

Challenges and Issues Faced by Startup Companies in India



ISBN: 978-1-943295-11-1

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Startup India is an initiative taken by Indian government to promote the innovative ideas by young companies. These companies may get enough funding and support at the initial phase of their life cycle, but later on, they have to rely on their customer base. There are various marketing and financial challenges and issues faced by startup companies in India. The paper aims to explore the various challenges faced by startups by collecting data through a structured questionnaire from founders/owners of the startups. Also some suggestions for how to overcome the marketing challenges can be provided.

Keywords: Indian Startups, Startups Innovations, Challenges and Issues, Digital Marketing, Social Media Marketing

1. Introduction

Startup India is a flagship initiative of the Government of India, intended to build a strong ecosystem that is conducive for the growth of startup businesses, to drive sustainable economic growth and generate large scale employment opportunities. The Government through this initiative aims to empower Startups to grow through innovation and design. A Startup India portal was also launched for facilitation of various related activities. These include recognition of Startups, mentors, information access, incubators, venture and angel funds, and many more. India is ranked as third in global Startup ecosystem as per a report by Nasscom (2015).

Several programs have been undertaken since the launch of the initiative on 16th of January, 2016 by Hon'ble Prime Minister, to contribute to his vision of transforming India into a country of job creators instead of job seekers. These programs have catalyzed the startup culture, with Startups getting recognized through the Startup India initiative and many entrepreneurs availing the benefits of starting their own business in India.

According to the NASSCOM India Startup Report 2015, with over \$5 billion worth investment in 2015 and three to four Startups emerging every day, India has paved its way to secure the third position in the world in terms of the number of Startups, 4200 and counting, a growth of 40%, by the end of 2015. Around 11,500 Startups will come up in the country by 2020, creating over 2.5 lakh jobs, compared to the current 75,000 jobs.

On the official website of Startup (startupindia.gov.in), a definition is given by Department of Industrial Policy and Promotion (DIPP). As per that definition "Startup means an entity, incorporated or registered in India, Not prior to seven years, however for Biotechnology Startups not prior to ten years, With annual turnover not exceeding INR 25 crore in any preceding financial year, and Working towards innovation, development or improvement of products or processes or services, or if it is a scalable business model with a high potential of employment generation or wealth creation". All Startup companies are to be registered with Ministry of Corporate Affairs in India.

The government of India is leaving no stone unturned to provide start-ups with the best of opportunities to grow and shine in the market. As per the Grant Thornton Report (2016), there are various stages of Startup lifecycle and financing life cycle, as given below:

Stages of the Startup Lifecycle

1. **Pre-startup:** Discovery by identifying a potential scalable product/service idea for a big enough target market and validation of the service or product discovered hits the market, looking for the first clients ready to pay for it.
2. **Startup:** Maintenance by maximizing benefits and facing problems derived from the global dimension that the business has achieved. Sale or renewal is the decision to sell the startup to a giant or acquire huge resources that the brand will need to continue growing.
3. **Growth:** Efficiency of the startup is when the entrepreneur begins to define the business model and looks for ways to increase customer base. Scale stage is pushing the growth of the business aggressively while increasing its capacity to grow in a sustainable manner

Startup Financing Life Cycle

1. **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
2. **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.
3. **Public Markets:** Late stage Startups can feel the need to expand more aggressively or actively innovate the products. Private equity funds together with public markets provide large amounts of liquidity to late stage Startups.

1.1 The Indian Startups Journey

Indian start-up industry is on the up-swing since last few years, with multiple global investors eyeing the India start-up space; it is slated to grow larger than before. However the road to success is not as smooth as it appears to be. The larger problems plaguing the businesses, such as the unorganized and fragmented Indian market, lack of clear and transparent policy initiatives, lack of infrastructure, lack of knowledge and exposure.

According to a report by Grant Thornton and ASSOCHAM (2016), most people think that having a domain name, setting up a website, moving to social media are complex, costly and time consuming. But Indian markets are largely unorganized and fragmented that create a roadblock for a startup to succeed. Consumer behavior 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.

There are various funding options available for Startup in early stages, but later no proper guidance or support is provided for the marketing of their products. For their services or products, the Startups, which are usually new and small have no choice but to rely mainly on new investors and customers. Only customers can keep the ball rolling in terms of generating the funds required for running of the business. Therefore it's vital to adopt marketing techniques to acquire customers for the same. Marketing is very important to survival of these companies (Thornton & ASSOCHAM, 2016).

Indian telecom industry is growing very fast, mobile connectivity has made inroads in the rural and urban population. Government of India's digital push is going to improve connectivity and data to the next level. The race to cheapest data has started and disruption is certain. The cheap data has helps everyone to get their hands on it, start-ups will have an easier time to tap into markets, territories and even traditional businesses.

Despite all these above mentioned efforts by government, still Startup companies are facing market problems and are failing. According to Skok (2016), among the various reasons of failures of Startups the major is that, they gradually run into the problem of their being very little market for the service or product that they created. There is not enough marketing done to attract the potential customers and then towards actual purchase. Sometimes the market timing is wrong.

