



## WHICHKRAFT.COM AN ENTREPRENEURIAL DREAM

On a long flight to Delhi from Bangalore in July 2014, Adarsh Shetty, the founder of WhichKraft.com was analyzing the performance of his e-commerce start-up. The revenues were looking promising, making him wonder how the rest of the year would turn out. Having raised INR one million in investment capital from his family and friends to start out in a completely new and curious domain, it was essential for him to forecast and project the Income Statement and Balance Sheet as well as possible. Given his prior experience with the Strategy, Marketing and Business Development roles in a leading Indian Information and Technology multinational corporation (MNC), he knew the importance of pragmatic financial projections to articulate the value proposition of his business and to estimate future net income and funding requirements. These projections would allow him to evaluate the future financial health of his company and devise alternate strategies if needed. He was hesitant to raise additional capital from his family and friends and he was hoping fervently that the business would be able to self-finance its growth.

### Entrepreneurial Dream

Adarsh wasn't a typical engineer in India working for an Information Technology MNC. His diverse roles over a seven-year career had filled him with a longing to set up his own firm.

Two years ago, he decided to quit his job to follow his lifelong dream of entrepreneurship. His family, friends and relatives were skeptical in the beginning, especially since it was a domain in which he had no prior experience. However, Adarsh had learned many useful skills in the MNC - how to attract clients, lead teams, meet deadlines, and determine and exceed customer expectations. This corporate experience gave him the much-needed skills and confidence to start a business of his own.

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This case was written by Amandeep Singh Chaudhary, MBA 2014, under the supervision of Prof. Ma. Theresa Mañalac and Prof. David Gulliver G. Go, Asian Institute of Management. All learning materials are prepared solely for the purpose of class discussion. The case is neither designed nor intended to illustrate the correct or incorrect management of problems or issues contained in the case.

Being passionate about art and crafts, he wanted to transform handicrafts from mere souvenirs that tourists picked up on their way back home, to products that people bought to match their contemporary lifestyle, to reflect their tastes, to gift to friends and to bring style into their homes and offices. In mid-2012, Adarsh packed his bags and left for a long tour across the length and breadth of India, meeting artists, designers, artisans, potters, sculptors, businessmen, and even hippies. While he scoured the country and curated his products to arrive at his initial product portfolio (<http://www.whichkraft.com/> and **Exhibit 1A**), he worked out his thoughts about the business, including a SWOT analysis (**Exhibit 1B**).

After closely studying the Indian handicrafts market for two years, Adarsh was convinced that it was a promising industry, given the growing per capita disposable income of Indians. His research showed that the demand for Indian handicrafts in the domestic as well as international market was projected to grow substantially, at approximately 18% (**Exhibit 2A and 2B**), in the forthcoming years. Adarsh's studies also pointed to the fact that pursuing a technology driven business was essential to succeed in emerging markets like India, due to the increasing adoption rate of electronic and mobile commerce (**Exhibit 3**). His engineering background, combined with a passion for technology, provided him the perfect opportunity to integrate the traditional handicrafts sector with modern e-commerce business.

## **The Indian Handicrafts Industry**

The Indian Handicrafts industry formed a major part of the rich cultural heritage of India. It was a disorganized, decentralized, labour intensive cottage industry which had been booming over the recent years. The 12<sup>th</sup> Five Year Planning Commission of India estimated domestic consumption of handicrafts in India at INR115 billion or USD1.92 billion in 2013-2014, after experiencing a year-on-year growth rate of 18%.<sup>1</sup>

This industry had various strengths such as the availability of unique raw material from various parts of India, the proliferation of cheap labor, a rich and diversified culture producing a wide array of exclusive handicrafts, low capital investment and unique craftsmanship along with growing appreciation by international consumers. Despite all these strengths, the industry faced a lot of challenges such as lack of modern technological skills, poor promotion and marketing, low literacy and education levels among the artisans, lack of adequate investment capital and unstructured and individualized production systems. The Planning Commission of India acknowledged that this sector, which constituted about 93% of the blue-collared workforce, did not have a centralized and structured system or technology to help in acquiring or upgrading skills of the artisans.

