
START-UPS IN INDIA: CHALLENGES AND OPPORTUNITIES

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In present times India has reached at a stage wherein more than 60 percent of the population is in the economically active age group of 15-59 years. This is known as Demographic Dividend. In order to productively absorb this demographic dividend, it is required that new jobs are created in the economy.

For India to tap this dividend it is necessary that the economy is able to generate enough job opportunities to productively absorb this economically active population. However, there are challenges on two fronts it tapping this economically active Human Resource: Education and Unemployment. Firstly, the illiteracy level in the work force is quite high with nearly 70-80% of the labour is educated only up till primary level. On the front of employment, the problem is twofold: (a) Disguised employment- 48 percent of the workforce is engaged in agriculture while contribution of agriculture to GDP is not more than 16 percent; and (b) slowing down the structural transition from farm to the non-farm sector- as 52% of work force is self-employed (owner/ helper), 30% are employed as casual workers, while 18% claim to have regular jobs. This means more than 90% of the workforce is employed in informal jobs. the major focus of the government in the labour market has therefore been on creating new opportunities of self-employment which can yield a decent standard of living. It began with the government framing policies to promote Entrepreneurship as it was perceived that entrepreneur would be in a position to create more jobs.

However, a major shift has been witnessed in past few years. To quote Prime Minister Narendra Modi, “The convergence of technology, integration across diverse fields, distributed architecture and people willing to back an idea, have opened a new world for enterprise. --- I see Start-ups, technology and innovation as exciting and effective instruments for India’s transformation, and for creating jobs for our youth”[1].

What is a Start Up?

It is difficult to clearly define a Start Up in Indian context because there are various parameters that pertain to a business: stage of its life cycle, the amount and level of funding it gets, the amount of revenue it generates, the area of its operations, etc. On the basis of the above parameters a Start Up can be understood as:

- 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.[2]

Definitions of startups

A startup business is defined as an organisation:

- Incorporated for three years or less
- At a funding stage of Series B or less
- An entrepreneurial venture/a partnership or a temporary business organisation

A startup is defined as a business that:

- Engages in development, production or distribution of new products, processes or services
- New and existence for not more than five years
- Revenue of up to INR 25 cr.
- Not formed through splitting or restructuring
- Formed through splitting or restructuring

According to an Infosys Co-founder, a startup is defined as a business:

- Within the first three years of its existence
- Employing 50 people or less
- Revenue of INR 5 cr. or less [3]

However, a standard definition of a start up is being worked upon by the Department of Industrial Policy and Promotion (DIPP).

STAGES OF THE STARTUP LIFECYCLE

PRE STARTUP Discovery-

Identify a potential scalable product/service idea for a big enough target market. Validation- The service or product discovered hits the market, looking for the first clients ready to pay for it.

STARTUP Efficiency

The entrepreneur begins to define his/her business model and looks for ways to increase customer base constantly. Scale- Pushing the growth of the business aggressively while increasing its capacity to grow in every possible sustainable manner.



GROWTH

Maintenance-

Maximizing benefits and facing problems derived from the global dimension in terms of competition that the business has achieved Sale or Renewal - The decision to sell the startup to a giant or acquire huge resources that the brand will need to continue growing as a venture.

A Start ecosystem

A Start ecosystem is developed by a number of components like, new businesses in their different stages and various associations in an area (physical as well as virtual), whose collaborative efforts serve as a framework to make new businesses. Generally, startup system commonly feature the system of communications among individuals, associations and their condition, therefore, the startup systems can come in many sorts which can be also called startup environments, belonging to particular urban communities or online groups. Start-up environments have both outer and interior controlling elements. Outer elements are monetary atmosphere, big market interruptions and enormous organizations moves, and these controls the general structure of a biological community and its internal things. Start-up biological systems are alert elements—constantly, initially they are in arrangement stages and once settled they are liable to periodic aggravations (like the monetary air pockets), thereafter passing to the recovering procedure from some of the past depressing influences. Start-up ecosystems in similar environments, located in different parts of the world may operate differently owing to a different entrepreneurial culture, resources pool, introduction of non-native people or knowledge and skills. Inward components not only control ecosystem but are also controlled by them and are more often come under the influence of input circles. While a chunk of the asset sources of information are predominantly controlled by external procedures like money related atmosphere and market interruptions, the accessibility assets inside the biological system is controlled by interior variables like the capacity of individuals and associations to contribute towards the environment. Other inner components include achievement and disappointments and progression of new companies, along with the types of individuals and accessible abilities. Despite the fact that individuals exist and work inside biological systems, their total impacts are sufficiently huge to impact outer components like money related atmosphere [4].

