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COLOREDCOW: CREATing New MILESTONES FOR BUSINESS GROWTH

Ritu Sharma and Sandeep Puri wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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There’s no silver bullet or a magic wand for creating a great product. As engineers and designers, we break down big problems into a series of smaller but interconnected pieces that together bring desired outcomes.

Prateek Narang

Prateek Narang, founder of ColoredCow, a web services company, had a good reason to be impressed by his company’s growth. His company reported net revenues of ₹725 million[[1]](#footnote-1) in 2016, which reflected an increase of 140 per cent over 2015 (see Exhibit 1). Narang had set up his company less than three years earlier in 2014. As he assessed the growth figures in early 2017, he was filled with hope for the future. He began charting out a strategy for 2020, and set a revenue target for his company of ₹2.5 billion. Given the company’s small size, as well as its involvement in multiple projects in many different areas, the target was very ambitious. ColoredCow’s business to date mainly involved working with start-ups and small and medium enterprises to implement their Internet business ideas.

Narang began building a strategic growth plan for the company, remaining mindful of ColoredCow’s challenges and opportunities. His company’s current growth was a result of word-of-mouth referrals from satisfied customers who helped him reach more customers, but it was time to look ahead and give his company some direction and focus. Narang realized that he had to address some important business issues: What technical and digital capabilities would ColoredCow need to implement to achieve success in the future? What possible scalability issues was the company likely to face? What should ColoredCow’s strategic plan for growth look like? What marketing strategies should ColoredCow devise to increase its customer base and achieve the ambitious revenue target of ₹2.5 billion by 2020?

**THE COMPANY**

Narang started ColoredCow in August 2014, with an initial investment of ₹200,000. With great zeal and effort, he was able to convert his ideas into reality. Beyond the whimsical company name, Narang put his heart and soul into his venture. He always dreamed of owning a company where the possibilities would be endless. Despite already having a rewarding job, Narang could not resist the urge from his entrepreneurial spirit to set up a venture of his own.

Narang had worked for nearly 15 years in the information technology (IT) industry, which helped him build expertise in both computer hardware and in software and applications. His previous jobs had all required him to help build the organization from the start. After graduating with a bachelor’s degree in technology, his first job was with the Mohali, India division of Tata Interactive Systems in 2000, where he was among the company’s first few employees. In December 2004, he joined the National Cash Register as the company’s first employee for the new IT centre in Gurgaon, India. These jobs helped Narang develop an entrepreneurial character, which defined him as someone who was able to resolve ambiguity and was not afraid to take risks.

Capitalizing on Passion and Opportunity

Narang believed that a successful start-up needed more than just great ideas—it needed “a passion to make a mark and solve real business issues.” He shared his philosophy and desire to create a venture of his own with Scott Hurst, a fellow attendee at a conference for the programming language PHP in Atlanta, Georgia. One year later, Hurst called Narang to ask if he was still eager to start a new venture and introduced him to two other entrepreneurs named Hector Javier and Randi James, who asked Narang to help them run a software development company.

Narang’s networking abilities and self-confidence helped him continue on his journey. A few months later, Narang was introduced to the founders of a U.S.-based software development company that needed an expert Java programmer. He managed to complete that assignment while holding another full-time job. He worked for the software company after office hours from a café. His passion for the work made it easy to adapt to different circumstances and work environments.

Narang gained the trust of his clients by delivering quality and timely results beyond their expectations. His work was cost effective, but Narang also provided an understanding of his clients’ culture, considerable amounts of experience, and a strong work ethic. More clients began relying on him, and as the amount of work started to grow, Narang recruited two people to form ColoredCow, a team of expert service providers.

Around that time, Stanford University had organized a 21-day event for Indian entrepreneurs called Innovate Delhi. Narang had attended the event and was awarded one of the conference prizes for his work, which had further fuelled his dream of building his own organization. Meanwhile, the software company that Narang had joined as a programmer was split into two different businesses, which became two clients for Narang’s team to provide technology services.

