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Road to Hyperscaling in India

Decoding the good-to-great journey of India's late-stage startups

March 2023

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delhi.tie.org/

Foreword

The startup ecosystem in India has come a long way. As someone who took the plunge over two decades ago, I am proud to see entrepreneurship celebrated like never before. I recall how challenging it was back then to take the road less travelled, to raise funds to build and fuel growth with nascent digital penetration and a deep-rooted fear of online payments.

Don't get me wrong, entrepreneurship is not for the faint-hearted even today, but a lot has changed, and thankfully, for the better. Building a solid, scaled business may take a long time in India. Still, the ecosystem now is a lot more trusting with financial and non-financial support, allowing late-stage startups to accelerate at a pace that was unimaginable two decades back.

There is much to learn from the journeys of those who managed to hyper-scale smartly, riding the macro tailwinds. One must tread the path carefully, though, since for every success story, there are more who tried to move too fast too soon and are now examples of what not to do.

In 2022, the winds changed course, causing discomfort to the investor community and the startups. This weather is also unprecedented for many unicorns and soonicorns, who have risen in the last 5-10 years. Having seen at least two major economic crisis cycles, I advise founders to be extremely frugal, to celebrate small successes, and to focus on the basics by relying on unaided comebacks and actual network effects rather than growth at all costs. Waves like this are an unparalleled opportunity for well-run businesses to consolidate their lead and emerge stronger than ever.

Deep Kalra
Founder and Chairman,
MakeMyTrip,
Board Member & Mentor,
TIE Delhi-NCR

Executive SUMMARY

Context: India's growing startup ecosystem

The entrepreneurship and startup landscape in India has witnessed enormous growth over the last few years, transforming India into the **third largest startup ecosystem** in the world, just behind USA and China.

106 unicorns in India by 2022: an indicator for India's growing startup maturity, though the overall impact is far wider and deeper

~40,000 active startups in 2022, indicating rising aspirations among Indian entrepreneurs

>130 Bn raised since 2014 by Indian start-ups; growing faster than China and USA

65% share of this funding attracted by top 3 sectors: **Fintech, E-Commerce and Enterprise tech**

>50% reduction in time to reach unicorn status, indicating faster scaling and stronger belief in future growth potential

Journey to successful hyperscaling

While the conducive macro-economic factors, investing & policy environment have acted as key enablers, some startups have made **choices that have helped them win in this market and successfully hyperscale,** while others have withered away.

Through our analysis we understood 8 key unlock themes that have helped late stage startups in their hyperscaling journey.

01 They expand the market & bring in new users...

02 They deepen their moats for customer stickiness...

03 They solve for unit economics early...

04 They leverage capital optimally...

05 They build the right teams...

06 They scale the startup culture...

07 They innovate around technology scalability...

08 They unlock the full potential of ecosystem...

The path forward

The global macro-economic headwinds have also impacted the Indian start-up ecosystem, reflected by ~40% reduction in funding in FY2022.

While investors become measured in their valuations, many large funds are also sitting on large amount of unallocated dry powder.

Startups need to navigate the current volatile environment The gap between well-run startups with strong fundamentals vs. others will increase in this period.

The founders and leaders need to ensure survival as well as keep one eye on the future. While managing burn will be critical on one end, one must capture opportunities smartly to invest and grow in the long term.

Table of
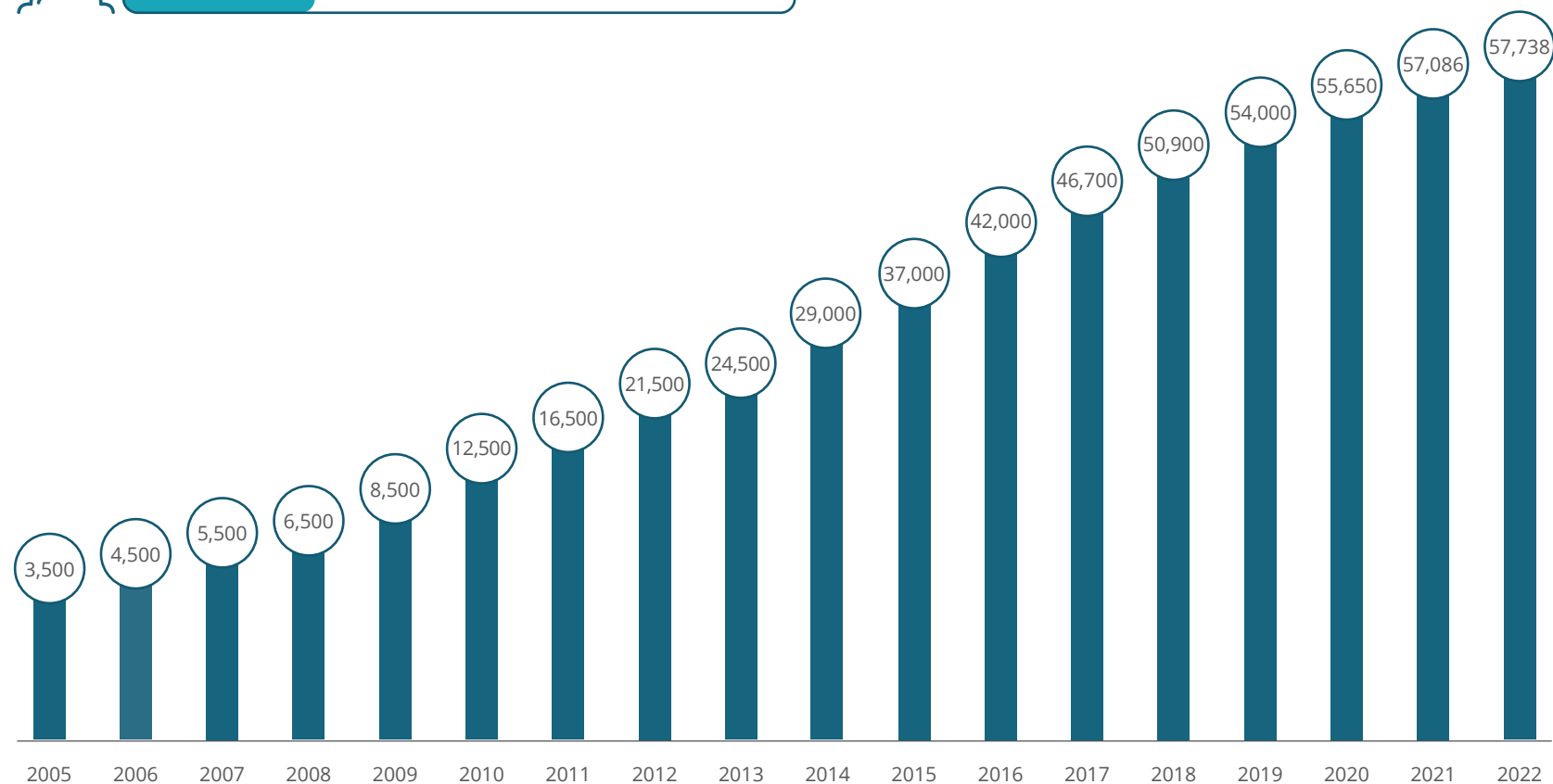# Contents

01

CONTEXT OF ECOSYSTEM

The startup ecosystem in India has seen massive growth over the years, producing ~58,000 startups

~40,000 of ~58,000 startups launched are active

Cumulative number of Indian startups launched

Year	Value
2005	3,500
2006	4,500
2007	5,500
2008	6,500
2009	8,500
2010	12,500
2011	16,500
2012	21,500
2013	24,500
2014	29,000
2015	37,000
2016	42,000
2017	46,700
2018	50,900
2019	54,000
2020	55,650
2021	57,086
2022	57,738

Source: Inc42 State Of Indian Startup Ecosystem Report 2022

A confluence of factors have contributed to the proliferation of startups in India over the past decades

Rising digital adoption: 900Mn users expected by 2025
Telco price wars, commoditization of mobile data are leading to high smartphone and internet penetration: expected 13.5% CAGR in smartphone users from 2020 to 2025

Pandemic aided acceleration and explosion of UPI by 2.6X
Pandemic accelerated new digital behaviors; UPI adoption also grew 2.6X between April 2020 & April 2021 within a year, benefiting Fintech and E-Commerce sectors especially

The age demographic sweet-spot driving new digital behaviors
65% of population below 35 years, with median age of 28.4 years (2023); Also producing ~1Mn graduates a year