In the year 2013-2014, Indian exports amounted to INR173 billion or USD2.88 billion, showing a year-on-year increase of 18%. The 12<sup>th</sup> Five Year Planning Commission of India's vision for the handicrafts industry in India is to help create globally competitive handicrafts and provide sustainable livelihoods for the artisans through innovative product designs, better product quality and use of technology, while preserving traditional art and culture. Indian handicraft exports were expected to reach INR284 billion, or USD4.73 billion (**Exhibit 2**) in 2017, if an average growth rate of 18% per annum was maintained during the 12<sup>th</sup> Five-year Plan Period (2012 - 2017).

## **Rapid Growth of the Indian E-Commerce Industry**

Rising internet and mobile usage over the past decade had shaped the way people communicate and do business. E-commerce was relatively a novel concept, which relied heavily on internet, mobile phones, tablets and laptops to help businesses reach their customers with ease and at low costs. In countries like the US and China, e-commerce was an established industry with sales of over USD150 billion, but the industry in India was still at infancy growing at an approximate rate of 35% CAGR from USD3.8 billion in 2009 to USD12.6 billion in 2013<sup>5</sup> (**Exhibit 3**). Studies and calculations based on industry benchmarks estimated that the number of parcels shipped or checked out would exceed 100 million in 2014<sup>5</sup>. Although, this share represented a very small (1%) share of India's retail market, it's predicted to grow strongly in the coming years. Assuming these studies were true and the Indian e-commerce industry kept growing robustly over the coming years, it was poised to be a USD10 to USD20 billion industry by 2017 to 2020.

A couple of successful examples from the Indian e-commerce industry were Myntra.com and Flipkart.com. Myntra started in 2007 as a seller of personalized gift items to businesses and became India's largest online seller of branded apparel. Myntra recorded revenues of over USD 100 million in 2014. Flipkart was founded in 2007 as an online store for selling books, but soon it started offering other products like electronic goods, stationery and office supplies, fashion merchandise and accessories etc. Flipkart's revenues hit the USD1 billion mark in April this year and the company is expected to keep achieving higher revenue figures.

