

INDIAN STARTUPS - CHALLENGES AND OPPORTUNITIES

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Abstract: The main objective for starting a start-up is to be self-employed and to create employment for other people which takes lots of efforts. Many people with large percentage of moderate income category, educated youth with latest technical skill are one of the reason for Indian youth driving towards start-up. The initiatives taken by the government such as 'Make in India' and many other schemes have given Indian start-up sector a good boost with many individuals taking good advantage of the government schemes. Starting a start-up is a well planned exercise with consideration of both internal and external factors that may impact the sustainability of the start-up. The idea behind the start-up, market size, revenue and profit targets are some of the important factors that need to be clearly defined before starting the start-up journey. Time given to the organization, team work are extremely important elements which determine success for the start-up. Infrastructure, government regulations and availability of finance at various stages of growth can be a challenges for start-ups. In fact, history is repeated many times with examples of start-ups which began with big fanfare but failed within a short span of time because of various reasons. The paper has discussed few issues and challenges that an Indian start-up has to face and the opportunities that the country can provide in the current ecosystem.

Key words: Start-ups, Entrepreneur, Finance, Employment, 'Make in India', COVID-19 Pandemic

1. INTRODUCTION

A start-up can be defined as a new business in its initial stage, beginning to settle in the market and is generally financed by a individual person that can be owner or an investor or a group of investors. It is a young ambitious, scalable business model build on modern technology and new innovation wherein the founders develop a product or service for which they foresee demand through disruption of existing or by creating new markets. Start-ups are nothing but an idea that manifests into a commercial undertaking. Grant Thornton define start-up business as an organization which is

a) Incorporated for three years or less

a) At a funding stage of Series B or can be less

b) An entrepreneurial venture partnership or a temporary business organisation

c) Is in to development, production or distribution of new products/services

d) Revenue of up to INR 25 cr.

e) Not formed through splitting or restructuring

f) Employing 50 people or less

2. GOVERNMENT INITIATIVES

Mentioning about government initiatives the 'Make in India' campaign started on September'14 is the most successful campaign in relevance to this aspect. It was introduced to counter heavy foreign investments which were trying to dominate by investments and also to encourage domestic companies to participate in the manufacturing sector. The government increased the Foreign Direct Investment that is FDI limits for majority of the sectors and strengthened the Intellectual Property Rights that is IPRs protection to boost confidence in the start-ups. In order to make the country number one destination for start-ups, Government of India (GoI) has introduced a new campaign called 'Stand-up India' in 2015 aimed to promoting entrepreneurship among women and to help start-ups with bank funding. Another commendable and far reaching initiative is 'Digital India' introduced in 2015 to ensure government services are made available to every citizen of India through online platforms that aims to connect rural areas in country by developing their digital infrastructure which can turn into a huge business opportunity for start-ups.

3. THE STARTUPS SCENARIO IN INDIA

By 2020, it is estimated that around 60,000 start-ups are going to be established with employment potential of around 1.5 to 1.6 million technical people the start-up

ecosystem in India had attracted USD 14.5 billion of funding in 2019, the report titled ‘Covid-19 and the anti-fragility of Indian start-up ecosystem’ said.. It is admirable to note that India is amongst the top five countries in the world in terms of startups with 10,000+ led by US with 83,000+ comprising 43% tech-based firms with 9% managed by women entrepreneurs.

Table:1 Break-up of Indian Start-up Businesses

Technology Based	Non-technology Based
E-Commerce-33%	Engineering-17%
B2B-24%	Construction-13%
Internet - 12%	Agri- products- 11%
Mobile apps - 10%	Textile - 8%
SaaS - 8%	Printing & packaging - 8%
Other - 13%	Transport & logistics- 6%
	Outsourcing & support -5%
	Others-32%

