

MOT9610 Entrepreneurship Basic Course  
LBA3

Report of Group 4

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*India's largest leading payment gateway that offers various kinds of payment services for customer and merchants. It also offers mobile payment solutions to merchants and allow consumers to make seamless mobile payments from Cards, Bank Accounts, QR mobile payments & Digital Credit among others.*

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# 1 Barriers

The barriers are divided into 3 major factors as core technological factors, core market factors, and influencing factors. The core technological factors and market system factors play an important role in understanding the development and large-scale diffusion of the company's product. On the other hand, the influencing factors help in understanding why barriers emerge in the core development system [1]. In this chapter, we will discuss the different barriers faced by Paytm.

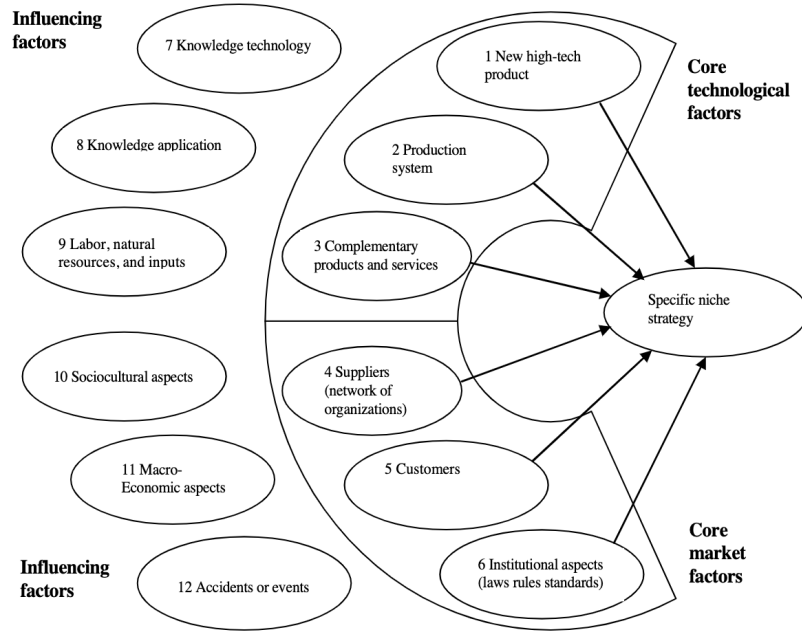


Figure 1: *Important factors for the development and large-scale diffusion of new high-tech products [1]*

## 1.1 Core Technological Factors

- **New High-Tech Product**  
The high-tech product we are focusing on is Paytm's all-in-one payment processing platform, which was their later product, launched 4 years after the company was started. Paytm faced a problem while introducing the handling fees which came along making online transactions.
- **Production System**  
Having a good production system is required for the large-scale diffusion of the product. In the starting period, the product was created in small

numbers and the industrial production was still at possible at that time which became a barrier in the large diffusion of products and services.

- **Complementary Products & Services**  
One of the main barriers they faced while introducing their product was that they had to deal with other payment processing platform existed during that time. This caused them to bring down their payment processing fees, the cost charged per transaction technique, for clients and furthermore had extra highlights which their rivals didn't have.

## **1.2 Core Market Factors**

- **Customers**  
They needed to demonstrate the security of their product against digital assaults and ruptures to their customers to pick up the customer's trust.
- **Institutional Aspect**  
Another barrier they had to face was, to hold various consistency rules and legislative approaches of India where they wanted to operate. Clinging to various governmental laws and policies regarding payment processing in different markets in which they had planned to operate sometimes acted as a bottleneck.
- **Suppliers (Network of Organization)**  
Suppliers are the actors involved in the process of supplying the product and services. Paytm, when it was launched lacked in terms of actors with considerable resources. Lack of resources and coordination were not present in the socio-technical system which blocked the large-scale diffusion to some extent.

## **1.3 Influencing Factors**

- **Socio-Cultural Factors**  
Socio-social factors additionally went about as a barrier. They presented their product during the web-based business on mobile phones period, where people completed transactions in the comfort of their homes using mobile phones. This implied that they had to give a solution which would work not only on computers but also on mobile phones for payment transactions to satisfy the customer needs.
- **Natural Resources & Labor**  
It was a problem when they decided to go international and opened its innovation lab in Canada. The way that Paytm's product was going to be utilized globally, it additionally required local human resources in those new markets. This implied that they needed to grow their worker base and open workplaces in those new markets, which was costly.

