Entrepreneurial Stories: [The two-minute read # 2]

First off, can entrepreneurship be learned? “Entrepreneurship can be learned and should be learned,” says Ronnie Screwvala, the founder of UTV, UpGrad, and many other ventures, notable among them is Swades that aims to uplift millions of rural poor out of poverty. Roni says you can’t teach someone to change their intrinsic attitude to risk-taking or their risk appetite or bring someone out from the comfort of a secured job. But you can teach the possible risks on the journey of an entrepreneur and how great entrepreneurs have averted those risks and created successful and growing ventures. Roni also emphasizes that a great idea is just a small part of a new venture. Team building, execution, financial and legal knowledge, marketing, and the right business process go a long way towards achieving success. Without proper plans, all efforts and a great idea may get diffused and may fail to gain traction.

Unlike subjects like science and technologies, entrepreneurship can best be learned through stories of successful and failed entrepreneurs. One will always be besotted with questions needing answers to set the next step forward. Knowing how great entrepreneurs navigated at the face of uncertainties can throw some answers even before the problems begin to bog you down.

Dhirajlal Hirachand Ambani or Dhirubhai Ambani, as he was popularly known, began his journey from a humble background. During his childhood, he used to earn some petty cash by selling potato chips in the local market for supporting the basic needs of his family while pursuing studies. His background did not prevent him from becoming one of the most outstanding entrepreneurs our country has ever produced. There is so much to learn from the turns and twists on his way and how he adroitly handled them to achieve success. His story appears as if directly coming out from a textbook. Despite unflinching desire to graduate, he had to quit the study and move to the middle east in search of a living where he worked as a petrol pump operator. But he had a great vision, the vision to discover petrol in India and to build a refinery of global scale. He knew that knowledge is the primary driver of any business success. So, he strived hard to learn whatever he could get access to. He came back to India with his great vision, moved forward brick by brick, wading through the turbulent corporate landscape. Some of the key strategies he adopted are the innovations that catapulted him to the big league. Notably, when India banned non-essential imports due to the shortage of foreign exchange, Dhirubhai exported cotton at a loss to earn foreign exchange, using which he imported synthetic fiber and sold it in the domestic market as a monopolist making super profit. He is best known for his quest for knowledge and zest for life.

There are many great entrepreneurs to talk about. Karshanbhai Khodidas Patel of the Nirma fame stands out. He used to work as a lab assistant in an R&D lab, where he invented a formula to produce a phosphate-free synthetic detergent powder. Producing at his backyard, he used to carry it on his bicycle on the way to the office and sold them from door to door. His vision was to make quality detergent affordable to poor people so that they maintain cleanliness. So, he used to sell it at ₹3 a kg when the lowest price of detergent was ₹13 a kg. Today, Nirma is a ₹42,500 crore (US$5.7 billion) company, and his present net worth is close to ₹ 30,000 crore (US$ 4 billion). He is known for his philanthropic contributions, especially for promotion of education.

The story of Sofia Amoruso of the US is another one that seems to come straight out from the textbook. She used to survive by salvaging foods from the dustbin. A chance event transformed her into an entrepreneur. She bought an old jacket from a salvation army store for $10, wore it herself, took a picture with herself as the model, listed that in MySpace, and sold it for $1000. A business was born that catapulted her into owner of a $240 million business empire. But due to lack of focus (or perhaps knowledge), she almost went bankrupt. She, however, fought back and has become successful again. There are many things to look forward to in her story. Let us explore.

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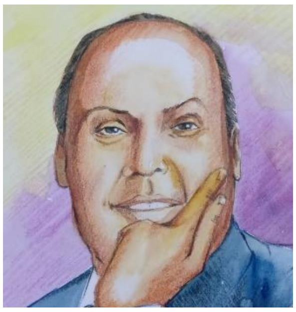
Various blogs

Note 3: 07.01.2022

Myths about Entrepreneurship and the Myths Busters

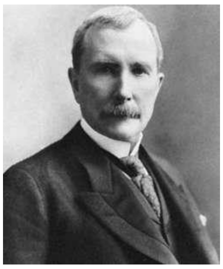
We form opinions based on hearsay or our own convenient explanation of events, mostly without validation. Whenever many people share the same view or belief on an event or issue, it becomes a generalized belief. These are myths, and many are not near to facts. Myths about entrepreneurship and entrepreneurs abound, and they are mostly on the dispiriting side. Facts around successful entrepreneurs have busted them all over and over again. However, many people have a natural tendency to trust myths. Myths around entrepreneurship are mostly demotivating, and they scare first-generation wannabe entrepreneurs preventing them from dreaming of creating their own ventures.

As a child, Dhirajlal Hirachand Ambani came to be popularly known as Dhurubhai Ambani,



who began his life in a humble family background but went on to create the largest enterprise in our country. Today, Reliance Industries alone contributes about 10% (perhaps more) of the indirect tax revenue of our country. Narayana Murthy – co-founder of Infosys, Sunil Bharti Mittal of Airtel, Sabir Bhatia of Hotmail, and many other great entrepreneurs had no family business credentials. They all started from humble beginnings backgrounds. These entrepreneurs have busted the beliefs (myths) that entrepreneurs are born and not made, or one needs significant capital to start a business.

Andrew Carnegie, John D. Rockefeller, and Steve Jobs grew up under unprecedented miseries. Steve Jobs could not continue his studies for want of money, used to manage free foods from local 'Hare Krishna' temple to escape starvation, and collected used beverage cans to exchange them for some change (the likes of rag pickers). All these people and many others created great companies and immense wealth. Oprah Winfrey grew up in abject poverty. Her mother used to stitch her school dress with potato sacks. She has risen like a phoenix from ashes to be an exemplary star and is one of the most respected, envied, and emulated role models of all time. These entrepreneurs have shattered many myths. These include 'you don't need



millions to create new ventures,' 'you don't need a business background,' 'you don't have to resort to deception to be successful,' 'you can learn many tricks of entrepreneurship,' and that 'you can start at any time of your career.'

Successful entrepreneurs share one unique trait. They can identify opportunities in adversities. They acknowledge that great opportunities are associated with significant risks. If one can get to grips with the risks, s/he can create above-normal returns. But some people misunderstand this philosophy and think that entrepreneurs LOVE chances—a myth. Factually, entrepreneurs are not averse to taking CALCULATED risks. For, if an opportunity without risk appears to exist, rest assured, there is more to it than meets the eye. If someone offers you to pay 30% interest on your money at a time when the regular interest rates on bank deposits are well below 10%, it must be a Ponzi scheme. Many of us invest our hard-earned money with such schemers without questioning why a person would pay such high interest when s/he can borrow from a bank at a far lower interest rate. You are almost sure to lose your money if you lend it to such a person. This is one example of seemingly high returns associated with high risk. In cases like this, you have no control over the person to ensure timely repayment of principal or interest.

Let us look at the above story in a slightly different context. Say you are mindful of the possible default by such individuals or enterprises. But you are attracted by the huge potential returns. So, you want to make it a secured deal so that you have something to fall back upon to exert pressure in the case of default. What are the options? You can ask the proposer (the individual or enterprise asking for your money) to offer you some security in the form of a mortgage (say you obtain a title deed of a house or landed property and keep it with you) or a personal guarantee of a person whom you can trust or any other fungible security. In case of default, you can now sell the security to recover your money. There will be a greater chance of the persons trying their best to return you the money with interest as promised. Thus, you earn an above-average return on your money at a reduced risk.

Entrepreneurs are circumspective and not gullible/susceptible to hearsays. They can assess the possible risks, come with ideas to mitigate them, and make an informed decision. In the face of adversities, many would run for cover due to fear. In contrast, entrepreneurs would find a way to alleviate the risk, develop solutions and come up with a winning business proposition.

Today's News

India has the second unicorn of 2022.

Fractal (fractal.ai), an Artificial Intelligence and advanced analytics solutions firm, has raised $360 million from global investment firm TPG, at a $1billion valuation, making it the second unicorn of 2022 after Mamaearth.

"We continue to see great momentum in how clients are leveraging AI to accelerate digital transformation. Fractal is building a great workplace and an innovative culture that's driving significant client outcomes through our' user focused, decision-backwards' approach to solving problems," said Srikanth Velamakanni, co-founder & Group CEO, Fractal said.

Srikanth Velamakanni, co-founder & Group CEO, Fractal

“Failure and invention are inseparable twins.”

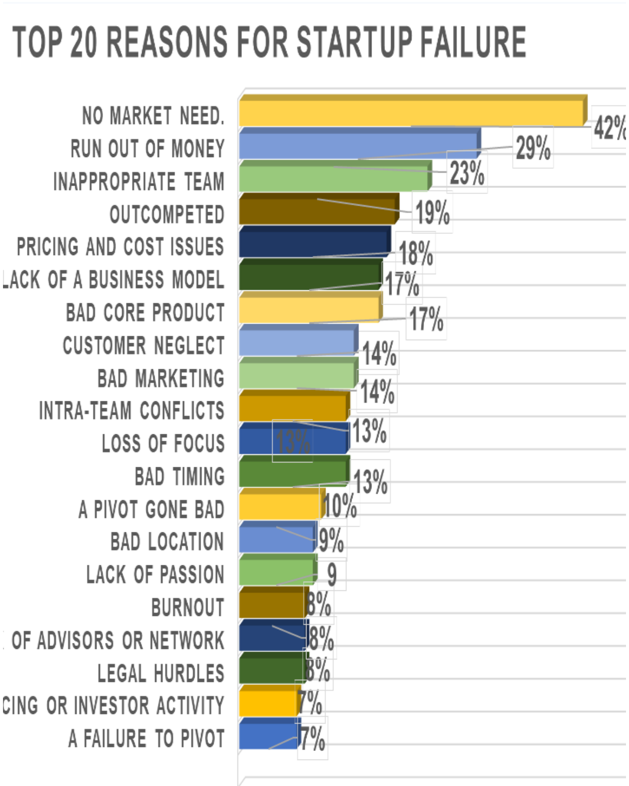
Five-minute read # 4 - Why do Startups fail? Some New Perspectives

Word of the Day: The ‘value proposition’ is a bundle of benefits that a venture offers to its customers, making their product or service preferable compared to those of competitors.

“ Nothing fails like success” - Arnold Toynbee

John C Maxwell - “Fail early, fail often, but always fail forward.” Success is not about avoiding failure. Success is achieved through learning from failures. If one achieves success without failing, chances are s/he is overly lucky. Every successful story has many failures preceding the success. Achieving success becomes more manageable if you can fail early, meaning that if failure has to happen, let it happen early so that you can save time and resources for the next attempt. Endlessly pursuing an idea is like flogging a dead horse. Fail often and learn from each failure to gain maturity. When reminded of his failures, Thomas Alva Edison famously said, “I have not failed. I’ve just found 10,000 ways that won’t work.” But the most important part of failure is to fail forward. Maxwell explains that one must learn from failure and move forward with that knowledge not to repeat the same mistake. If you stop trying again with more conviction, you really fail. On the flip side, if you are overly passionate about your idea and do not accept the reality that it would not take you anywhere, you are destined to fail forever (many refer to the TATA Nano car project in this regard). Always fail forward, not to fail for good.

