

LEAN STARTUP MANAGEMENT DIGITAL ASSIGNMENT 4

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Registration Number: 16BCE0789

Slot: TE1

The Question:

For DA-2 / DA-3 (Successful /failed Indian startup), the following should be included:

1. History of the startup, and its founder(s)
2. Product or service offered by the startup
3. Business Model
4. What led to its success / failure?
5. Lessons learnt by you

The assignment should be in pdf, and should not exceed 10 pages

The Answer:



History of the startup, and its founder(s):

This was an unusual shutdown. Used car marketplace Zoomo (earlier called GoZoomo) raised US\$7 million in funding, had more than half of it left in the bank, but decided to call it quits. The founding team of three IITians looked at the data and saw the unit economics were not adding up, despite several iterations in the business model. Then they took the tough decision to shut shop instead of burning VC money on an unsustainable business.

“The right thing to do is to treat the capital respectfully and deploy it where there is a better chance to create huge value,” [GoZoomo CEO and co-founder Arnav Kumar](#) told *Tech in Asia*.



GoZoomo co-founders Arnav Kumar, Himangshu Jyoti Hazarika, and Ankit Behera. Photo credit: GoZoomo.

The problem it set out to solve was the lack of trust in the Indian used car market, where vehicle history rarely has a paper trail. GoZoomo tried to crack this with inspection-based quality assurance for peer-to-peer transactions, keeping car dealers out of the marketplace.

The problem GoZoomo ran into was haggling over price, in a culture where consumers often put a premium on discount instead of quality. Perhaps the market was just not ready for this solution – because without a doubt there’s a problem of trust in used cars, despite the presence of several well-funded players like Cardekho, Droom, and QuikrCars.

This is rare among Indian startups.

A two-year-old startup raises US\$7 million from top VCs, has more than half of it left in the bank, but decides to return the money to its investors.

Used car marketplace [GoZoomo](#), which had shown much promise in tackling the problem of mistrust in this space, is shutting down. The founding team of three IITians decided that the unit economics were not adding up, despite several iterations in the business model. They looked at the data objectively and took the tough decision to shut shop instead of burning VC money on an unsustainable business.

It is better that this capital gets deployed elsewhere instead of us hoarding it and hoping that something good happens.

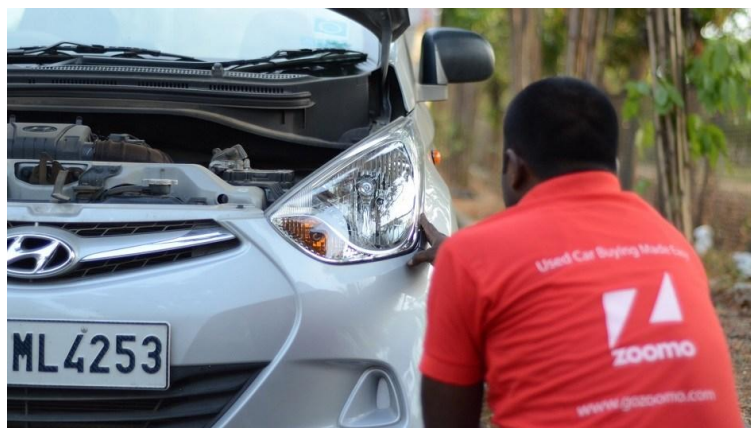
“The right thing to do is to treat the capital respectfully and deploy it where there is a better chance to create huge value,” GoZoomo CEO and co-founder Arnav Kumar tells *Tech in Asia*. “We tried to build a fast-scalable business, but realized that the business model does not work. So it is better that this capital gets deployed elsewhere instead of us hoarding it and hoping that something good happens.”

All the employees are getting seven weeks of pay as severance and help with landing other jobs. As for Arnav, he wants to take time off to focus on the learning from this experience. “We couldn’t solve this problem and eventually had to take this call. But we learned so much,” he says bravely.

