

## **Contemporary Prospects of Startup Eco-System in India: An Analytical Study**

**Nutan**

Research Scholar

Lingayas Vidyapeeth

[nutanchandila9@gmail.com](mailto:nutanchandila9@gmail.com)

**Dr. Ankita Nagpal**

Associate professor

Lingayas Vidyapeeth

[ankitadhamija@gmail.com](mailto:ankitadhamija@gmail.com)

### **Abstract**

‘Startup’ is usually an entrepreneurial venture, formed as a small business, is in the first stage of its operation, financed initially by their founders, which is designed to develop, grow fast and scale up to higher with its business model which focuses on an innovative product, service, process, platform or solutions to address various business and economic problems pertaining to the target market, in which the founders strongly believe in. The success and failure of any business in general and startups in particular largely depend on coping with challenges that emerged like the commercialization of novel technique or technology prepositions into viable revenue-generating products or services. Besides this financing, the startups were also troublesome to the investors due to a lack of adequate return for a longer period of time with the aggregated risk involved in it. Further, positioning of the product or service is also another threat to the entrepreneur since it does not give any guarantee to have sustainable demand from the consumers. Identification of potential human resources who can serve the needs of a startup is also a challenge to these startups. Hence the researcher made an attempt in this paper to study the numerous challenges confronted by startups in India and their role in the startup ecosystem. The research on startups was primarily done to understand the factors that led the startup entrepreneurs in India to start their businesses. Further, the study is restricted to the dimension of startups entrepreneurs, their problems, awareness of startup policies, challenges encountered and the opportunities available to them. The paper is limited to understanding the perspective of startups in their journey with reference to the startup ecosystem only.

**Keywords:** Startup, Ecosystem, Entrepreneurial, Challenges.

### **Introduction**

Startup and small scale firms appear to be similar with features of being small in size, operate with limited finance and provide numerous job opportunities, but the startups differ as they function on an entirely different business model which creates new customers, new demands and functions on an idea that is repeatable and scalable.

In India, the number of youngsters turning entrepreneurs or those thriving on an entrepreneurial ambition is increasing exponentially every year. The startup ecosystem in India is the third biggest in the world (NASSCOM, 2020). As of February 2021, there were 27,916 registered startups in India, according to the DPIIT. In many countries, new businesses have played a critical part in the expansion, development, and industrialisation of the economy. Because of their expanding relevance in the new knowledge economy, technology-based startup firms were registering at a greater rate than non-technology enterprises. Knowledge development and innovation is accelerating at a rapid pace, which means that technology is becoming obsolete at a faster rate than ever before, raising the mortality rate of new businesses. There is a need for an entrepreneur not only to have the best idea and passion to pursue his dream of startup entrepreneurship but also to have the best team, understand the potential market and competition, network with the startup ecosystem, understand the regulatory policies, calculate the risk involved and it is very essential and important that appropriate strategies are framed for its long term survival.

### **Evolution of Startups**

The term startup was referred back for the first time in the year 1550 which referred to a company that is new. The term was first used by Forbes magazine in the year 1976, and in 1977 an article was published in Business Week associating startups with 'fast-growing' and with 'high-technology fields'. The startups can be dated back to the period when the first company- British East India Company was formed. But the term gained its importance during the formation of the Silicon Valley business ecosystem, where the era of the dot-com bubble or the 'Internet bubble' took place during the late 90's and the beginning of the 20th century. The birth and boom of a number of internet-based companies and the success of first-line ventures such as IBM, Apple and Microsoft created a rapid impact on their stock exchange value and the economy. This triggered the enormous rise in startups which attracted a lot of investors who pitched in to invest and make these startups go public with their initial public offer, creating a positive impact on entrepreneurial activities and motivating many to create further successful startups. Since then, this has led to a number of startups buzzing everywhere in the world, whether it is colleges offering graduation and post-graduation courses, technical institutions, coffee shops, startup platforms, startup communities, big multinationals, or the government. There is a potential increase in awareness and ambition to be entrepreneurial in life by the number of youngsters in the ever growing knowledge economy. As the countries across the world are transforming into knowledge economies due to its importance in bringing the radical solutions to its socio-economic problems, there is an increasing trend of technology-based startup companies compared to non-high-tech startup companies. The knowledge economies have seen a quick generation of ideas with the use of the latest technology. But the rate of obsolescence of technology makes these ideas also obsolete, leading to an increase in the startup mortality rate. It is also found that even in the developed economies such as the United States there is an increase in mortality rate and high-tech startup companies going bankrupt, hence, it is necessary that the countries frame appropriate strategies for the growth and long-term survival of these companies.