Charlie Munger once said, figuratively - “All I Want to Know Is Where I’m Going to Die so I’ll Never Go There.” That puts today’s topic in the proper perspective. If we know why startups fail, we will avoid making the same mistakes and be successful. Data collated by cbinsights.com by analyzing the post-mortems of 101 failed ventures bring to light the true causes of their failure. The most significant revelation of this data is that one can avert most of these causes through appropriate pre-emptive actions. For example, 42% of the startup failures occurred because they produced and tried to sell things that nobody wanted to buy. Ideally, startups must onboard customers early on and get the idea and products validated by potential users before sinking in a lot of resources and time. The second most failures occurred due to running out of money. A more in-depth analysis of the companies failing due to this reason would reveal that majority of them neglected financial prudence. Many of them mismanaged finances, while others failed to approach investors in time primarily because they did not make a meaningful cash flow projection to know when they would run out of money. Most of these failures could have been averted by being frugal, disciplined, and planning in advance. We shall discuss some relevant real cases in the class later. Placed below is the summary of the findings by cbinsight.com for your ready reference.



Data of 2014 Source: cbinsights	Data of 2021 based on 390 filed startup post mortem Source: cbinsights

Current Example – Running Out of Cash:

With development expenses exceeding US $ 1B, and order book position of US$ 11B and partnerse such as Airbus and Lockheed Martin, the supersonic jet maker Aerion declared in May 2021"We have run out of time and have unfortunately not been able to secure funding for the company… I will never be able to forgive myself for not taking action sooner." The Aerion AS2 12-passenger aircraft aimed for Mach 1.6 with a supersonic natural laminar flow wing for a minimum projected range of 4,750 nm (8,800 km). The company went bust for not being able to raise funds in time. This type of mistakes happen because of lack of data on projected cash flow.

No Market Need

Many startups offer products or services that customers do not want. The data show that the reason for the failure of the maximum number of startups is "no market need." Many of these companies have great technologies, use many possible cutting-edge tools, put a lot of marketing efforts, have access to adequate funding and expert advisors. They lacked a business model alleviating pain in a sufficiently large market to scale the business. Founders of many ventures failing after raising a lot of funds acknowledged this fact. Many technocrats spend years perfecting technologies that they consider the best and assume that the market will have all the reasons to buy their products or services. They wrongly presume that they know the market.

The mantra to correct this mistake is to adopt the strategy of validated learning. Founders should make a minimum viable product with features that demonstrate the key value proposition, get them evaluated by customers, refine them based on feedback, and reevaluate until they are satisfied.

Team Incompatibility: One significant and frequent cause of failure is team incompatibility, disharmony, incongruence, disunity. The team must have the same passion, share the same vision, and work collectively and synchronously on the same mission. Though data show a small percentage of startups failing because of team inappropriateness, a more in-depth look at all failed companies will reveal elements of team incompatibility leading to a great deal of stress and finally pushing toward failure. Though there is no time-tested formula, strangers do not make a good team. A team of 2 to 3 (maximum four) members appears to work far better than a one-member team or teams of more than four members. A team should have members with complementary skills to fill all the knowledge gaps. Some experience in a startup in any capacity or as a profit-center head in an established company may be of great help. Persons with moral or ethical laxity must be avoided no matter what value they bring.

The 'founders' dilemma' leads to many failures. It is the unwillingness of founders to recognize their lack of skill in business process management and refusing to relinquish management control to professionals (Noam Wasserman). Starting a business is one thing; managing growth is another. It requires an entirely different set of skills that people learn through experience. Early success tends to make some founders complacent. They need to understand that success is not a goal or a destination that one may wrongly think to have achieved; success is a process or a journey that continues as long as the venture lives. You lose focus and fall over a precipice.

A wonderful Story to the Contrary: Bill Gates appointed Satya Nadella as the CEO of Microsoft in 2014 when it faced tough competition in the market and was going on the downhill. His masterstroke was shifting focus from operating system to Azure, the more lucrative cloud computing platform. He understood what the market was demanding and departed from what the company was doing best at that time. He interacted with employees, many of them one-on-one, to get a grip on the kind of talent the company has and the possibilities by them. Motivated them to adopt a collaborative culture to leverage diverse expertise instead of a know-it-all mentality that builds silos. The results are that the market value of Microsoft has gone up to US$2.20 trillion in 2021 from US$0.38 trillion in 2014. The primary takeaway is that a company must understand what the customers are crying for instead of what best you can offer. Nadella's approach to employees is an excellent example of good leadership. Good leaders identify and exploit the best out of all team members to create great values equally for the companies and the employees.

Many startups fail at growth phase, most of them well-funded, fail because they are unprepared to manage growth though they are already on growth path. The growth phase

In September 2019, augmented reality startup Daqri shut down after burning through more than $250M in funding and failing to raise a new round from investors:

demands actions that are quite different than those at early stage. The founders have to ensure necessary infrastructure, hire adequate people to handle increasing number of customers, increased volume of products, arrange required funds, make connection with suppliers and distributors, hire the right talents in time, ensure customer satisfaction and gather data to proactively understand the market. With increasing new employees comes more complex human relation management, particularly among a diverse groups of employees.

There are many stories of entrepreneurs failing many times over but finally becoming hugely successful. One common observations in many studies is that persistence is a great virtue and those who fail are more likely to be successful in their subsequent attempts.

Pepper Tap

The company was delivering groceries in two hours. Raised US$ 51.2 M, but failed because of bad business model (zero inventory, high customer acquisition cost, untenable discount – at times, 70%) and folded in 2016. **Zepto** run the same business model, promises to deliver in ten minutes, and have gained valuation of more than $500 M in about six months. Difference? Execution. Read the business model of both the companies to learn the difference of the two business models.

Most of the successful entrepreneurs believe that the progress you are likely to make is worth the pain of failures because you will learn from every failure to not commit the same ever again.

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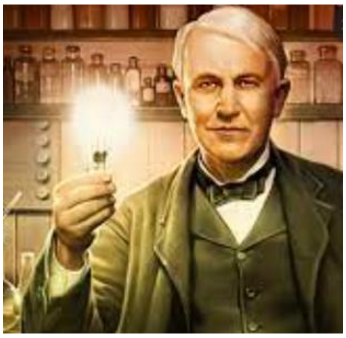
Two-minute read # 5 - Qualities of Successful Entrepreneurs

Word of the day: Accelerator - accelerators organize programs aiming to accelerate the progress of early-stage companies or ideas by providing some seed capital (usually in the range of $5,000 to 10,000), small space with cohorts (cohorts means people or enterprises engaged in building products in similar technology domain or facing similar challenges and opportunities), focused and intense mentoring, connecting with suppliers and buyers, and helping to network with investors. Usually, each program runs for 2 to 3 months and ends with a demo day when startups under the program pitch before investors.

Entrepreneurial Qualities

Most of us wonder, do I have the elements to start a new venture and manage it? The correct answer to that is – **unless you start, you will never know** because empirical evidence has **refuted** all **conventional wisdom** about entrepreneurial qualities. Some people think successful entrepreneurs are **extroverts** and enjoy a **wealthy** family background. Data show otherwise. Almost 90% of successful entrepreneurs have no business background and are **introverts**—[One should not misconstrue from this data that **extroverts** do not become successful entrepreneurs]. One must have the **nerve** to start, the readiness to **resolve sudden unexpected challenges**, the **tenacity** to **persevere**, **adjust to change**, and **manage change** as it may **unfold**. For the record, common traits among successful entrepreneurs are **leadership qualities** and **entrepreneurial knowledge & experience**. What are the **leadership qualities**?



- People skill: the capability to manage people
- Empathy towards all stakeholders, particularly for customers and employees
- Financial savvy & the ability to manage money
- Prior entrepreneurial exposure
- Knowledge seeker (remember Dhirubhai Ambani!)
- Strong peer network (with people that matter. They play a catalytic role in removing obstacles from your way)
- Remain surrounded by great people (You Become the Company You Keep - Choose Wisely! You're the average of the 5 people you spend the most time with. Show me your friends, and I'll show you your future.)
- Tenacious
- Tolerant to ambiguity (Don't expect things to pan out the way you have planned. Remain prepared for disruptions!)
- A positive view of constructive criticism
- Readiness and capability to delegate to others
- Confident (They know what they are up to. They don't try to be someone else.)
- Disciplined and self-starters
- They are persons of substance (must not only 'talk the talk, but also walk the walk')

- They are open to new ideas
- Readiness to accept failure an option and learn from every failure, acknowledge mistakes and learn from them
- They are good listeners
- Ability to sell (the best event in the life of a new venture is when a customer makes payment in exchange for the product or service it sells. If you can sell at a profitable price, you can write your success story)
- Frugal in their approach

- They are reasonably passionate and know when to pivot, and are not driven by emotion
- Self-motivated (they do not wait for others to show the way)
- They are systems thinkers (They understand the implications of all their actions over a broad spectrum of subsystems and mega systems.)
- An eye for opportunities in adversities
- Their honesty and integrity are unquestionable (They do not try to achieve things the wrong way even if that provides a shortcut).
- They are rational and free of emotional baggage.
- They communicate effectively and can motivate all towards a common goal.
- They inspire others while taking responsibility and giving credit for good performance.
- They set their mission, work passionately, and are committed to achieving the goals.
- They take the challenge head-on and do not give excuses.
- Persuasion skill - A leader frequently needs to resolve conflicts and, therefore, must have the ability to pursue others to see the rational arguments, inspire confidence, encourage, motivate, or diplomatically persuade people to come around to their point of view.

The list looks intimidatingly large (in fact, it is anything but exhaustive). But if you look deeper, they would appear natural traits of most of us. The best part is that one can inculcate many of these qualities, and one does not have to possess all or most of them to be successful—**[You are not expected to memorize the above list]**.

Entrepreneurial Story

Udaan

Udaan values itself at $7.5 bn to become the 4th highest-valued Indian startup

Founders: i. Amod Malviya alumnus IIT (EE) Kharagpur.

ii. Vaibhav Gupta & iii. Sujeet Kumar both IIT Delhi, all three are ex-Flipkart.

Udaan is a platform for a Business to Business (B2B) Model where traders and wholesalers connect to each other and to directly connect to manufacturers and can sell their products and services on the online platform or via mobile application. Its mail operation is in 3 verticals: food (staples, fruits, and vegetables), non-food (electronics and fashion), and pharmaceuticals.

Udaan, began as a logistic company for electronics goods, but pivoted to be a B2B company. The startup has been started by three ex-Flipkart employees almost at the same time when Just Buy Live was began. Just Buy Live was shut down in 2018 after rasing $100 M

Udaan through its B2B e-commerce platform helps businesses to discover possible customers, suppliers, and different categories of products aiming to facilitate the best deals possible to buyers and sellers. The company supports in logistics and also facilitates secure payments.

Udaan also offers services such as accounting, order processing, and payment management for the merchants registered on its platform. It provides the working capital funds to the retailers at reasonable rates of interest. Therefore, while offering the platform, Udaan also arrange necessary funds for the wholesalers and retailers.

The Causes Attributed to Success of Udaan

- It offers compelling value proposition to retailers and wholsellers.
- They disrupted the supply chain, eliminated some of the middlemen to transfer value to retailers, connected the retailers with manufacturers.
- Strong founding team. Their stint at Flipkart helped in hiring a team of engineers with right kind of skills.
- They began with logistics business that experience and infrastructure helped in furthering the B2B business.
- They tend to provide a complete package to their registered users.
- Udaan consciously decided not to have the CEO post and has somewhat a flat structure.

