

## Startups in India- Retrospect and prospects

<sup>1</sup> Harminder Singh, <sup>2</sup> Manpreet Kaur

<sup>1</sup> Ph.D. Scholar, Department of Business Administration, Faculty of Management Study and Research, Jagannath University, Jaipur, Rajasthan, India

<sup>2</sup> Assistant Professor, Department of management, Jagannath Institute of management studies, Jaipur, Rajasthan, India

### Abstract

Startups have been the flavor of the season over the last few years for the Indian markets. This has resulted into the emergence of a number of home grown unicorns across the country. One of the major contributors leading to this development has been the mega funding that has been ploughed into most of these unicorns between the period 2007 and 2015. This has been in line with the global trend dominating the space. Even the aspiring unicorns have had a decent run during this period, where managing to find investors is usually considered a tough task. Making big bets on Indian innovation has become a global point of interest. Prime Minister Narendra Modi launched an ambitious program called Startup India Standup India. This was aimed at revolutionizing and accelerating the startup revolution in India, which is already witnessing strong traction. However the road to success is not as smooth as it appears to be. The larger problems plaguing the businesses, such as the unorganized and fragmented Indian market, lack of clear and transparent policy initiatives, lack of infrastructure, lack of knowledge and exposure, complications in doing business, etc. are at least now being identified as issues that need to be addressed. The framework and course of regulations need to be updated and adopted as per the times. The right policy matter announcements by lawmakers can be a push the growth of startups. To create awareness and building an entrepreneurial environment, a lot of emphasis should now be given to creating infrastructure for mentoring startups. Various stakeholders such as the government, corporate, educational institutions and others should join hands to build a better ecosystem for young people. In times like these, pro-reforms announcements are required to provide the much needed impetus to the general business environment in the country in the startup space.

**Keywords:** startups, unicorns, stakeholders, ecosystem

### 1. Introduction

A startup company (startup or start-up) is an entrepreneurial venture which is typically a newly emerged, rapidly-growing business that aims to meet a market need by developing or offering an innovative and extraordinary product, process or service. A startup is usually a company such as a small business, a partnership or an organization deliberately designed to rapidly develop a commercially viable business model. More often than not, startup companies deploy technologies, such as Internet, e-commerce, computers, telecommunications, or robotics to make a niche for them in the market. These companies are generally involved in the design and implementation of the innovative and out of the box processes of the development, validation and research for target markets. While start-ups do not only operate in technology realms, the term became internationally widespread during the dot-com bubble in the late 1990s, when a great number of Internet-based companies mushroomed.

#### A startup business is defined as an organization:

- Incorporated for three years or less
- At a funding stage of Series B or less
- An entrepreneurial venture/a partnership or a temporary business organization
- New and existence for not more than five years
- Revenue of up to INR 25 cr.
- Not formed through splitting or restructuring
- Formed through splitting or restructuring

#### According to an Infosys Co-founder, a startup is defined as a business

- Within the first three years of its existence
- Employing 50 people or less
- Revenue of INR 5 cr. or less

The exact definition of "startup" is widely debated and discussed. However at their core, most definitions are similar to what the U.S. Small Business Administration describes as a "business that is typically technology driven and oriented and has high growth potential". The reference to "growth potential" may mean growth in revenues, number of employees, or both, or to the scaling up of a business to offer its goods or services to a wider or larger market.

One popular definition by entrepreneur Steve Blank and Bob Dorf defines a startup as an "organization formed to search for a repeatable and scalable business model." In this case "search" is intended to differentiate established late-stage startups from traditional small businesses, such as a restaurant opening up a mature market. The latter implements a well-known existing business strategy whereas a startup explores an unknown or innovative business model in order to disrupt existing markets, as in the case of the online merchant Amazon, the "app"-based ride service Uber or the search engine Google, each of which pioneered the development of their respective market categories. Startups are not smaller versions of larger companies. In fact, a startup is a temporary organization designed to search for a product/market fit and a business model, while in contrast, a large company is a permanent organization that has already achieved a

product/market fit and is designed to execute a well-defined, fully validated, well-tested, proven, verified, stable, clear, unambiguous, repeatable and scalable business model. Moreover, startups essentially go from one failure to another failure in an effort to learn from each failure and discover what works and what does not work in the process of searching for a repeatable, high growth business model.