Reaping Rewards

In January 2015, Narang was referred to the founder of a technology start-up in Canada’s engineering industry who was building an application to better manage and maintain machines. Through this association, Narang met Eric Smith, the owner of a start-up in the health care industry who needed help. Narang further developed the small health care application to the point where the company was acquired by a large NASDAQ-listed health care company, and Smith was appointed chief technology officer of that firm.

The success from this venture, and the ability to build a major application from the start, became Narang’s first major breakthrough. As ColoredCow continued to grow, he recruited more expert employees. Five members of his team were deployed to work exclusively on the health care project for one year.

However, Narang continued to seek new opportunities in all areas of the IT industry. Although his focus had been mainly on web-based applications, Narang took on a project for a non-government organization (NGO) to manage its social media profile. That NGO eventually became a regular client, and Narang launched his flagship product, ManageMyNgo. Narang later rebuilt the application in a partnership with the Haryana State Government in India.

Narang insisted on creating a favourable customer experience with any of his clients. He believed that people considered client experience more important than any other aspect of the collaboration. Towards that goal, he made sure to meet all expectations and to be open, available, and accommodating.

As his work increased, Narang hired more employees who shared his vision to develop his business. At the start of 2017, ColoredCow had 16 employees. He carefully chose new members for his team to whom he would delegate his work, which allowed him time to develop new work opportunities.

Services Offered

As a web services company, ColoredCow offered management services and applications, including enterprise portals, knowledge management systems, information architecture, content management systems, transition from proprietary to open-source solutions, and content migration. ColoredCow used pragmatic techniques to manage people, projects, and risk in an effort to create successful projects and teams. ColoredCow became a software development company for Internet and mobile applications, specializing in web-based usability and business. The company’s strategy of offering good-quality projects at reasonable prices, which had helped it grow right from the start, continued to be a business asset.

THE INDIAN IT INDUSTRY AND THE CHANGING SCENARIO

The size of the global market for outsourcing IT services was estimated at US$124–130 billion. As the world’s preferred choice for outsourced IT services, India accounted for as much as 67 per cent of the market. With an employee strength of nearly 10 million, the Indian IT outsourcing sector was poised to grow at 12–14 per cent in the 2016–2017 period, and was expected to triple its annual revenues to US$350 billion by 2025. Indian companies were considered about three to four times more economical in their provision of IT services than U.S. companies, which contributed to India’s dominance of the global outsourcing market.[[2]](#footnote-2)

India boasted over 4,200 start-ups and ranked third among international start-up networks. IT sector revenues were projected to reach US$146.72 billion by 2018. India’s Internet penetration had increased considerably over the previous decade, enabling a marked rise in the country’s e-commerce industry. The surge in Internet availability provided the perfect conditions for growth in IT outsourcing. India’s health care IT market had also benefited from the enhanced Internet use, reaching a value of US$1 billion in January 2017, which was expected to almost double by 2020. Similarly, the country’s e-commerce market was projected to reach US$700 billion in the business-to-business industry and US$102 billion in the business-to-consumer industry by 2020.[[3]](#footnote-3)

India also saw an increase in international investment in the country’s IT industry over the previous decade, especially in the sectors of computer hardware, software development, and IT services start-ups. Between April 2006 and March 2016, the Indian IT sector received US$21 billion in foreign investment. In 2006, start-ups garnered 307 deals worth US$14 billion. In 2005, foreign investment for small and medium business amounted to US$11.6 billion. The market research firm Zinnov reported that this figure would rise to US$25.8 billion in 2020, based on the premise that nearly 12 million of the 51 million businesses in this industry increased their potential by using newer IT products.[[4]](#footnote-4)

Over the previous decade, the number of Indian start-ups had increased exponentially. By the end of 2020, more than 11,500 new businesses were expected to enter the market and create jobs for over 250,000 people. The unusually rapid growth could be attributed to favourable conditions, opportune mergers, and well-timed funding. Many start-ups in the IT industry that were now benefiting from great inflows of funds had endured more difficult times in the past, so their fortunes had improved.[[5]](#footnote-5)

