

Zerodha - A Success Story(B)

It was in December 2015 that Nithin Kamath was contemplating the growth plans and future strategy of his company. He recollected how Zerodha had been instrumental in disrupting the Indian Brokerage Industry and had been growing rapidly for the past five years. The most disruptive thing which got them going was transparency and consistency in the pricing of their financial products. Major traditional broking houses had the reputation of opaqueness in the structure of brokerage charged by them. Due to their complex and customizable offerings, their brokerage scheme had become hard for an average retail investor to grasp. Zerodha's standardized and uniform offering along with transparency in the form of brokerage calculator allowed investors to calculate brokerage up front and helped them gain mileage in the initial years. Moreover, traditional brokers tried to leverage their advisory services. However, there was a dearth of qualified specialists and given the volatile nature of the stock market, blame of any loss was often pushed onto advisory services. Zerodha decided to eliminate the advisory service facility which aligned well with their overall strategy of *one size fits all*. This significantly reduced operational costs for them as well as helped them avoid any such blame and bad reputation.

Zerodha decided to opt for the scheme of zero brokerage on equity delivery trades. The idea behind this was to get the virality going in the mind of customers. The message they wanted to send across to the customer was that there was no harm in trying something that is completely free. It was targeted at those customers who were relatively new to trading and were apprehensive of the trade brokers as well as financial markets.

Kamath was at the same time wondering if these competitive advantages were sustainable for future growth of the company. He felt that there was a possibility that they might be easily mimicable and replicable. In that case, a new competitor would easily be able to erode Zerodha's market share and profits in future by coming up with similar offerings.

HOW TO MAKE IT SUSTAINABLE?

Kamath started an incubation center by the name of Rainmatter, which was an offshoot of Zerodha for the purpose of investing in fintech startups. He decided to invest in startups that would pitch them ideas for growing the capital market in India. Zerodha had a large and loyal customer base and the fintech startups would get access to the Zerodha customers to test their new product. One such proposal which was already lying with him was a startup called *smallcase*. It was a startup that planned to analyze the impact of any major change (say GST, a bad monsoon, etc.) on companies and identify which companies would benefit from it. It was meant to create a basket of such stocks which retail investors could purchase through Zerodha's platform. Such tools would make it easier for an investor to connect to capital markets.

Prepared by Archit Garg, Aashish Gupta, Garima Maheshwari, students of the PGP programme, Indian Institute of Management, Ahmedabad and Professors Ankur Sinha and Anish Sugathan, Indian Institute of Management, Ahmedabad.

Cases of the Indian Institute of Management, Ahmedabad, are prepared as a basis for classroom discussion. They are not designed to present illustrations of either correct or incorrect handling of administrative problems.

© 2018 by the Indian Institute of Management, Ahmedabad.

Zerodha also came up with a platform called *Coin* which allowed people to buy a mutual fund directly. They didn't earn any brokerage or distributor commission out of it, but their idea was to get a customer to start investing. Once people started investing in mutual funds, they would see benefits which would empower them to move towards investing in capital markets. With the objective of making markets accessible to everyone, they also decided to launch *Zerodha Varsity*. It was an educational platform to teach novice investors about basics of financial markets. The plan was to make the most optimal use of search engine optimization so that the platform always came on the top in any google search results page related to financial markets' basics. This would aid them in promotions by increasing the brand recall while at the same time contribute to the expansion of the pool of investors in the Indian market.

