

Awake, Arise and Stop Not till the Goal is Reached

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Taking the business to the next level is always a tough decision for an entrepreneur. Starting up takes a look at the process & the pitfalls of scaling up

It is a bitter-sweet moment for an entrepreneur when he realises that he needs to scale up. For while he can feel proud that the business is ready to take off, there is tremendous anxiety about the accompanying change. The burgeoning customer base can no longer be serviced without bringing in new unfamiliar hands. Failure to scale up would most likely otherwise lead to compromising quality. Systems need to be put in place to combat the chaos that reigns as the business begins to burst out of the confines of the basement or a garage where it all began. Scaling up is in some ways the second moment of truth for the entrepreneur, the first being when he decided to put his money where his mouth is. It's a time when hard decisions have to be made and there is tremendous uncertainty brought about by the cultural upheaval that accompanies scaling up.

And as any venture capitalist or seasoned entrepreneur will tell you: there is no one size that fits all. It depends on the nature of the business and the gaps that need to be plugged. For instance, human resources (HR), which is usually a staff function, plays an integral role in the services business, especially in the scaling up stage. "You need an experienced person to put the processes and practices in place because the people are your assets. At this stage, you don't have too much money to attract people, so you need an HR executive or someone who can successfully take on that role because the team needs to be motivated and feel they are doing something different," says Ajay Kumar Kapur, CEO, SIDBI Venture Capital.

In other cases, who you decide to hire may depend on what stage the venture is at. For instance, if you are leading a young team that just moving out of an institute's business incubator then you might want hire someone with industry experience who can be a mentor and also guide you through the various ups and down of the business. The leadership skills are of paramount importance because only such a person can keep the morale high, explain the cyclical nature of the business and put things in perspective, when the company wins two orders in one month but runs into a dry spell in the next month. "This is the reason why many start-ups in the Valley take on a mentor in the early stages," explains Mr Kapur.

The trick is to make sure all the key functions — marketing, finance, HR and the core business function itself — are staffed even if you can't afford to pay big money or hand out fancy designations like CFO or CMO. Also make sure that you let the functional experts know that they might have to wear multiple hats. "Our marketing people were also doing product testing when they were building relationships and alliances with airlines because at the end of the day, if you don't have the product, there is nothing to market," recalls Sandeep Murthy, an investor in Cleartrip.com, which is in the fiercely competitive space of online travel.

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After the first year or so, when the entrepreneur is more cued in to the business, it is time to formalise the processes and procedures developed during the first year. "As the company enters this growth phase, the entrepreneur must learn to move away from daily tasks and concentrate on functions that are important for the sustainability of the business," says Ashank Desai, who has himself moved from the role of a founder and CMD to being the mentor of software firm, Mastek Ltd. "When the company has grown too large to manage, it's time to hire a management team and move away from the hands-on approach that you may have used in the initial days. This may lead to diverse hiring needs – starting from a COO, to a supervisor who oversees the night shift," says Mr Desai.

Adds Pramod Khera, who has steered software-training firm Aptech through many phases of growth, "It is important for entrepreneurs to get out of the 'passionate' mode and bring in professionalism." Often, a growing business may also fall into the trap of pandering to the market and ignoring the operational aspects, he warns. Companies should also not be scared to re-visit their business plans and re-jig them if required. Business plans, more often than not, can go awry and the entrepreneurs should be prepared to change them to adapt to the needs of the marketplace. A case in point is Mastek. In the early 1990s, the company changed its business model from being focussed on products for the domestic market to that for global markets. Many successful companies have revisited their business models or tweaked them to cater to changing business environments or correct a not so prudent business decision taken earlier.

Through these many phases of scaling up, the funding requirements can vary depending on your business needs and what stage of growth you are in. Funding can help you scale up faster and get where you want to be. However, the catch is that at a very early stage, when your business model is yet to be proven, the risks are higher and the investor will demand a higher pound of flesh in the form of equity. Merely having funds also doesn't guarantee the venture's success or failure. So while deciding when to go in for a first round of funding or an additional round take a call based on how much further you can go with the existing funds without losing too much opportunity. "The angel investment can happen when you have done everything in your power before going out for more money," says Mr Murthy, giving some benchmarks. "In the first round of venture capital funding, you should be able to demonstrate you have some market traction and give client references. For private equity funding, your business should be at a stage where it can absorb at least \$ 10 million."

While most entrepreneur would do well to heed all of the above there are always exceptions like Kunwer Sachdev, the founder promoter of inverter maker, Su-Kam. He refuses to be cowed down by a system and says, "Go with your gut. It is the gut of the entrepreneur that tells him he is ready to take on bigger risks."