Infogile at Crossroads: Leaking 'Beginner's Luck' of an Entrepreneur

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It was the autumn of 2010. Aaryaan Mehra, founder of Infogile Technologies Pvt. Ltd. was driving to his office. The past three years of his life flashed in his mind. His life had been like a story which could have served as a great plot for a Bollywood flick, except for the fact that it was real, the problems were real and he had to get himself and his dream venture Infogile out of the mess it was in, right now.

The loud ringing of his mobile phone broke the web of thoughts in his mind. He checked the number. It was Gaurav Joshi, the owner of CAT Technologies Limited. He parked his car on the side and received the call. Gaurav offered Aaryaan to revive their business relations. He said that it would be beneficial for both of them. Surprised, Aaryaan could not utter a word. "How could he consider doing business with Gaurav again? It was impossible", he thought. Suddenly, his thoughts took a u-turn and a voice inside said "Was it not favorable for Infogile if he collaborated with Gaurav"? "Was it, was it not???" presented a critical business decision for Aaryaan. With the maelstrom of thoughts in his mind he headed towards his office.

Background

Aaryaan Mehra was a software engineer from a prestigious institute in India. While in college, Aaryaan was widely recognized for his technical and innovative skills. A passion for

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innovation and entrepreneurship clearly ran in Aaryaan's heart and he played a key role in the inception of incubation centre for entrepreneurship in his engineering college. His brilliance and technical astuteness got him job offers from some of the best IT companies. Aaryaan began his career with Wipro, a leading IT company in 2002. He worked in various capacities with IT companies like Wipro, Infosys and Oracle in India and U.S for the next four years. In 2006, he laid the foundation stone of his dream company 'Infogile'.

Company Information

Infogile, a product development and off shoring company was conceived in December 2006 and incorporated in May 2007. Headquartered in New Delhi, India, it specialized in technological, consulting and outsourcing services. Its technology services included design, development and maintenance of high-end business enabling IT systems. It offered consulting in areas like business intelligence, product engineering, hiring etc. Its outsourcing engagements included services like business process provisioning. Infogile was the first company in India to launch mobile phone based B2B multi operator prepaid recharge Point of sales. In 2008, it was selected as one of the 8 finalists for CNBC-TiE-Canaan Entrepreneurial Challenge 2008 Finals from 200 emerging companies in India.

Aaryaan's aim to provide high quality and cost effective services to its clients was captured in the company's mission statement: "To offer the best to our clients to help them achieve their business goals"[1].

As Aaryaan puts it, "We intend to build long lasting partnerships with our clients with values like honesty and freedom of thought as the core of Infogile". Infogile differentiated itself on fronts of innovation, responsiveness, dependability, and expertise to leverage the above and deliver the best state- of- the art domain and technical services and solutions.

Telecommunication Industry[2]

Telecommunication had been an important sector for India as it contributed to the socio-economic development of the country. In the years following the reforms of 1990 and Telecom Policies of 1994 and 1999, the Indian Telecom industry experienced phenomenal

growth. These policies authorized private sector participation to supplement efforts of Department of Telecommunication in provision of basic telephone services. This led to opening up of opportunities for private as well as foreign players to enter the industry. This resulted in unrestricted competition in the market. In the process, the end customers were benefited as they enjoyed low tariffs for telecom services.

In 2008-2009, India was experiencing a burgeoning growth in the telecom industry especially in the wireless segment. The total subscriber base (both wireless and wire line) during that period exceeded 400 million connections and the country was much ahead of what it had planned for that particular financial year. Being the third largest telecom network and the second largest wireless network in the world, India emerged as one of the fastest growing telecom markets.

There was an exponential growth in the number of wireless connections during this period. The number of wireless subscribers in the country grew at a compound annual growth rate of 75.7% per annum since 2003. The share of wireless phones increased from 14.85% in March 2002 to 91.17% in March 2009. Out of the 91 Cr Telecom subscriber base in the country, 88 Cr were mobile subscribers.

All the telecommunication service providers offered their connections in two modes-postpaid connection and prepaid connection. In Prepaid connections, the consumer had the flexibility to change the service plan and select the amount of mobile recharge through various plans offered by the telecom service providers. Thus, prepaid had always been more popular among students, lower-income group, etc.

