



ISSUES AND CHALLENGES OF STARTUPS IN INDIA

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Abstract

Startup India is a flagship initiative of the Indian government aimed at fostering entrepreneurship and innovation. The government intends to empower startup companies through this effort in order to increase entrepreneurship, economic growth, and employment across India. The startup ecosystem in India has become a global topic of discussion. The business world has seen an explosion of ground-breaking startups giving solutions to genuine problems at a mass level in recent years, thanks to hundreds of bright young people deciding to pursue entrepreneurship instead of joining multinational businesses and government enterprises.

The paper goes through a number of the concerns and challenges that an Indian startup will face, as well as the chances that the country can give under the existing eco-system.

Keywords: Innovation, Economic Growth, Entrepreneurship, Eco-System.

Introduction

Entrepreneurs who start up businesses usually want to focus on one product or service. These companies lack a fully developed business model and, more importantly, do not have adequate capital to move on to the next phase of their business. Startups look for capital from others, such as family, friends, and venture capitalists. Silicon Valley is known for its strong venture capitalist community, and is a popular destination for startups, but is also widely perceived as the most demanding market. Seed capital can be used by startups to invest in market research and to develop their business plans. A comprehensive business plan outlines the firm's mission, vision, and goals, as well as its management and marketing strategies. Startups flourish when they have vision, creativity, and execution. But are these ingredients sufficient? Investors provide startups and other business ventures with capital so that they can think big, grow rich, and leave a lasting impression. Startup Talky keeps an eye on the funding activity that occurs in the Indian ecosystem. Over \$38.4 Billion has been raised at Indian startups this year, with many rounds producing Indian unicorns. India is experiencing an unprecedented funding spree across sectors. 40 Indian startups have already made it into the unicorn club by December 4th 2021.

At this rate, India will manage to get more than 100 unicorns by 2022, much earlier than the previous estimation of 2023 as suggested by Inc42 Plus reports in the past.

What Is a Startup?

The term startup refers to a company in the first stages of operations. Startups are founded by one or more entrepreneurs who want to develop a product or service for which they believe there is demand. These companies generally start with high costs and limited revenue, which is why they look for capital from a variety of sources such as venture capitalists.

Challenges in Startup in India

1. Sales & Marketing - In India, many of the non-tech skills are hard to come by, as many smart minds end up becoming engineers.
2. In the valley, the alumni of successful startups form the seed for the following startups. The Fairchild alumni, Google mafia and later Paypal mafia (http://en.wikipedia.org/wiki/PayPal_Mafia) invested in 100s of startups while also lending a lot of support. In India, such mafia are completely absent.
3. Venture investing is still in very early stages. When guys of the caliber of Sequoia are investing eye hospitals and retail chains, you have to realize how weak the venture system here is.
4. Family pressures are high, as Amit mentioned earlier.



5. Peer pressure is far more visible in a connected/gossip-loving society like India's.
6. Startup incubators of the likes of YC & 500 startups are yet to come. A few such as Morpheus are doing good job, but long way to go.
7. Very few examples of successful exits - IPOs or acquisitions.
8. In the US, the majority of the startups are concentrated in the valley. However, in India the startup ecosystem is thinly spread between BLR, NCR, Pune-Mumbai and Chennai.
9. Big companies in the US are little more helpful to the ecosystem (Microsoft, Google, Intel all have their own startup ventures that invest & share technologies). Can you imagine a Tata or Reliance doing this?
10. There is very little trust here. Angels fear the founders will run away with their money anytime. Given the weak law enforcement & no SSN equivalent identification, it is easy for the angels to be sideswiped.
11. Weak university system. Valley has the likes of Berkeley and Stanford to feed the startups with smart engineers & marketers, while also organizing a number of networking events. What does BLR have? IIMB & other institutes in BLR are very weak when it comes to entrepreneurship (compared with Stanford).
12. In US people are cool with failures. It is ok to fail as a startup founder. In India, the taboos remain in a risk-averse society.
13. Hiring can be terrible. The guys who have the startup caliber don't take the risk to join one

Pros of Startups	Cons of Startups
More opportunities to learn	Risk of failure
Increased responsibility	Having to raise capital
Flexibility	High stress
Workplace benefits	Competitive business environment
Innovation is encouraged	
Flexible hours	

Why Startup India?

Start-up India is a movement to create prosperity in India. Many enterprising people dream of starting their own businesses, but lack the funds to do so. As a result, India misses out on economic growth, wealth generation. In order to boost entrepreneurship and economic development, startup India provides people with proactive support and incentives at various levels to inspire them to innovate and start their own business. Several initiatives have been taken in India to ensure appropriate support for startups and the government is serious about promoting entrepreneurship. The “Make in India” campaign launched in September 2014 will attract foreign investment and encourage domestic companies to take part in the manufacturing sector. Foreign direct investment (FDI) limits were raised and intellectual property rights (IPRs) were strengthened, which created a climate of confidence in the startups. In 2015, the Government of India (GoI) launched a new campaign called 'Standup India' that aims to promote entrepreneurship among women and to provide bank financing to startups to help make India the number one destination for startups.