However, in January 2017, the Indian IT industry was feeling some adverse effects from the new political landscape in the United States. The U.S. market, which was crucial to Indian IT companies, was expecting major changes as President Donald Trump introduced new and stricter immigration policies that could have a considerable impact globally.[[6]](#footnote-6) Yet according to Ajay Kolla, the founder and chief executive officer of a prominent job portal, these changes could also work in India’s favour because of India’s “cost effectiveness, superior domain knowledge, and availability of quality talent,” all of which were attributes that U.S. companies would find hard to overlook.[[7]](#footnote-7)

CHALLENGES FOR COLOREDCOW

ColoredCow had more work than it could deliver in its current size. Referrals and repeat customers had helped generate generous amounts of revenue. According to Narang, scaling up the business was a missed opportunity, despite warnings regarding the complex processes and challenging funding requirements. Having an expansion plan in place early in the business life cycle was as crucial as starting the business itself, he felt. Narang believed that a solid business plan with well-defined milestones and triggers would support growth, and that his business preferred to focus on growth.

Narang had found it easy to launch the business, but scaling up remained a challenge. Usually, small businesses had a clear plan that defined their growth and success over a specific period. However, ColoredCow’s business was spread across too many IT sectors. The company was eager to fulfil the needs of a wide variety of clients, which meant that it was still struggling to establish stability and consistency in its operations. Because it was a small organization, a considerable amount of ColoredCow’s work was completed manually, without automated tools to record the numerous tasks. Yet the company eventually realized that it was critical to assess and optimize internal tools to streamline its multiple operational activities.

ColoredCow needed to resolve several issues if it was going to meet its self-imposed revenue target of ₹2.5 billion by 2020. Narang expected that the business would need 75–100 employees to achieve such a milestone. He also hoped to build a direct sales channel.

With rapid changes taking place across the IT industry, ColoredCow faced some looming questions regarding implementing new technical and digital capabilities, scaling the business, and strategic planning. How would ColoredCow reach ₹2.5 billion in revenue by 2020?

EXHIBIT 1: SELECTED FINANCIALS OF COLOREDCOW (in ₹ Millions)

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2014** | **2015** | **2016** |
| Net Revenue | 314 | 518 | 725 |
| Other Income | 10 | 6 | 16 |
| Operating Expenses | 162 | 201 | 278 |
| Profit before Tax | 162 | 323 | 463 |

Source: Company documents.

1. ₹ = INR = Indian rupee; all currency amounts are in ₹ unless otherwise specified; US$1 = ₹67.97 on December 21, 2016. [↑](#footnote-ref-1)
2. “IT & ITeS Industry in India,” India Brand Equity Foundation, January 2017, accessed January 26, 2017, www.ibef.org/industry/information-technology-india.aspx. [↑](#footnote-ref-2)
3. Ibid. [↑](#footnote-ref-3)
4. Ibid. [↑](#footnote-ref-4)
5. “Indian Startups: Challenges and Opportunities,” Turning Ideas Incubator Program, June 21, 2016, accessed January 17, 2017, www.turningideas.com/blog/indian-startups-challenges-and-opportunities/. [↑](#footnote-ref-5)
6. Dhruva Jaishankar, “Donald Trump as US President: For India, It’s Opportunistic, but Concerns Remain over His Asian Policy,” *Economic Times*, November 13, 2016, accessed January 8, 2017, http://economictimes.indiatimes.com/news/politics-and-nation/for-india-there-are-opportunities-in-trumps-election-but-concerns-in-his-asian-policy/articleshow/55391027.cms. [↑](#footnote-ref-6)
7. “Donald Trump’s Win Will Not Impact IT Sector: Hyderabad Firms & Wisdomjobs.com,” ET Tech, November 10, 2016, accessed December 7, 2016, http://tech.economictimes.indiatimes.com/news/corporate/donald-trumps-win-will-not-impact-it-sector-hyderabad-firms-wisdomjobs-com/55346356. [↑](#footnote-ref-7)