization capabilities on that platform. That product line is priced at $1,299 per server. Our third product is for non-technical users. This product is for people who need better visualization than what can be found in PowerPoint. That product line will be a one-time fee of $49 per user.

Sramana Mitra: How have you done product management? How do you know what to build?

Pallav Nadhani: We have been lucky. We have 450,000 users, and they give us product requests directly. Once they tell us what they want, we can integrate it into the main product, or we can determine that it is worthy of becoming its own product if we have 200,000 users asking for the same feature.

Sramana Mitra: What happened with the business after 2006?

Pallav Nadhani: A lot of the large enterprises started buying more of our products owing to the diversification in our product lineup. We set pricing for enterprises that includes enterprise support. That also required me to ramp up the team on the support and documentation side. Prior to 2009, I was hesitant to hire anyone on the support side and required the developers to provide support. That ensured that customers received answers that were direct and to the point. From 2006 to 2009, we took a series of small steps, and those steps are what enabled us to start getting traction from enterprise customers.

Sramana Mitra: Did you proactively sell to enterprises, or were they referral and inbound inquiries?

Pallav Nadhani: Marketing helped us here. We do not have cold calls, but we have a strong marketing arm. We push our product primarily in online channels. Our users are technical users and managers, which means it is easy to figure out the keywords they are searching for. As long as we know that, we can make sure we get in front of them. The majority of our keyword searches are directed at our brand, which tells us that people know what they are looking for.

Another key for us is our documentation. It is well written, and people can get started in 15 minutes. We have a lot of ready-to-use examples and best practices included in our documentation. We guarantee that if you cannot get started in 15 minutes, we will refund your money. This is key because developers are always under pressure to get their products out the door.

Sramana Mitra: You said you changed your pricing and started going after mid-sized and other larger customers. How did you manage that process? It can be tricky to change pricing.

Pallav Nadhani: We started at $15 and the next year we moved it to $35. After that we went to $99, $250 and finally $500. In the beginning, having our product priced so low helped us to attract individual developers and small teams. Our product at that point and time was not as feature-rich as an enterprise product needed to be. As we added features, we also increased the price.

When we were enterprise ready and we began selling the product for $500, we found that enterprises found that price point to be very cheap. There was the impression that if we were selling our product so cheap, it must not be a good product. Other competing products were two or three times the price we were charging, and they did not offer half of the features we offered.

By this time we had several thousand customers. We had a good product with a lot of success stories. We decided to create a pricing strategy that would help us to propagate our product into the enterprise market. Our strategy was to avoid abandoning our existing customers, so we gave them all a free upgrade. We then implemented a tiered pricing strategy that would allow small users to continue purchasing our product. We like having small developers as customers because they give us great feature requests and ideas. On the upper end we created enterprise pricing that included high-end support and free upgrades.

We also felt that when enterprises used our product, they were not going to use it only on one server. They were likely to put it on multiple, even hundreds, of servers. There would likely be three or more developers implementing our product. We created a licensing model that allowed a single developer to purchase the product for $199, and then we offered enterprise pricing that grouped servers by units of 10.

Sramana Mitra: What has been the impact of that pricing strategy on your revenue since you implemented the change?

Pallav Nadhani: We have doubled our revenue every year since 2009 when we implemented that pricing strategy. We did $1.5 million in 2008, then $2.8 million in 2009. We followed with $4.2 million in 2010. We did $5.5 million in 2011, and this year we did $7 million dollars.

Sramana Mitra: Have you changed your sales and marketing strategy?

Pallav Nadhani: In 2010 we changed a few things. When Apple introduced the iPad, we had to adjust our strategy. Apple does not support Flash and our product relied on Flash. Initially we thought that Apple would finally begin supporting Flash, but that did not happen. We had three months to figure out a solution. We figured that even if we had to rewrite our entire code base with JavaScript and HTML 5, it would take three months and cost us all of our customers.

At that point we partnered with one of our competitors, which offered a charting library in JavaScript. We took their code and integrated it with our code, which we then sold as a hybrid product that could work on iPad, iPhone, Android, PCs, and the web. That gave us big push and people started looking at us as the thought leader in the industry.

At the same time we changed our marketing from plain SEO and display advertising to a marketing program that displayed our thought leadership. We ran ad campaigns that questioned anyone's decision to use a charting program that could not support multiple platforms. At that time most of our competitors had failed to use a hybrid model. That resulted in a spike in interest from enterprises. They wanted support for all of the devices their stakeholders used.

At the same time, we matured our lead system. We were getting upwards of 10,000 leads a month. We knew that automated sales were good, but that if we gave a lot of these customers a little push that we could get them to spend more on licenses. As a result, we developed an inside sales team and they worked only on inbound leads. We did not do cold calls or unsolicited offers.

Sramana Mitra: Where is your inside sales team located?

Pallav Nadhani: They are all in India. Most of them are in Bangalore, although some of them are in Calcutta.

Sramana Mitra: How has your team evolved and shifted over the past several years?

Pallav Nadhani: One of our biggest challenges is that it is very hard to find product guys in Calcutta. You cannot find people who understand product and how to build it. It took us a year to figure out how to solve it. Rather than looking for experienced people, we now hire them directly out of college and have our experienced people train them. It takes one year, but by the end of a year they are ready to perform. Using that strategy, we ramped from 20 people to 50 people in less than a year and a half.

The increase in size brought on another challenge. Most of those people were reporting directly to me. That did not give me enough free time to work on business strategy. I had to start developing and finding management guys to lead my sales and development teams. I looked in Calcutta for nine months and could not find even one person to do one of those roles. I then looked to Bangalore, but I could not convince any of them to move. Ultimately I decided to open an office in Bangalore and then allow a **management team to work from Bangalore**. I since hired a VP of engineering, a director of operations, and a VP of sales.

Sramana Mitra: So, you essentially have a management layer in Bangalore?

Pallav Nadhani: Initially, but we are now adding more developers there as well as our inside sales force. Wherever we find the right person for the job, we hire that person at that location.

Sramana Mitra: How have you developed your product?

Pallav Nadhani: FusionCharts is commercial open source. We give our customers all of our source code. I do that because it builds trust with our customers. When you buy any of our standard licenses, you do not get source code, but if you are willing to pay a threefold to fourfold licensing fee, we will provide you the source code. In 2006 and 2007 there was an Eastern European company that took our source code, made minor changes, and started selling it under an alternate brand name at a reduced price.

I did not have a legal team, but I contacted one. When they quoted me the cost to pursue that company in court, it was almost a full year's revenue. I knew I could not afford that. The worst part was that if they had done this in Western Europe, we could have had a case. We thought about it, and we decided that our best alternative was to take our main product and make it entirely open source. Today, whenever we release a new version of the product, we make the previous version open source.

That gives us two benefits. It makes it more challenging for our competitors because now they have to compete with our free product first, and then they have to compete with our commercial product. Second, it gives us credibility. Our own internal competition becomes stronger because we have to ensure that we are building a product that is worth paying for when they have the option to use a free product that we also produced.

Sramana Mitra: You are at $7 million of revenue and have shown good growth. Are you interested in financing?

Pallav Nadhani: At this point I am not. Even if I took money, it would not help me grow. We have a very lean operation and for the first seven years we ran at 80% profit margin. We have a cash reserve. My growth limits are not cash. If I had a strategic investor who could bring something other than money, I would have something to consider.

Sramana Mitra: This has been an excellent story. I think you have been very disciplined in your approach. Congratulations!

Interview with Mithun Sacheti, CaratLane

Mithun Sacheti is the founder of CaratLane, an online jeweler in India and one of the country's leading ecommerce companies. Mithun grew up in the jewelry industry and prior to founding CaratLane, he opened new stores for his family business throughout the southern regions of the country. He has studied gemology in California and Bombay. This interview was conducted in August 2012.

Sramana Mitra: Mithun, let's start at the beginning of your story. What is your journey that leads up to CaratLane?

Mithun Sacheti: My family has been in entrepreneurship for many generations. My father moved to Bombay from Rajasthan to set up his own jewelry stores. I was born in Bombay in 1978 and I did my education there before moving to California to study gemology engineering and manufacturing. When I moved back, the most logical thing for me was to start something allied to the jewelry industry. I grew up in that industry and my education was in that industry.

I moved to Chennai and decided to build a store. In 2000 I started to build out the first store under my father's brand name. This was an extension of the family business, and I was the first one to move to the south. That had always been considered a different territory because the language and everything else was different. That is where jewelry and entrepreneurship started for me.

I built up that store for a couple of years. I found that 2001 was not the greatest year. The world was in a recession, so it was not a great time to be starting a business. I sustained it for three years by selling to everyone who walked through the door. I ran a three-man operation back then. Slowly but surely, we grew to the point where in 2004 we added another floor to our store. By 2005, we were one of the best stores in the city. Anyone who was looking for fine jewelry knew about us.

Sramana Mitra: What as the revenue level at that point?

Mithun Sacheti: In 2004 we were around $7 million or $8 million from the store I was managing. At that point I also started looking at doing something new, so I opened another store in the south of India. It was an attempt to build a professional store. In India, everyone was used to the family concept when it came to jewelry stores, where the owners sat in the store to sell everything themselves. I was trying to break that model. I built the second store like a little palace since space was not as expensive. It was a concept store and came out very beautiful. It is one of the best stores in the country today.

One thing that kept sticking with me was my past experiences during my studies in California. I used to go to downtown L.A., where the diamond industry was based. I would pick up loose diamonds I knew from family connections. I would then bring those to retail stores in San Diego for them to sell on Saturday and Sunday. The wholesale business was shut in those days. I was basically just transferring inventory from L.A. to a retail store and hoping that something would click. The first year went very well, but in 1999 we saw Blue Nile come in, which really marginalized prices. The money I made from that became my pocket money. I also saw the power of Blue Nile.

Sramana Mitra: I have followed Blue Nile for a long time. I have a friend who was an early investor there.

Mithun Sacheti: What I saw from Blue Nile stuck with me for a long time.

Things happen in different industries that transform the entire industry. If you really look at our industry, you will see that jewelers have a limited value addition. I came to believe that if you could create the right tools online to educate people so they do not have to rely on blind trust, a business model similar to Blue Nile could be re-created in India.

At the stores we had limited inventory, but we tried to sell a lot of volume by educating people on the specifications. That helped us sell very well. My 2007 revenues were around $14 million using those techniques. I realized that people were willing to put some time into understanding diamonds so they could make better choices. With that in mind, I went to my friend and co-founder and told him that I felt there was a business opportunity here.

My co-founder was a client at the store. He had a strong technology background. I had known him for several years, and I had socialized the idea with him for a few years. He had started a technology business and bought out his investors in 2004. He thought the idea was interesting, but he wanted to see a proof of concept. It just so happened that one of his friends came down from California and wanted to buy some jewelry, so he took him to my store.

One thing led to another, and the three of us had a conversation and his friend ended up telling us the specifications of the diamond he was looking for. Both of us talked about the specifications and explained what was available at our store. He was able to compare our prices with the prices available to him in India because we used the same specifications. It took him 30 minutes to make up his mind in the store, and he placed an order for a $55,000 diamond. That was actually normal business for the store. However, my co-founder saw this entire process. He realized that this client did not see the actual diamond and bought it based solely on the specifications. He understood certifications and he was willing to spend $55,000 on a product because of the certifications. That gave my co-founder a lot more confidence in our business concept.

After that, our discussions got a lot more serious. We incorporated a business in 2007. We built an aggregation model where we could aggregate inventory from all over the world to enable people to list their solitaires with us. We launched in October 2008.

Sramana Mitra: I know the Blue Nile model well, and I am smiling as I listen to your story. Imagine what kind of uphill battle Blue Nile had when they decided they wanted to sell online.

Mithun Sacheti: Blue Nile was not the first to sell diamonds online, but they were the first to do it and cut the price. That was the big step they did right. Everyone else before them did the aggregation, but they did not cut prices.

Sramana Mitra: They also positioned their site for men. They had an understanding of how business happens in the diamond industry.

Mithun Sacheti: And their marketing was great. The real kick was to get the pricing factor right.

Sramana Mitra: I don't think they did aggregation. They did a pure retail model of buying and reselling diamonds.

Mithun Sacheti: Aggregation comes in the form of buying after you have a sale. BlueNile started off with 50,000 diamonds listed on their site. They definitely did not own all 50,000 diamonds. We had about 45,000 diamonds on our site when we launched. When a consumer comes to our site and likes a diamond based on specifications and decides to purchase the diamond, we can then backorder the diamond.

Sramana Mitra: So, the business model is to build supply relationships for a reliable supply of diamonds, and you then purchase the diamond after the order is placed, right?

Mithun Sacheti: Absolutely. This is the model that everyone uses now. The major consideration now is, how large can you become? How deep into the pipeline of diamonds can you go? The closer you get to the cutter, the better.

Sramana Mitra: How did you go about developing your diamond aggregation pipeline? Did you primarily rely on your family's history and contacts?

Mithun Sacheti: Aggregating diamond suppliers in India alone was not enough. We needed to be everywhere. We had to go deep and get inventory from Hong Kong, Israel, New York, Antwerp, and Bombay. Those were the biggest trading centers around the world, so if we were going to really be a player we had to be in all of those areas. Antwerp was the last one that we addressed because there were a lot of logistic issues there. Even today Antwerp is our single biggest challenge.

We had to visit every one of these locations, explain our business model, and convince them to work with us. The American guys understood us very quickly because they knew Blue Nile. The immediately asked us if we were going to be the Indian Blue Nile, and we told them we certainly hoped so. Their problem was that if they had Indian inventory, there was a slight problem because that was the pipeline that I was buying from anyway. There was a set of challenges like that everywhere we went.

We had to spend a lot of time talking about how to plan diamond inventory and how to plan real-time inventory. In many cases we provided them with tools to help them manage their real-time inventory.

Sramana Mitra: Did you have to make minimum business commitments?

Mithun Sacheti: We did make those commitments when it came to vendors we really valued and whom we really wanted in our system.

Sramana Mitra: How much of this did you need to have in place in 2008 when you launched?

Mithun Sacheti: We had 40,000 items in place when we launched. We had our solitaires in place. We did not have very many mounts in place at that time. Jewelry was not in place because we were very focused on the solitaire aspect of the business.

Sramana Mitra: Were you just selling solitaires and not the settings?

Mithun Sacheti: We did not have the level of settings we wanted simply because we focused so much on the solitaire inventory. We may have had 20 mounts for people to choose from, whereas today we have 200 or more.

Sramana Mitra: You went to market with a minimal viable business option, which is a great starting point.

Mithun Sacheti: Starting in the market is definitely better than sitting at home. We had already spent 14 months getting this started. There is a lot that goes into the back end. There are some very large, rigid vendors that require us to follow their guidelines. We had to adjust to work under their system. They key to our entire operation was to reach the cutters. We went very deep after that market. Our goal was to aggregate from levels that were so close to the cutters we could expect them to not have IT solutions.

Sramana Mitra: What kind of capital requirements did you have to get the business launched?

Mithun Sacheti: We budgeted $500,000 between the two of us. We were determined to launch the business once we had spent that amount regardless of where we were, and determined that once we had spent that amount, we would sit down and plan our next steps. That was the amount of money we were willing to risk. However, at the point of launching the business in 2008 we had spent $100,000.

Sramana Mitra: Where did you get the original $500,000?

Mithun Sacheti: It was from my savings. My brother and I both invested.

Sramana Mitra: What was your co-founder's role?

Mithun Sacheti: He had a technology company, and he put money into the business as well. At the point of launching the business, we had both spent portions of our equity investments. He promptly agreed to invest in the business.

Sramana Mitra: Was it a 50/50 partnership?

Mithun Sacheti: No, my family is the majority shareholder of the business.

Sramana Mitra: What happened after your initial launch in 2008? You mentioned you had 40,000 solitaires and a few settings. What came next?

Mithun Sacheti: Two weeks before we launched, Lehman Brothers collapsed. Nobody was willing to listen to us at that point. We sat at a point without selling a single diamond. We really struggled in terms of getting ourselves out there and heard. Luckily in October, a major TV station carried a story on us saying that it was amazing that anyone would buy solitaires online. That story actually started getting us traction. We relied heavily on PR for those three or four months. We were also perfecting the product as we moved through that time.

We started getting 150,000 visitors a day, but we were still having no conversions. We had one solitaire sale in October. A man in Japan was purchasing something for his mother in Delhi, and we had a very difficult time getting that transaction pushed through the payment gateway. It was a high-value transaction from an overseas card. That transaction set off every possible red flag that a credit card fraud department could imagine.

Sramana Mitra: How long was it before you started earning money?

Mithun Sacheti: In December things started to turn for us. We started adding more jewelry. We needed to have smaller value products, so we focused on that. At the same time we built out an exhaustive education system. People learned a lot more about what we were doing. That yielded benefits for us, and we began to see weekly transaction in the solitaire business. Shortly after that we were doing a couple of transactions per day.

Sramana Mitra: What kind of revenue did that add up to?

Mithun Sacheti: We had a couple of interesting things occur. Back in the day, people who wanted to buy higher value would look at us. We ended March just shy of $1 million in revenue. The interesting thing is that $200,000 came from one particular transaction. There were significant outliers.

Sramana Mitra: What was the $200,000 transaction?

Mithun Sacheti: A customer bought a pair of three-carat diamonds. She knew exactly what she was looking for. She knew what the retail price was. Our early adopters were people who knew exactly what they wanted and knew exactly what the retail price was for their solitaire.

Sramana Mitra: Are your customers all from India?

Mithun Sacheti: Yes, we sell only in India.

Sramana Mitra: By 2009 you had started going deeper into the supply chain and were reaching cutters directly. How did 2009 end for your business?

Mithun Sacheti: We ended at around $3 million in revenue. We had around 90,000 diamonds listed at that point. We had really developed our international pipeline by then. If at any point the rupee got strong, we could buy the same diamond out of America for a lower cost. Our system was dynamic, whereas in an unstable market diamond pricing moves a lot. Unstable markets force local retailers without a huge pipeline to raise their costs dramatically, which was something we were insulated from.

Sramana Mitra: Did you have an IT system to manage your pipeline?

Mithun Sacheti: Yes. Our entire back end process was automated. There was no way we could have done that manually; we would have made a lot of mistakes. We were very conscious of the fact that we had to stay ahead of the game when it came to pricing. A competitor could come online any day to challenge us, so we always had to go deeper and deeper.

Sramana Mitra: Listening to your story, it sounds like price is the major differentiator.

Mithun Sacheti: If people know what they are looking for, price really is the only thing we can do. Our focus was price and trust. We did second level certifications to validate that a diamond that was shipped to us truly did match the certificate on which it was shipped. That was more than any jewelry store could provide.

Sramana Mitra: What did you do to reach the cutters?

Mithun Sacheti: We encouraged them to sell directly to consumers. They were always stuck selling to wholesalers, and as a result they would not get paid for 90 days. If they wanted to get paid in cash they were squeezed for that as well. Our pitch to them was that if they sold directly to consumers that they could get paid early enough at a price that was favorable to them. We demonstrated to them that most of the wholesalers they were dealing with were already selling through us anyways. We had to work with each cutter individually to convince them to come on board.

Sramana Mitra: What cutter market are we talking about, Bombay?

Mithun Sacheti: Yes, Bombay. There are around 150 companies that do diamond cutting. If you have only 20 vendors and you are selling $100 million, then the vendors can use their exclusivity against them. We realized that in the long run we had to go deeper and get as broad of a platform as possible. Today we have about 350 cutters working for us directly globally.

Sramana Mitra: How do the cutters align geographically?

Mithun Sacheti: For every 10 diamond cutters in India, there is one in Hong Kong, one in New York, one in Antwerp, and two in Israel. In India they cut the .3 and .4 carat diamonds. The other sites cut larger diamonds, so they do not need as many employees.

Sramana Mitra: How do your diamond prices compare internationally?

Mithun Sacheti: We are one of the best priced sources for diamonds globally. We know that long-term price alone is not a final strategy, especially in a luxury product. Ultimately, the diamond is a gift for a spouse or fiancée. You want to make sure the person who is buying is getting top quality. We don't advertise that we have the cheapest diamonds, we advertise that we have the best price for the quality. We talk about having the widest choice possible. You can see other people's inventory on our site as well. Pricing gets competitive when you include as many vendors as possible. In the back end our vendors can see what others are pricing their diamonds for, which helps them keep their pricing competitive but also consistent.

Sramana Mitra: Essentially you are walking a tightrope with your messaging. People need to know that you have the best price, but they can't be perceived as being cheap for shopping at CaratLane. Is that fair?

Mithun Sacheti: Yes. I think we will hit the best price solely because of the number of vendors we have. That is why we can [send a] message on education and quality then talk about our reduced pricing due to our efficiency as a company. The product maintains its perception of quality and status this way.

Sramana Mitra: How has the diamond market evolved in India between October 2008 and October 2012?

Mithun Sacheti: Let me break the business into two parts, solitaires and jewelry. When it comes to solitaires, there are six other companies that play in this field right now. They have gone to market at five times or seven times the level of where we were in 2009.

If you look at the jewelry side of the business, in 2010 there were five players in this space. This year we have seen another 15 companies join it. Everyone sees opportunities in jewelry. This is an easier space to enter than the solitaire space because there are so many roadblocks over there. The supply relationships and value propositions are more difficult in solitaires.

