Webinar Q&A Responses

> **Topic of the Webinar:** Improving the Odds of Success for Startups
> **Panelists:** Prof. Rajesh Pandit, Visiting Faculty, Marketing, IIM Udaipur and Prof. Sai Prakash Iyer, Adjunct Faculty, Business Policy & Strategy, IIM Udaipur
> **Moderator:** Ayush Jain, Investment Banking Analyst, Goldman Sachs (2018-2020 Batch, IIM Udaipur)
> **Date and Time:** June 14th, 2020 | 11:00 AM

1) [*Shubham Sharma*] **According to a Harvard report, 42% of startups fail because of market timing. What are the best, lean measures to understand the market timing?**

   [*Prof. Rajesh Pandit*] The lean startup approach is all about continuous experimentation and validation with potential customers. If not earlier, at least at an MVP (Minimum Viable Product) release stage, customers' responses should provide a good indication of their reluctance to buy the product. The entrepreneur should investigate if the reluctance is because of the value proposition not being compelling enough (includes pricing as well) or inherently, customers don't feel that they are ready to make the commitment of purchasing the offering. Failures related to timing can be minimized with this approach.

2) [*Vaishali Bhati*] **If we are in a scenario, where we have the validation and the resources, but it'll take time to get the end product ready. In that case, should we wait and risk getting overtaken by other new players or go out with whatever we have in hand?**

   [*RP*] It depends on whether environmental factors are the same for us and the newcomer. If a newcomer has an advantage, the incumbent has to be a lot more aggressive. OR some of the incumbents end up investing in the newcomer so that they have hedged the obsolescence risk.
   In a normal scenario, if it is taking us time, it should take time to the competition as well. I am assuming we are as competent if not more than the competition. One needs to analyze what is causing a delay in building the product. If those conditions causing delays can change for someone else, then our venture is in trouble.

3) [*Utkarsh Bajpai*] **Once the idea is ready, what are the initial steps an entrepreneur should take?**

[*Prof. Sai Prakash Iyer*] First off, identify an unmet or poorly met job-to-be-done. Then figure out a solution that is better than what the customer currently employs. The next step is to figure out a way to deliver the solution to the customer viably - you need to make money. If you are taking money from investors to pay your bills, that's not sustainable. Finally, figure out how to deliver the solution consistently with good customer experience - you are only as good as how you resolve the most recent customer dissatisfaction.

[*RP*] If your idea is originating from a common problem faced by most, verify with potential customers if they would be happy to see the problem solved. The segmentation hypothesis has to be validated during these interviews. Build a quick and dirty prototype to verify the solution you have in mind to know if the solution would have the customer's broad acceptance.

4) [*Soumava Ghosh*] **In this age of digital disruption, how important is technology as an enabler of success for startups?**

[*SPI*] Often there is this view that "technology" means IT or digital. For a manager, technology is "ways of doing things". Technology in an organization is embodied in the resources, capabilities, processes, systems, routines, norms, and people who make it tick. A startup too would use all these forms of technology. IT and digital, like any other technology, would become an enabler when its use delivers a competitive advantage in the market.

[*RP*] It's a broad question. One can give specific answers only by taking a look at a specific case. In general, new-age entrepreneurs are disrupting traditional businesses using emerging technology.

5) *[Rishabh Garg]* **We are witnessing that with time the focus of founders has been shifting from core business to valuation and data business. What are your thoughts on this transition?**

[*SPI*] There are two questions here. Focus on valuation, and shifting focus towards data business away from core business.

Focus on valuation: That depends on the promoters' view of the endgame. I know of startups that are nicely bootstrapping and driving growth through revenues from customers, not taking a penny from investors. These folks are really not bothered about valuation, for multiple reasons. Maybe they see themselves building their startup into a solid business for the long-term. Maybe the investment needed for their growth can be

generated from an internal surplus. Maybe they figured out a business model where they are able to generate revenues and profits early on.

Then there are others who are worried about valuation from day one. Most of them are working towards an endgame of exit at a high multiple. Some of them need a lot of cash to grow fast because they are afraid that they will be copied out of existence, as they fear that every market is a winner take all (which is a fallacy). For the sake of valuation, they end up taking different measures, some of which turn out to be bad for business.

If you are clear about what you want with your startup, you will have clarity on when you should start focusing on valuation.