**2. Objectives of the study**

- To study in detail about the Startups in India.
- To ascertain the scope of growth of Startups in India.
- To comprehend the role of Investment Agencies in the growth of Startups in India.
- To identify the problems and bottlenecks faced by Startups in India.

**3. Research Methodology**

Research and experimental development is work under-taken systematically to increase the stock of knowledge. The first objective of this paper is fulfilled by the analysis of history of banking sector. The data for analysis has been collected primarily from journals, articles, online database of Indian Economy, RBI bulletin, websites or newspaper etc.

**4. Stages of the Startup Lifecycle**

**Pre Startup**

Discovery- Identify a potential scalable product/service idea for a big enough target market.

Validation- The service or product discovered hits the market, looking for the first clients ready to pay for it.

**Startup**

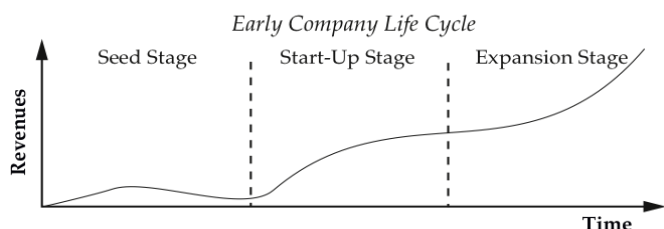
Efficiency -The entrepreneur begins to define his/her business model and looks for ways to increase customer base constantly.

Scale- Pushing the growth of the business aggressively while increasing its capacity to grow in every possible sustainable manner.

**Growth**

Maintenance- Maximizing benefits and facing problems derived from the global dimension in terms of competition that the business has achieved

Sale or Renewal - The decision to sell the startup to a giant or acquire huge resources that the brand will need to continue growing as a venture.



Source: blog.popandsmart.com

Fig 1: Early Company Life Cycle

**5. Startup Financing Life Cycle**

- 1) Funding by Angel Investors/ Seed Funds
  - Early stage startups rely on angel investors and seed funding.

- Invest solely into the entrepreneur with an idea.
  - Does not encumber the entrepreneur with any corporate governance formalities.
- 2) Venture Capital
    - Used to scale the company’s business model.
    - Comes from larger institutional funds.
    - Focus is on building the sales force and establishing a global presence.
  - 3) Public markets
    - Late stage startups can feel the need to expand more aggressively or actively innovate the products which require larger funds.
    - Private equity funds together with public markets provide large amounts of liquidity to late stage startups.

**6. Startups in India- At a Glance**

India is amongst the top five countries in the world in terms of startups.US ranks number one on the list with 83,000+ startups. There are approximately 10000 startups in India.

Table 1

|                     | Technology Based startups | Non Technology Based startups |
|---------------------|---------------------------|-------------------------------|
| Number              | 4300                      | 5700                          |
| % Share             | 43%                       | 57%                           |
| New Annual Startups | 800                       | NA                            |

In the Technology based startups, maximum concentration is in E-Commerce sector (33%) followed by B2B sector (24%), Consumer Internet (12%) and other sectors comprise 13%. On the other hand, in the Non Technology based startups, the maximum concentration is in the Engineering sector (17%) followed by Agri Products sector (13%) and other sectors comprise 32%.

Source: Microsoft Ventures, Zinnov, NASSCOM Startup India report 2015Note: Non-tech based startups sector concentration is an outcome of a survey conducted by CRISIL on ~20% sample of micro, small, and medium enterprises 2013-14 Source: NASSCOM Startup India report 2015, Microsoft Ventures, Secondary sources, News article

**7. Current State of Startups in India**

- 1) India is the third largest Startup hub.
- 2) Average age of startup founders is 28 years.
- 3) 9% of the total startup founders are women
- 4) Total tech startups are expected to increase from 4300 in 2015 to 11500 in 2020.
- 5) Average number of new technology startups has moved from 480 in 2010 to 800 in 2015. Expected to increase to 2000 in 2020.
- 6) Majority of startups and investors are from metro cities.
- 7) Approximately, 50% growth in share of female entrepreneurs in the last 12 months.
- 8) The number of Private Equity and Venture Capital firms has doubled in the last 12 months.

