

THE ENTREPRENEUR AS TEACHER

Shantanu Prakash developed the IT means to improve Indian education, and made a fortune in the process



Shantanu Prakash was in his teens when, he says, he realised “the risk-to-reward equation is always in favour of the entrepreneur”. It remains a central tenet 30 years later, one that spurs him continually.

The 43-year-old’s initial focus on business was an emotional reaction. His father was a manager in SAIL (Steel Authority of India) a giant public sector corporation, his mother a schoolteacher. They had stable incomes and a middle-class lifestyle. Like most middle-class Indian families, they placed great value in intellectuality. His mother taught “K-12” as it’s referred to in the jargon. Father Jagdish wrote Urdu poetry. “I knew what I would get for my birthday – books,” comments Prakash. “All my presents

were books. I read a lot and it expanded my horizons and unlocked my mind.”

Why entrepreneur?

As matters turned out his father in retirement couldn’t afford to buy even a down market Delhi Development Authority flat to live. That persuaded Prakash to stake his life in business: “I realised that working in a job would never do it for me.”

“You can work for a good salary of say, Rs 1.5 million. Or you can launch a business,” he adds by way of explanation. “Suppose the business struggles for even five years. How much have you risked? Post-tax, five years’ salary is Rs 5-6 million. Any decent business will make that much. If you are a little intelligent, you can get that valuation in a year itself.”

Arguably, this is unrealistically optimistic. But Prakash is an optimistic man. He says he is both happy and lucky: “The external circumstances and difficulties have never bothered me. Every year, I have looked

back and thought the previous year was the coolest ever.”

Getting his feet wet

Prakash plunged into event management while studying commerce at Delhi’s Sriram

College. He arranged rock concerts, hiring performers and venues, doing promotion. It was an instinctive recognition of an opportunity – the demand for rock concerts exceeded the supply.

In 1998 he enrolled at IIM-

Ahmedabad. Most B-School students focus on grades but Prakash continued to run his event management business and also experimented with sidelines like arranging bus tours for students. His junior at IIM-A, Sanjeev Bikhchandani (of Naukri

fame) recalls that Prakash was so often absent on business that he became known as the ‘visiting student’ - a slightly geeky-cheeky play on the title ‘visiting professor’.

Sunil Handa, professor at IIM-A, and driving spirit of the Eklavya Education Foundation remembers Prakash well as a special case: “I advise my students to take up a job for two or three years to gain experience but not longer. After that, you become too comfortable. Shantanu was unusual. He arrived as a seasoned entrepreneur who had already learnt some hard lessons.”

Post-IIM-A, Prakash had his

first flirt with computers. He hit upon the idea of running computer labs for schools. Prakash would set up the lab, the school would offer a contract and Prakash would charge fees per student.

The timing was uncanny and the turnkey business was an instant success. Computers still carried a strong mystique – an 80286 AT cost nearly Rs 100,000 circa 1990, and most schools were doubtful about their ability to maintain such devices, let alone use them. At the same time, students signed up in droves. By 1992-93, the mystique was fading and margins narrowing. Prakash wanted to move on.



SEEKING PROFITABLE SOLUTIONS

Educomp has built its business on software licenses and on the actual operation of schools. A virtuous circle that keeps it in the loop

Educomp derives revenues from three broad streams: licensing intelligent tools to help the education system deliver to higher standards; running schools, pre-schools, tutoring classes; post K-12 initiatives in vocational and professional education. It has devised a broad range of products and solutions that it offers to schools (B2B) or directly to students, or rather their worried parents (B2C). Some of Educomp’s initiatives:

Smart Class: Smart Class uses digital resources such as graphics, animations, 3D images and video clips in the classroom to deliver a multi-sensory learning experience. Delivered by school-teachers, who have been trained to select and use over 16,000 multimedia content modules aimed at all K-12 levels. It is usually offered on 5-year contracts to schools (installed across more than 900 private schools). This B2B suite was launched in 2003 and generates 44 percent of Educomp’s revenues. All Educomp’s B2B solutions are integrated with Smart Class.

