

INDIAN STARTUPS- ISSUES, CHALLENGES AND OPPORTUNITIES

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Abstract

The main objectives of a startup are to be one's own boss and to create employment for others which warrants lot of submission and sacrifice. Huge population with very high percentage of middle income group, educated youth with technical knowledge, IT domination, high internet users and mobile penetration are some of the parameters that have thrown up opportunities for increasing startup revolution in India. The 'Make-in-India' initiatives and other government schemes have also increases startups with many more individuals entering the fray.

1. INTRODUCTION

A startup experiment could be defined as a new business that is in the starting stages of operation, beginning to grow and financed by an individual person or small group of persons. It is a young entrepreneurial, scalable business model built on technology and innovation wherein the founders develop a product or service for which they foresee demand through disruption of existing or by creating entirely new markets. Startups are nothing, but its an idea that manifests into a commercial undertaking.

According to Grant Thornton (2016) **startup business is as an organization which is**

- a) Incorporated for 3 years or less
- a) At a funding stage of Series B or less i.e B Series means second round of funding
- b) An entrepreneurial experimnt/a partnership or a temporary business organisation
- c) Engages in development, production or distribution of new products/services or processes
- d) Revenue of up to INR 25 crs.
- e) Not formed through splitting or restructuring
- f) Employing 60 people or less

According to “Department of Industrial Policy and Promotion” (DIPP) a startup is an entity incorporated or registered in India with following parameters:

- Established not prior to seven years i.e for Biotechnology Startups not prior to ten years.
- With annual turnover not exceeding INR 25Cr in any preceding financial year
- Working for innovation, development or improvement of products or processes or services
- It is a scalable business model with a high potential of employment generation or wealth creations.

It is to be noted that such entity is not formed by breaking up, or reconstruction, of a business already in existence. Also, an entity shall cease to be a startup if its turnover for the previous financial years has exceeded INR 25crs or it has completed 7 years i.e biotechnology startups 10 years, from the date of

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incorporation/ registration 'Startup India', 2017

2. GOVERNMENT INITIATIVES

Startup Ecosystem facilitated through various government departments & programs, more than **4000** Startups have benefitted in the last year through various programs of the Central Govt. **960 cr** of funding has been enabled to Startups through various schemes. **828 Crs** sanctioned funds for infrastructure. With the objective to build a strong eco-system for nurturing innovation and Startups in the country the Government launched a Startup India Action Plan that offers the following support to recognized supports through:

Exemptions on Tax

- IT exemptions for 3 years
- Capital gains exemption to peoples investing such type of capital gains in the Govt. recognized Fund of Funds
- Exemption of Tax on investments above Fair Market Value

Patent Filing with Legal Support

- Fast track of Startups Patent applications
- Panel of facilitators to assist in filing applications, govt. bears facilitation costs: **423** facilitators for patent & design, **596** for trademark applications
- 80% rebate in filing of patents: **377 startups benefitted**

3. THE STARTUP SCENARIO IN INDIA

It is to be noted that every year 800+ technology startups are being set up in India. India is currently the leading country in global economic growth rate and with GDP growth rate of 7%. India is expected to become the world's No. 1 most popular nation in 2050 with about half the people being 28 years old or younger. This will enable India to support a high labour economic growth rate in the future.

India is in the third position just behind US and UK with 20,000 start-ups and 5200+ technology led start-ups which are poised to reach 10,500 by 2020 as reported by Start-up India and Nasscom. 7 million college graduates per year and 55% of the youth prefer working in start-ups over corporates. Median age of founders is 31 years. While metro cities like Bengaluru, Delhi NCR and Mumbai continue to be the start up hubs with 66% of overall start-up base, tier-II cities too have not been far behind due to availability of talent, government initiatives, local investor confidence and infrastructure support.

THE STARTUP ECOSYSTEM

Along with government initiatives, there is a definite movement in startup arena in India due to penetration of IT and internet. Many startups are coming up in service sector including education, legal, retail, insurance and health. With customers becoming aware of the benefits and convenience, the popularity and viability of startups is no more a difficult proposition for an entrepreneur.