A new ethical standard in the Indian ecosystem

The decision has earned the respect of Alok Goel, MD of GoZoomo’s main investor Saif Partners. Alok points out that returning so much money to an investor sets a new standard in the Indian startup ecosystem. “This is probably the first time an entrepreneur is announcing this kind of a decision. Typically, when something is failing, an entrepreneur would try to show that his company is being acquired, while internally the story might be totally different. But these guys are sharing a lot of things in a transparent manner and taking this mature decision of returning money.” On Arnav’s part, he has learned the hard way that it is really difficult to build a sustainable company. But he’s also more confident than ever that it is possible. He hopes to build a big company one day with the same investors.

Product or service offered by the startup:



Inspection of a car before being listed on GoZoomo

GoZoomo started out a couple of years ago with the idea of solving the lack of trust in the Indian used car market.

In the US, three used cars are sold for every new car. In India, it's only one used car for every new car, although this is a more price-conscious market.

The reason is that the Indian used car buyer has no clue what he's getting – it could be a car done up after an accident or even a stolen car with fake documentation. Buyers are better off in more regulated markets where insurance processes and credible certification leave a paper trail. Carfax, for example, provides vehicle history reports in the US and Canada.

Arnav, who is a postgraduate in applied mathematics from IIT Kharagpur, and his two co-founders, Himangshu Jyoti Hazarika from IIT Kharagpur and Aniket Behera from IIT Bombay, decided to tackle this core problem of trust.

Unlike other car portals, they did not open up their marketplace to used car dealers – only cars inspected by GoZoomo would be listed for peer-to-peer transactions. They knew the market for used cars would grow in India, where car sales really took off only about a couple of decades ago. If they could crack the trust factor – with people who transact on the site feeling confident of getting value for money or their car – they would be on a roll.

And that's what happened initially. "We raced to 100 transactions per month within just three months of operations – that means a million dollar monthly transaction value on the platform," recalls Arnav.

But there was a missing link. And this got glossed over in the excitement over seeing the interest in the product and wanting to build on it fast, what with Saif Partners and Yuri Milner pumping in a series A round of US\$7 million in July last year. That was on top of the US\$600,000 seed funding earlier.

What led to its success?



GoZoomo was clear from the outset that it had to be an end-to-end transaction marketplace, and not a classifieds, listings, or hybrid site. Buying a used car on it had to be as easy as buying a book on Amazon.

For that to work, there had to be standardization – such as in the quality of every car on the portal, which was assured through verification of papers and physical inspection. “That is why over the course of the last two years, we have had more than 3,000 customers buying great vehicles, with an average ticket size of US\$7,500,” points out Arnav. “Our complaint issue rate was less than 0.1 percent in an industry where there are a lot of returns, issues with quality, cars breaking down, etc.”

What GoZoomo could not standardize, however, is the price. The inspection team would suggest a fair price to a seller, but they would want to see if it would sell at a higher price. The buyer would see a similar model of car listed on a classifieds site like OLX or Quikr at a much lower price – and not take into account there might be a hidden problem with that car.

Haggling is second nature to Indians because of an environment where marketplaces are disorganized. GoZoomo wanted to offer something better – a place where you were assured of a standard quality, standard price, and quicker transactions. But the behavior of users takes time to change.

“What typically happened with us was people looked at the cars, liked the quality, but were just not able to decide on the price,” says Arnav.

He also points out that India is a relatively young market for cars. Buying a car became commonplace in urban India only about 15 years ago. So most of the people buying or selling used cars are doing it for the first time.

It’s a big deal for them, and they’re feeling their way. When they do it the second time, they would have a better idea about the pricing and quality standards, and probably realize the costs of prolonging the decision-making time.

“I think this is a function of the market maturing,” says Arnav. “It will take its own time.”