A start ecosystem may have following elements:

External

- Support organisations
- Big companies
- Universities
- Research organisations
- Service providers
- Funding Organisations

Internal

- Ideas, inventions and research
- Startups at various stages



- Entrepreneurs
- Start up team members
- Investors
- Mentors
- Advisors
- Other entrepreneurial people
- People from related organisations

Start up financing cycle

Funding by Angel Investors/ Seed Funds

- Early stage startups rely on angel investors and seed funding
- Invest solely into the entrepreneur with an idea
- Does not encumber the entrepreneur with any corporate governance formalities

Venture Capital

- Used to scale the company's business model
- Comes from larger institutional funds
- Focus is on building the sales force and establishing a global presence

Public Markets

- Late stage startups can feel the need to expand more aggressively or actively innovate the product
 - Private equity funds together with public markets provide large amounts of liquidity to late stage startups.
- [5]

India fills in as the quickest developing startup-base worldwide and stands third in innovation driven item new businesses soon after US and UK separately. The report uncovers that the blast in the startup biological community has created work for around 80,000 to 85,000 individual's altogether. Over 65% of the new businesses are situated in NCR, Mumbai and Bangalore. The details on the demography of the ecosystem says that 72% of the organizers are under 35 years of age making India home to the most youthful business people on the planet, with sexual orientation separation of 91% male and 9% female. Larger part of the 1200 new businesses are B2C, principally introduce in 3 sections specifically ecommerce, purchaser administrations and aggregators took after by hyperlocal, wellbeing tech, edu-tech and investigation [6].

STARTUPS IN INDIA- AT A GLANCE

India is amongst the top five countries in the world in terms of startups. US ranks number one on the list with 83,000+ startups. There are approximately 10000 startups in India. Technology Based startups Non Technology Based startups Number 4300 5700 % Share 43% 57% New Annual Startups 800 NA



In the Technology based startups, maximum concentration is in E-Commerce sector (33%) followed by B2B sector (24%), Consumer Internet (12%) and other sectors comprise 13%. On the other hand, in the Non Technology based startups, the maximum concentration is in the Engineering sector (17%) followed by Agri Products sector (13%) and other sectors comprise 32%.

Source: Microsoft Ventures, Zinnov, NASSCOM Startup India report 2015
Note: Non-tech based startups sector concentration is an outcome of a survey conducted by CRISIL on ~20% sample of micro, small, and medium enterprises 2013-14

Source: NASSCOM Startup India report 2015, Microsoft Ventures, Secondary sources, News article

CURRENT STATE OF STARTUPS IN INDIA

1. India is the third largest Startup hub.
2. Average age of startup founders is 28 years.
3. 9% of the total startup founders are women
4. Total tech startups are expected to increase from 4300 in 2015 to 11500 in 2020.
5. Average number of new technology startups has moved from 480 in 2010 to 800 in 2015. Expected to increase to 2000 in 2020.
6. Majority of startups and investors are from metro cities.
7. Approximately, 50% growth in share of female entrepreneurs in the last 12 months.
8. The number of Private Equity and Venture Capital firms has doubled in the last 12 months.

Source: NASSCOM Startup India report 2015, Startup India-Momentous Rise of the Indian Startup Ecosystem, CII report on a snapshot of India's Startup Ecosystem, Secondary sources, News article.