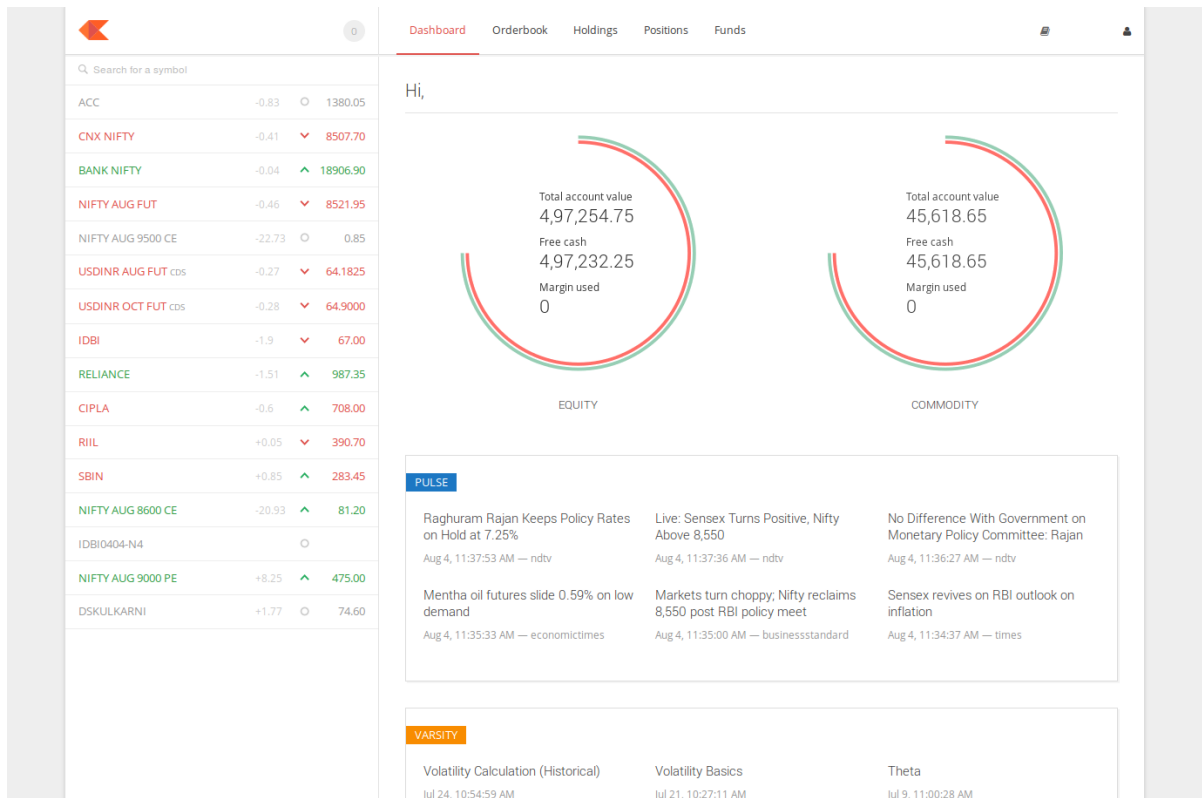
Finally, after two months of beta testing, Kite - its official version, had been hosted on PlayStore and Appstore a week back. Kamath had high hopes from Kite as it was a highly intuitive web-based service as well as mobile app which targeted to make trading experience simplified (See **Exhibit 1**). Mobile apps were much stickier than website and were therefore expected to yield much higher growth for company in coming years. Zerodha by that time had multiple platforms each serving a suitable purpose and making trading experience easier and more intuitive. (See **Exhibit 2**)

If Indian market had to grow, it was essential to get the masses to invest in stock market. Were the initiatives planned by Kamath and his team going to be successful in meeting this objective? The bigger question was whether they would be able to create a sustainable competitive advantage through these initiatives? Was there anything else that they can do which would fit with their strategy as well as aid their future growth?

FORWARD TO 2018

The implemented strategies had borne significant results till 2018. Zerodha had been successfully able to capture more than 800 thousand clients (see **Exhibit 3**) which contributed to 8% of daily retail trades. Zerodha varsity (see **Exhibit 4**) had gained significant traction and Coin had got over INR 10 trillion assets under management.

