

# Managing a growing Family Business: A Case of Tracom Stock Brokers Pvt. Ltd.

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## Abstract

The case describes the issues experienced in a family business, particularly in the first two phases of its life-cycle, viz. the introduction and the growth stage. The main protagonist, Parthiv is the second generation entrepreneur and he has taken up the task of sustaining and growing his family business in the wake of cut-throat competition. The case presents an opportunity to discuss the issues commonly faced in a family business setting such as lack of funds for discretionary use, tight control by family members and traditional practices. The case also looks at how growing businesses need to expand their portfolio by adding related products and services. The dilemma is whether a twenty year old home-grown brand should be diluted in light of a franchisee offer received from a bigger and better established market player.

**Keywords:** Family business; growth stage; financial services;

## Introduction

On a cloudy Sunday morning in August, 2018, Parthiv was sitting in the balcony of his grand bungalow, overlooking his beautiful garden. However, the full Gulmohur bloom did not lift his mood today. In fact, his mind was lost in thought and the overall gloom enveloped him. Usually, Parthiv and his family had an elaborate breakfast on Sunday mornings and the general rule of not talking about their family business presided. But, today Parthiv, his elder brother, Anuj and his father, Mr. Vijay Shah had to deliberate on an issue concerning their twenty-year old family business of stock broking, by the name of Tracom Stock Brokers Pvt. Ltd. Tracom, established by Mr. Vijay Shah in 1995 in Ahmedabad, worked as a financial intermediary, providing equity trading, depository services and other financial services linked to the capital markets. The journey started with a membership of National Stock Exchange (NSE, Mumbai, India), Bombay Stock Exchange (BSE, Mumbai, India) and later membership of National Securities Depository Ltd. (NSDL, Mumbai, India). Tracom, which essentially meant trading on computers, had expanded its client base to 10,000 accompanied by a brokerage income CAGR of 23.28% since inception and offered a breadth of financial services. While the thrill of running one's own business and the challenge of taking it further prevailed in the hearts of all the three family members currently managing the operations of Tracom, they had

approached the classic fork, common to many family businesses. They had recently received an offer from a very well-known Stock broking company, having its operations pan-India for becoming a franchisee. While the offer was very lucrative in terms of money and other benefits, there were downsides to be considered. Anuj, a Chartered Accountant by qualification and currently, Executive Director of Tracom was convinced that this offer would do more good than bad. The competition had burgeoned and while BFSI (Banking, Financial Services and Insurance) sector had grown by leaps and bounds, broking was also becoming a crowded market. The big fishes were gobbling up the smaller ones and the game was of market share. If Tracom wanted a comfortable position, it made sense to partner with the bigger fish. Parthiv, who had joined this business before three years and had learnt the ropes quite well in this short duration, knew that his brother made perfect market sense, but his heart did not agree. Reports suggested that inspire of a huge number of players in the broking market, the number of demat accounts stood at a mere 3.1 crores (at the end of February 2018) among the two depositories NSDL and CDSL (Central Depository Services Ltd., Mumbai, India); in a country with a population of 134 crores. Parthiv was looking on the Business development side and had started appearing in media to strengthen the brand awareness. He was convinced that they had the potential to build the brand, survive and grow on their own. Accepting the offer would mean dilution of their two decade old home-grown brand and they would be reduced to employee-like status, being constrained by the covenants of the franchising company. Having expressed their opinions both exchanged glances and looked at what their father and founder of Tracom had to say.

## Tracom Genesis: Tracing the history of family business

Mr. Vijay Shah was born on 15<sup>th</sup> March 1951 to his parents Mr. Sakarlal N. Shah and Mrs. Manek Sakarlal Shah. They were 6 siblings with Vijay being the youngest child. His father owned a mill named "Ahmedabad New Textile Mill". It was considered as one of the best mills in the city of Ahmedabad; aptly called the "Manchester of India". The family was considered high in net worth and lived a very luxurious life. They owned a 1949 year Jaguar

