



## The Indian Startup Ecosystem – Perspectives & Implications

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### ABSTRACT

*The present work investigates the Indian startup ecosystem with respect to the key players and their contribution towards increasing the quality of human life. There is sufficient evidence of technical and management resource convergence among the players in the startup ecosystem that provides ample scope for the growth of the country's economy. The need for customer centricity and management persistence are found to be some of the fundamental factors behind most of the successful entrepreneurial ventures in the startup space. The demographic diversity of the startup teams and their innovative solutions transcend the geographic boundaries of the Indian states. Evidences from the study indicate the survival and sustenance journey of those startups are found to be mainly about having the successful ability and skill of understanding with great clarity the psyche of prospective customers whose needs and problems are meant to be solved. The dreams and visions of the promoters are as varied as their backgrounds as is their aspiration to solve problems across the commercial and social domains. The paper provides a view of the offerings of the young startup ventures and their journey till date. Perspectives of the sector are highlighted and the implications of their activities are also outlined. The Indian government's pivotal role and some of the key policies which are aimed towards promoting and nurturing the sector are also highlighted.*

**KEYWORDS :** Indian startups, ecommerce, entrepreneurship, social entrepreneurs, marketing

### Introduction

The Indian startup ecosystem is now replete with companies that have identified various customer needs and have tried to fulfill them to the best of their capabilities. The Indian Government has also proved to be a big supporter for the players in this ecosystem. A lot of innovative Government policies are in place, which proves the noble intent of the Government towards nurturing the startup movement. The Indian economy is bound to gain momentum if the new age entrepreneurs can be encouraged to scale up and prosper to fulfill the customer needs while meeting their economic and social bottom-line metrics. The present paper examines the contemporary landscape of the startup space and the policy framework of the Government of India. Some of the contemporary issues and perspectives faced by the startups are also illustrated in the study and the expected implications highlighted. The country's startup space is in a state of flux as there are multiple challenges facing the incumbents who have been witness to skyrocketing valuations and optimistic investor sentiments. New entrants into the space now have to rethink their value propositions more stringently as investor and consumer sentiments have mellowed down as compared to the previous years. Startups in the country have faced challenges from both homegrown & global competitors. Delivering superior quality offerings and extending best in class customer service have challenged the startups in the country to figure out new business models and strategies to effectively garner a space in the customer's mind, heart and wallet.

### Policies:

'Startup India' is the Government of India's initiative to promote and nurture startups fuelled by innovation. The Indian Government aims to encourage entrepreneurship, economic growth and employment across the country by fostering the startup culture. It is expected that the action plan of the Government will encourage business development among the startups across all the important sectors among the Tier 1, 2 and 3 cities that would also include both the semi-urban and rural areas. The Indian Government's startup initiative is also aimed at promoting entrepreneurship among women and the Scheduled Castes/Scheduled Tribes of the country. A nineteen point action plan promoted by the Department of Industrial Policy & Promotion (DIPP), aims to simplify and aid the startup community, provide funding support & incentives, and encourage industry-academia partnerships and incubation opportunities. In the words of the Prime Minister, Shri Narendra Modi, 'Startup India is a revolutionary scheme that has been started to help the people who wish to start their own business. These people have ideas and capability, so the government will give them support to make sure they can implement their ideas and grow. Success of this scheme will eventually make India, a better economy and a strong nation.' (<http://www.ibef.org/economy/startup-india>).

The definition of a 'startup' for the purpose of Government Schemes means an entity that has been incorporated or registered in India not prior to five years, has an annual turnover not exceeding INR 25 crore in any preceding financial year and is working towards innovation, development, deployment or commercialization of new products, processes or services driven by technology or intellectual property. An entity shall cease to be a startup if it is formed by splitting up, or reconstruction, of a business already in existence, or its turnover for the previous financial years has exceeded INR 25 crore and it has completed 5 years from the date of incorporation/registration. Also the startup shall be eligible for tax benefits only after it has obtained certification from the Inter-Ministerial Board, set up for such purpose as indicated by the Government.