Achilles’ heel

Compounding the problem is the lack of a neutral pricing standard in India. There is nothing like a Kelly Blue Book whose pricing of used cars is generally accepted by both consumers and the automotive industry in the US. In India, every portal claims to have its own standard.

GoZoomo knew this from the outset, but hoped to solve it using data and building a good product. “We were able to build a pricing engine for Bangalore and Mumbai, using feedback

from customers, getting pricing from other platforms – but unless there is a golden standard, people don't believe it," points out Arnav.

It takes a lot of emotional and intellectual maturity on the part of the founder to take a decision like this.

At first, the delayed transactions due to going back and forth on the price was an irritant. But eventually, it became a festering sore that killed GoZoomo.

The standardization of quality and price did work to some extent. The site had a good number of transactions. But the rate of conversion from listing to transaction was too low – about 20 percent. This would have been okay for a listings site, but it was unsustainable for a peer-to-peer marketplace.

"For instance, we are taking pictures, inspecting 100 vehicles, but at the end only 20 of these sell on our platform. Then it becomes very difficult to recover the money we have spent on all the 100 vehicles listed," explains Arnav.

GoZoomo tried other ways of monetization, such as charging for inspections or other value-added services. But in essence it had to succeed as an end-to-end marketplace and not a provider of services. And for that, it had to get its conversion rate up.

A classifieds site can have subscriptions from used car dealers which list cars and get sales leads, but a peer-to-peer marketplace depends only on completed transactions for its cut.

"Without a pricing standard, there will always be friction and the transaction marketplace won't win over a listings platform or a classifieds," points out Arnav. "To win over a listings platform, we have to build a great transaction platform, and without a pricing standard, that transaction marketplace just can't be built. That is what we realized at the end of this."

Saif Partners' Alok Goel draws on his years of top-level experience with Google, Redbus, and FreeCharge to explain what went into this. "As a product guy, I can comment that the thinking they had was absolutely world-class at almost every point of time in the startup journey," he says. "At one point, they realized that the hypothesis they had was not working out. At that point, they had many choices before them. They could have kept spending the capital and showing numbers by burning money – which is very easy to do in today's startup scenario. Whereas they took a mature decision."

It was indeed a very hard decision to let go with millions of dollars in the bank.

"We had a few options," points out Arnav. "We could continue to deploy the capital we had raised and scale the business. However, this would go against the fundamentals of company

building. Or we could fix conversion and unit economics by owning physical inventory and building an offline business. But that would be going against our strengths. The third option we had was an M&A with a bigger player. We explored this option and got some interest too.”

But in the end, the GoZoomo founders decided to let it go, instead of compromising on the core idea they began with – which was to solve the lack of trust in the Indian used car marketplace.

“I don’t think this is a problem that gets solved by throwing money at it,” says Arnav. “It’s a problem that gets solved when the market becomes more mature. By more mature I mean that all the players adopt a pricing standard.” Without a Kelly Blue Book equivalent, the market in India was just not ready for a GoZoomo.

Conclusion:



The GoZoomo team in happier times

Usually when things don’t work out, accusations are hurled in all different directions. Investors tend to blame the founders, founders scream bloody murder, slug investors, and employees are hopping mad. But in this case, nothing of that sort happened.

The fact that VC money is for hyper growth – that it is not for toying with ideas, figuring out how things work or what does work – is not something every entrepreneur knows or accepts. But the GoZoomo co-founders did.

And they also took care to keep everyone – employees as well as investors – informed about the challenges, tweaks in strategy, and what was happening. Those traits seem to have made a whole lot of difference to everyone involved – the team, investors, and entrepreneurs themselves.

GoZoomo had a 65-member team in July. “We have been able to keep everybody involved in what was the big picture of the business. So people knew there were struggles. Everybody knew we have to close these many transactions, we have to make so much money, these are the numbers we need to build on, and so on. So people understood,” Arnav says.

