Shark Tank India

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Start-up Fundas from the Sharks and Participants

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with

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To India's start-up founders –
past, present, future

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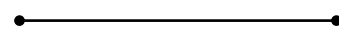
Introduction



So you want to start a start-up?

Do you have an idea for a business? Are you willing to take big risks to make it big? Maybe you want to take part in the next season of *Shark Tank India*? Then you're at the right place.

Welcome to *Shark Tank India: Start-up Fundas from the Sharks and Participants.* In this book, India's most inspiring entrepreneurs, the six amazing Sharks of *Shark Tank India* – Namita, Peyush, Aman, Anupam, Amit and Vineeta – give you their hacks, all their fundas and a ton of stories, which will help you turn your start-up dreams into reality.

In extensive interviews, they describe their lives and business backgrounds. They outline the lessons they have learnt while running their businesses. They also explain what they think an entrepreneur needs to cultivate in terms of mindsets and qualities.

Some qualities such as optimism, empathy, flexibility, ability to absorb advice, passion about the business and so on, do pop up again and again, in every Shark's opinions. But there's obviously a difference in their thinking processes. We know this because only three pitches in

the first season and four in the second season received a joint offer by all the Sharks and most pitches that received offers at all, received offers from three Sharks or even fewer. Some pitches received an offer from only one Shark.

We'll return to this subject later, in the chapter, 'Lessons from *Shark Tank India*', where we'll look at some of the pitches that ended up as successful businesses post the show, and discover their learnings as rookie start-ups. In the conclusion, we'll also detail some of the things that could help you get through the qualifier process, make a pitch and hopefully, win an offer.

Start-ups are a slog

Being an entrepreneur is not all about glamour and jazzy presentations. Running a business is a difficult process and presents quite a few challenges. Running a start-up is a real time-sink – forget about spending extended time with family, going on holidays and indulging in hobbies. There are enormous stresses and it can be an emotional roller coaster since there will be setbacks and failures.

It might not be your cup of tea – Shark Aman Gupta said that his wife tried to set up a business and quit within months because she couldn't handle the stress. Vineeta Singh says she cries when she's feeling frustrated; Namita Thapar says she does regular meditation to try and maintain her calm.

Ganesh Balakrishnan of Flatheads, made a pitch, got an offer and decided to shut down his business anyway because he felt he needed time to reset his mental balance. If you realize that entrepreneurship is not the journey you wish to make, well, this book might save you some heartache. There's no shame in that.

The step-by-step guide to setting up

If on the other hand, you decide you want to launch a start-up, read the book, absorb the learnings and lessons the Sharks offer, and make them your own. But before you leap in, let's spell out the steps by which you begin to set up your business.

Step 1: The business idea

This is key and many of the chapters in this book will help you think about what makes a winning idea. Each of the Sharks and the competitors came to their businesses in different ways – but there was always some big-picture thinking connected to it. Be it Vineeta Singh's vision of India's growing number of empowered women, or Jimmy Shah (the mom is Jimmy!) discovering there wasn't a range of ice creams for diabetics like herself. The big picture was also backed up by research – the most successful founders

thought about the market size, what need the product addressed and who their competitors were.

HOW TO MAKE A BUSINESS PLAN

You should make a business plan (BP) to flesh out your idea. This plan helps you clarify your strategy, identify resources and possible roadblocks, identify the competition, work out the financials and so on. A coherent business plan is also vital if you're trying to raise funding.

When you write a business plan, you're second-guessing your own ideas and checking them to see if they work in practice. You're also looking to attract hard-nosed investors who will back you with their resources.

Keep it short, keep it simple. Make sure you can handle deeper questions, which any investor who reads the plan and likes it, will ask.

Here's one way to write a BP:

Start with a **Mission Statement:** This should be simple, succinct and ambitious. 'Make diabetic-friendly ice-cream' or 'Become the online resource for somebody who wants to buy a personal vehicle.'

Write an **Executive Summary:** This will describe the following sections in a few sentences. Assume that potential investors are busy and they might not bother to read the rest of the document if they don't like the Summary. Keep this to one page ideally.

Product/ Service Description: Describe your product or service. Why do you think there's a market for this? Explain this in some detail.

Marketing and Competition Analysis: How do you intend to market your product/service? Who are your competitors or potential competitors? Why do you think you have an edge or think you can develop an edge? Do you need to build a brand? How will you do this? What is your distribution network going to be? What's your planned operational structure? The investor will judge you on the basis of the research that goes into this.

Financials and Other Resources: Work out what you need in the way of resources and funding. Work out what you think you can make in terms of revenues, market share and profits. How fast can you scale and how much can you scale? Are you looking for high profits or fast growth or a mix of both? There will be both hard numbers and also guesstimates here. Those have to look realistic.