A number of venture capitalists and angel investors are aggressive and gung-ho on Indian startups as they see lot of potential with few expected to become unicorns (high valued companies) bringing in good returns. On the contrary, there are examples of few startups that failed and eventually closed their businesses due to various issues and challenges.

India being a large country with over 130Cr population, boasts of high demographic dividends due to

large number of young people. India has a unique set of problems due to multicultural and multilingual regions that need innovations to find solutions to health, education, infrastructure, sanitation and for population at the 'bottom-of-the-pyramid' space.

4. ISSUES AND CHALLENGES OF STARTUPS

A successful start-up cannot start a business just with passion and an idea. A high level of leadership skills with clear understanding of market, excellent communication skills, maturity to see things in right perspective along with the ability to take calculated risks are required on the lack of mentoring, stringent exit policies, corruption/red tape, technological risk, regulatory obstacles and lack of reforms keeping pace with the fast evolving market changes are some of the challenges.

Some of the major issues and challenges are discussed below:

1) *Financial Resources*

Availability of finance is critical for the startups and is always a problem to get sufficient amounts. A number of finance options ranging from family members, friends, loans, grants, angel funding, venture capitalists, crowd funding etc are available. The requirement starts increasing as the business progresses. Scaling of business requires timely infusion of capital.

2) *Revenue Generation*

Several startups fail due to poor revenue generation as the business grows. As the operations increase, expenses grow with reduced revenues forcing startups to concentrate on the funding aspect, thus diluting the focus on the fundamentals of business. Hence, revenue generation is critical, warranting efficient management of burn rate which in common parlance is the rate at which startups spend money in the initial stages. The challenge is not to generate enough capital but also to expand and sustain the growth.

3) *Team Members*

To find and hire the right kind of talent for the business with skills to match growing customer expectations are one of the biggest challenges. Apart from founder(s), startups normally start with a team consisting of trusted members with complementary skill sets. Usually, each member is specialized in a specific area of operations. Assembling a good team is the first major requirement, failure to have one sometimes could break the startup

4) *Supporting Infrastructure*

There are a number of support mechanisms that play a significant role in the lifecycle of startups which include incubators, science and technology parks, business development centers etc. Lack of access to such support mechanisms increases the risk of failure.

5) *Creating Awareness in Markets*

Startups fail due to lack of attention to limitations in the markets. The environment for a startup is usually more difficult than for an established firm due to uniqueness of the product. The situation is more difficult for a new product as the startup has to build everything from scratch.

6) *Exceed Customer Expectations*

The next most important challenge is gauging the market need for the product, existing trends, etc. Innovation plays an important role, since, that the startup has to fine-tune the product offerings to suit the market demands. **Also** the entrepreneur should have thorough domain knowledge to counter competition with appropriate strategies. Due to new technologies that are emerging, the challenge to provide over and above an earlier innovation is pertinent.

7) **Growth Decelerators**

Some of the agencies which are part of the startup ecosystem themselves can sometimes become hurdles in the growing stages. one of the major issues is **the influence of** incubators, institutes and similar organizations which try to control, manage and be the daddies of the start-ups in the name of helping, mentoring etc. This needs proper coordination among the organizations for mutual benefit.

8) **Lack of Mentorship**

Most of startups have brilliant ideas and/or products, but have little or no industry, business and market experience to get the products to the market. It is a proven example that a brilliant idea works only if executed promptly. Lack of adequate mentoring/guidance is the biggest challenge which could bring a potentially good idea to an end.

9) **Lack of a Good Branding Strategy**

Absence of an effective branding strategy is another issue that prevents startups from flourishing at a faster pace.

10) **Replicating Silicon Valley**

Lot of tweaking and modifications could be required when transplanted into Indian markets keeping in mind Indian infrastructure in terms of roads, internet, electricity and telecom penetration.