Sramana Mitra: How many consumers are buying solitaires online?

Mithun Sacheti: I don’t have data available outside of our business. Last year we sold 3,000 solitaires. Some people buy pairs, but that still represents around 2,000 customers.

Sramana Mitra: So, the total number of people buying diamonds online is probably fewer than 5,000.

Mithun Sacheti: I don’t think that all of our competitors combined sell more than 1,000 solitaires.

Sramana Mitra: How about the jewelry side?

Mithun Sacheti: That is very difficult to estimate. There are a lot of Indian jewelry companies online, and we don’t know their numbers. EBay claims to sell a piece of jewelry every four minutes, but they sell jewelry that we would not even classify. We had about 12,000 customers purchase jewelry online last year. I would assume there are around 75,000 to 100,000 people who are customers in the space.

Sramana Mitra: No matter how you look at it, there is a lot of headroom in this marketplace.

Mithun Sacheti: Absolutely. The potential is exciting.

Sramana Mitra: I assume you use cash on delivery?

Mithun Sacheti: We just started. It was one of the toughest things we have had to figure out. Jewelry is risky to do cash on delivery. Until now we did credit cards sales. We just started cash on delivery a month back, and we do not do cash on delivery for diamonds.

Sramana Mitra: How much capital has gone into this company? You spent $100,000 to launch. Did you have to add more capital?

Mithun Sacheti: We did. We had to put in some capital to launch and then periodically added more. In 2011 we got funded by Tiger Global.

Sramana Mitra: How much funding did you receive from your family?

Mithun Sacheti: We put in about $500,000. We have a positive cash flow model; we were operating on our positive cash flow. We were really running on fumes for about a year.

Sramana Mitra: How much revenue were you bringing in by the time you raised money from Tiger Global?

Mithun Sacheti: We were at $5 million in revenue. We raised $6 million from Tiger.

Sramana Mitra: What is your revenue forecast this year?

Mithun Sacheti: We closed in March 2012 at close to $18 million.

Sramana Mitra: You were already a profitable company when you raised money. Where did you put the funding?

Mithun Sacheti: We were not profitable. We kept investing to keep growing. We set up a large manufacturing facility so that we could provide just-in-time manufacturing for the product that we make. That is something that we invested heavily in, and we built that in Chennai.

Sramana Mitra: You have built a company with huge potential. What is your assessment of what is happening in India with the family businesses that have multigenerational wealth, yet the modern generation of these families are looking at different types of businesses? To me it seems like a trend. Do you think it is?

Mithun Sacheti: I think that there is a trend. When I started in 2007, there were hardly any Internet companies around. My brother tried to build a website in 2001. He was too far ahead of his time. He wanted to focus on gemstones instead of diamonds. When the crash happened, it seemed that websites were a bad thing to do.

Today there are a lot of e-commerce portals that have received several rounds of funding. I get a call every day on my cell phone from somebody who has an e-commerce idea he or she wants to build out. There might not be a genuine need for it in the market, but someone thinks there is enough demand to build a business. All of them are people whose families have great businesses.

Sramana Mitra: The advantage of coming out of family businesses is the availability of seed capital. India still has a tremendous seed capital problem.

Mithun Sacheti: A few years ago that was the case. Today almost every city has an angel organization. I would imagine they are looking for ideas now.

Sramana Mitra: I work with all of the angel groups. I know that space intimately, and seed capital remains an acute problem. Angels have started behaving like VCs. Who is going to fund the proof of concept if

you have not the ability to fund the proof of concept yourself?

Mithun Sacheti: That is very true. Your insight there is invaluable. The angels are behaving like VCs. They are walking in after the concept has been proven. A lot of people I meet think getting funded is the goal. That is not the goal. Making the company successful is the goal.

Sramana Mitra: In 1M/1M we say that entrepreneurship equals customers, revenue and profit. Financing is optional. There is a tremendous misconception in the world that entrepreneurship equals financing.

Mithun Sacheti: This myth needs to get cleared in the media. The moment you get financed, the media wants to write about you.

Sramana Mitra: On this topic the media is supremely dumb.

Mithun Sacheti: For me, it was easier to get my second round funding story out there than it was to get press on the launch of an unbelievable product.

Sramana Mitra: If you told the media that you have achieved $18 million in revenue, they would not understand the significance. They understand the significance of a $5 million financing. It is ridiculous.

Mithun Sacheti: We are not doing couponing. We are bringing real value. We use technology as an enabler, not an end game. E-commerce is another way of selling diamonds. My product is diamonds. I can create stores and sell diamonds there, too.

Sramana Mitra: You can proliferate and create one brand that encompasses retail and e-commerce. That is how you grow the company.

Mithun Sacheti: We have been toying with something that will take us tenfold from where we are. I am excited about that, and it is based on the concepts we are talking about.

Sramana Mitra: Good luck. This is a great story; I enjoyed it very much.

Interview with Varun Shoor, CEO of Kayako

Varun Shoor is the founder and CEO of Kayako, a company offering advanced helpdesk management software. Varun started the company as a teenager tinkering with software, and has scaled the company substantially since. This interview was conducted in January 2014.

Sramana Mitra: Varun, let's start with your personal story. Where are you from? What is the backstory to Kayako?

Varun Shoor: I was born in Jalandhar, Punjab. I have had no formal education. I started Kayako when I was 17. My father is into manufacturing primary tools, such as hammers.

Sramana Mitra: Does he work for himself?

Varun Shoor: He works for himself and he owns his factory. He is also an entrepreneur. He grew his business into what it is today.

Sramana Mitra: So you grew up in an entrepreneurial environment?

Varun Shoor: Yes, and it goes back even further. My grandfather was an immigrant from Pakistan, and he came over with absolutely nothing. He had to support a big family and grew his business from nothing. When my father started the business, he grew it from the foundation laid down by my grandfather.

Sramana Mitra: Entrepreneurship is very genetic!

Varun Shoor: It's funny you say that. I was recently reading an article that debated whether entrepreneurship was passed down genetically or it is a learned characteristic.

Sramana Mitra: I have done enough research and stories to tell you that there are a lot of first-generation entrepreneurs. However, those who come from entrepreneurial families have a higher probability of becoming an entrepreneur. They have grown up in an environment where risk is okay.

Varun Shoor: I will completely agree with you.

Sramana Mitra: I am an entrepreneur's daughter as well. I was 16 when I decided I was going to be an entrepreneur. I did not start right away and did my formal education first. You decided to start your company straight away at 17. Can you tell me a bit more about the circumstances?

Varun Shoor: It's a crazy story. This company was started with absolutely no cash. When I was 16, I was experimenting with a few different websites. There were various websites where you could go and test your latest code. I ran into a community called Web Hosting Talk, which is still quite active. Anyone looking for web hosting goes there.

I saw a company that sold customer support software for $2,000. When I saw the product, I thought it was something I could make in my sleep. I did not see anything special about it. I had a lot of free time on my hands, so I decided to write this software and give it away as an open source project.

Sramana Mitra: When did you learn to program?

Varun Shoor: I learned to program when I was 13. We had x286 and x386 computers, so I started learning FoxPro and Visual FoxPro. This was in 1996. My father had a spare computer from his factory, so he gave it to me. I did not get a computer because I was interested in it. However, once I got it I became very interested in it.

Sramana Mitra: So you decided to create a customer support software package and make it open source. Why did you make that decision?

Varun Shoor: I had tried making money before and I had failed. I had wasted 75,000 rupees of my dad's money doing web designing. I was in love with programming and creating products, so I decided to give it away as an open source project.

It took me about six months to write the product. When it was finished, I decided to try and sell it as well. I went to my dad, presented my product to him and then, asked him for more money. He told me to focus on my studies and did not give me any money.

I still believed that there was an opportunity. The product was working, and it was better than anything else out there. I went to some chat rooms and started asking people for a free domain name. Out of the blue, a guy told me that he had Kayako.com available. It was expiring in three months and he had no use for it.

I still needed two more things to start this as a company, which was hosting and the ability to process credit card payments. I had a friend who ran a hosting company, so he hosted Kayako.com for free. Getting the ability to process credit card payments was a lot more difficult. By this time, my father had incorporated a company in my name, so I had a company with all of the paperwork done. I found a company that could act as a third-party payment processor and they would wire me the money. The catch was that I had to pay them $50, and my father refused to give me his credit card.

I decided to go back to the chat rooms and explain the situation. I then offered to sell the software to someone for $50. After posting at more than a dozen different locations, a guy came up and told me that he ran a web hosting company and that he was looking for that type of solution. He asked for a demonstration of the product, so I gave him a demo. I had him sign up for the account at the third-party payment processor and give me the username and password.

Once that was completed, I had all the pieces I needed for an e-commerce business. I created a very nice website and hooked in the payment processing code. Before launching, I knew that people had to know that I existed. Three months before I launched, I created 20 different identities on Web Hosting Talk from different IP addresses. I started helping people out with those different identities and establishing credibility of those user identities.

The day I launched, I used one of those identities and posted a thread about how I was looking for a customer service product and asked for recommendations. I then went in and answered my own questions from my other alias accounts and answered that Kayako.com was a new company that had just launched and recommended trying them out. I carried on that conversation with a few different alias accounts. Two days after launching, I received my first order. That person went back to the website and told everyone how awesome it was. I was able to use all of my user accounts to keep the thread bumped up on top. That is how I got started.

Sramana Mitra: How did the business ramp in 2002?

Varun Shoor: It was quite interesting. I started receiving money at the very end of 2001, and then it kept coming in 2002. I kept telling my mom and dad that I had just earned $1,000 and they would not believe me. They made me show them where the money was and I would show them on the screen how much money I had made. They still would not believe me. They told me that those were just numbers on a screen and that I had to show them the actual cash. I told them that I needed the bank wire details for the company that he had created for me, but he was still hesitant to give it to me. I then asked him if I could order a laptop from that money instead and he told me that was fine.

In 2001, owning a laptop was considered to be really cool. I went to a friend I knew and I wired him the money and he shipped me the laptop. It was supposed to arrive in a week, but then week after week passed by with no laptop. My parents started to ask me where the money was and I started to accuse my friend of stealing the money from me. He showed me the shipping details.

In the meantime, the money started accumulating again. You had to have at least $1,500 before the payment processor would wire money to you and it was wired out each Wednesday. I kept telling my parents that more money was coming in and they kept brushing me off. Somehow, I convinced my dad to give me the wire details. I made the transfer and the next day I asked my dad if the wire had come in. He called the bank and it was not there. A few days passed and it was still not there. My dad finally started to get irritated with me. He told me I had promised them a laptop but I did not have one, and now there was no bank wire. He told me that if I did not want to study, then I should go to the factory and focus on what was important.

A month later, he woke me up and told me that I was not lying. The money wire had just hit the bank. Right after the money came over, we received a letter from customs telling me that my laptop had arrived and that it was stuck in customs. My parents were in shock. They were also impressed that a business could start that way.

Sramana Mitra: That’s a fabulous story. How did 2001 end?

Varun Shoor: It ended pretty nice. I was making around 40,000 rupees per month. For the first two years, I focused on the product. I was supposed to head off to college but I spoke about my business opportunity with my father and told him that I did not want to go to college, so that I could focus on my business. He told me that if I wanted to focus on the business and forget college, then I should do that. Education is a big thing in India, so it took courage for my father to agree to that.

Sramana Mitra: Let's drill down into how you built the company. What were the milestones in the early development of Kayako?

Varun Shoor: As the business started picking up, I started to recognize what was important for continued growth. The most important aspect was trust. In 2002, if someone emailed support@kayako.com and expressed interest in buying the product, I did not want them to know it was just me running the company. I created several different identities for myself. I would respond with a note that they had contacted the wrong department at Kayako and that I would forward their request on to the sales department. I would then respond from a different account identity so that I gave the impression of being a larger company. If they knew I was a 17 year old kid on the other side of the world, they never would have purchased the product.

I then started to focus on the people who were buying the product. I offered to give them free extensions on the product in exchange for customer testimonials. Some people obliged, so I was able to populate my website with customer testimonials. I also published materials on my website to demonstrate that Kayako was a thought leader in this space. That let people gain trust in our company and product.

In 2003, I noticed that live chat was becoming an option for customer support. I thought that adding the live track would be a nice addition to our product portfolio. So, I added that to our product portfolio in 2004. By 2005, the overall growth of the company had maintained a slow, steady pace. I hired a couple of my friends to run support.

Sramana Mitra: What was the revenue level in 2005?

Varun Shoor: I think we were on a revenue run rate of $1.5 million. I had three employees at that time.

Sramana Mitra: That is decent money for a solo entrepreneur.

Varun Shoor: It was decent money back then. It took me a while to consider this a mature business. We opened our first office in 2005.

Sramana Mitra: How did you manage pricing? Was it downloadable software offered at a fixed price?

Varun Shoor: At that time, we sold the product for $400 for a download. We also had a SaaS offering that was $20 a month for an unlimited number of accounts. I copied my pricing model from other popular online software products. Initially, we were the cheapest product in the market and people flocked to us.

Sramana Mitra: In 2005, you started to shift into a more serious mode and secured an office. What prompted that change?

Varun Shoor: Looking back, I realized that I did not get very serious until 2008. We opened the office in 2005 but I had no people management skills and I had no conflict resolution skills. I had no idea how to train employees. I was immature. I am embarrassed at how I worked at that time. Employees left in droves. There was no accountability and it was pure disaster. I learned from experience.

The real trigger in 2005 was the ramp in support tickets and financial reporting. It was no longer an operation that could be supported by two people out of their homes. The financial reporting and regulations were in a mess. It was taking me three days to reply to customer support emails. The business had scaled and that forced me to open an office and start hiring college graduates.

Sramana Mitra: Did your dad mentor you or help you as you were growing Kayako?

Varun Shoor: I went to him for feedback, but the feedback he was able to give was from a different industry. He was accustomed to dealing with factory laborers. Apart from that, he did help me when it came to managing finances and ensuring I was meeting government regulations. He also gave me advice when I started to look for an office. I started off looking for a smaller space with area of around 2,000 square feet. He encouraged me to look for a space three or four times larger and it turns out he was right. We have been in our current office for seven years. Our office was designed to seat 45 people and we now have 100 people crammed into that space.

Sramana Mitra: Earlier you mentioned that 2008 was a big inflection point for your business. How much revenue did you do in 2008?

Varun Shoor: If I remember correctly, we did about $2.5 million in revenue. Historically, we have grown at a rate of 40% a year.

Sramana Mitra: How many people did you have in 2008?

Varun Shoor: We had around 25 people. We also saw new competitors entering the market in 2008. People started taking our space a bit more seriously. I will be very honest; we underestimated the size of the market. Our competition came in and showed us the true size of the market. I had an "oh shit" moment when I realized they were out-innovating us. We found it difficult to scale.

I traveled to a trade show in Hanover, Germany. There was a CRM section which was a giant hall full of exhibits. It was my first exposure to the real world. I saw names and companies from all over the world. There were companies I had never heard of doing $30 million of revenue. That was a wake-up call for me. I had always considered my market size to be the same as my revenue. I realized that in order to survive, we had to modernize and scale.

We were working on modernizing our product in 2008 and 2009 with a big focus on usability, but we really were behind the power curve. I started burning the midnight oil and worked 14 hour-days. I realized that I had made a big mistake because although I had a solid revenue stream I had not focused on growing our engineering team. In 2010, I had 60 employees and only 4 of them were engineers.

In 2011, I realized I needed to have an office in a place where I could actually hire engineers. That is when I decided to open an office in New Delhi. Our engineering team now has 35 people working out of that office and we hire one or two engineers every month. I have also relocated to New Delhi. I lead engineering operations today with the help of my team leads.

Sramana Mitra: How much have you been able to accomplish with your new engineering team when it comes to maturing your product?

Varun Shoor: I personally believe the product is evolving. Our engineering practices can still use additional maturing although my teams believe we have evolved to a point where we are able to really leverage our agile processes to provide innovative features. Despite that I hope to accomplish a lot more. Having a sound engineering practice in India can be difficult because the culture is so focused on the services aspect of business, not on product businesses.

Kayako is one of the more mature products in the market. Over the years we have had a product which allows an organization to handle inputs on many different channels. We have stable and efficient Live Chat support. We have great remote desktop support. We have some very large customers. We know competition is coming but we have our segment that we are very satisfied with.

Sramana Mitra: Do you offer a cloud-based product?

Varun Shoor: We have a SaaS product as well as an on premise solution. We are the only ones who have that solution that I know of. On-premise is still popular with big enterprises.

Sramana Mitra: What is the size distribution of your clients?

Varun Shoor: We have found that 1 out of 5 Fortune 500 companies use Kayako and 3 out of 8 Ivy League universities use Kayako. Today 50% of our clients have opted for our SaaS offering while the other 50% have opted for an on premise solution.

Sramana Mitra: What has your pricing evolution looked like?

Varun Shoor: Initially our on premise product had a flat $500 price tag and our SaaS offering was a flat $30 a month. We decided to switch to per-seat pricing in November of 2010. That was a pricing jump but it allowed us to expand our R&D and engineering teams. A month ago we released a new version of the product and the price is now based on a tiered per seat package, per product.

We have three products; Kayako Case which is an email management solution, Kayako Engage which is a live chat solution, and Kayako Fusion which is a combination of the two and is our flagship product. A five-seat license for Fusion starts at $2,000. A five-seat license of Case starts at $1,500. That price includes 12 years of free support updates. For SaaS, Fusion costs $50 per seat, per month.

Sramana Mitra: What do you think your run rate will be for 2013?

Varun Shoor: I expect it to be in the range of $8 million to $12 million.

Sramana Mitra: Have you considered taking financing to scale your business?

Varun Shoor: We have been in constant contact with top tier VCs. Many of them have a limited presence in India. Our full attention has been on growing Kayako for several years now, and we are a profitable company. We do plan to raise funding in the middle of next year to take our company to the next level. We want to expand the engineering team, polish our value messaging, and expand our global reach. We believe that our next version of the product is going to revolutionize this industry.

Sramana Mitra: What does your management team look like today?

Varun Shoor: We have four members of our senior management team. Raghav Arora is our VP of Operations. He was the first employee of Kayako and was a school mate of mine. He has helped the company grow from inception. James Edwards is based out of London and is our Chief Operating Officer. He joined the company in 2005. He was a former client who was very active on our forums. He started small, working for us on a contract basis. As things ramped up, he started taking on more responsibilities. Today, he manages the remote team and directs us on key product decisions. We are in the process of opening an office in London and he will lead that office. Our Director of Customer Service is also a key position. He joined the company in 2008, and he looks after that team.

We are very close to finalizing a candidate for our VP of Sales position. We need to have proper senior management in place before we raise money. Our middle management is strong but we have been slow in terms of growing senior management. I am still looking for a VP of Engineering. From the look of things, I think that person will be based in London. We want someone who has experience in this industry and knows about the latest practices. They must have great experience managing an engineering team and we have not been able to find that candidate locally.

Sramana Mitra: What does the future hold for Kayako?

Varun Shoor: Future growth will align with our fundraising plans. We believe that we have the right foundation to grow this organization. Our focus going forward will be very aggressive in marketing. We are looking for a VP of Marketing. We are also looking to open an office in Silicon Valley in Q3 of next year and I will probably move there to open that office.

Sramana Mitra: How do you acquire customers?

Varun Shoor: We don't spend a single dollar on marketing. All of our revenue and run rate is on word of mouth and search engine rankings. I would say that 50% of our incoming clients come from customer referrals.

Sramana Mitra: What do your parents think of your business now?

Varun Shoor: They still don't understand what I do, but they are happy that I have a company that is growing well.

Sramana Mitra: This may be a politically incorrect question, but I'm going to ask it anyways. Culturally, entrepreneurs in India have found that the father of the bride gets very nervous about their daughters getting married to an entrepreneur. You are married, what was your experience there?

Varun Shoor: Mine was a love marriage. As long as the bride and groom both know they are in it for the long term, it takes care of half the problem. By that time, my company was well established. They never thought of me as someone who was struggling, they saw me as someone who was running a company.

Sramana Mitra: This has been a delightful story. Best of luck as you go forward!

Interview with Bhanu Chopra, Rategain

Rategain is one of the top global SaaS companies built out of India. This interview captures CEO Bhanu Chopra's entrepreneurial journey. This interview was conducted in March 2014.

Sramana Mitra: Bhanu, let's start with the beginning of your story. What kind of circumstances where you raised in? What is the genesis of your entrepreneurial journey?

Bhanu Chopra: I am from Delhi and I was born and raised in a business family in Delhi. Right after I completed school, I went to the US for my undergraduate studies. I went to the Indiana University and have a double degree in finance and computer science. When I was growing up, I was very good with numbers. The advice that my father gave me was to get into something like finance. Computers are a derivation of mathematics. That is why I got interested in computers.

I was not sure which career path to continue on — investment banking or the tech industry. The test I put myself through was to go through the campus interviews in both. I had a few offers in investment banking and I had an offer from almost every software consulting company I interviewed with. At that point, Deloitte was a big recruiter at Indiana University. They were a very well respected company, so I started out my career with them in their Chicago office.

I started out doing SAP systems integration work. I was part of some very large and complex systems integration projects implementing SAP at some Fortune 500 companies. That gave me very good exposure early in my career.

Sramana Mitra: What years are we talking about?