Mobile Prepaid industry

Indian operators benefited from the prepaid subscriptions as it involved lower customer support costs, low billing and collection costs, no revenue leakages or bad debts, and higher margins per call. Thus, they attempted to attract prepaid subscribers by offering low-denomination, high-margin recharge vouchers and lifetime validity to increase overall mobile adoption and usage. Therefore, the share of prepaid connection in the wireless segment was growing at a much faster pace than the post paid connections. Nearly, 95% of

the wireless connections were prepaid during 2008-09. This constitution presented abundant opportunities to the recharge business in the Indian telecom market.

The prepaid recharge service was available for all major operators like BSNL, Vodafone, Airtel, Reliance and many more in India. Traditionally, the major operators in the telecom industry had their own network of distributors and retailers for prepaid recharge service through vouchers and scratch-off cards. Many big giants like F&D Payworld, Pound net, ITZ, Vibrate Telecommunications, and Oxygen etc. provided recharge services through POS(Point-of-sales) terminal such as hand held devices and computers. It was loaded with their respective proprietary software's that enabled the retailers to perform transactions. However, considering the growing size of market many third party recharge players (distributors, retailers etc.) considered it advantageous to enter into this segment.

The developing technology and users demand for intelligent and convenient ways to recharge their mobile phones created an opportunity for the players in mobile payment ecosystem. The ecosystem included mobile operators, distributors and retailers, just like an FMCG sector .Number of new entrants were eager to make their innovative mobile payment solutions reach the hands of mobile phone users. Aaryaan, being an avid technologist with keen business sense, seized this opportunity and decided to enter into this business. Under his guidance, his team created a mobile phone based software for B2B multi-operator point of sales for prepaid recharge in India. He named his product **moGil**e, meaning *'mobile agility'*.
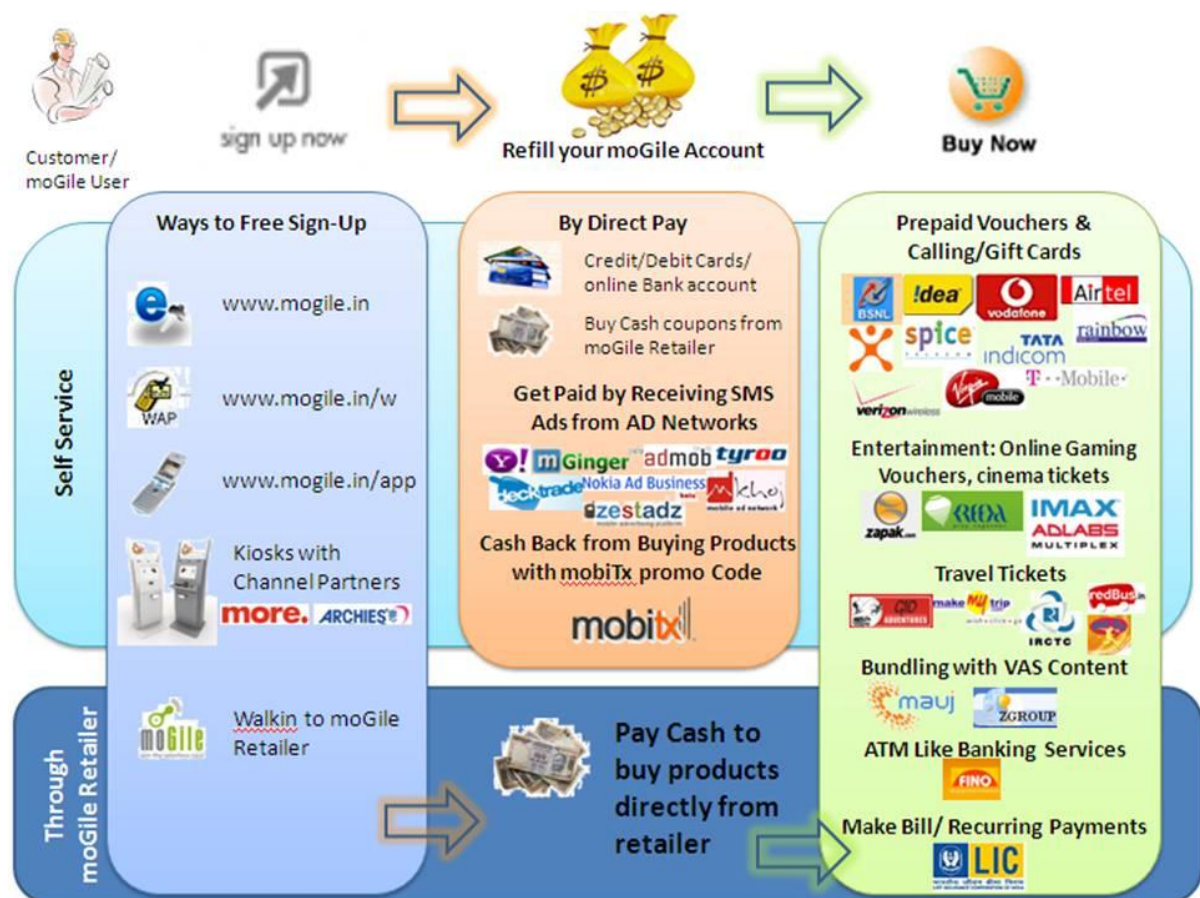
moGile

