

Why a Team of Entrepreneurs Failed to Become an Entrepreneurial Team: A Case Study on Funarena

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ABSTRACT

The case study deals with a gradual failure story of a start-up venture, FUNARENA, comprised of a team of a new breed of entrepreneurs. This is a very unique case study that brings to the forefront some very core issues of entrepreneurship, i.e. commitment of the entrepreneurs, a sound business model and an appropriate capital structure which are most essential basic elements of any successful venture. It shows how lack of the above-mentioned elements can gradually bring failure to a business model which was apparently promising and robust.

Keywords: Start-up venture, business model, entrepreneurial team, capital structure, entrepreneurship

INTRODUCTION

As Sarbari started moving up the stairs of the bank to deposit yet another installment of the loan taken to float the venture, Funarena, she started speaking to herself - how many more such trips have to be made to settle the loan with her own money. She was beginning to have serious doubts about the viability of this computer centre for children. Though, when she and her friends started it everything seemed so hunky-dory. Two years down the line, she was trying to figure out what went wrong.

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many things seemed outside her control that she wondered how she could have been so sure of herself back in the winter of 1998.

THE TEAM

While they were pursuing their last year of MBA, Sarbari and her two friends Haimanti and Dipra often discussed about starting a business of their own. With the theories of doing business just learnt, this seemed the most opportune time to put those theories into practice. They found another willing partner in Soumya, Sarbari's husband. Sarbari and Soumya were engineers from Kolkata's premier engineering college, Haimanti was a multimedia professional and Dipra was a cost accountant. Just the right combination for a start-up, they thought.

BUILDING THE BUSINESS IDEA

The four of them spent hours brainstorming on what could be the best business that could be set up and eventually came up with the idea of computer education centre for children, where learning would be combined with fun; it was aptly called "Funarena". It was the time when personal computers were transcending the barriers of office walls and invading homes and schools, and were beginning to be a part of our daily lives. What could be a better way to equip the young generation for such a phenomenon? The choice of business seemed to be ideal!

THE START-UP AND THE OPERATION OF FUNARENA

All four of the "partners" were employed in full-time jobs in different organisations at the time of inception of Funarena. Haimanti was a full time director in the IT Company which her father had founded some 10-15 years ago and was looking after its day-to-day operations after her father's sudden demise in the previous year. The other three were working in junior management roles in different private organisations. So, only Haimanti had the hands-on experience of running a company and she was the main driving force behind Funarena.

At the outset, all the partners agreed to contribute equally to provide for the seed capital. A partnership deed was prepared which declared all four of them as equal partners, who would share the gain or loss equally. Thus, each partner had a 25 per cent stake in the business.

After the team had prepared the project plan carefully, they approached State Bank of India, Salt Lake branch, for a loan. This loan would be required to buy six PCs, set up the infrastructure and provide for at least three month's working capital. The manager of this bank treated the enthusiasm of the budding entrepreneurs with warmth. Though the team had no collateral to offer against the loan, except their LIC policies, the loan was granted very quickly. While disbursing the loan, Mr Sur, the

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bank manager said, "I have rarely found this kind of committed young entrepreneurs, by looking at the intellectual power and not based on the money power. I hope that the team will not let me down".

A ready infrastructure was provided by Haimanti in the form of a rented accommodation in Salt Lake, which used to be the office of the family owned business till they moved to a bigger office. Funarena was inaugurated on 28th November, 1998 by Chandi Lahiri, a famous cartoonist in a 200 sq ft space in Salt Lake, Kolkata. Many of the local newspapers of Salt Lake had covered the event. Since all the partners devoted only part of their time towards this venture, the centre had to be managed by a centre manager and she was aided by two instructors. An office boy was also there to assist them. Primarily designed for school going children, Funarena operated from 2:30 pm to 7:30 pm from Monday to Saturday and from 9:30 am to 2:30 pm on Sundays.

THE BUSINESS MODEL – WAS FUNARENA A NICHE OFFERING?

While Sarbari and her friends were brainstorming and exploring the market for a unique business idea, they had realized the immense potential of computers in making learning a "Fun" affair. That time many schools had just introduced computers in the curriculum but were grappling with the task of making the subject easy for the beginners. Most of them ended up teaching them some boring useless theories and some outdated programmes. Other areas which the kids frequently visited were game parlours where children were hooked to the interesting video and computer games. Funarena was the unique combination of learning and fun under the same roof.