STARTUPS IN INDIA- COMPARISON WITH OTHER COUNTRIES

	India	China	Isreal	Singapore	Japan	US	
Total number of start ups	10000	10000	4750	NA	NA	83000	
Tech Based Startups	4300	3400	4000	NA	NA	48500	
Non-Tech Based Startups	5700	6600	750	NA	NA	34500	
Set Up a new Business (in days)	30-60	30	13	2	10	4	
Corporate Tax Rate	34%	25%	26%	17%(100% Tax Exemption for Startups)		34%	39%
Bank Lending rate	10.3%	5.6%	3.9%	5.4%	1.2%	3.3%	

Source: World Bank, News articles, Gov. Sites



SCOPE OF GROWTH

A wide variety of measures have been adopted by the government of India, to promote entrepreneurship at the startup level and number of initiatives have been taken to provide appropriate support to the startup businesses.

A. Make in India

A big initiative “Make in India” is aimed at promoting the manufacturing sector by encouraging companies to invest in it. The objective of the campaign is to attract foreign investments and encourage domestic firms to participate in the manufacturing hence paving a way to contribute to the growth story. The government is taking various initiatives to build a favorable environment for doing business in the country. For example, an online system for environment clearances, filling income tax returns and extension of validity of industrial licenses to three years have been put in place.

1. The government has increased the foreign Direct Investment limits for most of the sectors.
2. Protection of the intellectual property rights of innovators and creators by upgrading infrastructure, and using state-of-the-art technology

B. Standup India:

On 6th January 2016, the Union Cabinet gave approval to Stand-up India campaign which is focussed at promoting entrepreneurship among women and scheduled castes and tribes.

Some of the salient features include:

- Loans under the scheme would be given for greenfield projects in the non-farm sector.
- this scheme intends to facilitate at least two such projects in every bank branch.
- The scheme is aimed to benefit at least 250,000 borrowers in 36 months from the date of its launch

The scheme also endeavours to relax the existing regulatory regime for startups and extending tax incentives to them is also on cards.

C. C) Digital India

This is an initiative of the Government of India seeks to achieve the goal of providing government services to every citizen through online platform. This implies a massive business opportunity for startups. E-Commerce companies in India are planning to tap the rural market of India as a part of this scheme.

D. Startup Exchange

The SEBI announced a new set of listing norms for startups, including e-Commerce ventures, planning to raise funding from listing on stock exchanges. These new norms will provide relaxations in disclosure related requirements, takeover and Alternative Investment Fund regulations for IT, data analytics, intellectual property, bio-technology or nano-technology companies.

E. Self-Utilisation and Talent Utilisation (SETU):

Under the new NITI Aayog, the government is also planning to set up a mechanism called SETU, under the newly formed NITI Aayog for providing technical assistance and incubation to startups.



F. Financial assistance

The government set up Mudra Bank in 2015 to boost the growth of small businesses and manufacturing units. The Bank provides a credit facility of up to INR 50,000 to small businesses, loan of up to INR 5 lakh to little bigger businesses and loan of up to INR 10 lakh to the MSME sector. The cabinet has approved the creation of a Credit Guarantee Fund for MUDRA loans. It is expected that the fund will guarantee loans of over INR 1,00,000 crores to micro and small businesses in the first instance. Additionally, the government has set a target to provide a total loan of INR 1.22 Lakh cr. to promote new entrepreneurs and fund the unfunded businesses with the help of banks

Source: NASSCOM Startup India report 2015 Secondary sources, New articles

G. Startup business challenges

there are different probable obstacles that may come in the way of Start-up Revolution. Development of business relies to a great extent upon government directions. However, there is a general unrest in youthful moving business person due protracted methodology and customs of the government. Second greatest test confronted by Indian business visionary is that on a normal, Indian organizations need to make 33 assess instalments every year with around 243 hours spent to get ready and pay charges in a year. Thirdly most authors of fizzled new businesses feel that the absence of legitimate direction and mentorship is a noteworthy purpose for their disappointment. Individuals everywhere are ignorant about how they can add to monetary development, produce work, and add to social improvement so they require appropriate direction which will help them to answer most normal inquiries for anybody to end up distinctly a business visionary like a) What to do that is issue identified with making a business thought, discovering business opportunity or having a dream b) Why to do manage issues identified with reward/motivating force examination, hazard assessment or whatever other advantages c) How to do: issues identified with legalities and necessities, for example, clearances, licenses, endorsements required. Issues identified with asset accessibility including funds, innovation and labor supply. Additionally, Indian individuals are cognizant about hazard and reward that is the reason they give more noteworthy significance to government employments since they give employer stability. Afterward, higher pay scales and great advantages offered by a few private areas or multinational organizations give development openings so it greatest test to change state of mind of individuals and urge them to wind up business person where individuals need to begin from starting and orchestrate assets by their own. Shot of disappointment is progressively when individuals begin their own particular business and Indian culture has adapted individuals to look downward on disappointment.

