

Ramki

SCALING UP YOUR BUSINESS

What is the profit margin of this business?

- It charges '0' (Zero, Zilch) for 27% of customers
- It charges a fraction of market price for 26% of customers
- It charges market rate for 47% of customers

• What is the profit margin of this Company?

Its profit margin is:

- 45%!

- It makes \$13M on a turnover of \$29M!!

- Forbes: “a performance worthy of any commercial venture!”

Magic of scaling up!

- Welcome to the magic world of scaling up!
- Annual growth of this Company YOY: 10% in volume –much more in sales!
 - The vision of a visionary in vision
- Aravind eye hospital!
 - Not a Rupee of the turnover is donation!

The best example of scaling up

- A 58 year old doctor founded a 11-bed eye clinic in 1976
- His mission: **“To give sight for all”**
- By 2010 Aravind eye care system was leading the world:
 - The world’s largest and most productive blindness- prevention system
 - Treated 32 million patients and performed 4 million surgeries!
 - Performs eye operation on one out of three people in T.Nadu ; 5% of all eye care procedures in India!
 - It’s quality is in some cases better than the British medical system and Aravind’s cost is 1% of Britain’s cost! (C.K.Prahlad in Bottom of the Pyramid)
 - Aravind is one of the greatest success stories in all of medicine (Dr. David F. Chang- the Michael Jordon of cataract surgery in USA)
 - Many are treated free or at very low price- pay what you can afford!

How does Aravind do it?

- Mission and maniacal focus
- A great Mentor Sir John Wilson –himself a blind man- and DR.V
- Fighting spirit/ Grit /Perseverance/ HARD WORK/Empathy
- Great sacrifices of time, effort and money- took decades
- Not incremental innovation- break through solutions
- Consistency, reliability, clear standards, low costs, data analysis
- SCALE –like McDonalds
- The mantras- ‘The more you do, the better you get’; “get less do more’
- Streamlined work flow, well-crafted processes
- Reducing main surgeon’s time; wait time=0
- Networks –camp sponsoring; local help
- Monitoring- Aravind Parameter program- quality audits
- TRANSPARENCY
- TRUST

Dream vision

- Dr.V journal entry in 1970's when he was still paying off the mortgage for the first hospital, where he writes:
 - of his intention to set up 100 hospitals across the country
 - Of the possibility of training village women to assist surgeons
 - Of the urgent need for good administrators
 - Of plans for buying land
 - Of the nature and potentials of young staff members
 - And of a target of doing a MILLION surgeries a year!

Vision and realms of possibility

- Fred Munson on Dr.V
 - Throughout the time that I have known Dr.V, his vision for what was possible was beyond what was anything reasonable.

Can do attitude

- We need to do what we need to do
- When you begin doing the work you are meant to do, unexpected resources will find you
- Aravind operates with a very unique set of self-imposed constraints; That automatically eliminates ordinary solutions- CEO of IDEO

Manufacturing revolution

- WHO said “Using IOL’s in developing countries was not merely unsustainable but irresponsible.”
- When Aravind wanted to manufacture IOL’s in Aurolab they were told they were crazy
- Aravind wanted to do it so they can offer IOL to the poor at \$10- import price \$80 to \$150
- By 2009, Aravind was producing 2 million IOL’s per annum and owned 10% of global market for IOL, exporting it to 120 countries!
- Dr. David J.Apple- ‘Aurolab lenses clearly meet and often exceed the standard of many lenses manufactured in US and Europe.’”

Appropriate size for scaling up

- Dr. Aravind of Aravind eye hospital says:
 - Do a pilot and if that works , then build it. For us scale has always come late. Building in phases is more practical. Your time and energy need to be invested in inspiring people, patients and staff. Start with the microcosm of what you are dreaming of. Seeing it in motion will give you the energy you and your team need. Commitment on the ground goes a long way, even if it's a modest effort.

Essence of scaling up summed up

- Dr. Venkataswamy summarises the success of Aravind beautifully to Justin Huggler of The Independent ,UK
 - “We did good quality work
 - So the rich people came and paid
 - And we could treat the poor people with the money saved
 - The poor people brought more poor people
 - The rich people brought more rich people
 - So now here we are!”
 - Simple, elegant and that’s all you need!

