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Management

CHALLENGES AND OPPORTUNITIES OF INDIAN STARTUPS

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ABSTRACT

The objectives of a startup are to be one's own boss and to create employment to others which warrants lot of endurance and sacrifice. Large population with high percentage of middle income group, educated youth with technical background, IT domination, high internet and mobile penetration are some of the drivers that have thrown up opportunities for spreading startup revolution in India. The 'Make-in-India' initiatives and other government schemes have also given a boost to startups with many individuals entering the fray. Starting a venture is a well planned and disciplined exercise with due consideration of both internal and external factors that may impact the sustainability of the venture. The idea behind the venture, market size, revenue and profit targets are some of the important factors that need to be clearly defined before embarking on the journey. Time, team work and tenacity are important elements which determine entrepreneurial success. Infrastructure, government regulations and availability of finance at various stages of growth could be some of the challenges for startups. In fact, history is replete with examples of startups which began with big fanfare but ended as damp squibs within a short span of time due to various reasons.

INTRODUCTION

A startup venture could be defined as a new business that is in the initial stages of operation, beginning to grow and is typically financed by an individual or small group of individuals. 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 an idea that manifests into a commercial undertaking.

Grant Thornton (2016) define startup business as an organization which is

- a) Incorporated for three years or less
- a) At a funding stage of Series B or less (B Series means second round of funding)
- b) An entrepreneurial venture/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 cr.
- e) Not formed through splitting or restructuring
- f) Employing 50 people or less

Department of Industrial Policy and Promotion (DIPP) define a startup as an entity incorporated or registered in India with following parameters:

- Established not prior to seven years, (for Biotechnology Startups not prior to ten years)
- With annual turnover not exceeding INR 25Cr in any preceding financial year, and
- Working towards 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 creation

It is to be noted that such entity is not formed by splitting 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 25cr or it has completed 7 years (biotechnology startups 10 years) from the date of incorporation/ registration ('Startup India', 2017).

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 part of the entrepreneur (Aggarwal, 2017). Lack of awareness, multiple clearances, unorganised market, poor infrastructure in Tier 2

/3 cities, 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 as per Rashmi Gupte, Principal (Legal) of Lightbox India Advisors Private Limited.

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 (Mittal, 2014; Truong, 2016). A number of finance options ranging from family members, friends, loans, grants, angel funding, venture capitalists, crowdfunding etc are available. The requirement starts increasing as the business progresses. Scaling of business requires timely infusion of capital. Proper cash management is critical for the success of the startups (Skok, 2016; Pandita, 2017). A recent report paints a gloomy picture with 85% of new company's reportedly underfunded indicating potential failure (Iwasiuk, 2016).

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 (Truong, 2016). 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 (Skok, 2016). According to a survey, 23 percent startups failed because members did not work as a team. Chirag Garg, CEO, HyperDell, feels that bringing in affordable talent at the right time is a challenge.

As per Nitin Sharma, Principal & Founding member, Lightbox India Advisors Private Limited "Hiring and retaining high quality talent, especially in the areas of product and technology remains a key challenge" (Choudhary, 2015)

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 (Skok, 2016). 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.

Namrata Garg, Director, SendKardo feels that the biggest challenge is the need to constantly reinvent yourself and come up with a service to be able to match up customer expectations and exceed them.

7) Tenacity of Founders

Founders of startups have to be tough when the going gets tough. The journey of starting a venture is fraught with delays, setbacks and problems without adequate solutions. The entrepreneur needs to be persistent, persuasive, and should never give up till he/she achieves desired results. History is replete with startups who gave up the fight when things went wrong. Sometimes the product could be ahead of its time or may require complimentary technology /products for the use by the customers. For example, Apple had to delay introduction of iTunes till the regulations favoured the launch. It is also relevant to quote Steve Jobs who by commenting "A lot of times, people don't know what they want until you show it to them" reiterates the fact those products from startups mostly fall in the "new and untried" category where the success rate is minimal.

8) Regulations

Starting a business requires a number of permissions from government agencies. Although there is a perceptible change, it is still a challenge to register a company. Regulations pertaining to labor laws, intellectual property rights, dispute resolution etc. are rigorous in India which takes about 30 days to comply compared to just 9 days in OECD countries. Also, as per World Bank report, "World Bank Ease of Doing Business", India ranks 142 out of 189 economies (Mittal, 2014).

9) Growth Decelerators

Some of the agencies which are part of the startup ecosystem themselves can sometimes become hurdles in the growing stages. As per Sneh Bhavsar, co-founder and CEO, OoWomaniya one of the major issues is the influence of incubators, institutes and similar organisations which try to control, manage and be the daddies of the start-ups in the name of helping, mentoring etc (Choudhury, 2015). This needs proper coordination among the organizations for mutual benefit.

10) Lack of Mentorship

Milan Hoogan, 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 startup ecosystem (Choudhury, 2015). 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 (Mittal, 2014).

11) Lack of a Good Branding Strategy

Absence of an effective branding strategy is another issue that prevents startups from flourishing at a faster pace. Hemant Arora, Business Head-Branded Content, Times Network opines that branding demands paramount attention as it gives an identity and occupies a space in the consumer minds (Choudhury, 2015).

12) Replicating Silicon Valley

Koushik Shee, Founder and CEO, Effia, feels that Indian startups get influenced by Silicon Valley models which may not succeed in Indian scenario. 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 (Choudhury, 2015).

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.

1. 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.

2. 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 (Anand, 2016)

3. 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. Some of the active players are New York-based Tiger Global Management, Russian company- DST Global, Japanese telecom giant Softbank, Kalaari Capital, Sequoia Capital and Accel Partners. More and more are going to join the bandwagon as this is the tipping point in Indian commerce for making good returns by backing potential unicorns.

4. 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.

- **MUDRAYojna**

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.

CONCLUSION

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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