



A study on Indian startups: Issues, challenges and opportunities

Dr. Suresh Kumar¹, Anoop Kumar²

¹ Assistant Professor, Department of Commerce, ICDEOL, HPU, Shimla, India

² Ph.D. Research Scholar, Department of Commerce, Himachal Pradesh University, Shimla, India

Abstract

Start-up objectives like being your own boss and creating work for others demand a lot of perseverance and sacrifice. Numerous elements, such as a sizable population with a sizable middle-class population, educated youngsters with technical backgrounds, IT dominance, high internet and mobile penetration, and other factors, have created potential for the start-up movement to spread throughout India. The "Make-in-India" initiatives and other government programmes have also helped entrepreneurs by attracting a large number of people to the field. Starting a business requires careful planning and discipline, as well as careful evaluation of internal and external elements that could affect the venture's survival. Before embarking on the journey, it is important to have a broad understanding of the venture concept, market size, revenue goals and profit projections. Timing, collaboration, and tenacity are major factors in entrepreneurial success. Infrastructure, government rules, and funding availability may all act as obstacles for companies at various phases of development. In actuality, there are several instances in history of companies that began with great vigor but quickly fizzled out for a variety of reasons. The article focuses on some of the challenges and obstacles that an Indian start-up must face as well as the chances that the nation can provide in the current climate.

Keywords: entrepreneur, employment, finance, start-up, "make in India," government, issues & challenges

Introduction

A startup enterprise is a new entity that is just starting, growing, and generally financed by an individual or a small group of people. It is a young, enterprising, scalable business model that relies on technology and innovation. Company founders develop a good or service for which they anticipate demand by up-selling existing markets or creating brand-new ones. A startup is nothing more than an idea which takes the form of an enterprise.

In line with Grant Thornton (2022) ^[5], a startup business is an establishment that is

- A three-year-old or newer corporation
- A temporary business organization, a partnership, or an entrepreneurial endeavor.
- Develops, produces, or distributes new goods, services, or procedures.
- Up to INR 25 crore in revenue
- Not made through division or reorganization
- Employing 50 or fewer persons

startup is defined by the Department of Industrial Policy and Promotion (DIPP) as an organization formed or registered in India that meets the criteria listed below

- Not more than seven years old; (for Biotechnology Startups not prior to ten years)
- Having annual revenue that did not exceed INR 25Cr in any prior fiscal year, and
- Working to improve products, processes, or services through innovation and development
- It is a scalable company model with a strong likelihood of generating income or jobs.

It should be highlighted that such an entity is created by something other than dissolving or rebuilding an already existing company. Additionally, a company will no longer

be considered a startup if its preceding financial years' turnover exceeded INR 25 crore or if it has been in operation for seven years (or ten years in the case of biotechnology businesses) since its formation or registration (Startup India, 2022) ^[5].

Governmental actions

Since the Indian government is committed to promoting entrepreneurship, it has implemented several measures to ensure that startups receive the proper support. In this context, it is essential to draw attention to the "Make in India" campaign, which was started in September 2014 to lure foreign investment and domestic companies into the manufacturing sector. Furthermore, to instill confidence in startups, the government raised the foreign direct investment (FDI) limit for most sectors and increased the protection of intellectual property rights (IPRs). Furthermore, to encourage female entrepreneurs and help enterprises obtain bank financing, the Government of India (GoI) introduced a new initiative named "Standup India" in 2015. The program's goal is to make India a top location for startups. "Digital India," which was started in 2015 to guarantee that all residents have access to government services through a single online platform, is another excellent and extensive endeavor. The project seeks to connect rural communities by improving their digital infrastructure, which presents an enormous commercial opportunity for companies.

The India startup scenario

It should be mentioned that India is home to more than 800 technological companies each year. According to estimates, 13,500 IT businesses will launch by 2022, with a potential workforce of 260,000 technical workers (NASSCOM,

2016). It is commendable to see that India is one of the top five startup nations in the world, with 10,000+ startups, 10,000+ of which are led by the US, 83,000+ of which are tech-based businesses, and 9% of which are run by women entrepreneurs. To help the startup tale, incubators also passed 100 in 2014–15. (Grant Thornton, 2015). The distribution of Indian firms is as follows by industry:

Table 1: Dissolution of Indian Startup Companies

Technology Based	Non-Technology Based
E-Commerce - 38%	19% in engineering
B 2 B - 25%	Construction-15%
Online (Internet) - 13%	agricultural goods: 12%
Mob. Applications - 10%	Support & Outsourcing -11%
SaaS - 8%	10% for printing and packaging
Remaining (Other) – 6%	Logistics and transportation 9%
	Textiles: 9%
	Others-24%

Source: Start-ups India- an Overview, <https://www.startupindia.gov.in/>, Retrieved on 18.11.2022.