Money ...

- Swami Vivekananda: when I ask money will pour from the heavens!
- Dr V: 'You must do the work. The money will follow'
- "If a man has good corn or wood, or boards, or pigs, to sell, or can make better chairs or knives, crucibles or church organs, than anybody else, you will find a broad hard-beaten road to his house, though it be in the woods."
- —Ralph Waldo Emerson.
 - This is what Steve jobs did too!

Narayana HrUdhayalaya

- Doing an Aravind in heart surgeries
- 15% of all heart surgeries in India
- Mortality rate less than New York hospitals
- 5 out of 6 done free
- Blood gas analysis costs Rs 8.50 –against Normal Rs 350
- Applies WalMart to healthcare

Before 1980

- I did my CA articles in Chennai in 1970's
- At that time if you wanted good veg food you mainly went to Woodlands- drive-in or the main hotel in Mylapore
- Good medical attention meant Isabels, CMC-Vellore, Lady willingdon etc (mostly missionary)
- Woodlands had a good name and could have scaled up
- They did not and it was left to a cleaner boy/ grocery owner with great vision to do that who opened a restaurant in '81
- And a young doctor foresaw what healthcare would mean in future and started a private hospital in '83
 - Rest as they say is history~

1981 dawn of a restaurant chain

- The first Saravana Bhavan born with one restaurant
 - Let's come to 2013
- Now 70 plus restaurants and 16 more opening
- Said to be the world's largest vegetarian restaurant chain
- Over 7500 employees
- TO \$200M- Per Wikipedia
- 11 countries and growing, growing...

1983 dawn of a corporate hospital

- First Apollo hospital is born
 - Let's come to 2013
- Now 52 hospitals
- Over 8500 beds
- One of the largest in healthcare in India
- Global reputation
- TO 12-13: Rs 3768 crores
- PAT 12-13: Rs 304 crores

Scaling up success- saravana bhavan

- **Tripod approach**

- Product

- Customer

- Employee

Product

- Good quality
 - Initial time of many hours with chef by promoter Rajagopal perfecting taste
 - Best ingredients
 - Initially made loss for many months
 - Customer feed back and attending to that
- Consistency/stadardisation- same principle of McDonalds
 - Dosa weighs 60 gms may be more but never less
- High hygiene –
 - Banana leaves on the plate (also easy to wash)
 - Employees bathe before work
 - Hair cut once a month; nail trimming once a week
- Brand building

Product and service extensions

- New food items
- Fast food-closes after restaurants-left overs of restaurants can be used
- Own ice-cream
- Both sit in and stand up customers (R.K.Salai)
- Murukku making using ladies
- Village food items
- Out door catering for as low as 25 people

Customer

- Uniforms for employees
- Quick service
- Courteous service
- No drinking by employees
- No late movies for employees
- Customer complaints listened to and attended
- Regular expansion at good locations

employee

- Job security- no break in service
- Higher pay- pay according to needs
- Accommodation
- Singapore trip for select employees
- Abusive customer reported to manager who will discreetly deal with him –even ask customer to leave
- Close interaction with workers (Rajagopal says he is the union leader)
- Clear promotion policy
- Employee benefits galore- see list

Employee benefits

- Annual fare to go to native village
- 2 children education upto post-graduation- same school as the one owner's children go to
- New clothes during functions/festivals ; also for spouse
- Life and medical Insurance policy
- Employee ESI paid by company
- Attendant and food if family member gets sick
- Hospitalisation benefits in private hospital
- Parents get Rs 200 pm
- Investment of Rs 10k per daughter for marriage (Mani ammal marriage scheme)- one daughter only per Govt policy
- Incentive scheme for TV, Fridge etc
- Vehicle- as per category
- Phone at home for key employees
- Proposed house buying scheme

SAS –best company to work for in USA

- CEO says:
- **Contented cows give more milk**
- just take care of your employees- everything else will be taken care of!

