

# Capitalizing on Indians' entrepreneurial drive

Venture capitalists are on prowl for savvy Indian American entrepreneurs in the United States and Indians in India who have smart ideas, smart technologies and hungry markets. By SUJATA SRINIVASAN

**S**ANDESH Patnam, a partner and interim CFO at Menlo Park, California-based venture capital (VC) firm Bay Partners, is among a growing number of investors who believe that the way information technology got built out in India is shedding some light on what's happening in that country today. He said cross-border companies are being established only by individuals who already had connections in India, and not by start-ups who were new to the region. In other words, firms are no longer heading to India just to leverage costs. The reason? "Earlier, costs used to be a 4:1 ratio (four employees in India for the price of one in the US)," he said. "What's changed dramatically in the cost equation is that the ratio is now probably 2:1. And the quality (of work) has actually gone down because I think the good talent is all taken."

India? Starved for talent? That's music to the ears of entrepreneurs like 37-year-old Rohit Agarwal of San Francisco, California, whose firm techTRIBE, a career networking platform, targets a vast pool of talented Indians who are either happily or unhappily employed, and are potential employees for their companies' competitors.

Agarwal said techTRIBE is the only site for "passive job seekers in India," and because it is not a job site, users are able to leverage their ability in knowledge-sharing. He noted that the referral recruiting market in India is over \$1 billion. "We're the first and only company targeting that market today," he said, and added that techTRIBE has around 400,000 users and is adding nearly 2,000 members a day.

The firm's recently established revenue model is based on referral recruiting and the promotion of products by companies including Sun Microsystems and Microsoft to its members. Agarwal is forecasting revenue of \$1 million this fiscal year. The company, which develops its technology platform in the US, is yet to post a profit.

Agarwal, who founded techTRIBE in 2006, is battle-scarred like any true blue entrepreneur. "Behind most successes is a string of failures," he said, referring to Escend Technology, a sales force automation company that he co-founded seven years ago, and which, he acknowledged, was "a complete disaster." Not only had he miscalculated the size of the market, the company's product was not the change catalyst he had dreamt it would be, he said.

But failure is a good thing. Thanks to lessons learned from that venture gone kaput, Agarwal said his current venture is on a trajectory to success because it's an idea that no one's executed before in a market teeming with untapped potential.

Flushed with greenbacks, VCs are on the prowl for savvy entrepreneurs of Indian origin in the US who have smart ideas, smart technologies, and hungry markets.

Inventus Capital Partners, the \$125 million technology fund based in Menlo Park, will soon begin funding early stage companies started by Indian American entrepreneurs in the US and Indians in India. Kanwal Rekhi, 62, the fund's lead investor who came to the US with \$8 in his pocket and be-



(left to right) Arati Prabhakar, Kanwal Rekhi, Sandesh Patnam and Manish Chandra

came an icon of success in Silicon Valley, said he is on the lookout for entrepreneurs "who have the courage to dream big, and the ability to compete on a global stage."

Rekhi said Samir Kumar, one of four partners, had opened an office six weeks ago in Bangalore, India. "We are looking for Silicon Valley-style entrepreneurs in India who can compete with the Chinese and the Americans," he said. "Indians have been entrepreneurial people from the start. It is the Indian government that repressed their entrepreneurial drive."

He said that a half of the fund's portfolio will consist of ventures in India, and the remaining will be based in the US. He expects to invest a total of around \$10 million in each deal, with an initial investment of around \$2 million. According to him, "it's very hard to tell what's US-based and what's India-based nowadays because a lot of companies are just incorporated in the US and have all their operations in India."

Arati Prabhakar, general partner at Menlo Park-based US Venture Partners (USVP), said her firm entered into a partnership with Inventus because it needed on-the-ground information in India, where an increasing number of companies in USVP's portfolio are setting up their operations. "In the old days, it was easy to understand a team because they were local. They all had worked at companies you knew or had funded, and in three phone calls, you could thoroughly reference somebody. I think it's harder when you're talking about teams overseas or partly overseas; you have to build networks in those places," she said. "That's partly why we are working with Inventus because we want that window into India directly."

Ravi Mohan, managing director of IT-focused Shasta Ventures in Menlo Park, said nearly 40 percent of the firm's investment opportunities are in companies founded by South Asians. That number is expected to remain constant through 2008, and Shasta plans to add eight new firms to its active portfolio of 24. The firm typically invests around \$3 million initially in each venture. "To us, the most interesting companies are those that enable individuals to use technology in a better way at work or in their personal lives," Mohan said.