- **Knowledge of Technology**  
One such problem was faced by the company when Apple took off the Paytm application from the app store in India. Apple said that the application has some bug and that is why they decided not to have Paytm in an iOS app store. People could not use the app on their iPhones despite having the application [2]. So basically, Paytm lagged somewhere in the development of the technology which slowed down the large-scale diffusion of the product for some time.
- **Knowledge of Application**  
When they started the all-in-one platform for making payments not many customers knew how to use the application. So, in the beginning, the company had very few users but as e-commerce went on becoming more famous more and more people started using the application.
- **Macro-Economic Aspects**  
Two years after the launch of Paytm's online payment platform, the company saw economic losses of almost 270%. The company's online retail business and e-commerce observed its financials deteriorate with a huge loss.
- **Accidents or Events**  
In 2018, one such incident took place when the digital Paytm wallet went down unexpectedly and customers/users faced screen that said 'server error' while trying to make payments. Later, this incident had devastating effects as people started sharing angry reactions all over the social media against the company.

## 2 Incumbent Firm

For this chapter, we will be discussing Paytm as the incumbent firm which is a subsidiary of Alibaba Group (42%), One97 Communication Ltd (38%) and Softbank (20%). We will also discuss different venturing programs and start-ups Paytm is associated with.

### 2.1 Making Investments in Start-ups

Paytm was founded in 2010 by its founder Vijay Shekhar Sharma. Soon after it was launched the company started to make investments in the start-ups taking place in India. In 2013, they acquired its very first start-up in Plustxt for around \$2 million. Plustxt was a start-up by IIT (Indian Institute of Technology) graduates that enabled fast text messaging in any Indian language. In 2015, they invested around \$5 million in an auto-rickshaw aggregator and hyperlocal delivery start-up called Jugnoo. The main idea behind investing in this start-up was to allow Jugnoo to scale up its operation across the country and improve its driver efficiency. Next year, they invested in logistics startup LogiNext and

XpressBees. LogiNext was a platform mainly used by courier companies to bring in more efficiency in their network. Paytm invested \$10 million in this logistics start-up. In 2017, they invested in healthcare startup QL which used artificial intelligence and big data to help doctors improve productivity and quality of care being provided to patients. In 2018, the company acquired Delhi based technology startup Cube26.

## **2.2 Organizing Incubation Activities**

In 2017, they decided to launch its incubator program to allow the building and sharing of solutions for technology developers working in India. They started the ‘Build For India’ initiative to bring together students and professionals, who could build open-source-based solutions and share those with the global developer community. The program was designed in such a way that it would focus on providing solutions for the problems in different sectors such as education, digital lifestyle, emerging technologies like machine learning, virtual reality and augmented reality. The virtual incubator aimed at finding developers who knew the technology and design very well to build world-class solutions. This was an Open Source Incubator to promote open source projects within the country. The basic idea was to fill the gap between youth, industries, governments and institutions in the country.

## **2.3 Collaborating with Venture Capital Firms**

One year after the company was launched it got an investment of \$10 million from Sapphire ventures. In 2015, they received a big stake from Chinese e-commerce company Alibaba Group, which took 40% stock in Paytm as a part of their agreement. Two years after it invested in Paytm, Alibaba next announced its joint venture with them to set up an online gaming company with Paytm having 55% stakes and Alibaba’s Hong Kong-based private company AG Tech Media taking away 45% stakes. Alibaba is helping Paytm on basically two work fronts: technology and business. Paytm’s all in one payment platform runs 200 servers and now it plans to grow up to 1500 servers to accommodate new users and enable transactions in real-time.

In 2017, they received their biggest ever investment from Softbank which also had stakes in Alibaba Group. Softbank invested around \$445 million in Paytm. Following such big funding from Softbank, they received big funding of \$356 million from Berkshire Hathway. In 2017, they had launched their own Paytm Payment Bank and for the same, they partnered with Citibanks to launch their credit cards.

### 3 Business Model Canvas

The three different BMC's are explained in this chapter. The first business canvas model represents Paytm in 2010, the time when it was launched. The second canvas focuses on the time when it launched an all-in-one online payment solution. The final canvas is about what Paytm is as of today.