Interview with a partner of mr. rajagopal

- 1) Annachi Rajagopal, is a details person, and hence set a benchmark in Food Taste, Quality, Hygiene and Service. This set the market afire, and established his brand.
- 2) He is a great visionary. He scaled his business slowly, as he had to parallely develop a team, whose members internalised his obsession for taste, quality, hygiene, and service.
- 3) His core team of about 2000 people(Managers, Chefs, and Senior Service Staff) have developed ownership qualities, and run the organisation now.
- 4) Annachi takes care of his employees, as he firmly believes that when they are taken care of, they in turn take care of the business.

Interview with a partner..contd.

– 5) Annachi has made great contributions to the Society at large, by creating thousands of jobs, grooming several restaurateurs, and developing his native land which is a very arid district.

6) While Annachi has had the vision in developing a humongous business, he also recognises the challenges going forward, for the next generation, he already has plans in place.

7) I have not met another person, who has so much clarity of thought.

A manufacturing co who is our client

- Grew 500% in last 5 years!
- 10% net profit!
- Huge appetite for growth
- 25% of revenue is from new products-last 3 years
- Wide array of products; wide range of customers
- Products made to order
- Not more than 10% sales with one customer; not more than 30% with one industry
- Exports and local sales
- Special purpose machines supplied by customer!
- Great quality, design and R&D- many awards
- Owns up mistakes

A manufacturing company contd.

- Perfect manufacturing at central factory and shift to satellite factory near customer
- Take power intensive manufacturing to states with surplus power
- Sweat assets fully
- More than market salaries to staff; free canteen; no union
- CEO wears same uniform as workers; moulds people
- Marketing thru JV's
- Preventive maintenance- spares changed after stated no. of hours even if good
- Set an example- personal expenses separated from business
- Good governance even though only Private company!

Modern day scaling up

- YouTube
- First video uploaded 2005
- Bought by Google in 2006 for \$1.6B
- Today worth around \$20B!
- Revenue CY: \$3.6B!
- Unique US viewers per month (excl. mobile) 133 million
- Average US usage minutes per month (excl. mobile) 31.7B
- Monthly videos viewed globally: 130 B!
- More searches in YouTube than on any search engine other than Google!
- 100 hours video uploaded every minute!

How did YouTube do it?

- By teaming up with others who have their own loyal following
- In Oct 11 they helped finance 100 new original channels from celebrities, online video creators and Hollywood studios
- Spent \$100M
 - Now called the most efficient spend in history!
- Example:
 - Machinima caters to gaming crowd and has 14.5m subscribers
 - its videos have been watched 2 Billion times a month!

How does the world's largest restaurant company by units scale up?

- YUM with 39000 KFCs, Pizza Huts and Taco Bells is the world's largest;
- Operates in 130 countries
- Opened one new restaurant every 14 hours for last 16 years!
- **It is the world's best team building co.**
- Has world famous leadership program called 'Taking people with you'
- Most important element: **Instant recognition!**
- Programs like Walk the Talk award , Rubber chicken, Plastic Hog!
- CEO Novak: " I'm on earth to encourage others, lift lives, help create leaders , inspire people, recognize others."

Few examples around the world

- McDonalds- quality, service, cleanliness and value for money (Ray Kroc- founder)
- Cirque Du Soleil- a \$1B circus company! (Innovation and greatest shows on earth)
- Southwest (Pick up assets in downturn, be different, act different)
- Netflix (cannibalises its own good business- killed its own DVD business to stream video)
- Apple (Customers as roving fans)

Should you scale up?

- Daniel Isenberg -HBR -**2 minute checklist**
 - I've urge to make something to impact market
 - I can sell things to people who don't want it
 - I have a great team
 - I've Policies, procedures and processes in place
 - I know experts I can turn to
 - I know-Money is out there for a good venture
 - I raise the bar all the time; I'm not easily satisfied
 - I am/can have- the best sales people

Should you scale up? Contd.