Bhanu Chopra: I started with them in 1998. I worked with them for a couple of years. That was during the dot-com boom. Everyone was leaving the larger firms to join a startup. I also had some exciting offers with companies and the stock options were worth millions of dollars. I decided to join a couple of my partners at Deloitte who were setting up their own company to implement CRM systems at dot-com companies. It was an exciting opportunity for me.

That gave me a very good flavor of how startups work. I had spent the first few years of my career working for a very large, structured firm. I was now in a completely unstructured environment where there was not a clear demarcated environment to tell me what I should or should not do. The first few months were chaotic but exciting. Fortunately, when the dot-com crash occurred, our company did not get in as much trouble because we were primarily B2B as opposed to B2C. However, I felt that given my background and entrepreneurial spirit, I would be better off starting my own company in Chicago.

Sramana Mitra: What was the premise of the company you founded in Chicago?

Bhanu Chopra: It was essentially the same thing I was doing before. We were working with some very large firms in the Chicago area. We had four Fortune 500 clients and we helped them implement large CRM systems. We built a very good but small team of consultants. At our peak, we had a dozen people. There was a lot of home grown competition from Indian firms during that time-frame in 2002.

Indian firms were gaining a lot of traction via outsourcing because of the labor arbitrage. We realized very quickly that because our business model was based on billable hours, our company would not likely be sustainable. I had been in the US for about a decade by that point and I wanted to move back to India. I noticed that a lot of my friends were starting to move back to India. It made a lot of sense to me as well. I could see the potential in India.

I knew that I wanted to build a software product and I felt that I could leverage the talent that was returning to India to help me build that product company. I felt that I could build a product in India more cost efficiently. I also had personal reasons to return to India. I felt that I could take the risk of returning to India, and that gave birth to Rategain.

Sramana Mitra: What was the initial concept behind Rategain?

Bhanu Chopra: The initial concept was to build a meta search travel site like Kayak and Trivago. Kayak was formed around the same time as Rategain. I saw that there were other companies starting in this area, which meant a few things for me. First, I saw it as validation for my concept. However, on the flip side I knew that it would be difficult for me to compete with a company like Kayak since I was building a product from India without investment capital.

I bootstrapped the company. I started it in 2004 and at that time, the VC ecosystem in India was just developing. Access to capital was very difficult. I come from an entrepreneurial background and I have seen businesses run and built on traditional values. You have to build a business model that can quickly turn into a profitable company. I knew that since I was bootstrapping this company, a B2C business model would likely be a cash drain, which I could not afford. It would take several years before I could turn in a profit.

I therefore opted to be a B2B company where I could license our technology to other travel players so they could gain an understanding of what the competitive landscape is like. Expedia did not know what Travelocity or Orbitz were doing in terms of pricing the same product. That is how Rategain started.

Sramana Mitra: Who did the development on the technology while you started the business?

Bhanu Chopra: Initially, I did everything. I was the project manager, the coder, and the visionary. While I was building the technology, I was also focused on selling it. I made several trips to the US and Europe to do road shows. It was a very new concept for people, but everyone recognized that there was a dire need for it. In the first year, I signed up a dozen clients.

Sramana Mitra: Were your initial clients travel portals?

Bhanu Chopra: Yes. Most of the clients were travel portals or online travel agents. I think that was a significant event for us. I was starting this company that was completely bootstrapped and had very little capital. The focus was on selling to customers. Winning a dozen customers gave me the infusion of money needed to keep things going.

Sramana Mitra: What were the deal sizes that you were able to obtain?

Bhanu Chopra: It ranged anywhere from $25,000 to $100,000. If I can recall correctly, we did almost $200,000 of business the first year. The business that we won was actually more than that but not all of the income arrived on day one. It arrived during the course of a year.

The first three years of the business were just awesome. We did about $2 million of business in our first three years. As a result, we participated in Deloitte's Fast 50 list which tracks the fastest growing companies in AsiaPac. We were the number one company on that list in 2007.

Sramana Mitra: What was the business model behind those early deals? Did you sell a one-time license?

Bhanu Chopra: We are a SaaS company, so 100% of our revenues are annually recurring. We have very little churn in our business, less than 10%. We are approaching our tenth anniversary and we still have a lot of customers that I signed up during our first year.

Sramana Mitra: How big is this market niche that you have gone after? How big of a market is meta search for online travel agencies?

Bhanu Chopra: We started doing online meta search but now we do a lot of other things. We no longer sell only to online travel agencies. We also sell to hotels and now have a few thousand of those as clients. We also sell to all of the major car rental agencies. We are in a dominant position in terms of car rental companies. We are working with their franchises as well. We also work with large cruise liners.

Sramana Mitra: The premise behind your deals remains helping them understand competitive pricing?

Bhanu Chopra: That is our base model. Over the years, we have taken the next logical step. People use the information we provide to decide how to price their own particular product. If you are giving Hertz information about what Avis and Enterprise are charging for an economy car for a day in March, we also want to tell them, based on the competitive information, how they should price their economy car.

We don't use over-hyped marketing buzzwords. We have actually built a Big Data application, which is a utility based on the price optimization software that we built. That helps our customers price their products to maximize their revenue and understand better the market dynamics of the market supply.

Sramana Mitra: What is the market size you are addressing?

Bhanu Chopra: We started by providing competitive information and then we branched out to selling the information to all of the players in the travel industry. Every element in the travel industry is highly commoditized and consumers' buying behavior is driven by price. We sell to all of the top hotel chains, car companies, and every major online travel agency.

As a result, our market size varies based on the customer segments. On the online travel agent side, there is only a handful that we can sell to but we sell to all of them. We sell to all the big as well as most of the regional players. We also have traditional travel agents as our customers. We pretty much cover the entire spectrum. We are in a very good position.

We compete the most on the hotel side where there are a bunch of players. We also have a distribution product for hotels, which allows hotels to pass along their rates and availability to all of their channel partners. We also have an online reputation management product. We aggregate all of the reviews about their hotel and provide it to them. We can tell the hotel what the guest experience is from the time they book the hotel through the time that they check out. We show them a heat map and can give them indicators if they have issues with something like room service.

Sramana Mitra: From 2004 to 2007, you reached several million dollars in revenue based on OTAs. What happened in 2008? What changes happened that year?

Bhanu Chopra: The biggest change for us to move away from being solely reliant on the OTA market actually occurred in 2006. We had a major player in the hotel hospitality industry approach us because they liked our price optimization software. They had a similar product but they felt ours had better results and performance. They requested an OEM deal where they would white label our product. That turned out to be a great thing for us because it gave us a way to expand without a sales force. That gave us immediate scale.

Sramana Mitra: I love OEM deals. I think those deals are very cost efficient and they can give you huge returns without requiring a lot of capital.

Bhanu Chopra: That OEM relationship was a big boost for us. We started reaping the benefits of that deal in 2006. One of the drawbacks to the OEM deal was that we had to sign exclusivity with them for the hotel aspect of the business. We agreed that we would not directly employ a sales force to sell to hotels.

We were growing quite fast through 2010. A significant amount of our growth came from our OEM partnership. In 2010, almost 80% of our revenues were from that partnership. That is when we suffered a major setback. The company we had our OEM agreement with decided to purchase one of our competitors. From their perspective, it made sense. They had an OEM deal and had amassed a substantial customer base. They could simply leverage the customer relationships that they owned, and that is exactly what they did. They took all of their customers and moved them to our competitor.

Sramana Mitra: What year was it when your OEM partnership went south?

Bhanu Chopra: In 2010 and 2011, there were a couple of major products that were contributing significant revenue to us. Our partner bought all of our competitors during that same time-frame, so we had to make some transitions in order to survive, and it took us about two years to do that. The revenue did not diminish immediately because it took them a couple of years to transfer all of their clients away from our platform. We had to restart our focus on the hotel segment.

We launched our own direct brand three years ago. I am happy to report that even though three years ago the hotel brand represented 80% of our revenue, we have never experienced a drop in revenue. We were able to grow faster than we lost clients due to our partner's strategic shift. More importantly, not only were we able to keep our revenue up but now we also have our own brand, and we are not reliant on anyone else for that revenue.

Sramana Mitra: How much revenue were you able to achieve before your OEM partnership calamity?

Bhanu Chopra: We were still below $10 million.

Sramana Mitra: And 80% of that revenue was coming from your OEM partner who decided to ditch you?

Bhanu Chopra: Yes.

Sramana Mitra: Let's explore your recovery strategy a bit more. You started your own brand and started selling into that same customer base.

How did you do customer acquisition since you did not have an OEM partner anymore?

Bhanu Chopra: There was a customer segment that we were selling to directly, and that customer segment was the online travel agents. That was a good thing, because it meant we knew how to sell. We had a brand out there for that customer segment. We expanded our sales leadership and we got very aggressive in that marketplace. So the first piece of our strategy was to expand further into our online travel agent business, because that was our stronghold.

We also got into another customer segment with the car rental companies. That segment was tremendously successful. We basically were able to use the car rental companies and the online travel agents as a foothold while we pursued the hotel segment. We basically fired all of our vendors in the hotel segment and we put together an inside sales model based out of India. We also did a lot of online activity and started attending every major conference and trade show.

We also hired a bunch of sales people in the regions that we operated in. We started doing webinars and writing thought leadership articles. We did everything under the sun that we could do to grow that business. This was suddenly very important for our company, especially since the future was so uncertain. We worked hard and just made it happen. Some things worked very well and other things did not work. However, we were able to recover from the shock. Again, we were very fortunate that our OEM clients were transitioned off of our platform slowly and not all at once.

Sramana Mitra: What are the techniques that worked really well for you?

Bhanu Chopra: The fact that we focused on expanding in an area that we did well in was very important. We expanded our online travel agent business and got a lot of new customers. The other major key was moving into strategic new areas such as the car rental market.

On the hotel side, we have now realized that it depends on who you sell to. You must have a customized approach to each segment. If the hotels are tech savvy, then you can make deals with them over the phone. Many hotel chains require relationship building. You have to meet them face-to-face. We need feet on the ground or have reseller and partner relationships in the geographies that we work in. We have decided that we do not want to do OEM deals anymore.

Sramana Mitra: Are all three segments of your business yielding revenues at this point?

Bhanu Chopra: Yes. Our OEM arrangement is completely terminated and as a company we have recovered. Even though we were growing very fast on our own standalone business, it did not reflect on the overall story because we were backfilling the revenue that we lost from our OEM deal.

Sramana Mitra: The moral of the story is that it is OK to do OEM deals in one segment of your business. However, you still have to build your other segments where you have a defensible position or you need to maintain multiple OEM relationships. That would reduce the risk of getting blindsided.

Bhanu Chopra: Exactly. You are absolutely right.

Sramana Mitra: What has been your team building strategy?

Bhanu Chopra: Early on, I realized that it is important to get people focused on key areas that they are extremely good at. We have created silos around people based on the customer segments that we operate in. We have a hospitality unit and the entire organization from sales to engineering to product management is focused only on hospitality. It is extremely important to understand the issues and challenges that our customers have. We must have an appreciation for our customer's domain.

There is a serious need to hire senior talent. We are looking for people who can lead these business units as they mature into several million dollars of business for our customer segments. Right now, we are at our peak as a company. Now that the whole OEM deal is in the past, we are looking at significant growth. I was told by one of the bankers who claims to be No.1 in the SaaS marketplace that we are among the top five SaaS companies out of India today. That was heartening to know. I still see a huge opportunity ahead of us. All of the hard work that we have done is returning to us now. We are in a position to establish market leadership.

Sramana Mitra: How do you calculate TAM and how much of the TAM is still available in the market? The OTA segment is relatively small and it sounds like you have saturated that segment quite well.

Bhanu Chopra: There is not any publicly available data regarding the OTA segment. If you look at the top OTAs, you will see that we have all of them as clients. If they are not a client, then we are in talks to replace our competitors.

In terms of the hotel and car rental space, I think there is still a lot of market opportunity. There are around 500,000 hotels out there. We have several solutions in that space and each product has a different penetration rate. We may have 75,000 hotels using one solution and only 50,000 hotels using the other solution. There is not much market left to penetrate on the car rental side. However, we still have opportunities with franchisees. I think there are 10,000 franchises that could use our revenue management solution.

There are several large travel companies that do not factor in market dynamics when it comes to pricing. We are trying to help those companies investigate price optimization benefits. We want to help them factor in supply and demand to help price their product appropriately. We still have the ability to deepen our relationships on the OTA side of our business.

Sramana Mitra: You have done a very good job with product management. That is not a sweet spot for Indian companies. Tell me a bit about how you recruited your product managers in India?

Bhanu Chopra: I had to look at my individual strengths. We have been very selective about whom we hire. We have elected to pursue quality over quantity. We have four people who are absolutely brilliant. If the product manager is great and can put together the right blueprint, then you can build a team around that person. We have a very defined methodology when we bring something to the market. There is a lot of involvement on my end as well. Over time, we have mastered how we think about prototyping, validating business plans, and building the launch plans.

Sramana Mitra: How many people do you have in the company now?

Bhanu Chopra: We have 450. We have almost 80 in sales and marketing. We have a significant number of people working in tech support. There is a lot of data normalization that has to be done. We have an in-house team to do that data normalization.

Sramana Mitra: How big is your engineering operation?

Bhanu Chopra: I believe we have about 100 people in that operation. We are running several products with that group of people.

Sramana Mitra: What advice do you have for entrepreneurs?

Bhanu Chopra: I often get the feeling from entrepreneurs that winning is getting an investor on board. I think that bootstrapping is clearly the way to build a business. I believe we can build a $100M company through bootstrapping.

Sramana Mitra: You have done a very good job navigating this company. I wish you nothing but success.

Should You Move To Silicon Valley?

We hear a lot about technology and globalization these days, especially how India has been a tremendous beneficiary. Indeed, there has been an immense positive impact from the globalization of entrepreneurship, making Silicon Valley's formula of technology-based start-ups an international instrument for economic development.

I live amid this trend, living and breathing it daily. As someone who mentors entrepreneurs, I constantly hear the question from founders located around the world: Should we move to Silicon Valley?

This is no idle question. Steve Case, for one, argues that it's possible to build world-class tech companies outside the Valley. In a recent post on HBR.org, Maxwell Wessel draws on data to argue that companies raise money more quickly, have better prospects to be acquired, and face better long-term survival rates if they locate in Northern California.

My take on the subject is that if you're going to move to Silicon Valley, be prepared. It's horribly expensive, which impacts your burn rate. The talent war for start-ups that lack major VC backing can be brutal, and too many entrepreneurs underestimate this factor. And it's not easy to survive the early stages of such a move.

Let's imagine these conceptual arguments in more concrete terms. You're the founder of a start-up that's too nascent to allow you to draw a salary–but to live in the Valley, you're now paying $3,000 a month to rent an apartment. You have no funding, but you have to convince some engineer who's already juggling 15 job offers (including offers from Facebook, LinkedIn, and Google) to join you to help finish your product. Rehearse the pitch in your head, and please come share it with me at one of my Thursday morning free mentoring sessions. I'd like to see how it sounds. I'd like to see if you could convince me.

Remember, you have no funding, so you have limited ability to pay this person. Beyond equity, you have two things to rely on: vision and personal charisma. Since the company has not much to show for it yet, the equity probably isn't much of a draw, either.

Is this engineer going to accept your job offer? The answer, in most cases, is no.

Companies that move to Silicon Valley *after* gaining traction end up having a better success rate. Traction means running experiments to suggest you've found a validated business model, some actual revenue, some early wins. If you're going to move to Silicon Valley, waiting until you're beyond the very early days can make sense.

For one thing, having achieved traction may allow you to raise funds. There's a misconception that VCs and angel investors fund ideas, but generally speaking, that's not true. That may happen if you are a serial entrepreneur on your third venture and have made money for investors before–but even in that case, you would be able to invest in your own bootstrapping stage. In any case, you don't need outside investors till your experiments are somewhat mature.

If you really can't start your company where you are, consider moving to a U.S. city that's less competitive than Silicon Valley. Here are a couple of interesting case studies:

The Israeli company Perfecto Mobile is thriving in Boston. They moved to America, but not to the Valley. Among the advantages: less competition for talent.

The Indian cloud-backup company Druva did move to the Valley, but it waited until it had achieved traction enough to receive funding from Sequoia.

Now, when they hire, the first question–who is your backer?–meets with a satisfactory answer.

We also have examples of companies thriving in Arizona and Chennai … and many other places. Arizona-based InfusionSoft raised funding from Silicon Valley's Mohr-Davidow Ventures, but by the time they did so, they already had millions of dollars in revenues.

Freshdesk, based in Chennai, India, raised money from Accel Partners in India, and even though they are selling to a global customer base, they have stayed in Chennai, keeping cost-structures down. Not only do they enjoy less competition for talent, they also enjoy less competition for funding. The company has 10,000 customers for their helpdesk software-as-a-service product, and thus far, $6 million in financing.

Greg Gianforte, the founder of RightNow, told me years ago that one of the best decisions he made was to build his engineering operation in Montana. Costs are low. Quality of life is high. Attrition is non-existent. Greg did raise money in Silicon Valley, but by then, his company had significant revenue. He eventually took the company public, and later sold RightNow to Oracle for $1.3 billion. I have called him the Montana Mogul.

More recently, Utah is seeing significant startup activity, and is able to draw capital as well, including from the Valley. Companies like Omniture, Pluralsight, Steals.com, and others are making excellent progress. Omniture has been acquired by Adobe, and was venture-funded by Silicon Valley firms such as Hummer Winblad.

Finally, if you do come to the Valley with the right ammunition – a solid investment thesis, proven model, traction, and execution track record–no matter where you come from, investors will shower you with financing.

In fact, if you have a solid operation elsewhere that costs less, faces less competition for talent, and offers a sustainable competitive advantage, the investors here like it very much. Large operations in Arizona, Utah, or India would work in your favor, not against. A small Silicon Valley operation with a large off-Valley base may be the ideal model for many entrepreneurs.

Of course, people come to Silicon Valley from all over the world, and many of them become successful. That is the myth of our golden Valley. That is what draws global talent to us.

But do not do not make a blind decision based on media hype or a cursory understanding of what's involved.

If you come to the Valley, come prepared.

And know this, that, you can ALSO succeed elsewhere just fine.

Interview with Jaspreet Singh, Druva

Jaspreet is a co-founder and CEO of Druva, India's flagship product company that started in Pune, and has since shifted its headquarters to Silicon Valley. This interview was conducted in March 2013.

Sramana Mitra: Jaspreet, let's start with your personal story. What is the background to your entrepreneurial story?

Jaspreet Singh: My father was in the Air Force, so I tell people I was born and raised in India. I have lived all over the country and have spent a lot of time in the western part of the country. I knew different cultures and I had a lot of friends all over the place. I went on to study computer science at IIT Guwahati.

Sramana Mitra: I don't think I have every talked to anyone who has been to IIT Guwahati. How long has it been around?

Jaspreet Singh: The first class was in 1996. It has been around close to 17 years now. I graduated in 2004.

Sramana Mitra: What did you do after school?

Jaspreet Singh: My entrepreneur journey started in college. During my fourth year I did an internship at a research lab for a private company. I did my internship in Germany, and while I was there my roommate was Dutch. He and a few of the others who were there really had a taste for Indian food. They offered to buy a regular supply of groceries, and my friends and I started to make some money by cooking various types of food. The group of us from

India ran this as a small operation and even had a balance sheet. It was fun until the racket was busted and we got thrown out of the hotel. Fortunately, I had an apartment.

That is when the entrepreneurship bug bit me. At that time I was planning on joining Infosys and eventually going on to get my MBA. When I was telling my friend about my plans, he told me that he was going to do a startup. When I got back to India, the startup idea was still in the back of my mind during my fourth year of school. When I graduated I joined a startup, Ensim.

Sramana Mitra: How did you find Ensim?

Jaspreet Singh: I joined a French startup in the same city, but the owner was really racist. We had some big confrontations, and I left within a month. I went searching for a job and I met the VP of business development for Ensim. In my IIT days I was the president of the Student Union. I was technically good, but also had social skills so he offered me a job. I loved working in a startup and I became increasingly interested in security and storage. I started working in open source projects.

Sramana Mitra: How did your journey evolve from Ensim to being a founding member of Druva?

Jaspreet Singh: While I was working on some of the open source projects, I met my co-founder, Milind. He was at Veritas and he convinced me to apply at Veritas. He told me that if I passed the criteria, I would be the only undergraduate working in the entire worldwide group. I passed my interview and joined Veritas.

About a year later, Milind left to start his own company. Around that time I got terribly bored. Milind invited me to work with him as an engineer. He did not have any money to pay me but told me that if he was able to make money that he would pay me. I started working for him. In 2008 the idea of Druva came about. We decided working towards the idea of Druva.

Sramana Mitra: What was the concept of Druva at that time?

Jaspreet Singh: In 2007 there was a loose concept around disaster recovery. Asia Pacific was getting hot on compliance, risk mitigation, and disaster recovery of mission-critical data. We knew we could innovate there. Even if you build something bigger and cheaper, the larger companies that wanted to reduce their risk and increase compliance were probably not going to trust a startup, especially one from India. India may have had a great services story, but its product story had not evolved.

We built a product, and I was thrown into the field to try to sell it. Every time I tried to sell it I got the feedback that it was very difficult and involved to use. I was able to see another area of risk mitigation for endpoints emerging. That was a space that nobody else was in. We took that feedback and decided to put our efforts into starting an endpoint product. We did that in 2008 and called it Druva. I was made a co-founder and I led the company for sales, operations, and marketing. I eventually became the CEO.