Expanding middle class & rising urbanization
Resulting in larger demand basket – Middle class will account for 46% of all Indian households in 2025 (vs 37% in 2018)
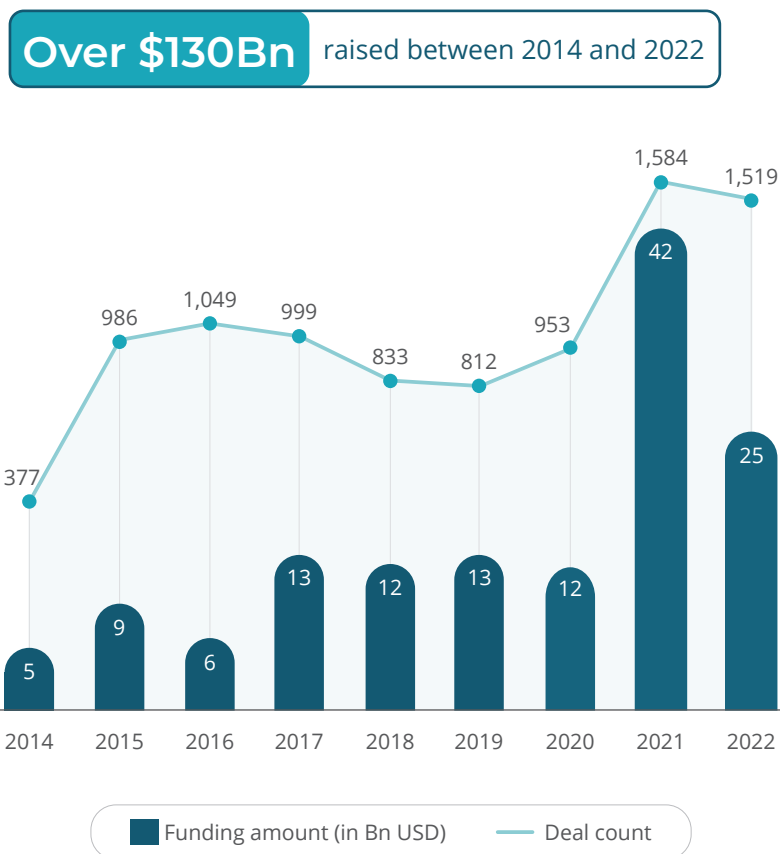
Conducive public policy
Digital India program, Startup India initiative (2016), Multiple incubation programs, Tax benefits, investments to support infrastructure for startup
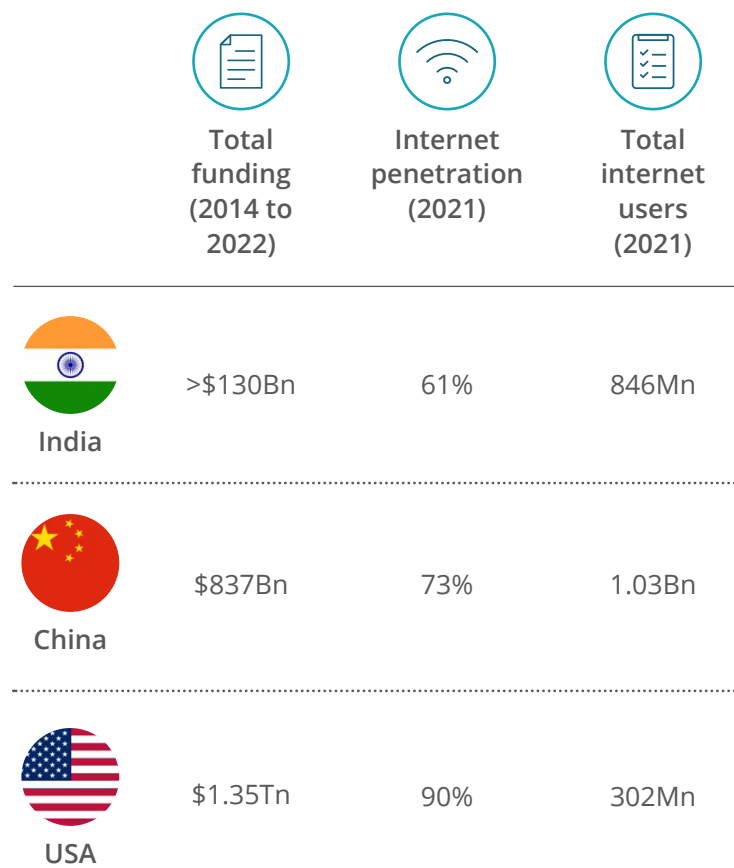
Source: Morgan Stanley, Uplers, ADB The Startup Environment and Funding Activity in India June 2020 Report

Cumulatively, Indian startups have raised over $130Bn since 2014, growing faster than China

Funding raised peaked in 2021 and dropped by ~$17Bn in 2022, still more than twice the funds raised in 2019 & 2020
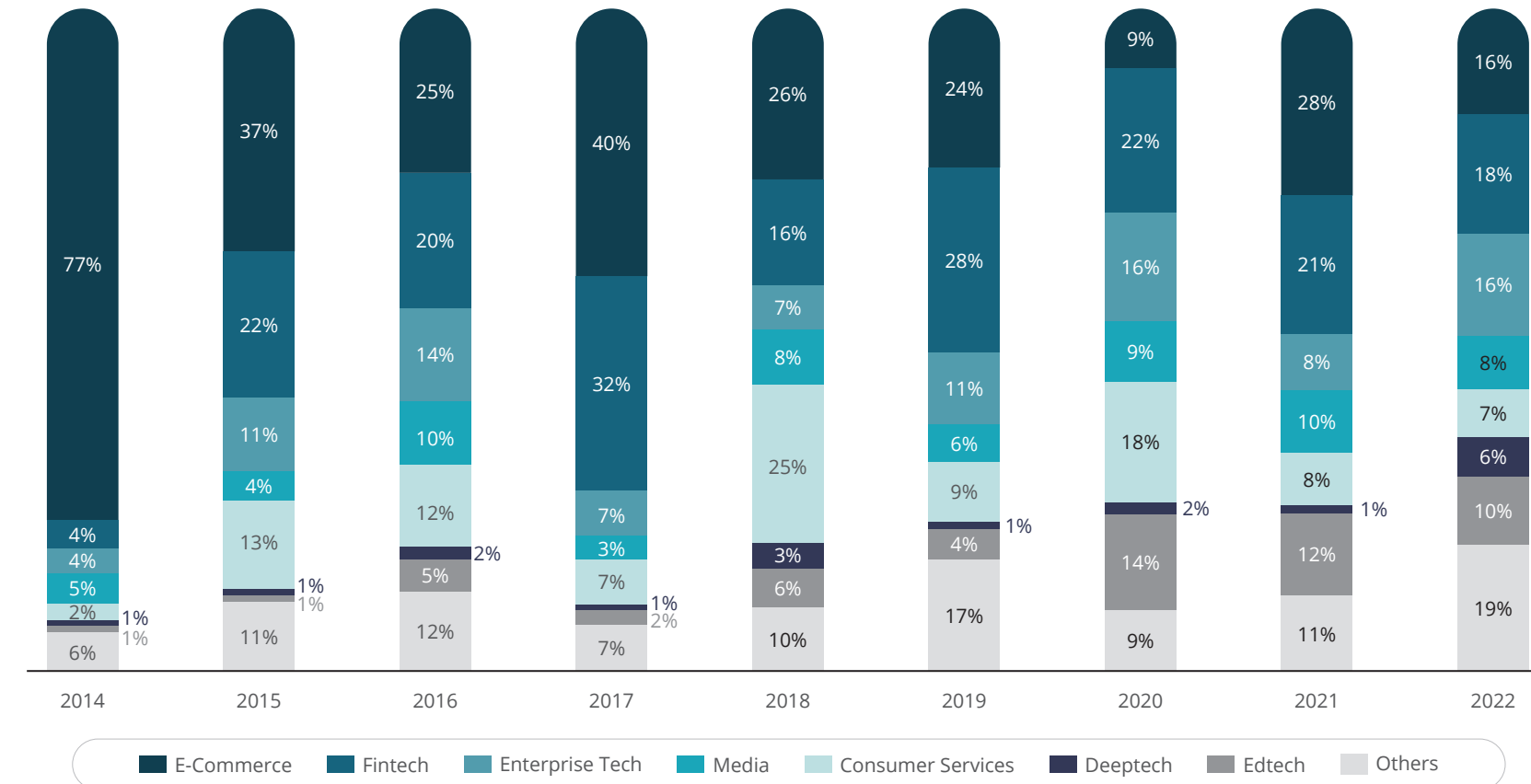
Over $130Bn raised between 2014 and 2022

Legend: ■ Funding amount (in Bn USD)　— Deal count

Values by year:
- 2014: 5 (deal count 377)
- 2015: 9 (986)
- 2016: 6 (1,049)
- 2017: 13 (999)
- 2018: 12 (833)
- 2019: 13 (812)
- 2020: 12 (953)
- 2021: 42 (1,584)
- 2022: 25 (1,519)

Startup funding in India has increased considerably over the last decade

	Total funding (2014 to 2022)	Internet penetration (2021)	Total internet users (2021)
India	>$130Bn	61%	846Mn
China	$837Bn	73%	1.03Bn
USA	$1.35Tn	90%	302Mn

Note: Funding amount numbers are rounded off; **Source:** Inc42, Traxcn, other secondary sources

Fintech, E-Commerce and Enterprise Tech attracted most funding

Startup funding distribution across sectors in India from 2014-2022

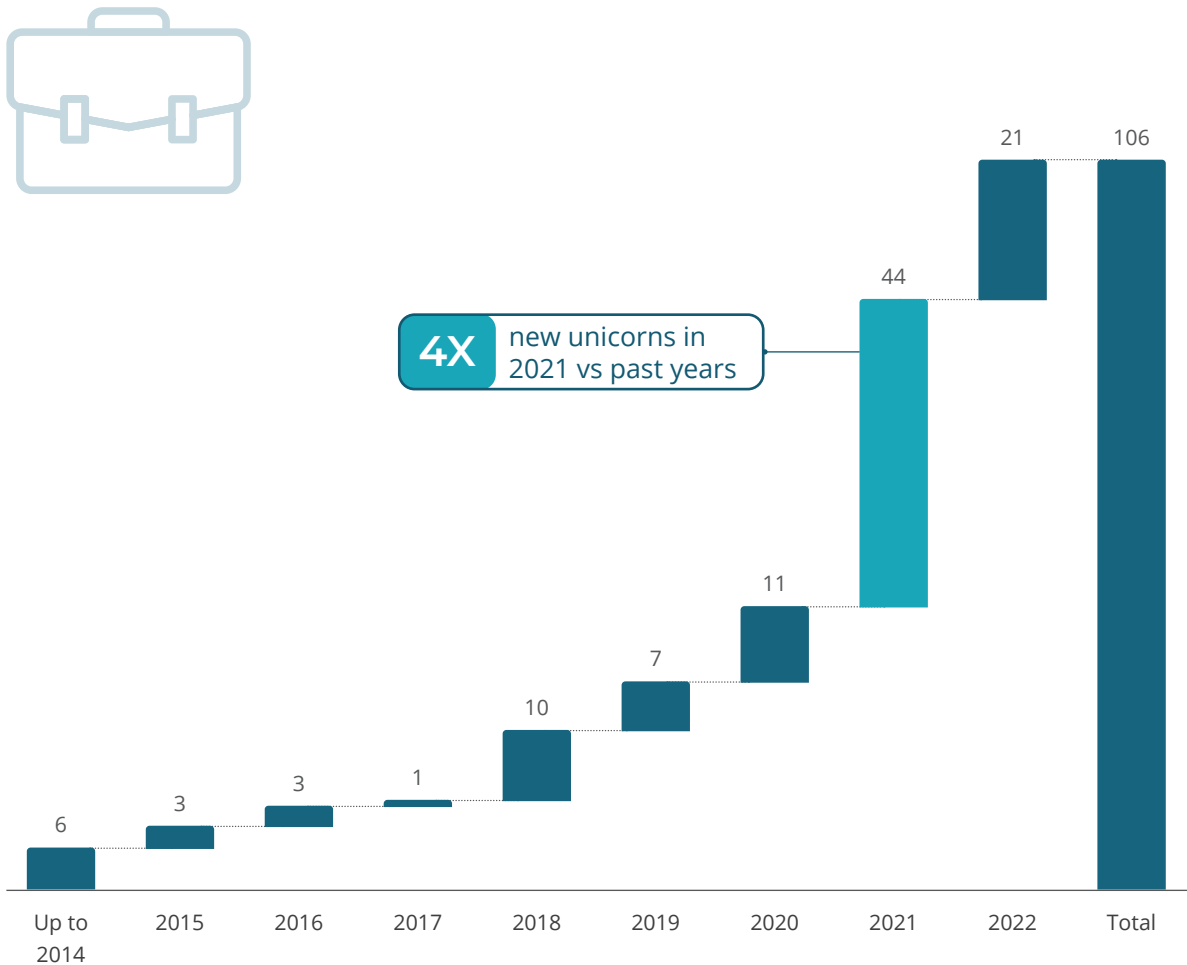| Year	E-Commerce	Fintech	Enterprise Tech	Media	Consumer Services	Deeptech	Edtech	Others
2014	77%	4%	4%	5%	2%		1%	6% / 1%
2015	37%	22%	11%	4%	13%	1%	1%	11%
2016	25%	20%	14%	10%	12%		5%	12% / 2%
2017	40%	32%	7%	3%	7%		1%	7% / 2%
2018	26%	16%	7%	8%	25%	3%	6%	10%
2019	24%	28%	11%	6%	9%		4%	17% / 1%
2020	9%	22%	16%	9%	18%		14%	9% / 2%
2021	28%	21%	8%	10%	8%		12%	11% / 1%
2022	16%	18%	16%	8%	7%	6%	10%	19%