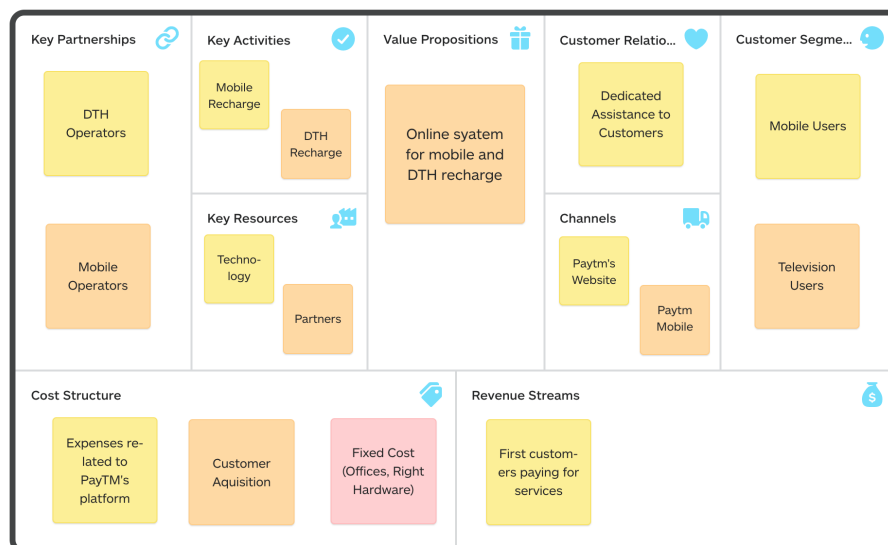


Figure 2: *BMC 1*

#### 3.1 How

##### 3.1.1 From BMC 1 to BMC 2

Between BMC 1 & 2, mainly the customer relationships and communication channels remain the same. On the other hand, key partners, key resources, key activities, value propositions, customer segments, cost structure, and revenue streams are mostly different. An example of how BMC 1 differs from BMC 2 is that in BMC 1, the main value proposition is to provide an online system for mobile and DTH (Direct-To-Home) while in BMC 2, it is the online payment processing while controlling the real-time fraud.

##### 3.1.2 From BMC 2 to BMC 3

Between BMC 1 & 2, mainly the customer relationships and communication channels remain the same. On the other hand, key partners, key resources, key activities, value propositions, customer segments, cost structure, and revenue streams are mostly different. An example of how BMC 1 differs from BMC 2 is

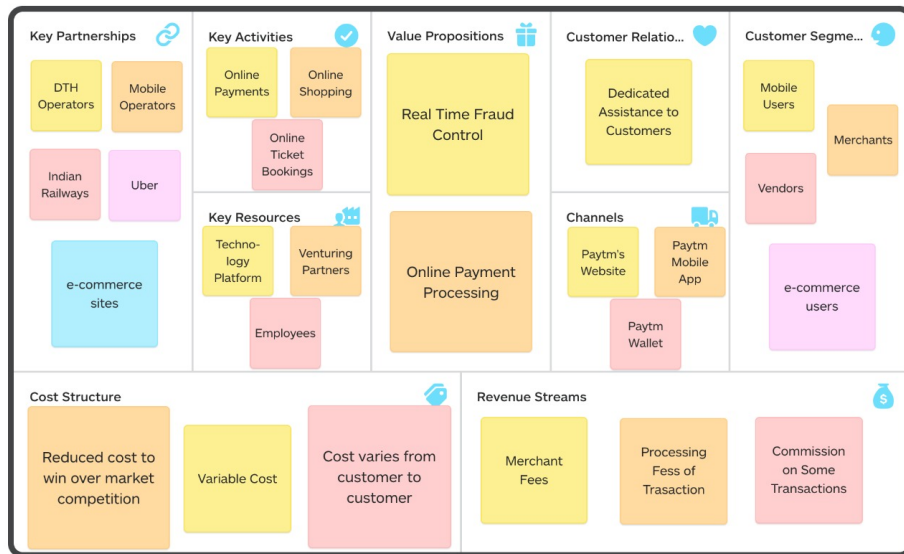


Figure 3: *BMC 2*



Figure 4: *BMC 3*

that in BMC 1, the main value proposition is to provide an online system for mobile and DTH (Direct-To-Home) while in BMC 2, it is the online payment processing while controlling the real-time fraud.



## **3.2 Why**

### **3.2.1 From BMC 1 to BMC 2**

Between BMC 1 & 2, mainly the customer relationships and communication channels remain the same. On the other hand, key partners, key resources, key activities, value propositions, customer segments, cost structure, and revenue streams are mostly different. An example of how BMC 1 differs from BMC 2 is that in BMC 1, the main value proposition is to provide an online system for mobile and DTH (Direct-To-Home) while in BMC 2, it is the online payment processing while controlling the real-time fraud.

### **3.2.2 From BMC 2 to BMC 3**

While little change is seen between BMC 2 and BMC 3, there is still a chance because of the change in value proposition from processing online payment and real-time fraud protection in BMC 2 to providing an easier and safest platform for transactions and enabling users/customers to save in digital gold in BMC 3. The way that Paytm really began having universal traders and clients is additionally a motivation behind why there was a change from BMC 2 to BMC 3.