## **WhichKraft: Going forward**

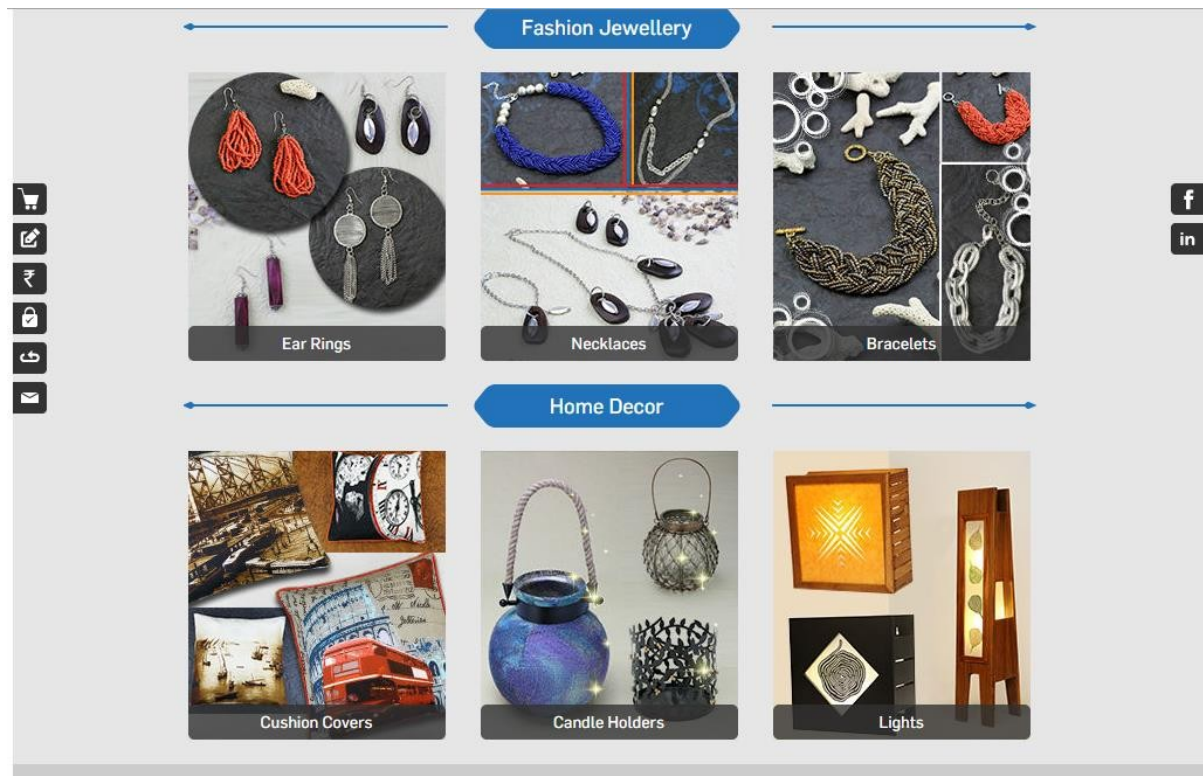
As Adarsh's flight was about to land, he was studying the Income Statement of January 2014 to March 2014 (**Exhibit 4**) and the Balance Sheet ended March 2014 (**Exhibit 5**) closely to figure out the assumptions which would go into predicting sales for the next three years. He is currently not exporting out of India, but plans to do so after five years assuming his business keeps growing. In India, the financial year runs from 1<sup>st</sup> April to 31<sup>st</sup> March of the following year. His business had a "*soft*" launch in January 2014 and was ready to go in full swing from April 2014 onwards. Since this is a start-up, he believed his revenues would far surpass the industry growth rate from April 2014 to March 2015. His market research showed that his sales for

the 1<sup>st</sup> quarter of the 1<sup>st</sup> year of projection (April-June 2014) would grow by 300% of the previous quarter (January-March 2014); for the next two quarters, sales were expected to grow by 100% of previous quarters; and for the last quarter (January-March 2015), sales would grow by 30% of previous quarter. He had been closely studying various e-commerce start-ups such as Flipkart.com, Myntra.com and Jabong.com which were similar to his venture and his research pointed out that erratic and strong sales growth patterns in the initial months were prevalent in the industry<sup>6</sup> & <sup>7</sup>. For the next two years after March 2015, he expects to grow by the industry standard growth rate, considering both the handicrafts industry and the e-commerce industry. Direct expenses included shipping and freight charges; and negotiations with various vendors providing freight services resulted in direct expenses being 6% to 8% of Sales. Selling, General and Administration (SG&A) expenses every year will have a fixed component of INR 279,554 plus 20% of sales of the relevant year. The SG&A expenses included advertising, marketing expenses, insurance, and the salaries of people currently working for him as well as future hires. He had four full-time employees working for him and he would hire temporary staff as and when required. Adarsh himself was not drawing a salary. The corporate income tax rate in India is 30%. He knew his sales forecast was crucial, and he wondered what would happen if he missed it.

In order to project the Balance sheet, he had to keep in mind that all his transactions would be cash-based for the next three years, because he deals with artisans and suppliers from all walks of India. His bank assures him that credit card payments from his customers would be available to him on a same-day basis. He expects to maintain inventory levels at 15% to 20% of sales. The initial paid-up capital would be the initial investment by his family.