The policy of the Government for startups also include that a 'Startup' will be considered to be eligible for its support provided it would have a supporting recommendation with regard to the innovative nature of its business in the format specified by DIPP, from an Incubator established in a post-graduate college in India; or that it should be supported by an incubator which is funded from the Government of India (GoI) as part of any specified scheme to promote innovation; or it should be funded by an Incubation Fund/Angel Fund/ Private Equity Fund/Accelerator/Angel Network duly registered with SEBI, that endorses the innovative nature of the business; or, it should be funded by GoI as part of any specified scheme to promote innovation; or have a patent granted by the Indian Patent and Trademark Office in the areas affiliated with the nature of the business being promoted

On 16th January, 2016 the Prime Minister of India, Shri Narendra Modi, unveiled the 'Startup India' action plan. The nineteen point action plan included the proposal for having several incubation centres, easier patent filing, tax exemptions, ease of setting-up of business, and a corpus fund of INR 10,000 crore, developing a policy for faster exit mechanism etc. More than 1500 CEOs, Startup founders and investors attended the event among whom were Mr. Masayoshi Son, CEO of SoftBank, Mr. Travis Kalanick, founder of Uber, Mr. Adam Nuemann, CEO of WeWork, Mr. Sachin Bansal, founder of Flipkart, Mr. Kunal Bahl, founder of Snapdeal, Mr. Bhavish Aggarwal, founder of Ola and Mr. Vijay Shekhar Sharma, founder of Paytm.

### Key Developments:

It is expected that in the next two years, despite the best efforts put in by the homegrown startup leaders like Flipkart in the online retailing category and Ola in the cab aggregation space, the market leaders would be Amazon and Uber respectively (<http://economictimes.indiatimes.com/small-biz/startups/the-et-india-startup-ecosystem-barometer/articleshow/53662075.cms>). Flipkart and Ola had raised almost USD 4.4 billion. India can boast of nine startups that

make up the Indian Unicorn club (valuation of over USD1 billion). The Indian unicorns are Flipkart, Snapdeal, Ola, Paytm, Shopclues, Zomato, Quikr, InMobi and MuSigma. These nine companies are estimated to have a combined valuation of almost USD 36 billion. As a comparison Infosys is estimated to be worth USD 37 billion in the public markets. Investor sentiment estimates that only three out of the nine Indian Unicorn club members are likely to reach the IPO stage by 2020 while the rest of the companies are likely to be acquired by other companies that will eventually get listed. It is also estimated that investors and the market conditions were the primary reasons behind the prevalence of the lack of profitable business models for most of the startups in the country. Some of the biggest concerns for investors in the startup space are : a) the lack of suitable exit options, b) high valuations of the startup companies that in retrospect appears unjustified in view of the lack of expected revenues, c) pessimism in the maturity and depth of the startup ecosystem as the consumer market is not estimated to be as big as it was earlier thought to be along with the fact that there is a lack of managerial and executive strength that can enable scaling up of company operations. The regulatory and taxation hurdles seems to be the least of the concerns facing the investors of the Indian startups. The Indian startup space saw a lot of funds being infused into different businesses during the period July 2014 to November 2015. Flipkart caught the attention of investors globally with its USD 1 billion funding in July 2014. Grofers, the hyper-local delivery startup garnered about USD 165 million of funding within nine months in 2015. Tiger Global Management and Soft-Bank were two of the most aggressive investors during 2014-2015. However, the aforementioned investors have not made any significant investment decisions lately. Around forty one per cent of the respondents in a recently reported Economic Times (ET) study indicated that it will take about six months to a year's time for investor sentiment to become positive for the Indian startups/technology market. In the same study, thirty-three per cent of the respondents felt it might take more than a year's time for investor sentiment to become positive for the sector. Despite many of the challenges pertaining to investment funds faced in the space, most entrepreneurs polled by ET felt it was one of the best times for being in business and that the challenges posed during the period could help in filtering out the serious businesses from the entities that were not (<http://economictimes.indiatimes.com/small-biz/startups/the-et-india-startup-ecosystem-barometer/articleshow/53662075.cms>).

