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## START-UP POLICY: NEW DAY, NEW FATE

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### ABSTRACT

*India is the fastest growing economy of World. It is even expected that India will reach the levels of US GDP by 2030. Moreover, India has the largest youth population of the world. Thus, large young population, middle income status, educated youth with technical background etc. Are some of the drivers of opportunities underlying with entrepreneurship in India. Government, by policies such as Start-up India, Mudra Loan etc. Is trying to shift youth's attitude from a job oriented culture to a more dynamic culture of entrepreneurship. This paper tries to assess the present scenario of start-ups in India considering both opportunity and challenges.*

**Keywords:** Startup, entrepreneurship, opportunities, challenges, dynamic shift

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### Introduction

India is a developing South Asian Economy with second largest population across the globe. Though large population one one hand poses serious problems for resource allocation, but on the contrary, large population are a blessing in disguise too. Large population implies large market and hence huge demand. In recent years, an attitudinal shift has been seen from a job specific outlook towards a more dynamic sector called entrepreneurship. New initiatives have been taken by a lot number of youth, coupled with great policies and schemes offered by states and central govt. But, new opportunities come with new challenges. Thus this paper finds a way to assess the challenges and opportunities faced by start-ups in India.

### Research methodology:

Present research paper is mainly based on secondary data provided by ASSOCHAM, govt websites, journal etc. The study is explanatory and conceptual in nature.

### Definition:

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 start-up business as an organization which is

- a) Incorporated for three years or less
- b) At a funding stage of Series B or less(B Series means second round of funding)



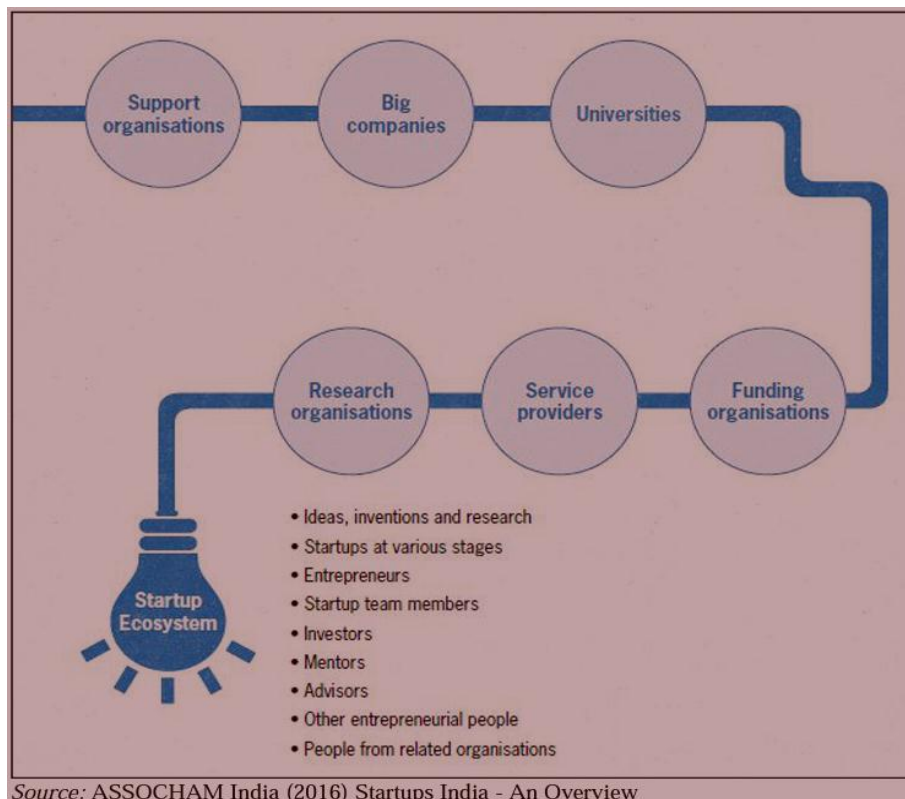
- c) An entrepreneurial venture/a partnership or a temporary business organization
- d) Engages in development, production or distribution of new products/services or processes
- e) Revenue of up to INR 25 cr.
- f) Not formed through splitting or restructuring
- g) Employing 50 people or less

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 a company is not considered as startup if it has emerged from splitting up of 2 already existing companies. 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)

### Origin of startup ecosystem in India



Along with government initiatives, there is a definite movement in startup arena in India due to penetration of IT and internet. Many startups are coming up in service sector including education, legal, retail, insurance and health. With customers becoming aware of the benefits and convenience, the popularity and viability of startups is no more a difficult proposition for an entrepreneur.

### The startup initiatives by govt.

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. The government increased the foreign direct investment (FDI) limits for most of the sectors and strengthened intellectual property rights (IPRs) protection to install 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 'Stand up 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.

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.

- **MUDRA Yojna**

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 25per cent to 10 per cent

### The current Scenario:

It is believed that every year around 800 technology startups are set in India. By 2020, India will be having more than 11000 of such startups employing around 25000 people (NASSCOM, 2015). It is important to note that India is among the top five countries in the world in terms of startups with 10000+ led by US. The numbers of incubators have also crossed 100 in 2014-15.



*Sector wise distribution of Indian startups:*

Technology Based	Non-Technology Based
<b>E-Commerce - 33%</b>	Engineering- 17%
<b>B2B - 24%</b>	Construction-13%
<b>Internet - 12%</b>	Agri- products- 11%
<b>Mobile apps - 10%</b>	Textile - 8%
<b>SaaS - 8%</b>	Printing & packaging – 8%
<b>Other – 13%</b>	Transport & logistics- 6%
	Outsourcing & support -5%
	Others-32%

**Issues and challenges of startups:****Government Policies**

If entrepreneurs are the planets in the solar system, then the government is the sun, the single largest facilitator. The government policies are slowly and steadily increasing, although, it must be noted that India still maintains a dismal ease of doing business ranking as per the World Bank report. Due to a maze of laws and regulations, it takes more of an effort for an entrepreneur to start a business in India than most of the other places in the world, and after he /she succeeds in setting up a business, it takes even a greater effort to comply with sector, department, state and centre laws. The government has taken proactive measures for funding and developing the eco-system, however, we witnessed a slowdown in the start-up space, as there was a dip of almost 50% in the registration of new start-ups in 2016 as compared to 2015; this trend has proved that the policy change has not really given a push to aspirants.

**Talent**

In start-ups employment is uncertain due to companies reaching scale and then downsizing for better efficiencies, the industry is saturated with such examples. However, this is a small problem as compared to finding the right skilled talent, and retaining the talent. Skilled talent is hesitant to join start-ups, as they have witnessed in the past mass firing and downsizing. Also, early stage or pre series-start-ups have lesser pay than their corporate peers. Most start-ups in a bid to outgrow, hire inadequate talent without processes, and finally end up on the losing side.

**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, 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 (Skok, 2016; Pandita, 2017). A recent report paints a gloomy picture with 85% of new company's reportedly underfunded indicating potential failure (Iwasiuk, 2016).



## 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

## 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

## Growth Decelerators

Some of the agencies which are part of the startup ecosystem themselves can sometimes become hurdles in the growing stages. As per Sneha Bhavsar, co-founder and CEO, OoWomaniya one of the major issues is **the influence of incubators, institutes and similar organizations** 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.

## Opportunities for startup:

### I. 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.

### II. 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)

### III. 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



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