While Fintech, E-Commerce and Enterprise Tech sectors have seen >55% funding share in India over this period; other sectors have also seen greater traction in the recent years

Source: Inc42 State Of Indian Startup Ecosystem Report 2022

Among these startups, 106 successfully turned into unicorns, making India #3 country with most unicorns today
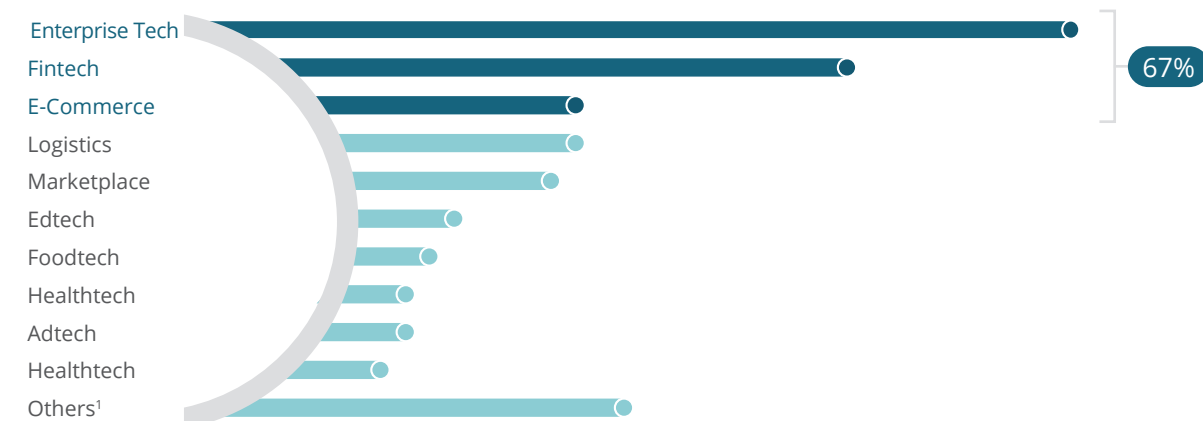
| # of Indian unicorns minted every year

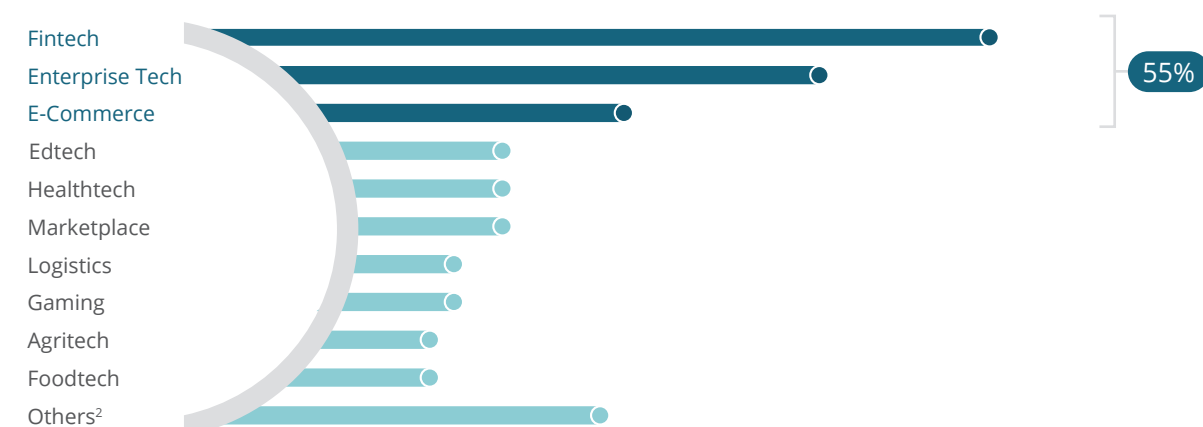**4X** new unicorns in 2021 vs past years

Up to 2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
6	3	3	1	10	7	11	44	21	106

| # of unicorns as of 2022

USA **618**

China **174**

India **106**

Nearly 60% of the unicorns and soonicorns are from Enterprise Tech, Fintech and E-Commerce, in line with the funding trends

| # of Indian unicorns by sector as of November 2022

- Enterprise Tech
- Fintech
- E-Commerce
- Logistics
- Marketplace
- Edtech
- Foodtech
- Healthtech
- Adtech
- Healthtech
- Others[1]

67%

| % of next 100 startups (soonicorns) by sector as estimated in November 2022

- Fintech
- Enterprise Tech
- E-Commerce
- Edtech
- Healthtech
- Marketplace
- Logistics
- Gaming
- Agritech
- Foodtech
- Others[2]

55%

- Enterprise Tech has added highest number of startups & unicorns mainly due to digital adoption brought about across sectors by the Covid-19 crisis

- Rise of Fintech can be attributed to rise in digital infrastructure (UPI, Aadhaar, etc.), mobile banking, payment gateway services, mobile wallets, paperless lending, etc.

- Uptick in E-Commerce can be attributed to rise in digital payments and new online behaviours post Covid-19 crisis

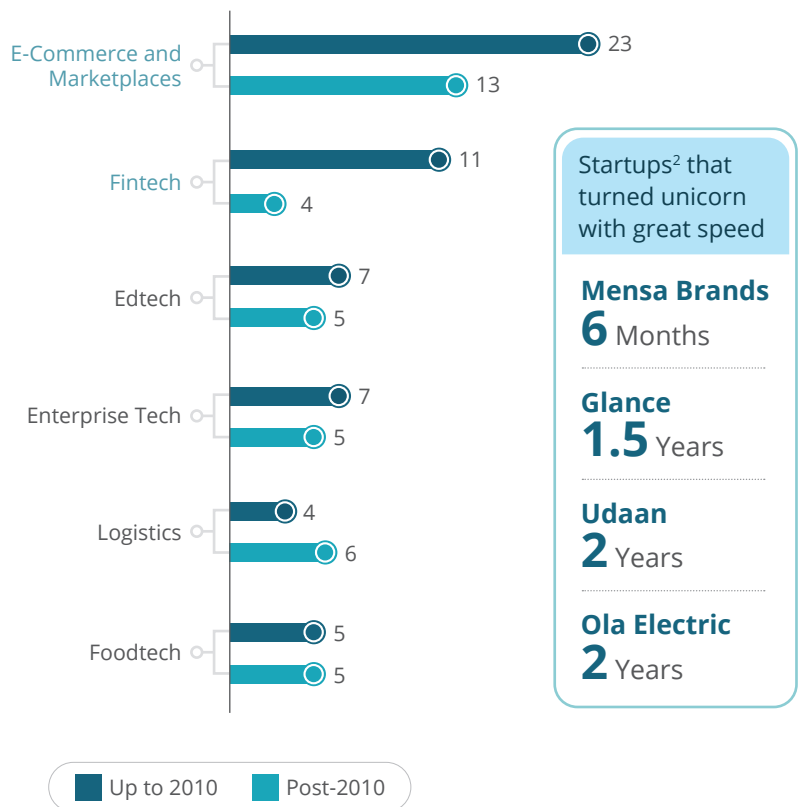# Reaching unicorn status has accelerated over the past years, specially for Foodtech, Marketplaces and Fintech

Time to reach unicorn status cut in half for startups founded post-2010

Average # of years to reach unicorn status by founding year

-50%

12 — Up to 2010

6 — Post-2010
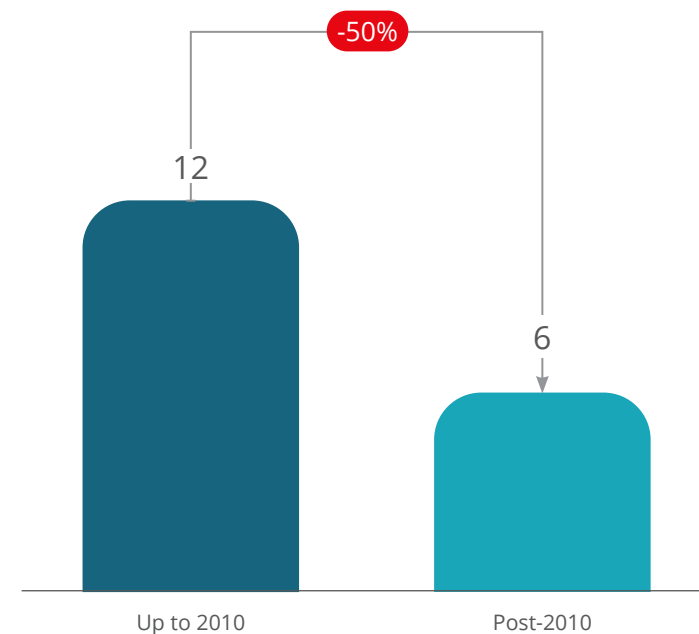
Improvement largely coming from Marketplace and Fintech