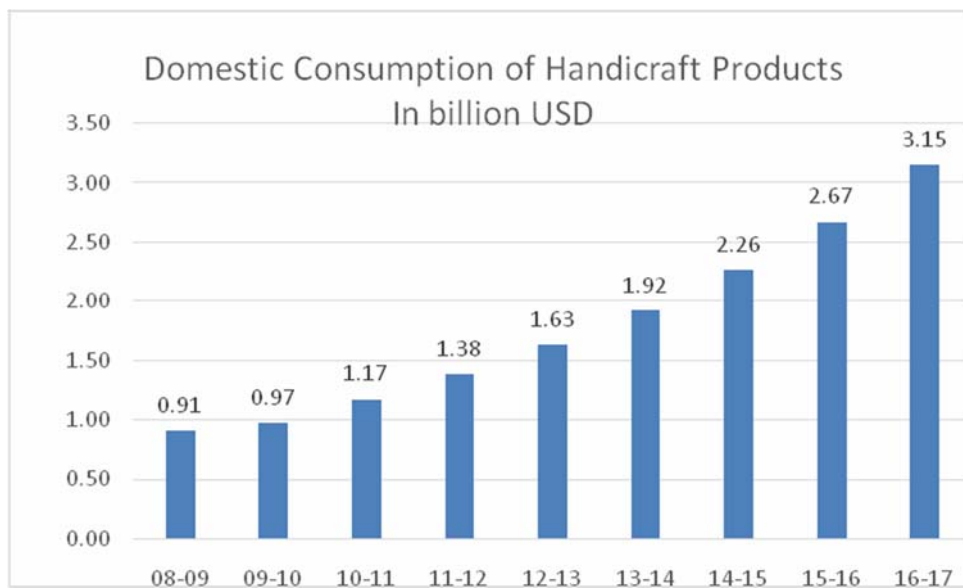
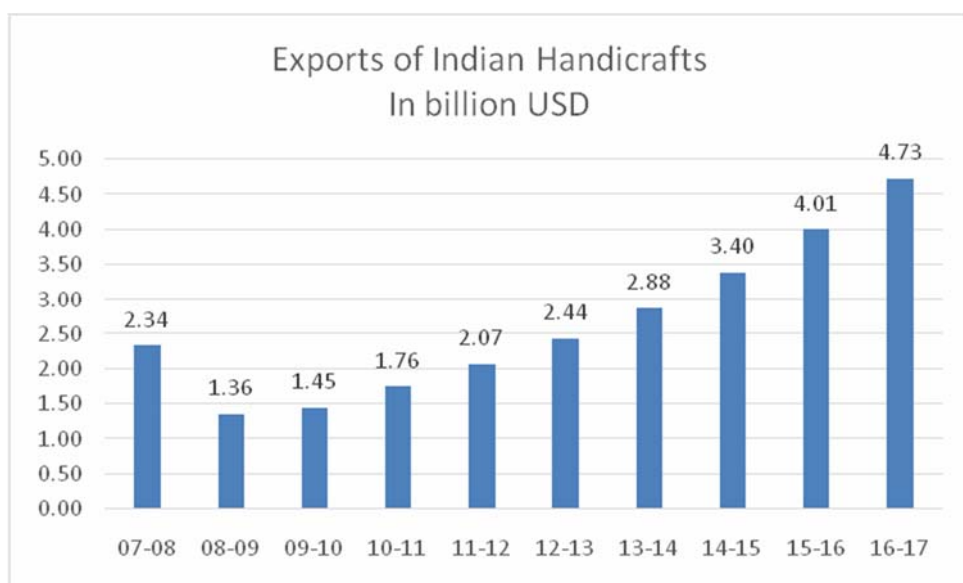
After finalizing all his assumptions, he wanted to finish drawing up a projected Income Statement and Balance Sheet to analyse the financial health of his company. He wanted to estimate various profitability ratios such as Gross Profit Margin, Operating Margin, Profitability Margin, Return on Total Assets, Return on Sales, and Asset Turnover. He wanted to look at asset management ratios such as Days Inventory, and he wondered if being cash-based helped or hindered his business. Most importantly, he speculated on whether or not he would need additional funding from external sources in the next few years. He hoped not.