The Indian startup ecosystem has emerged quite recently. The situation post-liberalization of the Indian economy in 1995-1996, India saw more youngsters moving to the US and Europe as IT professionals and this had made India gain a lot of experience and knowledge. Since the millennium there has been a conscious attempt to start new ventures. When we look at the Indian scenario, which was once popularly known as an IT outsourcing destination due to its cheap labour, had 5200 tech startups, according to NASSCOM startup report 2017, and many more startups were thriving to be part of the startup hubs. According to the NASSCOM report (2021), the Indian economy is characterized by an increased number of local and global investors, with an expanded digital consumer base, a high number of mobile users, an improved political environment which is driving the most promising startup verticals such as IoT, analytics, health-tech and hyper-local e-commerce.

Since 2010, India has seen tremendous changes with regard to technology and innovation thereby creating a new breed of entrepreneurs which has led to recognizing India as a 'Startup Nation'. There are a number of positive indications pointing that the Indian ecosystem is moving towards rapid evolution and becoming globally attractive. The various supporting policies and initiatives of central as well as state governments were adding to the successful startup ventures. Startups with innovative technological solutions are addressing pressing problems such as healthcare, education, poverty, employment in developing countries like India which is making the lifestyles of its people simple and enhances the way of living.

Most of the active startup ecosystems are concentrated in Silicon Valley, New York City, London, Singapore, Bengaluru, Moscow, Paris, Chicago, and Berlin. The increase in the number of startups has contributed to job opportunities and economic growth across countries. The growing trend of startups is triggered by various factors, such as the increased willingness of investors to invest in high growth startups, the willingness of consumers to buy products from startups, and the strategies of using multiple channels to sell, which are cost-effective and preferred by customers.

The Indian startup ecosystem ranked third in the world, after China and the US as per the report by NASSCOM, 2015. In 2020 the Indian startups raised \$4.4 billion and created 60,000 direct jobs apart from 1.8 lakh new jobs in the country. But now these startups' future look threatened at both fronts: job creation and their future funding system. It is predicted that at least a quarter of 10,000 startups may be shut down by later 2020 as the funds may dry up and consumer demand for the products may vanish globally (Mirror English Daily, 2021).

The Indian government is active in promoting entrepreneurship and has taken several initiatives to ensure that it provides appropriate support. Referring to the government of India's "Make in India" programme, launched in September 2014 to recruit international investors and support local manufacturing, is important in this context. For the sake of startups, India's government increased foreign direct investment (FDI) limitations and reinforced intellectual property rights (IPR). In 2015, the Indian government launched a new campaign called 'Startup India,' in an effort to elevate India as a tourist destination

and to encourage female entrepreneurs. "Digital India," another notable and far-reaching initiative launched in 2015 aims to ensure that public services are made more accessible to all citizens through an online platform that connects rural areas by developing their digital infrastructure, providing huge business opportunities for these startups. Gurpreet Singh Kumar. The 'Aatmanirbhar Bharat' campaign by the government in 2020, has given a lot of importance to startups to be innovative and self-reliant.

### **Literature Review**

Block, J.H., & et al. (2020) advises the ecosystem model on the basis of which government and policymakers can leverage and make the best use of limited resources. The report revealed the four phases of a startup ecosystem such as the activation phase with limited number and experiences of startups, globalization phase with an increase in number and experience of startups, attraction phase with very good success factors and integration phase where the ecosystem attracts the global resources, connections and knowledge.

Brown, R., & Rocha, A (2020) in their research illustrated how the covid-19 crisis affected the sources of finance for startups and small and medium-sized enterprises in the United Kingdom. The research showed that equity investments had reduced drastically and resulted in a fall in seed investment in early stage startups.

Chokhani, R (2020) revealed that skilled talent was hesitant to join startups as they had witnessed mass firing and downsizing. In addition to this challenge, raising the capital was the biggest challenge for startups for a very long time. The researcher further stated that in startups employment is uncertain due to companies reaching scale and then downsizing for better efficiencies.

Devi, P (2020) in her study discussed the effect of corona virus on various sectors in India, such as MSME, employment and supply chain and others. The researcher suggested the need for change in the business environment and the revival support from the Government which can play a vital role in reviving the economy.

Jain. S (2020) in her research discussed the consequences of the pandemic Covid-19 crisis on job opportunities. The researcher found that there is uncertainty about the income levels and employment creation for another year. The researcher found that the situation after the pandemic will be favorable for startups as many with current job loss will be looking for entrepreneurship as an alternative. The researcher believed that the situation post-covid-19 creates employment challenges and expresses that situation tends to be attractive to startups.

