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From speed hire to rapid fire — tale of start-ups

Drying up of funds, unreal salary packages blamed; firms deny indiscriminate sacking

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Pankaj Gupta (name changed on request), who was hired by a leading online marketplace just a year back at a senior level, has been given a pink slip without any reason being cited. The 40-year-old was one of the top performers and also a high-cost employee for this Delhi-based company.

Gupta, who had spent over a decade in the IT industry, had joined this start-up sensing a huge growth potential, both professional and financial. But that was not to be, and the move has turned out to be a bad one.

Gupta is among the thousands who are victims of the "hire and fire" policy of start-ups that try to cut costs by reducing the number of employees, as the first resort during a crisis.

According to sources, several leading and well-funded e-commerce players have started giving out clear signals to their employees about their down-sizing plans. SoftBank- and Alibaba-backed Snapdeal had asked about 500 people in its L1 category (which consists of call centre executives) to quit with three months of salary as compensation. For mid and senior level, the compensation is just a month's salary.

A company insider, affected by the scaling down, said on the condition of anonymity that "the plan at Snapdeal is to bring down the headcount to 3,000 from 6,000 over the next few months. The reason is to bring down employee cost so as to improve margins. There has been no hiring in the last seven months. But laying off people to cut cost is inhuman." *BusinessLine* spoke to at least 10 such employees who have been asked to go.

However, responding to a *BusinessLine* query, Snapdeal's spokesperson said: "We have no plan to reduce the team strength in any of the functions or verticals at Snapdeal. We have neither laid-off nor do we intend to lay off anybody across the company. We believe in top rewards for top performers and offer fast track opportunities to grow to higher levels of responsibilities within the Snapdeal ecosystem."

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Sources said that hotel aggregator OyoRooms laid-off 90 employees last week. OyoRooms, though, denied of any such move.

Experts tracking the sector are of the view that even as the VC/PE funding tends to dry up on concerns of global meltdown leading to markdown of valuations, several start-ups are looking at down-sizing as an immediate solution to protect their margins. Most of the companies have burnt cash in the last 3-4 years and are now facing a tough time to run their businesses.

"Year 2013-14 was all about hiring in the start-up industry. Many companies were hiring just to get good press and create a feel-good factor among prospective employees to join their companies.

Most of these start-ups hired freshers from premier institutes like IITs and IIMs at packages ranging between ₹20 lakh and ₹25 lakh. That is huge to begin with," said an employee at one of the top ecommerce firms. He, however, is looking for opportunities in other sectors now.

Sanjay Mehta, a serial angel and PE investor, said that "Every founder thinks himself as a rockstar till the time he is in a difficult spot like managing lay offs. I am not sure how many founders really know when and how to downsize teams in adverse situations to bounce back. Start-up world is filled with unmet business plans, scarce resources and crushed dreams. It's a land of struggle with no mercy. We expect more scaling down in coming months."

One of the issues is that most of the online players threw large salary packages to attract talent from established sectors such as FMCG and telecom. Satya D Sinha of recruitment and staffing firm Mancer Consulting said most of these companies got huge funding in the last few years on back of inflated predictions. "They hired people at humungous packages not based on competency but just for the sake of it. This was bound to happen," he said. The wage cost of these companies has gone beyond 55 per cent at a time where it should ideally be pegged at 30-35 per cent, he added.