# of years to reach unicorn status by industry[1] and founding year

Industry	Up to 2010	Post-2010
E-Commerce and Marketplaces	23	13
Fintech	11	4
Edtech	7	5
Enterprise Tech	7	5
Logistics	4	6
Foodtech	5	5

■ Up to 2010 ■ Post-2010

Startups[2] that turned unicorn with great speed

Mensa Brands
6 Months

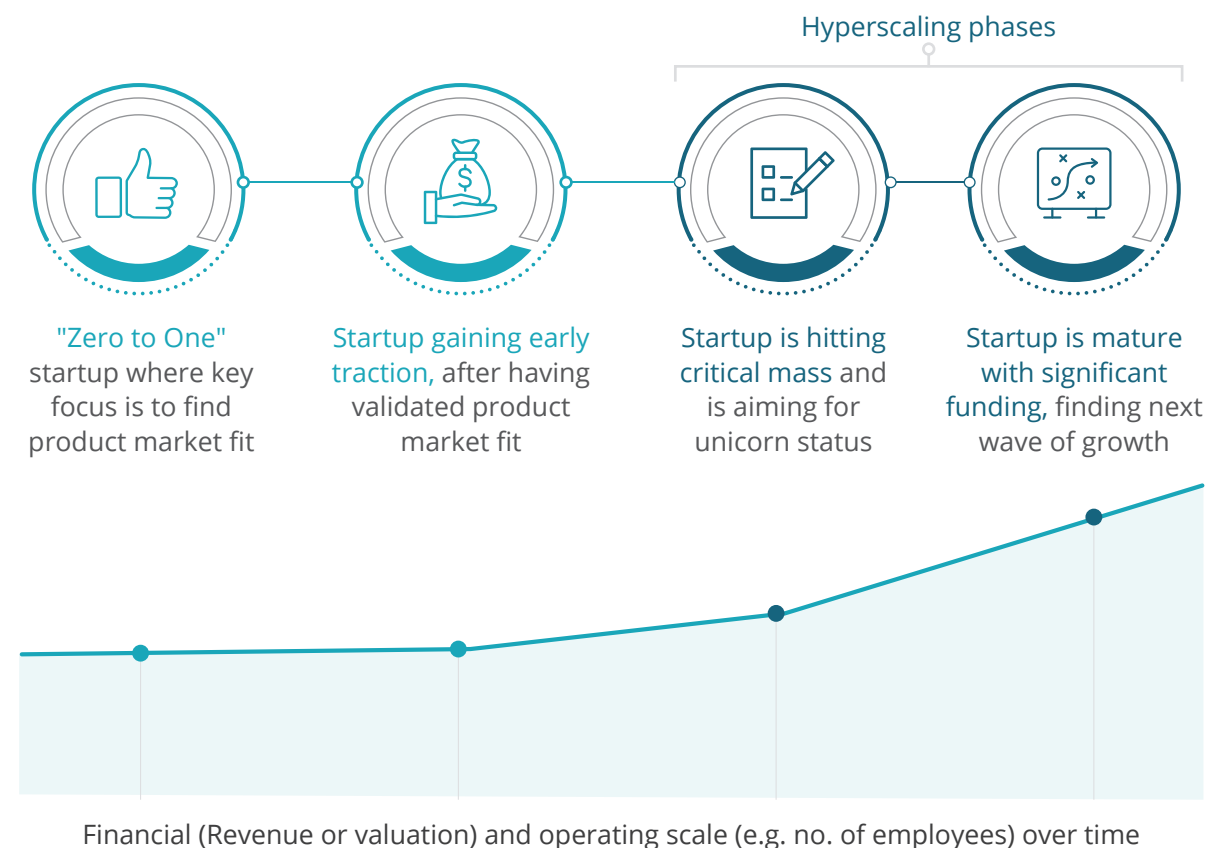**Glance**
1.5 Years

Udaan
2 Years

Ola Electric
2 Years

1. Excludes industries with n<4 (i.e., Adtech, Healthtech, Proptech, Media, Gaming, Aggregator - Consumer Brands, D2C - Personal Care, Manufacturing, Cleantech, Telco, Interior Design, Content – Lockscreen); **2.** Select, non-exhaustive
Source: Pitchbook, Crunchbase, Inc42 State Of Indian Startup Ecosystem Report 2022, BCG analysis

02

ROAD TO SUCCESSFUL HYPERSCALING

Hyperscaling is a key milestone for any start-up in its journey towards becoming a sustainable organization

Hyperscaling phases

"Zero to One" startup where key focus is to find product market fit

Startup gaining early traction, after having validated product market fit

Startup is hitting critical mass and is aiming for unicorn status

Startup is mature with significant funding, finding next wave of growth

Financial (Revenue or valuation) and operating scale (e.g. no. of employees) over time

Why do startups hyperscale?

01 Grow fast to capture the market by ensuring optimal product market fit

02 Beat the competition by gaining sufficient market share

03 Achieve critical mass organically

> This report aims to decode the factors critical for successful late stage hyperscaling by understanding the journey of marquee Indian Unicorns and soonicorns[1]

1. Unicorns are valued at >=$1Bn; soonicorns are valued at ~$200Mn to <$1Bn

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Startups go though many potential pitfalls at the time of hyperscaling...

Balancing profitability with pressures to grow

Tendency to "buy scale" could back-fire, if done without clear sight of long-term customer value and unit economics

Expanding to new user segments: Small towns, International...

Tempting to take models successful in big cities to Tier 2/3, or aspire to go global, but many well-known companies had to scaled back cities, countries

Customer retention amidst price-sensitivity and competition

Tendency to offer even deeper discounts to retain customers, or to escalate customer acquisition costs (CAS) to hide gaps in stickiness

Lack of strong governance and poor discipline

Excessive influx of 'cheap capital' often encourages poor discipline; In extreme cases, have also led to conscious mis-reporting or fraud

Loss of controls, culture as organization expands

In euphoria of scaling up, one may attempt to grow too fast too soon, and miss scaling critical tenets that helped in succeeding in the first place

Source: Based on analysis of success and failure stories of startups in India

We have seen successful Indian startups overcome them...

Customers

THEY EXPAND THE MARKET AND BRING IN NEW USERS...

01 By adapting to local nuances, deep rooted behaviours, and addressing latent needs of specific customer segments

Business Model

THEY SOLVE FOR UNIT ECONOMICS EARLY...

04 By starting out profitable on the back of a strong moat,

05 By being disciplined on path to positive economics and "holding the mirror tight"

Business Model

THEY DEEPEN THEIR MOATS FOR CUSTOMER STICKINESS...

02 By expanding beyond traditional sectoral boundaries

03 By outpacing competitors to build up the "network"

Capital

THEY LEVERAGE CAPITAL OPTIMALLY...

06 By consciously building a CapTable that helps in strengthening competitive position

07 By opportunistically expanding at critical 'opportune' moments

...and hyperscale through 8 key unlock themes & 16 critical factors...

People & Organization

THEY BUILD THE RIGHT TEAMS...

08 By shaping the organization to attract the people they need

09 By decentralizing power & accountability through sharp organization design & people

Product & Technology

THEY INNOVATE AROUND TECHNOLOGY SCALABILITY...

13 By embedding platform thinking into the product, right from the start

14 By constantly innovating and refreshing the tech stack, infrastructure, processes

Culture

THEY SCALE THE START-UP CULTURE...

10 By instating mini-founders that champion culture

11 By institutionalizing experimentation & innovation

12 By sharply adapting KPIs for different parts of the business to specific goals

Ecosystem

THEY UNLOCK THE FULL POTENTIAL OF ECOSYSTEM...

15 By being partner-centric in scaling journey

16 By balancing control and empowerment across partner network creatively

They expand the market and bring in new users

I How Indian unicorns have done it successfully?

01
By adapting to **local nuances** and leveraging **creative channels for acquisition**

While tapping into "Bharat" potential has been tempting for all, many leading Indian startups had to scale back after launching in small towns, as solutions that worked in larger cities were not as viable for small towns. Select few have successfully innovated and created new business models and channels to fit with **consumer preferences of tier 2/3 cities.**

Meesho
Created reseller program to target the less trusting and less tech-savvy tier 2/3 city consumers

Pepperfry
Leveraged localized franchised offline stores to cater to small town preferences

> It's important to appreciate the local nuances and embed the brand in the cultural zeitgeist when you operate in a diverse market like India, while still keeping the global ethos of your offering in mind. Globally, digital ad-based push marketing works for hosts but in India we went a step beyond and conducted host community meetups across key cities so that we could create more awareness about our platform – we worked on bringing the host community together and fostering closer ties between them that catalysed faster growth for us.
>
> — Amanpreet Bajaj, General Manager – India, Southeast Asia, Hong Kong and Taiwan, Airbnb

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Meesho designed a unique reseller program to target less tech-savvy consumers in tier 2/3 cities

→ Many companies that simply extended their existing successful models from metro cities to the smaller towns in India often saw muted success or failed

→ Meesho identified this rapidly expanding digital population as a target segment and designed their marquee reseller and social commerce model that fits with small town consumers who are less comfortable shopping online

→ They tapped onto well established resellers on Facebook groups, housewives, and local fashion influencers, and delivered a seamless user experience through features like a marketplace for low-end smartphones, ability to set prices and management of delivery to end users

→ Demand surged at an extremely low customer acquisition cost, as Meesho customers felt a sense of familiarity and trust

THE RESULT

70%+ of Meesho's business comes from Tier 2+ cities

> There's still a huge part of the population uncomfortable to purchase online unless someone helps them with it, and in our case that's our resellers. Micro influence matters
>
> — **Sanjeev Barnwal Founder & CTO**

They deepen their moats for customer stickiness

❘ How have Indian unicorns done it successfully?

