



A Study on Issues and Challenges of Startups in India

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Abstract

India has emerged as the world's second largest startup ecosystem next the US. India is a hotspot for startup and spacing forward at an exponential rate. Bengaluru, Mumbai and Delhi are ranked amongst the top 40 startup hubs across the globe in the Global Startup Ecosystem Report 2022. This research paper revolves around the concept of Start-up India Campaign which was started on 15th august, 2015. The basic purpose of this article is to put some light on the challenges to be countered and opportunities to be capitalised upon by the start-ups entrepreneurs and the initiative taken by the Indian govt. The start-ups are the kind of companies which are innovative in their course of development, analysis, evaluation, research for the target segment. In this paper various govt. policies, plans, schemes, startup life cycle, financial and operational strategies related to start-ups will be discussed. Startup is one of the scorching events this era which everyone is talking about. This campaign is particularly based on enhancing the bank financing for the start-ups to encourage the entrepreneurship and creating skilled job availability towards the strengthening of economy at large.

Keywords: Innovation, Economic Growth, Entrepreneur, Startup, Growth and Development

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. Startup India is about creating prosperity in India. Many enterprising people who dream of starting their own business lack the resources to do so. As a result, their ideas, talent and capabilities remain untapped and the country loses out on wealth creation, economic growth and employment. Startup India will help boost entrepreneurship and economic development by ensuring that people who have the potential to innovate and start their own business are encouraged with proactive support and incentives at multiple levels. Indian government is serious in promoting entrepreneurship at



the startup level and has taken a number of initiatives to ensure appropriate support. In this aspect it is relevant to mention ‘Make in India’ campaign introduced in September’14 to attract foreign investments and encourage domestic companies to participate in the manufacturing sector.

What is a start up?

A startup is a young company that is beginning to develop and grow, is in the first stages of operation, and is usually financed by an individual or small group of individuals. A startup is a young company which could be an entrepreneurial venture or a new business, a partnership or temporary business organisation designed to search for a repeatable and scalable business model. A startup is a young company that searches for a an unknown business model in order to disrupt existing markets or create new ones. A startup is a young, dynamic company built on technology and innovation wherein the founders attempt to capitalize on developing a product or service for which they believe there is a demand.

The government increased the foreign direct investment (FDI) limits for most of the sectors and strengthened intellectual property rights (IPRs) protection to instill confidence in the startups. In order to make the country as number one destination for startups, Government of India (GoI) has introduced a new campaign called ‘Standup India’ in 2015 aimed at promoting entrepreneurship among women and to help startups 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 through online platform that aims to connect rural areas by developing their digital infrastructure which translates into a huge business opportunity for startups.

Objectives of the Study

1. To understand the initiative for startup India.
2. To review the benefits of startups India.
3. To analyze the growth and opportunities for startups in India in the economy.
4. To identify the various issues and challenges faced by Startups in India.
5. To identify various government initiatives for the development of startups.
6. To study the awareness about Startup in the light of recent changes announced by the Government.

Research Methodology

The study is a humble beginning. It is mainly based on secondary data. The researcher is interested to set up a startup, hence the study has been carried out by referring various news papers, books, reports, magazines, journals, research papers and websites etc.

Significance of the Study

Starts ups have played and continue to play significant roles in the growth, development and industrialization of many economies all over the world. Startup is flagship initiative of the government of India, intended to build a strong ecosystem for nurturing



innovation. Startup will drive sustainable economic growth and generate large scale employment opportunities and minimize unemployment.

Statement of the Problem

The emergence of startup wave in India is a relatively a new phenomenon. Today India is undergoing a fundamental shift with entrepreneurship and innovation is being primary catalyst in job creation and solving everyday problems. A decade ago, there is to be only a handful of startups such as Make My Trip.com and Naukari.com. But, now with the success of such as Flipkart, Quicker, Practo, Zomato and Inmboi, the Indian startup ecosystem has indeed come a long way.

Review of Literature

Narendra Modi (2016), stated that, the 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.

Grant Thornton (2016) define, the startup business as an organization which is an entrepreneurial venture/a partnership or a temporary business organization engages in development, production or distribution of new products/services or processes.

Institute for Business Value (IBV) (2018), India is booming with young entrepreneurs and start-ups but more than 90 per cent of start-ups in the country are failed because of, lack of innovation, non-availability of skilled workforce and insufficient funding are the main reasons for the high rate of failure.

Nipun Mehrotra (2018), “The Indian start-up community, ranked third globally in terms of number of start-ups, has been creating new job opportunities and attracting capital investment. We believe that start-ups need to focus on societal problems, including healthcare, sanitation, education, transportation, alternate energy management and others, which would help deal with the issues that India and the world face. These require investments in deep technology and products which are built to scale globally.