Source: start-ups India

4. THE STARTUP ECOSYSTEM

government initiatives by the side, there is a definite wave of start-ups in India due to easy access to internet and demand in IT. Number of modern start-ups are coming up in service sector including legal, insurance and health, retail, education. With customers becoming aware of the benefits and advantage, the popularity and possibility of start-ups is no more a difficult hypothesis for an entrepreneur. It is seen that large number of angel investors and venture capitalists are making heavy investments in Indian start-ups as they see excellent potential in Indian start-ups and some are also on path to become unicorns. On opposite, there are also few examples of start-ups that failed and in the end closed their businesses due to various issues and challenges high number of start-ups failure was recorded in previous year due to COVID-19 pandemic. India being a country with population over 130cr boasts of high demographic dividends due to majority of population falling under young bracket. According to the latest UN report India with 356 million 10 to 24 year olds have the largest number of youth population who are going lead the country towards innovation and creation with equal demand and consumption of services and goods .

5. ISSUES AND CHALLENGES OF STARTUPS

Successful start-ups cannot start their business just with passion and an ideas. A high level of leadership skill with good understanding of market and excellent communication skill with maturity to see things with right perspective with the ability to take calculated risk are required on the part of the entrepreneurs). Lack of awareness, unorganised market, multiple clearances poor infrastructure in tier 2 /3 cities, stringent exit policies, lack of mentoring corruption, red tape, technological risk, regulatory obstacles and lack of reforms keeping up the pace with the quick evolving changes in the market is a challenge as per Rashmi Guptey , Principal (Legal) of Light-box India Advisors Private Limited.

Some of the major challenges and issues are discussed below:

1) Financial Resources

Availability of finances is critical for the start-ups and is always a big problem to get sufficient amount (Mittal, 2014; Truong, 2016). A number of finance options ranging from family member , friends, loan, grant, angel funding, venture capitalists, crowd-funding etc are available . The requirements starts increasing as the business progresses. Scaling of business requires timely infusion of funds. Proper cash management is critical for the success of the start-ups (Skok, 2016;Pandita,2017). A recent report has painted a gloomy picture with 85% of new company’s reportedly underfunded indicating potential failure (Iwasiuk, 2016).

2) Revenue Generation

Several start-ups fail due to poor revenue generation as the business grow. As the operation increase, expense grows with reduced revenue forcing start-ups to focus on the funding aspect and thus it dilutes the focus on the fundamentals of business. Hence, revenue generation is critical. Warranting efficient management of burn rate which in also common parlance is the rate at which the start-ups spends money in the initial stages. The challenges is not to generate enough capital but also to expand and sustain the growth of start-up.

3) Team Members

To search for and then hire the right kind of talent for the business with skills to match growing customer

expectations are one of the biggest challenges (Truong,2016). Apart from founders , start-ups normally starts with a team consisting of trusted members with complementary skill sets. Usually, each member is specialized in a specific area of operation in a start-up. Assembling a good team for the start-up is the first major requirement, failure to have one sometimes could break the start-up (Skok, 2016). According to a survey, 23 percent start-ups failed because members did not work as a team.

4) Supporting Infrastructure

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

5) Creating Awareness in Markets

Start-ups fail due to lack of attention which causes limitations in the markets. The environment for a start-up is usually much more difficult than for established firm due to its uniqueness of the product. The situation is much more difficult for a new product as the start-up has to build everything from scratch.

6) Exceed Customer Expectations

The next most important challenge is finding the estimate need in the market for the product, ongoing trends etc. Innovation plays a very important role, since the start-up has to fine-tune the product offering to suit the market demand (Skok, 2016). Also, the entrepreneur should have thorough domain knowledge to counter with the competition with appropriate strategies. Due to the new technologies that are emerging, the challenges faced to provide over and above an earlier innovation is pertinent. Namrata Garg The Director of SendKardo feels that the biggest challenge is the need to constantly reinvent yourself and come up with a service that is able to match up customer expectations and exceed them.

7) Tenacity of Founders

Founders of start-ups have to be tough when the start-up is facing difficult time. The journey of starting a Start-up is fraught with delays, setbacks and lots of problems without adequate solutions. The entrepreneur needs to be persuasive , persistent, and should never give up till he/she achieves desired results. History is replete with

start-ups who gave up the fight when things went wrong. Sometimes a product could be ahead of its time or may require complimentary technology Or products for the use by the customers. For example, Apple had to delay its introduction of iTunes till the regulations favoured the launch. It is also relevant to quote Steve Jobs The founder of apple “A lot of times, people don’t know what they want until you show it to them”. This reiterates the fact those products from start-ups mostly fall in the “new and untried” category whereas the success rate is minimal.

