How ready are entrepreneurs for the journey of scalable growth?

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ASCENT

EY
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Foreword

Dear fellow entrepreneurs,

An entrepreneur's journey is always interesting, but it can be a long and testing path. While entrepreneurs enjoy the perk of being their own boss, sometimes this journey can get lonely and overwhelming.

With this in mind and a strong belief in the "power of collective experiences," Ascent India Foundation (ASCENT) was launched as a peer-to-peer learning platform to enrich entrepreneurs – both personally and in their enterprise journey.

Scaling-up their enterprise is an area that constantly consumes entrepreneurs' energies. To gain an understanding of an entrepreneur's journey while scaling-up and the challenges they face, ASCENT along with EY conducted a survey, which was sent to ASCENT's larger member base. This was followed by one-to-one interviews with members at different stages of their growth. The survey and in-person interactions were designed around a growth maturity model across seven key drivers of scalable growth: customer, leadership, people, operations, finance and transactions, risk management and technology.

Based on the results of the survey, the emergence of "first-generation" entrepreneurship is very evident, with 60% of the respondents falling in this bucket. The results also show a growing need for an engaging and formal ecosystem to help these entrepreneurs flourish. We understand that entrepreneurs have recognized this gap and are proactively taking steps to be more customer-centric and develop agile supply-chain and operations. In the future, to overcome the barriers for growth, they need to focus on areas of leadership, people, finance and transactions, risk and technology.

Both ASCENT and EY hope that you find this report and its insights relevant and applicable as you scale your enterprise to new heights.

Keep ASCENTing!

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How ready are **entrepreneurs** for the journey of scalable growth?

Scalability is an essential consideration for entrepreneurs and emerging businesses, because lack of scalability is the topmost reason why start-ups fail[1]

To understand entrepreneurs' readiness for scalable growth and the challenges they face in doing so, ASCENT Foundation along with EY conducted a survey on seven key drivers of sustainable and scalable growth:

Customer	Leadership	People	Operations	Finance and transactions	Risk management	Technology
01	02	03	04	05	06	07

The survey got responses from close to 50 ASCENT members. In addition, detailed in-person interactions with close to 15 entrepreneurs at different stages of growth were conducted to understand their experiences.

The survey clearly highlights that "first-generation" entrepreneurship is gaining a lot of traction, with 60% of the respondents falling in this bucket. It also highlights the need for hand-holding and guidance to enable these entrepreneurs to grow and thrive.

Based on the survey results and our interactions with the participants, we have assessed the entrepreneurs on a growth maturity model across the defined seven key drivers.

1 *"Top 20 reasons why start-ups fail", CB INSIGHTS, https://www.cbinsights.com/research-reports/The-20-Reasons-Startups-Fail.pdf, accessed 14 October 2016*

Growth maturity model

Stage of readiness	Started	Progressing	Advanced	Strategic
Customer: Follow a "customer first" approach to sense and shape scalable growth				
Leadership: Develop a second line of command to translate insight into action				
People: Use an innovative rewards system to engage and retain talent				
Operations: Build flexible supply chain and operations to meet go-to-market objectives				
Finance and transactions: Focus on getting ready to fund growth				
Risk management: Develop a risk-governance framework to gain end-to-end view of business risks				
Technology: Move beyond conventional tactics to reshape business models				

Note: Derived from EY Growth Navigator
Source: ASCENT – EY Study

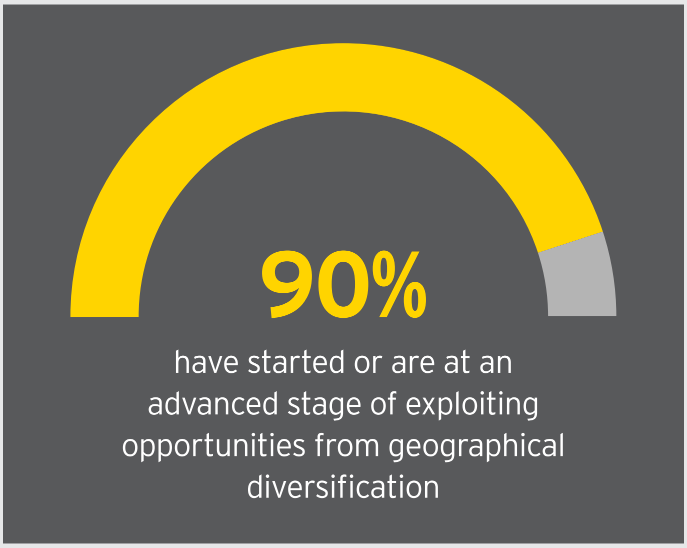
Entrepreneurs understand the importance of being customer-centric and having flexible supply-chain and operations, and have therefore taken concrete actions around these building blocks. Going ahead, they need to focus on leadership, people, finance and transactions, risk, and technology to overcome the barriers to transformation growth.

