The Financial Postman
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1. **Entry-barriers in the BFSI Space**
   Certain verticals such as banking, mutual funds and insurance have minimum capital adequacy requirements, that can be an entry-barrier to an extent. Reach-based intermediation in the BFSI space, for perfectly valid reasons, does not have this entry-barrier. There are skill-requirements in the form of licensing exams that customer-facing service providers need to pass. But this is not a serious entry barrier, since most of these licensing exams test for basic rather than advanced levels of knowledge.
   A natural corollary of such an eco-system is the abundance of market intermediaries, who are less serious. This lack of seriousness is manifest in various ways:
   - Handling the activity as a pastime / additional source of income – not as the primary source of income;
   - Being an individual service provider, rather than building a professional team that can enhance depth and width of the service offering to clients;
   - No serious attempt to enhance knowledge or skill levels of themselves or their clients;
   - Time with clients is more for executing transactions, than knowledge-sharing and relationship-building.

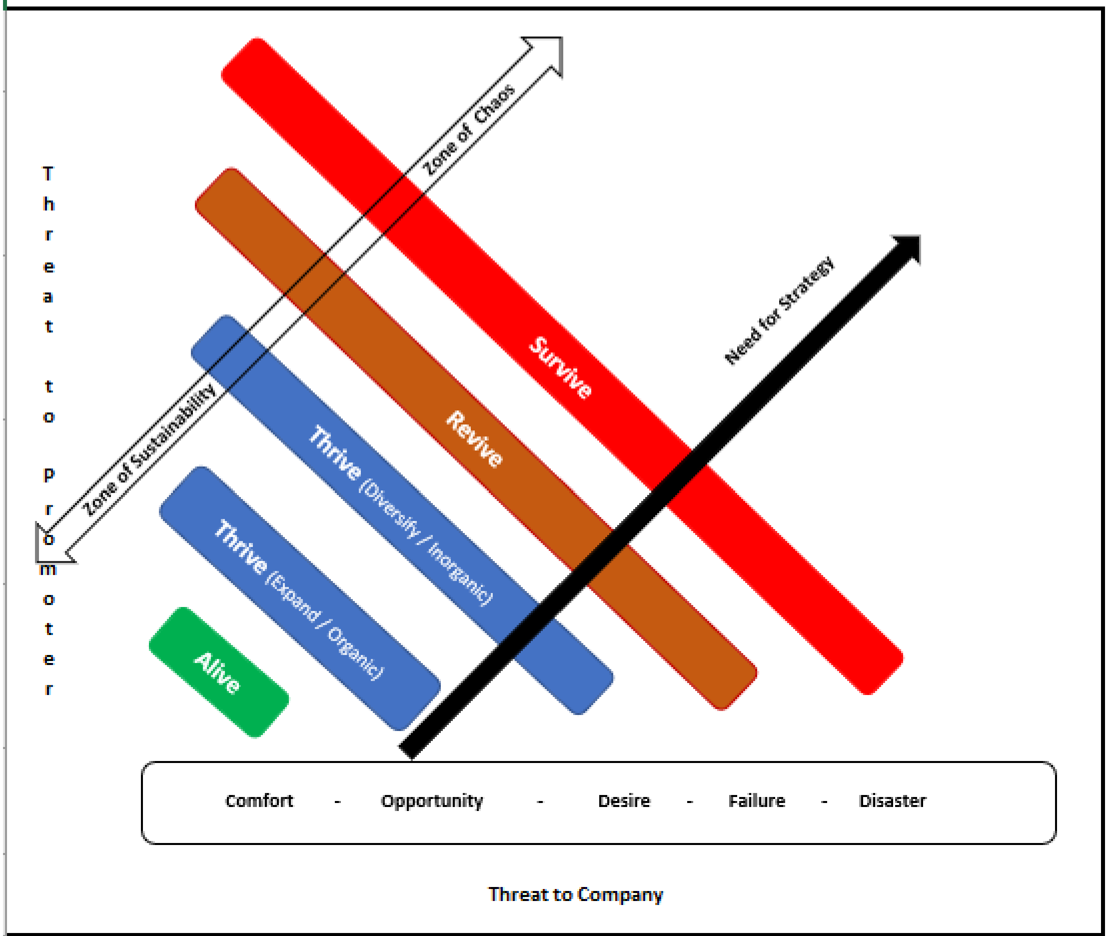
   Given regulatory pressures and client comforts, a large mass of such less-serious market intermediaries are paper-pushers. The value they bring to the table is limited to handling paper. You see them in loan syndication, securities distribution, mutual fund selling, insurance selling etc. Since the only service they offer is asking the client to respond to information requests from the counter-party, I call them "Financial Postmen".
   I have been predicting the demise of Financial Postmen for over 15 years. The fact that they continue to exist despite that giant strides that digitization has taken in BFSI is amazing. Low entry barriers, and low cost of continuing in business, perhaps, account for their continued legal life, even if there is disguised unemployment, and their operations are not commercially viable.