One of Shasta's investments, Tumri, Inc., founded in 2004 by its CEO Hari Menon seeks to enhance the effectiveness of online display advertising. "We are starting to work with large advertisers like Lenovo and Intel,"

said Menon, who expected to post a profit in 2009.

B.C. Krishna, founder and CEO of Concord, Massachusetts-based Memento Inc., his third venture, is also among those entrepreneurs who successfully leveraged technology for a niche market. The company's patented fraud monitoring solution for banks received the prestigious MITX Technology Innovation Award in 2007. The five-year-old firm has installed its product at five of the top 15 banks in North America, including Wachovia.

Memento, which outsources engineering work to a partner in Chennai, India, recently established offices in the UK and Italy. "This year, we are expanding our footprint internationally and outside our core areas of customer fraud into online fraud and certain types of financial statement fraud," said Krishna.

Manish Chandra, founder and CEO of the shopping Internet site Kaboodle, launched in 2005, enjoyed the backing of big-name investors like Rekhi and Rajeev Motwani. Kaboodle was sold to Hearst last year. "In December 2006, we had (a traffic of) 400,000. In December 2007, there were over 4 million people," Chandra said.

Of course, the road to growth had setbacks. "Just six months before we were sold, we almost ran out of cash. I had to get intermediate checks from a couple of investors to meet the next payroll," said Chandra. "You just can't give up."

Kaboodle, which is entrenched primarily in the US market, is planning to expand globally this year. Given that Hearst already has a presence in India, Chandra said he is evaluating the region as a strong market. "The key for us is to partner with somebody in India who has the infrastructure and ability to partner with local e-commerce retailers," he said.

Chaitanya (Chet) Bannerjee, 32, founder and sole employee of Cogito, Inc. established last year in Cincinnati, Ohio, was a software engineer for over 10 years at a leading financial services multi-national corporation. "I spent the last two years on the job as one of three systems and business analysts, bridging the two worlds," he said. "It was a good company to work for. I was doing well and got promoted six times. But I'd been wanting to go out on my own and there came a time when it was now or never," said Bannerjee, whose business plan to set up a company in the high volume dig-

ital printing industry was vetted by his father, an entrepreneur who owns several businesses in Bangalore.

Currently, Bannerjee's only customer is his former employer to whom he offers consulting services as well. "That provided a bootstrap kind of funding at the same time. So whatever money I make consulting, I use back in my business," he said.

"I want to develop a product whereby I can go to fulfillment providers (like Nielsen Media Research) who will merge personal data with digital content and produce print strings, which are then printed on high volume printers and distributed," he explained. "I have a one to two year horizon to develop this product and plan on hiring people this year."

Neeraj Agarwal, general partner of Battery Ventures in Boston, said his firm was "very bullish" in continuing to back entrepreneurs of Indian origin this fiscal year. "We've had a very strong history of success with entrepreneurs of Indian origin. In fact,

two of our companies that went public in the summer of 2007, Blade-Logic and Netezza, were both formed by Indian entrepreneurs."

P. Ranganath Nayak, a Boston-based management consultant who mentors start-ups and consults for Massachusetts Institute of Technology's Venture Mentoring Forum, cautions people against measuring success solely in terms of "IPOs and making billions of dollars."

He pointed out that unlike big companies that are merging and laying off people, it's small companies that are creating jobs. "An entrepreneur who manages to create a company that

employs 100 people in good jobs is said to be successful, even though he didn't make billions for himself," he said. "You really ought to measure your success by whether you're making a profit or not. How quickly are you going to get there? We have to go back to being old-fashioned businesses, which are in the business of making a profit and not spend years and years going through somebody's capital in order to get there."

Case in point, chef Prasad Chirnomula, 44, who in March is set to open his fourth Connecticut restaurant in eight years. Chirnomula, who is creating ripples in the food industry by putting out innovative Indian cuisine for the American market, posted a profit within two years of opening his first restaurant in New Canaan, which fully funded the opening of his second restaurant in Ridgefield, which in turn funded his third restaurant in New Haven. In an industry where a majority of restaurants fail or simply tread water, Chirnomula said his three restaurants, which employ 65 people, post annual revenues of \$4 million and a profit margin of 20 percent. His fourth restaurant is a partnership with Yale University and will be located on campus. "If this is successful, I want to partner with more universities and also open restaurants in New York, London and Paris," he said. "I am determined to change the way people think about Indian food."

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