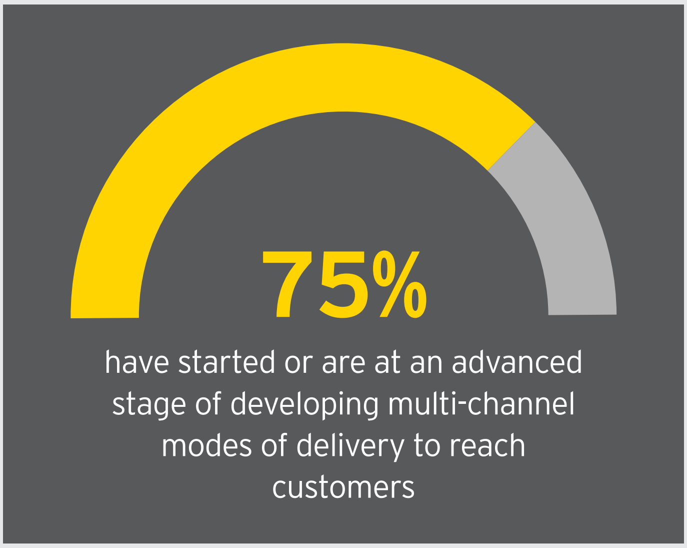
01

Customer: a "customer first" approach to sense and shape scalable growth

Scalable growth requires companies to keep customers at the center of decision-making. Getting a product-market fit right is a challenging, time consuming and often iterative process. Working closely with customers to understand their needs and wants is a fundamental requirement for every entrepreneur. This helps in gaining a real-time and end-to-end view of the purchase/consumption cycle and where the organization can focus on to create value.

The survey indicates that entrepreneurs understand the importance of this driver and have started planning action around it.





Source: ASCENT-EY Survey

However, a majority of the entrepreneurs are in the "just started" phase and still have a long way to go. Businesses that are at an advanced stage of working on "customer first" are already reaping the benefits of their actions.

2x higher average revenue size of companies that offer customer-centric solutions vis-à-vis companies that do not

1.2x higher average revenue size of companies that have geographically diversified offerings vis-à-vis the size of companies that do not have`

Source: ASCENT-EY Survey

How to develop a customer-centric business model?

Collaborate and use technology

- Collaborate with international vendors/suppliers
- Bring on technology partners
- Make technology pivotal in product/service offering

Integrate customer feedback

- Implement CRM
- Leverage technology to get closer to customers (e.g., apps and mobile)
- Proactively seek feedback
- Incorporate feedback to modify offerings

Build credibility

- Provide value on a consistent basis
- Build own brand
- Invest to enhance brand recall

Who has done it well[2]?

A fourth-generation entrepreneur launched his second venture of exporting ingredients for the healthcare and food and beverages sectors. Before starting, he spent considerable time researching on consumer trends, and identified a gap between consumer needs and what was available. He then developed a product to serve the unmet consumer needs and zeroed in on a niche and fast-growing market of natural ingredients for exports. He focused on technology and IP-protected products, built reliability and captured market share. Strong product offerings and credibility established over time helped him in getting into brand partnership and logo licensing agreements with vendors to create the company's own brand name.

A scalable idea with high growth potential helped him attract investors and partners right from the early stages. He was forthcoming of strategic alliances as it strengthened the company's technical expertise and overall value proposition. The company managed to cross revenues of INR 300 crore within 15 years of starting the business. The company has been growing at a 20%-25% CAGR over the last few years.

[2] *Source: ASCENT – EY Study*

02

Leadership: develop a second line of command to translate insight into action

Most entrepreneurs start with a vision and passion to bring their dreams to reality. Their core competencies lie in creating ideas, developing innovative solutions and disrupting existing market offerings. When they start spending most of the time working "in" the business, they are left with very little time to work "on" the business. Further, it is difficult to be good at both coming up with innovative ideas and running an organization, as they require different skill sets.