The business model at Funarena was also unique. Here there were no standard quarterly or half yearly or annual programmes. Each day was divided into time slots of one hour each. Considering six PCs, for each day, the maximum revenue earned could be from 30 slots. The time slots and course curriculum at Funarena were totally flexible. In the beginning, the parents and the children were encouraged to take a peek of what was on the offer, by booking just one slot as a trial. If the child liked it, then they could book as many slots as they wanted for the coming days and months.

The target age group in Funarena was from three years (pre-school) to 15 years (school-leaving) children. The pre-schoolers and the primary school going children were exposed to various informative and attractive CD ROMs, which taught them many things like the alphabet and number recognition, object recognition, learning about colours, shapes, etc. The instructors also designed various interactive applications for them. For middle and senior school children there were various custom made options for learning programming, starting from LOGO, Basic to C++. During the summer holidays, custom made courses were designed for the children and the slots had to be booked beforehand for participation. Thus, Funarena during its initial days had a niche market to serve. There were parents who were willing to pay a price for the same.

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CHALLENGES AND STRATEGIES

Challenges came from un-expected quarters. Firstly, many households started buying personal computers. Thus their children did not need to come to Funarena to practice. Secondly, after the pre-schoolers and primary children explored the multimedia CD ROMs a couple of times, they became uninterested. They wanted to play games only, to which their parents objected. Thirdly, the centre was located inside a residential block, hence not visible to anyone from the main road, etc. Increasing footfalls was a challenge. Fourthly, being a low net worth partnership, advertising budgets were meager and lastly, this was a part-time job for the centre-in-charge and the instructors, hence the turnover ratio was high.

The Partners quickly identified the challenges in the environment and adopted various strategies such as, widening its customer base to college goers, house-wives, first time users, etc. Also, new and innovative courses were designed for house wives, first time PC users, like, teaching e-mail and Internet browsing, etc. Since Funarena catered mostly to the population residing in Salt Lake, in two consecutive years, a stall was set up in the Salt Lake fair, which almost everybody resident of Salt Lake visited. The first year the computer games were played at a very cheap rate, which attracted many youngsters. The second year, computerized horoscopes were on offer which also attracted many visitors. With internet just being introduced in Kolkata, another strategy Funarena adopted was offering e-mail and Net browsing facilities. Thus, Funarena was a fore runner of cyber-cafes. Funarena also reached out to the local residents by advertising on local Salt Lake newspapers and local cable TV channels.

RISE AND FALL OF FUNARENA

The revenues at Funarena continued to increase from December 1998 till it broke even about one year later. However, it was difficult to sustain the same and slowly the revenues started declining, particularly with various computer centres like Funarena and high end cyber cafes coming up in Salt Lake. With such kind of competition, margins came under a serious hit as Funarena struggled to keep pace with competition. The fixed costs were high but there was no fixed steady source of income from the Centre. Straddled with a bank loan, almost every month the partners had to pay a handsome contribution out of their own pockets to keep the show running. The partners thought of various innovative ideas like e-commerce portals, online grocery store, online photo printing store, etc., but could not implement them because of lack of funds and unwillingness to invest more. Some of these concepts have been later implemented very successfully by other large enterprises.

In the year 2000, two of the partners quit citing financial inability and personal commitment respectively. This office space had to be given up and a new space hired and done up again. This location could never really attract the footfall which the

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earlier one had done. It became more and more difficult to get good faculty at the centre. The quality of employees deteriorated as the staff that had been with Funarena since the inception moved on to full-time jobs and the new appointees did not have the emotional attachment with the organisation as the initial ones. With a high turnover ratio of the trainers, the overall interest of the trained as well as the trainers dwindled.

By 2001, almost on the verge of bankruptcy, the two existing partners wondered if they had any way out other than folding up their dream venture. They analysed the overall situation and could identify some of the major internal and external factors responsible for the impending failure of their venture. These were mainly related to the business model, team commitment, capital structure, etc. They decided to work hard to find out what alternatives were left to them for a turnaround rather than contemplating closure of their first entrepreneurial initiative.