2. Literature Review

Various studies which address the issues of Startup companies in India are considered for the review of literature. As per Chokhani (2017) on the Challenges Faced by Startup Companies Skilled talent is hesitant to join start-ups, as they have witnessed in the past mass firing and downsizing. Raising the capital has been a long drawn challenge for start-ups. In start-ups employment is uncertain due to companies reaching scale and then downsizing for better efficiencies, the industry is saturated with such examples. Angel investment and seed investment is easier to find, as the amounts are smaller, it has gotten much tougher to go for later stage rounds, as companies burn too fast and do not look at unit economics. Rigorous survey of the literature was done for studies and research papers on Challenges and issues of Startups in India. These are presented as below:

Goel (2018) cited some Challenges and Issues, such as culture and awareness, Social issues, Technology infrastructure, Financial Issues, Sustainability Issues, Regulatory Issues.

Madhvapathy & Rajesh (2018) addressed the Challenges of HR Tech Startups such as failure to lay groundwork for adoption by employees. While there are diverse products and technologies in the market, the core challenge is to find the right product-market fit.

Shukla, Chauhan & Saumya, (2018) in their study presented a formally structured representation of the issues faced by female entrepreneurs in a manner which is mutually exclusive and collectively exhaustive. In the context of emerging economies in fast-developing nations such as India. Singh (2018) identified the Challenges for Indian Startups as, Sustain growth, be profitable, create real businesses. Kamaldeep (2017) presented some Startup business challenges and opportunities for Startups. In India, the opportunities for the start-ups are immense, but so are the challenges. Chokhani (2017) stated that, it will take combined efforts from the government and the start-ups to overcome these challenges. Sunanda (2017) argued about managing the Startups to avoid failures through case study on zomato and redbus. Thoron (2016) explained the challenges like Culture and Awareness, Social, Technology infrastructure, Financial, Sustainability, Regulatory Issues, Multi window clearances. Jain (2016) stated Problems in Indian markets are that they are unorganized and fragmented. There is a lack of unambiguous and transparent policy motives, lack of communications sources, lack of knowledge and exposure.

Sarangi (2015) provided Reasons of why do most Indian Startups fail? To make Indian Startups actually work, it is necessary to add more constraints to the money supply. An unbridled supply of money is not exactly the best way to go forward.

Ravi (2015) explained that a combination of increasing population, growing internet usage and mobile penetration, growing economy, being a major mobile market and exponentially increasing online retailing set the stage for India to be one of the biggest Startup destinations.

Sharifi & Hossain (2015) stated the various financial challenges faced by the Startups in India. Also depicts the difficulties faced by the Startups at the initial stage. The major findings are major leap in technology have led investors to raise the bar. Keeping in mind the importance of the subject and the research gaps therein, we have undertaken this study with the main aim to address the important issue of understanding the challenges and issues faced by Startup companies in India.

3. Research Methodology and Design

Universe of the Study

The Startups in India which are registered with ministry of corporate affairs and are operational in India are considered for the study. Founders/ Owners of the Startups form the universe of the study.

Sampling Frame

The list of Startups was taken from the official website (startupindia.gov.in) which served as the sampling frame for the purpose of the study.

Sampling Technique and Sample Size

Convenience sampling method was used for collecting the data. Total number of respondents representing the startups was 57.

Tools and Techniques of Data Collection

The study is based on primary data. To collect the data from respondents a self-designed pre-tested questionnaire and personal interview method was used, to meet the objectives of the study.

4. Data Analysis and Interpretation

Data Analysis was done by using MS-Excel. The coded questionnaire was entered in excel and analysis was carried out. Challenges faced by the Startups are categorized as marketing, finance, and other challenges. It is then presented in the Tables and Figures below.

It can be seen from Table 1 and Figure 1 that major marketing challenges which are faced by startups are competition from the local vendors, branding of the company, and unorganized and fragmented markets. There are other challenges also which are as, failure to lay groundwork, very little market for the service or product that they created, finding marketing professionals, to find the right product-market fit, keeping up with latest trends and technology.

Table 1 Marketing Challenges

Variable	Number of Responses
Competition from local vendors	45
Branding of the company	34
Unorganized and fragmented markets	28
Create real businesses	20
Maintaining CRM	10
Unique ideas to attract customers	22
Choosing right social media platform	18
Other	48
Total	225