EXHIBIT 1 Snapshot of the Kite platform



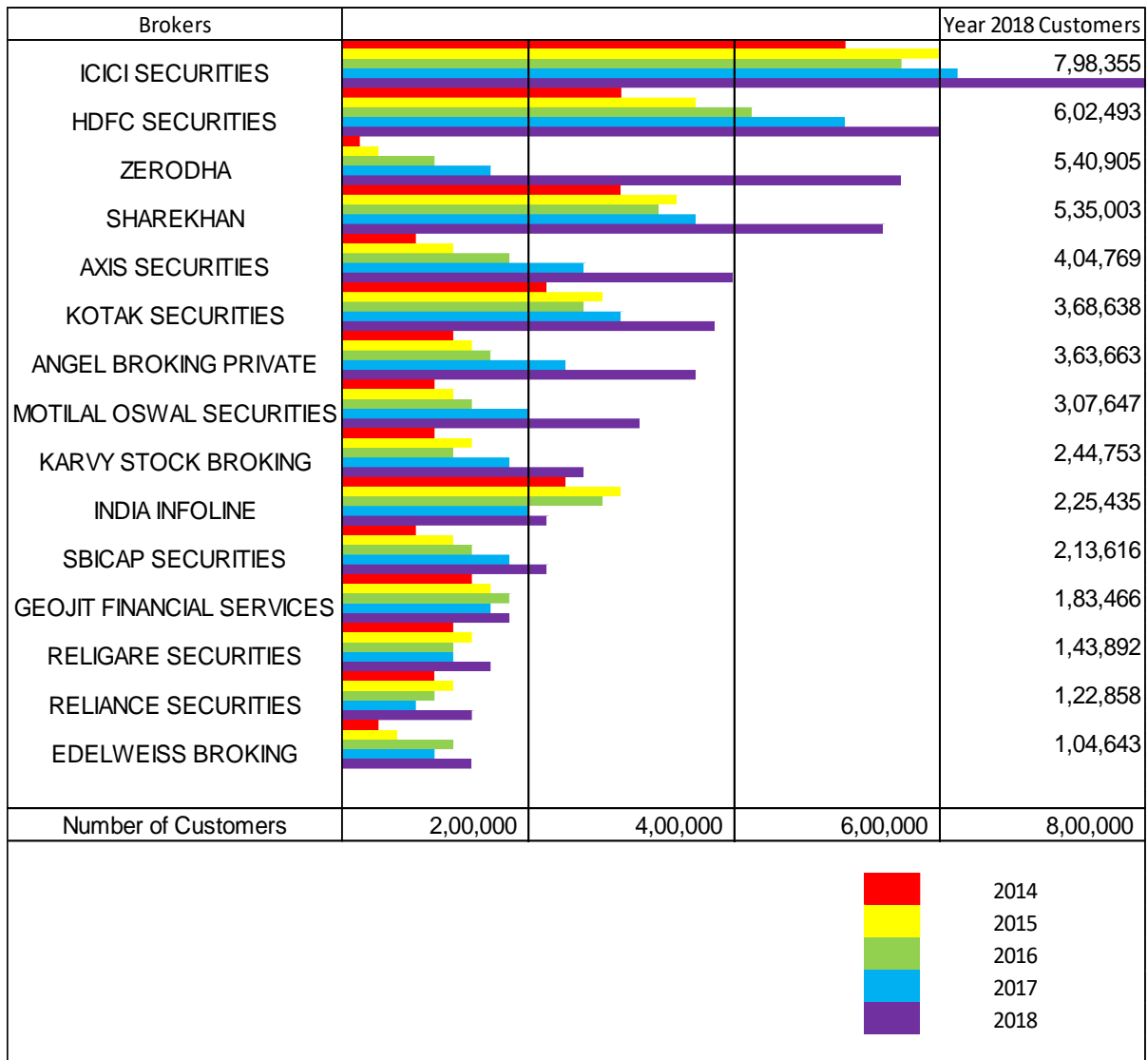
Source: Company website. Retrieved from <https://kite.zerodha.com/> on September 18, 2017 4:00 PM

Exhibit 2 Platforms offered by Zerodha

Desktop based platform 'PI'	Advanced trading software with features such as advanced charting, Algos, strategies and back testing
Trading platform 'KITE'	Lightweight, low bandwidth, multi-language, integrated, easy to use trading platform for mobile and desktop
Quant, algoZ, SPAN calculator	Analytical tools for carrying out detailed analysis of market
Zerodha Varsity	Educational platform to teach masses about basics of stock market and stock trading
Coin	Mutual funds exclusive platform

Source: Company website. Retrieved from <https://zerodha.com/products> on September 18, 2017 4:00 PM

EXHIBIT 3
Leading brokers and their market shares in terms of number of customers



The 0.54 million active users were on a base of 0.8 million clients which contributed about 8% of retail trading volumes across all exchanges (data as of April 6, 2018).

Source: Company website. Retrieved from <https://zerodha.com/z-connect/zerodha/bulletin-latest-at-zerodha/we-are-now-the-3rd-largest-stock-broker-in-india/> on September 14, 2018 5:10 PM

EXHIBIT 4
Zerodha Varsity

Average daily page-views	45,000+
Number of queries	25,000+
Number of nationalities	121
Overall page views	5,000,000+

(data as of April 6, 2018)

Source: Provided by Zerodha