

A product company is not about linear growth: Arun Jain

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Arun Jain, Founder and Chairman of Polaris, will now be spending more time in building the Group's product business after its demerger from the services business.

He talks to The Hindu about the logic behind the demerger, and the opportuni-

ties and challenges for the products business.

How has been the journey towards demerger?

In 2012 we sat down for an internal idea-gathering session called Lakshya, bringing 10,000 people to comment on what they would like to see in the next five years' agenda for the company. Lot of opportunities were emerging both in the services and products space. But these opportunities were too many to handle for the management team... what we were driving at that point of time, and the investment that we were planning to put together.

Opportunities for

the services and products business were distinctly different, and that was when we started thinking of having them as two separate businesses... to look at them more strongly. So, we set up a task force to identify the opportunities in both segments.

We also employed external consultants to validate our thinking. They did not say demerger. But they said the two businesses need to separate. So, we did the restructuring, which was announced in April 2013. We treated product and services as two different businesses. After two quarters, we went to the board, which gave a go ahead for demerger, which is now complete.

How have various stakeholders reacted?

We have taken care of the concerns of employees, investors and customers. Our customers remain stable. Our employees remain confident. Stock price have gone up.

So, investors are okay. We have maintained the revenue. This means the customers are

okay. We have not been able to sign new customers, obviously due to change. You cannot run two agendas together. Most of the management team is intact, which is the employee part of it. That is indeed the validation of transformation by the line.

How hard was it to step aside from the services business?

Obviously, it is a hard decision... being detached from what you built. However, one has to make the choice based on whether the team to which you are going to hand over the business will run it with the same value and passion as you have done.

I need to create leadership capacity. If I am blocking the leadership, how will other leadership emerge? I have to keep releasing the leadership position for people to move forward and move up in the organisational chain.

That is the message I want to give the leadership team. Once, as a functional manager, you create and built systems and customers, then you move out. Why should you attach to the same role if somebody else can do it?

Don't you think you were late on the demerger plan?

Not really. The point is product business needs investment until maturity of product. In India, investments in products business are incomplete. Most times, product companies do not invest fully. Polaris has invested Rs.100 crore a year in last seven years in R&D.

How many companies in India would have had the courage to invest Rs.100 crore? Since I was running the company as a founder-entrepreneur, I can take that call and go to the board and say I need Rs.100 crore. A proper CEO cannot take this call at the cost of share price. I can take that bet.

The share price today is not important. Share price five years from now is more important, and for that, I would be taking the leadership. I need to go in that direction.

Since you are going to devote more time in building the product business, what are the triggers you see?

To me now, there is the talent. Talent is coming back from America to India. Indus-



try has matured to certain level, which is basic competency requirement.

It is at least 15-20 year-old industry. So, some competencies are there. Investment dollars are available today, which was not there five or 10 years back.

From that prospective, time is right now. My personal believe is that if the next \$100 billion is to come from India, it has to be from product business.

Services business will grow 10-15 per cent. It is only product business which can start much faster. A product company is not about linear growth.

Out of 10, only one will succeed. But that one will suc-

ceed in a very significant level, and will go 50-60 times. The ecosystem is getting built.

If older companies like Infosys or Polaris do not take the risk, who else will do?

What are the challenges you see in the product business?

The key challenges will be sales, marketing and distribution. If you look at Salesforce.com or any leading product firms' balance sheet, sales and marketing costs are close to 30-35 per cent. Indian IT companies' marketing costs are at 9-11 per cent. I think the board of companies have to become more conversant that there could be a 30 per cent sales cost.

If I am making revenue of \$100 million, can I spend \$30 million on sales cost? While improving your budget line - from \$10 million to \$30 million, my board will first say why you need it?

Returns for that sales and marketing cost will be two years from now, and not immediate.

So, the first challenge is mindset of the boards and also investors because there is a

substantial risk. The same board is sitting on the product and services company. We do not have ecosystem of product companies where board mindsets are different.

So, if I am a board member of a products service company. I take an average benchmark and say let services go with 10 per cent budget and products with 15 per cent, which is neither here nor there.

You need a critical threshold of investment to make it a success. And, the other challenge is the mindset that we can be successful as a product company.

Could you have been better off taking the product business private, given the investment needed and distraction on share price?

We would have loved to do that. But Indian laws are not favouring that. Taking a company private in India is a very difficult task. I had only 30 per cent stake in the company. We need laws which can allow taking a product company private.

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