The initial ecosystem

Due to the widespread use of IT and the internet in India, there is noticeable activity in the startup sector alongside government initiatives. Many startups are emerging in the service industries, such as education, law, retail, insurance, and health. Customers are starting to recognize the advantages and ease of startups, making it less challenging for business owners to predict their success and viability.

Many Venture capitalists and angel investors are eager and gung-ho about investing in Indian startups because they believe that many have great potential and that a select few will become unicorns (highly valued firms) that would generate substantial returns. But on the other hand, there are examples of a small number of companies that struggled and ultimately had to close their doors. With over 130 million inhabitants, India is a sizable nation that boasts significant demographic benefits from its vast population of youth. The largest concentration of the youth population is found in India, where there are 356 million people between the ages of 10 and 24. This group is expected to be the primary driver of innovation and creativity and the demand and consumption of goods and services (Mittal, 2018) [8]. India has a unique mix of problems that need creative solutions in the areas of health, education, infrastructure, sanitation, and people at the "bottom of the pyramid" because of its diverse and multilingual regions. Each problem presents a unique opportunity for startups to create a business around it. India's density reached 76.55 per cent with 95.76Cr customers, facilitating access and convenience for consumer sectors, including Tier-2 and Tier-3 towns (TRAI, 2022) [14]. The Indian economy has benefited from the rise in mobile usage, with e-commerce gaining market dominance. Additionally, the Government of India's digital drive will raise data and connectivity levels, bringing in more software applications to solve everyday problems. The decrease in data fees will also assist startups in breaking into new markets and perhaps upending established industries.

Concerns and problems with startups

A venture cannot be launched with only a concept and a passion for success. The entrepreneur should have high level of leadership ability, clear awareness of the market, excellent communication skills, maturity to see things in

proper perspective and ability to take planned risks (Agarwal, 2017). According to Rashmi Gupte, Principal (Legal), Light Box India Advisors Pvt. Ltd, some of the challenges include lack of awareness, multiple approvals, an unorganized market, poor infrastructure in Tier 2 and Tier 3 cities, lack of mentorship, strict regulatory compliance, Exit policies, corruption/red tape, technical risks, regulatory hurdles, and lack of reforms to keep pace with rapidly evolving market changes.

Some of the major problems and difficulties are discussed below:

1. Monetary resources

Access to capital is essential for entrepreneurs, but getting enough of it is never easy (Mittal, 2018; Truong, 2016) [8, 16]. Multiple funding sources are accessible, including family members, friends, loans, grants, angel investors, venture capitalists, crowd funding, etc. As the business develops, the need grows. Business expansion demands timely cash flow. Successful financial management is essential for startups (Skok, 2016; Pandita, 2017) [11, 12]. According to a recent survey, 85% of new companies are clearly underfunded, indicating a potential failure (Iwasiuk, 2016).

2. Generation of Income

As the business expands, many companies fail due to insufficient revenue generation. Startups are forced to focus on the funding component due to rising operating costs and declining revenues, which reduces their focus on business fundamentals. Therefore, generating revenue requires effective burn rate management, the rate at which companies initially spend money. As a result, it is more challenging to grow and sustain growth than it is to raise enough money.

3. Group Members

One of the key issues is for the company to find and hire the right kind of talent with the ability to meet growing customer demands (Trung, 2018). Startups typically begin with dependable people complementing the founder's skill set (s). Each team member frequently has a particular area of expertise. The first crucial stage is assembling a competent team; occasionally, failing to do so might condemn a startup to failure (Skok, 2016) [11]. A survey found that 23% of startups failed because teamwork was lacking. According to Chirag Garg, CEO of Hyper Dell, a issue is finding qualified talent at the appropriate price point. Hiring and keeping high-caliber personnel, particularly in the fields of product and technology, continues to be a significant concern, according to Nitin Sharma, Principal & Founding Member, Light box India Advisors Private Limited. (Chaudhary, 2022) [2].

4. Support of Infrastructure

Several support systems, such as incubators, science and technology parks, business development centers, etc., are important in the life cycle of a startup. The absence of these support systems increases the risk of failure.

5. Raising Market Awareness

Due to a disregard for market constraints, startups fail. Due to the novelty of the product, the environment for a startup is typically more challenging than for an established company. The issue is more challenging for a new product because the firm must create everything from the beginning.