2. **Economic Structure of Doom**
   A natural consequence of disguised unemployment is low self-esteem. The Financial Postmen are unwilling or unable to move up the value chain in terms of skill-set, service offering or fee recovery. They are prepared to work for any client with the hope that they can recover a fee for time spent that might not otherwise have an economic value. Clients take undue advantage of the circumstances by demanding more and more work, for less and less in fee payments. Since Financial Postmen are low on career mobility, they may subsist; others who have options may choose to move out of the industry. Thus, the economic structure can lead to doom of the industry over the medium-term.

3. **Scenarios, Strategy & Finance**
   MAVUCA had to take certain calls to stay sane in this type of insane environment for debt syndication and securities distribution. We had confidence in our ability to offer immense value to clients. There was clarity that bringing down the service levels to match the Financial Postmen would be not only a strategic folly, but also bad for clients. We therefore decided to segment borrowing programs of clients, based on Threat to the

Client-Company and Threat to the Company's promoters, as shown in the following figure.

Scenarios, Strategy & Finance



Strategy / Finance	Business as usual	Growth	Diversification / Change	Turnaround	Survival

Every profitable company can grow at its own self-sustaining rate of growth with negligible outside finance. Based on established business model, management track-record, balance-sheet strength etc. it might be able to mobilize certain amount of outside finance without any strategic change of direction. We refer to this situation as 'Alive'. An extremely small microcosm of our clients belongs to this phase, where they can mobilize 'Business as Usual' finance.

Companies and their promoters have aspiration. They want to move from their Zone of Comfort to exploit their Zone of Opportunity. They seek to expand or diversify, organically or inorganically. This might entail funding requirements beyond the level of 'Alive'. We call this phase as 'Thrive'. The level of strategic input required for companies in 'Thrive' phase is much more than those in 'Alive' phase. Even within the 'Thrive' phase, finance for diversification and inorganic growth is more challenging than finance for expansion and organic growth.

At some stage, when desire goes beyond the opportunity available, the seeds are sown for failure. Companies that unfortunately reach this stage need 'Turnaround' strategy and finance, which is more challenging than growth and diversification finance. We call this as 'Revive' phase.

There are situations when despite turnaround attempts, companies and / or their promoters face existential crises / disaster. We refer to this phase as 'Survive' phase. The requirement at this stage is Survival strategy and finance – a much more challenging situation that revival strategy and finance.

The stages of Alive – Thrive – Revive – Survive represent a continuum from Zone of Sustainability to Zone of Chaos. Whatever the stage, we can add immense value for clients. We can handle the challenge of strategy and finance across these phases.

4. Financial Postmen & Client Needs

Often Financial Postmen do not recognize the difference between these scenarios. They treat every resource mobilization program as 'business as usual' finance with the incidental standardized approach to the mobilization and fee structure expectations.

This one-size-fits-all approach can be detrimental to client interests. As shown in the chart, the risk to companies and promoters multiplies as they move outwards from the Zone of Sustainability. Delayed / failed resource mobilization exercises can only add to their problems.

Most companies need strategic inputs, both on the business front and the fund mobilization front.

- The strategic inputs on the business front will ensure that they are configured suitably for success and excellence. For instance, we suggested to a client a completely new path of growth in a business that was stagnant for several years.
- Strategic inputs on mobilization might relate to legal structure, capital structure, share-holding structure, nature of financier, loan covenants, exit clauses etc. We gave a client a demerger suggestion, where the two resulting entities could tap into different sets of financiers who would be comfortable with the respective business models. The combined business model was not appealing to either set of financiers.

We always advise clients to take a mature call on the situational challenges, and the nature of service offering they need. Strategic inputs can help them steam ahead in future with economy of effort, lower investment, better valuation, lower risk and other such benefits.

Feel free to get in touch at team@mavuca.in to share your experiences or discuss how we can help you.