Joern, H.D. et al. (2020) found in their research that there was a positive impact of self-employment on bootstrapping. The entrepreneurs with good experience were found to be with high skills to manage the liquidity during financial turmoil like the covid-19 pandemic. They have also expressed in their research that the government policies and bootstrapping act as complimentary support leading to a strong motivation for the entrepreneurs.

Kuckertz, A. & et al. (2020) conducted research and studied the shocks and adversities faced by startups due to the outbreak of Covid-19 in Germany and the way innovative startups faced the situation and they also suggested long term policies which are required to support startups during the crisis. They cited that innovativeness is one of most preconditions for any startups which make them resilient and this precondition makes them anticipate and adjust for the crisis constantly and continuously. The researchers revealed that startups had seen a reduction in sales on one hand and fixed cost remaining the same which had threatened the survival of startups.

Sedláček, P., & Sterk, V (2020) have expressed that the startups are very important and these young businesses create new jobs, as seen in the United States 2.9 million jobs being created every year. The increased rate of growth and exit by these young firms called 'up-or-out dynamics' suggested that the startups were categorized as creators of positive net jobs. The researchers have expressed positivity and a ray of hope stating that these startups respond positively to the policies and support mechanism extended to them which could foster their long-term growth.

In the Startup Genome report- 2020, authors Gauthier, JF and Morelitz, A have studied the impact of Covid -19 on startups globally and they found that there was a reduction in venture capital deals by 50% to 57% in China in comparison with other economic crises. There was a reduction in technology and IPR in the United States. They also stated that the crisis brought in the opportunities by quoting an example of earlier economic recessions during which fortune 500 companies contributed towards the creation of jobs. In another report, the authors revealed that 41% of startups across the world were left with cash to sustain for three months. 20% of startups suffered as their investors dropped the term sheets. 74% of startups had to remove their staff and 39% laid off its employees. Startups in North America had the highest termination compared to Asian startups. The report also stated that 80% of startups had reduced their revenue and B2B startups were mostly hit by the crisis which shows the severity of the impact of Covid-19 on startups. In the third instalment series, the

researchers found that the tech startups played an important role in improving the economic situation as there was a lot of transition taking place due to digitalization. The report suggested that Governments should invest in these companies and frame suitable policies which can contribute towards the recovery of its economic system.

### **Issues and challenges of startups**

When it comes to starting a new business, enthusiasm and ideas aren't enough (Kumar, G. P 2018). To be successful, entrepreneurs must possess a high degree of competence as well as the maturity to see the big picture and the sharpness to take calculated risks in order to remain competitive (Aggarwal 2017). "Lack of awareness, multiple clearances, unorganised market, poor infrastructure in tier 2 and 3 cities, lack of mentoring, stringent exit policies, corruption, bureaucracy, technological risk, regulatory obstacles and lack of reforms, keeping pace with rapidly evolving market changes" are some of the challenges faced by a startup entrepreneur. Some of the major challenges and issues are presented below.

### **Financial resources**

"Finance is an integral part of the startup process. Any startup company would face issues and problems for several reasons and in different setups" (Salamzadeh, A., & Kesim, H. K. (2015). The management of cash becomes a critical factor for the success of any startups. For the sustainability of startups and to scale up business while dealing with competition from small or big entities, requires external funding. Because they have no prior credit history, startups have difficulty obtaining bank financing in the early stages of their existence. The most difficult task for start ups has been attracting investors and earning their confidence in their business model. Startups often fail in the face of fierce competition, even when well funded. The discrepancy between burn rate and revenue is too great for startups to close. In order to expand, a new entrepreneur will need more resources. Later in the seed stage, the entrepreneur should seek out angel investors and persuade them to invest with acceptable value projections. During the creation stage, the entrepreneur should produce a business plan and supporting paperwork in order to get venture financing.

### **Human resources**

One of the most difficult tasks is attracting and retaining employees who have the abilities necessary to meet the ever-increasing demands of the company's customers. In addition to the founders, most startups include a core team of people with complementary skill sets. Assembling a good team is a challenge and the startups with weak teams will not sustain for a long period of time.

### **Support mechanism**

Startups rely on a plethora of support systems from the outset. Entrepreneurs are supported by a wide range of resources including angel investors and other types of funding sources. Lack of access to these safety nets raises the likelihood of a mishap (Salamzadeh, A ., & Kesim, H. K, 2015).