The endpoint became a huge point of focus. The PC was declining and laptops and tablets became the norm. Protecting information in the mobile space was very important. When people travel, companies still have to ensure that data is secure when they are traveling. They needed to ensure backup of the data and data protection. The only products in that space were either too consumer oriented or they were too oriented towards servers. There was nothing in the middle.

Sramana Mitra: Were you trying to go after the mid-market?

Jaspreet Singh: We went after the mid to enterprise market, but we focused completely on the endpoint.

Sramana Mitra: Wasn't there already security players on the endpoint?

Jaspreet Singh: Security was more about antivirus and leakage prevention. Data protection is about backup. Players had declining business there. The big players did not understand mobility. It was about endpoint backup for enterprises.

Sramana Mitra: How big is endpoint backup and recovery in the commercial space?

Jaspreet Singh: It is a $650 million market, according to Gartner. It is growing 10% year on year. The largest player is HP, which has $250 million in revenue, but their product is 13 years old and has declining revenue. The market was ripe for disruption when we entered it. We have been disrupting it ever since.

Sramana Mitra: When you first launched the company, endpoint backup was not your primary focus, but you detected a gap in the market and pivoted the company into that solution and re-branded it as Druva. Is that correct?

Jaspreet Singh: Yes. We did not understand market size or the competitive analysis. We just knew that there were a lot of people leaving PCs and going towards mobile devices. The software they were using was designed for the PC era when you could have continuous backup of data. We wanted strong differentiators so we could have strong premiums. Today Druva is twice the price of the number two player in the market and four times more expensive than Symantec, but we still sell like hotcakes. We are ranked number one by Gartner in the entire category. We have some large blue chip customers.

Sramana Mitra: In 2007 and 2008, when you started to bring this product to market, how did you get the company going? How did you finance the early product development?

Jaspreet Singh: In 2008 we started building the endpoint product and did not start selling until 2009. Initially, we started out as a bootstrapped company before we realized that a product had a bit of growing to do. In late 2008, we took angel funding, and we underestimated the amount of money that we needed. We went through that money in five months.

To our surprise, the market had a real demand for the product. In the early summer of 2009 we had a customer from the UK who cut us a check for $100,000. That almost equaled our angel investment and fueled more growth. Later on that summer we had four major financial companies sign on as customers. We quickly ramped our revenue and in 2010 Sequoia noticed us and funded us. We essentially had a small amount of angel funding and then bootstrapped the company from there.

Sramana Mitra: You were raising money as a completely validated company. That is a key point.

Jaspreet Singh: That is exactly it. I raised money when I was already a validated company.

Sramana Mitra: In India that is the way to raise money, and it is becoming that way in Silicon Valley too. Today venture capitalists expect you to bootstrap your way to a Series A.

Jaspreet Singh: In a way it sort of makes sense. Building a startup is cheap. The enterprise category is a bit more expensive because you have to bring a good product to market. Enterprise clients want to make sure you are going to be around.

Sramana Mitra: Financing in India has become a little bit easier. One of our 1M/1M companies managed to raise their first million from a VC. We worked with them during the bootstrapped phase. Our advice was to get to the point where they had paying customers. They sell to small businesses, so it's not like they had $100,000 checks, but they have a product that customers pay for. They validated their business before they raised money. Even though it is getting better in India, it is still very tough overall.

Jaspreet Singh: I agree that it is still very tough. The ecosystem is still very young in India. The VCs put money on great ideas, and there are a few smart VCs. The top four investors in India are Sequoia, Accel, Nexus, and IDG. They have invested the majority of the money in India. It is still very difficult to get early-stage funding.

Sramana Mitra: How much did you raise from Sequoia, by the way?

Jaspreet Singh: Sequoia gave a good term sheet for our Series A. Initially I chose them for their brand and reputation but I also built a great working relationship with Shailendra and Shailesh. They are very different personally and contributed greatly to my personal growth as well as Druva's growth. From day one they insisted that Druva was a global product story, and rightfully pushed me to move to the US. That was probably the best decision so far for Druva. The Sequoia US team was highly instrumental in helping me hire the first few important roles and also meet all the right people.

When I was travelling between US and India, I met Jishnu from Nexus. They moved super fast to give Druva a term sheet. And although I did have an alternate offer, what really enticed me this time was the great set of people at Nexus. Both Jishnu and Naren from Nexus have been a great help, and I still interact with them regularly. They were, and still are, very helpful in Druva becoming a global player.

I think in hindsight, Druva was lucky. But I can very easily see other startups in India not able to attract the right capital.

Sramana Mitra: How did you meet your U.S. head of sales?

Jaspreet Singh: He is actually the head of North America. Our investors introduced us to various key people. I was introduced to an American living in India who was getting ready to move back to the U.S. That bridged the time gap until I hired Mark Tracy as the VP of sales. The mid-market practice is still with Ash. We have a European practice and an Asian practice as well.

Sramana Mitra: Where do you see the maximum traction? Is it mid-market or enterprise, or a combination of the two?

Jaspreet Singh: We thought the mid-market would be a sweet spot, but recent events have changed that perspective. HP products are being used by everybody in the market from Cisco to McKinsey and Bain. That is going down and we are starting to see a lot of enterprise traction. We started off our enterprise practice with one person and that is now a five-person team. It is an amazingly fast growing market. We have seven people on the mid-market team in the U.S. We have nine people on our enterprise and mid-market practice in Europe, and we have four in Asia.

Sramana Mitra: This is your first time as an entrepreneur, and also

heading up an enterprise software company. What has been your personal evolution and education from this process?

Jaspreet Singh: I have learned a lot. I still remember the day that Milind asked me to join him as an engineer in his startup. I talked about whether or not I should join him with my future wife. She told me that if I was bored at Veritas that I should quit my job, join him, and we would figure it out. Since then I have had nothing to lose. I put myself into the company 100% and I took on every challenge that I could find.

I see a startup as an upward spiral. You have four different dimensions. You have to build a product, position it and market it, sell the product, and finally raise money. You have to keep doing those steps repeatedly to continue the upward spiral. However, each time you repeat the process, it changes. There is a different market that requires different positioning. Perhaps the first time you had ten customers and now you have larger customers or customers in a new market segment. That process provides a lot of opportunity to learn.

It was a great experience to be in the US all alone looking to hire a team. I hired my entire marketing team, fired all of them, and then hired a new team. I now have a very strong team. I have spent a lot of sleepless nights building this team, and it is a very strong team. I am on my third VP of finance, my second VP of sales, and my fourth VP of product. Every single day is a new challenge.

Sramana Mitra: When you hired a marketing team, you said you had to fire and rehire. What were some of the key mistakes that you made in that hiring process?

Jaspreet Singh: If I could look back, the biggest mistake was having the wrong people in the wrong jobs. I was hell bent that the way to sell things was through online marketing. Nobody believed me. Traditionally enterprise software was sold through channel partnerships and PR. I was hell bent on doing a tactical consumer move. When I moved to the US, I was introduced to multiple marketing folks. I ended up hiring someone whom I really liked, who is still a good friend, but things did not work out. I was told again and again that you had to build a strong team to do corporate marketing and PR. Tactical marketing and brand building was supposedly not the way to go. Hiring the wrong people in the wrong job was my mistake.

Sramana Mitra: Listening to your story, I don't think your primary challenge was corporate marketing and brand. Your primary challenge was developing sales leads.

Jaspreet Singh: Exactly. At that time everybody told me that you did not need to do that. They told me you sold an enterprise through channels. I figured since 90% of the people out there told me to do it that way, I should try it that way. I thought times had changed. I figured that everybody searched before they purchased a product. We had the only product that could be downloaded and deployed. Everything else out there was bloated and expensive.

Sramana Mitra: Did you have members of your board with you in the US helping you build your team?

Jaspreet Singh: None of my founding board members were in the US. I was alone and I struggled hiring my first team. In the Bay area getting a team together is a struggle. In India getting your first few people is difficult if you are not a large brand. The same is true in the Bay area. You have to sell yourself hard enough to be attractive. I was lucky enough to hire a few really good people. One of them is the VP of Product and the other is heading our North American market. The rest of the people who joined us came because Sequoia backed us but they were not necessarily the best fit for our culture. There is a lot of hype around the startup culture in the Bay area. People think about food and ping-pong tables but they forget about the hard work that goes into startups.

I then discovered someone very interesting, Ty Lim. He had previously founded a marketing company, Cypher Media, before we met. I hired him as the head of marketing. I had to convince the board that I found the right guy for the job. Instincts are what entrepreneur should trust and I was foolish to ignore them the first time I built that team.

Sramana Mitra: Did you get pushback from your board on some of these hires?

Jaspreet Singh: I did get some push back. I had to remind that board that three years earlier they had never heard of me. I was an engineer, not a CEO. I could see another young, hungry person who fit the startup mold. Fortunately my board has been very understanding and they have been supportive in tough times. I now have a functioning, 10-person marketing team that is performing phenomenally well.

Sramana Mitra: My observation is that people who have raw intellectual horsepower combined with hunger make better startup employees than people who have done three or four executive jobs.

Jaspreet Singh: I think you nailed it. A lot of the time I got people who had the intellect but not the hunger. I also had some people who had the hunger but they did not have the smarts to match. Getting the two together is the sweet spot for a hire. Each time I hire someone I look for that combo. I am not afraid to hire a young VP. My most experienced VP is probably my VP of

Finance.

Sramana Mitra: The VP of Finance is a much different role. You see a lot of people who have done multiple finance roles and that is a role where experience really helps, especially if you are looking to grow a multinational. The marketing role is very tricky because great VPs of Marketing become CEOs, especially in the Valley. If somebody is doing that role in multiple companies then you almost have to start wondering why they are still a VP of Marketing and not a CEO.

Jaspreet Singh: I completely echo your thoughts. A lot of companies are founded by techies and you cannot make a sales rep a CEO. The marketing position is a perfect blend of understanding the technology and being able to sell it.

Sramana Mitra: A lot of executives have come up in the industry with marketing background but have strong technical acumen. That is absolutely the right combination.

Jaspreet Singh: I completely agree. Everything we are talking about is what I found with the second team that I hired.

Sramana Mitra: You are still quite young and you are managing people who are a lot older than you. How does that dynamic play out here?

Jaspreet Singh: I have found that I have to constantly evolve. When I got funded I asked a VC how long I should be CEO of the company. He told me that the company was growing at "x pace", and that I would grow at "y pace". There would be a point where my growth would outperform the company. He told me they were not paying me to work; they were paying me to think. My thoughts would lead the company and I would be respected for my thought leadership. He also told me that when I was no longer able to provide the thought leadership to the company that I should step down.

Sramana Mitra: Can you talk some to the Pune story?

Jaspreet Singh: Pune has shaped up to be a good base for our engineering operation. It is not a great place to raise money so I had to leave, but from a talent acquisition and retention position it is a great place. We had a third co-founder who ran operations there but he came down with Parkinson's disease. He had to step down recently due to his health issues.

Sramana Mitra: How have you managed your retention strategy? That is often difficult.

Jaspreet Singh: There are not a lot of product companies. The majority of the companies in India are doing crap work and it is not product work, particularly in Pune. People love doing great, valuable work. If you have good value in the stock and you offer the chance to do great work then you can retain top talent.

There is one other aspect that has helped us and that is our philosophy of distributed leadership. Bezos had an interesting post recently about this theory when he said that a team should be big enough for two pizzas. We have had that philosophy for a long time. There should be 5 or 6 people per team, no more, and that the team should have respect for their leadership. I'm not worried about those teams respecting me or Milind, I want them respecting their team leads. Treating people as leaders and empowering them with smaller teams has really helped glue our organization together.

Sramana Mitra: What you are describing goes against the culture of the Indian IT industry. When you look at resumes from that industry they all brag about the size of teams they have managed and the years of

experience. You don't need that in the startup culture.

Jaspreet Singh: Service companies have spoiled a lot Indian contemporary culture.

Sramana Mitra: As a computer scientist I am impressed with small, elegant code bases with algorithmic finesse. That is an intellectual game, not a people game.

Jaspreet Singh: With Druva we have core engineers who create our product. That team is still very small. We do not look at cost advantages when it comes to that team. The goal is to get great talent and nurture them. We fly people to the Bay area for every conference. That is not a cost reduction center for us. We have larger teams in Q&A and support. We often use the phrase "Indian roots, value centric". We are blending two cultures. We still have our Indian roots.

Sramana Mitra: That is a very different viewpoint than a lot of the Valley companies who go to India for labor arbitrage. One of the reasons why your success story is so celebrated is because very few Indian companies have been able to build a successful product story. Thank you for taking the time to share your story with us, it is fantastic. Congratulations on your success.

Bootstrapping With A Paycheck

Entrepreneurs looking to launch their startups are often faced with myriad difficult decisions, chief among them being the question of seed financing. If you've ever found yourself asking, "How can I fund this?" or "Can I fund this on my own, while I'm still holding my current job?" the answer is yes—you absolutely can.

Did you note in reading the case studies that the founding team of redBus bootstrapped their company while holding on to their full-time jobs? Phani Sama disclosed to his employer, Texas Instruments (Bangalore), that he was working on a concept for a startup. "As long as it doesn't hurt your productivity at work, that's fine," his boss replied. HR further vetted that Phani wasn't doing anything competitive in the chip industry, and off they went.

The rest, as they say, is history!

Vasu Akula and his two cofounders launched Voziq in late 2011 with one simple goal in mind: to help companies who purchase advanced analytics and business intelligence solutions better utilize the information they gained access to.

What makes Washington, D.C.-based Voziq unique is that Vasu and his partners didn't utilize outside investors in order to bring Voziq to life. Rather, they funded Voziq themselves while holding on to their day jobs, not unlike redBus. In fact, they funded the company all the way to break-even before quitting their jobs.

Vasu and his co-founders had originally toyed with several different ideas including fund raising. However, Vasu took my advice about bootstrapping Voziq's business through services, while holding on to his paycheck. It was a great way to bring immediate value to the customers, learning about their needs, all the while building a product with the long-term view in mind. Yes, the product has been on a slow-burner, but invaluable customer relationships have already been established, key customer inputs gathered, and of course, cash has continued to flow in.

What I find gratifying about the Voziq and redBus stories is that it can be a template for numerous other entrepreneurs that we hear from constantly. Hundreds and thousands of professionals around the world harbor entrepreneurial dreams. Most of them lack capital. For these entrepreneurs—heavy in expertise, light on funding—bootstrapping with a paycheck is a fine path to get going!

At 1M/1M, we're formalizing the process of 'bootstrapping with a paycheck' actively, in recognition of the fact that in many parts of the world, there isn't much of a seed capital eco-system. Thus, somewhere between 6-24 months of bootstrapping while holding on to a full-time job is a reasonable option for many aspiring entrepreneurs. In fact, I would go so far as to say that most aspiring entrepreneurs ought to start their entrepreneurial journey while sitting inside a corporate umbrella. Especially for technical people, it allows for the enhancing of their technical skills, while also developing the bricks needed to build a venture.

One thing you will find, however, that no incubator will be willing to work with you until you have quit your job. As such, we've decided that at One Million by One Million, we will support aspiring entrepreneurs while they line up their ducks and start putting together their ventures, without requiring that they quit their jobs.

What we recommend to those trying to learn the basics of startups are the following:

(1) Every week, we host Free Public Roundtables online on Thursdays at 8am Pacific Time. These are Webex calls, and you can attend the sessions from anywhere in the world to get some free mentoring, as well as to simmer in a community of entrepreneurs. You will learn a LOT just by attending the sessions and listening to the pitches and the discussions. If the time slot clashes with your other work related activities, you can listen to the roundtable recordings on YouTube [Channel: 1M1MRoundtables].

(2) We also recommend that you join the 1M/1M premium program and go through the curriculum. It will take you about 50-60 hours to get through the core curriculum, and you can do it at your own pace – say 5-6 hours a week. In 10 weeks, you will have got the basics down. Invest another 30-50 hours on one or more elective module, which aligns with your area of interest. Assume, that would take you another 6-10 weeks. In less than six months, you will be in a much stronger position as far as your understanding of entrepreneurship is concerned, and you will learn how to put one foot before the other.

(3) Pay attention to the case studies: you not only learn, you get inspired.

(4) Attend or listen to the private roundtables as part of the premium program. Again, you simmer with other entrepreneurs, learn from their journeys, get inspired by their progress, and find the confidence and support to launch your own venture. These happen on Wednesdays and 8am Pacific. All recordings are available.

(5) Through this process, we are sure that you are going to have an idea or two

come together that you feel passionate about. Start working on validating it, following the 1M/1M Validation Methodology that you will learn in the curriculum.

Once you have a validated business, you can leave your current job, and get going full-time with the venture.

Interview with Sangeeta Banerjee, CEO, ApartmentADDA

Sangeeta Banerjee and her husband are the cofounders of ApartmentADDA. Sangeeta kept her job at SAP, while her husband went full-time with the venture. Eventually, both were able to go full-time, as the startup gained its stride. In a market like India where seed capital doesn't flow as abundantly, many entrepreneurial ventures have seen the light of day because they have been started in a bootstrapping using a paycheck mode. This interview was conducted in December 2013.

Sramana Mitra: Sangeeta, let's start at the beginning of your story. Where are you from, and what were the circumstances of your childhood?

San Banerjee: I am from Kolkata. I grew up in a very conservative environment. Where I was from, girls were not supposed to ride a bicycle. I went to school on the other end of the city, and I commuted to school by myself. I would ride a bicycle to a ferry, then once on the other side of the river I would take a bus to school. Many people felt that my parents were careless with their daughter's safety, but my parents really wanted me to be self-sufficient. They wanted me to know how to take care of myself. My belief that I can do anything I want to stems from my parents. I used to face a lot of ridicule for riding a bicycle. They would tell me to stay off the road and tell me to keep my cycle on the playground.

Sramana Mitra: What did your parents do?

San Banerjee: My father was a government employee who worked his way through the ranks to become a senior official. He became a Registrar of Companies. My mother was a homemaker.

Sramana Mitra: It sounds like you are the first entrepreneur in your family. Did your family have any entrepreneurial background?

San Banerjee: Not at all. I was the first woman who got an engineering degree in my entire family. My grandfather had a writing school, but that is the closest thing I had to an entrepreneur in my family.

Sramana Mitra: What did you do after your higher secondary education?

San Banerjee: Since my father had a government job, we moved around a lot. I lived in West Bengal, Delhi and Chennai. In every location I lived in an apartment. I did not live in an individual house my entire life. I have been a part of a community since my childhood. I did my college in Chennai, where my father was posted at that time. I went to the College of Engineering, Guindy. It is a top 10 engineering school in India. I earned a degree in electrical engineering.

Sramana Mitra: What did you do after you graduated?

San Banerjee: I went to work for Tata, where I focused on mainframes. I did a lot of work with Cobol and JCL. I was there for a couple of years and had a couple of promotions.

Sramana Mitra: What timeframe was this?

San Banerjee: I started college in 1995. I graduated in 1999 and I worked for Tata Consultancy Services from 1999 to 2003.

Sramana Mitra: You left TCS in 2003. What was the reason for that move?

San Banerjee: I got married in 2003 to Venkat Kandaswamy, and I also wanted to pursue my MBA. I had taken my GMAT earlier, so I applied to Louisiana State University and was accepted there. My husband, who is my business partner now, was doing his MS there. I chose LSU for my MBA since he was already in school there.

Upon graduation I was recruited to work for Capgemini in the U.S. I did a lot of work there with SAP and ERP systems. In that job I essentially lived out of a suitcase. I would fly out on a Monday morning and return on a Friday evening or Saturday. I lived that way for one year before I realized that was not the way I wanted to spend my life.

We made that decision in 2006 which was around the time that India started to emerge with a great story for the world. Venkat and I both wanted to return to India. After we returned, the main difference we started noticing was that compared to the US, our people used very little tools/automation. I remember standing in the train station and watching the reservation list being put up on each coach of a train. The railway employee would dip his bare hand in a can of glue and then spread the glue on the wall of the coach, then stick the list to it. This he did for each coach. For the life of me I could not understand why he did not use a brush. Was he too lazy, or was it too hard to find the right tools for the job? I noticed this attitude in every walk of life.

We both settled down into our new lives. I started working with SAP in India doing ERP consulting. I still had quite a bit of travel. In 2008, we decided to stop renting and purchased our own flat in Bangalore. We moved in as the sixth family. There were a small group of us owners who had a lot of problems in the apartment complex. We had problems with things like plumbing, electricity and water supply. Some of the construction remained incomplete, and none of this was transparent from the builder. Different owners would receive different answers when they asked the builder a question. He did everything he could to keep the owners from coming together to talk to him.

By this time Venkat and I were used to global standards. We had plenty of exposure to life outside of India, so we decided to start to think about ways that we could fix this dilemma. We noticed that some of our neighbors started a Yahoo group to help owners communicate, but they quickly found out that as a solution it was inefficient. They wanted to know which owners belonged to which flat. When they were dealing with people through the Yahoo group, they did not know if they were talking to the owner or a tenant.