In December last year, GoZoomo took a big pivot realizing that monetizing the business through post-sales services – such as charging for paper transfer, insurance, and so on – wasn’t going to cut it.

After tasting initial success, they had scaled fast and hired a lot of employees who would convince customers to close transactions by talking to them, do the post-sales process, and verify listings. “We realized that for a transaction marketplace to work, we have to take a more product-centric approach. Then we built auto-listing on the platform, set up CRM which let one person do the work of five people, and manage the flow of information. So we laid off 150 people, mostly the call center employees. And some people who were on the field.” Many of them had one month’s notice period and some two months. They were all given seven weeks’ severance pay and help with finding other jobs. That was nine months ago.

The new approach reduced costs and sharpened the focus, but the fundamental problem of the lack of a pricing standard and the friction in transactions still couldn’t be solved. That’s when they decided to shut shop.

Now, just a fortnight ago, Arnav and his co-founders held an open house with the team. They took questions and explained the rationale behind the decision to shut down. “They realized that what we had been doing lately was good, but it wasn’t scaling well. They took it well,” Arnav recounts.

A small team of six – Manisha Sadineni, Dhaval Nanda, Anubhav Srivastav, Ashish Atrey, Debashish Sahu, and Susovit Chakravarty – have stayed back to help the three founders tie loose ends and wind up. The remaining 56 teammates were given a seven-week severance package and offered help with finding placements elsewhere. “As of today, except six, all have been placed,” Arnav says. That’s no mean feat.

GoZoomo (Data Record)