Mathguru.com: Mathguru is a 24x7 online math-help program designed to help students solve every single math problem in the NCERT syllabus between Class VI-XII. B2C initiative developed directly by Educomp and launched in 2006.

Learning Hour: Learning Hour integrates web conferencing, a learning management system, and an assessment system with over 20,000 multimedia modules. It offers online tutoring for Class VI-XII and also

preparation for IIT-JEE, PMT and SAT tests. Learning Hour was developed by ThreeBrix, an Educomp subsidiary, and launched in 2007.

Roots to Wings: Roots to Wings is a brick-and-mortar pre-school chain. It is based on a combination of the project method, multiple intelligence, play way, Montessori and theme-based models to instruct children aged 2-5 through ‘guided’ play. Three branches have been launched since 2005 in partnership with Delhi Public School, Ghaziabad. The learning modules represent over 240,000 man hours of research. Part of the Direct Initiatives division.

Millennium Learning System: Millennium Learning System is a turnkey solution provider. It is designed to transform running schools into a process-driven initiative ensuring minimum learning levels are met by all students. Set up by Educomp in FY07 to help independent trusts establish schools with MLS providing consultancy, infrastructure and content, curriculum, etc. Seven school projects are underway. Part of the Direct Initiatives division.

ETEN: The Educomp Tele Education Network (ETEN) is a proposed national network of VSAT-enabled Learning Centres that offers professional and vocational training through a blend of face-to-face teaching and distance education. Modules include chartered accountancy and business English. Launched in 2008 - three centres up in Delhi, Ludhiana and Chandigarh. ■

EDUCOMP FACTS

Year founded:	1994
Headquarters:	Delhi
Employees:	4,000
Total Income FY08:	Rs 3,038 million
Income Growth 07-08:	162%
Profit after Tax FY08:	Rs 713 million
PAT Growth 07-08:	149%
Operating Margin:	47.5%

Educomp: the real thing

In 1994, he set up Educomp with two employees who coded while he scouted for business. He had around Rs 100,000 in seed capital and he took a loan of Rs 50,000 from his father. Educomp worked out of a single room with no fan.

The first concept was flawed, if innovative: an ERP (Enterprise Resources Planning)-style school management system. Prakash's idea was that schools had to manage resources and records just like other businesses. His standardised IT solution only required computer-illiterate pedagogues and school administrators to enter data on simple forms. The problem was that every school wanted a customised installation and Educomp couldn't deliver such bespoke business.

A few computer lab contracts saw to enough cash-flow to prevent bankruptcy. In 1998-99, revenues were just Rs 35 million. But then, Educomp found its niche: small group- focused learning. To explain, most Indian schools have oppressively high student teacher ratios (45:1 in private schools and 75:1, or more, in government schools). Prakash's breakthrough followed realisation that it was possible to do tutoring/coaching via computerised multi-media presentations.

After signing up young teachers to develop the content for his IT modules, his team began giving demos of trial products and then analysed the feedback in order to fine-tune products. His approach dovetailed snugly with the requirements of the times. Internet penetration was just taking off and the Indian IT-boom

of 1999 made "computerised-anything" fashionable. The market ripened for mass absorption of digital content.

Since 1999, Educomp has grown at warp speed. Revenues have grown at a ten-year CAGR of 56 percent. In March 2000, it had revenues of Rs 120 million. At that stage, it picked up VC funding of \$2.5 million to fuel the next phase. Currently Prakash owns 55 percent of Educomp, a stake worth roughly Rs 24 billion. And quite a stake it is, considering that in 2005-6 – the fiscal year in which Educomp went public – the company delivered Rs 570 million in revenues. In FY08, it exceeded the Rs 3 billion mark.

Prakash believes that Educomp can maintain triple-digit growth for another decade at least. He makes a persuasive case: "Our Indian educational ecosystem is very vast but it is under-performing and under-resourced. Educomp's association with over 8,000 schools and over 4 million students in India alone is still very small market share. The overall market penetration of IT education in India's K-12 is less than 2 percent. We can double every year for 10 years without saturating the market. There are plenty of opportunities abroad as well including markets like China, the USA, and Asia Pacific."

