



Entrepreneurs are the poets of our global economy. They dream the impossible – of creating new businesses and business models. Entrepreneurs have the passion and courage to make their dreams come true in the face of all odds.

The mission of the Wadhvani Centre for Entrepreneurial Development (WCED) at the ISB is simple, though challenging to achieve: to inspire the next generation of entrepreneurs to create 1,000 new businesses over the next ten years, creating 100,000 new jobs for professionals and improving the lives of a million people. This requires the Centre to arm potential entrepreneurs at the ISB with the necessary leadership, planning, and management skills, and to provide access to a network of resources.

I am delighted to have sponsored and funded the Centre and look forward to its success. Most of all, I encourage all ISB graduates to leverage the Centre and to live their dreams by becoming entrepreneurs. I would like to congratulate the ISB for launching the WCED newsletter – ISB *Mentor*, and wish it all success.

A handwritten signature in black ink, appearing to read "Romesh Wadhvani".

Romesh Wadhvani
Founder, WCED

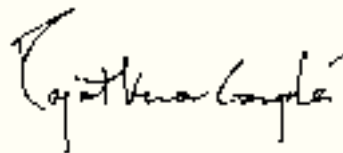


A newsletter is a chain-link that not only facilitates exchange of ideas, but also builds a community. In an academic and research environment, a newsletter can be a powerful communication channel. I am glad that the Wadhvani Centre for Entrepreneurial Development at the Indian School of Business has taken this initiative.

I understand that the ISB *Mentor* will cover issues relating to entrepreneurship and strategy. It will also provide details of activities taken up by this first Centre of Excellence and the Entrepreneurship Club at the Indian School of Business.

I am sure that this newsletter will grow to be a much sought-after publication by both academicians and practitioners all around the globe.

I wish the ISB *Mentor* every success.

A handwritten signature in black ink, appearing to read "Rajat Kumar Gupta".

Rajat Kumar Gupta
Chairman, Indian School of Business



Hello! I am delighted to present to you the first issue of The ISB *Mentor*, the newsletter of the Wadhvani Centre for Entrepreneurial Development (WCED) at the Indian School of Business (ISB), Hyderabad. We have made an endeavour to offer you some materials of great value. These include abridged articles on entrepreneurship and management written by globally known experts, an entrepreneurial case study, excerpts from presentations of entrepreneurs made at the ISB and a gist of what our students do under the Entrepreneurship Club.

Let me tell you something about the WCED and our activities there. As you probably know, the ISB has been created as a world-class management institution in India, with the support of leading Indian and overseas corporations (Please visit www.isb.edu for more on ISB). One of the six Centres of Excellence at the ISB is the WCED, established with a generous contribution from Dr Romesh Wadhvani, founder of Aspect International and currently Vice-Chairman, i2 Technologies.

Besides teaching several courses in entrepreneurship in our prestigious one-year Post Graduate Programme in Management, to foster the spirit of entrepreneurship in students and also build necessary expertise needed in them to succeed in a business environment that is changing faster than ever before, we have initiated several other activities. We believe that the overall impact of such initiatives will reverberate not only on the ISB campus but outside as well.

The focus of our research will be on development of high quality entrepreneurship, particularly in developing countries. Currently, we are working on two themes, one covering issues related to entrepreneurial opportunity identification, and the other on factors related to firm failure.

Development of a vibrant venture capital industry with strong internal capabilities is another of our focus areas.

We will create two separate platforms for aspiring entrepreneurs to showcase their ideas that could lead to innovation and wealth creation. The first is a Business Plan competition for ISB students. The other is a similar competition at the national level involving students from all over India.

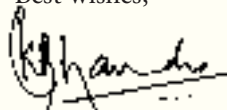
WCED envisions growing into a mentor par excellence where aspiring entrepreneurs and venture capitalists congregate for support in enterprise building. It will provide the full range of escort services at the start-up stage, to help convert ideas/concepts into pioneering and prospering enterprises.

Our Entrepreneurship Club is an initiative led and managed by students of the Post Graduate Programme, as you will read elsewhere in this newsletter. You will also read more about our Entrepreneur Lecture Series under "Entrepreneurs' Voice".

Finally, the ISB *Mentor* that you are reading is also a WCED initiative. This quarterly publication is a prime aggregator of innovative thoughts on Entrepreneurship and Strategy. This will also provide the students at the ISB an opportunity to publish their analyses.