#### Some of the notable developments in the Indian startup space are highlighted below:

- On its Diamond Jubilee year, ONGC announced the launch of 'ONGC Start-up', an INR100 crore startup fund, that is meant to encourage new ideas in the oil and gas sector. The company plans to set up a website to execute the project which includes providing seed capital, hand holding, mentoring market linkage and helping in follow-ups (<http://economictimes.indiatimes.com/small-biz/startups/ongc-launches-rs-100-crore-startup-fund-to-ignite-new-ideas/articleshow/53696622.cms>). To encourage innovation internally within the company, ONGC rewarded its three employees - Rajendra Bhambhu, Deepak Naik and Prajesh Chopra for various innovative solutions. Rajendra Bhambhu and Deepak Naik were rewarded for their innovative Safety Device for rigs that would help in installing emergency brake to increase the safety mechanisms on drilling rigs. The third employee, Prajesh Chopra was awarded for his innovation that was a unique Dual SIM Cellular Router System for providing Data Connectivity at Work-over Rigs, which could prove to be a potential solution for time and cost savings for the company.
- A group of youths from Thiruvananthapuram, Kerala, have made a collaboration with a Delhi based NGO "Common Cause", for establishing an online platform called 'azad.in' that aspires to help millions of citizens to take up legal recourse towards issues pertaining to the Right to Education Act (RTE) and other issues. The online platform, 'azad.in', plans to mobilize crowdfunding for funding the legal cost requirements of its customers. The startup has been incubated in IIM-Bangalore. The founders of the startup, Radhakrishnan Ram Manohar, Sidharth Vijyan and Praveen Paul have a vision to ensure that eight million children in the age group of 6-16 years are enrolled for schooling, while aiming to get about 1.5 million Indian schools get better facilities and establish over a million toilets and mobilize about five lakh teachers. ([biz/startups/start-up-to-raise-resources-for-better-rte-implementation/articleshow/53697083.cms\)](http://economictimes.indiatimes.com/small-</a></li>
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- Kotak Mahindra Bank, has introduced 'Innovation Lab' in Bengaluru to partner with fintech space startups for testing concepts and seek out potential offerings that can be launched into commercial products. The fourth largest private sector bank is reportedly working with startups in the analytics, biometric, artificial intelligence, iris scanning and machine learning space for potential solutions. While most of the startups that the bank is working with are based out of Bengaluru, two startups are from the USA and Australia respectively. Private sector domestic lenders have increasingly shown interest to work with the fintech startup community for developing relevant technology that can enable sustainable business operations for the future. Some of the initiatives undertaken in the space include setting up of investment funds dedicated for the fintech space, establishing incubation centres, and encouraging hackathons and ideation contests. Kotak Bank reiterated its commitment to supporting more startups in the fintech space although they did not have a dedicated fund earmarked for the purpose as yet (<http://economictimes.indiatimes.com/small-biz/startups/kotak-mahindra-bank-starts-innovation-lab-open-to-investing-in-startups/articleshow/53696429.cms>).
- Axio Biosolutions introduced an innovative product called 'Axio-stax' which is a bandage that instantly stops bleeding when applied on a wound. The founder of the startup Leo Mavelly had to struggle to get market acceptance of his product, but now has a customer list encompassing the armed forces, security agencies, hospitals and several paramedical care units. The startup was incubated in Nirma Labs at Ahmedabad where the founder set up a production plan to manufacture about two lakh units of the product. IDG Ventures and Accel Partners have provided funds to the startup. The product kit costs INR2500 to INR5000 and is reportedly a fifth of what his competitors in the US charge. The founder has already filed for five patents and is ready to export his product (<http://economictimes.indiatimes.com/small-biz/startups/these-startups-have-healing-touch/articleshow/53695377.cms>).
- The medical technology startup space has witnessed the rise of close to 120 startups with each almost receiving about USD 1 million, thereby translating into approximately USD 120 million of total investment among the companies. IDG Ventures, Accel Partners and Norwest Venture Partners have invested in some of the startups in the medical technology space. 'Perfint' a medical device maker and 'Theramyt' are some of the notable names in the space. 'Theramyt' has developed medical solutions for diabetes, oncology, arthritis and metabolic disorders. 'Tricog Health' connects ECG devices on the cloud by which the report generated is streamed to sixteen doctors who report the diagnosis via SMS and a mobile app. The company has implemented a pay-per-use model and the machines being leased to the small clinics. The company has been able to serve close to about a lakh across three hundred clinics in Delhi, Kerala and Karnataka. 'Cardiac Design Labs' is a cardiac care company that serves the rural market, having created a low-cost, cardiac monitor, that can be worn by patients and is called 'Mircam'. The product helps in conducting diagnosis at initial stages and alerting doctors. The product is especially useful as India is estimated to have close to about sixty-four million cardiac patients among whom approximately ninety per cent visit small hospitals that are incapable of conducting effective diagnostics. 'Forus Health', a Bengaluru based startup focuses on preventing blindness. The company raised about INR50 crore for its project. Its product '3nethra' helps in diagnosis of common eye problems and is installed in over 1100 places across twenty five countries. Forus Health charges one-fourth of what its competitor Clarity Medical Systems charges for 'Retcam'. There is optimism of the med-tech industry developing with support from the Government, industry and institutions. The Healthcare Technology Innovation Centre at IIT-Madras has been set up by the Department of Biotechnology and several other incubators. A draft regulatory policy has also been announced by the Government for medical devices (<http://economictimes.indiatimes.com/small-biz/startups/these-startups-have-healing-touch/articleshow/53695377.cms>).