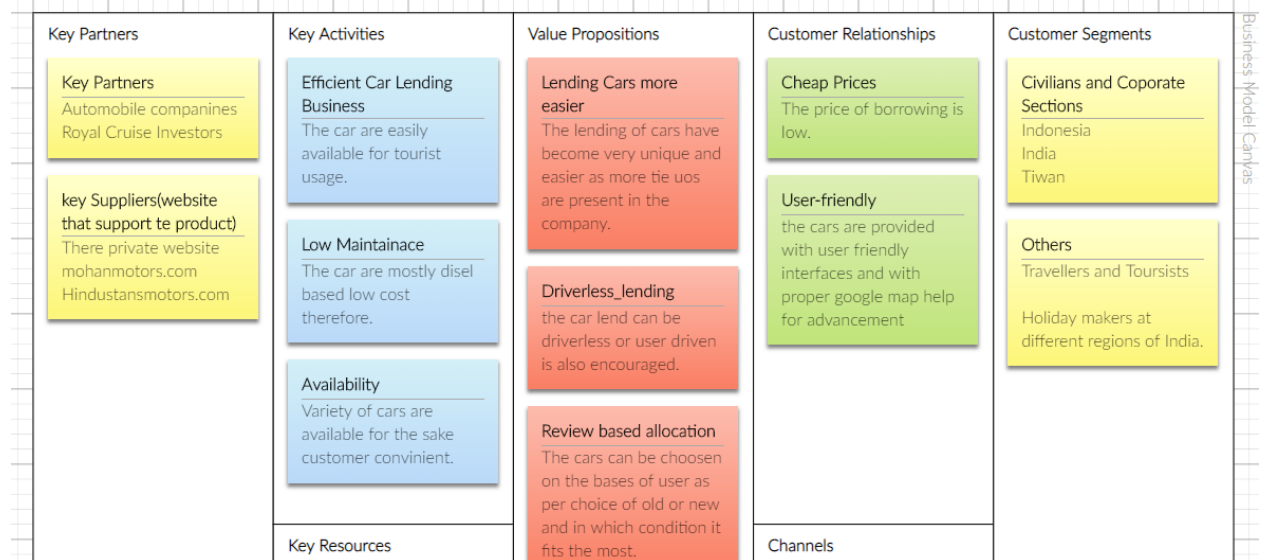
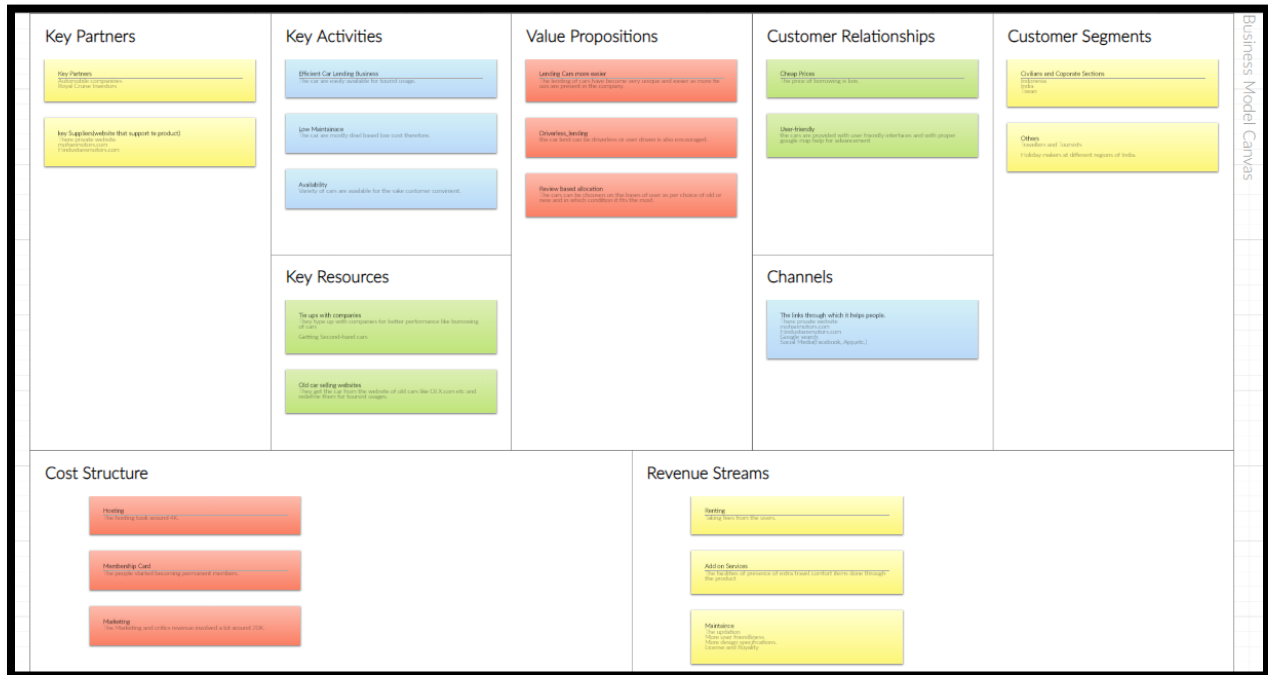
GoZoomo is a Bangalore, India based technology start-up pioneering in peer-to-peer transactions of pre-owned cars and providing a hassle free experience.