Hence, to scale up faster, it is crucial to delegate. Most entrepreneurs struggle to delegate or build a second line of management (SLoM). A study conducted by Gallup in 2014 showed that entrepreneurs who delegated more saw their companies growing at a significantly higher rate as compared with companies whose founders delegated less. The study also showed that the entrepreneurs who delegate more also tend to set more aggressive growth targets vis-à-vis those who delegate less[3].

The survey indicates that entrepreneurs still have a long way to go on this crucial factor. They tend to limit their delegation, which hampers their ability to focus on more strategic areas.

Source: ASCENT-EY Survey

Those who have successfully managed to set up an effective, independent and accountable SLoM have seen substantially faster growth.

3 "Delegating: A Huge Management Challenge for Entrepreneurs", http://www.gallup.com/businessjournal/182414/delegating-huge-management-challenge-entrepreneurs.aspx; accessed on 10 October 2016

3.5x higher average revenue size of companies that have set up strong SLoM vis-à-vis companies that have not

11% increase in employee strength over the last two years for companies with strong SLoM; 5% for those without

Source: ASCENT-EY Survey

How to set up a strong SLoM?

Keep a lookout for the right people

- Identify people who share the same vision and have complementary skills

Delegate

- Define roles
- Demarcate responsibilities
- Instill accountability
- Let the team manage day-to-day operations

Make them partners

- Participation in employee stock options
- Treat them as partners rather than pure employees

Who has done it well[4]?

A professional-turned-first-generation-entrepreneur realized the need to have an SLoM to complement his skills. He had limited exposure to or background in running a business; however, he was technically very strong in his domain. Having a SLoM allowed him to delegate functional responsibilities and have dedicated resources to institutionalize best practices in each business function. It also freed up a lot of his time to focus on the key areas of the business, such as identifying the best channel for driving growth, enhancing customer value and researching on best technologies in the field.

Developing a strong value proposition in an underpenetrated market in India followed by setting up a strong SLoM helped him stabilize and run the business smoothly even in his absence. The benefits of this strategy are paying off, with the company clocking over 35% growth annually over the last two to three years.

[4] *Source: ASCENT – EY Study*

03

People:
use an innovative rewards system to engage and retain talent

Emerging businesses often face challenges when it comes to hiring the right people, building a formidable team and, more importantly, retaining talent. Building an efficient talent pool that is capable of taking on job responsibilities independently is essential to drive growth. One way of addressing the majority of people-related issues is enhancing employee engagement.

According to a recent study conducted by Aon Hewitt, a leading human capital and management consulting services provider, a 5% increase in employee engagement is linked to a 3% increase in revenue growth in the subsequent year. The research also shows a direct correlation between high levels of employee engagement and higher shareholder returns[5].

Among the entrepreneurial ventures we studied, businesses with turnover less than INR50 crore are struggling with employee motivation, retention and loyalty. The majority of these issues arise as the employees do not feel fully connected and engaged with the organization.

Source: ASCENT-EY Survey

Entrepreneurs who have invested in a total rewards mechanism – including as a well-defined reward and performance system, skill-based training, flexible work options and support for further studies – have seen significantly higher employee productivity and lower attrition rate.

5 *"2015 Trends in Global Employee Engagement", http://www.aon.com/attachments/human-capital-consulting/2015-Trends-in-Global-Employee-Engagement-Report.pdf; accessed on 10 October 2016*

15% higher employee productivity for companies that follow a total rewards mechanism to retain talent compared to companies that do not

10% increase in employee strength over the last two years for companies that have identified training needs vs. 8% for those that have not

Source: ASCENT-EY Survey

How to form a highly engaged talent pool?

Hire the right people

- Provide a long-term vision
- Help them align with their aspirations
- Invest in the hiring and interview process

Invest in upskilling

- Develop a competency framework
- Provide trainings based on current skills and job requirements
- Invest in external collaborations for training

Retain talent

- Focus on a total rewards mechanism
- Ensure a transparent and formal performance-evaluation process
- Engage in continuous feedback

Who has done it well[6]?

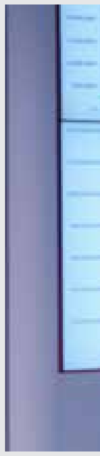
An entrepreneur in the nutraceuticals space has always focused on enhancing employee engagement right from the start. Consequently, his company has one of the lowest attrition rates: only one person from a talent pool of about 300 has left the organization over the past few years.