Source: NASSCOM Startup India report 2015, Startup India-Momentous Rise of the Indian Startup Ecosystem, CII report on a snapshot of India’s Startup Ecosystem, Secondary sources, News article.

## 8. Startups in India- Comparison with Other Countries

Table 2

|                                 | India | China | Israel | Singapore                            | Japan | US    |
|---------------------------------|-------|-------|--------|--------------------------------------|-------|-------|
| Total number of Startups        | 10000 | 10000 | 4750   | NA                                   | NA    | 83000 |
| Tech Based Startups             | 4300  | 3400  | 4000   | NA                                   | NA    | 48500 |
| Non-Tech Based Startups         | 5700  | 6600  | 750    | NA                                   | NA    | 34500 |
| Set Up a new Business (in days) | 30-60 | 30    | 13     | 2                                    | 10    | 4     |
| Corporate Tax Rate              | 34%   | 25%   | 26%    | 17%(100% Tax Exemption for Startups) | 34%   | 39%   |
| Bank Lending rate               | 10.3% | 5.6%  | 3.9%   | 5.4%                                 | 1.2%  | 3.3%  |

Source: World Bank, News articles, Gov. Sites

### 9. Scope of Growth

A wide range of measures have been adopted by the Indian government that promotes entrepreneurship at the startup level and number of initiatives have been taken to ensure that the startup businesses get appropriate support.

#### a) Make in India

A big initiative “Make in India” to promote the manufacturing sector by promoting companies to invest in the sector. The intent of the campaign is to attract foreign investments and encourage domestic companies to participate in the manufacturing thereby contributing to the growth story. The government is also taking various steps to build a favorable environment to do business in the country. For example, an online system for environment clearances, filling income tax returns and extension of validity of industrial licenses to three years have been put in place.

- 1) The government has increased the foreign Direct Investment limits for most of the sectors.
- 2) Protection of the intellectual property rights of innovators and creators by upgrading infrastructure, and using state-of-the-art technology

#### b) Standup India

A new campaign “Standup India” to help startups with bank funding and encourage entrepreneurship among the young Indians has been launched.

#### Standup India

On 6th January 2016, the Union Cabinet has given approval to Standup India campaign which aimed at promoting entrepreneurship among women and scheduled castes and tribes. Some of the salient features include:

- Loans under the scheme would be given for Greenfield projects in the non-farm sector.
- Intention of the scheme is to facilitate at least two such projects per bank branch.
- The scheme is expected to benefit at least 250,000 borrowers in 36 months from the launch of the Scheme.

It also plans to ease out the existing regulatory regime for startups and is considering extending tax incentives to them. The Department of Industrial Policy and Promotion (DIPP) is currently working around a clear definition for startups to ensure that the regime is available to businesses

#### c) Digital India

This is an initiative led by the Indian government to ensure that government services are made available to every citizen through online platform. This translates into a huge business opportunity for startups. E-Commerce companies in India are

planning to break into India’s rural market as a part of the government’s Digital India initiative.

#### d) Startup Exchange

The SEBI announced a new set of listing norms for startups, including e-Commerce ventures, planning to raise funding from listing on stock exchanges. These new norms will provide relaxations in disclosure related requirements, takeover and Alternative Investment Fund regulations for IT, data analytics, intellectual property, bio-technology or nano-technology companies.

#### e) Self-Utilisation and Talent Utilisation (SETU)

The government is planning to set up a mechanism called SETU, under the newly formed NITI Aayog (erstwhile Planning Commission), to provide technical assistance and incubation to startups. In 2015 Union Budget, Finance Minister, Arun Jaitley, has set aside INR 1,000 crore for support startups and more such initiatives are in the pipeline.