6. Surpass Client Expectations

The second biggest obstacle is determining the market's need for the product, current trends, etc. Since the firm needs to adjust its product offerings to meet market expectations, innovation is crucial (Skok, 2016) ^[11]. Additionally, the entrepreneur needs to be well-versed in their industry to develop effective countermeasures against rivals. The problem of providing something more than an earlier breakthrough is relevant since new technologies are always being developed. According to Namrata Garg, Director of SendKardo, the largest hurdle is the requirement to constantly reinvent oneself and develop a service to be able to meet and surpass client expectations.

7. The Founders' Persistence

Startup founders need to be resilient in difficult times. Starting a business has delays, setbacks and issues that cannot be resolved. Entrepreneurs must be determined, confident and unwavering in achieving their goals. Throughout history, many startups had given up when things go wrong. The product may occasionally be technologically advanced or call for other goods or services for customers to use. For instance, Apple had to wait to introduce iTunes until the laws favored the debut. The phrase from Steve Jobs, "Many times, people do not know what they want until you show it to them," People Do Not Know What They Want Until You Show it to them. But when is especially pertinent since it emphasizes the reality that startup items typically fall into the "new and untried" category, where the success rate is low.

8. Regulations

It is necessary to obtain several government approvals before starting a firm. Even if there is a noticeable improvement, it is difficult to register a firm. India has strict regulations governing labor laws, intellectual property rights, dispute resolution etc. which require roughly 30 days complying with as opposed to only 9 days in OECD countries? India is ranked 142 out of 189 economies in the World Bank's "World Bank Ease of Doing Business" report (Mittal, 2018) ^[8].

9. Growth Suppressors

In the early stages of development, many of the organizations that make up the startup ecosystem can turn into bottlenecks themselves. In the opinion of Sneha Bhavsar, co-founder and CEO of OoWomana, one of the main difficulties is the influence of incubators, institutions and similar organizations that try to control, govern and act as parents of start-ups. Pretending to help, give advice, etc. (Chaudhary, 2022) ^[2]. Proper coordination among the organizations is necessary for the benefit of all the parties.

10. Absence of Mentoring

According to Milan Hugan, Vice President of Sales and Marketing, Erfolg Life Sciences, one of the main issues in the Indian startup environment is the lack of proper mentoring and support (Chaudhary, 2022) ^[2]. Most entrepreneurs have great concepts and/or products, but lack the market, commercial, or industry knowledge to get their goods to consumers. It is a well-known fact that a great concept is successful only when it is implemented quickly (Mittal, 2014). The biggest stumbling block that can derail a potentially good concept is inadequate mentoring or coaching.

11. No effective branding strategy

Another problem that prevents companies from flourishing more quickly is the lack of an effective branding strategy. According to Hemant Arora, Business Head-Branded Content at Times Network, branding is extremely important as it gives products an identity and creates a place in the minds of customers (Chaudhary, 2015).

12. Taking after Silicon Valley

Kaushik Shi, Founder and CEO of Afia, believes that the Silicon Valley model is often copied by entrepreneurs in India, which may not be successful. Considering the Indian infrastructure in terms of roads, internet, energy and telecom penetration, a number of adjustments and changes may be necessary when transplanted to Indian markets (Chaudhary, 2022) ^[2].

Causes of failure

A survey based on an analysis of 101 companies revealed the following major reasons for start-up failure: 42% of businesses failed because there was no market for their product, 29% ran out of money, 23% needed the correct team, 18% closed because of price problems, 17% had a mediocre product, 14% failed due to subpar marketing, and 8% lacked investor interest (Griffith, 2016). Most of the issues and difficulties listed above are supported by these factors.

Startups' opportunities

Despite the obstacles and issues that entrepreneurs must overcome, the Indian market offers a wide range of chances to find solutions that are specifically designed to address these issues.

The opportunities that are discussed for startups to take into account are listed below.

1. The large population of India

India's population is a tremendous asset to the nation. By 2020, the working-age population is predicted to surpass the non-working population. Any startup will have a lot to gain from this distinctive demographic advantage. The bottom-of-the-pyramid market and several infrastructure challenges would present an enormous opportunity for businesses.

2. A change in the working classes mind-set

The Indian start-up scene will replace traditional employment paths. Talented individuals would be drawn to start-ups by challenging responsibilities and competitive pay packages. Additionally, it has been observed that a number of well-known CEOs are leaving their positions to find or work for start-ups. An Economic Times survey also revealed that there had been a significant increase in the number of students joining start-ups and e-commerce businesses in recent years, which supports the trend already in place (Anand, 2021).