The company has been able to provide a vision that the employees can relate to and can align to their own aspirations. The company has defined KRAs for each role. There is a formal process of performance review and feedback. A framework for role expectations and competencies has been laid out. The company has regular trainings based on the current skill sets of employees. Such initiatives help the entrepreneur to continuously provide growth opportunities for his team members, acting as a strong retention tool.

[6] *Source: ASCENT – EY Study*

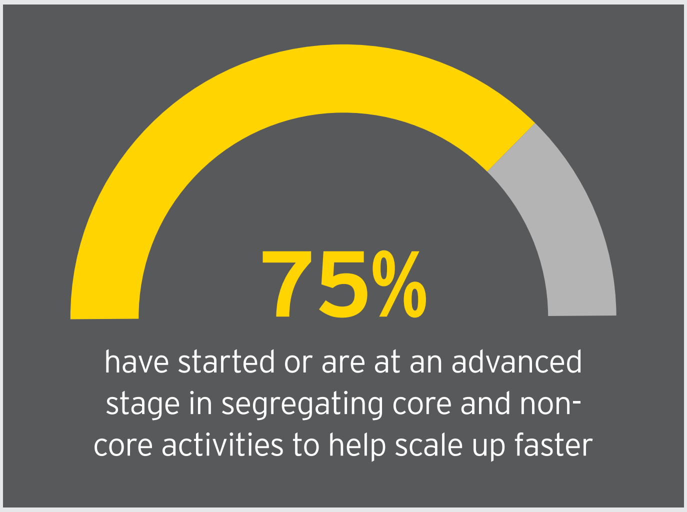
04

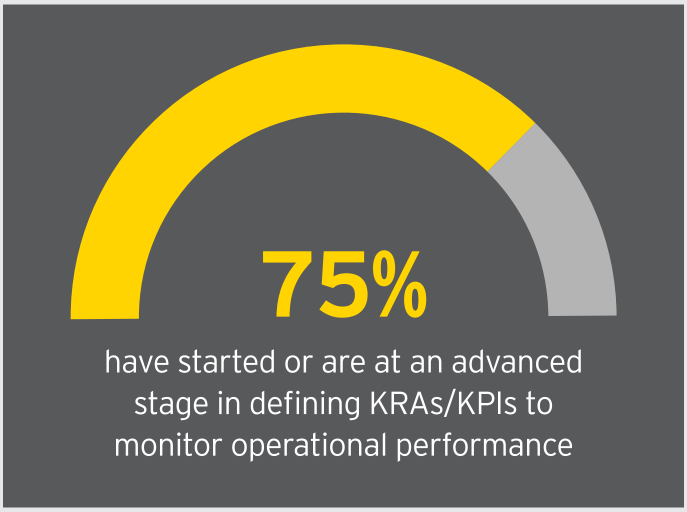
Operations: build flexible supply-chain and operations to meet go-to-market objectives



Balancing flexibility in supply-chain and operations with the growth agenda is crucial while building a scalable model.

The survey indicates that entrepreneurs understand the importance of this factor and have taken steps toward it.





Source: ASCENT-EY Survey

Companies that have balanced the operational flexibility agenda have been able to assess its impact on business growth and financial performance.

~4x	higher average revenue size of companies that have segregated core and non-core activities compared to companies that have not
>50%	of companies that have set KRAs/ KPIs feel they can assess the impact of operational efficiencies on financial performance vis-à-vis <10% of that companies that have not set any KRAs/KPIs

Source: ASCENT-EY Survey

How to optimize operational performance?

Demarcate core vs. non-core

- Segregate core and non-core activities
- Tie up/partner with local/regional players for outsourcing non-core functions

Define KRAs/KPIs

- Define KRAs/ KPIs at all stages of operations and supply-chain
- Identify acceptable standards
- Set a robust tracking mechanism

Automate processes

- Define processes and systems to remove redundancies
- Identify processes that can be automated
- Document the process framework

Who has done it well[7]?

A leading entrepreneur in healthcare services defined and segregated core and non-core activities with a clear strategy to outsource the later. She has been partnering effectively with local city-specific vendors to set up and grow her offerings in different cities. Rather than setting up her own network of service providers, she realized the benefits of utilizing existing networks. This also enabled the entrepreneur to effectively handle the labor challenge, considering that the operations depended heavily on labor.

The company also defined clear KRAs/KPIs to monitor performance in case of any customer complaints and take corrective actions in a timely manner. It set up a centralized corporate function and customer service center to make consistent decisions.