## **4 Changes reflecting the Dynamic Criteria**

### **4.1 Completeness**

The company started as an online service provider and now is India's leading E-commerce company. It has competitors in E-commerce, payment bank, UPI fund transfer, mobile wallet, recharge and bill payments. The stakeholders of the company include Vijay Shekhar Sharma, Alibaba, Alipay, and SAIF.

### **4.2 Inter-relationships**

Initially, Paytm's customers were general public, later their different revenue models included different sections of people like retailers and merchants. Zero fees to merchants is a force multiplier for the acceptance of digital payments. Paytm's model is built on zero MDR and allowing merchants to sell online or becoming a financial services customer [3].

### **4.3 Changes over time**

The company is focusing on hiring a team across levels from VPs to CXOs across multiple business categories.

As for Paytm mall, earlier, the team was building the warehousing model, but now their focus is on the shopkeeper model.

Due to competition from other companies and reduced cash-backs on peer-to-peer transactions, it has stopped pushing UPI as it has plateaued and gone back to focus on e-wallets since it is observed that customers love wallets rather than direct bank transactions.

#### 4.4 Framework changes

One of Paytm's biggest and recent funding was from Berkshire Hathway of \$356 million. The company is creating content like gaming and video and it is also venturing into fintech like insurance and bank loans.

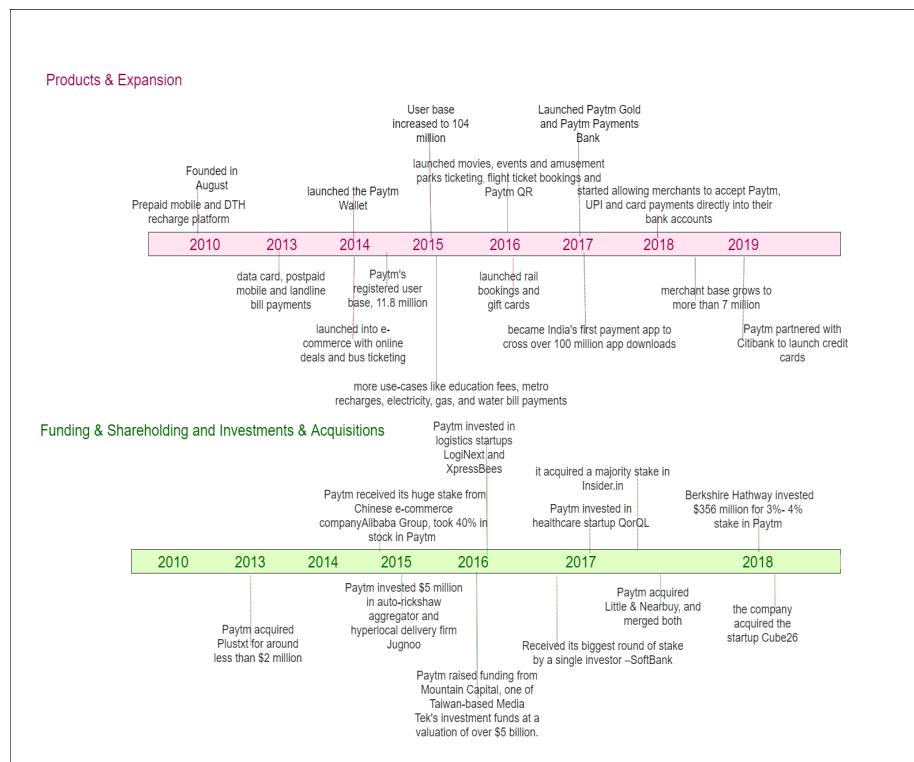


Figure 5: *Paytm Timeline*

## 5 Changes in Business Model during Growth Stages

Paytm initially started as mobile recharge and DTH service provider, changed its business model to a marketplace and a virtual bank model. Its major success is its e-wallet. There was a lot of changes to the business model and now Paytm

has 8 revenue business models- marketplace, recharge services, bill payments, payment solutions, e-wallet, digital gold, and Paytm bank.

The company has started positioning itself beyond just a payments company. The foundation of Paytm remains the same, but it is creating an ecosystem with lifestyle and financial services. They are creating content like gaming and video; commerce including ticketing, travel, online to offline; and advertising including deals, banners and video ads. For user transaction data, they have created fintech services such as banking, loans and wealth management.

The company has realized that beyond the top 50 million users, new ones are not being added due to heavy competition from other companies like Google-Pay and reduced cashback on peer-to-peer transactions. Now, it has stopped pushing UPI as it has plateaued and gone back to focus on e-wallets since it is been that customers love wallets than direct bank transactions.

Currently, Paytm is eyeing multiple ways to expand products and start making money off users including tapping gaming, content, commerce and wealth management to shore up revenue and retain customers.

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