moGile Prepaid Recharge Platform, the flagship product of Infogile was a consequence of R&D efforts of Infogile. The product enabled prepaid recharge through retailer based distribution network.

Product Highlights:

- Enable the telecom service providers and mobile prepaid distribution   network to do e-Delivery and and end users to order their products   like   prepaid   talktime

coupon (e-topup), make real-time bill payments   and   open   new   and   faster
channels of service. This will thereby   reduce   the   service   response   time
drastically and also the cost   distribution, leading to improved customer satisfaction.

● Easily integratable with major operators, SMS providers, inventory aggregators, third
  party interfaces to provide electronic   inventories.

● Go live with base product in 72 hours (without customization) & complete service
  provided in a hosted model with one week guaranteed implementation.

● Multiple modes of point of transaction: WEB, WAP (Wireless Application Protocol),
  Mobile and SMS(Short Messaging Service).

With moGile, Aaryaan became the first entrepreneur to set up an innovative mobile recharge platform. Aaryaan left no stone unturned to promote moGile in the market. He posted videos of user manuals of moGile on youtube and also published white papers on moGile. moGile was a boon for the mobile recharge industry, which operated on very small margins as it substantially, cut down the operation costs. In addition, moGile was compatible on variety of mobile phone model.

This unique product was acknowledged by the Industry and Infogile got selected as one of the eight finalists for TiE Canaan Entrepreneurial Challenge 2008 Finals, New Delhi - June 06, 2008.

Functioning: The Dynamism of Recharge

The franchisees required entry licenses from the operators to provide recharge services on their behalf. moGile enabled these license holders and their network of distributors and retailers to provide mobile recharge service electronically, wirelessly and without the use of expensive prepaid vouchers or scratch-off cards. Recharging mobile phone became a fairly simple process. (Appendix II)

The overall supply chain process of Recharge coupons from Telecom provider to End User -

Step 1: The telecom operator provided PINs (Personal Identification Number) to the all India Super Franchisee (who are licensed to sell inventory by either operators or aggregators or both through retailer network). These PINs were available in predefined denominations depending on the business policy of operator/ service provider.

Step 2: The franchisee resold these PINs to zonal or district level distributors who in turn sold it to the retailers. The credit limits for distributors and retailers were set after receiving payments from them.

The customers got their mobile recharged by the retailer. The retailer accessed the mobile application (moGile) either through SMS, GSM, GPSR, WAP or Internet. The application generated a PIN and forwarded it to the retailer for recharging user's phone. The retailer collected money from the customer and all the concurrent transaction details got saved in a database, reducing the inventory of PINs allocated to the retailer (Appendix III).

Infogile's Offering and Pricing Model

Infogile created the offering for B2B customers in a way that the application is offered as a hosted service which can be integrated with sellers' inventory systems as required. Infogile also offered below services with the product -

1. Complete product will be provided along with system integration and setup

2. Product will be branded as per Operator's requirement, and necessary interfaces to be created with their back-end system and payment processing systems.

3. Infogile will provide User training to retailers on the usage and functions of the application.

4. Complete maintenance and 24x7 support.

5. Assistance in scaling up the application to offer other payment and value added services.

Pricing model for super-franchise(s) -

- A onetime fixed license fee of INR 10 lacs payable in two instalments (50% Payable upfront, 50% post installation) for setting up the system and customization as per customer requirements.