## Exhibit 1A WhichKraft Products



## Exhibit 1B SWOT Analysis

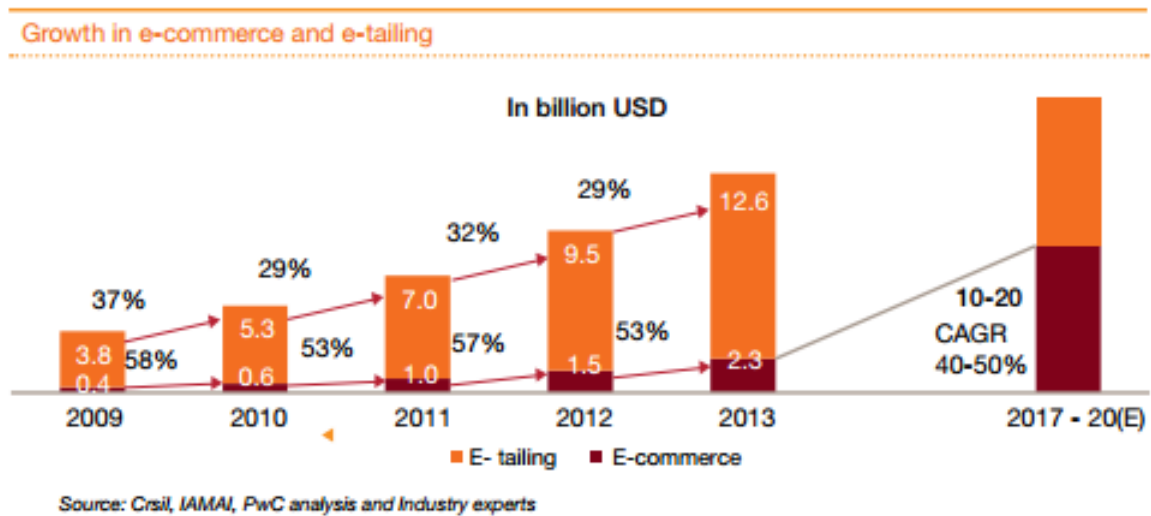
STRENGTHS	OPPORTUNITIES
<ul style="list-style-type: none"> <li>· Availability of unique local raw materials, e.g., natural fibers, bamboo, cane, horn, jute, leather, etc.</li> <li>· Rich and diversified culture producing wide range of unique and exclusive handicrafts.</li> <li>· Strong existing pool of skilled artisans.</li> <li>· Wide range of traditional production skills derived from indigenous knowledge.</li> <li>· High potential for empowerment of women, youth and people with disabilities.</li> <li>· Low production costs.</li> </ul>	<ul style="list-style-type: none"> <li>· Increasing emphasis on product development and design up gradation.</li> <li>· Rising demand in domestic and traditional market.</li> <li>· Rising appreciation by consumers in the developed countries.</li> <li>· Government support and interest in preserving the craft.</li> <li>· Emerging markets in Latin America, North America and European countries.</li> <li>· Fair trade practices.</li> <li>· Increasing flow of tourists provide market for products.</li> </ul>
WEAKNESSES	THREATS
<ul style="list-style-type: none"> <li>· Lack of design, innovation and technology up gradation.</li> <li>· Highly fragmented industry.</li> <li>· Unstructured and individualized production systems.</li> <li>· Lack of strong umbrella sector organizations.</li> <li>· Limited capitalization and low investment.</li> <li>· Insufficient market information on export trends, opportunities and prices.</li> <li>· Limited access to credit.</li> <li>· Limited resources for production, distribution and marketing.</li> <li>· Limited e-commerce competence among producer groups.</li> <li>· Lack of adequate infrastructure, absence of latest technology.</li> </ul>	<ul style="list-style-type: none"> <li>· Handicraft sector is not mainstreamed in planning priorities of many State Governments.</li> <li>· Increasing threat from Asian countries.</li> <li>· Decreasing supply of good quality raw materials.</li> <li>· Better quality components, findings and packaging in other countries.</li> <li>· Lack of quality standardization process.</li> <li>· Declining investment in the sector (largely in the developed economies) and increasing consumer sophistication.</li> <li>· Absence of institutional support.</li> <li>· High freight costs associated with air cargo and shipment.</li> <li>· High cost of production rendering Indian crafts less competitive in the markets.</li> </ul>