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Five Minutes Read # 6 (19.2.22)

FOUNDATIONS OF ENTREPRENEURSHIP

DEPARTMENT/SCHOOL

Manoj K Mondal
RMSoEE.
19.01.2022

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INTRODUCTION TO FINANCIAL STATEMENTS

The saying goes like this – If one can't manage finances, can't manage a business. Understanding finances is one of the critical part of successful running of a business. Many startups fail because they run out of cash since the founders fail to foresee it coming. Foreseeing is possible only if one has grip on financial statements and have a sharp eye on the future cash flow. If a negative cash flow is looming ahead, the founder should arrange money in advance to avert a negative cash flow situation. The day cash flow is negative, it is almost the end of the company.

UNDERSTANDING CASH FLOW IS CRITICAL FOR BUSINESS SUCCESS

Data collated by cbinsight.com show that one of the causes of failure of a significant percentage of companies is that they run out of cash. This data emphasizes the logic stated above. All entrepreneurs and non-entrepreneurs who are directly or remotely connected to the past, present and future financials of a company must have a grip on financial statements.

ACCESS TO FINANCIAL INFORMATION

The primary purpose of financial statements is to report the actual financial state of any company to all stakeholders. Most of the stakeholders do not have access to day-to-day operations of the company and depend on the published financial statements (and some statutory announcements from time to time) to make any assessment of the financial health of the company. Such stakeholders include:

- Founders/ Promoters / Owners
- Shareholders
- Lenders (bankers)
- Government (Income tax and GST department)
- Economists
- Analysts
- Investors
- Employees
- Policymakers or Statisticians

THE WHY ?

SIGNIFICANCE OF FINANCIAL STATEMENTS

One particular data would explain the significance of financial statements. The total aggregate transaction value of all the shares traded in stock markets across the world is more than the aggregate global GDP of all the nations of the world. These investment decisions in the stock market are made based on the financial position published in the statements of the companies the shares represent. Anomalies in financial statements would turn the assessment inaccurate and mislead the investment decisions. You can appreciate the need for a system that ensures quality information dissemination in the form of accurate financial statements.

Three key financial statements are prepared by most enterprises:

1. Balance Sheet
2. Profit & Loss or Income statement
3. Cash Flow statement

Balance sheet shows the financial position, i.e., the comprehensive list of assets and liabilities of an enterprise as on a particular day.

The Profit & Loss account/statement shows all the earnings and expenses of an enterprise during a certain period, such as year, half year, or quarter and the surplus left after meeting all the expenses.

The Cash Flow statement exhibits the inflow of cash and outflow of cash. It ends with the final cash balance as on the last day of a particular period for any business.

Financial statements should be viewed from two perspectives: one from the perspective of the entrepreneurs or promoters, and the other, from the other stakeholders'.

Depending on which side you are in, you would like to look at it through different prisms.

Owners of a company frequently under-report or over-report the data in financial statements with different objectives. In particular, over-reporting is done to convey to stakeholders that the company has been performing better than actual with the ultimate goals to either give fake comfort or artificially increase the share price. Under-reporting may be done to bring the share price down and surreptitiously buy them low and later sell them high after over-reporting the results [there is no shortage of crooks/culprits/fraudsters of this kind]. Accounting regulators across the world have been struggling for centuries to invent new techniques or regulations to prevent the makers of the financial statements from falsifying in these statements. But manipulation in financial statements is believed to be all-pervasive till today. However, in-depth knowledge of all the financial statements and thorough analysis may help to identify the fabrication/falsification in financial statements and come up with the real state of the affair by recasting the statements.

Major Disaster for Accounting Frauds

Accounting Fraud: Enron

At its peak, Enron was one of America's largest corporations with 22,000 employees. Enron reported $111 billion in revenues in 2000, overstated profit, and hid the size of the debt. Investors were gung-ho about the shares and the share price went up to $90 plus. The size of the manipulation became so large that it was no longer sustainable. It came to light due to some inspection. The share price went down from $90.75 in August 2000 to just $0.67 in 2002 to 0.0 soon after that.

Accounting Frauds: WorldCom

WorldCom, USA, was the second-biggest phone company. The company was going through tough times and were incurring huge losses consecutively for years. But they fraudulently underreported the cost of a staggering $3.8 billion. As it happens in all fraudulent acts, they could not sustain the over-reporting and, in 2020, filed for bankruptcy.

Accounting Frauds: Satyam Computers of Hyderabad

The chairman of Satyam Computers, Ramalinga Raju, confessed that the company's accounts had been falsified to the extent of Rs 12,318 crore. The company went through indescribable turmoil rendering thousands of employees jobless and millions of investors poorer. Imagine that you bought 1000 shares of Satyam Computers @₹1000 each for ₹10,00,000. Your value went down to ₹10,000 after the scam was busted.

You can now appreciate the importance of having a clear understanding of financial statements for a meaningful assessment of company performance.

Groww is looking to launch its neo-banking platform. It is planning to emerge as a one-stop solution for the users to help with their banking and investments and thus, be more holistic for the users.

They are alumnae of e-commerce companies. They could rightly predict that the disposable incomes of Indians are on the rise and people would explore ease of investment. They made extensive studies of customers' pain and did numerous experiments to identify the best way to provide best possible customer experience. They observed that the existing process of opening various accounts for investment were inefficient, cumbersome and discouraging.

The company's mission is to give the investors the greatest experience possible when it comes to managing their money. To make investment as simple as possible.

MICROSOFT CEO SATYA NADELLA JOINS GROWW AS INVESTOR ADVISER

Groww enables users to invest in stocks, mutual funds, ETFs, IPOs, Gold etc. Starting in 2017, it claims to have more than 15 million registered users.

Groww had raised USD 251 million (around Rs 1,885 crore) in October last year in a funding round led by Iconiq Growth, which valued the mutual fund and

Two-Minute Read #7

Understanding financial statements: Profit & Loss Account

On must gain an intuitive understanding of financial statements to be a more effective business leader. A firm grip on the financial statement may help one to manage the various components of business and transform a weak business model into a winning business. You will discover how and why cash is vital in business and how to ensure you never run out of it.

The three key financial statements are

Profit & Loss Account

Balance Sheet

Cash Flow Statement

Let us understand the Profit & Loss Account.

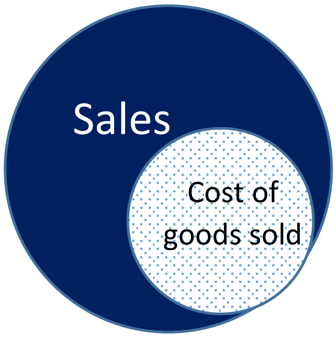
Have a global view of an enterprise. You earn money by selling products and/or services and meet all the expenses out of it. If anything is left after meeting all expenses, that surplus is the profit before tax, whatever remains after payment of tax belongs to the owners of the business.

For understanding the different levels of efficiency with which firms utilize its resources, various types of profits are defined. You progressively estimate the following different profits:

"You have to understand accounting and you have to understand the nuances of accounting. It's the language of business and it's an imperfect language, but unless you are willing to put in the effort to learn accounting - how to read and interpret financial statements - you really shouldn't select stocks yourself." - Warren Buffett

GROSS PROFIT = Sales minus Cost of goods sold

Gross Profit = Sales – Cost of goods sold



EBIDTA = Gross profit – all the expenses except Depreciation (D), Interest (I), Tax (T), and Amortization (A). [in EBIDTA, B stands for 'before' meaning minus. Full form of EBIDTA is 'Earnings before interest, depreciation, tax and amortization'. In USA, the word 'earnings' is used to mean what we call 'profit'].

OPERATING PROFIT or EBIT = Gross profit – Interest & Tax

PROFIT BEFORE TAX (or PBT) = Operating profit – Interest

NET PROFIT (or Profit After Tax or **PAT**) = Profit Before Tax – Income Tax

RETAINED PROFIT or **RETAINED EARNINGS** = Net profit – dividends

(In this context, please know that people in the USA use the term 'Earnings' to mean what we call 'Profit.')

Know that financial year in India begins on 01st of April of one year and ends on 31st of March of the next year (though a company is free to choose any 12 months period as the financial year). We write the year as year 2020-21 (or simply 20–21), which means the period from 01st of April 2020 to 31st of March 2021. [However, some companies follow different financial year to report to stakeholders other than the government agencies since their operation is largely cyclical or their parents in another country follow different period.]

Let's take a simple example. Suppose you start a business in your hostel room. You buy pens from Kolkata and sell them from your room. Say, each pen cost you ₹10, and you sell them for ₹15 each. Consider that you have just completed the second year of business (say 2020-21) and now want to estimate the profit for the year. The first question you need to find an answer to is, 'how many pens have you sold?' The answer is intuitive but needs some explanation. Suppose you bought 500 pens in the previous year, i.e. year 2019-20 and sold 400 of them. Therefore, as at the close of the business of year 19-20, you are left with 100 unsold pens (this bundle of 100 unsold pens is referred to as '**closing stock'**). Therefore, when you start the year 2020-21, i.e. on the 1st of April 2020, you already have these 100 pens with you (this bundle of 100 pens that remained unsold in the previous year as 'closing stock', is referred to as '**opening stock'** for the year 2020-21). So, you start selling the pens and keep buying pens from Kolkata throughout the year 2020-21. You buy a total of 1000 pens during this year. At the end of the year, i.e. on 31 March 2021, you notice that 200 pens remained unsold. Therefore, your '**closing stock**' for the year 2020-21 is 200 pens. So, how many pens have you sold during 2020-21?

The intuitive formula is: Opening stock + purchase during the year – closing stock = 100 + 1000 – 200 = 900. Therefore, you sold 900 pens during the year 2020-21. In reality, you sell many items and, therefore, we do not refer by numbers but by their cost of purchase. Suppose, your closing stock was worth ₹ 1000, your purchase during the year was ₹ 10,000 and your closing stock as on 31.03.2021 was ₹ 2,000. The cost of the goods that you sold during 2020-21 can be estimated using the same formula:

Cost of Goods Sold (or CoG) = opening stock + purchase – closing stock = 100,000 + 10,00,000 – 200,000 = 9,000 or ₹ 9,000.

You sell pens @15 apiece. Your sales during the year is ₹ 13,500 (900*15).

GROSS PROFIT (GP) = SALES – COST OF GOODS SOLD = 13,500 – 9,000 = 4,500

The percentage of GROSS PROFIT MARGING is also important. MARGINS ARE ALWAYS ESTIMATED WITH RESPECT TO SALES. For the above example:

Gross Profit Margin = (Gross profit/ Sales)*100 = (4,500/13,500)*100 = 33.33%

We have just estimated one form of profit, i.e. Gross Profit.

Let us now understand OPERATING PROFIT:

Operating profit is equal to GROSS PROFIT – minus all '**<u>operating expenses'</u>** except **<u>'Interest'</u>** paid for any loans. [When you borrow money from anybody, particularly banks, you have to pay interest on that.]