We really felt there should be a way for homeowners to discuss these issues in privacy. We found that we were spending every single weekend we had in various discussions with homeowners. We talked them through things like forming a homeowners association, how to collect money, and how to assess legal fees. There was no knowledge base for any of these topics online. None at all. Google came up with zilch.

Sramana Mitra: When you realized there was very little information available on the Internet to assist you with establishing an owners association, what did you do?

San Banerjee: We recognized that there was a huge vacuum. Apartment complexes were growing very fast in India and owners were looking for information. They were also looking for assistance with the processes for managing their complexes. Once an association was formed it was responsible for running the apartment complex. Associations had to pay for security, grounds maintenance, and everything else. There was nowhere for owners to turn to, to get assistance with those functions. This was frustrating, especially for first time homeowners.

Venkat and I looked for any software solutions out there for managing and association and we could not find any. Venkat had a high performance computing background and I had an ERP background. We realized that an online mini-ERP solution would be sufficient to help these various associations manage their complexes. We knew that if we built a solution it had to be low budget. Associations are non-profit organizations and they do not have a lot of money to spend.

In 2008, Venkat took a sabbatical and started working on the technical solution. We launched our solution in three months. We offered a prototype that had 5% of the functionality that we offer today. We went to the market with that. We showed it to our apartment complex as well as a few other apartment complexes around. People were very supportive. We then went out and contracted a graphics design firm to develop the UI. The owner of the graphic design firm loved it so much that he did a demo of our solution for his apartment complex. His complex was a bit of a high end complex and they went ahead and purchased a subscription for the product. Within two months of launching the site we had our first paying customer.

Sramana Mitra: How much does a subscription cost?

San Banerjee: Our fees were 100 rupees per flat, per year. Our first complex had 300 flats.

Sramana Mitra: Who was the customer? The association or the individual homeowners?

San Banerjee: The association was the customer. They represented the apartment complex. In India the Managing Committee is equivalent to a Homeowners Association in the US. The management committee is a group of owners elected by the other owners. There were typically 6 to 12 members on a Managing Committee and they are the ones responsible for selecting vendors.

Sramana Mitra: So your sales cycle was primarily focused on the Managing Committees?

San Banerjee: Exactly. They made all of the decisions for the properties as a whole. They were the ones who contracted for grounds maintenance or purchased contracts for security guards. It was a natural fit for us to sell our software to them as well.

Sramana Mitra: You had established your company and sold to your first customer by the beginning of 2009. Venkat was on sabbatical from his job. Did you keep working full time?

San Banerjee: I worked at SAP when we moved to India and stayed there through almost all of 2009. It was interesting for a while because we had our baby in 2008. At that point I basically became the project manager. I gathered the requirements and researched the market need. [My husband] focused on engineering and developing the product. I had to keep my job with SAP because it was the only income we had.

My mother-in-law was also living with us. She was the main reason why we came back to India. We originally planned to make a lot of money in dollars before returning to India. My mother-in-law, who was a widow, wanted to join us in the U.S. However, her visa application was rejected twice because she did not have a husband or any other source of income. That was a harsh reality for us. We had to stand and beg outside of the consulate of a foreign country to have our own parent join us. That was a big reason why we decided to return to India in 2006.

My mother-in-law is very efficient and is a person who loves owning the kitchen. Right from day one she took over that area. That arrangement enabled me to keep working and supporting our living expenses while we started our company.

Sramana Mitra: The *Entrepreneur Journeys* series has fabulous role models of female entrepreneurs. When I talked to those entrepreneurs, I asked them how they handled issues such as raising children. In most cases they were stories where in-laws played a very big role. You are reinforcing everything else I have heard.

San Banerjee: I would not have been an entrepreneur without her.

Sramana Mitra: Your mother-in-law is a venture capitalist, and the other venture capitalist was your paycheck.

San Banerjee: Absolutely.

Sramana Mitra: In the 1M/1M program we have a formalized methodology of entrepreneurship that we call bootstrapping with a paycheck. We encourage entrepreneurs to hold on to their jobs and do the entrepreneurial tasks in a creative way until they have a steady revenue stream. There really is no substantial seed capital money in India. Investors want validated businesses which take time to build. That's true in the U.S. as well to an extent, depending on which geography you are in.

San Banerjee: There is another thing that worked out well for me. Our customers were managing committee members who also had their own jobs on Monday through Friday. Most of our customer demos happened during the evening hours or on weekends. I never had to compromise my primary job. Most of my work was done on Saturdays and Sundays.

Sramana Mitra: What was your sales process like?

San Banerjee: Our first customer gave us a lot of word of mouth [publicity]. People would approach us and ask us to show them what we were doing. We would go to their apartment complexes and present the product to them. In the early days we were more interested in their input than anything else. We received excellent inputs from each demo we conducted. For the first two or even three years, our sales meetings doubled as requirements gathering meetings.

Sramana Mitra: What property management function was the most important to automate?

San Banerjee: We learned very early on that accounting was a very important aspect. Neighbors were not comfortable asking each other to pay their maintenance fees. They would rather have a system that automatically reminds everyone to pay and informs them of the penalties as necessary. All of the money management features were important to our early adopters. Even today that is one of our most sticky features.

Sramana Mitra: Over the course of the past four years, what have you built into the product?

San Banerjee: The idea behind an apartment complex is that each family owns their own flat but the common areas have maintenance which is done by independent vendors who are paid by all of the owners. The associations cover the cost for housekeeping, grounds keeping, and security.

There are three main aspects of running an apartment complex. The first is communication. There is a need for private communications to allow neighbors to discuss their issues. There are also communications from the managing committee to the residents.

The second aspect is management and upkeep of the property. This involves servicing of the transformer or generator and handling the complaints of residents. There are also taxes to be paid and all of those decisions.

The third aspect is the billing and accounting. Each owner needs to pay their share of the expenses. All of the associations need to have their statements audited at the end of the year and filed with the registrar. It is very much like a small and medium sized enterprise.

We identified these three aspects as key areas to develop technology to fix. We built various applications for each area. For example, we have an online forum to assist with communications. We have a vendor directory to help people find companies to fix problems such as a broken sink. For the management aspect, we built an online help desk with a calendar and a meeting tracker. We also developed automated bill generation which emails every resident with an integrated payment gateway to allow online payments. We were the first ones in India to do that.

We spent a lot of time building a complete accounting system. That was very important to our customers. It was a lot of work because our only developer was Venkat. He had to develop that while sustaining the overall software. It took us close to two years to build out the accounting software.

Sramana Mitra: What happened in 2009 on the customer front? How many customers were you able to get?

San Banerjee: In 2009 we had a lot of free users. We operated on a freemium model. We ended the year with eight paying customers.

Sramana Mitra: How much were you making off your paying customers?

San Banerjee: They were paying us anywhere between 100 and 350 rupees per flat, per year.

Sramana Mitra: How much revenue did that generate in 2009?

San Banerjee: Our third customer was one of the most well-known communities in Bangalore. When we went there and did our demo, one of the people who heard it turned out to be a former entrepreneur. After we were done, he approached us and told us that our pricing was too low. They went ahead and bought a three-year subscription and paid for the full three years up front. That gave us 1.5 lakh ($3k) right there. We also signed on a complex that had 3,000 units. In 2009 all of our customers were marquee customers.

Sramana Mitra: In 2009 was it still just you and Venkat working on building the company, or had you started hiring people yet?

San Banerjee: In 2009 my neighbor, Ashika Sripathi, was just getting back to her career after having a child. She had a background in sales. We had a good discussion on our front terrace, and she agreed to join and head up our sales. In 2009 Ashika and Venkat worked full time and I was part time. Today Ashika is our COO.

Sramana Mitra: How long was your sales cycle?

San Banerjee: It took anywhere from four months to two years.

Sramana Mitra: That is a problem with Indian customers in general.

San Banerjee: Not only the traditional Indian customer, but people who were working as volunteers. They did not have a job description that told them they had to automate processes. There was no boss for them to show the value of their work and the ROI of the software they purchased and implemented.

We discovered that when we found someone who was passionate about our software, they did the job of selling our software to the association. Homeowners would push back against paying for software. Apartment complexes were not used to buying software.

Sramana Mitra: What was the subscription fee that the market was ultimately willing to accept?

San Banerjee: Over time we found that they were willing to pay 180 rupees per flat, per year. That becomes affordable for all apartment complexes.

Sramana Mitra: What happened in 2010? By then you had moved to an office and you were working full time for your own company.

San Banerjee: I hired another person to manage support functions. We were slowly approaching breakeven, and we were able to start paying people from the company funds. Venkat had a couple of colleagues join him for a while, but we could not keep them for long. We were paying them far below market wages, and we did not know of any way to offer them stock options or have any guarantee on what their value would be in future years. We really had no way to keep them with us. In short, in 2010 we basically broke even with the exception of personal salaries for me and Venkat. We were cash positive on the 2010/2011 balance sheet.

Sramana Mitra: How much of your own money did you put into the company up to that point?

San Banerjee: We put in 8 lakhs ($15k). I don't count our personal expenses in that number.

Sramana Mitra: In theory you put in a lot more than that then.

San Banerjee: Yes, especially when you consider the two salaries. In the middle of 2010 I called my bank and asked them what would happen if I stopped paying our EMI [equated monthly installment] for three to four months. That was during the time where we had sleepless nights about how to pay salary. That person asked me why I would consider defaulting on my EMI, so I explained what I was doing.

This was the same person we approached when we wanted to buy our home. At that time, this individual told us that with our salary we could purchase two large homes. We had a good relationship with the bank, and once they understood that we were running a business and trying to pay salaries he told us that he would put our EMI payments on hold for four months and then after that we would have to continue paying. Ultimately we did not have to do that, but I do recall that being a stressful time in the business.

Sramana Mitra: How did your business ramp the following year? How many customers did you end up with by the end of 2010?

San Banerjee: We had around 110 customers at that point. We made around 17 lakhs ($34k) that year. By the middle of 2011, Venkat and I started drawing a salary. We also noticed an increase in the number of competitors entering the Bangalore market. We had proven the market existed, and now we started to face competition. We saw 24 competitors enter the market in 2010 to 2011, and almost all of them targeted Bangalore.

Sramana Mitra: How did you compete?

San Banerjee: We had some of the most forward-thinking apartments using ApartmentADDA. We received great inputs and benchmarks from our customers, who had good existing processes. Our best approach to beat competition was to meet the demanding expectations of our customer base.

Our competitors started offering their software at half the price we charged. Our price was already rock bottom, so there really was no room for us to undercut them. We realized that this competition was in Bangalore. Mumbai was a larger market and a more mature market in terms of management committees. We believed that in order to make our product the standard solution, we needed to offer it in Mumbai.

In 2011 we started traveling to Mumbai monthly. That got to be expensive, so we rented a one-bedroom apartment there. Shortly after that we entered in the Grace Hopper Entrepreneur Quest for women entrepreneurs. There was a 5 lakh (~$10k) cash prize. Normally I would not have gone to a business pitch competition, but there was some real money involved.

We ended up winning that contest, and the money really gave us the boost to target the Mumbai area heavily for three months. We moved to Mumbai for three months and used the 5 lakh (~$10k) as a cushion. We figured that if things did not work out, we could move back to Bangalore. In May 2012 we packed everything, rented our apartment, and moved to Mumbai. There were four of us living in a one-bedroom apartment.

Our first two months in Mumbai were not very decisive. We could not tell if we had made a good move. By the time we hit the third month, we were confident that our solution was very well suited for Mumbai. We went out and got some office space and focused on selling the solution to Mumbai.

Maharashtra is the only state in India where there are standards for running a management society. Audits are mandated by law, and there are minimums for collections required. There are a lot of standards. Our customer base benefited because now they knew exactly how their apartments were run, and it made audits much easier.

Our approach in Mumbai had to be slightly different. There were a lot of offline software solutions for running apartment complexes. We had to adjust our sales approach to demonstrate the online solution we were offering.

Sramana Mitra: Who runs your Bangalore office?

San Banerjee: Ashika runs that office. When we relocated to Mumbai, we knew that our Bangalore office would fall apart unless somebody was running it. We promoted her and she is now our COO. She stabilized that office.

Sramana Mitra: It sounds like 2011 was a traumatic year. How did you end that year in terms of customers and revenue?

San Banerjee: We ended the year with over 200 customers and we had 35 lakh (~$70k) in revenue.

Sramana Mitra: Was the business cash flow positive?

San Banerjee: It covered all of our costs except for the founder salaries. We were able to recruit our workforce at below market salaries by showing prospective employees our potential. We actually showed a little profit that year as well. We had to amortize our subscription revenues which made us profitable. Some of the subscriptions span financial years, we were able to get credit for those in 2012 that had started in the prior year.

Sramana Mitra: What were the major events of the 2012 to 2013 financial year?

San Banerjee: That year was all about Mumbai. It was all about understanding the Mumbai market and how to sell in Mumbai. We made a strategic decision to forge partnerships with accountants who specialized in auditing management committees. We felt that the best way to grow the product was to develop the ecosystem. The whole ecosystem in Bangalore was spent trying to convince management committees that they had a need to invest in software. We find that a lot of auditors try to reject any accounting system unless it is a specific brand. We still fight that to this day to some extent.

In Mumbai, we found it easier to get the attention of accountants because they had been exposed to multiple software products. That was very good for us because they were willing to listen to what we are talking about.

Sramana Mitra: It's interesting you say that because FACT software had to gain acceptance in India as well.

San Banerjee: I have not heard of them.

Sramana Mitra: You probably have not in your ecosystem, but FACT is a very successful accounting software company in India. I can see that

auditor acceptance would be challenging. Despite that you have a rather sizable customer base.

San Banerjee: We do have a good customer base. I think accounting is still a difficult area because we have to create the ecosystem. We need to ensure that auditors are willing to accept the data that they get from our software for their audits.

Sramana Mitra: Are you in other cities as well now?

San Banerjee: We have offices in Mumbai and Bangalore. We have customers across 70 cities in India, and we have paying customers all over India as well.

Sramana Mitra: Let's talk about funding. When did you receive your funding and what preceded your decision to raise funding?

San Banerjee: From the very beginning, we have sought out people who could serve as advisors for us. One of our earliest advisors was Sharad Sharma. We also had Manish Singhal, whom we met through our entrepreneur contests. He joined us after the competition as a formal advisor. In February of 2013 we decided that it was time to scale our business. The product was proven and mature. We had figured out the support process. We felt we could show value to investors.

We created our first pitch and gave it to Bhupen Shah, whom we were introduced to by Manish. In our very first meeting he committed to invest in us. We were very pleased with that because the purpose of the pitch was to get his feedback on the pitch itself.

Sramana Mitra: What was your pitch to the investors? Everything sounds great. You have a mature product with customers and a validated pricing

model. However, there are two general questions which float above Indian SaaS deals. First, there are always concerns about the growth rate because the Indian sales cycle is abnormally long. Second, there are concerns about the Total Available Market. Tell me more about those two aspects.

San Banerjee: There are around 4 lakh (~400k) apartment complexes in India that hit our demographic. That became our TAM. Our software is sold to complexes where rent rates are above 26,000 rupees (~$500). On ApartmentADDA, each complex has its own secure ADDA. Every resident has credentials which allow them to log in and conduct business associated with their apartment complex. This is like the Facebook of apartment complexes with management capabilities.

There are other possibilities there as well. Suppose you want to open a new school in a particular area and you only want to advertise to apartment complexes in that area. Your only option would be to put up a billboard that is very expensive or to approach each management committee to put a notice on their board. We now have the ability to automate that with ApartmentADDA. Management committees are open to new revenue possibilities because management costs are sky rocketing. This gives them a new revenue stream.

Sramana Mitra: Are you doing revenue share deals with the apartments?

San Banerjee: Exactly.

Sramana Mitra: Is that a validated model or is it a concept?

San Banerjee: This has been verbally validated. We have had discussions with several management committees, and they are excited about it. We have become trusted advisors and they know that we are not going to sell their private data. There is a tremendous amount of trust that we have established. When we approach them with a new possibility like this they really believe in the promise.

Sramana Mitra: I like the manner in which you are thinking, and it would be good to get additional revenue streams. I would not let go of the subscription revenue stream by any stretch of the imagination. What is the TAM for the subscription business?

San Banerjee: There are 4 lakh (~400k) apartment complexes, and each has an average of 200 apartments. We could expect 180 rupees (~$30) per flat on average.

Sramana Mitra: How much angel financing did you raise?

San Banerjee: Just enough to carry us for another 1.5 years in our build out effort.

Sramana Mitra: Do you also want to experiment with the advertising revenue model with this round of funding?

San Banerjee: Yes, that is exactly what we would like to do. We will scale our subscription revenue with this round and validate our advertising revenue. If we raise another round in the future, then we can look to scale the advertising revenue with that round.

There are other integrations that we are looking at as well. More and more apartments are being occupied by parents while their kids are in the U.S. Those who are in the U.S. like the fact that their parents are in an apartment where everything is taken care of and they don’t have to worry about plumbing, electricity, or security. However, they sometimes encounter problems that are not covered by the management committee, such as a broken TV.

We are thinking about a concierge service or a home appliance maintenance service. There are companies that provide warranties here in India. They will track down the right TV repairman to come fix the TV. A concierge service would be nice to help in other areas as well. For example, what if the Indian couple needs to renew their passports? They could call the concierge service and get that task accomplished that way. We could look to solve problems for grocery delivery services as well.

There is also the case of electric utilities in some areas. The utility will send a bill every month to the apartment complex with the appropriate meter number. They do not map it to the name of the person using that meter. That is done by the apartment manager. The apartment manager drops the bill in the appropriate letter box. This creates a lot of problems for the utility. If someone is not paying their bill, they do not have a way of sending a reminder to that person. The only thing they can do is unplug the electricity. The problem is that they unplug the electricity for the entire complex.

Sramana Mitra: It sounds like you are looking at ways to impact the style of living in these apartment complexes.

San Banerjee: Exactly. It took us one year to work on that, but we are nearing completion of our integration with a utility right now. They are going to be able to present bills to flat owners online. We have mapped each meter to its flat. We also let them make the payment online through our payment gateway.

Sramana Mitra: How does the relationship between you and Venkat work? I have done a lot of stories of successful startups founded by couples.

San Banerjee: I was brought up knowing that I was no different from a man. That was important for me when I was choosing a life partner. It is difficult for most men in India to accept that, although it is happening more often than normal. Venkat was very different. In our college, he was fine working for clubs or associations where he was the vice president and a woman was the president. I really appreciated that in him.

In the business, he has done all of the hard work. At times it seems that I get all of the credit for the business. He seems all right with that. He is dedicated to the company's success, and of course I try to point out that he gets credit for the technology. I think it is important to blindly trust someone else.

We talk business all the time. We have to work hard to talk about other themes so that we can stay interesting to each other! We also have to focus on keeping a distance at the workplace. We have to ensure that we talk to each other the same way we would to any other colleague. We have been very careful about that. People are comfortable working for us knowing that we are fair.

Sramana Mitra: I think it is a question of mature egos versus insecure egos. You have expressed excellent judgment in choosing someone who has a secure ego. He does not need external validation and realizes the benefits of each of you working in a way that maximizes your strengths.

San Banerjee: Thank you. That is a very nice way of putting it.

Sramana Mitra: Excellent. I think you will have a long haul ahead, but I imagine you are enjoying your journey. Congratulations. I really do look

forward to following your success.

Interview with Paras Chopra, Wingify

Paras Chopra is the founder and CEO of Wingify, a company that builds web analytics and optimization technology to include its flagship product Visual Website Optimizer. Paras started as a solo founder, and bootstrapped his way to $7 million in revenue, debunking the myth that solo founders cannot build successful businesses. This interview was conducted in December 2013.

Sramana Mitra: Paras, let's start with the very beginning of your story. Where were you born and what are your family circumstances? What leads up to the Wingify story?

Paras Chopra: I was born in Punjab. I have been very lucky to have very forward-looking parents. I was introduced to computers very early on. I got access to a computer in my eighth standard year of school. My father had been playing with computers for a long time. He has an agriculture and biochemistry background, but he needed to use computers to conduct his work. He had a computer back when a 200Mhz computer was best in class!

I got hooked on programming instead of the usual things teenagers do. I would rather program than play games. What got me hooked was Basic 6.0. It was a very simple language. I could design entire programs using drag and drop features. I could drag buttons and text boxes, and then I could link the logic using an easy-to-follow language. It was pretty fun being a 13-year-old who could write workable programs used by other people. That was the genesis of where I am today.

Sramana Mitra: Did you go to college?

Paras Chopra: I started programming in school during my 9th standard. I stumbled across a topic on artificial intelligence, and I got very interested in neural networks. I would spend all of my evenings and afternoons implementing neural networks in Visual Basic. I started doing more complex tasks in Visual Basic, so I started to learn Python. By the time I completed high school, I considered myself an expert in programming. Looking back, I think I was very naïve! When it came time to choose my major I decided to focus on biotechnology.

Sramana Mitra: Where did you go to college?

Paras Chopra: I went to the Delhi College of Engineering. It is one of the premier colleges in India. My parents were against my idea of studying biotechnology. They really wanted me to go into computers. It ended up being a very good decision for me as well. I learned an entirely different field. I did not know anything about our bodies, DNA and genes. It gave me a very different perspective than I would have had if I had just gone into computers. That has given me a unique perspective to my work and to life in general.

Sramana Mitra: When did you graduate from college, and what did you do after you graduated?

