

Start ups in India - Issues and Challenges

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Volume: 7

Issue: 3

Month: June

Year: 2019

ISSN: 2319-961X

Received: 15.04.2019

Accepted: 29.05.2019

Published: 01.06.2019

Citation:

Ramamoorthy, S. "Start Ups in India - Issues and Challenges." *Shanlax International Journal of Economics*, vol. 7, no. 3, 2019, pp. 29–34.

DOI:

<https://doi.org/10.34293/economics.v7i3.523>



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Abstract

When a country's citizens grow, the country grows as well. India is a country where the majority of the population is younger, and some of the younger people are quite innovative. According to Prime Minister Modi, India's youth must transition from job searchers to employment producers. Modi presented an action plan to encourage start-up businesses, which are considered as critical to job creation and wealth creation, while speaking at the first conference of start-up entrepreneurs. In his Independence Day address, Prime Minister Narendra Modi introduced the 'Startup India, Stand up India' campaign. PM Modi launched the country's startup action plan on Saturday. He announced a self-certification plan for nine labour and environmental rules, as well as the fact that there will be no inspections for the first three years of the enterprise. In India, the start-up boom is still a relatively recent phenomena. Today, India is undergoing a fundamental transformation, with entrepreneurship and innovation serving as main catalysts in the creation of jobs and the resolution of everyday problems. There were only a few Indian start-up success stories a decade ago, such as MakeMyTrip.com and Naukri.com. The Indian Start-Up Ecosystem has come a long way, thanks to companies like Flipkart, Quicker, Practo, Zomato, and Inmobi.

Keywords: Startup India, Action, Startup, Lifecycle, Financing, Challenges

Introduction

A startup is a new business that is just starting to develop and grow, is in its early phases of operation, and is usually funded by a single person or a small group of people. It could be a start-up or a new firm, a partnership, or a temporary business organisation looking for a repeatable and scalable business strategy. In order to disrupt existing markets or create new ones, a startup company may look for an unknown business model. It is founded on technology and invention, with the founders attempting to profit from the development of a product or service for which they feel there is a market.

Startup India is the government of India's flagship programme, with the goal of creating a robust ecosystem for nurturing innovation and startups in the country, resulting in long-term economic growth and large-scale job creation. Through this project, the government hopes to empower startups to grow through innovation and design. In order to achieve the initiative's goals, the Indian government has released an Action Plan that covers all facets of the startup ecosystem. On January 16, 2016, our Prime Minister, Dr. Narendra Modi, launched a slew of benefits and programmes aimed at promoting India's startup environment. The event was called 'Startup India, Stand up India'.

It was the first of its type interaction between India's startup sector and the government, and it was extremely significant. Startup India is the government of India's flagship initiative aimed at creating a robust ecosystem for the country's innovation and startups. The government hopes to accelerate the spread of the Startup movement from the digital/technology sector to a wide range of sectors, including agriculture, manufacturing, social sector, healthcare, education, and

so on, as well as from existing tier 1 cities to tier 2 and tier 3 cities, including semi-urban and rural areas, with this Action Plan.

The Action Plan is structured into three sections: simplification and handholding, funding support and incentives, and industry-academic collaboration and incubation. Since the day the ‘Start-up India’ initiative was revealed, every entrepreneur has been wondering whether their business qualifies for the new schemes and advantages announced. Finally, the Government of India’s Department of Industrial Policy and Promotion (DIPP) has specified which ventures will qualify as Startups for the incentives.

Definition of Startup (Only for the Purpose of Government Schemes)

Startup refers to a company that has been

incorporated or registered in India for less than five years and has had annual revenue of less than INR 25 crore in the previous financial year, and is working on the development, deployment, or commercialization of new products, processes, or services that are based on technology or intellectual property. Assuming that such an entity is not formed by the division or rebuilding of an existing firm.

Provided also that a company ceases to be a Startup if its preceding financial year’s turnover exceeds INR 25 crore or if it has been in operation for more than 5 years from the date of incorporation/ registration. Furthermore, a Startup will be entitled for tax benefits only after receiving certification from the Inter-Ministerial Board, which was established for this reason.

Stages of the Startup Lifecycle

Pre-Startup	Startup	Growth
<p>Validation Discovery</p> <ul style="list-style-type: none"> The newly found service or product enters the market, looking for the first customers willing to pay for it. 	<p>Efficiency</p> <ul style="list-style-type: none"> The business owner starts to establish his or her business strategy and looks for ways to expand his or her consumer base. <p>Scale</p> <ul style="list-style-type: none"> Accelerating the company’s growth while boosting its potential to grow in a sustainable way. 	<p>Maintenance</p> <ul style="list-style-type: none"> Maximizing benefits and dealing with issues that arise as a result of the company’s global expansion <p>Sale or Renewal</p> <ul style="list-style-type: none"> The decision to sell the startup to a behemoth or to acquire the massive resources that the brand will require to continue to expand.

