



## The Process and Challenges faced by Start-up Companies in India: A Study

### KEYWORDS

Start-ups, Procedure, Challenges, Support, SWOT, Learnings.

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**ABSTRACT** The study investigates the participants' experiences about the process which was taken while setting up a start-up, and also obtains an understanding of the challenges faced by them. The data has been gathered by conducting in depth interviews with 12 startup owners from the country. This study uses a qualitative research study approach to better understand what the process is and what are the challenges faced in a startup. It was seen that a start up is a culmination of many procedures, starting from conceiving the idea, to setting up the venture and becoming a part of continuous learning and execution to work towards the envisioned goal of the start up. The results indicated that more than half of the start-ups are technology based. The seed money by start-ups is organized usually through bootstrapping and a majority of the start-ups have not received any governmental help and support. The strengths which start-ups have are a unique selling point and freedom of exploration. The opportunities which start-ups can explore are expanding a customer base and adding to the existing product and customer portfolio. Some weaknesses which the start-ups face and want to encounter are difficulty of resources and inaccuracy in business forecast. The threats which start-ups face are competition and risk of losing confidentiality.

It was seen that the areas of expansion which most start-ups take are geographical, strategic or else pertaining to the product or service itself. The controls which they usually establish are monetary, quality related or else pertaining to employee turnover. It was found that the start-up owners placed increased importance on Teamwork, patience, accurate documentation and perseverance and held these as important factors for the success of their start-up.

### Introduction

Start-ups are vital for the economic development in knowledge-based societies, because they create new jobs and economic growth. However, start-ups are different from large businesses: they are fragile, and their policy needs and priorities are unique (Dearie and Geduldig, 2013). A start-up is an organization formed to search for a repeatable and scalable business model (Blank, 2010) similarly, it is also seen that the goal of the early business model can be revenue, or profits, or users, based on the agreement with the investors. Start-ups have further gained importance in India due to the 'Start-up India, Stand-up India' programme by the government of India. The Start-up India, Stand up India Programme in India (2015), talks about start-ups and says an entity will be identified as a start-up till up to five years from the date of incorporation. If its turnover does not exceed 25 crores in the last five financial years. It is working towards innovation, development, deployment, and commercialisation of new products, processes, or services driven by technology or intellectual development. The term Start-up is becoming synonymous with a new business idea, however the journey from an idea to a business model, the process, the challenges and the learning have to be explored.

Humala (2015) did a qualitative research on a start-up titled – 'Leadership toward creativity in virtual work in a start-up context' where the significance of effective leadership was studied with respect to creativity in start-ups dealing in virtual work. The method used for obtaining data was qualitative in nature as in depth semi structured face to face interviews were conducted with six key male employees of a start-up company. The start-up chosen was a global sustaining engineering business and operates in different parts of Finland. The results suggest the importance of co-creative and assertive coaching leadership for start-ups in virtual work. Leadership that fosters creative and inspiring utilization of virtuality and ICT from the early stage of a company and utilizes Multiliteracy skills and critical reflection can promote such success stories where both people and businesses can flourish in the digital economy. Moreover, by integrating business and pedagogical knowledge, it is possible to gain a broader understanding of leadership and collaboration in virtual work.

Calopa and Horvat (2013) did a study to understand the financing sources for startup companies in Croatia. The aim was to study the development of start-up companies, their types and potential

sources of financing with special emphasis on financing ventures in Croatia. A total of 23 Croatian start-up companies were taken. The analysis has shown compliance with the ways of financing start-ups in the world, i.e. the Croatian start-up companies prefer traditional and informal financial sources with emphasis on private financing and financial assistance from friends and family. After surviving the first experimental phase, the entrepreneurs gain enough courage to find financial support from other funding sources, such as business angels and seed investments, although the level of company development and the experience of entrepreneurs are not necessary associated with the financing methods.

It can be seen that the research already done focuses on various aspects of start-ups but not the start-up process in its entirety. Thus an attempt has been made to explore the end to end start-up process including factors which influence the same.