Please write to us your comments and suggestions to further strengthen The ISB *Mentor*, and also whether you would like to receive it regularly.

Best wishes,



Prof K Ramachandran
theisbmentor@isb.edu

Contents

Classics in entrepreneurship	:	<i>The Discipline of Innovation</i>
Entrepreneurs' voice	:	<i>Key learning from select visitors to ISB</i>
Classics in entrepreneurship	:	<i>Discovering New Points of Differentiation</i>
Case analysis	:	<i>Exploiting Opportunities</i>
Entrepreneurship club	:	<i>Students-led Activities</i>

The Discipline of Innovation

Peter F Drucker

What all successful entrepreneurs have in common is not a certain kind of personality but a commitment to the systematic practice of innovation, which is the very foundation of entrepreneurship. Most successful innovations result from a conscious, purposeful search for opportunities, either within a company or industry or in its social and intellectual environment.

Unexpected occurrences are the simplest source of innovation opportunity and also the most productive. Early computers were primarily designed for advanced scientific work. However, business unexpectedly showed interest in a machine that could do payroll. While Univac, with the most advanced machine then, spurned business applications, IBM sensed an unexpected opportunity. It redesigned the machine for applications such as payroll and soon became a market leader.

Incongruity is another source that Alcon Laboratories exploited. The only “old-fashioned” step in the cataract operation, a common surgical procedure, was the cutting of a ligament. This procedure was so different from the rest of the operation that surgeons often dreaded it. Doctors were aware of an enzyme that could dissolve the ligament without cutting. All Alcon did was add a preservative to this enzyme giving it a shelf life of a few months. The product gained immediate acceptance and gave Alcon a monopoly position.

Japanese roads use a reflector that lets each car see which other cars are approaching from any one of a half dozen directions. This is an adaptation of a reflector used on American highways since the early 1930's. This minor invention, which enables traffic to move smoothly, **exploited a process need**.

Industry structure changes create tremendous opportunity for innovation. Changes in industry structure created massive innovation opportunities for American healthcare providers

with independent surgical and psychiatric clinics and emergency centres being set up throughout the country.

Demographic changes are the most reliable source of innovation opportunity. An education explosion in the 1970's in the US coupled with the baby bust meant that the number of people available for traditional blue-collar jobs in manufacturing was bound to decrease and become inadequate by 1990. The Japanese acted on this and became leaders in robotics.

A **change in perception** does not alter facts; it changes their meaning, opening up big innovation opportunities. Despite considerable improvement in their longevity, Americans continue to be concerned about their health. This view of things created many opportunities for innovations: market for health foods, healthcare magazines and jogging equipment.

Innovations based on **new knowledge** are the superstars of entrepreneurship. However, they have a long lead-time and demand many kinds of knowledge. Computers needed many strands of knowledge like binary arithmetic, conception of a calculating machine, punch card, symbolic logic and concepts of programming and feedback. Although such knowledge was available by 1918, the first operational computer appeared in 1946.

Purposeful, systematic innovation begins with the analysis of the sources of new opportunities. Being both conceptual and perceptual, innovators must also go out and look, ask and listen. To be effective, an innovation must start small, be simple and focused. It must always aim to be the standard setter. The overriding **principle of innovation**, however, is that it is work rather than genius.

(Summarised from an article published in the Harvard Business Review, May – June 1985)

A number of renowned entrepreneurs have visited the ISB campus. They talked to the students about their experiences, their definitions of entrepreneurship, and the secrets of entrepreneurial success. Snapshots of some of these interactions are captured here.

Vinod Khosla

General Partner, Kleiner Perkins Caufield & Byers



B Tech (IIT-Delhi), MS (Carnegie Mellon), MBA (Stanford). Global entrepreneur, venture capitalist and member of the ISB Governing Board. Founding CEO, Sun Microsystems and now General Partner with Kleiner Perkins

Caufield & Byers, a venture capital firm that has a portfolio of companies who have created extraordinary wealth through innovation.

In a wide-ranging address, Vinod Khosla shared his thoughts on the changing global business environment, the state of new venture creation and financing, the secrets of entrepreneurial success, and the way a venture capitalist looks at business opportunities. He pointed out how a handful of people make the difference in the world, how little ideas bring in great changes and how entrepreneurial energy is behind idea generation, efficient use of resources and creation of wealth for humanity. He argued that technology has now provided powerful tools to convert ideas into reality and that the trend will continue. Drawing from his early years of building enterprises, he said that there is nothing reasonable about entrepreneurship. It is all about pursuing one's own ideas, building a balanced team, asking the right questions, providing value to the customer and staying ahead of the competition – all on a continuous basis. Yes, it is a struggle, but that is the thrill of the entrepreneurial journey. He dedicated the Entrepreneurship Club at the ISB to those who dare to dream and then try to make those dreams come true.