Addendum to the ‘The five-minute read # 7 - Financial Statements -2 Profit & Loss statement’

The previous writeup ended with the following paragraph:

*Operating profit is equal to GROSS PROFIT – minus all ‘**operating expenses’** except **‘Interest’** paid for any loans. [When you borrow money from anybody, particularly banks, you have to pay interest on that.]*

The following are some of the operating expenses items:

- Payment of rent
- Advertisement expense
- Salary
- Transportation expense
- Maintenance
- Legal expense
- Truck hiring charge received
- Amortization of Prelem. & preop.
- Telephone bill payment
- Electricity bill payment
- Insurance
- Audit fees
- Traveling expenses
- Stationeries

The following are items in accounting books but are not part of operating expenses:

Cost incurred to:

- purchase of equipment – balance sheet item
- Closing stock – balance sheet item
- Purchase of goods – used in estimation of ‘Gross Profit’
- Construction of factory shed – balance sheet item
- Purchase of truck – balance sheet item
- Repayment of bank loan – balance sheet item
- Trade Receivables – balance sheet item
- Purchase of telephone – balance sheet item
- Sale of old machine (say, book value: 2400) – balance sheet item
- Interest on bank loan – used to estimate ‘Profit Before Tax’ after obtaining ‘Operating Profit’
- Sale of goods – used in estimation of ‘Gross Profit’
- Fresh long-term loan raised – balance sheet item
- Trade Payables – balance sheet item
- Company pays dividend during the year

- Founders contribute to new equity capital – balance sheet item
- Company pays income tax @ 30% - used in estimating income tax and it is deducted from 'Profit Before Tax' to obtain 'Net Profit', also known as 'Profit After Tax'
- Outstanding in short term loan – balance sheet item

Let us go back to the example we have begun in writeup of Week #7.

Your gross profit is: ₹4,500

Suppose the following expenses are also incurred:

Transportation cost (from Kolkata to IIT Kharagpur) during the year: ₹ 500

Rent paid to IIT Kharagpur for using the room for business for the year: ₹ 600

Electricity charge for the year: ₹ 100

Telephone bills paid for the year: ₹ 300

Salary: Nil (you do not have any staff as of now)

Stationeries (some small expenses incurred): ₹ 20

Insurance: Nil

Depreciation and amortization (to be discussed later): ₹ 100

Total operating expenses: (500+600+100+300+20+100) = ₹ 1,620

Therefore, Operating Profit for the year = ₹4,500 (GP) – ₹1,620 (all operating expenses) = ₹ 2,880

The percentage of operating profit or 'Operating Profit Margin' = (Operating profit/Sales)*100 = (₹ 13,500/2,880)*100 = 21.33%

Suppose that you borrowed some money from a friend to start this business and pay interest of ₹ 15 for the year 2020-21 against the same.

Therefore, Profit Before Tax (or PBT) = Operating profit – Interest = ₹ 1,620 – ₹15 = ₹1,605

If the income tax rate is say @20%, then, Income tax payment = 20% of ₹1,605 = ₹321

Net Profit (or profit after tax or PAT) = ₹1,605 – ₹321 = ₹ 1,284

Assume that you pay dividend of ₹ 500 to the founders (owners of the business) during the year.

Therefore, Retained Profit or Retained Earnings = ₹1,284 – ₹500 = ₹784

This amount of 'Retained Earnings' goes to the balance sheet and is added to 'Reserves & Surplus' or 'Other Equity'. this is where the **PROFIT & LOSS ACCOUNT** is connected to the **BALANCE SHEET**.

Two-Minute Read #8

Understanding financial statements

Understanding Balance Sheet

Some introductions on accounting standards

There are two international bodies for setting financial standard practices.

i. International Financial Reporting Standards (IFRS) – followed by majority of the nations except USA.
ii. Financial Accounting Standards Board (FASB) – followed by USA

The Indian accounting standards are mostly guided by the International Financial Reporting Standards (IFRS). India has its own Accounting Standards Board (ASB) whwhich constitutes the accounting standards for businesses operating in India. The ABS is mostly inspired by the recommendations made by the IFRS. ASB is constituted by the Institute of Chartered Accountants of India (ICAI) with representatives from the government department, academicians, other professional bodies viz. ICAI, representatives from ASSOCHAM, CII, FICCI, etc. National Financial Reporting Authority (NFRA) recommends these standards to the Ministry of Corporate Affairs (MCA). The MCA finally circulates the accounting standards to all stakeholders in India.

The American accounting system is generally known as US-GAAP or Generally Accepted Accounting Principles (GAAP). The US GAAP is the accounting standard adopted by the USA and is regulated by the Securities and Exchange Commission (SEC), which follows the Financial Accounting Standards Board (FASB) recommendations. Many companies in India publish their financial statements following both the Indian standards and the American GAAP to meet local requirements and address the audience in US and Foreign Institutional Investors bringing parity for their analysis.

Balance sheet

The balance sheet is a financial statement that shows the assets, liabilities, and shareholders' equity at any specific point in time. It provides a snapshot at any point in time the assets owned by a company and the liabilities it owes including those of the owners of the business. The balance sheet equation is as follows:

Assets = Liabilities + Owners' equity

The equation shows that all the assets of an enterprise are procured out of all the liabilities and owners' equity. In other words, balance sheet is the depiction of the sources from where the company receives all its money (SOURCES: liabilities and owners' equity) and wherever all the money has been deployed or which assets have been acquired using all the money (UTILISATION).

Let us understand the terms

Assets

A generic expression of assets is that these are the applications or deployments of money. Assets are in the form of both tangible and intangible. Tangible assets include land, plant & machinery, infrastructure, stock of raw materials, goods-in-process, finished goods, cash, moneys that are to be received against supply of goods to customers (known as accounts receivables), money invested in fixed deposit or any other forms of investment, and other items where money has been deployed for the time being (such as advanced payment made to some suppliers, provision made for future commitments, advance tax payments, and such.) Intangible assets are those which have been created using money, but its existence is not physically visible such as brand (created by advertisement & promotion spending money), technologies (created by investing in R&D or by purchasing from others), and some expenses temporarily capitalized for future expensing.

Tangible Assets				**Intangible assets**
Fixed Assets or Non-Current Assets		*Current Assets*		
Land	Machinery	Stock of raw materials	Cash in hand and in bank(s)	Brands, Trademarks
Building, Shed, staff quarters	Equipment	Stock of goods in process	Investments	Technologies
Road	Transportation vehicles	Stock of finished goods	Advance payments	Copyrights
Electrical installation	Furniture & Fixture	Accounts receivables	Provisions	Goodwill

The tangible assets are divided into two categories: i. **Fixed Assets** ('Non-Current Assets' or 'Long-Term Assets') and ii. **Current Assets** (or 'Short-Term Assets'), for convenience of understanding, monitoring, and analyzing various performance parameters. Fixed assets are expected to remain with the business for a long time (at least more than one year); these assets facilitate the business operation and are not usually for sale. The current assets are either directly sold or are converted into finished goods to be sold. These assets also include cash and other cash-equivalents that are to be converted into cash such as accounts receivables and advance payments.

If the company has given loans to any other entities, the outstanding amount of such loans is also part of the assets of the company. (See the balance sheet of Reliance Industries Ltd. as on 31.03.2021 below).

An exceptional type of asset is '**Accumulated Loss'**. Since an enterprise incur money to incur loss or loss is funded to remain a going concern, loss is deployment or use of fund. Thus, **accumulated loss** carried in the balance sheet is **an asset**.

Equity and Liabilities

Equity and Liabilities of an enterprise are all the **sources** of money including the money that has been invested by the owners of the business [**equity share capital** (*one becomes owner or part-owner of a business by virtue of her/his investment in its equity capital*) and **other equity** (also known as Reserves & Surplus)], **preference share capital**, **secured loans from banks & others, unsecured loans, accounts payables** (amount of money owed to those who supplied materials but are yet to be paid).

Balance Sheet
As at 31st March, 2021

Reliance Industries Ltd.

(₹ in crore)

	Notes	As at 31st March, 2021	As at 31st March, 2020
Assets			
Non-Current Assets			
Property, Plant and Equipment	1	2,92,092	2,97,854
Capital Work-in-Progress	1	20,765	15,638
Intangible Assets	1	14,741	8,624
Intangible Assets Under Development	1	12,070	12,327
Financial Assets			
Investments	2	2,52,620	4,21,793
Loans	3	65,698	44,348
Other Non-Current Assets	4	4,968	4,461
Total Non-Current Assets		**6,62,954**	**8,05,045**
Current Assets			
Inventories	5	37,437	38,802
Financial Assets			
Investments	6	94,665	70,030
Trade Receivables	7	4,159	7,483
Cash and Cash Equivalents	8	5,573	8,485
Loans	9	993	15,028
Other Financial Assets	10	59,560	16,115
Other Current Assets	12	8,332	10,711
Total Current Assets		**2,10,719**	**1,66,654**
Total Assets		**8,73,673**	**9,71,699**
Equity and Liabilities			
Equity			
Equity Share capital	13	6,445	6,339
Other Equity	14	4,68,038	3,84,876
Total Equity		**4,74,483**	**3,91,215**
Liabilities			
Non-Current Liabilities			
Financial Liabilities			
Borrowings	15	1,60,598	1,94,402
Other Financial Liabilities	16	4,014	2,930
Provisions	17	1,499	1,410
Deferred Tax Liabilities (Net)	18	30,788	50,556
Other Non-Current Liabilities	19	504	504
Total Non-Current Liabilities		**1,97,403**	**2,49,802**
Current Liabilities			
Financial Liabilities			
Borrowings	20	33,152	59,899
Trade Payables Due to:	21		
Micro and Small Enterprises		90	116
Other than Micro and Small Enterprises		86,909	70,932
Other Financial Liabilities	22	61,172	1,32,492
Other Current Liabilities	23	19,563	66,170
Provisions	24	901	1,073
Total Current Liabilities		**2,01,787**	**3,30,682**
Total Liabilities		**3,99,190**	**5,80,484**
Total Equity and Liabilities		**8,73,673**	**9,71,699**

Statement of Profit and Loss

For the year ended 31st March, 2021

CORPORATE OVERVIEW | MANAGEMENT REVIEW | GOVERNANCE | **FINANCIAL STATEMENTS** Standalone | NOTICE

(₹ in crore)

	Notes	2020-21	2019-20
Income			
Value of Sales		2,76,181	3,62,869
Income from Services		2,759	3,308
Value of Sales & Services (Revenue)		**2,78,940**	**3,66,177**
Less: GST Recovered		13,871	14,322
Revenue from Operations	25	**2,65,069**	**3,51,855**
Other Income	26	14,818	13,566
Total Income		**2,79,887**	**3,65,421**
Expenses			
Cost of Material Consumed		1,68,262	2,37,342
Purchase of Stock-in-Trade		7,301	7,292
Changes in Inventories of Finished Goods, Work-in-Progress and Stock-in-Trade	27	610	77
Excise Duty		19,402	14,902
Employee Benefits Expense	28	5,024	6,067
Finance Costs	29	16,211	12,105
Depreciation/Amortisation and Depletion Expense	1	9,199	9,728
Other Expenses	30	30,970	33,347
Total Expenses		**2,56,979**	**3,20,860**
Profit Before Exceptional Item and Tax		**22,908**	**44,561**
Exceptional Item (Net of Tax)	31	4,304	(4,245)
Profit Before Tax*		**27,212**	**40,316**
Tax Expenses*			
Current Tax	11	-	7,200
Deferred Tax	18	(4,732)	2,213
Profit for the Year		**31,944**	**30,903**
Other Comprehensive Income			
i. Items that will not be reclassified to Profit or Loss	26.1	350	(392)
ii. Income tax relating to items that will not be reclassified to Profit or Loss		(79)	(944)
iii. Items that will be reclassified to Profit or Loss	26.2	2,755	(6,921)
iv. Income tax relating to items that will be reclassified to Profit or Loss		(456)	1,183
Total Other Comprehensive Income/(Loss) for the Year (Net of Tax)		**2,570**	**(7,074)**
Total Comprehensive Income for the Year		**34,514**	**23,829**

THE STORY OF ZLINGO

Founded in 2015 by Ankiti Bose and Dhruv Kapoor, Zilingo, B2B fashion tech startup, is an online platform where small businesses engaged in fashion business can sell online. Though the beginning was humble, Ziliongo started to offer multitudes of services to the merchants with unique value propositions. Ankiti Bose, at 23 years of age, wanted to replicate the e-commerce business doing brisk business in India in the South Eastern countries, particularly Thailand, Hong Kong, Korea, Vietnam, Indonesia where merchants did not have access to customers beyond their brick & mortar stores or mainly roadside shops. Currently, Zilingo connects 60,000 businesses and 6000 factories globally, with nearly 50 factories from India.