By expanding beyond traditional sectoral boundaries **02**	By outpacing competitors to build up operational **network** **03**
Indian unicorns have successfully moved from **acquisition to retention and monetization** through a **"full-stack" approach**	Indian unicorns have raced to **leverage natural network effects** or build scaled **networks** that are not easily replicable

OfBusiness
Combined credit with original commerce business

Zepto
Differentiates network through execution and operational excellence

Udaan
Combined payments and credit to logistics business

Naukri
Took advantage of natural network effects as first mover

OfBusiness expanded into credit business to lock-in customers initially attracted to its core offering of commerce

→ With rising digitization and focus on manufacturing sector in India, OfBusiness had an inkling that financing is a large missing piece of the puzzle in the B2B SME segment

→ However, as procurement was a lower-hanging fruit that could give them an inroad into the market, the firm started out as a B2B procurement platform for raw materials

→ After achieving product market fit, the founders returned to the question of how to create the moat to hold customers forever. They traced their way back to credit, and it has been driving the startup's growth since

THE RESULT

Repeat rates became 90% for the customer cohort after launching lending business through NBFC arm OXYZO

> " The financing feature has driven the startup's growth to where it is today... This has been the true turning point for the company.
>
> — Vasant Sridhar Co-Founder & CSO

They focus on unit economics early

| How have Indian unicorns done it successfully?

By riding on strong moat to be **profitable from the start** `04`	By being disciplined with **"holding the mirror tight"** during early cash burn `05`
Only 18 out of 100 unicorns in India are profitable	**Only 23%** of Indian founders ranked profitability higher than growth
Indian unicorns **in markets with natural strong moats** (e.g., network effects, technology) have taken advantage of it to build a profitable structure for scaling	Indian unicorns in hypercompetitive markets have a clear picture of scale they need for their business models to turn profitable, and built-in rules and checks to keep themselves on track

Naukri Built network effects that generated profits from the start	**Delhivery** Works on business model to create profits, keeps dependence on external factors to a minimum
Zerodha Leveraged its natural technology moat to build trust and stickiness with customers	**Meesho** Ascertains scale it needs to reach to turn profitable and pre-defines checkpoints for pivots

Naukri used its first mover advantage to generate profits from the start by leveraging network effect

→ Naukri was the first to identify the market potential in the fragmented job market and was a first mover in the Indian job portal space, solving an unmet need for consumers

→ Except for a brief two year period, they have remained profitable since founding in 1997, all thanks to their ability to grow via the network effect with limited cost of acquisition

→ To date, Naukri has the strongest brand recall despite low marketing spend. It has even defended competition against global giants like Monster in India

→ With the moat it has, Naukri is constantly investing in its platform and talent in areas like AI to enhance customer experience and protect its first mover advantage

THE RESULT

59% EBITDA margin for recruitment solutions in FY'22

> Ability to understand the customer, the market and how to solve an unsolved problem is key. If you do this well, then you can scale without burning money, with lower CAC and better capital efficiency.
>
> — Sanjeev Bikhchandani
> Co-Founder, Info Edge

Source: Press search, Company reports, BCG analysis
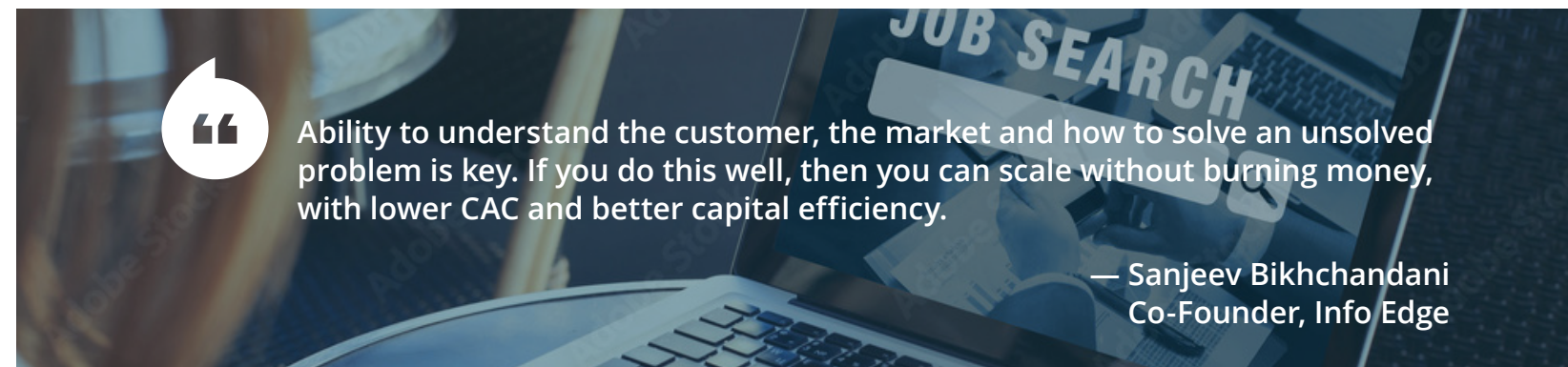
Delhivery balances growth and profitability via positive unit margins and economies of scale

→ Right from Day 1, Delhivery ensured its gross margins were positive – a necessary first step towards a profitable business. In its scaling journey, Delhivery also worked hard on its business model for it to be generating both profitability and growth, and not just one of the two

→ Delhivery keeps its dependence on external funding to a minimum and funds new businesses and experiments with profit-making core delivery business - mainly using shareholder funds for capital investments

→ The leadership also drives a disciplined approach while taking expansion decisions (within India/global)- they assess whether the industry can support their long-term vision, whether they have gone deep enough in current markets, and set an extremely high bar on target ROCE

THE RESULT

Only 4 years to break-even in the core delivery business, even with the large fixed costs needed to build logistics hubs

**Ultimately, startups need to have a clear picture of making money...
They need to harmonize growth and profitability. These two are not conflicting.**

Source: Press search, Company reports, BCG analysis

They leverage capital more strategically

Raising capital at the right time can be a strategic advantage

Pre-empt threats by ensuring investor money is not funneled to competition

Mentorship from quality investors who will provide right support and network to unlock value amidst the scaling journey

Win the battle against competition when faced with strong pressure e.g., price wars

Catalyze growth engine to expand in new businesses, Tier 2+ cities, or going global

How have Indian unicorns secured capital at critical moments?

By targeting investors that can **help deepen competitive moat** [06]	By attracting capital to **opportunistically expand** at critical moments [07]
Indian unicorns have minimized competitive threats by onboarding the biggest investors in the market	Indian unicorns have allocated dedicated resources to build up scalability
Policybazaar Targeted prominent investors to preempt competition	**Meesho** Alternated business model basis capital availability, maintaining profitability

Source: Interviews, BCG experience

Policybazaar targeted specific investors to ensure strong backing for themselves, and pushing out competition

→ Policybazaar has around 23 investors with some of the biggest names on their side such as Softbank, Temasek, and Info Edge. To date, the startup has raised ~$800Mn in funding

→ Post 2014, the cost of capital became cheaper in India. Though PolicyBazaar had no real need for money, raising capital from many investors, especially the ones with deep pockets, was more from a strategic point of view for Policybazaar

→ This ensured that prominent investors were on their side rather than funding competitors, thereby preempting the rise of potential competitors

THE RESULT

Managed to keep competition at bay – continues to be market leader (>90% share) in digital insurance marketplace in India

> At one point, when relatively cheaper capital was available in the India market actively searching for newer challengers to fund, we consciously worked on ensuring that the right investors are on our side than anyone else.
>
> — Alok Bansal
> Co-founder & Exec Vice Chairman

Source: Press search, Company reports, BCG analysis

Meesho pivoted into new business models at opportune times of capital availability

→ In early years, Meesho saw huge success via the reseller model that managed to bring in high levels of demand at a significantly lower customer acquisition cost. Meesho also adopted a highly asset-light model due to elimination of inventory carrying cost and use of 3PL

→ In late-stage journey, when capital was available easily and relatively inexpensively, to fuel the growth further, Meesho opportunistically also create D2C marketplace model, which while comparatively expensive to reseller model, allowed Meesho to unlock a new wave of growth

→ As capital started to become more expensive since 2022, Meesho shifted focus back to its pushing reseller model more, with stronger focus on improving profitability levels

THE RESULT

Meesho has managed to successfully repivot and scale in line with evolving macro environment

> " As a founder, you must get a sense of the market & capitalize big and small opportunities at the right time. You, as a leader, need to ensure you get what you want out of these bets and at the same time, minimize the cost of experimentation. Mindset of a founder needs to also change very quickly to align with evolving market realities
>
> — Sanjeev Barnwal
> Founder & CTO

Source: Press search, Company reports, BCG analysis

They build the right teams

How have Indian unicorns set up organization for successful scaling?

By **shaping the organization** to attract the people they need **08**	By **decentralizing power** through organization. design and people **09**
Indian unicorns have shaped and positioned themselves favorably to attract good talent	Indian unicorns have relied on **distributed leadership** to scale their multi-brand businesses

Zepto
Pushed themselves to become the best option to attract talent in the market

1mg
Built the right teams with generalists leading specialists' teams as it scaled

Delhivery
Rebranded the industry and career paths to attract skilled talent needed

Icertis
Prioritized specialists to address specific scaling problems it was facing

Source: Interviews, BCG experience

Zepto designed compelling employee value proposition to become the top destination for talent

→ Zepto was relatively a late entrant in the ecommerce market, Zepto needed to move fast and create scale quickly, since quick commerce could survive only with unprecedented levels of asset utilization and turnaround time.