Revenue breakups

The bulk of Educomp's revenues, as much as 86 percent in FY2008, derived from B2B products (see box for detailed explanation of the flagship products). Included are government contracts ("B2G"). The biggest chunk, about 44

MY RECIPE FOR LOW CHURN

Educomp breeds new ideas and incubates intra-preneurs. A peek at the secret formula that helps Educomp cement partnerships

It is not unusual for IP-driven concerns like Educomp to offer stock options. Some 30-odd employees are dollar millionaires. Many of the teachers who developed content in the early years became employees in the 400-strong Educomp R&D department.

But Educomp also operates as a private equity player – or an angel investor to be more precise – encouraging employees and partners to develop ideas and helping to incubate them. The modus operandi is to buy a majority stake to fund new business, deploy the product via Educomp's own channels, enabling the happy minority partner to get rich.

Prakash and Educomp have positive experiences as the recipient of PE/VC. Prakash is a founder member of the TIE (The Indus Entrepreneurs). Educomp was the beneficiary of \$2.5 million worth of private equity funding in June 2000 when Gaja Capital Partners took a strategic stake.

"At any given time, several Educomp employees are on sabbatical developing new ideas. We are always willing to find ways to incentivise them. We are also on the lookout for young entrepreneurs who are seeking investment to deploy new ideas in the education space. It's a win-win proposition for both parties in such situations," explains Prakash.

The ThreeBrix investment for example, was a typical deal. ThreeBrix was started by three IIM-A graduates in 2005. It was developing the LearningHour concept of online tutoring and it was partnering with Educomp by 2006. In 2007, Educomp paid Rs 25 million for 76% stake in the Delhi-based company. ThreeBrix offers both curriculum-specific packages as well as live 24x7 online tutoring where the student can choose a convenient time to interact with the tutors. It is using the capital infusion to part-finance offline tuition centres – it has already set up eight of these. As Prakash points out, "The 24 percent stake (held by the three founders) could well be worth Rs 150-200 million in a couple of years."

In 2008, Educomp took a 50 percent stake in Eurokids International for Rs 390 million, with Prakash hinting that it may hike the stake eventually to 74 percent. Again, Educomp was partnering with Eurokids prior to the investment. Eurokids founder Uday Mathur is also from IIM – however he is from IIM Calcutta. Eurokids is a pre-school operator. It now has over 350 franchised branches in 160 towns. Educomp reckons the pre-school business in India presents a \$1billion opportunity.

AuthorGen was incorporated in September 1999 by Harman Singh, then a student at North Carolina University. Harman set up his development centre in Chandigarh, along with a partner, Harbeer Khurana. AuthorGen specialises in the development of presentation software with a special focus on e-learning. It is also a pioneer at developing Web 2.0 platforms for e-learning. AuthorGen had a turnover of about \$500,000 when it approached Educomp. In 2007, Educomp took a 51 percent stake for Rs 25 million. The investment enables AuthorGen to leverage and consolidate its position in online Web 2.0 tutoring and software development. Since then, AuthorGen has ramped turnover up to \$2 million, with Educomp's support for its e-learning initiatives. ■

percent, comes from the flagship product, Smart Class suite (excluding SmartClass revenues from Government schools). The ICT division which handles government contracts generated 33 percent of FY2008 revenues. Around 9 percent comes from "Professional Development", Educomp-speak for training schoolteachers.

The B2C or 'direct initiatives' segment contributes 14 percent. This involves selling educational CDs, and offering content through Mathguru and Learning Hour, Roots to Wings,

for developing professional skills through distance-education.

The ICT (Information and communications technology) practice works with 15 different state governments. It offers BOOT (build-own-operate-transfer) contracts over 3 to 6 years delivering IT educational content and training for government schools. A typical deal is like the one it made in September 2008 with the Government of Karnataka. Under it, Educomp will provide IT-aided education for 1,570 Karnataka schools for 5 years on a Rs 1.1

in developing high-quality software, in copyrighting it and distributing it in mass. Sounds like applying the Microsoft model to education.