Core business vs. Data business: If the unmet job-to-be-done can be solved by best-using data, then that should be how the startup should go about. Some entrepreneurs get excited about data and analytics and other emerging technologies and start looking for business opportunities using these. There is nothing wrong with it, as long as they find a natural fit between an unmet job-to-be-done and the technology that fascinates them.

[*RP*] It purely depends on the ambition of the founders. Nothing wrong in chasing or not chasing valuation game as long as they have other elements like creating compelling value for the customer, employee and society are also part of the consideration and long term prospects of a venture are genuinely intact. Problem is when a founder is ONLY looking at valuation without caring for general health of the venture.

6) *[Mohit Mehta]* **Of late there has been much more focus on raising the valuation of the startup instead of running after creating a profitable venture. Is it the right strategy to go by for ensuring a successful venture?**

Same answer as the previous question.

7) *[Harshit Gangal]* **Today we see a lot of big startups continuing with losses, just in order to acquire large numbers of customers, and projecting their break-even points in the longer period. And before a startup starts making a profit (or rather slows down its rate of losses), another player comes in with even lower prices and poaches these customers, and eventually faces the same fate. Is this culture truly sustainable? Also, what are your views about Serial Entrepreneurship?**

[*RP*] In a free market, competition is natural. Finally, the winner is decided by the customer. One of many factors from value proposition, sound business model, and adequate money to tide over the hyper-competitive phase is essential.

8) *[Aaditya Mohapatra]* **What industries do you think currently are in the *Jugaad* phase, and have a massive scope to grow through tech startups?**

[*SPI*] Industries are not in *jugaad* phase. It's sections of customers who do *jugaad* with products or services, to solve their specific jobs-to-be-done.

9) *[Aneesh Khanna]* **Most startups struggle to monetize their customers and come up with a revenue model. Combining this with high customer acquisition costs, how can a startup survive in the long run?**

[*SPI*] Right at the design stage, it is important to figure out how you are going to make money. It could be through price, subscription, advertisement, license fee, etc. You may not be able to charge from day one, but you should have a clear idea of how to and validate the willingness to pay. If you know how much you can charge, you will be compelled to keep your costs below that. That's how you make a profit, eventually. Don't be like *Abhimanyu* - going in without knowing how to survive.

[*RP*] This question can be answered only with a specific case in point. Even a conservative LCV (Lifetime Customer Value) should justify customer acquisition costs. Poor financial

10) *[Aravind S]* **When one wants to be an entrepreneur, they already have an idea about what they want to do. However, ideally for how long one should study the market before they actually invest time and money into their venture?**

[*SPI*] At very early stages, what's needed is not necessarily money, but a lot of initiative. You need to go out and talk to people. Most likely, if you are looking at an unmet job-to-be-done, textbook approaches to market research won't help, as there isn't a market, yet. So go out and talk to people and do experiments. If you have a prototype, use it to elicit feedback on what they like, what's missing, how much they will pay, and what they are currently doing (for the job-to-be-done). So to start with, you spend a lot of time, but not necessarily a lot of money.

[*RP*] Lean startup approach recommends "*Don't wait for too long analyzing*". Verify and potential customers will tell you. Of course, it depends on the cost of experimentation - I mean, what's the capital requirement in launching the experiment.

11) *[Shlok Agrawal]* **Startups have been burning cash for the past many years. This pandemic situation is worsening the situation with stagnated revenue. How can startups manage P&L without deteriorating customer acquisition and customer retention?**

[*SPI*] It depends. There can't be generic answers to this important question. Startups are forced to look for innovative ways to keep costs low and conserve cash. That's a good thing for the whole ecosystem.

[*RP*] The simple answer is they will not survive unless they have a war-chest that can last the crisis.

12) *[Aneesh Khanna]* **Sometimes startups identify the pain points and needs, which may not be even known to target users. In this scenario, how can then the founder make sure that the consumer not only knows about the need but also values it?**

[*SPI*] Talk to people - show them your idea or prototype and ask questions. If your product is something they didn't know they needed, but something they can't live without, then they will spot its value the moment they see it in action.

[*RP*] Articulation of value proposition becomes important. Startup storytelling is a good concept to apply.

13) *[Anonymous]* **In general, what are the deliverables for any startup?**

[*SPI*] Sustainable and profitable growth are the deliverables.