3. Huge startups investments

Both global and domestic investors are making large investments in Indian businesses. India became the most sought-after investment destination in 2015 after more than 300 angel investors, venture capitalists, and private equity players closed 300 deals, investing a total of about \$6.5

billion (Rs 42,300Cr). Just a few of the players now involved are the New York-based Tiger Global Management, the Russian business DST Global, the Japanese telecom giant Softbank, Kalaari Capital, Sequoia Capital, and Accel Partners. As Indian commerce reaches a tipping point for making significant returns by supporting prospective unicorns, more people will go on board.

4. Initiatives taken by the government

To help entrepreneurs, there are many formal and informal government initiatives.

▪ **Start-Up India**

The Startup India project promotes innovation and entrepreneurship by establishing a startup-friendly ecosystem. Instead of being a nation of job seekers, India must develop into a nation of employment creators.

▪ **Mudra Yojna**

Through this programme, banks provide loans to start-ups so that they can establish, expand and stabilize their firms.

▪ **SETU (Self-Employment and Talent Utilization) Fund**

Self-employment and the Use of Talent (SETU) In order to support all facets of new businesses and other self-employment activities, especially in technology-driven sectors, SETU will be a techno-financial, incubation, and

facilitation programme. It intends to use start-ups to create around 100,000 new jobs.

▪ **E-Biz Portal**

By facilitating quick and effective access to Government-to-Business (G2B) services through an online platform, eBiz aims to enhance the business climate in the nation. This will assist in minimizing needless delays in the many regulatory processes essential to launch and maintain firms.

▪ **Revenue Tax**

In India, the royalty tax that corporations and new firms must pay has been decreased from 25% to 10%.

For startups, examples of opportunities

Start-ups in India have a huge prospect to provide regional and niche markets that have the ability to be successful and sustainable with early revenue potential. The success rate could be high with a good product or service and a small operation region, with the potential for growth. The area at the base of the pyramid represents a potential market for goods including food, clothing, water, and hygiene supplies. The products chosen would depend on the knowledge and experience of the business owners.

A summary of current startup offerings is provided in Table 2 below, followed by lists of a few possible domains in Tables 3 (Low-Tech) and Table 4 (High-Tech).

Table 2: List of New Businesses and Their Fields of Operations

Operating Region	Initial Firm Name
Online delivery of food	FRESHMENU, SWIGGY
Trade-related big data analytics	PEELWORKS
Online drugstore	MYRA
A website that helps local companies go online	NOWFLOATS
Software for logistics management	FAREYE
Platform for tracking lifestyle	HEALTHIFYME
Solutions for credit/debit card payments	PINELABS
Options for retailers using AI	STAQU
Packaged idli/dosa batter that is ready to cook.	IDFOODS
Interpersonal lending	FAIRCENT

Source: 17 Startups to Watch, TOI, 2022

Tables 3 and 4 highlight more industries as low- and high-end businesses with varied levels of resources and investments that have enormous potential for startups to

flourish. These businesses may offer very economical solutions for developing and poor nations with comparable economic profiles.

Table 3: Opportunities for Small-Scale Businesses

Tiffin's and snacks	Health beverages	Franchising
Handling of waste	media assistance services	Processing Food
Ironing and washing	solar-powered goods	Retailing
water supplies for drinking	training and education	Wellness & Pharmacy
diagnostic facilities	ITES and IT	Delivery of food

Source: Compiled by the Author

Table 4: Startup Possibilities: Expensive Ventures (Export Oriented)

Auto-Components	Alternative medicine
Horticulture	Exports of software
Inventive Products	Biotechnology
Organic agriculture	Floriculture

Source: Compiled by the Author

Conclusion

The economy of India is currently expanding. With the introduction of entrepreneur-friendly policies and programmes like "Make in India," "Startup India," and MUDRA, the Indian government is gradually demonstrating a greater desire to increase the GDP growth rate at the local level. Indian startups have tremendous potential because of "Make in India". A government that makes significant investments in encouraging entrepreneurship can stop the brain drain and improve the conditions for young businesses to hire local talent. The modest contributions of several enterprises will have a domino effect on the economy, generate jobs, and help India's medium and large-scale sectors succeed in building the country's economy quickly. There are many difficulties in the startup industry, from finance to human resources and from launch to sustainably expansion. However, the scale of the country's population presents a tremendous opportunity for business owners who provide affordable goods and services in a variety of industries, including food, retail, sanitation, solar energy, and IT. It is important to note that some of these businesses may become unicorns and become well-known by expanding into other developing and underdeveloped countries.

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