#### f) Financial assistance

In April 2015, the government launched Mudra Bank to boost the growth of small businesses and manufacturing units -- The newly formed Bank would provide a credit facility of up to INR 50,000 to small businesses, loan of up to INR 5 lakh to little bigger businesses and loan of up to INR 10 lakh to the MSME sector. The cabinet has approved the creation of a Credit Guarantee Fund for MUDRA loans. It is expected that the fund will guarantee loans of over INR 1, 00,000 crores to micro and small businesses in the first instance. Additionally, the government has set a target to provide a total loan of INR 1.22 Lakh cr. to promote new entrepreneurs and fund the unfunded businesses with the help of banks

Source: NASSCOM Startup India report 2015 Secondary sources, new articles

## 10. Approvals and Other Regulatory Processes

### Single online clearance system

A commendable development in the pipeline is to bring an online approval window which will provide over 200 permits required by different industries from various government divisions. This new system for clearance approval for new entrepreneurs would allow them to apply for and track the status of their applications/license permits online

### Simplification of regulatory regime

To improve India’s ranking on the ease of doing business to 50 from the current ranking of 142 on the World Bank’s index, steps are being taken to simplify business processes and regulations. According to a DIPP official, a government panel

is working on a policy that proposes exempting startups from a 22 federal rules and regulations such as:

- Proposal includes exemption from company and labour laws until a startups revenue touches to certain level.
- Certain tax exemptions for a specified period and
- Easing norms for raising capital globally.

## 11. Challenges

### According to the World Bank's Report: Doing Business 2016

- India is ranked 130th out of 189 economies on the ease of doing business, 133rd on the ease of trading across borders and 157th on the ease of paying taxes.
- India is ranked 155th in case of starting a business.
- On an average, Indian businesses need to make 33 tax payments annually with around 243 hours spent to prepare and pay taxes in a year.
- In contrast, China requires just nine tax payments annually, while the US doesn't trouble its taxpayers more than 11 times annually for tax payments.

All these facts clearly indicate that a lot needs to be done for providing a congenial environment to startups.

### Startup business challenges

#### i) Culture and awareness

The Indian culture has conditioned people to look down upon failure. For failures, opinions do come by but encouragement rarely so.

Entrepreneurship is often about failing and learning from those failures and starting all over again. People need to start accepting failures and allow second chances.

- Most common questions for anyone to become an entrepreneur
  - What to do: problem related to creating a business idea, finding business opportunity or having a vision.
  - Why to do: issues related to reward/incentive analysis, risk evaluation or any other benefits.
  - How to do: issues related to legalities and requirements such as clearances, licenses, approvals required. Issues related to resource availability including finances, technology and manpower supply.
- People at large are unaware about how they can contribute to economic growth, generate employment, contribute to social development.

#### ii) Social issues

- Mentorship/Guidance: Most founders of failed startups feel that the lack of proper guidance and mentorship is a major reason behind their failure. An important factor behind failures and slow growth of some organizations is the lack of quality mentorship, especially in terms of industry knowledge/support.
- Market structure: Indian markets are largely unorganized and fragmented that create a roadblock for a startup to succeed.
- Consumer Behaviour: Behaviour of Indian consumer changes in every 30-50km that makes it really difficult for a startup to create business or market strategy for their products or services. Most startups generally get stuck in stagnancy and gradually shut down.
- Location: An important problem faced by startups is related to location of their business. India is a place of varied

culture and taste and thus every product might not be welcomed equally in every region.

#### iii) Technology

Technology infrastructure

- Appropriate IT-infrastructure has become a need for Indian businesses given the growing number of consumers online.
- It is absolutely vital for new startups to train their employees for handling critical customer information such as that of credit card numbers and related data.
- Cyber security- Most startups have a B2B business model. This is where cyber risk may rise as they are not aware of potential risks that might exist for their startup business. No back-up plan to keep the startup company running when an accident destroys some key equipment in their data centre.