8) Regulations

Starting a business requires a lots of permissions from government agencies. Although there is lots of change in recent months, which concluded to not a challenge to register a company. Regulations pertaining to dispute resolution, intellectual property rights, labour laws, etc. Are rigorous in India which takes about more days to comply compared to just 8 to 9 days in OECD countries. Also, as per World Bank report on Ease of Doing Business, India has ranked on 63 out of 190 countries. According to its survey conducted in 2020. Which also shows huge improvement in numbers.

9) Growth Decelerators

Some agencies which are part of the start-up ecosystem can sometimes become hurdles in the growing stages. As per Sneh Bhavsar the co-founder and CEO of Womaniya one of the major issues is the influence of institutes, incubators, and similar organisations which try to manage and control be the daddies of the start-ups in the name of helping and mentoring. This needs suitable coordination among the organization for mutual benefits.

10) Lack of Mentorship

Milan Hoogan the Vice President-Sales and Marketing at Erfolg Life Sciences feels that lack of proper guidance and mentorship is one of the biggest problems that exist in the Indian start-up ecosystem. Most of start-ups have brilliant ideas or products, but have very little or no business, industry and market experience to get the products in the market. It’s a proven example that a brilliant idea works only if executed promptly. Lack of adequate guidance and mentoring is the biggest challenge which could bring a potentially good idea to an end.

11) Lack of a Good Branding Strategy

Absence of an strong branding strategy is another issue that is stooping start-ups from flourishing at a faster pace. Hemant Arora a Business Head-Branded Content at Times Network opines that branding demands paramount attention as it gives an occupys and identify space in the consumers mind.

12) Replicating Silicon Valley

Koushik Shee the Founder and CEO of Effia feels that Indian start-ups get influenced by Silicon Valley model which may not succeed in current Indian scenario. Lot of improvements and modifications can be be required when implemented into Indian markets keeping in mind Indian infrastructure in terms of internet, roads, electricity and telecom penetration.

6. REASONS FOR FAILURE

Some of the major reasons for failure of start-ups, a survey based on analysis shows that 80% that is 8 out of every 10 start-ups failed as the product had no market, 38% firms ran out of cash, 26% did not have the right team,18% closed due to pricing issues, 13% firms had poor product, 17% failed due to poor marketing and 9% had no investor interest. These reasons substantiate most of the challenges and issues that have been enumerated above.

7. OPPORTUNITIES FOR STARTUPS

In spite of challenges and problems that start-ups are facing, Indian markets provide a plethora of opportunities to find solutions tailored to solve them.

The list below consist few of the opportunities that are discussed for consideration by start-ups.

I. INDIA'S LARGE POPULATION

The biggest asset of the country with reference to current topic is the population of India. By 2023 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 start-up. Various infrastructure improvement and modification in Ease Of Doing Business and recovery from recent COVID-19 pandemic would provide huge opportunities for the start-ups.

II. CHANGE OF MIND SET OF WORKING CLASS

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

III. HUGE INVESTMENTS IN STARTUPS

Huge investment in Indian start-ups from foreign and Indian investors is taking place.In 2015 more than 400 deals were done by 400+ angels and venture capitalist equity with around \$6.5-billion investments making India the most sought after destination for investments. Some of the active players are New York-based Management firms, Russian company DST Global, Japanese giant Softbank, Sequoia Capital, Kalaari Capital and Accel Partners. More and More are going to join the trend as this is the tipping point in Indian commerce for good returns by backing potential unicorns.

IV. GOVERNMENT INITIATIVES

There are number of government and semi-governmental initiatives to assist start-ups.

- **Start-Up India**

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

- **MUDRA Yojna**

Through MUDRA Yojna scheme, start-ups get loans from the banks to set up and grow and stabilize their businesses.