[*RP*] It depends on the decision of the founders. My personal preference would be to define the set of metrics that finds a balance in the way society, employees, customers, and the shareholders are treated.

14) *[Chandan D]* **How much time does it take for a startup to attain a stable state generally?**

[*SPI*] It is hard to define a stable state. No business achieves a stable state, ever. Competition is dynamic, and every startup operates in a competitive environment.

[*RP*] There are no yardsticks to measure this.

15) *[Siddharth Bathla]* **I am working for a service that can be standardized as well as customized. Standardized service can help increase the volume while customizing can lead to a higher profit margin. Should I go for volume or profit margin or both? While starting off a new business we should sharpen our focus or go for everything which gives money anyhow?**

[*SPI*] On the first question, volume or margin, that's the choice you need to make about the competitive strategy.

[*RP*] We can determine this by whiteboarding. I can't answer these questions without getting specific information about the venture. On the second question, focus or go for everything, if you have clarity on an unmet job-to-be-done, focusing on a single and precisely defined job-to-be-done initially is likely to help in improving the odds of success. Later, you can add more jobs-to-be-done - that's diversification and expansion. If you don't have that initial clarity, then you may have to experiment - try out and discover an unmet job-to-be-done.

16) *[Anonymous]* **I have been told that I am working on a failed model, given that success is not guaranteed. Considering all Indian Unicorns, I feel, they have copied foreign business models. Why do you think an original idea is killed in India?**

[*SPI*] Not all great ideas are accepted right away. Maybe your idea is great, but people you spoke to don't get it. That could mean that you need to speak to more people until you find someone who understands the value of your model. By the way, did you try and understand why your model is likely to fail according to those who already looked at it? Maybe your idea and how you want to execute it has room for improvement, which means you need to review your model carefully.

[*RP*] Our startup investment ecosystem is still in the early stages. To compare against the ecosystem in the Bay Area (California, US), there are many wealthy investors who have made tons of money from their own startups earlier or through smart investments. They are comfortable placing bets against startups. Many startups in India don't get the initial funding necessary to survive. That is slowly changing with various government initiatives and private efforts. Our per capita income is still way below developed ones and therefore, the available investible corpus is limited.

17) *[Utkarsh Bajpai]* **Do you have any suggestions on how to go about validated learning?**

[*RP*] I would suggest you follow 'Build->Measure->Learn' Cycle. After the "Learn" phase, you make a decision to either Persevere with your idea or Pivot. That means, build your solution incrementally, keeping in mind minimum viable product considerations and keep validating with the potential customers so that any surprises that can kill your business are caught early in the cycle. Please remember that we are trying to increase the odds of success. We can't completely eliminate the failures.

18) *[Ravi Shankar]* **Is it better to learn from a successful person or from a person who has failed?**

[*SPI*] Both are important. A lot of things that are done or not done in successful episodes happen in failed episodes also. By the way, I don't think it's about a successful or failed person. I would rather look at experiences that are considered success or failure, based on specific yardsticks for success. In my view, there is nothing called a "failed person".

19) *[Shivam Kohli]* **In case my startup idea is of a product whose requirement/adaptability and acceptance still need to be validated, are customer surveys/interviews best method to gauge the requirement? As customers sometimes are not aware of their own needs as highlighted by Steve Jobs.**

[*RP*] Everything should be validated iteratively. A customer may not be aware of the latent needs. However, if we reveal the same to the customer, they will be able to give feedback in most situations. And, everyone quotes Steve Jobs. We need to remember that there was only one Steve Jobs. Creating multiple Steve Jobs is not scalable. :-)

20) *[Shambhavi Dubey]* **How can one identify the problem statement correctly and then focus on designing solutions?**

[*SPI*] I would suggest you look for workarounds - *jugaads*. Whenever customers are using workarounds, it means that there is an unmet or poorly met job-to-be-done lurking in the background. And then there is imagining and connecting the dots - figuring out how something subconscious job-to-be-done can be solved. How to do that is something you need to figure out. :-)

21) *[Parth Ajmera]* **I believe that a person's overconfidence on their blueprint and the inability to be proactive cause many startups to fail? How can young minds be more proactive to make the startup work efficiently?**

[*SPI*] Human nature is fickle. As long as we all learn to work with others who are very different from us, I trust human ingenuity can find a way. If things fail, they are meant to fail. Oftentimes, failures are the greatest teachers around.

