

SURVEY OF START-UPS

Enterprise, mobile firms generate revenue faster than Net firms

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BANGALORE

Internet start-ups in India are finding it tougher to generate revenue and are taking longer than fledgling mobile or enterprise technology companies to become cash positive, shows a study by PluggdIn, which tracks start-ups in the country.

Firms that offer software or services to enterprises are the fastest to generate revenue, it says.

PluggdIn's survey of 250 companies will be part of a showcase event it will host on Saturday in Bangalore—54% of these are Internet companies, 17% mobile companies and 19% enterprise companies.

According to the study, 80% of the participating Internet start-ups that were founded in 2008 are yet to generate revenue, as are 70% of the mobile firms, while all the enterprise firms of the same age are generating revenue.

Even enterprise firms founded this year have turned cash positive.

"Not many will say this but the truth is if a company is not able to make money after two-three years, people will not look at them for investments," said Ashish Sinha, founder, PluggdIn. "Investors will begin to feel that something is wrong with the company. Everyone bets on a winning horse."

Sandeep Singhal, managing director of venture capital (VC) firm Nexus India Capital, agrees with Sinha to an extent. He said while profitability is not a criterion for early stage investment, it's important in the long term. But he also said "scaling up is far more important".

"We need to be assured that we are investing for growth and profitability. We are open to backing a firm if we know our capital will get them to profitability," said Singhal.

On Internet companies, investors say these tend to take longer than other businesses to generate cash as online firms have to spend heavily on infrastructure and customer acquisition.

Bangalore-based redBus.in,

an online aggregator of bus tickets founded in 2006, took about three years to break even. "Internet penetration and active usage is an issue but due to the volumes that we are doing, our business is not getting impacted," said chief executive Phanindra Sama.

Redbus has partnered with 700 bus operators in 15 states, connecting 2,500 towns and catering to 10,000 schedules or departures every day.

"Internet businesses take time but once built they can be great as scalability is higher," said Alok Mittal, executive director, Canaan Partners, a VC firm. "Scales are different for Internet, enterprise and mobile businesses. In enterprise businesses, sales are the key. In Internet, product is important. In mobile business, penetrating operators is the key."

Enterprise firms essentially cater to companies looking for technical help to improve efficiency, and firms making applications for mobile phones are able to generate cash because of mass adoption, despite having to give about a



Game plan: Nexus India's Singhal says the firm looks at both growth and profitability before investing.

70% share of their income to cellular operators.

Internet firms face challenges such as low Internet penetration and customer wariness about taking up offerings over the Web. Besides, the Internet business typically attracts young entrepreneurs, while seasoned professionals enter the enterprise segment.

"An enterprise business can be started by two smart domain experts. The business can be easier in the initial stage as they may have relationships and credentials to

get access to customers and generate revenue," said Kanwaljit Singh, managing director, Helion Venture Partners.

But "over time Internet businesses can be very successful. There are global benchmarks like Google, Yahoo! and Amazon," he said. Besides, profit margins for Internet firms could be double that of the 15-25% that enterprise businesses get.

Bangalore-based Mobisy Technologies Pvt. Ltd, set up three years ago to develop mobile application platforms for

customers, shifted to an enterprise business model about year ago, offering data analytics platforms for companies. Since then, the firm has seen a 250% increase in revenue.

"We expect revenue to grow at the same pace this year. The consumer market space one needs to establish a brand. It can scale only when you have customers recognizing the brand," said chief executive Lalit Bhise. And "building a brand takes three-four years."