Paras Chopra: I graduated in 2008. Even though I studied biotechnology, I remained very involved with computers the entire time. My area of concentration for biotechnology was computational biology. In that specialty I would model biological problems using computer programs. I would write programs to simulate protein functions, or anomalies in genes. That morphed into using big data sets.

I started reapplying all of my knowledge of artificial intelligence to this line of study. I did a lot of work with neural networks and genetic algorithms within this data set. As a result of that, I became very interested in data mining and analytics.

During my school years I read an essay titled 'How to Start a Startup.' It was very well written and it made me realize that I needed to do a startup. During my college days I tried three or four different startups. Now that I look back at them, I realize they were really just projects. I would do one every time we had a three- or four-month break. One of my startups was Kroomsa, which was a music portal which promoted independent Indian music. That was my first brush with doing a startup.

Sramana Mitra: During college you were able to toy with an idea to see if you wanted to build a company out of it. Did you morph one of those projects into a full-time startup after graduation, or did you get a regular job?

Paras Chopra: I knew I had to do a startup, so I tried a lot of things. I never did anything alone, but we never had a business model. We always had cool ideas without business direction. After college I went ahead and got a job as an R&D engineer for Aspiring Minds, and I worked in that role for about a year and a half.

Aspiring Minds is a company that makes employment tests. At that time it was the only company to make computer-accessible testing of that manner in India. It is similar to a GMAT where the difficulty of the test adapts to the capabilities of the test taker. That really played well to my analytical skills because it further developed my machine learning capabilities. The company was started by one of the seniors who did his masters at MIT.

I always knew I had to do a startup. After about a year and a half, I had a cool idea. I made a rational list of my interests. I spent about a month or so just listing what I liked to do. That let me arrive at some key areas of interest. One of the top themes that emerged for me was marketing optimization. That combined my interest in analytics, technology and marketing. That was the genesis of Wingify.

Sramana Mitra: Obviously you don't have a background in marketing. Typically, we see people getting into a field with fairly significant domain knowledge and then building a product using that domain knowledge. You seem to have come into marketing optimization without real knowledge of marketing. How did that work?

Paras Chopra: Looking back, I think I was a little bit naïve. I think that led to a little bit of overconfidence. When I started to struggle I thought back to my time in biotechnology. I entered school with very little understanding of the topic but I was still able to perform at the top of my department and I was able to publish some papers. I also remembered how I was able to learn and progress through machine learning. That gave me confidence that I could learn this new field as well.

Marketing optimization did not feel like rocket science. It sounded very interesting and I was passionate to learn the ins and outs of that market. I figured that the worst thing that could happen would be me failing.

Sramana Mitra: How did you go about starting this company? How did you know what to work on? What did the product contain?

Paras Chopra: I started moonlighting while I was still employed. I told my employer that I was working on something that was not in conflict with what I was doing at my employer's. What I was trying to do with my first attempt with the product was develop something useful. Google Analytics was very popular and I started using it. I realized that Google Analytics gives you a lot of insight into what is happening.

They make it possible to know where your business is coming from. Implementing the information in a useful way becomes difficult. You have to change your website which requires a lot of customization and IP. Even then it may not be perfect. So, while you get a lot of insight from Google Analytics you are only able to implement a minimal amount of productivity on your web platform with the information you are shown.

My goal was to build a platform for Google Analytics that would allow users to make changes to their websites in an intelligent way using that platform. That would let them be able to implement change based on the information they are getting from Google Analytics.

If you write marketing optimization software on Google, you will quickly delve into any number of sub-specialties such as ad optimization. There are threads for the display side of the house as well as personalization products. There were other products when I started my company but they were primarily built for large companies. There was no practical method for small and medium business to run marketing optimization strategies.

I set out to commoditize the marketing and optimization part of the operations for small and medium businesses. That is where my scoping started. I really focused on what marketing optimization really meant for a website. I discovered that it meant you had to implement A/B testing features, targeting features, and segmentation and analysis features. I worked on this for about 8 months and I came up with a product that had a lot of features in it.

Sramana Mitra: Did you build the entire product yourself or did you hire people to help you?

Paras Chopra: I paid about 50,000 rupees for a website design. I did a very basic product design myself. I launched the website on Hacker News, and the feedback I received was horrible. Nobody understood what I was trying to do. I called it a conversion rate real-time optimization platform, and nobody understood what that meant. I was caught in the trap of having an engineer's mindset. The various algorithms I was using came very naturally to me, but they did not mean a lot to anyone else.

I also gave very little thought to the usability of the product. If you were to log in to the product, you would see at least 25 to 30 options. I thought that it would be good to have as many options as possible. I did not realize that this was going to overwhelm and intimidate people. Overall the product launch was a very good learning opportunity for me. It was a bit disheartening because I had worked so hard and all of my past projects had failed as well.

Sramana Mitra: How did you bounce back from that situation? Did you still have your job?

Paras Chopra: I still had my job although I was living a very crazy life. I was living at one end of Delhi and commuting to the other end of the city for work. I was wasting 4 hours a day in commute time.

I could have just given up, but I realized that the feedback was actually quite relevant. The good thing about Hacker News is that the feedback is very good. I was able to derive a lot of knowledge from it. They told me that I had too many options or that my terminology was too complex. This helped me refocus the product.

I decided that it would be best if I did not try to attack the problem in its entirety. Instead I decided to focus on just one area and keep it simple. I ended up scraping all of the code I had written. I called my second version Visual Website Optimizer. I wanted to learn from all of the mistakes that I had made. I chose to use A/B testing as the focus area. There was a free tool from Google at that time for website optimization but it had very poor user reviews. It was very difficult to use. It required separate versions of your website in order to use it. There were also some high end commercial tools that had subscriptions that cost thousands of dollars.

I felt that this created the opportunity to create a very simple, easy to use, A/B testing tool that could be offered at an affordable rate. I wrote the tool in one month. I used so many hacks to write this version that you would not believe it. I did not even put in a proper design or logo. I bought a $5 website theme and used that for my app. I used the typical structure of a SaaS package from 37signals.com. I did not reinvent a lot of things.

Sramana Mitra: What timeframe was all of this work occurring?

Paras Chopra: I started coding the second version in December of 2009.

Sramana Mitra: You basically bootstrapped Wingify using your paycheck, correct?

Paras Chopra: Yes. I spent about $20 for a domain name and really had no major expenses. I really just invested my time. My living costs were covered because I was living with my parents. I did not need to spend any money. I would not go to parties. I spent all of my time working.

Sramana Mitra: How was the beta version of your new software received?

Paras Chopra: The comments were very encouraging. I ran a private beta and then I sent out invitations to blogs. Their readers got exclusive access to the software which worked well for me. That created a lot of groundswell and interest. I got a lot of users asking for demos and I received a lot of user feedback. I was very active in soliciting feedback from the users. That helped me define the product which was useful since I did not have a marketing background.

By March of 2010 the growth was more than I could handle. I had over 1,000 users and I realized I had to quit my job. I decided to go ahead and do that so I could focus on Wingify full time. That meant I needed to get money coming in from Wingify. I knew that businesses were going to have to be my primary user base because they would be willing to pay for the product.

Sramana Mitra: By the time you quit your job, you had a product that was validated and had a definite business need. You still lacked a business model and pricing model validation.

Paras Chopra: I had an early user whose email had microsoft.com in it. He had sent me an early email telling me that I had gold in my hands. This was the kind of feedback that made it easier to make the difficult decision to quit my job.

Sramana Mitra: When did you quit your job?

Paras Chopra: I left my job in March of 2010. I was earning about 50,000 rupees in salary from my job. I just wanted to get the same amount of money from this project. I told my parents that I would be able to get that much money out of this business so they should not worry.

I finally launched paid plans and signed up 10 customers my first day. By the end of the first month I had made $4,000. That was way above what I was expecting.

Sramana Mitra: How much were you charging?

Paras Chopra: I did not have any real economic rationale for my pricing. I just followed what I saw at 37Signals.com which was to keep pricing under $100. I guess I could have tried to go out and charge a couple of thousand dollars a year, but I went ahead and charged $39 a month.

Sramana Mitra: It sounds like you had a very good conversion rate.

Paras Chopra: The conversion rate was around 10%. I also got some hate mail from users who expected the product to be free forever. They told me I should be ashamed of myself for charging money and pointed out that Google's products were free. I had to defend myself and tell them that Google was a huge company, but I had to be able to support myself.

Sramana Mitra: You are running a business, not a charity. Those are the types of users that you do not want to have as customers anyways. There is a big difference between paying customers and free riders.

Paras Chopra: Free riders seem to have the loudest mouths, and it takes some thick skin to deal with them.

Sramana Mitra: You should only listen to customer feedback. Free rider feedback is irrelevant. It's fine to have free users when you are building a product. Once the product evolves, you only need to worry about those willing to pay.

Paras Chopra: I rationalized that if they were not willing to pay $39 or $49 per month, they were probably not really interested in the product to begin with.

Sramana Mitra: You had a 10% conversion when you turned on the paywall. How did that evolve along with your customer acquisition strategy?

Paras Chopra: I wrote a lot of content. I had maintained my blog for a long time and I just loved writing. In retrospect I think that was one of the most important things that helped Wingify gain traction. I started writing for places such as Smashing Magazine. I kept the focus on my writing on A/B testing, what should be changed on the site, and what the best practices were. I would discuss the difference between A/B testing and multivariate testing. I wrote about the industry in general. That really generated a lot of interest in Wingify.

Sramana Mitra: How much did the revenue curve change between March of 2010 and January of 2011?

Paras Chopra: Revenue was growing dramatically. It grew from $4,000 to $8,000 the first few months, and then kept doubling. I was quite happy with that. I was starting to get demo requests quite often, and I would give these one-hour demonstrations quite regularly. It got to the point that I could give a demo with my eyes closed because it was so predictable. By the time January of 2011 came around, Wingify was generating over $30,000 a month.

Sramana Mitra: When did Sparsh join you?

Paras Chopra: It was around that time that he quit his job in London and came to work on this project full time. That is also when we hired our first employee and rented our first office.

Sramana Mitra: What is Sparsh's connection with the company? You founded it, so did he join as a co-founder or a partner?

Paras Chopra: He joined as a partner. He is involved in everything to do with the company, including all of the financials. It just happened that he did not start the company with me. He came on board a year after I started it.

Sramana Mitra: What are your primary customer acquisition methods?

Paras Chopra: We are starting to do a mix of marketing and sales. For the longest time we focused solely on our content marketing. We have tried AdWords, Salesforce and even LinkedIn marketing programs. What has worked for us is content marketing.

Sramana Mitra: This is the case with 1M/1M as well. I don't think we would have existed without the amount of content we have produced.

Paras Chopra: It has to be good content. A lot of people think that churning out garbage content is the same thing. You obviously know it has to be quality content.

Sramana Mitra: What was your revenue at the end of March 2013?

Paras Chopra: We did around $3.5 million.

Sramana Mitra: How much did you increase the team from 2011 to 2013?

Paras Chopra: We more than doubled the size from 7 employees to 17. We added most of our positions in engineering, although we did bring on a sales guy, a marketing guy, and two support guys.

Sramana Mitra: What has been significant for Wingify this past year?

Paras Chopra: Our focus has changed. I have matured as a businessperson, and I have insight into what works and what does not work. The company has always been reactive. We have now determined that we can be proactive. One of my key realizations this year is that if India can make a cost play on IT services, there is no reason that it cannot make a similar play on product as well. My goal is to make Wingify the most respected software company to come out of India. Our forecast for this year is somewhere between $6 and $7 million.

Sramana Mitra: Have you given some thought as to what your product roadmap will be?

Paras Chopra: There is a lot we can do. The product is evolving beyond A/B testing and moving towards the original vision of Wingify where it is a layer that sits on top of a website to provide intelligence. I would like to see Wingify sitting on top of every website where we can do testing, targeting, and whatever AI roles they would like performed on their website.

Apart from that, there are other areas where the market is expanding. There are apps that need testing and optimization. There remains a need to test and optimize the entire customer service experience. That includes taking data from different channels and integrating those data to find optimization for it. There are a lot of things we can test and optimize today.

Sramana Mitra: The advantage of India is that you can do things within a reasonable cost structure. You have a good culture built in the company, and you can bootstrap these products that will ultimately be adjacent to your customer base.

Paras Chopra: I don't think a lot of people realize the advantages we have here in India. It may take Silicon Valley $100,000 to recruit a salesperson. We can recruit five equally bright salespeople for the same money here.

Sramana Mitra: I have been talking about affordable SaaS since I did the Zoho story. They have built a lot of software products.

Paras Chopra: That is an inspiration to what we believe we can achieve. One of the reasons I convinced myself not to raise venture capital is because I don't know how long it will take to travel this road. We have received many offers, but we have turned them all down to date. I think Wingify is going to have a long journey.

Sramana Mitra: Thank you for sharing a very inspiring story. It has been a real pleasure talking with you. Good luck as you go forward!

Bootstrapping Using Services

Because it's often so difficult for entrepreneurs to obtain seed funding for their startups, bootstrapping is one of the best methods to self-fund their projects. And offering a service is one of the best ways to go. This, by the way, remains a controversial point of view, and most industry observers will take the position that companies get distracted if they try to bootstrap a product with a service. At 1M/1M, we take a pragmatic and contrarian position, and back it up with numerous case studies. From where we sit, bootstrapping products with services is a tried and true method.

RailsFactory, a consulting and app development company that provides solutions for the web application framework Ruby on Rails, was co-founded by Senthil Nayagam and Dinesh Kumar in 2006. RailsFactory provides numerous services—primarily focusing on app development for the Ruby on Rails platform, but also including Rails version migration, e-commerce solutions, e-mail campaign system implementation, and iPhone and Android app development.

Senthil and Dinesh bootstrapped RailsFactory themselves, starting with about $1,250 in seed money. When they needed to, they each utilized other personal resources: Senthil reached into his savings, and Dinesh turned to his parents. But they started generating revenues fast—thanks to the services they offered, they were generating revenue by their second month, and they've been growing since. To date, RailsFactory has executed over 100 projects and has worked with clients in the US, Canada, India, Australia, Singapore, and the UK. Their services revenues have crossed a couple of million dollars, and the company has recently built a product that they have started validating with those 100 services customers. The productized offering enables them to offer a support package to the small- to medium-sized enterprise segment based on packs of trouble tickets.

Similarly, Mansa Systems is a SaaS-based IT company, founded by Siva Devaki in San Francisco in 2006. Siva founded Mansa Systems to focus specifically on cloud computing. Currently, Mansa publishes a number of apps to be used in conjunction with Salesforce.com through Salesforce's AppExchange app marketplace.

AppExchange allows partners to create apps to enhance Salesforce for business, and Mansa Systems currently offers eight different apps for Salesforce. Each of the apps is designed to address a limitation with Salesforce; for example, cloud storage app Cloud Drop gives users additional cloud storage space, MassMailer allows users to circumvent Salesforce's bulk e-mail limitations, and EaglEye provides Salesforce users with secure, trackable document file sharing. Mansa Systems remains entirely self-funded via the company's service business, and there are currently no plans to use outside funding. The company already has achieved $2 million in annual revenue, and enough profitability to be able to develop and launch its apps at a steady clip.

AgilOne, a company that provides cloud-based predictive customer analytics, was founded by Omer Artun in 2006. Initially, the company relied entirely on services to get close to customers, understand and address their problems, and in the process generate revenues. Today, AgilOne's product is a software-as-a-service platform. Much of what the company learnt about its customers in the services mode has been productized, although a percentage of revenues still comes from services.

AgilOne's platform is designed to make it easier for companies to see how their customers are interacting with their products. For example, a company's online retail customers can be broken into different "clusters" based on their search and shopping preferences. These clusters then enable the company's marketing department to more accurately target those users with specific promotions.

Omer bootstrapped his company from no revenue or employees in 2005 to about 45 employees and over $15 million in revenue by the time AgilOne partnered with Sequoia Capital in 2011. Silicon Valley's top venture firm made a sizable investment at a high valuation in a company that was bootstrapped using services.

I have often heard that capital intensive businesses are difficult to bootstrap. There is some truth to this observation. However, Finisar offers the counterpoint.

Finisar produces optical communications components and subsystems and was founded 25 years ago by Jerry Rawls and Frank Levinson. Jerry and Frank bootstrapped Finisar by first providing consulting services while doing product development in high-speed fiber optics for computer networks. They searched for a need in the computer industry that wasn't filled, and discovered that need in the early 1990s when they pioneered a low-cost gigabit optical link that made optical drives more affordable. By 1994, their product had changed the fiber channel standard, and sales of their optical components doubled every year after that for seven years in a row.

Even while Finisar was taking off, the company remained fully self-funded. Jerry and Frank bootstrapped Finisar for the first 10 years of its existence and received no outside funding until 1998. In 1998, they were approached by TA Associates and Summit Partners, two private equity firms who bought 20 percent of Finisar in anticipation of an IPO. Jerry estimates that the company's sales pre-IPO were in the $30 million range in 1998 and, by the time the company went public in 2000, sales were around $67 million. Finisar went public at $19 and closed the first day of trading at $86.

Optical communications components and sub-systems, for all practical purposes, are considered to be extremely capital intensive. Yet, Frank and Jerry, obviously, managed to bootstrap their venture using services almost all the way to an IPO.

Each of the four companies I have introduced you to bootstrapped to profitability via services. Not only is this a viable method of getting your startup off the ground, it's a proven method of reaching profitability, as well. In some cases, it can take you to the enviable position of having Sequoia Capital knock on your door. In other cases, you could even have investment bankers come calling, wanting to take you public, and a whole slew of late-stage investors wanting to shower you with funds.

All those are desirable outcomes!

Interview with Girish Rowjee, GreyTip

If you think there is a seed capital gap in the United States, you'd be amazed how deep that gap is in India. The Indian seed capital eco-system is minuscule, but the number of entrepreneurs interested in building significant product companies is growing by leaps and bounds. In the absence of a robust seed capital eco-system, bootstrapping is the only viable solution. Also, India's history as a powerful IT services industry has created many entrepreneurs very comfortable with bootstrapping product companies using services. This interview was conducted in December 2013.

Sramana Mitra: Girish, what is your background? Where do your entrepreneurial roots come from?

Girish Rowjee: I was born in a small town about 300 kilometers from Bangalore. I did my basic education there before moving to Mysore. My family has generally been an entrepreneurial family. My grandfather ran a bus service between several small towns, which was the first time a bus service had been made available [in that area]. He then branched out into several retail shops where he sold electronic goods. Today my father runs the operations of the electronics retail business that my grandfather founded in 1937.

Sramana Mitra: What year did you move to Mysore?

Girish Rowjee: I moved to Mysore in 1989. I enrolled in engineering courses at SJCE.

Sramana Mitra: What type of engineering did you study?

Girish Rowjee: I studied computer science. My family background was in electronics, and everyone at that time was very keen on electronics. Electrical engineering was definitely a cool subject to study at that time, especially when compared to computer science.

Sramana Mitra: When did you finish your engineering degree?

Girish Rowjee: I finished in 1993 after four years of coursework.

Sramana Mitra: What did you do after graduation?

Girish Rowjee: I spent the first couple of months trying to figure out what to do. The normal route at that time was to study for exams like the GMAT, which was followed by a graduate degree in the U.S. From there it was fairly easy to get into a cushy job. I was not OK with that idea.

Computers were very rare at that time in India. Computer time came at a real premium. I was never able to just walk into a computer lab during college and have easy access to a computer. Students generally only had 30- to 45-minute slots allocated to them to get their work done on the computer. We had to stand in a long line and fill in our name next to the desired time slot.

There was a group of guys who were really good at getting the first spot in line. They took the morning and afternoon slots. There were generally six or seven of us who would lose out and get stuck with the late-night slots. Generally the midnight slots were the only ones available by the time we got through the line. That led to a group of us working in the lab at the same time every night.

We did some interesting things in that group. In 1991 and 1992, we set up a small mailing system because email was not popular or prevalent. We wrote a basic interface in C++ which would send and receive emails. We then wrote a filing system that would move data from one operating system to another. We did a lot of projects like this during college.

Sramana Mitra: Did you form a business out of one of the software projects you had developed in your study group?

Girish Rowjee: Not directly. In 1993, after we finished college, a couple of folks in our late-night programming group stayed in the area to study for their GRE. Three of us from that group decided to start a company. The group included Sayeed Anjum, who is a co-founder of Greytip.

Sramana Mitra: You come from a family with entrepreneurial traditions. Did Sayeed's family have an entrepreneurial background?

Girish Rowjee: No. Neither of the other two came from entrepreneurial families. Their parents were looking for jobs for them.

Sramana Mitra: Did the parents support their wishes to create a company, or did they create a fuss?

Girish Rowjee: Even though the practice of starting a company out of college was not readily accepted back then, somehow their families were OK with what we were doing. They were not especially happy, but they did not actively discourage us from our pursuit.

Sramana Mitra: What did you intend to do when you set out to start that company?

Girish Rowjee: The grand idea at that time, in 1993, was to start a bulletin board service. We were looking to model what AOL had been doing and planned to do it out of Mysore instead of Bangalore. Those were the days when modems had just been introduced at a rate of 9,600 bps. We were completely excited about the idea of writing bulletin board software, but we never wrote a business plan. We never thought about who would purchase the software or what the market would be. We only had one Sun computer in our entire university, but never thought to ask how many modems there were in Mysore.