Financing Lifecycle of Startups

Funding	Venture capital	Public market
<ul style="list-style-type: none"> Angel investors and seed capital are used by early-stage firms; They invest simply in the entrepreneur with an idea; and They do not encumber the entrepreneur with any corporate governance requirements. 	<ul style="list-style-type: none"> It Comes from larger institutional funds and is used to scale the company’s business model The focus is on building the sales force and having a global presence 	<ul style="list-style-type: none"> Late-stage firms may feel compelled to expand more aggressively or actively innovate their product. Private equity funds and public markets give late-stage startups with huge sums of liquidity.

Top Five Countries in the World in Terms of Startups

In terms of startups, India is one of the top five countries in the world. With almost 83,000

companies, the United States ranks first on the list. Table 1 provides more information.

Table 1 Top Five Countries in the World in terms of Startups

US	83000+
India	10000+
China	10000+
UK	7900+
Canada	6100+

In India, there are around 10,000 start-ups, with 4300 (43%) technology-based start-ups and 5700 (57%) non-technology-based start-ups. Table 2 shows a sector-by-sector breakdown.

Table 2 Sector Wise Break up of Startups in India

Technology based startups	Non-Technology based startups
E-commerce - 33%	Engineering - 17%
B2B - 24%	Construction- 13%
Consumer internet - 12%	Textile - 8%
Mobile apps - 10%	Printing & packaging – 8%
SaaS - 8%	Transport & logistics - 6%
Other – 13%	Outsourcing & support – 5%
	Other – 32%

Table 3 Exhibits the Cross Country Trends in the Startup Eco System

	India	China	Israel	Singapore	Japan	US
Total no. of startups (~)	10,000	10,000	4,750	N.A.	N.A.	83,000
Tech-based startups	4,300	3,400	4,000	N.A.	N.A.	48,500
Non-tech based start-ups	5,700	6,600	750	N.A.	N.A.	34,500
Set up a new business (Days)	30–60	30	13	2	10	4
Corporate tax rate	34%	25%	26%	17% (100% tax exemption for startups)	34%	39%
No. of Tax payments by businesses (p.a.)	33	9	TBD	TBD	TBD	11
Bank lending rate R&D spending % of GDP (Est. 2014)	10.3% 0.85%	5.6% 1.90%	3.9% 4.20%	5.4% n/a	1.2% 3.40	3.3% 2.80%

Source: World Bank, News articles, Gov. Sites

Advantages of Startup

- The first and most important advantage of a startup is that it is based on a unique or creative idea, and we all know that in this world where technology and consumer tastes are changing at such a rapid pace, a unique idea can do wonders because there is no limit to profit margins when it comes to startups because there is no benchmark against which these startups can be compared, and thus they have monopoly over product pricing because uniqueness has no subs.
- Another advantage of startups is that, because they are not publicly traded, they are subject to fewer regulatory constraints and there is no fear of shareholder intervention in company matters, which leads to faster decisions and gives the company's management complete control and flexibility over its operations.

Disadvantages of Startup

1. The most significant disadvantage of a startup is the presence of an inherent risk associated with startups because, while the idea may be unique, consumers may reject the product or service, resulting in the startup's failure and, as a result, a significant loss for the owner as well as those who have invested money in the company.
2. The owner's lack of experience is another major limitation of a startup because the majority of entrepreneurs are young and have no prior experience, which can sometimes be a problem because not every business problem can be solved by zeal and energy; some problems require maturity and patience, which can only be gained through experience.

As can be seen from the above, startups have numerous benefits as well as drawbacks, but one thing is certain: they will never cease to exist since

without startups, there will be no next great company because successful big firms are built on the pillars of startups.

Challenges of Indian Startups

- India is placed 130th out of 189 economies in terms of ease of doing business, 133rd in terms of cross-border trade, and 157th in terms of tax compliance.
 - On average, Indian firms must make 33 tax payments every year, requiring roughly 243 hours to prepare and pay taxes in a year.
 - In comparison, China demands only nine tax payments per year, while the United States does not bother its taxpayers more than 11 times per year for tax payments.
 - India improved the most in business regulation among South Asian economies, improving its distance to frontier score.
1. Culture and Awareness
 2. Social
 3. Technology
 4. Financial
 5. Regulatory
 6. Sustainability

Issues faced by Start Ups

Culture and Awareness

People in India have been conditioned to despise failure as a result of their culture. Opinions are plenty for failures, but encouragement is few. Entrepreneurship is frequently about failing, learning from your mistakes, and beginning over. People must begin to accept failures and give second opportunities.

The most frequently asked questions by people who want to start their own business

- What to do if you have a problem with coming up with a company idea, identifying a business opportunity, or having a vision
- Why should you do it: concerns relating to reward/incentive analysis, risk assessment, or any other advantages
- What to do: legal issues and requirements such as clearances, licences, and approvals are required. Finances, technology, and human supply are all issues related to resource availability.