Unique selling proposition and customer acquisition strategies

Zilingo began its journey in Thailand by discovering an opportunity while on a tour (by Ankiti Bose). She noticed the absence of any e-commerce platform there whereas many such platforms such as Flipkart, Amazon, Jabong, Mintra, etc. were vibrant in India. Her working experience in McKinzie and Sequa Capital helped her big time. Zilingo did not charge any entry fees for registering on their portal. They charged only 10 to 20% commission on sales (gross merchandise value or GMV: sales happening on their portal is GMV, but the GMV amount is not their sales. The aggregate commission is their sales).

Instead of integrating their portal with third party technology Zilingo built their own proprietary technology that helped them in the long run.

Zilingo started being a B2C business model, transforming into a B2B model. However, they went several steps backward and connected manufacturers and even the raw-materials suppliers to factories, thus integrated the entire value chain.

Foundations of Entrepreneurship

Two minutes read #9

January 2022, a happening month on entrepreneurship (funding during the month)

January	Number of deals	Total amount	Calender year	Total deal value
2020	65	$ 1 B	2020	$ 11.4 B
2021	75	$ 0.6 B	2021	$ 34.7 B
2022	130	$ 3.5 B	2022	4 deals of $ 115 M per day on an average
There have been FOUR UNICORNS in January 2022				

"The best way to predict the future is to create it."

- Peter Drucker

"Winners never quit, and quitters never win."

- Vince Lombardi

Items in the Balance Sheet

Understanding Current Assets:

Though it is not an universally accepted rule, the convention is that the most liquid asset appears first in the balance sheet. Cash and cash equivalents are the most liquid assets.

Marketable securities are next which are equity (shares) and debt (loans and advances given to others by the company) securities for which there is a liquid market.

Accounts receivable arises when a company sells goods, but the buyer does not pay immediately, i.e. the company sells on credit. Accounts receivables refer to money that customers owe the company. The company raises an invoice and delivers to customers along with the goods sold. The buyer acknowledges the receipt of the goods and registers a promise to pay the value within a specified date by singing on a copy of the invoice. The seller refers to this document as 'invoice' whereas the buyer calls it a 'bill'. The document (invoice or bill) contains details of the product sold or services rendered. Copies of invoice must be preserved by both buyers and sellers for audit purpose.

Inventory is goods available for sale, valued at the lower of the cost or market price. Inventory, for a trading company, is the purchase value of all the goods at its showroom and warehouses maintained for selling.

Prepaid expenses represent the money paid in advance the service of which will be utilized later. Examples are insurance, advertising contracts, advance rent, advance payment for goods to be supplied later, annual transportation contract or maintenance contracts. Since a venture has already made the payment (utilization of funds) and is yet to be recorded as expense, prepaid expenses are recorded in the balance sheet as 'assets' – mostly current assets (unless the payment is for a long-term assets. For example, costs incurred in capital works in progress).

Long-term assets include the following:

Fixed assets including land, machinery, equipment, buildings, transportation equipment, factory shed, road, electrical installations, and other durables. These are also considered to be capital-intensive assets.

Some investments also form part of long-term assets such as investments which are not meant to be liquidated in the next one year.

Intangible assets include non-physical (but still valuable) assets such as intellectual property and goodwill. In general, intangible assets are only listed on the balance sheet if they are acquired, rather than developed in-house. Their value may thus be wildly understated – by not including a globally recognized logo, for example – or just as wildly overstated.

Liabilities

Items under 'Liabilities' are the sources of money. These are the money that a company owes to outside parties such as banks (for loans), payables (dues against goods purchased on credit, rent payable, utilities and salaries that are due but are yet to be paid. Current liabilities are those that are due within one year (and are listed in order of their due dates). Long-term liabilities are due at any point after one year.

Current liabilities accounts include:

- current portion of long-term debt

- bank indebtedness
- interest payable
- wages payable
- customer prepayments
- dividends payable and others
- earned and unearned premiums
- accounts payable

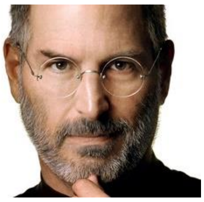
Long-term liabilities can include:

- Long-term debt: interest and principal on bonds issued
- Pension fund liability: the money a company is required to pay into its employees' retirement accounts
- Deferred tax liability: taxes that have been accrued but will not be paid for another year (Besides timing, this figure reconciles differences between requirements for financial reporting and the way tax is assessed, such as depreciation calculations.)
- Some liabilities are considered off the balance sheet, meaning that they will not appear on the balance sheet.

Shareholders' Equity

- Shareholders' equity is the money attributable to the owners (meaning its shareholders) of a business. [When we refer to the term "net assets" it effectively means the value of those assets which are funded purely by funds attributed to the owners of the business. 'Net Assets' is estimated by deducting all outside liabilities (such as accounts payable, short-term and long-term loans, and other liabilities) from the total value of all the assets.
- Retained earnings are that part of the profit which is reinvested in the business. Suppose the profit after tax (net profit) of a company is 100. The company pays dividend out of this money, say 40. So, 60 (100 – 40) is added to the 'Retained Earnings' account in the balance sheet. It is the prerogative of the company management to either pay or do not pay dividend or how much dividend to be paid.
- Preference equity is a different form of capital that has characteristics of both equity and debt (loans). Some companies issue preferred stock while some do not depend on requirement of funds and availability. Money received by issuing preference shares are repayable with interest. The difference is that this interest is called 'dividend' and can be paid when the company's cash flow is adequate. Else, it will keep on accumulating. Preference shareholders do not voting right and thus can't participate in decision making process.

Stakeholders such as analysts, investors, and banks use balance sheet in conjunction with 'income statement' – also called 'profit & loss account' and statement of cash flows in conducting fundamental analysis to know the health of a company and its future prospect.



"Your time is limited, so don't waste it living someone else's life. Don't be trapped by dogma – which is living with the results of other people's thinking. Don't let the noise of other's opinions drown out your own inner voice. And most important, have the courage to follow your heart and intuition. They somehow already know what you truly want to become. Everything else is secondary."

\- Steve Jobs

Two-Minute Read # 10

Foundations of Entrepreneurship

"It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you'll do things differently."

- Warren Buffett

"One of the huge mistakes people make is that they try to force an interest on themselves. You don't choose your passions; your passions choose you."

- Jeff Bezos

Understanding financial statements- 5

Some essential aspects of financial statements

The principal qualitative characteristics of financial statements

- **Understandability:** the information is so organized and presented that ordinary people should be able to understand the performance of the business.
- **Relevance:** The statements must contain all the relevant information for informed decision-making by the stakeholders.
- **Reliability:** The information presented in the financial statements should be accurate and should genuinely represent the actual state of affairs of the company and have not been manipulated in any way.
- **Comparability:** The financial statements should be prepared based on standard and consistent conventions and regulations to easily compare data over the years and to compare with other companies.

Understanding Cash Flow Statement

Ideally, a company should sell its goods or services, recover the sales proceeds quickly (receive the payment against the sales), make a surplus after meeting all the expenses, use the surplus (excess in the form of profit) to create new capital assets for future growth. Additionally, the company may raise capital (fund) from different sources:

- Additional equity capital from the owners / shareholders (equity capital),
- Loans from banks (short-term loans to meet expenses for creating current assets such as stocks and long-term loans for creating non-current assets such as machinery),
- Loans from other corporate houses (as loans).

The company may also manage its payables and receivables to accelerate the payments against sales (to receive the money early) and delay the payments to the suppliers helping it manage financial liquidity. A company would be characterized as healthy if it meets the funding requirements out of appropriate sources and they have no threat of running out of money in the near future.

Suppose a company has been achieving growth by selling more and more goods but is not recovering the sales proceeds quickly for whatever reason(s). Temporarily, one may get a sense as if the company has been doing well. But soon, they will run out of business even before they realize what was coming their way. Running out of cash and inability to honor payment obligations often lead to bankruptcy

The cash flow statement is a record showing all the sources and uses of cash and cash-equivalent of an enterprise in a particular period (mostly year) and the resulting cash position at the end of the period. One can understand how the company has managed to fund its business operation during the period and whether it is financially solvent.

In summary, the cash flow statement provides a clear picture of the cash inflows and outflows during a period showing how comfortably the business operation is being financed and the immediate- and medium-term solvency of an enterprise. Both inside (such as majority owners, top management, employees, and board members) and outside stakeholders (such as investors, shareholders, banks, investment analysts) get a somewhat comprehensive view of the health of the enterprise. External stakeholders, in particular, can get insight into whether the company has been manipulating accounts to show a brighter picture than what has been painted.

Let us look at it with an example. The following information is for a hypothetical company.

Amounts are in ₹ lakh

year	2018	2019	2020	2021	2022
Sales	255	360	405	510	
Operating profit	53.55	75.6	85.05	107.1	
Profit before tax	28.3815	40.068	45.0765	56.763	
Income tax	5.6763	8.0136	9.0153	11.3526	
Profit after tax	22.7052	32.0544	36.0612	45.4104	
Depreciation	10	12	12	14	**Bankruptcy**
Cash profit	32.7052	44.0544	48.0612	59.4104	
Dividend	5	5	7	10	
Gross fixed assets	100	120	120	140	
Long-term loan	80	78	75	73	
Short-term loan	30	50	70	100	
Trade receivables	**34**	**66**	**97**	**122**	
Trade payable	21	32	36	38	

The company's sales have been growing at a healthy rate for the last four years, so is the profit. The company has been paying income tax and dividends for these years. However, the company's buyers (maybe distributors or wholesalers) have been holding back the payment for a long time. Cash position has been deteriorating *ab initio* that the management could not see or realize. If they had prepared the cash flow statements from the beginning, the deteriorating cash position would be visible and corrective actions could have been initiated. Sadly, in 2022, the company will have no money to pay salary unless they can recover their money from their customers (dealers, distributors, retailers) and may face bankruptcy.

Another mistake the company has been committing is that it has been diverting the short-term fund (short-term bank loan, current in nature) to procure long-term assets (look at the increase in the gross fixed assets over the years that the company has procured out of the increase in the short-term bank loan). This fact is easily visible in the cash flow statement.