Sramana Mitra: Did you get paid to develop the software for someone else, or was it your own initiative?

Girish Rowjee: We were building it for someone else. We got paid about 5,000 rupees (~$100) once the project was completed. We were just happy that we found someone who was willing to pay us to write software. We developed our software to connect to AOL and download messages from AOL. We envisioned building a grand email connector for people in Mysore who wanted to use AOL.

The problem we encountered is that we did not have a computer. There was another co-founder whose father had an old 286 machine. We borrowed that machine and decided that once we received our payment for the first project, we would use that money to purchase our own machine. Our business plan was to write the software, get the money, and purchase a new 386 machine.

It took us about four months to complete the task. This was Mysore in 1993. We had frequent power outages, and we did not have a UPS [uninterruptible power supply] or stabilizer for the machine. We would start coding, and then we would get a surge of power. The moment the power surged, some component in the 286 would break. We would then get on a bus to Bangalore and purchase the replacement part before jumping on a bus back to Mysore so that we could fix the machine. This happened about once a week.

Sramana Mitra: Did you complete your project as planned and purchase

a new computer with the 5,000 rupees earned from that contract? It's a bit low to buy a computer even …

Girish Rowjee: We did finish the project, however, the individual did not pay us. We were able to get the bulletin board up and running in Mysore and we were able to connect to AOL and download messages. Unfortunately, he was not able to find anybody in Mysore to subscribe to the service.

Sramana Mitra: He did not honor his commitment?

Girish Rowjee: No, he did not.

Sramana Mitra: What did you do after that?

Girish Rowjee: We started thinking about the next big idea that we wanted to pursue. We also made a strategic decision to move to Bangalore in October of 1993. This time we set up a proper company. One of our co-founders left because he did not feel that our work was going anywhere.

Sramana Mitra: How were you paying your bills? Was your family supporting you?

Girish Rowjee: Our families were supporting some of our personal expenditures. Our rent was 400 rupees. We used to do some side jobs as well to earn money. For example, we would assemble machines for other people.

Sramana Mitra: Were you able to pay the majority of your own bills?

Girish Rowjee: We mostly took care of ourselves. Once we had paid our rent, our monthly expenses were done for another month.

Sramana Mitra: What happened after you moved to Bangalore in October of 1993?

Girish Rowjee: We found a partner for our business who had good business contacts. We made a deal where he would do business development and we would do the coding. We started our current company in Bangalore. We got our first order from a child company of Unilever. They had an HR database of all of their employees' data. It was provided to all of the child companies of Unilever. The database was FoxPro, but they did not have a good reporting tool for the database.

We went there looking for work, and they asked us if we could develop a good reporting tool. We took on that project. Internally we had taken the initiative to purchase our own x386 machine. My co-founder and I split access to the machine in two slots. He worked the morning shift and I worked the evening shift. Together we finished the project and built them a very nice reporting tool. At that time nobody had heard of things like data warehouses. We were able to do more work where we took data from disparate places and put it in a single location where it could easily be queried.

Sramana Mitra: How much did you get paid for this project?

Girish Rowjee: We were paid 5,000 rupees, and this time we were paid! The first thing we did with that money was purchase a stabilizer! We were still scared because of all the pain we went through in Mysore. I still have that stabilizer with me as a reminder.

Sramana Mitra: Were you able to get follow-on work and build on your success?

Girish Rowjee: Yes. Once we completed the first job, then they asked us to write a small application to help them manage their employee data. We essentially wrote the first portion of our employee information system. We really wanted to write something that would be useful in many business cases and that people would enjoy using. We were extremely happy that a big company would use an application written by two guys and that they would get a lot of value out of it.

After we completed that application, we started getting a lot of other sub-jobs. We did some work in the market research department. We wrote a training module. We did a few other projects. After a short time, we started getting jobs at different companies and since they liked our software, they would call us from the new companies to see if they could use it there as well.

Sramana Mitra: You essentially operated your business in a consulting mode while you built your product suite. How much business did you do in 1995 while operating in this mode?

Girish Rowjee: We may have done around 4 or 5 lakhs in 1995 ($6,000 to $8,000). We were just a couple of guys who were extremely happy with what we were doing. We really did not have any pressure.

Sramana Mitra: How long did you operate as a consulting company working for Indian corporations, and how did your revenue ramp during that period?

Girish Rowjee: Our work with Indian corporations grew by word of mouth. As employees moved to new companies, they brought us in to do work. During that time we also wrote our own mini-ERP because so much of our work was repetitive. We operated that way until 1997 or 1998. By 1999 our revenue was hitting 70 lakhs in Indian rupees ($120,000). We had about 15 people working for us at that time.

We had about 40 clients by 1999, and most of our work was on the HR side.

By that time we had developed a payroll module and had done work for companies like Compaq. Our payroll module really started getting decent traction around 1998.

Sramana Mitra: What was the price point of your payroll module?

Girish Rowjee: We were selling a full license for about 50,000 rupees ($1,000). The issue we faced was that the market was flooded with products. A lot of competitors were selling their solution for 8,000 ($160) rupees. We had to differentiate ourselves. We knew we could go the route of a becoming a product company and sell the software for less money or we could go a different way and sell a high-end solution that could be customized for our customers' needs.

We decided to position ourselves as a comprehensive solution that could fully address a company's needs. After that, we ended up picking up larger corporations and that gave us a steady stream of revenue. There were companies willing to pay for the type of solution we were offering.

Sramana Mitra: The market was also different in India because there was no Internet.

Girish Rowjee: Very true, the Internet was very new and nobody had it. We did adopt Internet technologies very early. We were one of the first companies in India to offer a web-based front end to our products. We also were the first to offer an electronic pay stub in 1999.

We had to migrate our technology several times. We went from DOS to FoxPro for Windows. When the Internet was introduced, we had to adjust again. We had to remain relevant despite the rapidly changing technology ecosystem.

Sramana Mitra: You had 15 people working in your company and you were bringing in 70 lakhs a year. That is a very comfortable situation.

Girish Rowjee: We had steady revenue. We did not have a significant sales team. Most of our orders came in via references. Around 1999 we focused solely on our HR business.

Sramana Mitra: In the early days of your company, your primary method of sales was through referrals. How did you go from a referral sales model to a more formal sales model?

Girish Rowjee: We had a lot of growing pains. We had to create new sales, but we also had to service our existing customers. When 2000 hit, we really had a hard time due to the fallout of the dot-com bust. We really did not have a lot of sales that year. In 2001 we had another crisis when our entire development team left. Since the fear of Y2K had subsided, there was a boom in the market and programmers were in strong demand.

We took that as an opportunity to change the platform of the technology to Java. We had been a Microsoft shop up to that point, but the licensing fees were getting too expensive for us. Moving to an open source platform offered us significant savings. By 2003 we had completely rewritten our payroll product based on Java. Payroll was our flagship product because all Indian companies wanted to automate that process before doing anything else with HR.

Sramana Mitra: What was your price point for selling this payroll solution to Indian corporations?

Girish Rowjee: We had two versions. One version was for smaller companies and the other version was for larger corporations.

We then opened offices in Mumbai and a small operation in Chennai in 2007. Our primary customers were IT companies because they were the only ones that were capable of buying software. We then developed a sales strategy to target the IT companies in each city. That focus gave us a good boost.

Sramana Mitra: Were you selling only to large IT companies?

Girish Rowjee: We sold to all sizes of IT companies. Our clients typically had between 500 and 2,000 employees. They had enough employees to justify the purchase price of our product.

Sramana Mitra: This brings us up to 2007. What happened that year?

Girish Rowjee: Initially we thought sales were not growing because we had some capability issues. We wanted to reevaluate our business because we did not feel we were getting enough return on our effort. We knew we wanted to sell software in India, and we knew that most Indian companies were not buying our solution. We did have 250 large customers in the country, but we were unable to scale the business. We were profitable and comfortable, but not growing fast enough.

Application services were just starting to come online. We felt that price was a constraint for smaller companies. We started looking at the ASP module, and we saw that people were offering software online in the U.S. We decided to conduct an experiment and see if we could offer that type of service in India.

We then had to build out a data center and ensure we had the correct security. We purchased a server and leased space in a data center. We offered our application to small companies, and we realized that we were going to get good traction. SaaS was not a buzzword at the time, so we did not get good reception from everyone, but we did find plenty of people who were interested in that model.

Sramana Mitra: Selling to small businesses in India is quite different from selling to Indian corporations or MNCs. How did you adjust your strategy?

Girish Rowjee: When you approach a small business in India, the first thing they do is start to compare you to the cheapest solution available. They want to bargain with you on price point. The actual support and software capabilities are evaluated after addressing the price point.

We had to develop a strategy to let us move forward with this market mentality, so we developed a pricing strategy to accommodate Indian small businesses. We established a monthly price based on the number of employees in the system. Once we had the pricing set, then we were able to focus on scaling the business.

In 2008 the application was not a cloud-ready application. We had to completely rewrite the product around the cloud-based infrastructure. We already had 250,000 employee payments processing every month, which gave us a steady revenue stream.

We had to develop our new platform on a LAMP stack using Java just to keep the product affordable for our customers. A large number of small solutions in the market had created a very fragmented market with wide price variations. The only common element of competition for payroll systems was price and this was very negative for the ecosystem. Nobody could do any significant ecosystem in building something really good and investors were not interested in hearing the whole story. Even today when investors come to us, they ask us if we have a U.S. story or a European story. They don’t believe in our Indian story.

Sramana Mitra: Selling software to Indian customers is generally a very long process. It gives rise to slow-growth businesses. The kinds of investors you are talking about are looking for high growth companies. It has been very difficult for Indian VCs to find high growth companies that cater to the Indian market. That is the reaction you encountered.

Girish Rowjee: We definitely experienced that.

Sramana Mitra: There is no harm in building a slower growing business as long as you don't have to deal with investors.

Girish Rowjee: We were certainly debt free and running on our own. We had good clients and a comfortable revenue run rate. It was difficult to build a sales team because the sales cycle was so long, and as a consequence, our sales happened by referral and word of mouth.

Sramana Mitra: How long did it take you to bring your cloud solution to the marketplace?

Girish Rowjee: We spent a year and a half building that solution. As a result we had a down year in 2008. We did keep a steady stream of existing payroll customers. We reinvested the money from our legacy business into our new SaaS business.

Sramana Mitra: Did you position your SaaS business to cater to the IT companies that made up the core of your customer base?

Girish Rowjee: We build the SaaS business model for small Indian businesses. We did not specifically focus on Indian IT.

Sramana Mitra: It seems that your early adopters of the SaaS model would come from the IT space. Was that the case?

Girish Rowjee: Yes, you are correct on that. They had access to Internet connections that were more reliable.

Sramana Mitra: How much new revenue did you do from SaaS in 2009?

Girish Rowjee: We had a minimal level of revenue. I think we did 30 lakhs ($60,000).

Sramana Mitra: When did you bring a production version of your SaaS product to the marketplace?

Girish Rowjee: By 2009 we had the product completely rewritten for the web and had everything in place to support a SaaS model. We offered a free trial for companies that were interested in our product. We wanted people to evaluate the software without any barriers. Our offerings were also very inexpensive. Our lowest priced plan was 10 rupees ($0.20) per employee per month. We had a more comprehensive plan available for 20 rupees per employee.

We had to find an inexpensive way to host our web application in order to allow us to deliver our product at such low price points. Amazon was the only option left. Indian cloud operators could not offer that price point.

Sramana Mitra: How did you acquire customers at this point?

Girish Rowjee: We did not believe that it was necessary to put feet on the ground for a SaaS business. We wanted people to come online and find us. We did some Google AdWords campaigns. We figured that if people liked what they saw, then they would buy from us. That turned out to be a bad move.

After that failed, we started running a lot of experiments. We did banner ads, pop-ups, and did everything we could to get people to evaluate the product online. We spent almost a year and a half running those experiments.

By 2011 we had a few things converge which helped us overcome that barrier. First, cloud computing became widely accepted and was talked about a lot in the press. Second, we dropped our online-only sales model and put in an actual sales force.

Sramana Mitra: It seems that selling your solution with salespeople would not be a profitable model.

Girish Rowjee: Initially it was not a winning model in terms of revenue. However, the customers we were able to find started getting us more customers via word of mouth. We also still had our legacy on-premise business. We were doing 400,000 pay slips monthly with that business. The SaaS business generated 60 lakhs ($120,000), which would represent 20% of total revenue.

Sramana Mitra: Growing organically with revenue is the only way to do it if you don't have access to huge investments.

Girish Rowjee: There are no other options. We fueled our growth by investing our profits. By 2012 we knew how many salespeople we would need and we had turned that sales force into a profitable model. By March of 2013 we had 1,250 clients and we were doing 2.3 crore ($375,000) of revenue from the SaaS business. We had 8 crore ($1.3 million) in total business. Today we have a sales team of 28 people with about 3,000 customers. We are still doing online sales, and we have about 45 clients from online sales. Those clients are coming from outside of India. We have several clients in the Middle East.

Sramana Mitra: What kind of growth rate do you anticipate over the next five years?

Girish Rowjee: I am guessing that in 12 to 18 months we will double our SaaS revenue. I think we are close to hitting the hockey stick. Smartphones are making it easier for people to access the Internet. Smartphones are the future in India. I am bringing on almost 90 new clients a month in India. We have 2,000 clients now. I think our available market is 3 million companies. I think we could have 20,000 businesses using our application within three years. On average, we get 200 to 300 rupees per month per employee.

Sramana Mitra: I love stories like yours. Congratulations on your success.

Interview with Ajay Sharma, SrishtiSoft

Bootstrapping with service, then building two products, then splitting up the company into two, and finally, scaling a sizable product company – not the kind of stories we hear often from Indian entrepreneurs. This story is a rare window into the journey of a group of entrepreneurs who have achieved amazing feats. This interview was conducted in January 2014.

Sramana Mitra: Let's start at the beginning of your story. Where are you from and what kind of a family do you come from?

Ajay Sharma: I was brought up in a village in Bihar. My father was a professor in a rural college. It was actually rather common at that time for professors to pass through rural areas at some point of their career to help bolster those smaller, rural colleges. I attended rural schools until the tenth class. I then moved to another small, sleepy agricultural town for the eleventh and twelfth classes.

When the time to go to college came, I went to the National Institute of Technology, Trichy. I earned a degree in computer science and engineering. After I graduated, I worked for Novell in Bangalore. After working there for three months, I decided that I would rather work on my own, and I founded a services company.

Sramana Mitra: What year was this?

Ajay Sharma: This was in 1996.

Sramana Mitra: What kind of services company did you establish?

Ajay Sharma: I set up a software services company. I ran that company from 1997 to 2005.

Sramana Mitra: Let's talk a bit more about that services business. What types of services did you offer and how did you get that business off the ground?

Ajay Sharma: Initially, I tried to do everything under the sun. Then I realized that we were a small company with limited bandwidth and we decided to focus on enterprise application integration. We stopped chasing any type of work that we heard about and began to focus on this one area.

Sramana Mitra: Where were your clients?

Ajay Sharma: We started with Indian clients and gradually earned business from the US and the UK. That was during the software boom, so it was a lot easier to get business from those areas back then. Deutsche Bank UK and Citibank UK became our largest clients. We then had a few media companies in New York, one of which was acquired by CBS. We really focused only on application integration. You could say we were software plumbers.

Sramana Mitra: What were the primary sectors that you supported?

Ajay Sharma: We did a lot of application integration work for healthcare companies, media companies, and financial companies. Those were our three primary verticals. In 2004, we ran into some challenges. In fact, the period between 2004 and 2005 was challenging for most Indian services companies. At the beginning of 2004, the company had four partners. All of us got married during that period and two of the partners felt our market had too much risk to proceed with the company. They elected to leave and get more secure jobs.

Sramana Mitra: How large was the company? Was it just the four of you?

Ajay Sharma: No, we had 200 employees at that point. We had differences among the partners, so we had to liquidate that company.

Sramana Mitra: What was so challenging about 2004?

Ajay Sharma: It was a difficult time for all software services companies. We specifically had a hard time continuing with our integration niche. The larger companies started offering integration services for free as a way to entice their customers to buy more software. The two of us that remained decided to liquidate the company so that we could share profits equally. We decided to take our proceeds and form a new company together. The goal of the new company was to focus entirely on products.

Sramana Mitra: When did the liquidation occur?

Ajay Sharma: In 2005.

Sramana Mitra: How much revenue were you making at that point?

Ajay Sharma: We had a revenue run rate of 10 to 12 crore rupees (~$1.5 million) with a profit of 2.5 to 3 crore rupees.

Sramana Mitra: Did you consider trying to sell the company as an entity?

Ajay Sharma: None of us had any experience selling a company. Not many people were very forthcoming about the process. By the time we decided to sell the company, there really was not a lot of value left in the company.

Sramana Mitra: So you decided to split the profit and form a new company. How easy was that?

Ajay Sharma: The company had been running for four years and we had accumulated profits in the bank. We liquidated the business and two of us continued on the entrepreneurship path. We decided to focus on a product business this time so that if there was another downturn we would have something to hold onto. Since we had done a lot of services work in the healthcare space, we started to look at our options in that space.

Sramana Mitra: You had three verticals; media, healthcare, and finance. Which vertical did you decide to focus on when it was time to build a product, and why?

Ajay Sharma: When we looked at the financial companies, we realized that it was a market area that we understood well, but we also recognized that there was a buyers' club dilemma. We did not have the contacts and relationships necessary to sell the product into that demographic.

We decided to focus on products for healthcare and media. We knew those market areas very well and there was a much more favorable attitude towards companies like ours. We did not face the buyers' club dilemma that we would have faced with financial companies.

Sramana Mitra: What were your initial products?

Ajay Sharma: Our first product was Kreatio. It was a smaller product focused on media companies. At the same time, we also started making a healthcare product, but it was a very large product. The revenue for Kreatio was close to 14 crore rupees (~$2 million) in 2009, and that is exactly what we needed since the healthcare product was so large.

Sramana Mitra: What does Kreatio do?

Ajay Sharma: We set out to make a content monetization tool for media companies. It is a web content management and publishing solution that helps monetize content.

Sramana Mitra: Content monetization in what capacity?

Ajay Sharma: We focused on how content should be embedded with keywords and ad words as well as inserting content into video playback. We sold the product in the UK and to a few firms in the US.

Sramana Mitra: What was your healthcare product?

Ajay Sharma: It was a healthcare delivery platform. Our healthcare product had over 3 million lines of code, so it was a rather substantial project. In 2008, we did a beta launch of our healthcare product.

Sramana Mitra: Those are two very different product types.

Ajay Sharma: Yes, and that was something we recognized as early as 2009. There were two partners who founded the original company, and we both knew that we could not keep the two products under one company. Deepak took over the media company Kreatio and I sold all of my shares in that company. I took over the healthcare company Srishti Software and he sold all of his shares in that company. We split the companies in 2011.

Sramana Mitra: Did you build the product teams using the people you had working for you in the services business?

Ajay Sharma: Yes. Some of them have stayed with us, and others felt that it would not be possible to build a product company in India. Many of them were afraid of that risk and left us for a more stable company.

Sramana Mitra: I don't see what risk they were afraid of. You were financing the company with your own cash. The engineers were not taking any risks. They were just there earning their salary.

Ajay Sharma: Some of them thought that we were not going to be able to pay their salary. At that time, the media in India published a lot of material stating that India was only a software services economy. They would publish articles detailing why it was impossible to build product companies from India. That really spooked our engineers and most of them left us. We were only able to convince a few of them to stay.

Sramana Mitra: How large was your team when the media and healthcare companies were still combined?

Ajay Sharma: Initially, we had 14 people on our engineering team. We used that team to jump-start the media product. While we were working on that product, we focused on getting the market feedback for our healthcare product. We were contacting hundreds of hospitals all over the world so that we could find out what was evolving in healthcare.

Up to that point, we only had a technical perspective of the industry from our various projects in the enterprise application integration space. We did not have the greater business perspective. The doctors and individuals who had led healthcare organizations were the experts that we needed to listen to. We hired them and we sent them to hospitals all over the world to find out how healthcare was leveraging IT.

Sramana Mitra: It sounds like the media product was generating quite a bit of revenue while you were doing that market research.

Ajay Sharma: Yes, we had a million dollar run rate. We had done a lot of integration projects with media companies and we knew exactly what they were looking for. We were a bit more experimental on the healthcare side.

After two and a half years of market research, we started to understand what we needed to develop. We found that integration was the most neglected aspect of the healthcare industry. They have a lot of silos in that space without a comprehensive platform. We decided to build the comprehensive platform.

Once we understood the scope of the project, we created an estimation of the number of lines of code that would be required. Our initial estimation was a million lines of code. That's when we started to lay out a path to separate the two businesses.

Sramana Mitra: What was your stake in the media business valued at?

Ajay Sharma: Initially, we tried to do an absolute valuation of the media business and the healthcare product. We quickly found that the absolute value had no meaning. We had some accounting firms run a few different formulas and we were told that the two products had a valuation of around 80 crore rupees (~$13 million). It was determined that the media side should pay 8 crore rupees in cash to the healthcare business when the two entities split.

Sramana Mitra: What was the size of the healthcare team when the companies split?

Ajay Sharma: The healthcare side had grown to 50 personnel. Today, we have around 145 people on the team. We were generating around $500,000 in revenue during our beta phase.