- Support/ Recurring fee per month of INR 10,000 per telecom circle or INR 40,000 per telecom zone whichever was lower.

The current pricing scheme also included:

- Any recurring hosting charges for the moGile prepaid platform.

- Support Team available on Phone/Email/Chat.

- User Training of the client's team.

- Roll outs of enhancements and future product upgrades/ releases to the product.

Optional Components like SMS gateway for incoming SMSes based functionalities were chargeable at INR 30,000 payable once without any recurring costs. Clients could also avail initial domain, email and hosting services on a one-time payment of INR 10,000 with a monthly recurring fee of INR 6,000. The contract period was two years which could be renewed if both the parties were willing to do so.

Infogile provided its technology for electronic recharge through PINs to multi-operator national level franchisees that had a network of distributors and retailers. The distributors appointed retailers who in turn provided mobile recharge services to the end customers. This network operated on 1.5%, 0.5% and 4.5% profit margins on total sales to franchisees, distributors and retailers respectively.

During 2008-2009, the mobile recharge market majorly had 11 multi-operator national level franchisees. Aaryaan, with his flagship product was able to attract two clients, NVM and Manfair (National level Franchisee) by September 2008.

The Proposal

Aaryaan was approached by Gaurav Joshi, the Managing Director of CAT Technologies Limited in January 2009 with a business proposal. CAT was one of the major telecom franchisees in the market with a large network. It provided consultancy to other franchises to acquire entry licenses from major operators. It had presence in most parts of India and was well recognized among the major operators. CAT offered the advantage of its contacts to Infogile to expand its network of clients. In return, it demanded two licenses for moGile at the cost of one license.

While the talks on the proposal were still on, Infogile got two clients through Gaurav- D K Services and Hindustan Recharge. Aaryaan thought that the deal might help him increase Infogile's share in the market. Consequentially, he signed a two-year contract on 26th Feb 2009 with CAT Technologies Limited.

Aaryaan's decision proved fruitful as CAT Technologies introduced and recommended Infogile to other distributors in its network. Aaryaan now provided moGile licenses to his clients at negotiable prices on Gaurav's advice. The clientele of Infogile began to grow at a fast pace. Infogile had positioned itself as one of the premier mobile recharge platform technologies in India. It was seen as an aggressive player in the market.

The relationship between Infogile and CAT grew with each passing day. Gaurav spent a good amount of time in Aaryaan's office. They both shared market information and knowledge with each other. The friendship between Aaryaan and Gaurav fostered and so did the trust. Gaurav had a strong network, which helped Aaryaan develop a larger client base. Aaryaan rarely faced any problems with the clients as most of the problems were handled by Gaurav, himself without Infogile having to intervene. Aaryaan was very happy with the result.

Infogile doubled its clientele within six months. By September 2009, Infogile had a big

market. Its clientele included distributors like emobile India, Ezypay, Speedy Recharge, Shreeji Recharge, R C Place, Arena, Net Mogile, Economy pay, E Services, SSUS, I K mobile, Strentia, Fast Pace Recharge and Pan Country. This was a big achievement for Aaryaan. In a very short span of time, the company had enabled 2500+ retailers across 11 states in India to sell prepaid coupons of all leading Telcos. Many of these clients came through CAT Technologies.

Entering 2010

Aaryaan coincidently met a client, Sridhar at a wedding of a close friend. They met each other for the first time and in no time got friendly with each other. Aaryaan asked for Sridhar's views on moGile. Sridhar praised the product but also conveyed it to Aaryaan that the frequent down time of his application (moGile) was giving retailers a hard time. The retailers were facing difficulties with respect to sales.

Aaryaan was utterly surprised on hearing this and responded back that except for the time when the server was down there was no other down time for moGile. And, even such occurrences were timely conveyed to Gaurav who in turn provided the information to other clients so that the clients did not suffer. Sridhar responded back by saying that Gaurav rarely provided such communication further to the clients. During the conversation Aaryaan also came to know that Gaurav charged 20% commission for moGile from the clients that he referred to Aaryaan.

A few days later Speedy Recharge, a client, had terminated the contract with Infogile without any intimation. The proprietor of Speedy Recharge, Vikram had alleged that despite regular complaints about poor service to Gaurav, Aaryaan had failed to solve the problem.