### Method and Design

The process of data collection started by searching for start up companies. The sampling method used for obtaining the data was purposive sampling. 30 start up companies were contacted and 12 start up companies responded back. The method by which the start-up process was studied was by conducting in-depth interviews with 12 start-up owners. The tool used was a structured interview schedule. The interviews were conducted over telephone, while certain sections of the interview schedule pertaining to the Strengths, Weaknesses, Opportunities and Threats (SWOT) were answered over email. Each interview took approximately 45 minutes – 1 hour. The Interview Schedule was divided into six sections and the four sections of information were received through email, which would be beneficial in understanding the process adopted in a start-up. The six sections which provided as the basic framework were:

1. Background Information
2. About the Start up
3. Finances and Governmental Support
4. Expansion
5. Controls
6. Feedback

The four sections whose responses were received through email were:

- 1.Strengths
- 2.Weaknesses
- 3.Opportunities
- 4.Threat

The ten sections were further explored as each section had several questions pertaining to it. These questions explore the section in details and provide richness in the responses.

The responses received were subjective and qualitative nature. An attempt at its quantification was done by tabulating and classifying similar responses together. The responses were classified vertically so that they are all comparable and then similarities and patterns among them were observed and noted.

Finally the help of graphs, tables and flowcharts was taken. The process and challenges faced by start-ups were depicted. The pictorial representation makes the understanding and knowledge of the process and challenges faced by start-up companies coherent.

**Findings and Discussion**

The results indicate that start-ups usually follow a process, as shown in figure1. One step usually leads to the other. Once one section or area is addressed a progressive movement is seen towards the next. Each of the themes is further explored and viewed in further details. The inception of the start-ups usually is from the beginning. The beginning refers to the geographical area or location where start-ups are conceived as shown in figure 2. It is representative of the widespread of the various start-up companies in India. A significant 41% of the start-ups are located and operate from Punjab and Delhi, making it the leader in terms of the locale of the start-up. Apart from this 25% of the start-ups are located in the eastern region, primarily West Bengal. Maharashtra and Southern States (Karnataka and Telangana) both constitute for 17% of the start-ups respectively. It thus becomes evident that North India takes the lead when it comes to the inception and location of start-up companies in India.

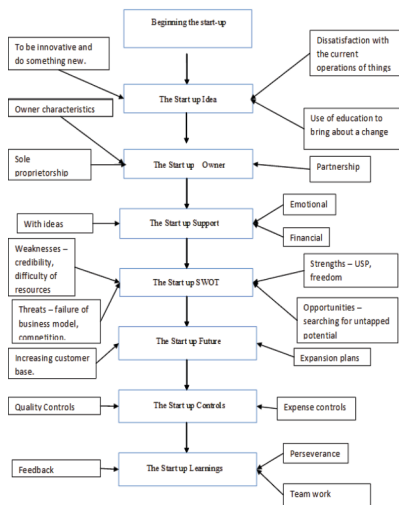


Fig. 1 – A brief overview of the Start up Process.

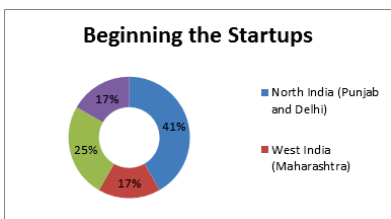


Fig. 2 locale of the start-ups across the country.

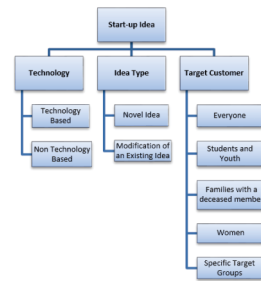


Fig 3- Facets of the start-up idea.

The data analysis reveals that the basis of the start-ups is typically their idea. The start-up idea can be further understood under various factors. Figure 3 depicts the inception of the start-up which is the idea. The start-up idea may be technology based, that is it has the active use of technology at its base of operations as was agreed upon by 66.66% of the start-up owners. The start-up 'We-Convert' uses e-bins which segregates waste materials at the base as bio degradable and non bio degradable waste and also provides the customers with various benefits like e-coupons and codes which may be redeemed later. There are however start-ups which do not require technology at its base operations. A significant 33.33% of the start-ups do not require technology as a major unit of functioning. The human factor and service still holds more significance for them. A start-up adhering to this would be 'Necessity' where technology is not at the base of operations and prescriptive lingerie is provided to the customer's primarily through face to face interaction.

The idea of a start-up may be also understood as novel or a modification. The data highlights that 25% of the start-up owners propose that the idea of their start-up is completely unique at least in the geographic area in which they operate. The start-up ' True Blue Talks' aims at providing a real life perspective on various career options – something which was not existent before in India. A majority of the start-ups (75%) however agree upon the fact that their start-up idea is not completely unique. The base was always existent; they have given some required changes and modifications. The start-up 'Bameslog' which is a comprehensive platform allowing users to watch videos, read content, create pictures and share stories, one-liners, thoughts and information with followers. Each of these activities can be done separately on the internet but by compiling all of it, the start-up has modified an existing idea.