### **Environmental elements**

For a new business, the environment is more difficult and crucial than it is for an established one. Entrepreneurs encounter another another obstacle in the process of launching a new company. Environmental factors such as current trends, market restrictions, and legal concerns are major causes of startup failure. Entrepreneurs need have full awareness of these factors in order to develop an effective plan for competing with their competitors. The well-supportive environment facilitates the success of a startup while those startups which could not receive environment facilities resulted in failure (Boeker, 1987).

### **Regulations**

There is a strong correlation between taxation and the adoption of new technologies. Startups may survive on cash outflow if tax regulations are favourable. Despite the modifications, rules continue to be a problem for many new businesses. In contrast to nations in the Organization for Economic Co-operation and Development (OECD), India's labour laws, intellectual property rights, and dispute resolution procedures take 30 days to implement, compared to 9 days in OECD countries. The government has made progress in recent years in streamlining rules. To put it another way, according to the World Bank's 2020 "ease of doing business" assessment, India is now ranked 63rd of 190 nations. India has moved 14 places higher in the list and is considered to be the top ten improvers for the third consecutive year and this is due to the constant economic reforms by the Government of India.

### **Technology issues**

Technology has evolved rapidly and changed the way the business functions. It is very important for startups to use the right technology which can enhance their performance and lead to profits. With its limited resources, the startups find it difficult to adapt to the latest technology due to its dynamic nature. The startups find difficulty in selecting the right software whether it is concerned with managing its customers, employees, accounts, logistics or anything that is required to manage its business efficiently. The most important technological challenge is to create digital solutions for new generation users. The startup needs to create appealing websites, e-commerce portals and apps that can enhance the customer's experiences. Cybersecurity is another issue that needs to be taken care of by startups. There is a need for them to carefully handle the sensitive confidential data of its customers and its business partners.

### **Social Issues**

The location of a business is an important issue and a challenge faced by new entities. "India is a place of multiple cultures and tastes and thus every product might not be welcomed equally in all regions. Further, consumer behavior changes every 30-50 kilometers which makes it really difficult for startups to create businesses. Most startups get stuck in the stagnancy stage and gradually shut down. The Indian markets are highly unorganized and fragmented that creates a roadblock for startups to succeed."

### **Sustainability Issues**

Business advisers who are knowledgeable about environmental concerns and who are ready to address them with clients have a significant impact on the success of new ventures. Many of the startups are not aware of potentials that might exist for their startups. In addition to this, there is a lack of information about the adoption of sustainable business practices.

From the above discussions, it can be stated that startups, in the beginning, find it difficult to raise funds, but at a later stage, they find issues in conceptualization and marketing its products and services. Since they are new in the market and lack experience, they have to rely mainly on new investors and customers. Despite having greater support from the government, startups are still facing marketing problems and are failing. Skok, D (2016) is of the opinion that among the various reasons for failures for startups, the major one is when they slowly encounter the problem of a very little market for the service or product.

In India, the startups will have an easier time to tap into markets, territories and even traditional businesses provided they can be ready to overcome the challenges.

### **Prospects and Managing startups to avoid failures**

The entrepreneurs may have dreams to build successful businesses, but many startups fail at a very early stage. A study conducted by IBM Institute of Business Value and Oxford Economics (2016) had reported that 90% of the startups in India have failed in its first five years only and these startups failed as they lacked innovation in their business. The startup Genome in its 2019 report also stated that not all startups will survive. Only 1 out of 12 startups become successful. The startups function in an extremely uncertain and volatile environment and it becomes necessary to maintain a balance between various variables. 'Premature Scaling' is one of the main reasons for startups to fail (The Startup Genome Report 2019). Startups should focus not only on its products, finance and its team but also on the internal and external environment, it should also give equal importance to the customers and gain traction for its products and services in the market. The startups need to keep in mind the following aspects to reduce the rate of failure.

### **Be innovative**

Most of the startups in India are imitating the business models of the western world and they lack innovation. Many startups have closed down, as the investors are not interested in funding at subsequent stages of startups as they feel that these startups are with replication models and ideas. To be successful, startups need to work on innovation that can positively impact a nation.

**Never underestimate competitors**

Startups face the challenge posed by the competition. The competitors may be strong with their strategies. Startups should be able to develop the idea according to the market requirements and build effective marketing strategies to overcome the competition.

**Serve the need of the market**

The generated idea should serve the need of the market otherwise customers are seldom interested in the model. Startups should be quick to adapt and be innovative. The emerged business model should be able to serve the basic needs of the customer.

**Proper estimation of funds**

The common problem faced by startups is a shortage of funds. Somehow startups manage to get the first round of funds, but in the later period when the venture requires more investment, they run out of cash. Therefore, before starting the venture proper estimation should be done. The sources must be known well in advance through an agreement.