Have a look at the cash flow statement of Reliance Industries Ltd. presented below:

Cash Flow Statement

For the year ended 31st March, 2021

(₹ in crore)

	2020-21	2019-20
A. Cash Flow from Operating Activities		
Net Profit Before Tax as per Statement of Profit and Loss (After exceptional item and tax thereon)	55,461	53,606
Adjusted for:		
Share of (Profit) / Loss of Associates and Joint Ventures	(516)	(107)
Premium on Buy back of Debentures	194	60
(Profit) / Loss on Sale / Discard of Property, Plant and Equipment and Other Intangible Assets (Net)	47	247
Depreciation / Amortisation and Depletion Expense	26,572	22,203
Effect of Exchange Rate Change	(1,645)	107
(Profit) / Loss on Divestment of Stake	-	11
Net Gain on Financial Assets #	(4,964)	(2,064)
Exceptional Item / Tax on Exceptional Item	(5,642)	(948)
Dividend Income	(39)	(100)
Interest Income #	(10,366)	(9,548)
Finance Costs #	21,027	21,880
Operating Profit before Working Capital Changes	**80,129**	**85,347**
Adjusted for:		
Trade and Other Receivables	186	(13,792)
Inventories	(7,769)	(6,342)
Trade and Other Payables	(43,148)	38,050
Cash Generated from Operations	**29,398**	**1,03,263**
Taxes Paid (Net)	(3,213)	(8,386)
Net Cash Flow from Operating Activities *	**26,185**	**94,877**
B. Cash Flow from Investing Activities		
Purchase of Property, Plant and Equipment and Other Intangible Assets	(1,05,837)	(76,517)
Proceeds from disposal of Property, Plant and Equipment and Other Intangible Assets	2,319	964
Purchase of Other Investments	(6,89,866)	(11,56,843)
Proceeds from Sale of Financial Assets (including advance received)	6,42,551	11,73,329
Upfront Fibre Payment	-	(16,439)
Net Cash Flow for Other Financial Assets	773	1,467
Interest Income	8,400	1,441
Dividend Income from Associates	26	18
Dividend Income from Others	-	60
Net Cash Flow used in Investing Activities	**(1,41,634)**	**(72,520)**

(₹ in crore)

	2020-21	2019-20
C. Cash Flow from Financing Activities		
Proceeds from Issue of Equity Share Capital	5	18
Proceeds from Issue of Share Capital to Non-Controlling Interest / Compulsory Convertible Debentures (Net of Dividend Paid)	2,00,382	111
Net Proceeds from Right Issue	13,210	-
Share Application Money	-	1
Payment of Lease Liabilities	(1,022)	(1,062)
Proceeds from Borrowings - Non-Current	33,211	28,665
Repayment of Borrowings - Non-Current	(87,240)	(18,179)
Borrowings - Current (Net)	(29,681)	25,095
Deferred Payment Liabilities	(2)	(1,370)
Movement in Deposits	(4,700)	(2,720)
Dividend Paid (including Dividend Distribution Tax)	(3,921)	(4,592)
Interest Paid	(18,340)	(28,508)
Net Cash Flow from / (used in) Financing Activities	**1,01,902**	**(2,541)**
Net (Decrease) / Increase in Cash and Cash Equivalents	(13,547)	19,816
Opening Balance of Cash and Cash Equivalents	30,920	11,081
Add: Upon addition of Subsidiaries	24	23
Closing Balance of Cash and Cash Equivalents (Refer Note 9)	**17,397**	**30,920**

Two methods of preparing the cash flow statement: 1. Direct method, & 2. Indirect method

Under the indirect method, all the cash flow streams are divided into three groups:

1. Cash flow from Operating Activities
2. Cash flow from Investment Activities
3. Cash flow from Financing Activities

Major items under cash flow from operating activities

i. Net profit
ii. Depreciation & amortization
iii. Change in inventory/ stock
iv. Change in accounts receivable
v. Change in account payable

Major items under cash flow from investment activities

i. Land
ii. Change in building
iii. Machinery
iv. Sold machine

Major items under cash flow from financing activities

i. Change in long-term loan
ii. Change in short-term loan
iii. Change in equity
iv. Dividend

When a company incurs a loss, money from some source is used to fund it. Loss is the use or application of funds. Try to visualize how loss is manifested. Consider the same simple example of a stationery shop in your hostel room. When will there be a loss? You will incur a loss in case your total expenses exceed sales, which means that you have expensed more money than you have earned. The excess of expenditures over the sales is termed as the loss. Expenses are already funded from various sources. Therefore loss has already been funded from multiple sources even before you estimate whether there is a loss. Thus, the loss is classified as an asset.

Accounts receivables, trade receivables, and receivables are the same. Receivables arise when you sell goods, but payments are yet to be received (you raise a bill against every sale transaction, and the customer returns a signed copy of the bill as a promise to pay). This amount (and the accumulated sum against many such transactions) is termed as receivables. Each of your buyers is known as a different

'Account' in your books of account. They are, thus, known as Accounts receivables. Alternately, as the amount in question emerges in the process of trade, it is also known as 'Trade Receivable' to differentiate it from other receivables such as an advance given as an assurance.

The quantum of amortization is decided based on the comfort of the company, that is, based on the surplus (profit) the company is capable of generating. If a company does not make a good profit, it may not provide any amortization during that year. Alternately, if it makes a huge profit in a particular year, it may allocate a large sum during the same year. However, it is usual that quantum of profit of a company has a semblance of a trend. So, depending on the profit, the company decides to allocate an equal sum every year as amortization.

Answer given by a student is right. Suppose you bought an asset for ₹10,000 a few years back. The accumulated depreciation over the years is say, ₹7,000. Therefore, the book value of the asset is (10,000 - 7,000) = ₹3,000. You sell the asset for 5,000. This means that you have made a profit of (book value - sales value) = ₹2,000. This amount is added to the profit loss account as other income. Now consider the whole thing in cash flow statement. You put net profit (which include the profit you earn by selling that piece of fixed assets) in the 'Operating activities'. You also put the entire sales value in the cash flow from 'Investment activities'. Thus, there is an excess amount in the entire cash flow (you show ₹2,000 as profit, whereas, you show ₹7,000 as positive cash flow). Factually, you should show only ₹2,000 as cash flow since that is the additional amount you receive and rest of the amount is already accounted for when you bought the asset. Therefore, ₹7,000 - ₹2,000 = ₹5,000 is shown as negative cash flow in the 'Operating activities'.

Short summary # 11: Lean Startup

Know what the customer wants, design the product, make a minimum viable product, get it validated by users, get actionable feedback, refine the design accordingly, repeat the process until you have a product-market-fit, go to market.

ERIC RIES

Author of the book
The Lean Startup: How Today's Entrepreneurs Use Continuous Innovation to Create Radically Successful Businesses

Lean startup is a confluence of many management wisdoms. It combines lean product development, lean manufacturing, agile process, radical innovation, minimum viable prototype, validated learning, superior value proposition, charging early and 'fail early, fail often but fail forward' concepts in one.

"Startup success can be engineered by following the process, which means it can be learned, which means it can be taught."- *Eric Ries*

- *Validated learning: Build-Measure-Learn feedback loop steps in product development to quickly learn what customers want to buy.*
- *Validate your hypothesis. If*
- *Eliminate waste. It is a waste to spend money, time, and talent on adding something that customers do not care about. Eliminate such waste. Build what the customers want and not what you can make the best or do not try to add features that customers are not interested in.*
- *Design and make a minimum viable prototype/product (MVP) as early as possible and get your idea validated through the MVP.*
- Focus on metrics that helps to take actions and not metrics that looks nice but does not help make actionable strategies. Such metrics are called vanity metrics as it is not of any real value. It gives false notion. Stay away from such data.
- Use 'split-testing' to avoid wasting years of your life building a product nobody wants.
- Grow your startup through viral spread, paid advertising or repeat customers
- Pivot to a new business strategy when your actionable metrics stop improving

Ten key lessons you'll learn:

During early phase of the business

1. Identify customer pain and find out what customers want as soon as possible
2. Ideate an appropriate "Minimum Viable Product (MVP)" that demonstrates your key value proposition.
3. Get the MVP evaluated by actual users/customers, get their feedback. Refine the MVP based on feedback, add new features, go back to customers and repeat this process of validated learning until the customers are satisfied with the product.
4. Customer discovery: In case the target customers do not want your product though you are absolutely sure of a superior value proposition, explore other market segments. Many companies became successful in this process.
5. In case another market segment is not visible, pivot either by partially changing the product or try a new product.
6. Charge early. Having a paying customer is a validation of product-market-fit and any cash flow during early phase go a long way.

Start of commercial operation

7. **Reduce waste and keep eliminating features, components, and everything else, presence and absence of which makes no difference to customers.**
8. **Ensure infrastructure, manpower, fund administrative preparedness to handle growth.**
9. **Try using viral contents for reaching out to large number of potential customers.**
10. **Focus on metrics that are actionable and related to real business growth. Reach out to customer through viral media, collect information to know how to attract and retain repeat customers.**

Here it is placed in a slightly different way

Create an idea
Formulate hypothesis
Create a minimum viable product

These steps ensure FAST movement at the beginning

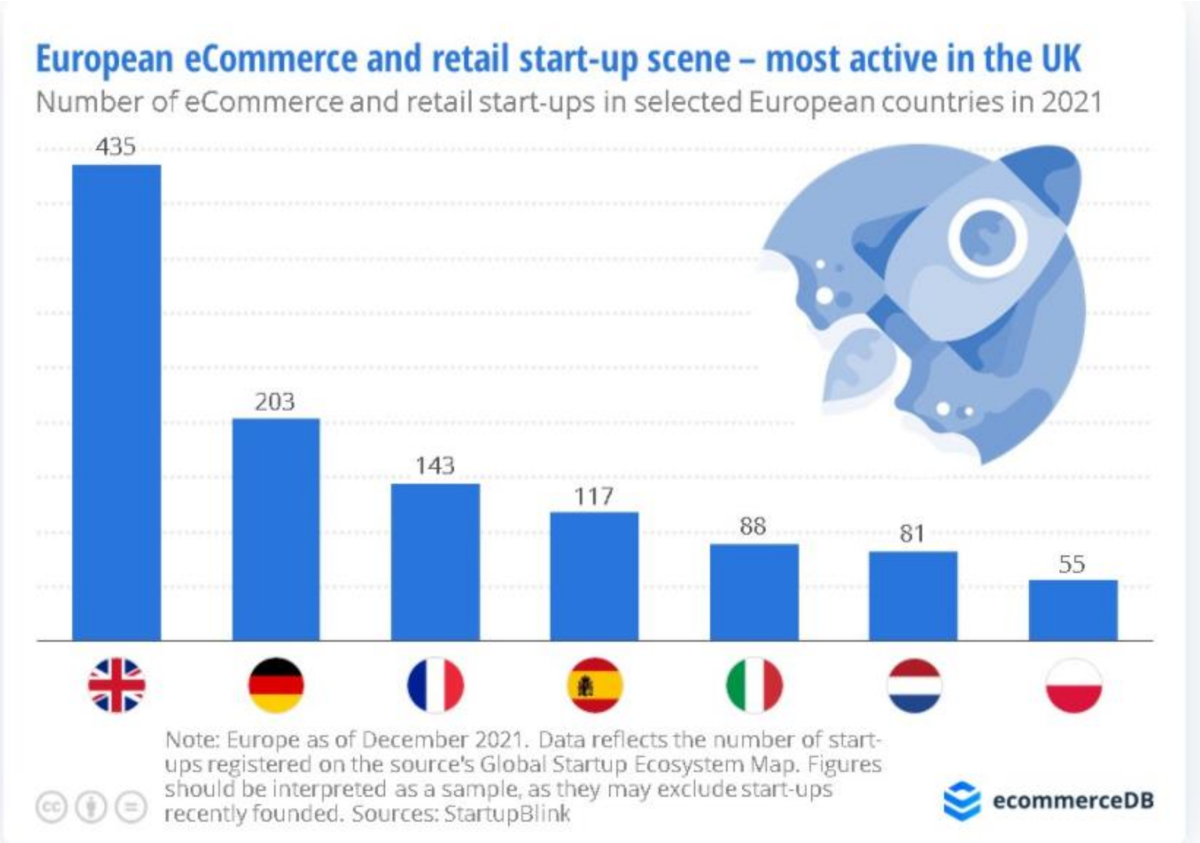
-------Go to market and invest---
Learn, adjust, finetune or redefine idea and hypothesis
Test the MVP and validate hypothesis

These steps ensure FAST go-to-market

------Optimize your growth engine----
Word of mouth – repeat purchase
Advertise
Manage your sales funnel – Acquisition, activation, retention, revenue, referral

These steps ensure FAST growth

The Lean Startup is a scientific approach to manage a startup that ensures a match between what customers want and what the startup produces. Following this approach, the founders can drive a venture in the right direction, at right speed, can navigate through the journey of labyrinth and emerge victorious in its quest to build a sustainable business.