Using this agile model, the company was able to easily expand to over 20 cities in India and manage operations effectively without being restricted by either labor or requirements of asset investment.

[7] *Source: ASCENT – EY Study*

05

Finance and transactions: focus on getting ready to fund growth

As businesses grow, funding needs evolve. Funding a business through the various stages of growth is a complex process as it involves choosing the most appropriate source or combination of sources (equity, debt, friends and family, angel, PE, VC etc.).

Involving external investors helps businesses in many ways: it brings in domain knowledge and technical expertise, opens up networking opportunities, provides strategic direction to boost growth, improves financial decision-making, instils professionalism and helps build credibility and reputation.

The survey indicates that most entrepreneurs find this agenda challenging and are not ready for strategic investments. Another reason for not exploring external investment opportunities is promoters' lack of willingness to relinquish control, especially in case of family-run businesses.

Source: ASCENT-EY Survey

Companies that have a well-structured leadership team to handle the corporate finance function are in a better position to manage strategic investments. Further, companies that have external investors have seen significantly higher growth and are better equipped to take more efficient financial decisions. `

1.7x	higher growth for mid-sized* companies with investors compared to companies without investors

>60%	companies with investors feel they can efficiently manage capital allocation vis-à-vis <20% companies without investors

** Mid-sized companies are those with turnover less than INR200 crore*
Source: ASCENT-EY Survey

How to be investor-ready?

Set up a team to manage finances

- Build a well-structured team for corporate finance functions

Streamline financial systems

- Set up and monitor KPIs regularly
- Improve compliance standards
- Improve credit worthiness/investor attractiveness

Who has done it well[8]?

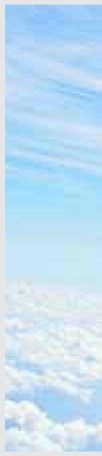
An entrepreneur in the diagnostics space has succeeded in setting up a strong team to manage corporate finances. This has helped the company streamline processes, manage fund allocation effectively to scale up businesses in different cities, assess profitability on a regular basis and take corrective actions. This has also helped the company track performance and improve profitability by taking corrective actions in a timely manner. Also, the company has managed to substantially improve its compliance standards and risk-mitigation practices.

Having a dedicated team to manage the corporate finance function has also helped build internal capabilities to manage external investor interests. The company is now able to fulfil all due diligence requirements well within time and enter into strategic partnerships at the right time. The entrepreneur feels that the knowledge of the investors and the timing of the alliance helped the company reach a larger scale quickly.

[8] *Source: ASCENT – EY Study*

06

Risk management: develop a risk-governance framework for an end-to-end view of business risks



An often neglected but very important area that impacts the growth of emerging businesses is risk management. Risk remains a non-priority until a disaster strikes or a big opportunity is missed. Sustainability of a business depends heavily on how well possible risks are managed.

The survey indicates that risk management is one area where most entrepreneurs need to cover a lot of ground.

Source: ASCENT-EY Survey

Entrepreneurs who have realized the importance of enterprise-wide risk management have set up a strong corporate governance (CG) structure and used technology heavily to mitigate risks. As a result, they have been able to increase their readiness to manage risks and improved their credibility in the eyes of investors/lenders.

Source: ASCENT-EY Survey

50% of companies that have set up a strong corporate governance structure have managed to attract external investors vis-à-vis ~10% of the companies that have not

All the companies that are confident of their readiness to mitigate risks have heavily invested in technology to manage risks and focus more on teamwork

Source: ASCENT-EY Survey

How to manage business risks?

Set up a strong governance mechanism

- Improve compliance and transparency
- Recognize internal and external risks
- Develop policies and framework

Identify risks

- Categorize areas of possible revenue losses, compliance issues, business disruptions, loss of reputation etc.
- Develop guidelines to prioritize risks based on criticality
- Set up measures to mitigate risks

Imbibe technology with risk management

- Reduce manual intervention
- Automate processes
- Document risks and mitigation policies

Who has done it well[9]?

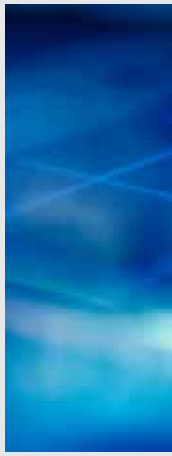
An entrepreneur in the IT software development and exports sector set up a strong corporate governance system right from the beginning. The company managed to identify risks and consciously took steps to diversify its operations geographically. It has actively taken steps to implement processes to guard against IT/cyber-related risks. The company is at a fairly advanced stage of setting up financial controls and reporting standards.