5. **REASONS FOR FAILURE**

As regards major reasons for failure of startups, a survey based on analysis of 101 firms showed that 42% failed as the product had no market, 29% firms ran out of cash, 23% did not have the right team, 18% closed due to pricing issues, 17% firms had poor product, 14% failed due to poor marketing and 8% had no investor interest. These reasons substantiate most of the issues and challenges that have been enumerated above.

6. **OPPORTUNITIES FOR STARTUPS**

In spite of challenges and problems that startups are facing, Indian markets provide a plethora of opportunities to find solutions tailored to solve them. Below is a list of few of the opportunities that are discussed for consideration by startups.

I. *INDIA'S LARGE POPULATION*

The population of India is a huge asset for the country. By 2020, it is expected that the working age population would surpass the non-working population. This unique demographic advantage will offer a great opportunity to any startup. Various infrastructure issues and the bottom- of- the- pyramid market would provide huge opportunities for the startups.

II. *CHANGE OF MIND SET OF WORKING CLASS*

Traditional career paths will be giving way to Indian startup space. Challenging assignments, good compensation packages would attract talented people to startups. Also, it is seen that several high profile executives are quitting their jobs to start or work for startups. To reinforce the trend being seen, a survey conducted by Economic Times also confirmed that the number of students joining startups and e-commerce companies has grown considerably in the recent years

III. *HUGE INVESTMENTS IN STARTUPS*

Huge investment in Indian startups from foreign and Indian investors is taking place. In 2015, more than 300 deals were done by 300+ angels and venture capital/ private equity players with around \$6.5-billion (Rs 42,300Cr) investments making India the most sought after destination for investments.

IV. GOVERNMENT INITIATIVES

There are numerous government and semi-governmental initiatives to assist startups.

- **Start-Up India**

This initiative provides three-year tax and compliance breaks intended for cutting government regulations and red tapism.

- **MUDRA Yojna**

Through this scheme, startups get loans from the banks to set up, grow and stabilize their businesses.

- **SETU (Self-Employment and Talent Utilization) Fund**

Government has allotted Rs 1,000 Cr in order to create opportunities for self-employment and new jobs mainly in technology-driven domains.

- **E-Biz Portal**

Government launched e-biz portal that integrates 14 regulatory permissions and licenses at one source to enable faster clearances and improve the ease of doing business in India.

- **Royalty Tax**

Indian government has reduced the royalty tax paid by businesses and startup firms from 25 per cent to 10 per cent

V. EXAMPLES OF OPPORTUNITIES FOR STARTUPS

Startups in Indian scenario have a tremendous scope in catering to local and niche markets that could be viable and sustainable with early potential of revenue generation. With small area of operations and right product /service the success rate could be high with possible chance for expansion. The bottom-of-the pyramid space is a potential market for offerings ranging from food, clothing, water and hygienic items. The selection of items would be based on the entrepreneurs' expertise and the area of operation.

VII. CONCLUSIONS

The current economic scenario in India is on expansion mode. The Indian government is increasingly showing greater enthusiasm to increase the GDP rate of growth from grass root levels with introduction of liberal policies and initiatives for entrepreneurs like 'Make in India', 'Startup India', MUDRA etc. 'Make in India' is great opportunity for the Indian start-ups. With government going full hog on developing entrepreneurs, it could arrest brain drain and provide an environment to improve availability of local talent for hiring by startup firms. Small contributions from a number of entrepreneurs would have cascading effect on the economy and employment generation which would complement medium and large industries efforts catapulting India into a fast growing economy. The startup arena has lot of challenges ranging from finance to human resources and from launch to sustaining the growth with tenacity. Being a country with large population, the plethora of opportunities available are many for startups offering products and services ranging from food, retail, and hygiene to solar and IT applications for day to day problems which could be delivered at affordable prices. It is not out of place to mention that some of these startups would become unicorns and may become world renowned businesses by expanding into other developing and underdeveloped countries.

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