Aaryaan felt deeply betrayed and at once decided to sever his ties with Gaurav. He immediately terminated Infogile's contract with CAT Technologies Limited.

The Downturn

As a consequence of contract termination, Gaurav tried to spoil Aaryaan's reputation in the market by spreading bad word of mouth about him. Gaurav also tried to influence the

employees of Infogile to share the software code of moGile by bribing them.

Meanwhile, existing franchisees like Oxygen and Poundnet started providing products and services similar to moGile. Many new players with similar features also entered the market. In the coming months, Infogile lost many of its clients to competitors. Though, none of the competitors offered the wide range of services being offered by Infogile, nonetheless, Infogile kept on losing its clients. Aaryaan was shocked as he had thought that his clients were satisfied. Strange rumors about his company had come up in the market. He was speculating if any of the employees of Infogile had shared internal information of Infogile with the competitors. Aaryaan had lost a major chunk of his market share to competitors, so much so that the survival of Infogile was at stake.

Need For Action

Aaryaan had been thinking about the possible actions for reviving Infogile from quite some time now. He was aware that he needed to fix on a solution without any further delay. He had various alternatives that he was contemplating upon. He was weighing the pros and cons of each of these alternatives in his mind. He wondered whether he could add some unique features to augment his product offering moGile. Could he attempt to offer moGile and its services to other areas like air ticketing, bill payments, online transactions etc? Could he focus more on other domains like consulting and other IT enabled services instead of moGile? On the other hand, he was also considering the option of collaborating with CAT Technologies Limited. This plethora of thoughts made him anxious and he even considered closing down the business. But he was sure if he had to stay in business he had to revive not just his lost business but also the lost reputation of the company.

Case Review Questions

1. Discuss and elaborate the reasons due to which Infogile could not sustain its business and eventually lost its market share?
2. If you were Aaryaan, what would have been your future course of action in order to revive Infogile?

REFERENCES

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[2] This entire section has been prepared from the information provided in annual Report 2008-2009, Department of Telecommunications, Ministry of Communications & IT, Government of India, New Delhi, http://www.dot.gov.in/annualreport/2009/AR_English_2008-09.pdf_Website <extracted on August 30, 2013>
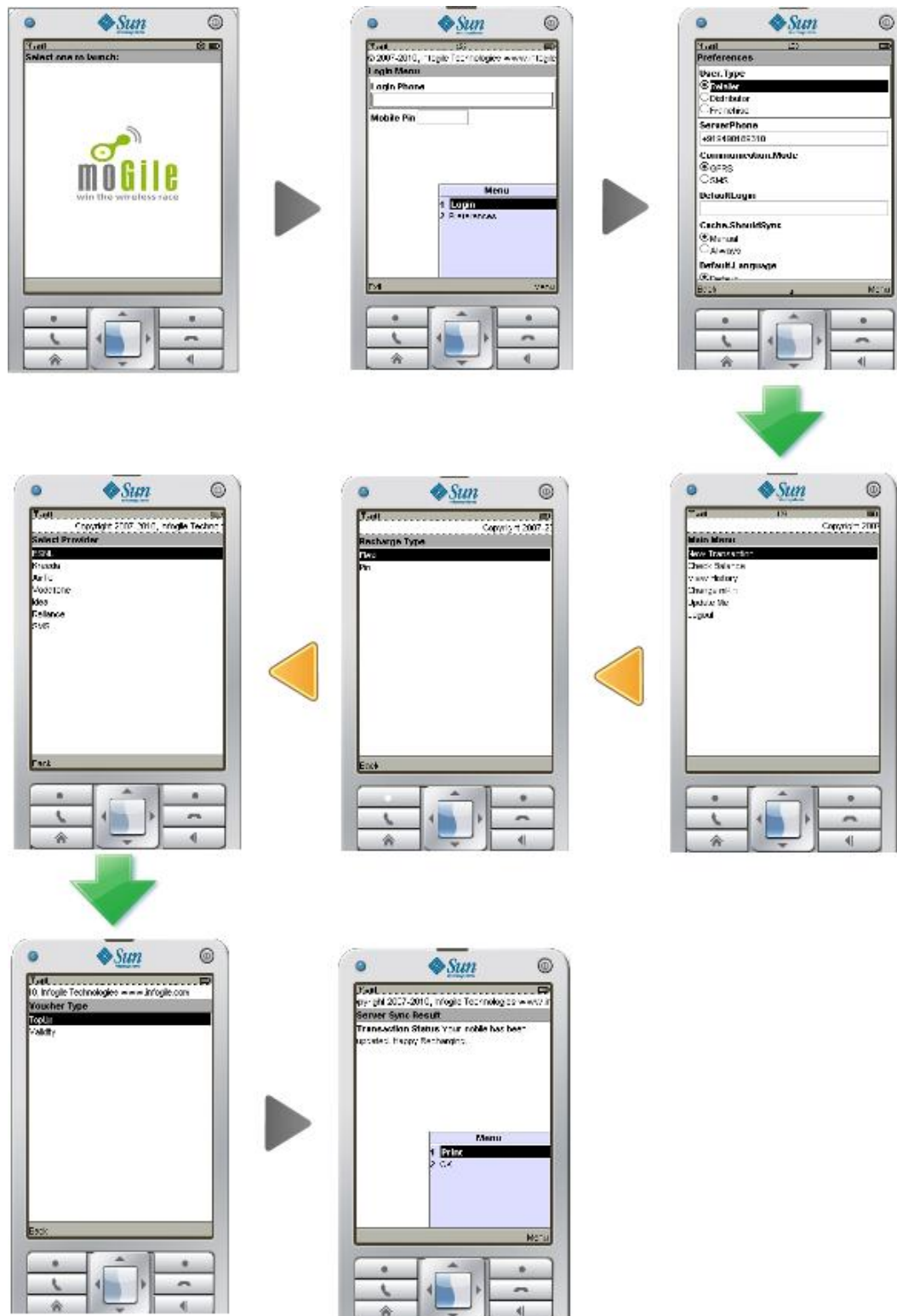
Appendix - I