**Exhibit 2A****Exhibit 2B**

Source: Working group report on Handicrafts for the 12<sup>th</sup> Five Year Plan, MS Shreya Jadhav,  
Indian Handicrafts: Growing or Depleting, IOSR Journal of Business Management

Note: Assumed conversion rate of INR 60 = USD 1

### Exhibit 3 Growth in e-commerce



### Exhibit 4

#### Exhibit 4 Income Statement for WhichKraft.com Income Statement for the Period Jan 2014 - March 2014 For the Period Jan 2014 - March 2014

	Jan 2014 - March 2014
<b>Net Sales</b>	₹ 1,41,350.00
Less:COGS	₹ 40,623.00
Less: Other Direct Expenses	₹ 45,833.00
<b>Gross Profit</b>	₹ 54,894.00
SG&A Expenses	₹ 2,79,554.00
<b>EBIT</b>	₹ -2,24,660.00
Income Taxes	₹ -
<b>Profit/Loss After Tax</b>	₹ -2,24,660.00



<b>Exhibit 5</b> <b>Balance Sheet for WhichKraft.com</b> <b>For the Period of Jan-Mar 2014</b> <b>Amount in Rupees</b>	
<b>Balance Sheet for WhichKraft.com</b> <b>For the Period Jan 2014 - March 2014</b>	
	Jan 2014 - March 2014
<b>Assets</b>	
Web Site, IP rights	1,25,943
Inventory	21,203
Cash	6,28,195
<b>Current Assets</b>	<b>649397</b>
<b>Total Assets</b>	<b>7,75,340</b>
<b>Liabilities and Equity</b>	
Paid up capital	1000000
Profit / Loss	-224660
Total Shareholder's Equity	775340
<b>Total Liabilities &amp; Equity</b>	<b>7,75,340</b>

**Endnotes:**

<sup>1</sup>Jadhav, S. (n.d.) Indian Handicrafts: Growing or Depleting? *IOSR Journal of Business and Management*, 7-13. Retrieved from <http://www.iosrjournals.org/iosr-jbm/papers/ies-mcrc-volume-2/15.pdf>

<sup>2</sup> Indian Handicrafts Industry & Exports. (2015, August). Retrieved from <http://www.ibef.org/exports/handicrafts-industry-india.aspx>

<sup>3</sup> Key Facts of Indian Handicrafts Industry. Retrieved from <http://www.india-crafts.com/business-reports/indian-handicraft-industry/key-facts.htm>

<sup>4</sup> Retrieved from <http://www.epch.in/moreDetails.htm>

<sup>5</sup> Evolution of E-commerce in India: Creating the bricks behind the clicks. (2014, August). Retrieved from <http://www.pwc.in/assets/pdfs/publications/2014/evolution-of-e-commerce-in-india.pdf>

<sup>6</sup> It's official: Flipkart buys Myntra for Rs2,000 crore. (2014, May 22). Retrieved from <http://www.indiatvnews.com/business/india/updated-news-flipkart-mytra-online-e-commerce-india-12288.html>

<sup>7</sup> Kurian, B., & Sharma, S. (2014, January 30). Let's merge, Flipkart tells Mytra. Retrieved from <http://timesofindia.indiatimes.com/business/india-business/Lets-merge-Flipkart-tells-Myntra/articleshow/29582969.cms>