**Building a committed team**

If the founding team cannot build a minimum viable product on its own, then some of the founders show disinterest and allow others to enter their business. There should be a good team and workforces to enhance the skill synergies. A well-rounded team should be formed without any personality clashes.

**Create proper marketing strategies for the products**

The extent of the market should be known in advance. A well-marketed product can sustain the entire business as seen in the case of many successful ventures. It is absolutely necessary to know the extent of the market, target customers and attract their attention and convert potential customers into real customers.

**Pricing strategies**

The right pricing of a product enhances the image of the venture and a wrong pricing strategy can demolish the venture. Ventures should adopt different pricing strategies in order to attract customers.

**Not to ignore customers feedback**

Feedback reveals the reality about the product or service. Ignoring customers and not seeking their timely feedback can prove to be fatal for most of the startups. The venture should give always attention to timely customer feedbacks and adapt the product or services according to their needs.

**Conclusion**

There exists tremendous scope in fulfilling the local and niche markets that could be viable and sustainable with a quick generation of revenue. A small area of operation and the right product or service would fetch success and even allow the expansion in the future. The young startuppreneurs have knowledge about the entrepreneurship and they desire to be independent. There is a positive change in the behavior and acceptance of entrepreneurship as a career. The startups have created numerous job opportunities and there is a spillover effect too. The technology and regional innovation mechanism has improved and the startups are impacting the society by providing opportunities for the local community and enhancing the living standards of the people. The research revealed that startups are encountering various challenges such as raising required finance to run its business, retaining its employees and the issues with bureaucratic regulations. There is need to provide enhanced support from the ecosystem, for its survival which can help them to build strategic alliances and create a win-win situation for all players. There is also need felt for simplified government regulations Government, both central and state should simplify the process for startups and set up high class research labs and technological facilities.

**References**

1. Agarwal, S. (2016). Entrepreneurship and Entrepreneurial practices: Prerequisites for the robust growth of Indian economy with special reference to startups. *International Journal of Research in IT and Management* , 16(10), 105–105
2. Block, J. H., Fisch, C., & Hirschmann, M. (2020). Solo Self-Employed Individuals and Bootstrap Financing in the COVID-19 Crisis. *SSRN Electronic Journal*. <https://doi.org/10.13140/RG.2.2.21681.81766>
3. Brown, R., & Rocha, A. (2020). Entrepreneurial uncertainty during the Covid-19 crisis: Mapping the temporal dynamics of entrepreneurial finance. *Journal of Business Venturing Insights*, 14( e00174). <https://doi.org/10.1016/j.jbvi.2020.e00174>
4. Chokhani, R. (2020, January 27). Challenges and opportunities for Indian start-ups; Key points to note. *Financial Express*. <https://www.financialexpress.com/industry/challenges-andopportunities-for-indian-start-ups-key-points-to-note/524728/>.
5. Gauthier, J. F., & Morelix, A. (2020). (rep.). 11. Governments, Don't Let your Startups and Scale ups Die: The Importance of Well-Designed Startup Funding Policy in Times of Crisis (Ser. Third Installment Series, pp. 1–38). San Francisco, California: Startup Genome
6. Gauthier, J. F., & Morelix, A. (2020). (rep.). Global Funding: The Impact of COVID-19 on Global Startup Ecosystems (Ser. Fourth Installment of Series, pp. 1–24). San Francisco, California: Startup Genome
7. Jain, S. (2020). Entrepreneurial Activation in the aftermath of Covid-19-necessity and prospects in an economic slowdown. *Tathapi (UGC Care Journal)*, 19(13), 319–338. ISSN:2320-0693
8. Joern, H. D., Mirko, H., & Christian, T. (2020). Solo self employed individuals and bootstrap financing in the covid-19 crisis. <https://doi.org/10.13140/RG.2.2.21681.81766>
9. Kuckertz, A., Brändle, L., & Hinderer, ebastian. (2020). Startups in Times of Crisis – A Rapid Response to the COVID-19 Pandemic. *Journal of Business Venturing Insights* , 13(e00169). <https://doi.org/10.1016/j.jbvi.2020.e00169>
10. Kumar, G. P. National Conference at St Pious Institute of Management. In *Indian StartupsIssues, Challenges and Opportunities*. Hyderabad.
11. Mittal, T., & Madan, P. (2020). Impact of financing patterns on business performance of estartups in India: A Research Model. *International Journal of Business Innovation and Research*, 1(1), 1. <https://doi.org/10.1504/ijbir.2020.10017784>
12. Sedláček, P., & Sterk, V. (2020). Startups and employment following the COVID-19 pandemic: A calculator. *VoxEU*