To sum up the Start ups face the following challenges:

1. Culture and awareness-

The Indian culture has conditioned people to look down upon failure. For failures, opinions do come by but encouragement rarely so. Entrepreneurship is often about failing and learning from those failures and starting all over again. People need to start accepting failures and allow second chances.

- Most common questions for anyone to become an entrepreneur
 - What to do: problem related to creating a business idea, finding business opportunity or having a vision.
 - Why to do: issues related to reward/incentive analysis, risk evaluation or any other benefits.
 - How to do: issues related to legalities and requirements such as clearances, licenses, approvals required. Issues related to resource availability including finances, technology and manpower supply.





- People at large are unaware about how can they contribute to economic growth, generate employment, contribute to social development.

2. Social issues

- Mentorship/Guidance: Most founders of failed startups feel that the lack of proper guidance and mentorship is a major reason behind their failure. An important factor behind failures and slow growth of some organizations is the lack of quality mentorship, especially in terms of industry knowledge/support.
- Market structure: Indian markets are largely unorganized and fragmented that create a roadblock for a startup to succeed.
- Consumer Behaviour: Behaviour of Indian consumer changes in every 30-50km that makes it really difficult for a startup to create business or market strategy for their products or services. Most startups generally get stuck in stagnancy and gradually shut down.
- Location: An important problem faced by startups is related to location of their business. India is a place of varied culture and taste and thus every product might not be welcomed equally in every region.

3. Technology

Technology infrastructure

- Appropriate IT-infrastructure has become a need for Indian businesses given the growing number of consumers online.
- It is absolutely vital for new startups to train their employees for handling critical customer information such as that of credit card numbers and related data.
- Cyber security- Most startups have a B2B business model. This is where cyber risk may rise as they are not aware of potential risks that might exist for their startup business. No back-up plan to keep the startup company running when an accident destroys some key equipment in their data centre

4. Financial Issues

- Most startups are self/family funded with limited workforce which makes it difficult to maintain records both financial and operational.
- Flawed business models and lack of innovative revenue strategies have led to the failure of many startups and they are forced to shut down operations.
- Overcoming unnecessary business steps to manage business operations.
- Capital and access to capital has been a perennial problem for startups



- Government and private sector investors have set aside funds through investment channels but they are not available for all forms of business. The biggest problem for such organizations has been to attract investors and gain their trust with regard to their mode of operations.
- In the initial phase of operations, startups do not get funding from banks given no credit history of the firm. In addition, there is limited number of credit rating firms for small and medium sized enterprise.
- Despite having raised good investments, startups struggle to survive the competition. Startups are unable to mitigate the gap between burn rate and revenue.
- Effective cash management is an important factor to achieve objectives both short term and long term. Cash is still a preferred option for payments owing to the fact that electronic payment has not achieved complete penetration to Tier 2 and Tier 3 cities
- Gap between burn rate and revenue: Given rising competition from peers both from big as well as small, it becomes imperative for startups to scale up the business and require external funding for the sustainability/growth in the market.
- Evolution on the basis of funding: Mega funding and mega announcements have become a thing of the past, post consolidation on a large scale across the sector over the last few years. Both the investor and the entrepreneur are now more consciously focusing on innovation, capital efficiency and client/customer satisfaction, a view which is bound to impact the funding scenario henceforth

5. Sustainability Issues:

The level of knowledge that business advisers have about ecological issues and their willingness to discuss this with their clients is important in creating business ventures.