Startup India Action Plan

The Government’s Action Plan will help accelerate the growth of startups throughout India, across all important sectors – in Tier 1, 2 and 3 cities, including semi-urban and rural areas – and includes promoting entrepreneurship among SCs/STs and women communities. The Startup India Action Plan was unveiled by Prime Minister Narendra Modi on 16th January, 2016 to highlight several initiatives and schemes proposed by the Government of India to build a strong eco-system to nurture innovation and empower Startups across India. The 19-point Action Plan, organized by the Department of Industrial Policy & Promotion (DIPP), focuses both on restricting hindrances and promoting faster growth by way of:

- Simplification and Handholding
- Funding Support and Incentives



- Industry-Academia Partnership and Incubation

Launch of Startup India Action Plan Startup India's 19- Point Action Plan

1. Self-certification compliance,
2. single point of contact via Startup India Hub
3. Simplifying processes with mobile app and portal (for registration, filing compliances & obtaining information)
4. Legal support, fast tracking & 80% reduction in patent registration fee
5. Relaxed norms of public procurement
6. Easier & faster exit
7. Funding support via a fund of funds corpus of INR 10,000 crore
8. Credit Guarantee Funding
9. Tax exemption on capital gains
10. 3-Year income tax exemption
11. Tax exemption on investments above Fair Market Value (FMV)
12. Annual startup fests (national & international)
13. Launch of world-class Innovation Hubs under Atal Innovation Mission (AIM)
14. Set up of country-wide incubator network
15. Innovation centers to augment incubation and R&D
16. Research parks to propel innovation
17. Promote entrepreneurship in biotechnology
18. Innovation focused programs for students
19. Annual incubator grand challenge

Stages of the Start Up Life-Cycle

Pre –Start up >> Start up >> Growth

Table 1:
Stages of the Start Up Life-Cycle

	Pre –Start up	Start up	Growth
1.	Discovery Identify a potential scalable product/service idea for a big enough target market	Efficiency The entrepreneur begins to define his/her business model and looks for ways to increase customer base	Maintenance Maximising benefits and facing problems derived from the global dimension that the business has achieved
2.	Validation The service or product discovered hits the market, looking for the first clients ready to pay for it	Scale Pushing the growth of the business aggressively while increasing its capacity to grow in a sustainable manner	Sale or Renewal The decision to sell the startup to a giant or acquire huge resources that the brand will need to continue growing

Start up Financial Life-Cycle

Funding by Angel Investors / Seed funds >> Venture Capital >> Public markets

Table 2:
Start up Financial Life-Cycle

	Funding by Angel Investors / Seed funds	Venture Capital	Public markets
1.	<ul style="list-style-type: none"> Early stage startups rely on angel investors and seed funding 	<ul style="list-style-type: none"> Used to scale the company's business model 	<ul style="list-style-type: none"> Late stage startups can feel the need to expand more aggressively or actively innovate the product
2.	<ul style="list-style-type: none"> Invest solely into the entrepreneur with an idea 	<ul style="list-style-type: none"> Comes from larger institutional funds 	<ul style="list-style-type: none"> Private equity funds together with public markets provide large amounts of liquidity to late stage startups
3.	<ul style="list-style-type: none"> Does not encumber the entrepreneur with any corporate governance formalities 	<ul style="list-style-type: none"> Focus is on building the sales force and establishing a global presence 	

The Startup Scenario in India

It is to be noted that every year more than 800 technology startups are being set up in India. By 2020, it is estimated that around 11,500 tech-startups are going to be established with employment potential of around 250,000 technical people (NASSCOM, 2015). 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. The number of incubators also has crossed 100 in 2014-15 to give boost to the startup saga (Grant Thornton, 2015).

Sector Wise, the Distribution of Indian Startup Businesses

Table 3: Break-Up of Indian Startup 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: Startups India - An Overview, Grant Thornton, 2018



Issues and Challenges of Startups

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. A number of finance options ranging from family members, friends, loans, grants, angel funding, venture capitalists, crowd funding 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. A recent report paints a gloomy picture with 85% of new company's reportedly underfunded indicating potential failure.

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

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.

4. Supporting infrastructure

There are a number of support mechanisms that play a significant role in the lifecycle of startups which include incubators, science and technology parks, business 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. 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.

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.

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.

9. Lack of mentorship:

Lack of proper guidance and mentorship is one of the biggest problems that exist in the Indian startup ecosystem. 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. Lack of adequate mentoring/ guidance is the biggest challenge which could bring a potentially good idea to an end.

10. 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.

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.

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 Yorkbased 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.

Government Initiatives

There are numerous government and semi-governmental initiatives to assist startups.

1. Start-Up India

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

2. Mudra Yojna

Through this scheme, startups get loans from the banks to set up, grow and stabilize their businesses.

3. 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.

4. 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.

5. Royalty Tax

Indian government has reduced the royalty tax paid by businesses and startup firms from 25per cent to 10 per cent.

Conclusion

At present day, startup is the new buzzword. Startups are burgeoning like never before. Both male and female entrepreneurs are getting into it. Even females are coming with more ideas and they are taking the risk to sustain their credibility. Indian start-ups attempt to build the start up environment with important education, talent, innovation and incubators with correspondence to funding agencies. Now the govt. is also supporting the Start-ups. 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. 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.

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