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AT A CROSSROADS: SHOULD A STARTUP RECONSIDER ITS ORIGINAL STRATEGY?

Company is a startup in India with 3 co-founders, 8 developers and 4 salespeople. It is currently an aggregation platform for fee collections for educational institutions. Company has been growing, but it has not been able to break even after a year. They charge a flat fee on transactions made, but their service is free for the educational institutions for whom they are collecting payments. As expected in the payments scene, their margins are low, which is a problem, because profitability might be an even more important metric than valuation for venture capital funds looking to invest in payment service provider startups.

They have been dealing with customers who are not technology savvy and who do not have professional developers. These customers started making additional requests that are outside of the core business of Company at the moment. Because of low margins in the industry, they need to be very cost conscious, and out of the two major components of their Company acquisition costs is implementation cost (the other is marketing and sales cost). Catering to these customers' needs would increase implementation costs significantly.

Thus, Company stands at a crossroads: should it remain a payments company growing through scaling up their current services while keeping costs low, or should it transform itself into a diverse service company, and start cross-selling other services with bigger margins to their existing customers building on high client satisfaction and mutual trust?

Co-founder A insists on remaining a payments company. He wants to keep costs very low, and increase profitability through increasing volume building on the technology they already developed. He believes that as first movers in online payment aggregation for online institutions, they have sufficient advantages to dominate this market, which he expects will grow rapidly as India goes digital. If they follow this strategy, they cannot afford to increase costs by catering to the special needs of existing customers, because incumbent payment service providers (potential competitors in the education vertical as well) have scale advantage, so they can keep their costs very low.

Founder B, another co-founder has a different idea. He wants to differentiate Company as a company who holds the hands of their customers, resulting in high Company satisfaction. Building on good relationship with clients, he wants to offer them other services with higher margins like running online classes, online tests, online stores to sell books and uniforms, doing internet marketing for them, etc. This sounds like a