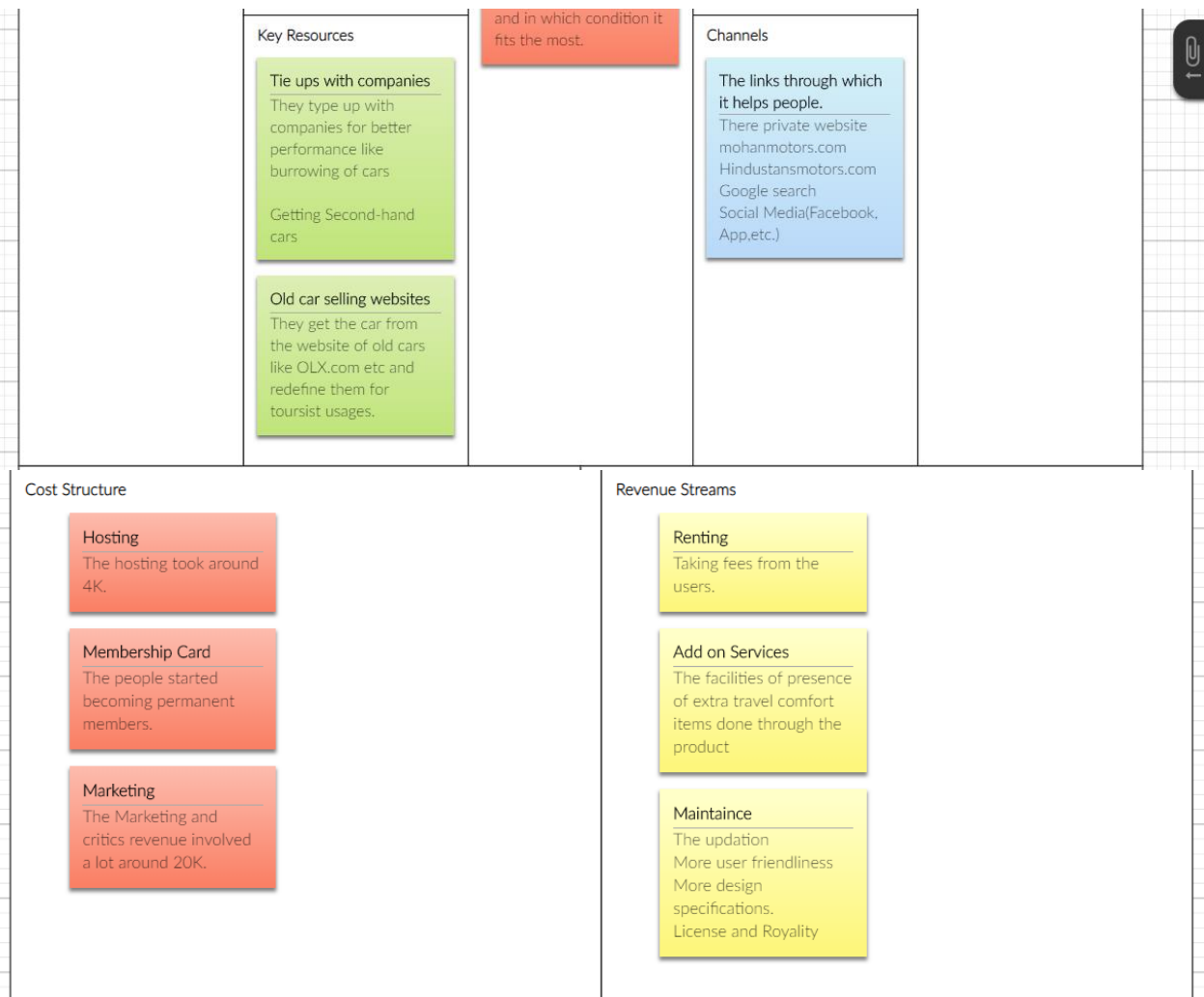
Founded: 2014

Employee: 60 – 2000

Website: www.gozoomo.com

The Business Model:





My Learning from the Startup:-

The product that is made should be user point of view and not company money gain. The product mostly solves a problem that the local people are placing in the day-to-day life. The product should abide by the judiciary laws and should not destroy the social or public viewpoint of the people and society at large. The uniqueness of the product should be visible to common men as at the end of the day they are going to be our customers. The budget should be low in the product making and roughly double should be sent to marketing the product and for the allowance of the better awareness o road banners, newspaper and social media platforms like Facebook, twitter, Instagram etc. The current generation is more into swapping pages through an app or phone rather than to sit in front of the television of monitor. Therefore app valuation is increasing day by day. The people are more into comfort-based living and not risk taking. In this website the feature is available to get more comfortable rides. The will of taking challenges phase is decreasing which I personally think should be encouraged to do so. These are some the few marketing and physiological skills I from this Startup Story.