- The 'Fab Five' startups selected for representing India in 'Start Tel Aviv' are Advenio, XLPAT LABS, Technology Uncorked, Medimojo and EZspend Prepaid Payment Solutions. Advenio deals with innovative solutions for critical healthcare needs. XLPAT LABS is into information services having a platform that hosts a bunch of applications automating Patent Searching and Analytics (<https://www.adveniotecnosys.com>). The company claims to have done a breakthrough in Automation of Patent Services and revolutionized the art and science of Prior Art Searching. Their platform extracts its intelligence from technologies like Natural Language Processing, Artificial Intelligence, Watson, Search Intelligence and from their experience in IPR. The company also claims to be able to conduct non-patent literature search in a combination of databases like IEEE, Scopus, Arxiv, Springer and Science Direct simultaneously (<https://www.linkedin.com/company/xlpat>). Technology Uncorked is a community of 'innovators, developers, dreamers, and creators' who believe that technology empowers innovation and helps change the way that the world 'lives, interacts and responds'. Their passion is beautifully encapsulated in their aim to 'transform millions of dreams of creating a new piece of gizmo, gadget, or toy and help bring them into existence in the world' (<http://www.tekuncorked.com/what-is-tu.html>). Medimojo claims to have the most progressive tool in healthcare by having a cloud-based electronic health record platform for patients (<https://medimojo.in/>). EZspend Prepaid Payment Solutions is in the business of selling prepaid cards.
- Big Basket has forayed into the business to business (B2B) domain by selling its merchandise to hotels, kirana stores and restaurants (<http://economictimes.indiatimes.com/small-biz/startups/-e-grocer-bigbasket-starts-selling-to-kiranas-and-hotels/articleshow/53668994.cms>). The company is supported by the Abraaj Group, Ascent Capital and Bessemer Capital. The company's two private brands are 'Fresho' and 'BB Royal'. The competitor of BigBasket is the Softbank sponsored Grofers. Even Amazon's grocery platform, Amazon Now can also be considered to be a competitor for both BigBasket and Grofers.
- There are a slew of startups that offer a variety of solutions meant for the elderly. Life expectancies have increased with a lot of help from medical technology. In the face of rising life expectancy and the increase in nuclear families and young people migrating to far off cities and countries for pursuing education and career opportunities, there is an increasing need for quality care issues facing the elderly members of our population. Some startups that have come up in the space to tackle the issues facing the elderly are 'Senior Shelf', 'Silver Talkies' and 'Beautiful-Years'. Senior Shelf is an online shopping portal that focuses on aggregating products and services for senior citizens that may not be available otherwise in the offline/online retail channels. Silver Talkies was co-founded by Nidhi Chawla and Reshmi Chakraborty and is an online magazine and multi-dimensional platform for senior urban Indians who are aged more than sixty years. The venture aims to target people who may want options to enrich the lives of their parents. Vladi Ruppoo and Pavithra Reddy co-founded BeautifulYears Ltd to provide elderly care products and solutions through their online platform (<http://economictimes.indiatimes.com/small-biz/startups/old-is-gold-startups-for-elderly-hold-a-huge-business-opportunity-in-india/articleshow/53664247.cms>).
- The nominees of the ET 'Startup of the year' for 2016 were identified to be Practo Technologies, Freshdesk, BigBasket, Swiggy and Byju's. Practo Technologies is a technology platform meant to help people search for doctors and healthcare firms to manage their operations. Freshdesk, which finally won the Startup of the year award for 2016, makes cloud-based customer support software. BigBasket remains India's largest online grocery delivery platform. Swiggy, through its mobile app delivers food from restaurants to consumers. Byju's provides mobile-based educational and test-preparation content for school students.