→ Zepto needed people that had both a zero-to-one mindset and deep expertise in areas like supply chain

→ With just a sliver of such talent out there, Zepto pushed hard to become the best option for such entrepreneurs. They developed career pathways that were more accelerated than any other competitors, and aggressively pushed the visibility and reputation of that to startups and mature companies that held such talent

THE RESULT

Just 1 year after launch, Zepto has managed to attract plenty of senior executives from well-known companies

" Contrary to the approach many start-ups take, Zepto did not start with attracting pure hustlers. With a complex product that needed to scale quickly, we needed people that had both a zero-to-one mindset and deep expertise in areas like supply chain

— Aadit Palicha
Co-Founder and CEO

Source: Press search, Company reports, BCG analysis

OYO's distributed leadership model enabled a pivotal shift in their scaling strategy

→ **Embracing distributed leadership helps in staying nimble and responsive** in a fast-changing world and this is even more critical for startups. OYO was considering a strategy pivot towards full inventory model. It was a risky proposition – and not everyone was on the same page

→ The CEO created a team of 5, including him, that defined the strategy for this move and **distributed the ownership across the identified leaders.** Of this group, not all members were C-suite: instead, it was a mix of senior and VP level management, plus a young talented engineer

→ **The speed with which OYO achieved consensus, changed gears and rallied the entire organization** to deliver on this new strategy ensured that the set targets were met in record time

THE RESULT

OYO hit the target of **10k new rooms per month in 15 months**

4x growth of its fully-franchised managed inventory model within two years

> " The biggest leverage I can get out of the senior team we have put together is to let them run their own domains of expertise.
>
> — Ritesh Agarwal
> Co-Founder and CEO

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Source: Press search, Company reports, BCG analysis

They scale the startup culture

How have Indian unicorns set up organization for successful scaling?

By **instating mini-founders** that champion culture **(10)**	By institutionalizing **experimentation and innovation (11)**	By ensuring **right KPIs** are selected to evaluate performance **(12)**
Indian unicorns have created a host of **"mini-founders"** to take charge & thereby cultivating **entrepreneurial mindset**	Indian unicorns have **continually evolved their moats** through inculcating **innovation** across the organization	Indian unicorns have built the **right performance culture** to drive discipline and results

Policybazaar
Created mini-founder positions to lead separate businesses

Pepperfry
Ensures innovation through culture and top-down focus

Delhivery
Monitors different KPIs for different segments depending on the maturity and stage in their hyperscaling journey

Uber
Built innovation hubs and fosters innovative mindset

PolicyBazaar created "mini-founders" within to take end to end charge of parts of the business

→ As businesses mature, it becomes increasingly difficult to preserve the entrepreneurial spirit from their early stages. PolicyBazaar started its operations in 2008 and was a well-established business in 2015 when its founders launched PaisaBazaar- a digital consumer credit marketplace

→ The leadership knew that both the businesses were at different levels of maturity with different market dynamics, and hence decided to keep PaisaBazaar and PolicyBazaar independent

→ These separate businesses own separate P&L and "mini-founders" are evaluated separately for the performance of each vertical

→ This helped nurture & protect the startup spirit in new businesses even as the older businesses matured

THE RESULT

PaisaBazaar became India's largest digital consumer credit marketplace with > 50% market share

> " Finding and nurturing mini-founders has been a priority to extend a culture of entrepreneurship as well as to create leverage for the founders. Once we are aligned at the core ethos, and on the boundary conditions for specific businesses, we empower them to make decisions, run businesses like their own.
>
> — Alok Bansal
> Co-founder & Exec Vice Chairman

Pepperfry ensures steady stream of innovation through right culture and enabling processes

→ Pepperfry's founder makes a conscious effort to not know what the micro-experiments conducted within functions are about; instead, the founder is interested in whether each function is indeed experimenting at all, and the right KPIs are put in place to ensure such culture is encouraged

→ Once micro-experiments become larger, "tiger teams" (i.e. high-performing cross-functional teams) are set up, and regular updates to the founder begin. These larger experiments receive their due rewards and recognition, and in turn incentivize each function to conduct the right types of micro-experiments regularly

THE RESULT

Steady stream of experiments at any one time:

→ **25+ micro-experiments** across functions

→ **3-4 large experiments** led by tiger teams and focused on by founder

> " At such a scale, it's down to making innovation a culture in every single function; I don't need to know what experiments are about, but I need to know that they are happening.
>
> — **Ambareesh Murty**
> **Co-Founder and CEO**

Source: Press search, Company reports, BCG analysis

They innovate around tech scalability

Scalable technology sets up startups for future success

Provides flexibility in early stages while looking for product market fit before committing to scaling a particular product

Ability to serve increasing demand in the future without jeopardizing customer experience and incurring significant costs

How have unicorns innovated around technology scalability?

By **designing a platform** and not a product from the start [13]

Indian unicorns have built platforms acting as marketplaces

Uber
Builds full-tech platforms globally that can be scaled locally to cater to specific needs

By constantly **innovating and evolving** tech infrastructure [14]

Indian unicorns have allocated dedicated resources to innovate & build scalability

1mg
Focused on platform scalability to drive agility & responsiveness

Source: Press search, Interviews, BCG experience

Uber's strong global tech platform provides the flexibility to scale local operations

→ Underlying Uber's global success is its tech enabling it to offer the right pricing to consumers while considering supply and demand factors. When it launched in India, Uber started with a simpler, low-cost product offering with its Hatchback service to reduce supply barriers. Eventually, it customized its product offering to meet local demands, such as adding a Cash payment method

→ As Uber grew in India, its platform was able to support its expansion to more cities. Its unified tech stack provided the stability and scalability Uber needed to grow. Its technology is continuously evolving as learnings from one city are fed back to the system to run more experiments. With Uber's global scale, teams have one less worry about potential issues with its servers or platforms

→ Uber India is also a unique market for the company as they build full-tech solutions locally such as Uber Bus, Uber Rentals that are globally scalable

> " We don't build tech solutions that are not scalable... In India, we have two big tech centres to build tech that gets deployed to other markets globally
>
> — Prabhjeet Singh
> President, India & South Asia

Source: Press search, Company reports, BCG analysis

1mg improved the tech infrastructure to drive agility and responsiveness for business

→ 1mg had to adapt its tech infrastructure according to its scaling stage. In the beginning, they started with a monolithic infrastructure then eventually evolved into a microservices architecture to improve their speed of delivery

→ They hosted their platform via a private data center but faced DDOS attacks. Eventually, 1mg shifted to cloud infrastructure given reliability and robustness offered by cloud. While moving to cloud was pricier, it provided more flexibility and speed to scale their services

→ 1mg also leverages emerging technologies like AI and ML to deliver superior healthcare-related services at scale. Today, 1mg has over 12 projects live in their product systems using AI and ML models. 1mg has a dedicated "platform team" to continuously identify new technologies to help build the scalability of its platform

Tech Infra Evolution

From Monolithic components to true microservices based, scalable architecture

Cloud-first mindset

> " At every stage in the scale, the challenges are very different. Evolving the tech infra at the right time is key - knowing when to move from a quick product that demonstrates PMF, and when to transition the architecture for scalability & stability with formal processes is critical. In our case, it gave us a certain balance of speed of development, scalability, stability, that helped in building product offerings much much faster.
>
> — Prashant Tandon, CEO and Co-Founder

Source: Press search, Company reports, BCG analysis

Partnerships is one of the most powerful tools for startups to scale

To find the next wave of customers

Offer full-stack solution quickly

Build up reputation

Acquire scalable technology

Expand operating model quickly

How have Indian unicorns realized the potential of partnerships?

By **being partner-centric** in scaling journey **15**

By **balancing control and empowerment** creatively **16**

57% of businesses use partnerships to gain new customers

Up to **70%** of business partnerships fail despite the potential impact

Icertis
Collaborated with partners by building their offerings around enabling partners

Uber
Leveraged partners to reach the right set of customers

Pepperfry
Built successful partnerships with franchisees while retaining control over value chain

Source: Interviews, BCG experience

Icertis saw partners as key to scaling, and built product and organization centered around partnerships

→ In its initial stage, Icertis was best placed to work with its customers on implementation, as it had best knowledge of product, CLM and how customers work. When Icertis scaled to 500 implementations, partnerships became key not just for generating leads, but also for selling better

→ Today, Independent Software Vendors (ISVs) integrate Icertis's CLM with their core offerings thereby bringing in ready customers to Icertis. Such partnerships are attractive to partners as they help strengthen their core offering and bring recurring profit-sharing arrangements

→ Icertis has a CXO oversee its partnership program, including building platforms to work well with partner products, e.g., tools for configuring things more easily, applications to go through SaaS

Leading ISV partners

SAP

Salesforce

Microsoft

> " Strategic partnerships with top-tier software and professional services players were key to hyperscaling. Those relationships enabled us to leverage well-established B2B sales ecosystems quickly and, at the same time, add immense value to our partners' portfolios of offerings to help joint customers unlock the insights of contract intelligence and uncover hidden revenue, savings, and risks.
>
> — Monish Darda
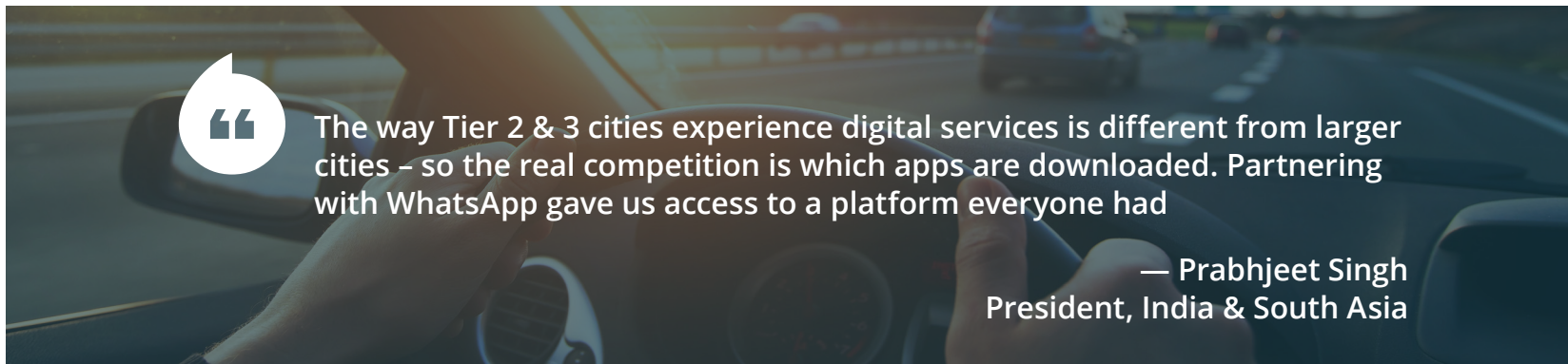> Co-founder and CTO