Educomp now enjoys a pioneer's premium with a client base of almost 6 million students. Apart from its in-house team, it continues to partner with teachers across India. Its training and orientation programmes help it maintain relationships with the school teachers who deliver its content.

The quality of its content depends on people and, clearly, human resources management acts as a key to Prakash's success. Prakash explains, "People get passionate about education and making a difference. The trick is to identify people whose DNA means that they want different incentives. That's part of the reason why Educomp employees and our partners generally believe that our personal incentives and compensation packages go beyond money and stock options. That's also true for many of our partners and its one reason why we have always managed to partner and keep really smart people."

Educomp spent over Rs 300 million last year on its 400-strong R&D team. An attractive stock option scheme and an innovative 'intrapreneur' programme (see box) provide financial and entrepreneurial motivation. All this explains a low employee attrition rate, under 5%.

Another success factor is the complementary set of skills in the executive suite. Abhinav Dhar heads Smart Class and Soumya Kanti heads ICT, the two biggest revenue generators. Both these senior VPs have been with

Educomp since 1995. Apart from being B-School graduates, both have an IT background, filling a gap in Prakash's own skillset.

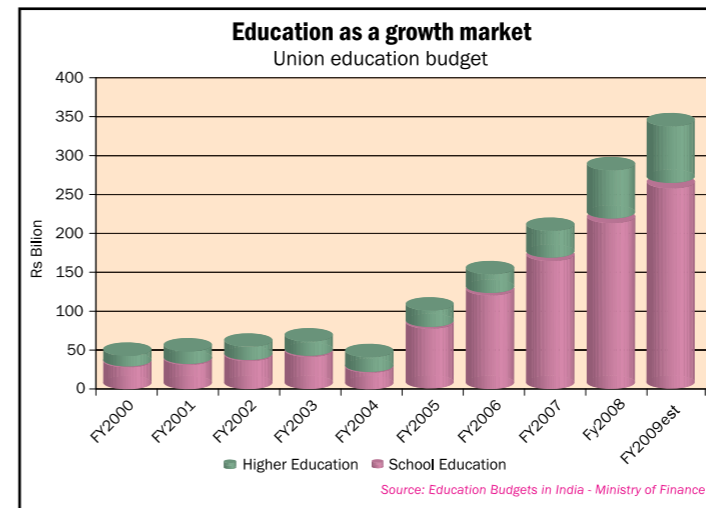
Paradoxically, Prakash believes his lack of high skills in IT helps him keep an open mind about running an IT-enabled business. "As a commerce graduate I could have chosen any domain. I have no IT skills to speak of. I chose this specific field because I thought it was big. We can fundamentally change the face of education and thus, really make a difference to the future of hundreds of millions."

Prakash sees his special talent as the ability to listen to (learn from) and talk to (sell to) customers. "I get a charge from studying consumer behaviour and getting new products out there," he says. "Working with really smart people is also a big deal. But for me personally, understanding how to create and deliver value is the most fascinating aspect of business."

Conclusion

If all goes according to plan, Educomp will double revenues annually over the next few years. It expects to service 12 million students and log Rs 10 billion by 2010. As to valuations, Prakash matter-of-factly boasts: "Why can't we reach a valuation of \$10 billion in the next two or three years?"

In the space of two decades India has become a world leader in IT applied to business processes; after his first decade, Prakash is becoming a flagbearer in application to education. ■



Millennium Schools, and other products. Educomp is gradually phasing out delivery through CD in favour of on-line delivery.

It also hopes to increase B2C presence through new brick-and-mortar pre-schools, K-12 schools, and vocational training institutes. Educomp's first professional college will open in 2009 and offer programmes in business English, business management, hospitality and fashion design. It already has a footprint in higher education with ETEN (Educomp Tele Education Network), an initiative

billion contract. Oh, and ICT's revenues grew 200% in FY2008.

Success factors

Prakash adopted three guiding principles during the difficult years of 1994-98: look for massive scalability; seek opportunities to solve problems using intellectual property (IP) to gain competitive advantage; generate high operating margins (typically in excess of 50 percent).

Leaning on IP, Educomp attained both quality and scalability. It has succeeded

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