Mark V car in an era when owning two-wheelers was also rare. Vijay was pursuing his Bachelors of Science in Physics and was only seventeen years old, when he received the first blow of the untimely death of his elder brother. Subsequently, his father met with paralysis and all of a sudden, Vijay found his entire family's responsibility on his shoulders. At a tender age of nineteen, he became the Director of the textile mill. However, after two years, The Government of India (GOI) ordered the nationalization of all textile mills, under which the ownership of Ahmedabad New Textile Mill was transferred with all assets to GOI for Re. 1. The closing down of the mill led to severe financial crisis. Vijay was young and on account of financial pressure and strong advice from his relatives, he started selling the family's personal assets at throw-away prices. He sold the bungalow, car, family jewelry, etc. and settled for an ordinary middle-class life. However, Vijay was always fascinated by the story of the Phoenix which rose from ashes and his indomitable spirit started searching for newer avenues. Business ran in the veins and as a result, after some informal market research, he started a PVC factory in the Odhav area of Ahmedabad city. However, lack of funds mandated him to establish this venture as a partnership firm with his uncle. Although, Vijay managed the complete business, he was frequently intercepted by his uncle and despite all his efforts; he had to take his uncle's approval for petty expenses as well. After managing the business for seven years, he offered to buy the stake of his uncle. The business was growing, but the cash cycle was uncomfortable as raw material expenses had to be paid in cash immediately. In 1994, Vijay received a generous offer for selling his business and the valuation being proper in his opinion, he exited the business.

Vijay was now looking at other options, when he stumbled upon the growing capital markets in India. His father-in-law Mr. Govindbhai B. Desai was an active investor and had risen from rags to riches by his disciplined investment strategies, picking his stocks based on company fundamentals and management meets. He even served as the President of Bombay Stock Exchange from 1991-1995. He explained the technicalities of the stock-broking business and advised Vijay to start with one. Backed by a mentor this time, Vijay took the opportunity and established Tracom Stock Brokers Pvt. Ltd. in 1995 in Ahmedabad.

## **Financial Services Sector**

The financial services sector consists of non-banking financial companies, insurance companies and capital markets. Although the ratio of India's Gross domestic savings to Gross domestic product has remained above 30% since 2004, about 95% of the household savings are deposited with the banks and the balance in other financial assets (IBEF Report on Financial Services, June 2018). However, the asset management industry with an AUM (asset under management) of Rs. 21.36 lakh crores in mutual fund schemes is touted to be among the fastest growing industries in the world. This growth also trickles down to the revenues of the stock broking firms as allied service providers. Moreover, with a transitioning from a bank-based economy to a market-based

economy, India has also seen a tremendous boost in the Initial Public Offering (IPO) segment. The number of listed companies on NSE and BSE increased from 6,445 in FY2010 to 7,501 in March 2018 and the market capitalization of all the companies listed on the BSE reached a record of Rs. 150 lakh crore (US\$ 2.33 trillion) backed by high gains in the broader market. The amount raised by IPOs in India increased from US\$ 318 million in FY 2008-09 to US\$ 10,888 million in FY 2017-18 (IBEF Report on Financial Services, June 2018). In fact, even the SME (small and medium-scale enterprises) segment received a great response for their IPOs.

The positive sentiment is sustained in the Indian markets due to higher disposable incomes with the middle-class and a rise in the High net worth individuals. India has clocked second highest growth, after Hong Kong in terms of HNWI population in 2013, and further it is expected that India, along with China and Japan would have the highest number of HNWIs in Asia.

According to ICRA Report on Stock Broking industry, the revenue pool of the industry is expected to grow about 15 – 20% on a year-on-year basis in FY2018, while the volumes are bound to grow in the range of 20 – 25%. The major source of revenues would be brokerage, followed by depository income and distribution income.