Every idea of a start-up requires a customer base. The results underline that the target customer for the start-ups varies based on the idea. The target customer for 46% of the start-ups was the children and youth like the start-up 'Robochamps' which targets teaching and inculcating a love for robotics among children. A significant 36% of the start-ups do not have any specific target customer and believe anyone is a potential customer. The start-up 'Galleri 5' which believes that anyone who wants visual content on specific topics is a customer. However there were start-ups which had a very specific customer base like women (Necessity) and families with a deceased member (Anthyesti) – constituting 9% each of the sample size.

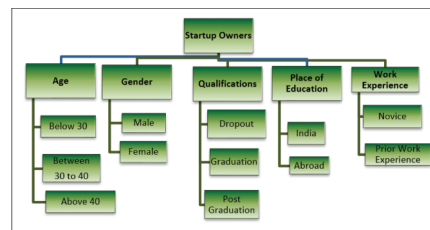


Fig. 4 Characteristics of the start-up owners.

The start-up functioning depends upon its owner. Figure 4 shows the various characteristic features of the start-up owners. A significant

majority of 67% start-up owners are men, while 33% of the owners are women, showing that start-up ventures are started more by men. With regard to the age of the start-up owners, more than half of the start-up owners, (58.33%) were within the age range of 20-30 years, 33.33% of the start-up owners were between the age of 30-40, and only 8.33% of the owners were above 40 years of age. Start-ups are thus initiated more by the youth of the country. The education received by the start-up owners has primarily been in India, as the majority of the start-up owners (75%) have received their education in India while the remaining 25% have been educated abroad. The educational background of the owners also varies. 50% of the start-up owners are graduates, while 33.33% are post graduates. However a small percentage of owners are also diploma holders and dropouts (8.33% each) indicating that most start-up owners have completed their basic education before starting something of their own. Moreover 91.66% start-up owners have had some or the other sort of prior work experience while only a small minority of 8.33% have taken the start-up as their first ever venture without any prior work experience, indicating that most start-ups have experienced owners who have knowledge and experience by working under someone before taking the lead.

The data analysis revealed that any start-up requires support from various entities for its proper functioning. The support which start-ups received financially for setting up their business is through bootstrapping. The Figure 5.1 is a depiction of the source of seed money for the start-ups. Majority of the start-ups 83.33% use bootstrapping as their primary source of investment. Bootstrapping is a means adopted by start-up companies where the owners invest their personal savings into the start-up and no outside help is sought. This help may be however be sought from friends and family members as well. Within the bootstrapped start-ups 8.33% start-ups took financial help from friends and family. 16.66% of the start-ups however have taken outside help from venture capitalists and investors showing that start-ups primarily rely on their own funds to initiate and execute their ideas.

The support in terms of finances is not restricted to the current situation only. In order to run successfully, start-ups will require funds in the future. Figure 5.2 a depiction of the future plans of the start-ups with regard to its funding. More than half of the start-up owners (58.33%) responded that they will take outside help and look for interested investors when funds will be required for the venture in the future. However a significant 41.66% responded by saying that the start-up was running well enough and earning enough profits to be reinvested into the business. Each start-up owner envisions a certain future for his/her start-up and the procurement of funds for the same depends on the current status of the start-up.

The support which start-ups have and require is not only monetary. Several other factors also play a role. The government forms an integral part of the support rendered to start-ups.

Figure 5.3 is a representation of the governmental help and support which the start-ups received. It is seen that that the majority of the start-ups (75%) did not receive any sort of help or support from the government while 25% of the start-ups did receive some help and assistance from the government. It may thus be said that most start-up companies have established themselves on their own and have received minimalistic help and support from the government of India.

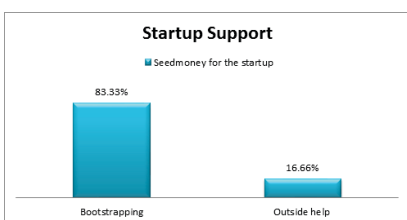


Fig-5.1 Arrangement of seed money for the start-up.