[*RP*] It would be good to have a team of mentors or an advisory team that can compensate for entrepreneurial blindspots or neutralize entrepreneurial ego.

22) *[Sai Kishore Ruthala]* **Many of the successful unicorns are acquired by large conglomerates. How could the small fishes in the pond survive and grow into world-class companies?**

[*SPI*] If your product or service is solving an unmet or poorly met job-to-be-done in the market, one of three things is likely to happen. You might grow and become the new market leader, based on your superior solution to the customer's problem (that is if you choose not to cash out). You might get acquired by someone already large who got threatened by your growth. You might grow to dominate a niche market while the already large remains the leader in the mainstream market.

[*RP*] Most large companies are built for the old model that is disrupted by a newcomer. The organization's body, blood vessels, brain are all wired to serve something that is currently running. Often that dominant mindset doesn't allow them to transition to the new reality. Often, they have to cannibalize their existing revenues to align with the new model.

23) *[Ashish Soni]* **There is a general preconception that the Indian youth is "risk-averse". I want to ask, is the mental condition of our society makes our prospective entrepreneur more risk-averse? Is our culture making entrepreneurship feel riskier than what it actually is?**

[*SPI*] I don't think all Indians have similar traits when it comes to risk-taking. For each of us, our worldview is shaped by a large number of factors and there is tremendous diversity among Indians. So, such generalizations may not be valid.

24) *[Anonymous]* **I have a great idea but I don't know how to make that product since it needs someone with engineering skills. From where can I get help and protect my idea at the same time?**

[*SPI*] People you trust, both in terms of their ability to help you take your idea forward, as well as being a fair game.

[*RP*] Try seeking help on social media - LinkedIn, Facebook, etc and also spread the word around in engineering grad schools.

25) *[Iftekar Ahmed]* **In terms of marketing, how do you position your brand when big players have been investing millions of dollars in marketing for a long time? How to optimize marketing for niche products with a limited budget?**

[*SPI*] See the example of Dollar Shave Club Vs. Gillette I was mentioning in the webinar. Digital marketing is revolutionizing market strategy. There are a lot of resources readily available to learn digital marketing.

[*RP*] Frugal marketing is possible. One needs to be smart in adopting a judicious mix of brick and mortar and online marketing tools to achieve the necessary return on marketing investments. It could be explained better with a specific case.

26) *[Parth Ajmera]* **What may be the risks for a startup entering into a niche market, knowing that the public is not fully aware of something like this?**

[*SPI*] The biggest risk is not reaching your customers. By the way, how do you know it's only a niche market when the public is not aware of the product? Maybe, once widely publicized, this might be something that everyone wants. :-)

27) *[Siddharth]* **Keeping in mind the limited availability of funds, how can a new player create a share in the market?**

[*SPI*] Ensuring that you have a great solution for a real and pressing unmet job-to-be-done, validated learning, getting your business case to be viable, and digital marketing can be the right solutions.

[*RP*] Choose an area that competitors haven't reached or are not focusing on. You should intelligently use different channels available.

28) *[Aakash Sharma]* **How do I let the consumers know of my product? How do underdogs let people know of their product at the same level as big brands?**

[*SPI*] You need to come up with innovative ways to reach potential customers. Social media has really made it possible to do this at a low budget. Like how Mike Dubin (founder of Dollar Shave Club) did. Copying other successful approaches can also yield results, but not as much as an original idea.

29) *[Snigdha Bhansali]* **At some point, if one runs out of innovations in business then what should they do?**

[*SPI*] If you can afford to, acquire companies or hire people who still haven't lost the child in them. Else, there is no cure for the inability to innovate. It's like baldness.

30) *[Krithika GR]* **In a scenario where a venture starts getting recognition and the competitor wants to acquire it, is it wise to merge for a clear profit or to keep competing with the big brands?**

This question can't be answered without adequate information about the venture.

31) *[Geethas]* **With almost all the organizations the critical aspect is for the employees to own the vision of the founders as well as the organization? How does one approach that?**

[*SPI*] Talk to the team, and more importantly listen to them. The team includes employees, customers, partners, vendors, investors, and family - all relevant stakeholders.

[*RP*] That is the job of the founders!