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 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 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

Review of Literature

Narendra Modi 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 capital, 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.



Significance of the Study

Startups have played significant roles in the growth, development and industrialization of many economies all over the world. Startup is the flagship initiative of the government of India, intended to build a strong eco-system for nurturing innovation. Startups will drive sustainable economic growth and generate large scale employment opportunities and minimize unemployment.

Statement of the Problem

Startup is an initiative of the Indian government aimed at nurturing innovation and building an eco-system conducive to that growth. 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 Flip kart, Quicker, Practo, Zomato and Inmboi, the Indian startup eco-system has indeed come a long way.

Research Methodology

The study is based on the secondary data which has been collected through journals, magazines, newspapers, research papers, books and websites etc.

Objectives of the Study

1. To examine the various issues and challenges of startups
2. To identify various government initiatives for the development of startups.
3. To analyze the growth and opportunities of startups

The Startup Scenario in India

According to data from NASSCOM (2015), every year more than 800 new technology startups are set up in India. By 2020, some 11,500 tech-start-up should be established, creating about 250,000 new jobs (NASSCOM, 2015). Considering that India is amongst the top five nations in the world in terms of startup companies, it's commendable to note that there are 10,000+ startups with 83,000 companies, 43% of which are tech-based, with 9% managed by women entrepreneurs. The number of incubators also surpassed 100 in 2014-15. The number of incubators has also surpassed 100 in 2014-15, boosting the startup saga (Grant Thornton, 2015).

Sector Wise, the Distribution of Indian Startup Businesses

Table 1: 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%
Others-13%	Transport & logistics- 6%
	Outsourcing & support -5%
	Others-32%

Source: Startups India- An Overview, Grant Thornton, 2020

The Startup Eco-System

In addition to government initiatives, there is a definite movement in the startup arena in India due to IT penetration and internet access. Many startups are approaching various sectors such as education, legal, retail, insurance and health. Customers are becoming more aware of the benefits and convenience, making startups more popular and viable.



Venture capitalists and angel investors are gung-ho about investing in Indian startups since many see potential; a few are expected to become unicorns (high-valued companies) and generate good returns. Some startups fail, and eventually close their businesses due to various issues and challenges.

Despite being a large country with a high number of young people, India boasts of high demographic dividends due to its large population. According to the latest UN report, India has 356 million youths aged between 10 and 24 years old, who will make up the largest portion of the population in the next century.

Due to its multicultural and multilingual nature, India faces unique problems concerning health, education, sanitation, infrastructure, and the bottom of the pyramid population. Starting a business that solves a specific problem presents a unique opportunity for startups.

Issues and Challenges of Startups

Some of the major issues and challenges are discussed below:

1. Financial resources: Startups have a hard time getting finance due to a question of catching enough funds. We have a number of financial alternatives available to us ranging from Classification Appendages, companions, loans, grants, attendants of god capital, venture capitalists, crowd capital etc. Integration of capital at the right time to scale trade demand. For a startup's success, proper cash management is crucial. There is a sad picture accompanying a recent report which shows that 85% of reportedly underfunded new companies are a potential failure (Iwasiuk, 2016)

2. Revenue generation:

Various startups fail due to unpleasant revenue generation as the trade grows. As the operations increase, expenses expand 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 effective management of burn rate which also parlance is the rate at which startups expend money in the initial stages. The challenge is not to produce sufficient capital but additionally to expand and support the growth.

3. Squad members

Startups normally begin with a squad comprised of trusted members with commonly confused word skill sets. Usually, each member is specialized in a particular place of operations. Assembling an excellent squad is the 1st main requirement, failure to have one sometimes could burst the startup

4. Supporting infrastructure

There are numerous sustain mechanisms that play a meaningful role in the lifecycle of startups which add incubators, science and tech parks, trade development centers etc. Lack of get into use to such sustain mechanisms increases the risk of failure

5. Generating awareness in markets

Startups fail due to lack of attention to limitations in the markets. The environment for a startup is normally more hard than for an set up company due to uniqueness of the product. The position is more hard for a new product as the startup has to produce everything from scratch

6. Over customer expectations

The next the vast majority of necessary challenge is gauging the market require for the product, already trends, etc. Innovation plays a key component of 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 necessary strategies. Due to new technologies that are emerging, the challenge to supply more than and overhead an earlier innovation is pertinent.

7. Tenacity of founders

Founders of startups have to be tough when the going receives tough. The roam of Beginning a venture is fraught with delays, setbacks and issues without good enough solutions. The entrepreneur requires to be persistent, persuasive, and should never renounce until he/she accomplishes wanted results.

8. Regulations

Starting a commerce needs there are numerous permissions from authority agencies. Even though over there is a



perceptible change, it's still a challenge to register a company. Regulations pertaining to labor laws, mental property rights, dispute resolution etc. are rigorous in India.