Currently, as per SEBI records, there are about 7850 registered stock brokers in the equity segment in India. Some of the popular discount brokers in India are Zerodha, ProStocks, Upstox, SAS Online and SAMCO while full service brokers quoted are ICICI Direct, ShareKhan, Angel Broking, Reliance Securities and Kotak Securities on the basis of parameters like customer service, brokerage, trading platform performance, investment offerings and various monthly plans. Going by the number of clients, some other top stock broking houses are HDFC Securities, Axis Securities, MotilalOswal Securities, Karvy Stock Broking, India Info line Ltd. and SBICAP Securities. Discount brokers limit themselves to execution of trades on their platforms at reduced commissions. They do not offer other services like personal consultations, advice, research, tax planning, etc. which full service brokers provide. Most discount brokers operate online and have minimal branches.

## **ICICI Direct**

ICICI Direct is a part of ICICI Securities and offers retail trading and investment services. It has a membership of BSE and NSE. It provides an opportunity to invest in multiple products comprising of equity, derivatives, currency, mutual fund, insurance policies, fixed deposits, etc. The expanded portfolio is possible as it is a part of ICICI group which has a bank, life insurance and general insurance company in its bouquet of businesses. Moreover, the integration of banking, broking and demat accounts make it very customer-friendly. Some of the limitations are that commodities cannot be traded through this platform and the brokerages are comparatively on the higher end. However, it is a favored destination for retail as well as institutional clients.

## ShareKhan

ShareKhan carries an experience of eighteen years in stock broking and with assets worth Rs. 46,900 crores and a customer base of 1.7 million customers, it easily features in the top list of stock brokers in India. It has a membership of BSE, NSE, MSEI (Metropolitan Stock Exchange of India Ltd.) and MCX (Multi Commodity Exchange); and provides a gamut of products and services including trading in equity, derivatives, currency, mutual funds, bonds, IPO, depository services in addition to portfolio management services for retail and institutional clients. ShareKhan allows the customers to trade online as well as using mobile application. Moreover, they also provide online and classroom training to investors. Although, the brokerage slabs can be selected as per the customer requirements, the fees are higher as compared to flat fee brokers.

## Angel Broking

Established in 1987, Angel broking is one of the leading stock broking and wealth management firms in India. With a membership of NSE, BSE, commodity exchanges like MCX and NCDEX (National Commodity & Derivatives Exchange Ltd.), the company offers an extensive range of financial services. The company focuses on retail segment and offers a host of customized advisory services with the help of advanced technology. The company offers trading facilities across devices with a single access to the leading equity and commodity stock exchanges of the country and provision of tie-ups of trading accounts to popular private banks.

## About Tracom Stock Brokers Private Ltd

Tracom was established with the objective of providing quality stock-broking services to create wealth for its customers. After obtaining the corporate membership of NSE (Cash and Derivatives segment), Tracom officially commenced its operations from Jan. 1, 1996. Initially, Tracom focused on equity trading and revenues came through the brokerage route. Over a period of time, by acquiring membership of NSDL, the services expanded to opening of Demat accounts of the customers and providing access to IPO subscriptions. The recent addition to the portfolio is advising and facilitating investment in mutual funds. While the vision of Tracom is to be a favored financial services organization, enhancing wealth creation and satisfaction for all its customers, investors, associates and employees; the mission statement highlights the commitment of the company to drive excellence through improvement in its products, services and technology. While the stock broking domain world over is brewing with scams and stories of fraud and fly-by-night operators, Tracom upholds values of complete transparency and integrity in its transactions so as to sustain long-term relationships, team work, focus on client growth, giving time-bound results and customer satisfaction. The Board of Directors at Tracom comprises mainly of the family members; Mr. Govindbhai B. Desai, Mr. Vijay Shah, Mrs. Amita Shah, Mr. Anuj Shah and Mr. Parthiv Shah. Currently, Mr. Vijay Shah heads the equity research and technical analysis

function, Mrs. Amita Shah heads the human resource department, Mr. Anuj Shah looks after business operations and development and Parthiv's responsibilities are towards sales and marketing. Tracom has a dedicated team of eleven members, working in primarily five major departments namely Accounts, Compliance and Trading, Demat and Business Development & other products distribution.

Tracom primarily serves retail clients, which are further classified into High Net-worth Individuals (HNIs) and other small investors. With the help of in-depth research and analysis, Tracom is able to provide customized solutions to its clients for investment needs as well as speculative purposes. Tracom has also invested in state of art IT infrastructure for its front-end and back office work, which helps to contain the overheads.