The start-up industry in the field of eCommerce and retail seems especially vibrant in the UK, according to StartupBlink data[1] from December 2021. With a total of 435 new businesses founded in the retail sector in 2021, the UK registered more than twice as many start-ups as economically strong Germany. France and Spain were home to 143 and 117 new eCommerce and retail businesses in 2021, respectively. With 88 and 81 new eCommerce and retail start-ups in 2021, respectively, Italy and the Netherlands registered comparable developments. But also Eastern European economies did not stand still in the retail field. Poland, for example, saw 55 eCommerce and retail start-up foundations in 2021.

Short summary # 12

Value Proposition

Dr Alexander Osterwalder

The value proposition shows the superior values that a company offers in terms of features of its offerings, including quality, efficacy, customer-experience, customer-satisfaction & service, esteem, making them more attractive compared to those of the competitors. It communicates to potential customers WHY they should prefer your offerings over others. Value proposition offers reasons or explains how customers receive better value for their money when they buy a company's product or service. particular the high value for the money of the potential customers so they can make informed decisions about buying product of the company. It clearly differentiates a company's product with that of the competitors.

> *The Value Proposition Canvas is a tool which can help ensure that a product or service is positioned around what the customer values and needs.*

Many companies may have great products or services, but that message is not clearly articulated to customers. In absence of that knowledge, customers continue to buy others products and the company may have shut down the business in spite of offering great value. Value proposition is not merely a statement. A company has to innovate the value proposition and then prepare the statement compellingly containing the details of the offerings to clearly articulate to potential customers.

The value proposition of a company must be clearly known to all members in the company for them to be able to comprehensively convey to outside stakeholders including prospects.

A value proposition would be termed successful if it can turn a prospect into a customer.

> *A value proposition helps positioning your offerings explaining benefits and how well your solution solves the pain of the target audience and how is it distinctly better than the alternatives.*

The value proposition should be articulated lucidly for any one to obviously understand and should be conspicuously displayed in product packaging, hoarding, website, and other customers touch points, website search engine optimization for , and more.

1. Shopify – The ecommerce platform made for you. Whether you sell online, on social media, in store, or out of the trunk of your car, Shopify has you covered. They further add: Get straight to growing your business. Let us handle the rest. [Another one: Anyone, anywhere, can start a business.]
2. Uber – The Smartest Way to Get Around.
3. Zoom Video and Web Conferencing – #1 Video Conferencing and Web Conferencing Service (Zoom has an industry-leading NPS score of 69 based on 2017 Wootric surveys. It further adds the 'WHY" and explains:

4. Apple iPhone – The Experience IS the Product.
5. Unbounce – A/B Testing Without Tech Headaches.
6. Slack – Be More Productive at Work with Less Effort (second one: Slack makes it downright pleasant to work together.)

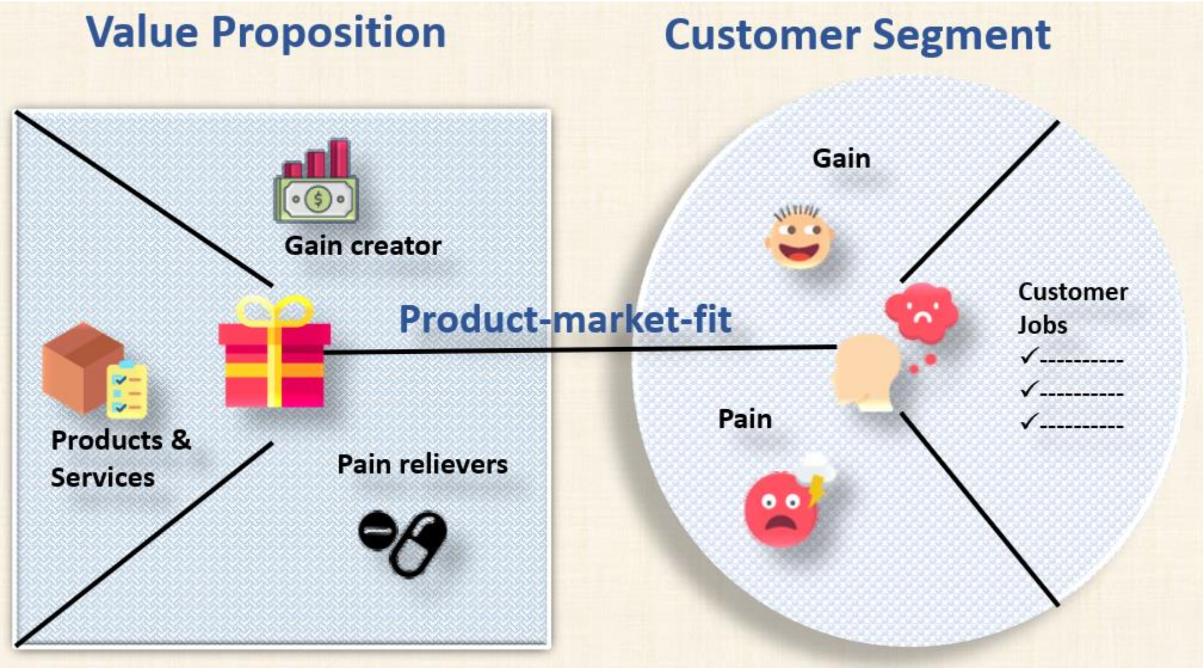
7. Digit – Save Money Without Thinking About It.
8. LessAccounting – Bookkeeping, Without the Hassle.
9. CrazyEgg – Website Behavior Tracking at an Unbeatable Price.
10. Grammarly – Great writing, simplified.
11. Apple iOS 14 – Looks brand new. Feels like home.

How to build your value proposition?

Thankfully Dr. Alexander Osterwalder has gifted us a canvas populating which you can graphically prepare and demonstrate the value proposition of an enterprise. It is one of the building blocks of his more extensive 'Business Model Canvas (BMC)'. The BMC illustrates a business model somewhat comprehensively in one canvas consisting of nine building blocks and value proposition is at the heart of the BMC.

The value proposition canvas (VPC) integrates two very important blocks of the BMC, i.e., the value proposition and customer segment. In the VPC, the customer segment is represented by a circle with three elements, i.e. i. customer jobs or the works that the customers want to get done, ii. the pain related to the jobs that is bothering the customers, for which they are looking for a solution, iii. the gain i.e. the customers, besides solving their pain, would appreciate some additional benefits.

On the other side, the canvas (VPC) exhibits the value proposition in the form of a square and the elements consist of three components, i.e., i. the products or services that serve the customers' jobs or fulfil the customers' needs, ii. pain relievers i.e. the features of the products or services that alleviate the pain of the customers with better efficacy compared to those of the competitors, iii. the gain creator that gives the customers a sense of premium over the pain relieving. In the context the three elements in the 'value proposition' measure up or be adequate to fulfil those in the 'Customer Segment' we call it a **'product-market-fit'**.



Say, you come up with a new plant-based antacid medicine (say p-bam) and want to prepare your value proposition canvas. Acidity is commonplace and customers do have the pain and there are several standard antacid medicines. You have studied and listed the side-effects of the existing medicines and their limitations. Suppose p-bam neutralizes acidity quicker than existing products, it keeps acidity at bay for longer period of time, there is not much concerns about side-effects, and the natural ingredients provides some micronutrients helping the body to keep a balance. You can now prepare the VPC with the above data.

While explaining the superior value proposition of the products or services i.e., the value proposition it is a good idea to highlight the limitations of the existing solutions to place the comparison in right perspective. But one must be honest in illuminating the limitations of the offerings of the competitors and not exaggerate them. Any falsification may boomerang and yield negative results.

Osterwalder provides a nice and easy framework to write a value proposition statement. Our -------------- helps ----------------- who want to --------------- by ------------- and --------------- and -------------- unlike -----------------

Fill in the blanks to complete the value proposition of a particular company.

Our p-bam helps people with acidity who want to get relief and more by eliminating acidity quickly and keeping the acidity at bay for at least five hours and providing valuable micronutrients unlike traditional antacids that last for a couple of hours and cause great deal of dangerous side effects.

Cautions!

Value proposition is not a slogan. A slogan or tagline is a short, catchy construct of a few words that go alongside your brand name and logo. But value proposition should be meaningful when standing alone.

Never over-promise in a value proposition, i.e. do not lie about your offerings that is either untrue or not sustainable. A negative experience by a customer is a worse proposition than missing many customers.

SPRING 2022, SUMMARY # 12

Business Model Canvas

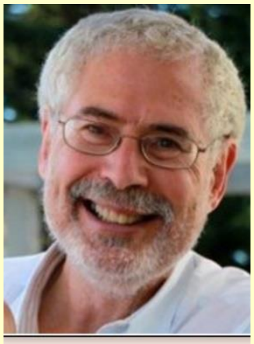
20 September 2021

Business Model Canvas

1. Value proposition
2. Customer Segment
3. Channel
4. Revenue Model
5. Key Resources
6. Key Activities
7. Key Partners
8. Cost Structure

Startups don't fail because they lack a product; they fail because they lack customers and a profitable business model.

Steve Blank.



Business Model Canvas by Alexander Osterwalder

A business model is the whole activity that you take up as the business and all that you do to execute it in order to create a sustainable enterprise. It represents the idea, the value proposition, the execution plan, how you will acquire and retain an increasing number of customers, how you will make money, and the growth plan. Business plan, on the other hand, is a document containing these activities.

is taken up to solve a problem of a customer segment through superior value proposition and deliver the value in a competitive way to create wealth for the stakeholders.

Suppose you start a business to manufacture and sell e-bikes. Your business model is to manufacture and sell e-bikes adopting a value proposition to maximize customers' satisfaction to create an increasing and repeatable loyal customer base for sustainable profit.

The value proposition includes meeting the needs of your target customers, offering superior value for their money compared to competitors, convenient delivery of the bikes, and ensuring pleasant experience of using the product, offer satisfactory aftersales service and such.

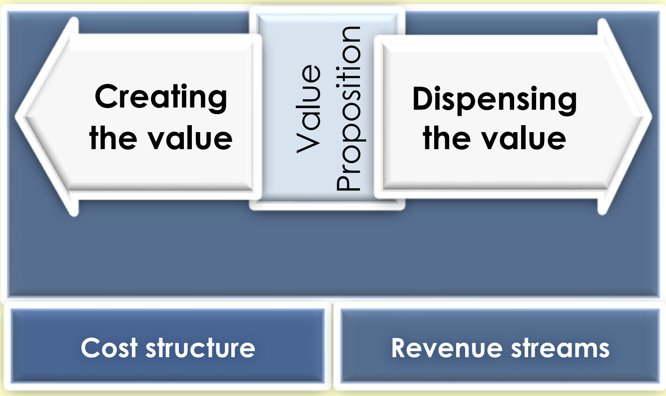
Business models have many dimensions and many of them frequently cry for your attention. It is almost impossible to keep a watchful eye on all such issues that must remain at the forefront of your consideration. Business Model Canvas (BMC) aims to keep the most important issues related to a business, conspicuously in one place for a holistic view in the form of a poster. Alexander Osterwalder began to propound this canvas in 2002 and consummated it over the years. Please see a 4-minute video by Osterwalder himself at the following links: https://www.youtube.com/watch?v=2FumwkBMhLo [You may also visit https://ecorner.stanford.edu/ for interesting lectures on entrepreneurship]. The objective of the BMC is to keep all major features of the business that need attention in one place.