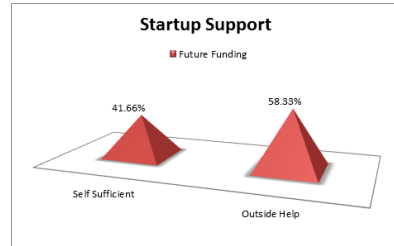


Fig. 5.2 Arrangement of funds by start-ups in the future.

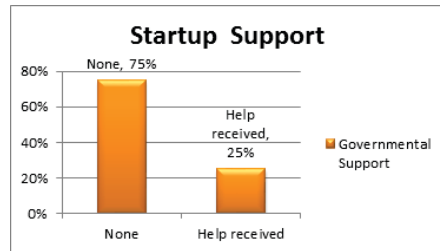


Fig. 5.3 government help and support received

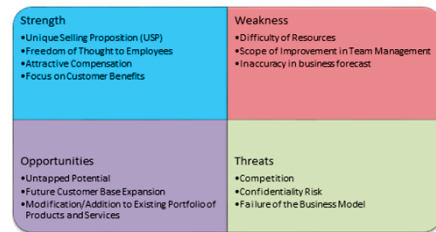


Fig.6 The Strengths, Weaknesses, Opportunities and Threats of start-ups.

The data highlights the factors of SWOT analysis for start-ups and its outcomes. The SWOT analysis presents at a glance the Strengths, Weaknesses, Opportunities and Threats which an organization has and may face in the near future.

Figure 6 shows that overall the start-up owners felt that having a Unique Selling Proposition, giving a certain degree of freedom to the employees, giving them attractive compensation and focusing on customer benefits is what works in favour of the start-ups and is strength for them.

The opportunities which the start-ups seek are to explore areas of untapped potential, to search for future and further customer base and to have constant improvements and updation in their product and/or service, so that they can remain in the long.

The apparent weakness which the start-ups identify and plan to work on is the difficulty of resources both monetary and non monetary, lack of improvement in the team management schemes and the inaccuracy in business forecast, thereby preventing the start-up from reaching the heights which it is capable of scaling.

The threats which the start-ups face and want to eliminate is the growing competition, the risk of losing confidentiality of essential information and the failure of the business model.

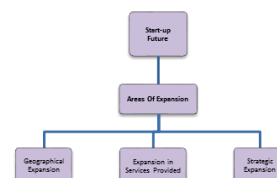


Fig.7 Expansion areas of the start-ups.

The results obtained after interviewing start-up owners highlight the future of start-ups in terms of its expansion. Figure 7 is representative of the future of the start-up as perceived by the owners. The responses received from the owners may be understood under three broad headings. The first one is Geographical Expansion as is done by the start-up 'Tripoetic', which aims to expand its services not only nationally but also internationally.

The second is expansion in the services provided, as is the aim of the start-up 'Outbox Delivery' which plans to cater to every strata of the society through a variety and expansion of the various services they provide.

Finally the third is 'Strategic Expansion'. Which focuses on the way things are done and strategies are applied practically as is the focus of start-ups like 'Stones to Milestones' and 'Wow Design'.

Thus the future of the start-up is determined by the kind of work they do and what is the future vision of the start-up by its owner.

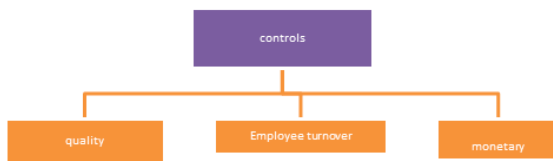


Fig. 8 Controls established by start-ups.

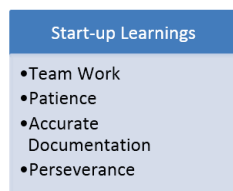


Fig. 9 Lessons learnt by start-up owners in their venture.

**Conclusion:**

It can be concluded that a start-up emerges because of an innovative idea, and a passion to do something differently. The start-ups primarily rely on bootstrapping as a means for acquiring seed money. Most of the start-ups have not received any government support and do not expect much in the future as well. Each Start-up has certain strengths, weaknesses, opportunities and threats. Some challenges which start-ups encounter are unacceptability in the masses, failure of the business model, and difficulty of resources and wish to eliminate the same. The areas of expansion which start-ups take are geographical, strategic or else pertaining to the product or service. Controls established by start-up owners are monetary, quality and upon employee turnover. The start-up owners have the realization that team work, perseverance, accurate documentation and patience are quite essential for the successful functioning of the start-up and try to imbibe the same in their start-up.

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