- ✘ Thinking small is a crime
 - ✘ Sales process starts when customer says no
 - ✘ If I stand still, I will perish; I scale up or fade away
 - ✘ I know how to find great people to work for me
 - ✘ Closing a sale gives me the biggest rush
 - ✘ It's important to know of a big problem the customer has and
 - ✘ Look for a solution to that
 - ✘ It's not technology but team, organisation, marketing and
 - ✘ Ambition to sell that are important
 - ✘ I think and act like a market leader
 - ✘ I've fire in the belly
- ✘ If you answered 'yes' to most of above –scale up!**

Will I have obstacles?

- Of course, yes
- Even your partner may not want to grow
- As German philosopher Arthur Schopenhauer said
 - **Truth passes thru 3 stages**
 - First it will be ridiculed
 - Second it will be violently opposed
 - Third it will be accepted as self-evident!
- If you are scared of taking risks:
 - “You miss 100 per cent of the shots you don’t take.”
 - » Canada’s greatest hockey legend Wayne Gretzky

When mr.rajagopal scaled up his grocery business in the past

- To improve his grocery business he built a 2 storied building
- Its cost escalated too much
- He had to pledge everything he and his friend had
- Rent was just enough to pay loan installment
- Daily business in store plummeted from Rs 5000 to Rs 500
- He delayed payments to wholesalers and had loans everywhere
- He could not even get rice for his home
- His wife wept, “ why is this sorry state of affairs in this house?”
- He sold the building ultimately
 - Just to show all scaling up doesn't have a fairy tale ending!
 - **Don't bite more than you can chew!**

How to scale up?

- Have clear vision
- Do a SCOT (strengths, concerns, opportunities and threats)
- Do a PEST (political, economical, social and technological)
- Systematize- have policies, procedures, processes
- Get a CEO if you are not CEO material
 - Google brought Eric Schmidt; Redzone robotics brought Chris Dunkerley
- Hire to fill gaps in your skill set
- Bring in people who are better but who meet your culture
- Delegate
- Adequate capital- think VC, partners

How to scale up? Contd.

- Product V service
- Expand product/service v Geography
- Brick and mortar V Online
- Outsource
 - Ubiquiti networks is a \$300M Turnover company with over 25% margin, which outsources everything including SALES!
 - CEO says: “My aim is to build something great as efficiently as possible”
- Informal work style –to- formal
- Proper finance and accounts
- Infrastructure including IT

Remember

- Customers are not same as users
 - Ryan air went to small municipal airports hungry for business (cafes, taxis, stores) and the airports even paid them to start a service!
- First users not same as scaling users
 - Most 'games' are first provided free to professional gamers who suggest 'mods' and then final game goes online
- First product not same as scaling product
 - BAAN offered a free ERP to SHELL and after incorporating all their suggestions took it to market

make more money as a minority shareholder- sale to scale

- Paras pharma –makers of moov, krack etc
 - Family business
- Sold majority stake (63%) to Actis capital a PE investor 2008 for Rs 600 crores
- Business scaled up
 - New CEO Raghunandan
 - Streamlined distribution
 - International expansion
 - SAP
 - Umbrella branding etc
- Reckit Benckiser bought co. in 2010 for Rs 3260cr
- **Promoter Patel made another Rs 900 cr**

Mantra for scaling up

- 1. Correct old mistakes
- 2. Scale up
- 3. Make new mistakes
 - Go back to 1!

Scaling up in today's hi-tech world

- **The new way of scaling up or even starting up:**
- **Movie:** Kathalil Sothappuvathu eppadi was a small YouTube video done with no real budget and it went viral. Then the guy who made it was asked to make a full movie and rest is history.
- **Songs:** A 40 second clip in a HBO Movie catapulted "I love it' to top of the charts from nowhere
- **New Product:** Just put your idea on kickstarter Pebble: The E-paper watch got \$10M overnight for its idea makers (They just wanted \$100,000!) Imagine being a multi millionaire in a few hours!

Sir donald cohen- apax founder

- Your business will grow to the size of your vision!

From the biggest in this game..

"Think big, think fast, think ahead.
Ideas are no one's monopoly."

~Dhirubhai Ambani

1932 - 2002



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words of wisdom

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