## The next generation in Tracom

Parthiv, the younger sibling had grown up listening to the discussions of his family business. An average student with immense interest in stocks was ironically pursuing science stream in high school. Unable to get good grades in Class XII, his pursuit of Engineering was only possible on an NRI (quota reserved for Non-resident Indian) seat, which meant spending an enormous amount as tuition fees. Mr. Vijay advised him to follow his interest, ignoring what others had to say and sold some topnotch shares at rock-bottom prices for the required funding. Parthiv still takes this incident as his first learning on capital markets, that equity investments sold in a hurry never payoff. But this incident also triggered a lot of sincerity in Parthiv and he performed well in his graduation. The trend of Telecom was picking up and days where data would prevail over voice were near, so Parthiv landed up taking his Masters degree in Telecommunication Management from USA. Having a natural flair for business, he ended up taking majority electives of Management as opposed to Engineering. For his final placement, he received two brilliant offers; one from Sprint, which was a well-established Telecom player and the other, was from Mobile Access, which was a start-up and trying to make its mark in the Telecom market. A lot of people advised him to take up the offer from Sprint looking at the brand value, but he was aware of some investment rules and he applied one of them for building his career. Warren Buffett, the Investment Guru insists on being wary of the herd mentality and doing exactly the opposite of the masses. Parthiv took up the offer from Mobile Access and within six months in late 2007, USA was hit by a severe financial crisis of Sub-prime loans given for mortgaged assets. The country's financial system crumbled and the severe impact led to a lot of retrenchment with Sprint lying off around 10,000 employees. Mobile Access however, did not fire any employee as they worked on optimal resources. Parthiv observed the start-up culture carefully and noticed that even in adversity, with the sales dipping and funding crisis, because the expenses were on the lower end, the firm could break-even operationally. As there were no profits, ESOPs were awarded to retain talent. The main objective was to garner a decent market share and then sell for a good value to a larger player. This was

a typical story of start-ups everywhere. Working in a start-up gave the much needed exposure to all functions of a business and for an aspiring entrepreneur like Parthiv, it was a great source of value-addition. Parthiv had also realized the importance of networking early on. In spite of being a radio-frequency engineer, he used to attend quarterly meetings of the company, so as to know the general market trend and company's vision. Being the gregarious type, he interacted with a lot of sales and marketing people and tried to gain knowledge on that front. Little did he know, about two years later he would be heading the Sales and Marketing team of Tracom. But the idea of sweating it out for one-self brought him back to India and his family business of stock broking. Stock broking was not an alien concept for Parthiv. Although he had no formal education on the investment side, during his engineering internship in Mumbai, he had stayed with his maternal grandfather, whose current portfolio was worth Rs. 100 crores. Parthiv while helping his grandfather arrange all the annual reports had got enticed by the front cover and had started reading and absorbing information manifested in the Director's report, management reports, etc. The annual reports made him understand the management side of the business and he had developed his insights in investment having read around 200 odd annual reports. His love for stock markets and equity investments was evident when he invested his entire savings in US in equities, picking up the Fortune 50 companies. But the Sub-prime crisis hit the US markets, and his USD 20,000 portfolio was reduced to USD 8000 in a matter of few minutes. Depressed, he had questioned his father whether they were in the right business. His father, a man of worldly experience had told him to have a longish view. He had advised Parthiv not only to hold on, but to invest some more money at this bottom, to his portfolio, if he believed the companies to be fundamentally strong. With this advice put into practice, Parthiv ended up with two things; an 18% CAGR two years later, when he squared off his positions in the market and a keen interest in fundamental analysis.