Dr K Anji Reddy

Chairman, Dr Reddy's Laboratories Limited



BSc (Bombay University), PhD (NCL, Pune). Worked with IDPL, before heading private bulk manufacturing companies and starting his own venture in 1984. Pioneered development of bulk drug

industry in India and later earned recognition for his initiatives in new chemical entity research. Has grown to be the icon of Indian entrepreneurship.

Dr Reddy took the students through the different stages of his entrepreneurial career. He regaled the students with his stories on why he chose an entrepreneurial career and the glory and mistakes of the initial phase. He charted his journey from being a manufacturer of bulk drugs to being in a position to globally license drugs invented through in-house R&D, explaining the changes effected by him to take advantage of emerging market opportunities at different points in time. The unmistakable footprints of a pioneer were evident while he outlined the market dimensions and strategies adopted by his team from time to time. He highlighted the importance of three characteristics in an entrepreneur – passion, commitment and perseverance. He also dwelt on how he built internal capabilities and the team to deal with the changing market environment/opportunities. The achievements of the in-house new chemical entity research demonstrated his ability to capture emerging opportunities. “Believe in yourself and compete globally,” he advised the students.

V N Saroja

Chief Operating Officer, Naukri.Com



B A (Hons) (Hindu College, Delhi). PGDM (IIM-A). After a short stint at IFCI, began freelance consulting. Has been a visiting faculty at IMT, Ghaziabad and National Institute of Advertising. Has been associated with Info Edge since 1991. Co-founder of Naukri.com.

Outlining her entrepreneurial journey, V N Saroja talked about the despair, elation, and the toil in the initial phase of setting up an enterprise. She explained the importance of building a good team, capable of converting a unique idea into commercial success by meeting customer expectations. She also stressed the importance of cost control, knowledge of business/market, and creation of a sustainable revenue model that needs constant revisiting. It was interesting to hear how naukri.com focused on revenue generation, cash flows and profitability, and did not overextend itself. She also talked about her experiences in fund-raising. Usually the words 'conservative' and 'dot-com' do not go well together, but naukri has been a conservative in financial matters. 'Always follow the age old rules of running any business, even if it is a dot-com,' was the essential message conveyed by her.

Vijay Mahajan

Founder, Basix



B Tech (IIT-Delhi), PGDM (IIM-A) and visiting Fellow, Princeton University, USA. Established PRADAN (Professional Assistance for Development Action), one of India's more effective NGOs. In 1995, conceptualised Basix – a new generation rural livelihood promotion institution.

Describing his journey from a marketing executive to a path-setter in rural livelihood development, Vijay Mahajan focused on the issues related to early stages of enterprise building, when the entrepreneur is deeply intertwined with the enterprise. Narrating his experiences, he said that domain expertise, networking,

and finding and building a team are the important steps in enterprise creation. He warned against unexpected delays, unseen pitfalls and summarised the pioneer's role as the one who lays the road. He singled out passion, willingness to sustain efforts in the face of difficulties and support from family and friends as the key ingredients for success. He said that while the commercial enterprise makes profit by matching supply and demand, the social enterprise tries to make a difference, matching supply with need. The interaction helped in placing social entrepreneurship in the right perspective.

Raj Dugar, Sumir Chadha, K P Balaraj

Managing Directors, West Bridge Capital Partners Advisors Pvt Ltd.



Dugar, an MBA from Stanford, worked with Goldman, Sachs & Co. before he teamed up to found West Bridge.

Chadha, an MBA from Harvard, prior to founding West Bridge, worked with Goldman, Sachs & Co., and McKinsey & Co. Balaraj, an MBA from Harvard, worked with Salomon Brothers and Goldman, Sachs & Co. before co-founding Miradiant Global Network, a B2B e-finance solutions company and West Bridge.