9. Lack of mentorship:

Lack of right guidance and mentorship is part of the greatest issues that exist in the Indian startup ecosystem (Choudhury, 2015). The vast majority of startups have sparkling ideas and/or products, but have minute or no industry, Commerce and market encounter to get the products to the market. It's a proven example that a sparkling thought works only if executed promptly (Mittal, 2014). Lack of enough mentoring/ guidance is the greatest challenge which could carry a potentially i like that idea to an end.

10. Lack of a excellent branding strategy

Absence of an efficient branding approach is howsoever reissue that prevents startups from flourishing at a faster pace. Hemant Arora, Commerce Head branded content, TimesNetwork opines that branding demands eminent attention as it delivers an identity and occupies a space in the consumer minds.

Opportunities for Startups

In spite of challenges and issues that startups face, Indian markets offer a inordinateness of opportunities to seek out solutions tailored to resolve them. Below may be a list of few of the opportunities that are mentioned for thought by startups.

The Large Population of India

India's population is a valuable resource for the country. The working-age population is predicted to overtake the non-working population by 2020. Any startup will benefit greatly from this unique demographic advantage. Startups would benefit greatly from various infrastructure challenges and the bottom-of-the-pyramid market.

Change of Mind Set of Working Class

Traditional job lines will be supplanted by the Indian startup scene. Talented employees would be drawn to startups by challenging responsibilities and competitive salary packages. Several high-profile executives have also been observed departing their positions to create or work for startups

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

6. Investments by the Big Business Houses

Big business houses have already investing in startups. Industrialists like Ratan Tata (Ola, Bluestone etc), Azim Premji (Data Stax, Myntaetc) and many more are investing in startups giving desired traction and respectability to the segment



Table 2: List of Current Startups and Area of Operations

Area of Operation	Startup Firm Name
Online food delivery	Freshmenu, swiggy
Online fish, meat delivery	Fresh to home
Big data analytics for trade	Peel works
Online pharmacy	Myra
Platform to get local businesses online	Now floats
Logistics management software	Fareye
Lifestyle tracking platform	Healthifyme
Payments solutions for credit/debit cards	Pine labs
AI-driven solutions for retailers-	Staqu
Packaged ready-to-cook idli /dosa batter	Id foods
Peer-to-peer lending	Fair cent

Source: 17 Startups to Watch, TOI, 2018

These are our top picks of the top startups in India 2021 that are growing fast and have truly unique concepts.

1. aidaio	27. Dukaan	53. LOOM SOLAR	78. Slate.ac
2. apna.co	28. Eduvanz	54. mCaffeine	79. Sleepy Head
3. pumpumpum	29. Eye Wear Lab	55. mFine	80. Smallcase
4. arata	30. Ezerx	56. MikeLegal	81. Songdew
5. Arzoo	31. Financepeer	57. Mitron TV	82. StashFin
6. Bank Open	32. Finzy	58. Mudra Circle	83. StoryMirror
7. beepkart	33. Flo Mattress	59. Nourishables	84. Super Smelly
8. better India	34. Freight Tiger	60. OkCredit	85. TartanSense
9. Bijnis	35. Get Vital	61. PagarBook	86. TheDataTeam
10. bikayi	36. GetVantage	62. PickYourTrail	87. TheMathCompany
11. Billeasy	37. GiveIndia	63. Pipa Bella	88. Tjori
12. BulBul.tv	38. Glance	64. Plum goodness	89. Toch
13. classplus	39. Glow Road	65. Plum	90. Torchit
14. Country Delight	40. Groww	66. Pocket52	91. TravClan
15. Courseplay	41. Gynoveda	66. Power Gummies	92. TresMoto
16. Credgenics	42. Hashtag Orange	67. Prescribe (Wellnexus Technologies Pvt Ltd)	93. Trezi
17. CreditMate	43. Incnut Digital	68. Pristyn Care	94. Uable
18. Crio.do	44. INDmoney.com	69. Quicksell	95. Unocoin
19. Crowdfire	45. instoried	70. Railofy	96. Upstox
20. DaMENSCH	46. Interviewbit	71. Remedico	97. Wellversed
21. DealShare	47. InVideo	72. Reverie Language Technologies	98. Wizikey
22. Digit insurance	49. Kyt	73. Safegold	99. WOW Skin Science
23. Doubtnut	50. leap.klub	74. SaffronStays	100. Wysa
24. Doxper	51. Leverage Edu	75. Scaler Academy	101. Xoxoday
25. Dr Vaidya	52. Loan Frame	76. Siply	102. Yellow Messenger
26. DrinkPrime		77. Skyroot Aerospace	

Source: startup HRtool, November

Conclusion

India's current economic situation is one of expansion. With the implementation of liberal policies and programmes for entrepreneurs such as "Make in India," 'Startup India,' MUDRA, and others, the Indian government is progressively displaying greater eagerness to improve the GDP rate of development from the



ground up. For Indian start-ups, 'Make in India' is a fantastic opportunity. With the government focusing entirely on fostering entrepreneurship, it may be possible to halt brain drain and boost the availability of local talent for startup enterprises to hire.

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