Sramana Mitra: Was that revenue earned from Indian customers or global customers?

Ajay Sharma: That revenue was primarily from Indian customers. We went to very good hospitals in Delhi and Bangalore. We offered them very good pricing plans to entice them to use us during our beta phase. International customers had no interest in trying it out. We ended up with 8 large Indian hospitals using our product in the beta phase.

Sramana Mitra: You split the company in 2011. How much revenue did you do in the fiscal year ending March 2012?

Ajay Sharma: We did 9.5 crore (~$1.5 million).

Sramana Mitra: What were the next major milestones?

Ajay Sharma: We started to get orders from all over the world. We expanded throughout Asia and into the Middle East, and now, we are starting to get orders from the US. We are now at a $15 million run rate. We have orders now that will take us three to four years to implement. We are a complete end-to-end platform.

Sramana Mitra: You are in various geographies. How do you sell? Do you maintain offices in all of these places?

Ajay Sharma: We could not build that sales structure on our own. We decided that we had to work closely with IBM, HP, and the other larger partners of the world. It was easier to impress them than it would be to impress potential customers. We spent an entire year investing time with IBM and HP. We started working with them while we were still in our beta phase.

Sramana Mitra: What system integrators do you work with in India?

Ajay Sharma: Other than Infosys, we have not had anyone in India sign. Most of our business comes from HP and IBM.

Sramana Mitra: Did Africa and Middle East business come from IBM and HP as well?

Ajay Sharma: Africa has been primarily through IBM. HP has helped us a lot in India.

Sramana Mitra: How do you price the product?

Ajay Sharma: In the beginning, we were just opportunistic. Today, we are trying to create a method out of all of that madness. Despite that, we are still nowhere close to having published rates. We work in emerging markets as well as some more sophisticated markets. We have a standard enterprise version and a very basic version. Each of our versions has different pricing levels to accommodate the geographies where they will be used.

Sramana Mitra: Are you profitable at this point?

Ajay Sharma: Yes, we are. I bootstrapped the business, and we are now generating cash. I used a lot of cash to get the business going, but now we have something to hold onto. That is what I was missing when I was running the services company. It is interesting that I am now getting offers from venture capitalists to invest in the company.

Sramana Mitra: Venture capitalists like to come to the rescue of victory. You have created a successful company and now VCs want to contribute. It is really growth capital, not venture capital. All capital in India is growth capital, not venture capital.

Ajay Sharma: That is very correct!

Sramana Mitra: Congratulations. I am thrilled to see how successful you have been.

Interview with Ambarish Gupta, Knowlarity

Selling technology to small businesses in India is hard work. Customers are uninitiated to technology's sophistication, and have expectations of high-touch customer service even when they pay little in subscription fees. Knowlarity is succeeding in a market where many have failed. Sequoia Capital and Mayfield are backing the company. This interview was conducted in January 2015.

Sramana Mitra: Let's start at the very beginning of your personal story. Tell us where you're from. Where were you born, raised, and in what kind of circumstances?

Ambarish Gupta: I grew up in Kanpur. Kanpur used to be a great industrial town with a lot of government-owned industries. As a child, I watched this city go literally down the drain. I grew up in a business family. I had lots of interest in Physics and Mathematics. Growing up, as everybody else, I aspired to get into IIT. I got into IIT-Kanpur from where I got a degree in Computer Science and Engineering. I graduated from IIT in 2000. Earlier, I used to think that I would like to become a scientist. While in IIT, I figured out that it was very academic.

When I graduated, I took a job at Fraunhofer. That was during the dot-com boom. I didn't want to go to US directly. I wanted to see the world before I went to the US. So when I got a job offer in Australia, I took it. I did my internship in Germany and spent a year in Australia.

After that, I went to Silicon Valley. Around 2003, I realized that software engineering was not exciting enough for me. I had always wanted to start something of my own. So I came back to India to start my first company. We were doing apartment brokerage on the web. It didn't work out eventually as it was a pretty bad time to start a company.

Sramana Mitra: Where were you based to do that company? Were you based in Kanpur?

Ambarish Gupta: I was in Bangalore. It was a pretty exciting experience. I had $40,000, but it ran out very quickly. I struggled in Bangalore trying to sell software and hire people. I guess I didn't really try that hard. I then went to do an MBA from Carnegie Mellon. While I was in MBA school, people were saying that without experience, it's unlikely that you'll be taken into Private Equity right after MBA. So I did strategy consulting to build up experience. I did an internship at Booz Allen.

Sramana Mitra: It's not really operating experience. It's consulting.

Ambarish Gupta: If you want to join PE, you need operating experience, for which you have only two options. You either work for a corporate for five years or you work for consulting firms for two years. Two or three years is quite a short time compared to five years. That's why I decided to join McKinsey. In two years, I did a lot of work with large banks and insurance companies. In 2009, when I was trying to come out and join PE, the sub-prime mortgage crisis happened in the US and the whole banking sector collapsed. Companies were not hiring. I asked a bunch of my mentors about what I should do now. They asked me to get some more operating experience. That is how I thought maybe I should start a company again. The company is bigger this time. And it was good operating experience too.

Sramana Mitra: That is really good operating experience.

Ambarish Gupta: I was in New York in 2009. It looked like I had a billion dollar opportunity that I could work on. The truth is something like this. You look at the world and you realize that emerging market was growing at 8% and developed market was growing at 0%. The telecom sector in emerging markets was growing 100%. So the chances of success were high. In telecom, consumer telephony was getting big in the US market. There was a need to have some kind of business telephony. I thought the same thing would happen in the emerging markets. That was the big idea.

Sramana Mitra: In the emerging market telecom sector, what were you going to do? What was the value proposition that your company was going to provide?

Ambarish Gupta: What we did was provide office telephone numbers. There is this company called RingCentral in the US, which provides phone systems for small businesses. You don't need to buy any hardware. You get nine phone numbers that you could put on the business card or websites. You pay for this every year.

Sramana Mitra: It's the equivalent of RingCentral for the Indian small businesses. That was the value proposition of your company.

Ambarish Gupta: Yes. It was a combination of RingCentral and Twilio, which provide telephony API to large enterprises. In the US, Voice over IP is allowed, while in India and most of the emerging markets, Voice over IP isn't allowed. You have to develop a different technology which is called PSP and cloud telephony to be able to service this market. This looked like a safe opportunity because it had a large barrier to entry. Voice over IP not being allowed in India was quite a good thing for us. Second, there are 15 million SMBs in India compared to 6 million in the US. It was an underpenetrated market and I am Indian. So, I came back to India in 2009 to start Knowlarity. It's been five years since we started. The first time I started a company, I didn't have enough money. This time, I played it very safe. I raised money before I came back.

Sramana Mitra: Whom did you raise money from and what was the process of raising money?

Ambarish Gupta: Initially, I and my co-founder just put in 10-15 lakh rupees (~$15,000-25,000) to build the infrastructure. We had built up a small platform and were struggling to find some takers. We didn't really want to raise money immediately. The Chief Minister of Orissa, Naveen Patnaik, was campaigning for elections. He wanted to be able to call 70 lakh [7 million] people in 10 days. We were able to demonstrate our ability call 10,000 people in a day but the requirement was for 70,000 calls in a day. We were able to get the order from the political party but in the next 10 days we went from one server to ten servers.

Sramana Mitra: How much did they pay you?

Ambarish Gupta: They paid us one rupee for every call.

Sramana Mitra: There is your seed money.

Ambarish Gupta: Yes, that was our seed money! He had given us 70 lakh rupees (~$110,000) in cash. We were able to expand from one machine to 10 machines. By the end of the whole thing, we were able to make 70 lakh calls. He won the election and I remember asking him if we can make it a recurring deal as elections come every five years. After winning the election, we went to see him and said that he won because the Indian population felt he was a very progressive politician who is using new technology. So, he asked us to make thank you calls to everybody. We had to make another 70 lakh calls and he paid another 70 lakh rupees.

Sramana Mitra: That's awesome. Fantastic. So you made another 70 lakh calls. You basically got 1.4 crores (~$220,000) out of this guy.

Ambarish Gupta: That's right. It was close to 1.5 crore rupees (~$240,000). I was really excited, but I was looking for something repeatable. We used the money to start hiring the engineering team. Every time a client requirement comes, they'd just have to call. We hired a four-people team to build up a platform. Voice over IP is not allowed, so we built the platform from scratch. Second, I went around and tried to convince this guy that he should send this kind of messages for every Holi and Diwali. He didn't agree with me. That would have been seventy lakh rupees twice a year every year!

We were pushed back and I said, "We need to build up enterprise telephony for private sector SMBs." So, we went back and built up a platform. It's a cloud telephony platform that works on copper wires. The way Voice over IP platform technologies works is you have voice packets that come up on the Internet, and then you have an AWS kind of system which can process this. It is a simple system. However in India, it is not allowed. You cannot take the voice packets to the Internet. You have to process it in India in the servers in Delhi. You hook up the copper wires which is very old technology. You have to literally build a distributed system hooking up copper wires and data centers, putting up load balancers and worry about the system going down, call routing, load balancing, and call distribution. It's a scary, complicated job. That is where we ended spending a lot of time in the first one year.

Sramana Mitra: Was the product you developed acceptable within the Indian regulatory system?

Ambarish Gupta: Yes. We solved the problem for India. Most of the emerging markets have the same regulations, which is that VoIP is not allowed. We spent our first year developing the first PSTN cloud telephony platform in the world. That was a big breakthrough for us.

But we ran out of money. So, I went back to the US to some of my friends in New York who had made good money in hedge funds. We were able to raise convertible-backed $0.5 million and used that to launch a hosted EPBX product in 2011. Before that, around 2010, we launched a fax-free email product called Super Fax. Once we had the platform, we could build and launch multiple products like Super Fax and Super Receptionist, which are a fax and email and hosted EPBX product, respectively.

Sramana Mitra: What was your customer acquisition strategy for Super Fax and Super Receptionist?

Ambarish Gupta: Initially, our customer acquisition strategy was just to call small businesses from the telephone directory. I remember it was me and two other call center agents. We would just call people up and tell them that if they need a fax number, we can provide a fax number for 250 rupees per month or 3,000 rupees per year, which was very inexpensive. That started selling. Lots of people in India wanted a fax machine where they can receive government orders. These were manufacturing companies, lawyers, CAs, and some travel agents as well. At 3,000 rupees a year, there's not much money to be made.

In 2011, we launched Super Receptionist at 6,000 rupees a year where we give you a phone number that people can publish as their business number on their website and business card. We started selling that also over the telephone. Then we realized that people are not really price-sensitive. So, we tripled the prices to 18,000 rupees. Recently, we increased the prices by 50% to 30,000 rupees a year.

Initially, it wasn't selling as much. It was a painful process to be calling 100 people and be able to sell one. We started putting Google Ads. We would receive inquiries and our conversion rate improved. From there, we grew and I remember hiring some hardcore sales guys. Today, the model has more channel partners. We have close to a thousand channel partners across the country selling our products.

Sramana Mitra: What kind of companies do you recruit as channel partners?

Ambarish Gupta: These are like a tiny version of SIs in India. SMBs in India for their technical support requirements depend on large local companies who for example distribute laptops, computers, and computer accessories.

Sramana Mitra: How do you find them?

Ambarish Gupta: These are little guys but they're tech savvy. They are listed somewhere on the Internet. They are selling websites so they definitely have websites. We find them on the Internet and just call them up.

Sramana Mitra: That worked out. So now you have a pretty good feet-on-the-street force out there that are in close touch with customers who are basically bundling your services alongside other technical services.

Ambarish Gupta: Exactly. On our direct payroll, we have a small number. We are currently around 500 people now.

Sramana Mitra: 500 people! On direct payroll! These are not channel, right?

Ambarish Gupta: Right. Out of these 500 people, 300 are in sales. The rest are in operations and technology. Out of these 300 people, close to 70 are in direct sales. The rest do channel partner support. Close to 100 people just support these channel partners. Channel partners themselves will probably have 2,000 people under them. If you look at the number of people selling Super Receptionist in India, there are 2,000 people, but only 300 people are on direct payroll.

Sramana Mitra: Once you started building this channel, how did the revenue ramp? In 2010, you launched Super Fax and Super Receptionist in 2011. How did the revenue shape up from there?

Ambarish Gupta: It has been going pretty well quarter by quarter. On an average, we have had consistent growth between 30% and 40%. At McKinsey, I did a lot of sales confirmation work for large banks in US. I also worked at Microsoft in developing channel partner strategy. I understood how to build a very process-oriented sales force. That is what we implemented right from the beginning in Knowlarity. Even if you had two people, there would still be a process. It used to be a running joke in the company that we are born adult. But the advantage of that was that we had a very consistent growth. Every month, we get new orders and we grew around 35% percent on a quarter by quarter basis. In 2011, after launching Super Receptionist, we received Series A funding from Sequoia Capital.

Sramana Mitra: How much did you raise from Sequoia?

Ambarish Gupta: We raised $6.5 million. The money came in January of 2012. We received Series B in August 2014.

Sramana Mitra: How much was that?

Ambarish Gupta: That was $15 million.

Sramana Mitra: What kind of revenue run rate are you at right now?

Ambarish Gupta: Revenue ranges between $5 million and $10 million. Annual revenue run rate is around $10 million.

Sramana Mitra: What's next? You've obviously found a rhythm. You have found levers that are capital-driven to grow. You understand how to sell. You have a good process for selling. What other strategic levers have you identified in the process of scaling this company?

Ambarish Gupta: There are three challenges in building this company. One is technology. Dealing with telecom operators is difficult, the connectivity they offer is not of high quality because the whole telecom infrastructure in India is very haphazard and you are providing a service on top of it. People don't care whether the connectivity went down from telecom operator side. They want to make sure that your line is up. The second is that on a shoestring budget, you are solving difficult telephony problems.

Sramana Mitra: Who's your technical brain? Do you have a CTO?

Ambarish Gupta: In the first year, I was the technical brain. In 2010, I hired my batch mate from IIT-Kanpur. He was in the US and I brought him back to join me.

Sramana Mitra: What's his background? What did he do after IIT?

Ambarish Gupta: Like most IIT guys, he went to Silicon Valley and worked for startups for eight to nine years. I got him back. He was also my colleague in McKinsey in the Pittsburgh office. He has a PhD in Highway Engineering from the University of Illinois. Then, he worked in McKinsey for four years. A lot of people in the product team working on this platform are people who have returned from the Valley.

Sramana Mitra: You said there are two other challenges. What are they?

Ambarish Gupta: Operations and sales. Let me first talk about the challenges in sales. In India, the target customer base is your typical mom-and-pop stores, travel agents, and real estate brokers. They don't know anything about getting traffic for their website and digital marketing. They had to be educated about these through traditional modes such as channel partners and through phone calls. The access to this market is very costly because it's physical and it's slow. If you want to sell the product, you have to educate them. It's a difficult market to get in. We addressed this challenge by simplifying the product to the level where it could be understood by the target market.

The third challenge is operations. Operations is very complex because if your customer doesn't understand how to use a software, they're going to ask you questions, which increases the support cost. It's not like they can read the FAQs and figure things out. They'll call you up and expect someone to respond to their doubts.

Sramana Mitra: They're not sophisticated customers basically. What does that do to your business model? This is not an easy profitable customer base to service. What are the unit economics of your business? Do you have enough profit margins? How do you build a scalable and

profitable business given that those are the dynamics of your customer base?

Ambarish Gupta: You need to have some kind of physicality in the business. Channel partners really help out because they're already supporting these customers for something else like laptops, SMS, websites, etc. They already have a relationship and are able to offer local support to the customers. We can just piggyback on them at a low cost. They can explain this as well. On telephone, we have to offer support to these SMBs. We have close to 8,000 SMBs now. We literally have a small call center in the company to answer their questions, do engagement for the whole year so that we can help them use the software and derive value out of it. We have to have operational infrastructure to educate these customers about the value of the software after they buy it from us so that they renew again.

Sramana Mitra: Given that it is such a high-touch customer service model, the question that I'm trying to ask you is this: right now you're heavily venture-funded and you can finance your cost. At scale, does this company have the unit economics to become profitable?

Ambarish Gupta: Well, that's true. The unit economics of this product is actually very good. It's incoming calls and they are free in India. Our growth margins are quite high, probably around 70%. Then we spend money on acquiring customers, which in the first year was around 75% of our revenue. After a year and two or three months, we were able to break even. With a renewal, everything you make after the first year is profit.

Sramana Mitra: But you also have to finance the customer service.

Ambarish Gupta: We do it over the phone and that way, we are able to reduce the cost. The cost of customer care representatives is pretty low. While it's high touch customer care, you can hire a large number of people for this job. Our cost of customer care in a year is around 10% to 15% of overall revenue. We are still able to make money after the first year.

Sramana Mitra: The customer has a rich lifetime customer value number. You're basically able to reconcile the unit economics that way.

Ambarish Gupta: Yes. The cost of labor in India is low. It is very complex in terms of managing a large number of people. We are a 500-people company. If you manage that complexity, the unit economics work out.

Sramana Mitra: I think you've navigated very well. I love the very beginning of your story where you got the 70 lakhs twice from the politician to finance your seed round. That's awesome. Is there anything else you want to share?

Ambarish Gupta: My original idea was it was going to be a billion-dollar opportunity. Whatever we have done in five years, I thought we could finish in two. It definitely took longer than what I had planned for. But I'm very excited about the financial outcome of building up such a great company. Another great thing is the impact we have. We are now in India, Singapore, Philippines, Dubai, Turkey, and we're starting in China as well. We are the first company from an emerging market that is selling business productivity solutions to small businesses. They didn't use any technology before. Microsoft and Salesforce.com failed. We are able to do it because we simplified the technology to the level that they can understand. It is on their phone.

Sramana Mitra: What you're offering is also not the level of technology that Microsoft and Salesforce.com sells. This is very simple, basic technology that they're starting to learn to use. I think the interesting thing that you're creating is the ability to reach these customers and a channel that will allow you to potentially sell them other products going down the line.

Ambarish Gupta: That's the mechanics of the business. I was talking about the outcome. I'm a computer science graduate and learned business in my MBA school. I feel that this is a combination of both. From an impact point of view, I feel very good about combining my life learnings and giving back to a very large number of people who would otherwise be not using any technology. That is a very satisfying thing about this business.

Sramana Mitra: Congratulations! It's great to see that you're moving right along. I'll look forward to following your story.

Final Word:

Entrepreneurship = (Customers + Revenues + Profits)

Financing is Optional

Exit is Optional

Author Bio:

Sramana Mitra is the founder of the One Million by One Million (1M/1M) global, virtual incubator that aims to help one million entrepreneurs globally to reach $1 million in revenue and beyond.

She is a Silicon Valley entrepreneur and strategy consultant, she writes the blog Sramana Mitra On Strategy, and is author of the Entrepreneur Journeys book series and Vision India 2020. From 2008 to 2010, Sramana was a columnist for Forbes, and currently syndicates to numerous venues including Harvard Business Review and Huffington Post.

As an entrepreneur CEO, she ran three companies: DAIS, Intarka, and Uuma. She has a master's degree in electrical engineering and computer science from the Massachusetts Institute of Technology.

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One Million by One Million Mission

One Million by One Million (1M/1M) is a global virtual incubator that aims to nurture a million entrepreneurs to reach a million dollars each in annual revenue and beyond, thereby creating a trillion dollars in global GDP and ten million jobs.

Founder

Silicon Valley entrepreneur and strategy consultant Sramana Mitra founded 1M/1M to create a framework for Capitalism 2.0, which she envisions as distributed, democratic capitalism. The program was born out of her 2010 New Year Resolution.

The Program

We offer a case-study-based online educational program, video lectures, lean, capital-efficient methodology guidance, online strategy consulting at public and private roundtables, as well as introductions to customers, channel partners and investors. The public roundtable is a free program accessible from anywhere in the world. The rest of the services are for our paying members only. Please note that we focus on business strategy and execution; capital is optional, and may or may not be appropriate for your particular business. Less than 1% of businesses that seek funding are actually fundable. However, we are perfectly happy to help the other 99% build sustainable businesses as well, irrespective of fundability or interest in external financing. 1M/1M is a for-profit business, not a foundation or a non-profit.

Meet some of The One Million Club members, and review the Quantified 1M/1M Value Equation.

If you are looking to start or expand an incubator, please look at our Incubator-in-a-Box program.

Free Public Roundtables

As part of the 1M/1M initiative, Sramana Mitra offers free online strategy roundtables for entrepreneurs looking to discuss positioning, financing, and other aspects of a startup venture every week.

Only the first five who register to pitch will be able to present their business ideas. These roundtables are public forums and recordings of all sessions are available here.

"There are large numbers of people that want to start web-based companies but don't know where to begin. Your curriculum should be mandatory. It has enormous value by itself, but when coupled with the Roundtables and 1M/1M community there is no substitute." — Dan Stewart, CEO, HappyGrasshopper

Sramana requests that entrepreneurs use the 1M/1M Self Assessment Tool to help to prepare their pitches. We strongly recommend that you address the following items in your roundtable pitch:

Your roundtable pitch should be no more than three minutes, and consist of four slides, as suggested above.

Register at http://1mby1m.com

Contact: support@1mby1m.com

Twitter: @1mby1m

Facebook: https://www.facebook.com/1Mby1M