The three entrepreneurs described their transition from being investment bankers to setting up a venture capital firm, managing US\$ 140 million of private equity funds. They emphasised the importance of having good domain knowledge, a capable team, and the ability to present the key differentiators while seeking external funding as they had done while securing private equity funds. Detailing the investment methodologies adopted, they described the various stages of funding and support from venture capitalists. They outlined their criteria for evaluating projects and stressed the importance of experience and capability in the team to convert an innovative idea into a viable business project. They also talked about the paradigm shift in venture capital funding – investors today look not only for innovative ideas, but also for those that provide customer value and present profitable business plans. The presentation brought out the strengths of the trio and the way they built up their own business of investing in others' dreams.

Discovering New Points of Differentiation

Ian C Macmillan & Rita Gunther McGrath

One of the key strategies adopted by successful companies is differentiation – offering customers something they value that competitors do not have. In trying to differentiate themselves, most companies focus only on their product or service. However, differentiation opportunities arise at every point of contact between the customer and the company – starting from the time the customer becomes aware that the company’s product/service can meet his need to the time when he no longer needs it and decides to dispose it. Every point of contact is a link in the process of consumption of a product/service and the chain so formed is the **Consumption Chain**. Creative analysis of the customer experience at every link in the Consumption Chain will throw up opportunities for differentiation, which can be exploited to devise winning strategies.

To **discover new points of differentiation**, groups of employees from all areas of the company, in particular, those who use marketing data and those who have direct contact with customers get together to generate an understanding of the customers’ experience at every link in the Consumption Chain. This process is called “Mapping the Consumption Chain”. For every major market segment, groups identify all the steps through which customers pass in consuming the product or service. These include:

- Becoming aware of the need
- Collecting information about products that will satisfy the need
- Deciding to acquire the product
- Paying for the product
- Receiving the product
- Initial use after purchase
- Subsequent use of the product
- Returning the product if it does not meet expectations
- Servicing the product, if required and
- Disposing after its useful life is over.

Once the mapping exercise is complete, the experience of the customer at every step in the Consumption Chain is analysed. This results in an inventory of many traditional and non-traditional ways of creating value for the customer. These ideas are then meshed with the company’s skills, assets and systems and those value-creating differentiators that leverage the company’s competencies thereby giving it a competitive advantage are culled out. Some ideas may also open up an opportunity to develop a new competence.

Blyth Industries, an American candle maker went through such an exercise. A core group of employees first mapped the Consumption Chain across various customer segments and then analysed the customer experience at each link in the chain. From the inventory of differentiators generated, those that leveraged the company’s competencies of unique production techniques and deep knowledge of fragrances were identified. Insights into the customer experience at every link in the Consumption Chain enabled the company to dominate many small niches, giving it economies of distribution and scale by the sheer number of products it placed in the marketplace. By creatively discovering new points of differentiation along the Consumption Chain, Blyth succeeded in building a \$500 million global candle & accessory business.

By focusing the creativity of its people on obtaining a superior understanding of the experiences of customers at every stage in the Consumption Chain, companies become deeply attuned to their markets. Like entrepreneurs, they spend their imagination in lieu of money and outperform their competitors by differentiating their products and services better.

(Summarised from an article published in the Harvard Business Review, July-Aug 1997)

Exploiting Opportunities

Suven Pharmaceuticals Ltd, Hyderabad is one of the few medium scale pharmaceutical firms in India, which has placed high emphasis on R&D and is gearing up for the 2005 deadline for the IPR regime to be operational.

Venkat Jasti, the founder and the man behind Suven has followed a clear roadmap for the transition from being a bulk drug producer to one specialised in unit processes and then to one involved in contract research and production for the world majors. While the rest of the bulk drug industry competed on cost, his R&D focus has enabled him to carve out a niche for himself with tremendous bargaining power with large global players.

Jasti went to the US in 1973 to pursue higher studies in pharmacy and seek career opportunities. After completing his Masters, he started his own drugstore by buying out the retiring owners on attractive terms. By 1983, he owned a chain of six drug stores. He was deeply involved in the local community and industry group activities. The high level of credibility enjoyed by Jasti led to greater acceptance of his drugstores among the local populace. In 1988 he returned to India for personal reasons after selling his business in the US to his employees on a deferred payment basis.

Back in India, he acquired a sick bulk drug company on attractive terms. He redesigned the plant to take up production of bulk drugs that were not being manufactured locally then. Naturally, this enabled him to be different from others. In 1991, Suven decided to become a “chemistry-based” specialist, as it was a profitable niche area. To build up competitive advantage, he chose cyanation process and became one of the very few in the world with such expertise.