Some of the notable investors who featured in the ET Midas Touch Award for Best Investor were Karthik Reddy, Avnish Bajaj, Suvir Sujana, Zishaan Hayath and Rehan Yar Khan. Karthik Reddy, Managing Partner of Blume Ventures invested in TaxiForSure,

ZipDial, GreyOrange and Exotel with an investment strategy focused on early stage internet and software companies. Avnish Bajaj, Managing Director, Matrix Partners India had significant investments in Ola, Practo & Quikr who preferred to invest in early and mid-stage technology and consumer internet companies. Suvir Sujana, Managing Director of Nexus Venture Partners, invested in early stage consumer internet firms like Snapdeal, Delhivery, Housing and Pubmatic. Zishaan has been an angel investor with Powai Lake Ventures with key investments in ideastage technology startups like Ola, Housing and Chaayos. Rehan Yar Khan, General Partner, with Orios Ventures Partners focused on early-stage tech-focussed consumer-facing ventures like Ola, Druva, Sapience Analytics and PrettySecrets.

## Conclusion

The Indian startup ecosystem has a lot of infrastructure, policy, mentor, finance and technology support for growth and development. The litmus test will be the ability to identify a clear and latent consumer need that can be sustainably served by the startup entity backed by robust financial & managerial skills and competencies that can support and execute in the market place. Company capabilities suitable to the need of the hour will have to be innovated and scaled up in order to generate revenue streams that substantiate the growth story of the company.

Entrepreneurial vision and mission will have to be executed keeping in view new ways of stimulating the level, timing and composition of demand for the offerings of the startup(s) in the Indian market. New paradigms of business will have to evolve out of the necessities of serving the Indian customer across the urban, semi-urban and rural territories. There is enough opportunity for startup companies to rise and shine in the consumer, financial technology and medical technology spaces. Industry & Government support will definitely require to be scaled up and there has to be a lot of encouragement given to youngsters and the experienced alike to utilize their intellectual, technological, experiential and creative capital to explore, discover and unfurl the latent potential within to think of innovative solutions that can enhance the quality of human life and make the world a much better place to live, grow and prosper. The Indian startup ecosystem will thus be able to foster growth on the tripartite aspects of economic, social and happiness factors in the country.

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