Glossary of technical terms

1. Recharge Vouchers - Recharge voucher is a bond of the redeemable transaction type which is worth a certain monetary value of recharge.

2. Scratch-off cards - Scratch-off card is a type of recharge voucher having a certain section coated with an opaque substance that can be **scratched off** to reveal the recharge PIN.

3. POS terminal - Point of sales terminal is the place where the retail transaction is completed.

4. B2B - This describes commercial transactions between businesses, such as between a manufacturer and a franchise or between franchise and a wholesaler, or between a wholesaler and a retailer.

5. GSM - TDMA based wireless network technology developed in Europe that is used throughout most of the world. GSM phones make use of a SIM card to identify the user's account. (reference http://www.mobileburn.com/definition.jsp?term=GSM)

6. GPRS - wireless system providing Internet access: a system that provides immediate and continuous access to the Internet from wireless devices such as cell phones.

7. WAP - communication standard for handheld digital devices: a standard protocol for the transmission of electronic data between handheld narrowband devices such as cellular phones and pagers and other sources of digital information such as the Internet.

8. SMS - text messaging service: a service that allows short text messages to be sent, e.g. between cellular phones.

9. Web Hosting - Web **hosting** service is a type of Internet **hosting** service that allows individuals and organizations to make their website accessible via the World Wide Web.

10. Platform - In hardware, **platform** is the term that is used to refer to the foundation technology of any computer system. For instance, an Intel Platform, or an Apple Platform. In software terms, platform might refer to the operating system.(Reference - http://thelawdictionary.org/platform/)

11. SMS gateway - An SMS gateway is a Web site that allow users to send SMS messages from a Web browser to people within the cell served by that gateway. An SMS gateway can also serve as an international gateway for users with roaming capability, allowing SMS communication away from the home network. (Reference http://searchmobilecomputing.techtarget.com/definition/SMS-gateway)

12. Base Product - The standard product as created/developed by the producer.

13. Customization - Specially developing or modifying the standard software product for some specific organization or other user.

14. Inventory Aggregators - Inventory aggregators are those entities which provide inventory for multiple operators through electronic interfaces.

15. Postpaid connection - where the consumer has to pay after using the connection for a fixed duration, generally a month.

16. Prepaid connections - where consumers need to pay in advance and buy talk-time and added services.

17. Telecom circle/zone - The country is divided into multiple zones, called circles (roughly along state boundaries). India is divided into 22 telecom circles. (Reference http://en.wikipedia.org/wiki/Communications_in_India)

Appendix - II

moGile Product

Appendix - III

moGile Recharge Process