Source: Press search, Company reports, BCG analysis

Uber partnered with Meta to accelerate access to new customer segments

→ In Tier 2+ cities, smartphone penetration is lower, and customers tend to be more selective with the apps on their phone – WhatsApp being one of the popular apps used. By enabling its ride-hailing on WhatsApp, Uber was able to penetrate these small towns

→ For example, users booking through WhatsApp could provide their pick-up and drop-off locations and would get the ETA of the driver and other information

→ Beyond the user experience, Uber also ran promotions to entice users to try the new platform (such as 50% off on your first 3 Uber rides via WhatsApp)

THE RESULT

33% of inbounds during the pilot in Lucknow were received from new users, showing potential for new customer acquisitions via WhatsApp

> " The way Tier 2 & 3 cities experience digital services is different from larger cities – so the real competition is which apps are downloaded. Partnering with WhatsApp gave us access to a platform everyone had
>
> — Prabhjeet Singh
> President, India & South Asia

Source: Press search, Company reports, BCG analysis

Pepperfry empowered franchise owners to be entrepreneurs, while keeping control on key parts of value chain

→ One of the key differentiators of Pepperfry has been its omnichannel strategy, and the reason it could scale its offline retail stores "Pepperfry studios" so quickly was through its successful partnership model with franchisees. The model was designed to treat franchisees as entrepreneurs who run a profitable business, fully empowered to control customer and post-sales interactions

→ Pepperfry however, retained control in key upstream and downstream components of the value chain (i.e., what products get sold, and how products are delivered), through the supply chain it built, which is the key disruptor to the unorganized and hyperlocal nature of the market

THE RESULT

New Pepperfry Accelerator Program

Cut CAPEX required from franchisees by 1/3

+200 studios in one year, by adding one entrepreneur a day for rest of the year

> " Our franchise model is a like virtual catalogue being sold in the physical world by a partner, and we control the key parts while empowering them as mini entrepreneurs
>
> — Ambareesh Murty
> Co-Founder and CEO

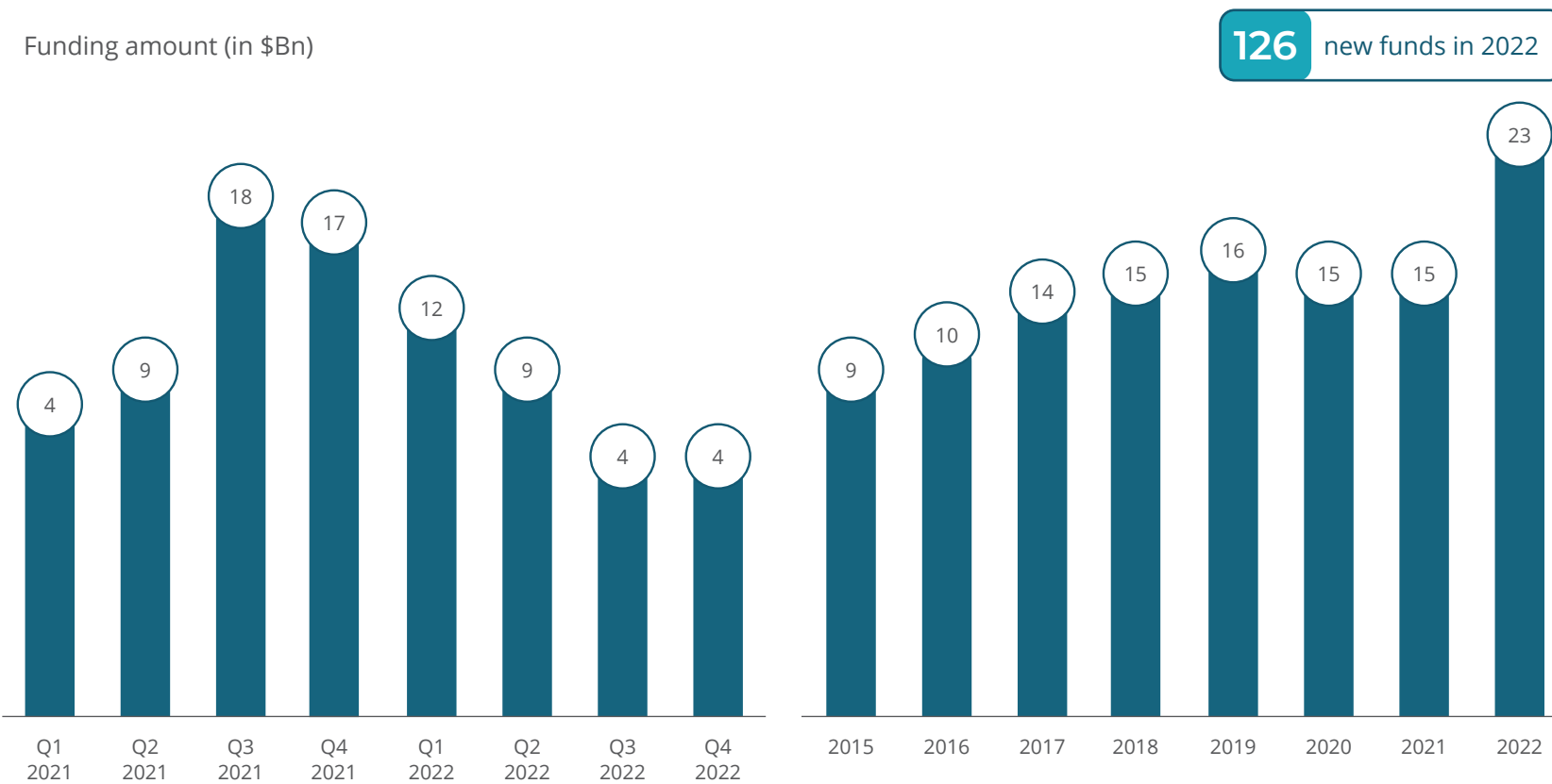**Source:** Press search, Company reports, BCG analysis

03

THE PATH FORWARD

India's startup ecosystem at a confluence: Funding slowdown paired with a large amount of unallocated dry powder

Aligned with global trends, funding raised by India startups hit a two-year low in Q3 2022

Funding amount (in $Bn)

Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022
4	9	18	17	12	9	4	4

However, India-focused funds are sitting on a highest-ever unallocated capital

126 new funds in 2022

2015	2016	2017	2018	2019	2020	2021	2022
9	10	14	15	16	15	15	23

Investors are taking a "wait and see" approach on late-stage startups: Expect fair valuation with a keen eye on unit margins

Dry powder will continue to be mostly deployed to early-stage startups in 2023

	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022
Angel	19	16	24	29	26	20	21	20
Seed	148	297	691	383	388	291	293	137
Early Stage	372	536	1,304	1,794	1,110	1,191	608	792
Later stage	4,039	4,662	9,767	9,310	7,403	4,844	2,537	2,211

Legend: ■ Angel ■ Seed ■ Early Stage ■ Later stage

Investors will be patient with growth- and late-stage startups, and double down on profitability metrics
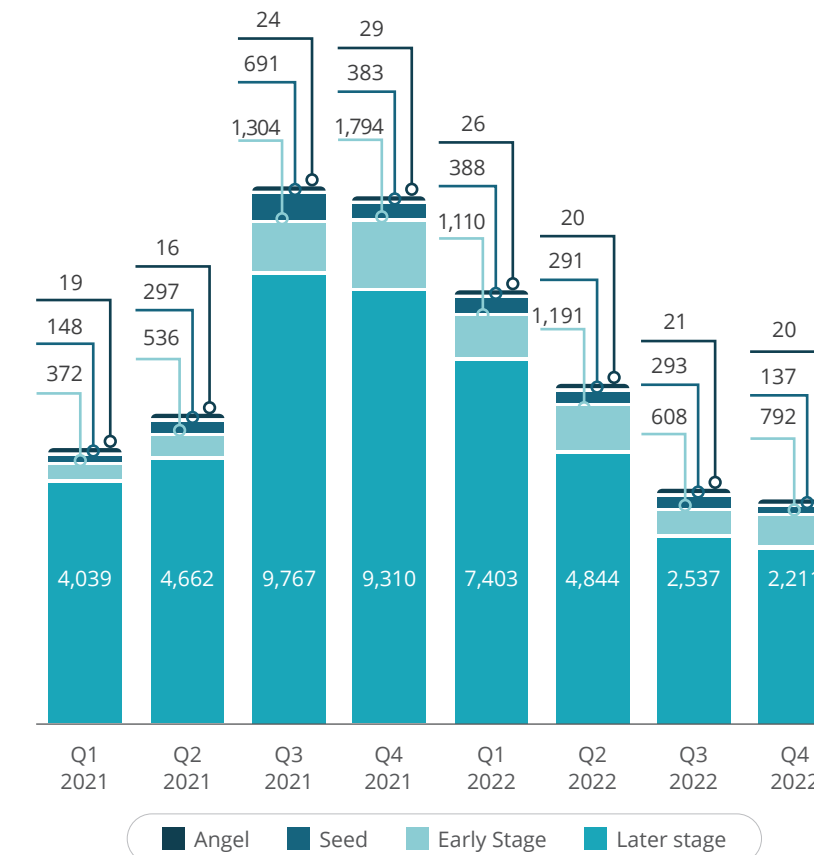
Early-stage startups
→ Least affected by changes in public market valuation
→ Investors still making bets, especially in emerging sectors

Growth-stage startups
→ Expect lower value to revenue multiple, fueled by public market corrections and macro factors

Late-stage startups
→ Valuation ambition mismatch: Need to be wary of dilution of equity in the current market condition

In this macro environment, essential to focus on the fundamentals to survive as well as drive long term growth

Sharpen the value prop

> Begin with the principle of having customer obsession. Not just meeting the 'stated needs' but identifying all the problems in the journey and solving them. Ability to experiment, failing fast & moving with speed is key!
>
> — Kumara Raghavan,
> Head, Startups, AWS India

Drive frugal innovations

> Continuing to acquire customers at discount is not sustainable in long run. Scarcity of money is actually a positive; Startups become more resourceful and focus more on getting money from customers, and thereby scale more sustainably.
>
> — Sanjeev Bikhchandani,
> Co-founder, Info Edge