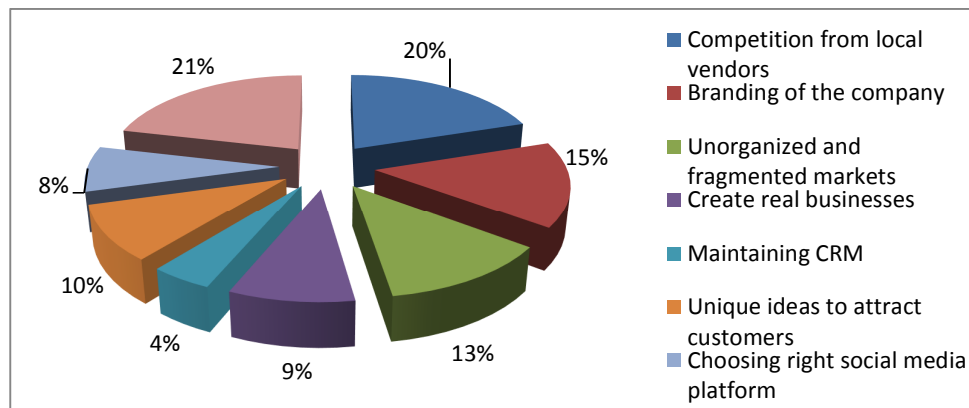
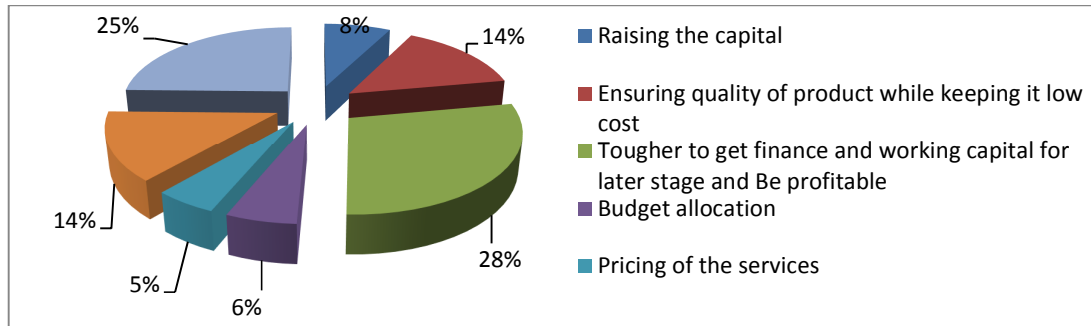


Figure 1 Marketing Challenges faced by Startups

It can be seen from Table 2 and Figure 2 that major Finance related challenges which are faced by startups are tougher to get finance and working capital for later stage and be profitable, payment related problems, not choosing the right fund option, and ensuring quality of product while keeping it low cost.

Table 2 Financial Challenges

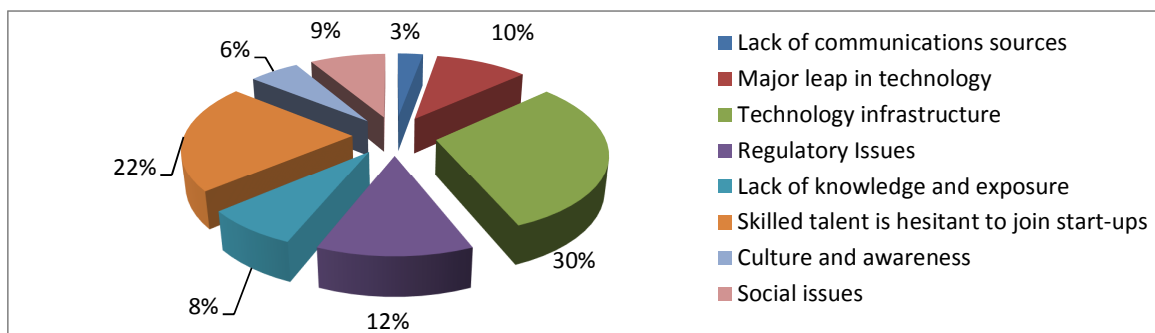
Variable	Number of Respondents
Raising the capital	12
Ensuring quality of product while keeping it low cost	23
Tougher to get finance and working capital for later stage and Be profitable	45
Budget allocation	9
Pricing of the services	8
Not choosing the right fund option	22
Payment related problems	39
Total	158



It can be seen from Table 3 and Figure 3 that there are other related challenges which are faced by startups. These are

Table 3 Other Challenges

Variables	Number of Respondents
Lack of communications sources	3
Major leap in technology	11
Technology infrastructure	32
Regulatory Issues	13
Lack of knowledge and exposure	8
Skilled talent is hesitant to join start-ups	23
Culture and awareness	6
Social issues	9
Total	105



5. Results and Discussions

From the above section it can be seen that although government has taken many initiative and is providing facilities to the startups, still there is a long way to go. Startups are facing various issues and challenges in terms of marketing, finance,

technological and other related matter. There is a need to address these challenges so as to move forward in the startup journey and to motivate entrepreneurs.

6. Limitations of the Study and Future Scope

The study was carried out for 57 startup companies operating in the various sectors. The sample size is less therefore the study should be carried out for a higher sample size. Presently it can be considered as a base for the further research. The sector perspective was not considered and it was carried out for all the sectors. To address the sector specific issues the study should be carried out for the particular sector such as Education, Automotive, or Agri Tech. It will help in reaching meaningful inferences and resolving the challenges of the specific sectors.

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