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

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

- **E-Biz Portal**

Government Of India (GOI) launched E-biz portal that integrates 14 regulatory permissions and licenses at Single source to enable faster clearances and to improve the ease of doing business in India.

- Royalty Tax**

Government Of India (GOI) has reduced the royalty tax paid by businesses and start-up firms from 25per cent to 10 per cent

V. INVESTMENTS BY BIG BUSINESS HOUSES

Big business houses are already investing in start-ups as they cannot use their infrastructure to concentrate on small outfits like start-ups which require different skill-sets. Industrialists like Ratan Tata (Bluestone, Ola etc), Azim Premji (Myntra , DataStax etc) and many more are investing in start-ups giving desired traction and respectability to the segment.

VI. EXAMPLES OF OPPORTUNITIES FOR STARTUPS

Start-ups in Indian market have a tremendous scope in catering to local and niche markets that could be sustainable and viable with early potential of generating revenue. With small area of operations and right product and service the rate of success could be high with also possible chance for expansion. The bottom of the pyramid space is a potential market place for offering from clothing, food, water and hygienic items. The selection of item would be based on the entrepreneurs expertise and also with the areas of operation.

In Table: 2 given below is a list of current offerings by start-ups which is followed by list in Table:3 (Low-Tech) and Table:4 (High Tech) of few potential domains.

Table:2 List of Current Start-ups and Area of Operations

Area of Operation	Start-up Firm Name
Online fish, meat delivery	FRESHTOHOE
Online food delivery	ZOMATO , SWIGGY
Online pharmacy	MYRA , NETMEDS
Big data analytics for trade	PEELWORKS
Logistic management	FAREYE

software	
Platform to get local businesses online	NOWFLOATS
Lifestyle tracking platform	HEALTHIFYME
AI-driven solutions for retailers	STAGU
Payments solutions for credit/debit cards	PINELABS
Peer-to-peer lending	FAIRCENT
Packaged ready-to-cook idli /dosa batter	IDFOODS

Source:17 Start-ups to Watch, TOI.

Other areas with tremendous potential for start-ups to establish themselves and thrive are listed in Table: 3 followed by Table: 4 as low-end and high-end venture with varying degree of investment and resource. These ventures could be the solution provider for underdeveloped and also developing countries having similar economic profile at very affordable cost.

Table:3 Start-up Opportunities- Low-end Ventures

Snacks and Tiffins	Health drinks	Franchising
Waste management	Media support services	Food Processing
Washing and Ironing	Solar Energy products	Retailing
Supply of Drinking water	Education & training	Health& Pharmacy
Diagnostics Centers	IT and ITES	Food Delivery

Source: Author’s perspective

Table: 4 Startup Opportunities- High-end Ventures (Export Oriented)

Auto-Components	Ayurvedic medicines
Horticulture	Software Exports
Engineering Goods	Biotechnology
Organic Farming	Floriculture

Source: Author’s perspective

8. CONCLUSIONS

The current economic scenario in India is on fastest expansion mode. The Indian government is showing great enthusiasm to increase the GDP rate of growth from ground root levels with introduction of liberal policies and initiative for entrepreneurs like ‘Make in India’, ‘Start-up India’, MUDRA and some other. ‘Make in

India' is great opportunity for the Indian start-ups and is on its highest boom after the current COVID-19 pandemic. With government going full domination on developing entrepreneurs, it could arrest brain drain and provide an environment to improve availability of local talent for hiring by start-up firms. Small contribution from a number of entrepreneurs would have good effect on the economy and employment generation which would further complement medium and large industries efforts for catapulting India into a fast growing economy. The start-up wave has lot of challenges ranging from finance to human resource . Being a country with large population, the excessively large amount of opportunities available for many start-ups offering product and service ranging from retail, food, and solar to hygiene and IT applications for day-to- day problems which could be delivered at affordable price. It is not out of place to mention that some of these start-ups would become unicorns and may become world renowned businesses by expanding in other developing and also underdeveloped countries.

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