Learn your own lessons

> Deploy capital basis how aggressive you want to be & how far ahead of profitability curve you want to go. Some startups grew slowly initially & took 6-7 years to hyperscale as network effect kick in. In others, a lot of scale is driven by capital. One size does not fit all.
>
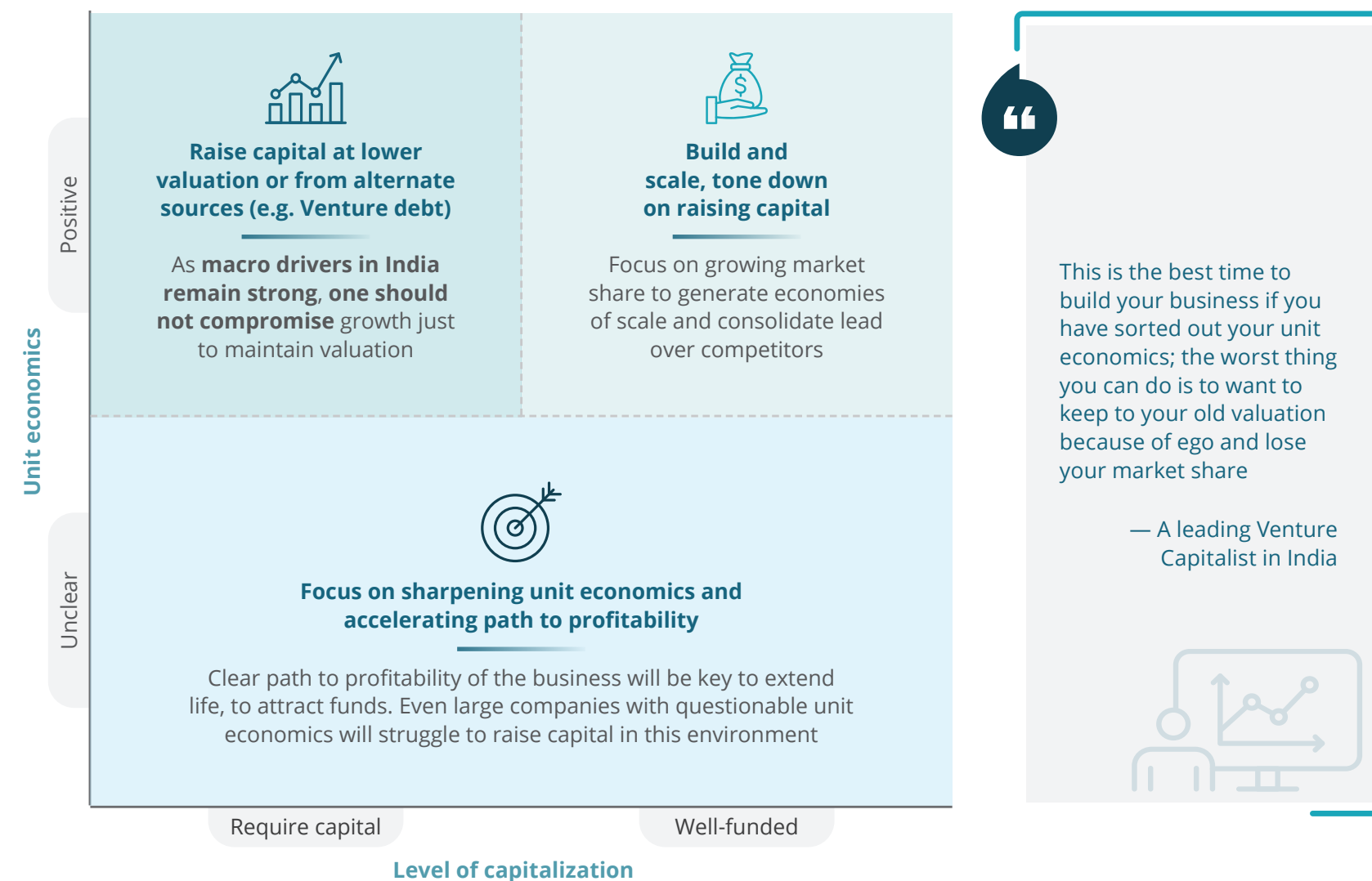> — Alok Mittal,
> Cofounder & CEO, Indifi

One eye on the future

> Improve core metrics and celebrate small wins. Keep a sharp focus on the right metrics - Actual repeat or affirmation of repeat in the form of referrals, brand recall.
>
> — Deep Kalra,
> Founder, MakeMyTrip

The approach for hyperscaling in this market will depend on basic measures of unit economics and capitalization

Unit economics (y-axis: Positive / Unclear) vs **Level of capitalization** (x-axis: Require capital / Well-funded)

Positive / Require capital: Raise capital at lower valuation or from alternate sources (e.g. Venture debt)

As **macro drivers in India remain strong**, **one should not compromise** growth just to maintain valuation

Positive / Well-funded: Build and scale, tone down on raising capital

Focus on growing market share to generate economies of scale and consolidate lead over competitors

Unclear: Focus on sharpening unit economics and accelerating path to profitability

Clear path to profitability of the business will be key to extend life, to attract funds. Even large companies with questionable unit economics will struggle to raise capital in this environment

> This is the best time to build your business if you have sorted out your unit economics; the worst thing you can do is to want to keep to your old valuation because of ego and lose your market share
>
> — A leading Venture Capitalist in India

Sustaining & hyperscaling in turbulent times: 3 critical elements

How to create space to grow in the current uncertain environment?

Extend the runway: Optimize spends by understanding liquidity outlook

- → Preserve the gas and reduce the burn rate
- → Cut the flab and not the muscle
- → Tighten norms for new investments / experimentations, raise bar on expected Return on Investments

- → Streamline operations: Optimize costs (core vs non-core)
- → Retain quality talent
- → Monitor key metrics on daily, weekly basis

Sustain and accelerate growth: Drive organic growth by frugal innovation

- → Lookout for sharp pockets of opportunities
- → Sharpen value proposition: Focus on customer needs to drive organic growth
- → Raise capital (venture debt / equity) strategically: Prioritize value creation over current valuation
- → Stay nimble

- → Focus on organic growth metrics: Customer retention, Repurchases, Referrals, etc.
- → Track and celebrate small wins: KPI movements, milestones
- → Maximize value from existing assets and partnerships

Execution focus

A vote of thanks to the industry leaders, who shared their journeys and perspectives

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MakeMyTrip

Kumara Raghavan
AWS

Monish Dadra
Icertis

Prabhjeet Singh
Uber

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1mg

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OYO

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Meesho

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...and several other emerging startup founders, senior executives and investors.

The views shared are personal, and not attributable to the organizations represented above.

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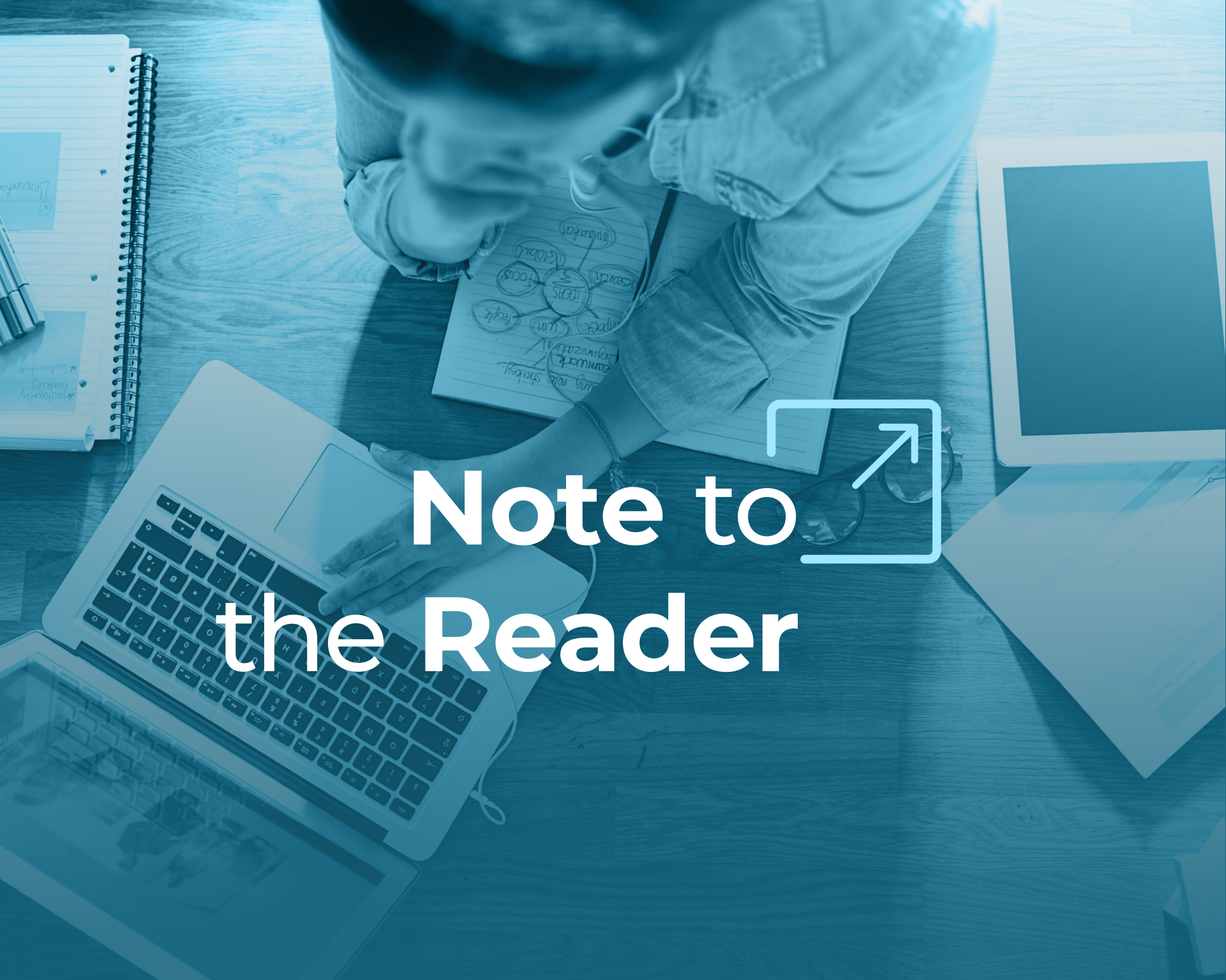
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