Many entrepreneurs let go of their fledgling business rather than build them to full scale. We found out why

The Economic Times, 7th April 2015

http://economictimes.indiatimes.com/news/emerging-businesses/startups/many-entrepreneurs-let-go-of-their-fledgling-business-rather-than-build-them-to-full-scale-we-found-out-why/articleshow/46831413.cms

By no means is this a flurry of exits, but a steady trickle of entrepreneurs are choosing to sell out mid-way rather than build their businesses to full scale. Founders of Taxi for Sure, ZipDial, Nimbzz, Myntra, Ozone, Exclusively. com and others have either sold out to local rivals or have been acquired by larger global players in the past six to nine months. Why are founders more willing to let go of their barely adolescent new ventures? "Founders do give up at some stage," says Saurabh Srivastava, co-founder, Indian Angel Network. "Globally, very few founders take a company from start to initial public offering (IPO).

For most founders, the realisation that they can't scale comes very early," he adds. Spectacular entrepreneurial successes are always vividly remembered; but not so the nine out of 10 startups that don't make the full journey. Studies show that less than 1% of startups actually go on to public listing. There were 738 venture capital (VC)-backed exits and 637 VC-backed M&As in the US in 2014. Less than 50 made it to the IPO stage. Closer home, several promising startups have become part of rivals, bought by global companies, or forced into deals they never planned.

"An entrepreneurial journey is very personal," says Niren Shah, managing director, Norwest Venture Partners. "There's a thing in Silicon Valley,making your first $1 million. Many just give up at that stage rather than go on to become very large companies," he adds. This is even more true now for the new generation entrepreneurs than it was for the earlier generation or for business families. "In the latter case, your DNA and destiny is to do business," says Srivastava.

Taxi For Sure (TFS) is a case in point. "We never strategised to exit so early," says Aprameya Radhakrishna, co-founder, TFS. Founded in 2011, it was acquired by rival Ola for $200 million on February. "We were competing aggressively earlier. Now we can focus on growth together and compete with global major Uber." Big Fish Eats Small Fish In January, Exclusively.com was bought by Snapdeal and in 2014, fashion e-tailer Myntra.com was acquired by Flipkart. Says Sunil Kalra, an angel investor:"It's tough for niche players to scale beyond a point and they get acquired by large, diversified players. It is big fish eating small fish." Kalra has a portfolio of 60 startups and was an early investor in Exclusively.com. The nature of the startups is like that. Says Meena Ganesh, partner, GrowthStory.in,"there are categories where it is a case of winner takes all. We can have one, or maybe two major players, beyond which there is no scope for others to be significant." Horizontal ecommerce is like that."Physical retail was different due to locational convenience, which ensured multiple players could also operate successfully," adds Ganesh.

Little wonder then despite being a $500 billion opportunity in retail business, there are only three big players ,snapdeal.com, flipkart.com and amazon.in. For the smaller players, operating in a niche, there's little headroom to grow beyond a point. Similarly, a lingerie player operates in a market that is about $2 billion and a taxi startup in a $10 billion market. That limits potential to scale for a startup which is not among the top three in its category. Says Rajan Anandan, managing director, Google India and an angel investor:"The value of Flipkart when Myntra sold was less than $2 billion. Now Myntra, with Flipkart has got to four to five times where it was when founders sold. It's a beat them or join them world." Anandan believes companies which are third, fourth, fifth or lower in the pecking order will find it tough to raise capital. And have little option but to look for quick exits."Market leader has a better chance of raising capital than a number two.

Ability to raise multiple rounds is key to growth and here it's a problem if the startup is not among the top two," he says.

Only 18 out of the 50 odd e-commerce startups were able to raise follow-on funding in 2014.Ganesh believes that's more true for startups in `winner takes all' categories."Sectors like education, healthcare and food can have multiple players. Still, raising capital can be tough based on challenges in those sectors , scalability, margins, operating leverage etc," says Ganesh Echoes Radhakrishna of Taxi For Sure: "It was a fair call (to sell to Ola) keeping everybody's interest in mind.

All startups may not take a similar route. Like, for BigBasket, an online grocery startup, there is no global competitor in India and they could take a different route."B2C Trap Startups eyeing B2C spaces need to be careful that they will need plenty of cash to scale. And in some categories like taxi business, e-tailing and ad driven sales platform there are already two three large players, Uber-Ola, Flipkart-Amazon, Quikr-Olx in the three categories.

"There are often unwilling mergers pushed by investors like, exclusively.com and TFS," says an investor who wished not to be named. "They were B2C startups who burnt cash to gain market share, it was too much and too soon. TFS Rs 49 scheme taxi ride was supposed to create stickiness and repeat rides , but perceived loyalty was being bought at a discount," he adds. On the other hand, getting talent can be dearer if the startup is not among the top players. "A Flipkart or Ola can easily double an offer made by smaller rivals making talent expensive and putting growth at risk.

It's a brutal market out there," says the person quoted earlier. Besides, says Srivastava, as a sector starts maturing, the 80:20 rules come into play. Eighty per cent of the business goes to 20% of the players,this makes it expensive for the smaller players to scale and they look for exits faster then they planned." Global or Local buyer Taxi for Sure, Myntra and Exclusively were acquired by local rivals. While Little Eye Labs, a Bengalurubased developer of performance & monitoring tools for mobile apps, Nimbuzz, a Gurgaon-based telecom messaging and ad platform and ZipDial, a Bengalurubased missed-call marketing company were acquired by global companies,Facebook, New Call Telecom and Twitter respectively. "They become part of a global platform".

In their case it's like 1+1=22," says Anandan. "Given Twitter's ambition in India and emerging markets, our team and platform can achieve more, faster and at a bigger scale by being part of Twitter," says Valerie Wagoner, founder & CEO, ZipDial. ZipDial makes Twitter content accessible to everyone,for example users could get the ICC world cup Tweets by giving a missed call to a ZipDial number, even without being on Twitter. Says Wagoner: "ZipDial platform is being integrated into the core Twitter platform." For the 2006 startup Nimbuzz, funded by Nasper and Mangrove Capital and acquired by New Call Telecom in November 2014, it's a case of getting scale which the founders may not have been able to build on their own.

Says Vikas Saxena, co-founder, Nimbuzz: "New Call telecom shared a bigger vision with us. New Call is putting up the largest public WiFi in India. Now we can grow further and faster." For Little Eye Labs taking the startup to IPO was never an ambition. It was acquired by Facebook in 2014. Says Kumar Rangarajan, co-founder, Little Eye Labs: "We wanted to prove that we can build awesome global products from India.

When we looked at our potential acquirers Facebook was one of the top ones we would have wanted to get `married' to. When the offer came, we felt this was something that we are eventually going to do, we might as well use the opportunity (to sell to Facebook)." The quicker the founders realize what they want to do the better it is for the startup. Many founders are good at technology but not as good at marketing, sales or finance and these become crucial areas as companies scale. Says Shah": " Not everyone can do everything and if it's a niche it's a good to merge with someone else who can help scale and unlock value."

Also, those who wait to build large companies need to realize that as they scale they will own less of their company,as key hires and new investors seek their share. Marc Benioff, co-founder, salesforce.com owned just 7% of the company at the time of listing. Adds Anandan: "Every startup won't become a billion dollar company. Like PhantomHands, an antique startup can be a profitable Rs 500 crore company in 10 years. In that niche there won't be room for too many players either." For startups eventually there are two outcomes: an exit or a write off. For both the startup and the investor its great if they know when it's the time to move on.