These initiatives have helped the company improve compliance with all statutory requirements. It has also developed and formally documented a robust enterprise-wide risk framework to communicate to major stakeholders. Strong emphasis on risk-management practices has helped the company capture export clients and see healthy growth over the last few years. It has also added 100 new employees over the last couple of years.

[9] *Source: ASCENT – EY Study*

07

Technology: move beyond conventional tactics to reshape business models



Technological changes have always reshaped business models. However, what is strikingly different now is the pace at which technology is changing and in turn disrupting all areas of doing business. But, are business models keeping pace with technological changes?

According to an EY report, 52% of Fortune 500 companies have been affected by digital disruption since 2000; businesses are failing to use ~80% of their customer data; and the top 20 firms in most sectors will be disrupted by sector-specific data platforms by 2018[10].

According to the survey, although most entrepreneurs acknowledge the impact of technological changes on their business, they either are not ready or have not made it a priority to take necessary steps to transform their business model to stay relevant. First generation entrepreneurs who have prior corporate experience are more open to adopting technology than the older generation entrepreneurs.

10%

feel strategically ready to transform business models based on digital disruption

15%

of the decisions are made based on actual data rather than intuition and historical experience

Source: ASCENT-EY Survey

Those who have integrated technology with product/service offerings and embedded it in decision-making and driving growth have managed to reap visible benefits.

[10] *"Megatrends 2015 – Making sense of a world in motion", http://www.ey.com/Publication/vwLUAssets/ey-megatrends-report-2015/%24FILE/ey-megatrends-report-2015.pdf, "Supply on demand : Adapting to change in consumption and delivery models", Economist Intelligence Unit, 2013, "Beth Schultz, "IDC: Tons of Customer Data Going to Waste," AllAnalytics website, www.allanalytics.com/author.asp?section_id=1411&doc_id=270622&_mc=MP_IW_EDT_STUB, "Perspectives: TCS Consulting Journal, Vol. 05: The Digital Enterprise: A Framework for Transformation"; accessed on 10 October 2016*

3x	higher average revenue size of companies that use technology to drive growth compared to companies that do not
20%	higher employee productivity for companies that use data for decision making compared to companies that do not

Source: ASCENT-EY Survey

How to build a technologically driven organization?

Relook at the business model

- Leverage technology such as cloud, mobile and apps for faster scalability
- Use market insights to reassess offering/business model
- Integrate technology with business model to drive growth

Use data to make more informed decisions

- Use data to support critical decisions such as demand planning, offer greater value to customers and improve operational and financial performance Set up measures to mitigate risks

Focus on innovation

- Highlight the gap between innovation-led growth and non-innovation-led growth
- Encourage innovation among employees

Who has done it well[11]?

An entrepreneur in the industrial appliances space relied heavily on manpower in the first leg of his entrepreneurial journey. However, after reaching a certain size, he realized that adding new customers was very challenging because of time constraints with his sales team. It was difficult to reach more number of customers without adding new members to the sales team and, in turn, increasing the cost base. He decided to move his offering from being heavily reliant on manpower to being driven by technology. He has been investing in developing a mobile application that will help generate sales on an incremental basis. The use of technology has given him an opportunity to scale up on a much larger level.

Another entrepreneur in the printing services space has been using technology effectively to resolve client issues in a timely manner. He has developed an online portal where clients can log issues related to services. The portal also allows the entrepreneur to track issues, assign resources to address them, monitor the progress and take any corrective actions. Having an online system has helped the entrepreneur gain greater visibility on client issues, enhance customer service and expand operations across India.

[11] *Source: ASCENT - EY Study*

Conclusion

Although driving scalable growth is challenging, it is not impossible. Entrepreneurs often feel stretched in all directions as the business starts growing, and at times they find themselves in uncharted territories. While the journey is interesting, it is a lonely one for the entrepreneur.

It is important for them to focus on and invest in building capabilities around the discussed seven key drivers right from the beginning of the venture. It is never too late to relook at some areas where dedicated attention is needed to accelerate growth going ahead.

Also, being part of support groups will help entrepreneurs to build insights and resolve challenges, develop innovative solutions, build connections and, more importantly, have companions on their growth journey.

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