Bios: Who are you? How many of you are there? What are your skills and experience? How many people do you intend to hire and with what skills? Do you have mentors?

Be aware that a lot of investors will just read the Executive Summary, and anybody who is interested enough to want more information will grill you personally. So write a short plan, focus on the summary, and get somebody who's a friend to ask the awkward questions and help you research and rehearse the answers.

Step 2: Early stage of setting up

Most start-ups begin small to see if their proposition works. Their pilot is usually funded by themselves, friends and family. Aman set up boAt with his savings – which is the common way to begin. As you launch your business with baby steps, you will be looking for proof of concept – also called **a product-market fit, it means the response to your business that shows that your starting proposition works**. Post that, you will need more funds to scale your idea. Most people move to the next stage and look for proper fundraising once they can demonstrate product-market fit.

PRODUCT-MARKET FIT

Here's a typical process to find your product-market fit:

Define your target market: Identify the specific group of customers that your product or service is intended for. The more clearly you can define your target market, the easier it will be to assess whether your product meets their needs.

Gather customer feedback: Ask customers for their thoughts on your product or service. What do they like about it? What do they wish was different? This feedback can be valuable in helping you identify areas where your product could be improved.

Research your competition: Look at the products or services that your competitors are offering and compare them to your own. What are the unique selling points of your product? How does it compare to the competition in terms of price, quality and features?

Analyse your sales and growth: Look at your sales and growth data to see how well your product is doing in the market. If you're experiencing strong growth and high levels of customer satisfaction, it's a good sign that you've found a good product-market fit.

In the first, early phase, however, you must do a few practical things – think of a name register the business with the help of a chartered accountant (CA), create a shareholders' agreement and issue shares, and research how you will make the product.

Registration will require your CA to get you a digital security certificate (DSC) and a director identification number (DIN), as well as create an account on the MCA portal. You may be able to do this yourself as well.

WHAT IS THE MCA?

MCA is the **Ministry of Corporate Affairs website** and is also known as the MCA portal. This portal helps facilitate many services for companies and LLPs (limited liability partnerships), starting from incorporation to closure. They can be found at www.mca.gov.in.

You may also spend some funds designing the product and your logo. You may already have a co-founder with you by this time, but mostly likely you won't have the funds to hire too many people and you'll do a lot of multitasking. Husband and wife Ravi and Anuja Kabra, who set up Skippi popsicles, worked day and night handling almost

every part of their business in the early days, and they weren't the only ones.

Here is a checklist to starting a business:

- Create a business plan.
- Research how to make the product and also do market research around your proposition.
- Come up with a business name and check with the MCA. If you have a name that's close to an existing business in the same industry, the name will be rejected.
- Incorporate your business either as a LTD or LLP. A CA or lawyer can advise and help you through the registration stage.
- Apply for trademarks in two to three categories.
- Buy a domain name.
- Figure what your seed round will be. You will have to calculate what your financial needs are and also build in time for a proper fundraise. E.g., X months to create and take product to market, Y months to see how the business fares, Z months to fundraise. Think about where your funds will come from – is this from your own savings, family and friends, or an early angel investor?
- Issue shares (and you will also have to decide how many shares to issue).
- Create a shareholder agreement.

Step 3: Funding and valuations

Start-ups can seek investment at different stages of development and there's no set rule as to when they're ripe for external investments. Some start-ups may seek investment from the very beginning to help fund development of their product or service and simply get the business off the ground. Others may wait until they have a proven track record and are actually generating revenue before seeking investment to help them scale and grow.

So let's imagine the entrepreneur (also called the promoter or founder, or co-founders if there are two or more) raises an initial investment. The investors at this stage are often called 'angels' – this is a term borrowed from the world of theatre and film.

When you incorporate a company, you divide the ownership up by issuing shares. You could issue 100 shares or 100,000, or 1 crore, shares and you could set a face-value of ₹1 or ₹10. The exact numbers don't matter but turning the ownership, into shares makes it easier to allocate fractional ownership, which will be useful later.

The initial capital raised is called the seed fund. This seed capital is often a relatively small amount – for example, Aman and his co-founder each put in ₹30 lakh to launch their own start-up.

Quite often, this seed capital is raised by the promoters

putting in their own savings and tapping family and friends. The initial investors are allotted stakes according to the capital they subscribe and according to their agreements with the founders.

The investment and stakes may be unevenly distributed. Let's consider a concrete example. Say there are two co-founders of a company, ABC Limited, and they invest ₹30 lakh each. They each keep 45% ownership. They raise another ₹50 lakh from angels, while giving the angels a collective 10% stake. Those angels may be their wives or uncles or any friends who invest in ABC. So, the company now has ₹1.10 crore to invest.