The Building Blocks of Business Model Canvas

Customer Discovery:
Countless startups fail as they do not understand how customers think. Know what your customers want and know which customers want your offerings.

Inspired by Steve Blank

The business model canvas consists of nine building blocks. Each block represents an important aspect of the business model. The canvas aims to define the entire business model in one sheet as a ready reckoner so one does not have to bother about missing any important aspect while preparing the business plan. One can perceive the canvas to be consisted of four constructs. At the center of the canvas is the VALUE PROPOSITION construct and very rightly so as it is the main driver of success of the business. An enterprise presents their compellingly attractive features that would attract customers to buy and remain loyal to the brand. In short, the value proposition contains information explaining why customers would prefer your product or service over those of the competitors. Though it sounds intuitive, defining the value proposition is not an easy job. Many of the founders fail to articulate it copiously leaving out important features focusing instead on unrelated or unattractive ones.



Three Constructs of the Canvas

At the center of the canvas lies the VALUE PROPOSITION.

The left construct

On the left side of the value proposition block are the various aspects contributing to creating the value. They include the KEY RESOURCES to create value (strategic assets, talents, intangible assets, licenses, that would help to compete), KEY ACTIVITIES (through which you will convert resources into product or service -the proposed value), KEY PARTNERS (who will critically help you to imbue the differentiators in your offerings, give you access to capital, help to network, and extend helping hand at times of need so you can create the value).

The bottom construct deals with the finances.

All resources will cost money and you want the business model to give you profit. So, the bottom construct explains the COST STRUCTURE & REVENUE STREAMS. Cost structure block delineates the cost elements such as cost of infrastructure, manpower, utilities, and other operational costs and how to control them. The starting point for profit is the revenue (what are the revenue streams and are they sufficient to defray the cost and make a profit) to give you profit.

The right construct

On the right side of the value proposition are four blocks explaining who the target market are, how the value will be dispensed to them leading to a long-term relationship and what kind of revenue streams are possible to create a profitable and sustainable business venture. The four blocks consists of CUSTOMER SEGMENT (who are the customers, what pains of these customers are common that you plan to alleviate, what are their unique behavior that will determine how you will reach out to them), CHANNEL (the medium through which you will communicate with them to create awareness of your value offering, the channel through which you will reach the product or service to them, provide after-sales service, etc.), and CUSTOMER RELATIONSHIP (building a lasting and satisfying relationship for them to repeatedly buy your product). The sustainable relation is aimed at creating wealth for the company which is determined by the profit you are likely to generate through the relationship with the customers.

The BMC is a strategic management template used to understand and convey business models. It aims to graphically show a firm's success potential by exhibiting the value proposition, infrastructure, customers, and finances.

BMC – a ready reckoner for entrepreneur

Note that the primary consideration for the elements of all the building blocks is to highlight those that help to create better value vis-à-vis the competitors to build a brand with loyal followers for a sustainable profitable business.

Once you prepare the canvas, you can effectively communicate your business model with team members, investors and other stakeholders. The model is to be updated with the changing nature of the business dynamics and progress to make it more useful.

What the canvas fails to articulate

It does not have any reference to exogenous forces, for example the Porter's five forces. Without the understanding of the market dynamics the canvas may not give a holistic view of competitive advantages.

It focuses mostly on economic value and not environmental and social value. Consumers are increasingly attaching importance on environmental and social factors and appreciating the efforts made by companies in this direction. To be rewarded by customers, companies are favorably responding and structuring their offerings accordingly to sustain and grow.

How to create competitive advantages, entry barrier, scaling business and such.

Business challenges are diverse. From that perspective, the canvas appears overly simplistic and narrow in appreciating business challenges.

Warren Buffett: Four Keys to Entrepreneurship

Learn to delegate

Life is busy. You have too much to do around the clock. Some tasks are easy and some are time-consuming. Delegate these to others so you can do more relevant things. Train people so they can do many of your jobs.

Always keep learning

It is not possible to know everything. But you can learn many things. It is ok to ask for help. Success comes to those who are open to learn and constantly learn from whosoever have the knowledge.

It is ok to fail

There is hardly anybody who have not failed or do not have regret. Remain prepared to fight back if failure comes your way. Learn from every failure so you don't make the same mistakes.

Do not ignore rules

One must strictly follow rules no matter how attractive it may appear to have shortcut by breaking them. History is testimony that entrepreneurs regarded as successful do not break rules and follow strict ethical standard.

ENTREPRENEURIAL STORY

Meet the young Indian entrepreneur **Tilak Mehta**, a 13-year-old boy, who launched his company Papers N Parcels (PNP) in 2018, to create an easy alternative to courier services in Mumbai. "Papers N Parcels", as his startup is known, assure same day delivery of small parcels and papers within Mumbai. Tilak Mehta is no different from any other Mumbai teenager. He was studying in Class VIII when he needed to get some books from the other corner of the city. He could not ask his dad to do it for him for concern that it would put too much stress. With this pain the idea of a startup was born. While scouting for a convenient media to carry the small parcels the idea of a synergy with the Mumbai Dabbawala struck him. Tilak pitched his idea to a banker who saw value in the business model and joined his company quitting his bank job.

PNP operates business using a mobile app and employs own people while also engaging the Dabbawalas. The business is expanding by widening the scope to pathology labs, boutique shops, brokerage houses and many more. The annul turnover in 2020 was more than ₹100 crore. Interestingly, the net worth of Tilak Mehta as in 2021 is more than ₹100 crore.

[Meet the 13-year-old who harnessed Mumbai's dabbawala network for his courier service (yourstory.com)]

Reference

Osterwalder, A., & Pigneur, Y. (2010). Business model generation: a handbook for visionaries, game changers, and challengers. John Wiley & Sons.

LEGAL FORMS OF BUSINESS

A business is a legal entity.

One way of classifying businesses is based on the liabilities of the owners (shareholders)

i. Unlimited liability
ii. Limited liability

The personal properties of owners of businesses of the unlimited-liability type are liable to be liquidated to pay creditors or legal claimants. Whereas, no personal assets of the owners of limited liability companies can be attached to recover dues of creditors.

Suppose you have a business. You raise a loan from a bank. You also purchase materials from other businesses or individuals [They (including the bank) are known as creditors]. Now, for some reason, your business defaults in making payment to the creditors their dues who go to court for recovery and receive(s) a DECREE from the court to recover the money from the business/owners. The creditors have the option of selling all assets of the business. They may have the right to liquidate the personal properties of all the owners depending on the type of legal form of the business. If the business is of the 'Unlimited Liabilities' kind such as Proprietorship and Partnership, the creditors can sell the personal properties of the owners if they own any, such as building, land, investment, etc. But if the business is the 'Limited Liabilities' type, such as 'One Person Company (OPC)', 'Limited Liabilities Partnership (LLP)', 'Private Limited', 'Public Limited', etc. the creditors have no right to liquidate the personal assets of the owners to recover the dues. The creditors can recover whatever it is possible by liquidating the assets of the business only.

Unlimited liabilities businesses may have the following forms:

i. Sole proprietorship – with only one owner
ii. Partnership – with multiple owners

The proprietorship business is not different from the proprietor and the profit of the business is clubbed with other personal income(s) to determine income tax liabilities.

This kind of business has a limited life span since the business ceases to exist if the proprietor expires.

The same is true for partnership businesses, except that the income of the individual partners is not clubbed with that of the firm for the purpose of estimating income tax. The firm pays its income tax based on its profit independent of the income of the partners and different partners pay their income taxes based on their own incomes.

It is easy to start a business with these types of legal forms.

You need a trade license and GST registration to start the business.

These types of firms cannot allot shares to investors of any kind to raise money.

Limited liability companies can be of any of the following types:

i. One Person Company (OPC) – only one director. Not permitted to allot shares to others.
ii. Limited Liabilities Partnership (LLP) – 2 to any number of partners
iii. Private Limited – 2 to 200 shareholders. Not allowed to allot shares to public to raise money, but can allot shares to investors.

iv. Public Limited – No upper limit of number of shareholders. Can raise money from the public through Initial Public Offering (IPO) and list shares in stock exchanges.

Except for the OPC type of companies, all other types of businesses have perpetual life, meaning that the life of the companies is not dependent on the life of the owners. If any or all the owners pass away, the business remains a going concern, and new owners will take the reins of the company.

All limited liability companies have to register with the Register of Companies (RoC), which takes some time and has to comply with certain statutory compliances such as obtaining the Director Identification Number (DIN), Digital signature, submission of audited financial statements, etc.

Postmortem of some recently failed startups

DocTalk

Title: Matrix Partners-backed health-tech startup DocTalk winds up operations

Product: DocTalk

DocTalk, an India-based startup backed by Y Combinator and Matrix Partners, folded after trying to pivot from being a mobile communications platform between doctors and patients to an electronic medical record (EMR) solutions entity. According to people privy to the shutdown:

The planned transition into the electronic medical record solution (EMR) business from the existing business model didn't yield the acceleration that it needed. Subsequently, the company has shuttered the entire health-tech concept and laid off a majority of its employees.

Founded by Goenka, Chamakura and Aluru in 2016, DocTalk offered a mobile app that helped patients connect with doctors. After their first in-person visit, users could connect to the platform to chat with their doctors, obtain prescriptions and share new reports with their physicians. Patients paid a subscription fee to communicate with their doctor over DocTalk, which retained a part of that and paid the rest to the doctor. Doctors were also charged an initiation fee. The company raised US $ 5 million.

Stayzilla

Title: Stayzilla, India's Airbnb for homestays, closes its service

Product: Stayzilla

Stayzilla CEO and co-founder Yogendra Vasupal was particularly reflective in his post, explaining how, as a founder, his own objectives were altered as the company ramped up.

"The initial 7 years were all about having negative working capital, positive cash flow and a sustained ability to fund our own growth. Those were the only metrics we tracked. In the last 3–4 years, though, I can honestly state that somewhere I lost my path. I started treasuring GMV, room-nights and other **'vanity' metrics** instead of the fundamentals of cash flow and working capital," he explained.

PepperTap

Title: The PepperTap Journey: our story

Product: PepperTap

...as we forayed into smaller cities, delivery networks got more fragmented and lethargic. This needed to be researched more and understood better. We found that while tiers 2 and 3 of Indian cities are being served to some extent by new-world logistics providers doing cool things like one-day shipping, there was a whole slew of tier 3.5+ cities which are connected to the world of ecommerce but, in simple terms, have to sometimes wait up to 30 days to receive their orders.

Sedna Wireless

Title: What an Entrepreneur Learned from His Failed Startup (Interview)

Company: Sedna Wireless

Finances were just one part of the story. The other part was that we failed to execute our own plans. Both external factors (e.g. the hardware ecosystem in India) and internal reasons (e.g. the expertise of the team) played a role. With money it would have lasted a bit more longer.

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