- Lack of information - provision of more information directly to business founders could help in the adoption of more sustainable business practices.
- Not aware of potential that might exist for their startup business.
- Role of public funding in promoting sustainable enterprises is often overlooked

6. Regulatory Issues Multi window clearances:

Budding entrepreneurs have to make multiple trips to government offices to register and seek clearances. There is urgent need to scrap multiple regulatory clearances.

7. Taxation issue

- Taxes like octroi, VAT, excise creates problems for entrepreneurs while starting up a business. NASSCOM has batted for the exemption of both direct and indirect taxes for all startups in India.
- Taxation is a barrier for technology adoption and proves to be an immense hurdle for budding entrepreneurs



OPPORTUNITIES FOR STARTUPS

There is renowned saying that "each coin has two sides" so start up has opened new vistas for youthful Indian populace. For new companies youth make up the much needed workforce and going thr youth also becomes ability base for new businesses. Since India faces a plethora of issues related to its wellbeing, instruction, foundation, sanitation, etc. the start ups have a lot many opportunities to create business around these issues. Also, since every rising economy (like African and Latin American) face more or less same issues, Indian Start ups can look for global opportunities of growth.. The number of inhabitants in India is a gigantic resource for the nation in the following couple of years. By 2020, it is assumed that the country will encounter a "statistic reward" period where the working age populace would surpass the non-working populace .This unmistakable statistic preferred standpoint will offer an extraordinary chance to any firm or association attempting to wind up distinctly effective and make a predominant position in the Indian market. India is good to go to split away the customary profession ways as a considerable measure of ability is tending towards working with the Indian startup space [7].

Testing assignments, tremendous subsidizing that attracts large remuneration bundles and a related cool remainder make new businesses very lucrative and engaging. A survey by Economic Times said that the quantity of understudies joining new and online business organizations has developed extensively. The new startup firms are offering high pay packs to attract the best brains, Indian and Foreign Investors are willing to make huge investments in them. The startup ecosystem is getting generous support from outside and Indian speculators, who have demonstrated more confidence in the business and have given assets to help these organizations to develop a wide margin.[8]

Moreover since India, with over a billion people, is home market for any products or administrations. Also with the rise of incomes there is a substantial craving for brands. The vast populace has additionally prompted to a customer use development, which has thus has propped up supply and creation. For example, most recent Trai figures tell that, India's tele-thickness achieved 76.55 percent with a supporter base of 95.76 crore. Fundamentally remote endorser base touched 95.76 crore, barely short of 100 crore stamp. Other open door which motivating entrepenener can adventure is that high portable infiltration in urban and rustic India has reshaped the economy of the nation and how merchandise and ventures are advertised. It has prompt to more prominent efficiencies and expanded profitability. It has implied organizations benefit through speedier basic leadership, better coordination and notwithstanding something like access to ledgers. Higher versatile infiltration has additionally prompted to expanded money related incorporation and stream of credit to the unbanked. Development in portable infiltration is changing the way organizations and purchasers impart and work. With information empowered cell phones, the very way of new companies and organizations have changed. For instance, new companies that create portable applications now have a continually expanding business sector to oblige. India is at intersection where it now needs to take into account the yearnings of a billion people. India is at intersection where it now needs to consider the wishes of a billion people. Existing frameworks can end up being lacking and there is an unprecedented need to impact a billion identities and transform into an overall power. New businesses and enterprise is the most ideal route forward in turning into a learning superpower. [9]

Conclusion

There has been surge of new start-ups and innovations in India in recent years. The Indian start-up ecosystem has evolved, being driven by factors such as growth in number of funds/angels, evolving technology, higher smart phone and social media penetration, growth in incubators and accelerators, younger demographics etc. Recent government initiatives like 'Start up India, Stand up India' India will only result in additional momentum in this space but as there are a few obstacles in way of Startup in India so it will take time, effort, and energy.

Funding is a major concern for startups and small businesses. Moreover level of learning that business consultants have about natural issues, Multi window clearances and tax assessment framework are greatest test in method for accomplishment of Startup India so government needs to do bunches of work in this heading.

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