#### iv) Financial Issues

- Most startups are self/family funded with limited workforce which makes it difficult to maintain records both financial and operational.
- Flawed business models and lack of innovative revenue strategies have led to the failure of many startups and they are forced to shut down operations.
- Overcoming unnecessary business steps to manage business operations.
- Capital and access to capital has been a perennial problem for startups
- Government and private sector investors have set aside funds through investment channels but they are not available for all forms of business. The biggest problem for such organizations has been to attract investors and gain their trust with regard to their mode of operations.
- In the initial phase of operations, startups do not get funding from banks given no credit history of the firm. In addition, there is limited number of credit rating firms for small and medium sized enterprise.
- Despite having raised good investments, startups struggle to survive the competition. Startups are unable to mitigate the gap between burn rate and revenue.
- Effective cash management is an important factor to achieve objectives both short term and long term. Cash is still a preferred option for payments owing to the fact that electronic payment has not achieved complete penetration to Tier 2 and Tier 3 cities
- Gap between burn rate and revenue: Given rising competition from peers both from big as well as small, it becomes imperative for startups to scale up the business and require external funding for the sustainability/growth in the market.
- Evolution on the basis of funding: Mega funding and mega announcements have become a thing of the past, post consolidation on a large scale across the sector over the last few years. Both the investor and the entrepreneur are now more consciously focusing on innovation, capital efficiency and client/customer satisfaction, a view which is bound to impact the funding scenario hence-forth.

#### v) Sustainability Issues

The level of knowledge that business advisers have about ecological issues and their willingness to discuss this with their clients is important in creating business ventures.

- Lack of information - provision of more information

directly to business founders could help in the adoption of more sustainable business practices.

- Not aware of potential that might exist for their startup business.
- Role of public funding in promoting sustainable enterprises is often overlooked.

#### vi) Regulatory Issues

Multi window clearances: Budding entrepreneurs have to make multiple trips to government offices to register and seek clearances. There is urgent need to scrap multiple regulatory clearances.

#### vii) Taxation issue

- Taxes like octroi, VAT, excise creates problems for entrepreneurs while starting up a business. NASSCOM has batted for the exemption of both direct and indirect taxes for all startups in India.
- Taxation is a barrier for technology adoption and proves to be an immense hurdle for budding entrepreneurs

### 12. Findings and Discussion

Many businesses start with a dream, but it takes more than just a dream for them to grow into successful businesses—including the tenacity and the obstacles discussed above to overcome the many challenges facing startups today. Startups take time, effort, and energy to grow into profitable and sustainable businesses. Funding is a major concern for startups and small businesses as availability of finance is a very crucial factor. When the economy tanked, it made it harder to convince investors and banks alike to part with the cash that is essential for growth in the early days of a business. Credit today is tight, in fact very tight in the light of demonetization and it is not clear precisely when it will become more readily available. Moreover, there is a growing trend of smaller initial investments in early stage startups rather than big investments in bigger startups. However some of the prominent global Startups such as Uber, Cisco, GramPower and leading private equity firms including Bessemer Venture Partners, Seedfund and IvyCap Ventures have confirmed their participation. This is a clear sign that India is on the verge of becoming next big startup destination. Nevertheless, the culture of entrepreneurship has to be spread across all the states and cities. Every medium and large city of India must be thriving as a startup scene as do some of our leading metros. In order to achieve real success, startups in all areas of business, not just in technology must be encouraged.

### 13. References

1. Graham Paul. Startup Equals Growth, in Graham's Essays on entrepreneurship, 2012.
2. Aswath Damodaran, Valuing Young. Start-up and Growth Companies: Estimation Issues and Valuation Challenges. SSRN Electronic Journal. 06/2009; DOI: 10.2139/ssrn.141868
3. Au K, Kwan HK. Start-up capital and Chinese entrepreneurs: The role of family. Entrepreneurship Theory and Practice. 2009; 33(4):889-908.
4. The Hindu Business Line, <http://www.thehindubusinessline.com/info-tech/india-lacks-enough-angel-investors-to-fund-startups-nasscom/article7817740.ece>, Printable version, Nov 20, 2015 9:50:48 PM.
5. Grant Thornton- startups report.