Shark Tank India operates at the angel investor stage. The Sharks bargain with the founders who make pitches. The Sharks make offers to invest a certain amount and bargain for a stake in lieu of the capital they offer.

This angel stage is also where the concept of valuation first arises. Let's say a Shark offers ₹1 crore for a 10% stake to ABC, and this offer is accepted and the founders each turn over 5% of their stake to the Shark. Now the entire company is valued at ₹10 crore (10% = ₹1 crore, 100% = ₹10 crore) . The founders now hold 40% each – so, their stakes are each worth ₹4 crore. ABC also now has ₹2.1 crore to invest in developing the business.

There are multiple further stages of possible funding:

Series A funding: A Series A funding is the first round of institutional investment a start-up raises. This cash will generally come from a venture capital (VC) firm or from a private equity (PE) firm. Both VCs and PE investors can get involved from this stage onwards. The difference between the two categories of investors is largely about size of investment. VCs tend to invest smaller amounts at an earlier stage. PE firms tend to invest more at a later stage. But there are no hard and fast rules.

Again, the concept of valuation arises. Let's say our company, ABC, raises ₹20 crore in Series A capital, with each co-founder selling another 5% stake. Now we're seeing a valuation of ₹200 crore for ABC. The founders have each diluted their stakes down 35%, and this 70% stake is worth ₹140 crore.

Series B funding: Series B funding is a second round of institutional investment that a start-up raises. Again, this is used to further accelerate growth and expansion of the business. The valuation changes again, depending on what stake is sold for what amount.

Let's say, ABC receives Series B funding of ₹35 crore for 10% stake. The valuation has risen again to ₹350 crore, with our co-founders now each holding stakes of 30% ownership, which is valued at ₹105 crore.

Series C funding: Series C funding is a third round of institutional investment a start-up raises. It is typically used to further scale the business and to prepare angels and PEs and VCs for a potential exit, such as through an initial public offering (IPO), or through acquisition.

Again, valuations will change. Let's say ABC raises ₹100 crore for another 10% stake dilution – ABC is now valued at ₹1,000 crore. The co-founders still hold 25% stake each. Their stakes are each worth ₹250 crore.

Notice how the valuation of ABC has dramatically increased at every stage and how ABC, which had raised 'only' ₹157.1 crore, is now valued at ₹1,000 crore. This is what can happen when there's a good business plan, validated by healthy revenue streams. This process then works as an excellent recipe for wealth creation.

Other funding options

Assume ABC becomes quite successful. The company plans to scale up further to increase capacity and to hire more people, etc.

It's estimated ABC needs another ₹1,000 crore to fund the next stage of expansion. Where does it find this money?

There are several options:

1. ABC has made, say, ₹5 crore in profits over the last few years, so a little of the requirement can be funded through profits. This is known as funding via **internal accruals**.
2. The company may raise more money from VCs.
3. The company can seek to get a bank loan. This is funding through '**debt**.'
4. **The company can go public with an IPO**.
5. The company can issue bonds, which means that it's raising debt from the public.

Let's say, ABC decides on an IPO. It hires an investment banker. It decides to sell 25% stake to the public and list ABC on the stock exchange. This implies that the valuation would rise from ₹1,000 crore to ₹4,000 crore.

Now, by this stage, the co-founders still own 25% each and there are VCs, angels, etc., who have invested in ABC at various stages. They can all offer a part or all of their stake, cash in some profits. ABC as a corporate entity meanwhile receives the cash it needs to continue growing.

This is a very simplified description of the processes by which a start-up can grow and be funded and create wealth. There's a lot of hard work, a lot of paperwork and

a lot of luck that goes into making a business successful enough to reach IPO status.

But this sort of wealth creation does happen. It may seem like magic but it happened 108 times in 2022 – that is, 108 businesses launched IPOs. Entrepreneurs with great business ideas, and a competent management team can hit the jackpot and that dream drives many promoters.

Classic real-world examples of such wealth creation stories would be Infosys, Reliance, Eicher Motors, Titan Industries, and in the international space, one could think of Google, Facebook, Amazon, Tesla, Twitter, AliBaba, etc.

Think of a pyramid. It has a wide base but it tapers as it rises. There's very little room at the top. Success at business is like that. There are thousands of bright, enthusiastic young entrepreneurs founding businesses every year. A few receive funding and grow beyond the mom-and-pop stage. Of those few, even fewer make it to an IPO and stock exchange listing.

Even after crossing the IPO hurdle, businesses have been known to fail and go bankrupt. For every Infosys, there are a hundred software businesses that never made it to an IPO, and there are a dozen that did an IPO but never achieved that level of success.

But that dream of success and wealth multiplication