Parthiv joined Tracom in November 2010 and started with the most basic tasks like writing cheques, meeting clients and depositing their cheques in bank and so on. He could feel that the office culture in India was quite different from the informal US culture which he had witnessed. The staff was small in number and the hierarchy was not very tall, and yet the power distance could be felt. Six months in business, Parthiv had lost all his excitement of joining his family business and his passion of equity investments. Investing your own wealth was one thing and managing other's wealth was another. The Indian economy was affected by the general recession spread worldwide and people were wary of investing in equities. Due to this reason, the existing broking revenues were waning and new customers were out of bounds. Moreover, the general perception in the market was that stock brokers were thieves and served only their purpose. Had Parthiv not been passionate about investment in stock markets, he would have left his business for good. But he decided to turn the tables. His first learning from marketing course in management was to "Know your Customer" and identify his

needs. Parthiv started interacting with the existing customers encouraging them to share their feedback about the strengths and weaknesses of their relationship with Tracom. At the same time, he did a random market survey on investors who were not his clients, to find out what they valued. This and other inputs helped him in doing a competitor analysis as well. Next, he knew that the internal stakeholders were as important as the external ones. So, in order to reduce the power distance and satisfy the people who were closest to his clients, he started establishing rapport with his internal staff. These exercises helped him bring about reforms in his business. Firstly, the notion that they were only stock brokers focused on equity trading had to be changed. He introduced service extensions like investments in fixed income securities and IPO subscriptions. Further, the mutual fund market was already climbing its way up in the list of investible instruments. Parthiv convinced his father that mutual fund was going to be the preferred investment avenue and although late, they should not miss the bandwagon. Moreover, mutual funds would serve as benchmark returns for measuring progress in pure equity investment returns. In hindsight, the mutual fund business has reaped positive cash-flows and it is estimated that by 2020, the revenues from mutual fund would surpass their core revenues of equity broking. The new products helped Tracom emerge as wealth managers and propelled their growth in the sector. Further, Parthiv noticed that technology was playing a very significant role in providing transactional data needed by their clients and Tracom still had a long way to go in this respect. So, as a first step they purchased software called M-Profit which gave real-time information about markets and client portfolios on the mobile phones. This software made uploading trading bills easier and at any point of time, the clients could view their portfolio, the gains or losses and other relevant details. This solicited a very positive feedback from the clients. Next, to give impetus to the business, Parthiv initiated recruitment for Business development profile. To attract the best talent, he realized that he would have to offer a salary which would be higher than that of some existing employees working with Tracom from the last ten years. His father advised him to be careful as this could create some issues on the work-front. So, Parthiv did what most family business owners hesitate to do. He called on the existing employees and asked them to work on business development side, which would fetch a higher salary but at the same time, the pay would be variable subject to achieving the targets. This candid offer led to a positive work environment and smooth sailing for the new business development officers as well as for the management. As a matter of fact, to boost professionalism, plans to induct two independent directors on the board were in process. This would make management meetings more formal and the existing family members functioning as directors would also get a fresh perspective. Moreover, as owners they did not have the opportunity to get honest feedback from the stakeholders. Bringing in independent directors would ensure a proper review and feedback mechanism.

## The Present

Parthiv had started appearing in media channels like CNBC, BTVI Reuters (formerly Bloomberg), Sandesh TV, GSTV; giving his views on market movements, selective stocks, upcoming IPOs. This had been the best way to promote their brand at low cost. Media publicity actually worked as pull strategy, as customers came asking for the guy who appears on television regularly. There were some customers who also questioned on the higher rate of brokerage charged by Tracom and tried to squeeze out on the brokerage commissions. Parthiv had seen some stock broking companies driving such customers out, but he had a different approach. He would call for tea for the customer and start explaining the rationale behind the higher costs. He would then compare their revenue structure, portfolio churning and past records with other small and large broking companies, to put his case forward. This approach had helped him acquire quite a few customers.

Tracom was a debt-free and investment rich company and could survive without additional brokerage revenues. But, had the owners been so complacent, they would not have introduced the necessary reforms for scaling up. In typical family businesses,

the size is restricted due to paucity of funds and hence, the role of the next generation is not clearly defined. Hence, most of them instead of expanding either become stagnant or are diluted. At Tracom, however, all the three family members had their responsibilities sorted out and the clear goal was to scale up the business. But, they also knew that they were not going to have a second chance at the offer received from the large stock broking company. The valuation was perfect and it was now or never.

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