Most individuals believe that registering a domain name, creating a website, and transitioning to social media are difficult, expensive, and time-consuming tasks.

People in India are concerned about risk and reward, and the country is known as a price sensitive market.

The general public is uninformed of how they might contribute to economic progress, job creation, and social development.

Social Issues

1. Mentorship/Direction: Most failed startup founders believe that a lack of sufficient guidance and mentorship was a significant factor in their failure. The lack of effective mentorship, especially in terms of industry knowledge/support, is a major reason for some organisations' failures and delayed growth.
2. Market structure: The Indian market is extremely unorganised and fragmented, making it difficult for a company to prosper.
3. Consumer behaviour varies every 30-50 kilometres in India, making it extremely difficult for a company to develop a business or market plan for their products or services. Most startups become stuck in a rut and eventually shut down.
4. Location: One of the most significant issues that entrepreneurs encounter is the location of their firm. Because India has such a diverse culture and cuisine, not every product will be welcomed equally in every location.

Technology

Technology Infrastructure

- Given the growing number of consumers online, appropriate IT infrastructure has become a must for Indian businesses.
- It is crucial for new startups to train their employees on how to handle sensitive client information such as credit card numbers and related data.

Cyber Security

- A B2B business model is used by the majority of startups.
- No backup plan to keep the fledgling company

going if an accident kills some important equipment in their data centre.

Financial Issues

Operational Finance

- Most companies are self-funded or family-owned, with a small workforce, making it difficult to keep track of financial and operational data.
- Many firms have failed due to flawed business models and a lack of new revenue tactics, forcing them to wind down operations.
- Avoiding superfluous business steps in order to run a business

Funding/Capital Deficiencies

- While the government and private sector investors have set aside cash through investment channels, they are not available for all types of businesses. The most difficult challenge for such organisations has been attracting investors and gaining their trust in their business model.
- Because the company has no credit history, startups are unable to obtain capital from banks in the early stages of operations. Furthermore, the number of credit rating firms available to small and medium-sized businesses is restricted. Despite having received good funding, companies struggle to stay afloat in today's market. The gap between burn rate and revenue is too wide for startups to bridge.

Cash Flow Management

- Effective cash management is critical to achieving both short- and long-term objectives. Due to the fact that electronic payment has not yet reached Tier 2 and Tier 3 cities, cash is still the favoured method of payment.
- Burn rate vs. revenue: With increasing rivalry from big and small competitors, it's more important than ever for startups to build up their businesses and seek outside capital in order to stay afloat and expand in the market.
- Funding evolution: Following a large-scale consolidation across the sector over the last few years, major funding and mega announcements have become a thing of the past. Both investors and entrepreneurs are now consciously focusing

on innovation, capital efficiency, and client/customer pleasure, a viewpoint that will undoubtedly influence the funding environment in the future.

Regulatory Issues

Many window permissions: Aspiring businesses must visit government agencies multiple times to register and obtain clearances. Multiple regulatory clearances must be scrapped immediately.

Taxation Issue

Taxes such as octroi, VAT, and excises provide difficulties for entrepreneurs when beginning a business. NASSCOM has lobbied for all startups in India to be exempt from both direct and indirect taxes.

Taxation is a barrier to technology adoption and a significant stumbling block for aspiring entrepreneurs - With taxation removed from the equation, startups will be able to control cash outflow.

Sustainability Issues

1. When it comes to forming commercial ventures, the level of knowledge and willingness of business counsellors to discuss environmental issues with their clients is critical.
2. Information gap – providing more information directly to business owners could aid in the adoption of more sustainable business practises.
3. They are unaware of the possibilities for their new business.
4. The importance of government support in fostering sustainable businesses is frequently overlooked.

Conclusion

To summarise, new policy measures have created a startup environment that will not only boost start-ups, particularly in the manufacturing sector, but will also allow micro units to graduate to small and medium units faster. If this target is met, the goal of job creation through self-employment will be fully realised, as self-employment is the only way to employ a large part of the population in the economically active age group. As entrepreneurs complain about skill mismatch, this process will be

accelerated by flagship programmes properly backed by the Skill India Mission, which will make it easier to find the right qualified labour.

Given the fact that startups are becoming important employment providers, both the federal and state governments must establish an adequate policy framework for them. Risks are an unavoidable element of starting a business. However, in order to lessen the danger of failure, an awake and insightful mind is required when making judgments related to beginning activities. Although every startup faces obstacles, it is the will to overcome these obstacles, especially in the face of doom and gloom, that distinguishes a successful startup. Startups that succeed are those who are constantly on the lookout for business opportunities, are diligent in seizing and exploiting them, as well as discovering inventive solutions to address the problems that all startups confront, learn from their failures, and stay focused on their mission. With India's current startup environment on the rise, there's no reason why a great concept can't flourish when combined with the right components for running a venture.

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