In 1994, Jasti recognised the need to create a unique niche for Suven in the light of emerging competition in the forthcoming WTO-TRIPS regime. He positioned Suven as a speciality chemicals manufacturer within the supply chain of MNCs new chemical entity activities, developing and supplying intermediates/chemicals for the Phase I clinical trials onwards. There are only a handful of firms with such capabilities in India. Besides, MNCs did not hesitate to trust Suven with their research activities since it did not compete with them in the finished dosage market. This Contract Research and Custom Manufacturing Services model has enabled faster and innovative process development and rapid response to pilot scale orders through world-class manufacturing facilities.

He knew what the customers wanted and relentlessly focused on capability enhancement through attracting good talent, ensuring highest safety and environmental standards and high commitment towards delivery on schedule. Jasti has built up personal rapport with all his customers, who respected him for Suven’s integrity, quality and timely completion of work. Suven achieved this successfully and now has over twenty MNCs as its partners/customers and has developed about 150 products (chemical intermediates) through processes that do not infringe on existing process patents.

Suven plans to move up the value chain and is in the process of entering the field of new chemical entity research. Jasti’s entrepreneurial journey can be summarised in his own words – “I believe in myself, and compete with myself. I look for opportunities not in today, but tomorrow”.

(Venkat Jasti spoke to the ISB students on September 3, 2001. This is the abstract of a case being prepared by our students Manmeet Singh Narang and C V Murthy.)



Vinod Khosla, renowned venture capitalist, signing the Club Charter in the presence of Dr Pramath Raj Sinha, Dean, ISB and Dr K Ramachandran, Professor, Entrepreneurship

Vinod Khosla, a prominent Silicon Valley entrepreneur and venture capitalist, inaugurated the ISB Entrepreneurship Club on July 31, 2001. Students of the PGP programme at the ISB manage the activities of the Club.

The mission of this Club is to promote and facilitate the spirit of entrepreneurship among the ISB community. This will be accomplished through organising several activities like a speaker series, business plan competitions, sector-specific workshops, and skill development workshops.

The objective of the speaker series is to learn and draw inspiration from successful entrepreneurs and venture capitalists from India and abroad. Those who have addressed the Club include Vinod Khosla (venture capitalist and general partner Kleiner Perkins Caufield & Byers), Dr Vasi Reddy (Vimta Laboratories Ltd, an analytical laboratory), Dr K Anji Reddy (Dr Reddy's Laboratories Ltd, a research-based pharma major), Vijay Mahajan (Basix, a rural livelihood promotion institute), Sudhir Sethi (Walden International, a global venture capital firm), Ms V N Saroja (Naukri.com, a web-based recruitment services), Venkat Jasti

Published by Prof K Ramachandran, for and on behalf of Wadhvani Centre for Entrepreneurial Development, Indian School of Business, Hyderabad and printed at Pragati Offset Pvt Ltd, 17, Red Hills, Hyderabad. For restricted circulation and not for sale.

(Suven Pharmaceuticals Ltd, a speciality pharma chemicals company), Dr Geeta Piramal (business historian and company director) and K P Balaraj, Sumir Chadha & Raj Dugar (West Bridge Capital Partners, a leading venture capital firm).

The Internal Business Plan competition (restricted to ISB students) has received enthusiastic response from students who have been encouraged to convert their best ideas into a viable business proposition. Winners will eventually be funded by venture capitalists. In addition, an all-India business plan competition is also on the anvil and is scheduled for May 2002. Participation in the competition will be open to applicants from all higher education and research institutions in India. The details will be announced shortly.

The sector specific workshops will seek to enhance students' understanding of various high growth sectors in India and the rest of the world. The emphasis will be on gaining an insight into potential entrepreneurship opportunities in these sectors. The first such event (*Emerging Entrepreneurial Opportunities in Biotechnology and IT services*) is scheduled for December 2, 2001 along with the inauguration of the Wadhvani Centre for Entrepreneurial Development.

The skills development workshops seek to enhance skills like writing a good business plan and understanding legal issues involved in discussing ideas and business plans with potential investors.

We have an exciting year ahead and shall share with you the details of the Club activities in the forthcoming issues of The ISB *Mentor*.



INDIAN SCHOOL OF BUSINESS

ISB Campus, Gachibowli, Hyderabad 500 019, India.

Tel: +91 40 300 7000, Fax: +91 40 300 7099.

www.isb.edu