

Indian Startups : Analyzing Their Vulnerabilities & Prevailing Challenges

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Startups have been the fashion of commercial markets over the last few years in India. Lack of Government support and stringent policies for setting up the startup makes the process difficult. However with the improvement in the policies regarding documentation work, banking facilities and other helps from government departments, the startups have surged in past few years. Leftover complicated procedures and regulations should also be studied and resolved as soon as possible. This study has tried to look into these aspects and reflect the prevailing situation at ground level. Study has explored the effect of demonetization and GST implementation on the startups as well as analyzed the overall performance of the startups across many sectors. Study found funding as the most important factor for the survival of startups and easing up the government rules and regulations have also been the priority area for the startups. Startup India initiative is well known to startups but new entrepreneurs are expecting more supportive and responsive ecosystem.

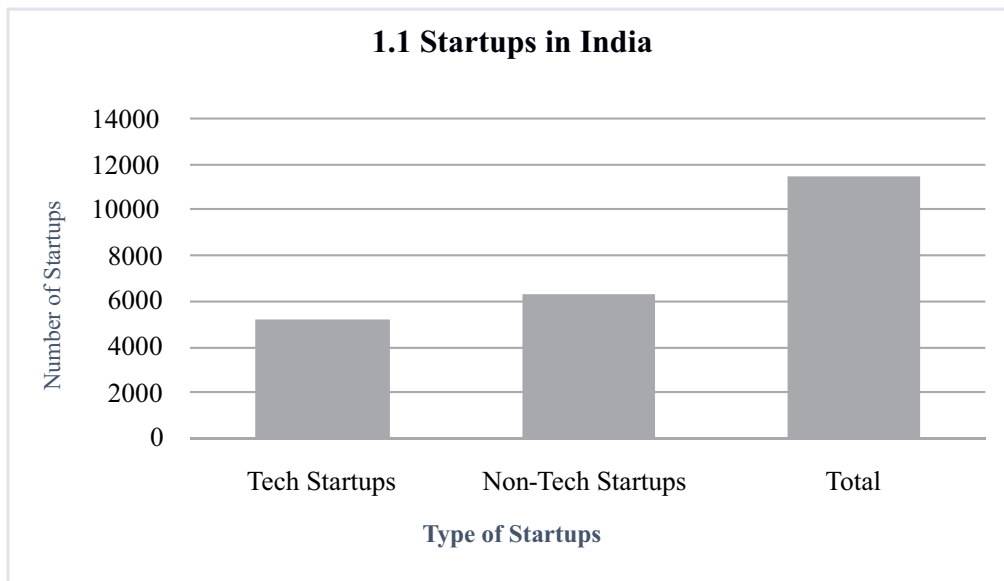
Keywords: *Startups, Problems of Startups, Startup Challenges, GST & Startup, Vulnerabilities of startup*

Introduction:

A startup is basically a small newly opened organization which in form of a small business, a partnership or a small venture formed to grow rapidly a new business model. In other words, startup is a new young company which aims to work with dynamic approach to develop a business model which earns huge amount of revenue. Typically, a startup starts with the beginning of building Minimum Viable Product (MVP), a prototype, to assess and develop the new initiative and business methods. In addition of this, the founders do researches and surveys to deepen their

understanding of new concepts, technologies, ideas, market concepts and commercial potential. Then a shareholder's agreement (SHA) required agreeing on early stage to confirm the ownership, commitment and contributions of founders and investors.

India is the third largest base for the startups in the world and has a great market for various products. But the failure rate of startups in India is significantly very high. And around 90% of the startups in India have to finally shut down due to various factors.



Source: Nasscom Report 2017

The number of startups in India is increasing day by day as people are now more interested towards entrepreneurship and the improved government policies and working environment is making a suitable place for startups to grow and nurture. Currently, around 11500 startups are there operating in India. There are around 5200 tech-based startups, and around 6300 non tech based startups presently working in India.

Government Initiatives for Startups

Now a day's government of India is taking lot of steps towards the development of startups. There are some schemes launched by Indian government which is headed by different ministry and further headed by various departments. Some of the schemes are: -

Table 2

Name of The Scheme	Headed By	Industry Applicable	Fiscal Incentive
Support for International Patent Protection in Electronics & Information Technology (SIP-EIT)	Department of Electronics and Information Technology (Deity)	IT Services, analytics, enterprise software, technology hardware, Internet of Things, AI	Up to INR 15 Lakhs for each creation or half of the aggregate costs brought about in documenting and handling of the patent application up to give, whichever is lesser.
MSME Market Development Assistance	Office of the Development Commissioner (MSME)	Sector-agnostic	Provides air fare reimbursements based on category entrepreneur lies in (General, women, SC/ST/PwD). It add up to sponsorship on air passage and space rental charges will be confined to INR 1.25 Lakhs for every unit.
Coir Udyami Yojana	Coir Board	Agriculture	It add up to endowment on air toll and space rental charges will be confined to INR 1.25 Lakhs for every unit. The measure of bank credit will be 55% of the aggregate task cost in the wake of deducting 40% edge cash (appropriation) and proprietor's commitment of 5% from recipients.
Raw Material Assistance	National Small Industries Corporation (NSIC)	Sector-agnostic	MSMEs will be benefited financial aspects of buys like mass buy, money rebate, and so forth. Additionally, every one of the methodology, documentation and issue of letter of credit if there should be an occurrence of imports will be dealt with.
Bank Credit Facilitation Scheme	National Small Industries Corporation (NSIC)	Sector-agnostic	N/A
Software Technology Park (STP) Scheme	Software Technology Parks of India (STPI)	IT services, fintech, enterprise software, analytics, AI	Deals in the DTA up to half of the FOB estimation of fares is admissible and devaluation on PCs at quickened rates up to 100% more than 5 years is passable.
Pradhan Mantri Mudra Yojana (PMMY)	Micro Units Development and Refinance Agency Ltd. (MUDRA)	Sector-agnostic	MUDRA offers impetuses through these mediations: > Shishu : covering credits upto INR 50,000/- > Kishor : covering credits above INR 50,000/- and upto INR 5 Lakhs > Tarun : covering credits above INR 5 Lakhs and upto INR 10 Lakhs

(Source: Startup India website)

Research Objective

The research has the following objectives.

- To study the performance of startups as well as the role of various stakeholders
- To study the effect of different barriers such as demonetization and GST on startups

literature review

Macmillan et al (1987) investigated the major differences between a successful and non-successful venture by investing 150 ventures as per 5 major criteria. This study found two factors *insulation from competition* and *demonstrated market acceptance of product* responsible for the venture's success.

Bosma et al (2004) had concluded that an investment in human and social capital tends to increase the performance of the entrepreneurs. At the same time they established importance of innovations used towards improving the performances of human and social capital. The study also reveals that a skillful individual entrepreneur is more likely to perform better in the industry over others. **Astebro and Bernhardt (2003)** explored negative the relationship between fresh ventures and bank loans and positive relationship between non-banking loan and venture survival. This whole study was conducted on small businesses launched in US 'between' 1987-1991. A lot of female entrepreneurs are also venturing in the business and giving tough fight to their peers. Female investors are working and their stock picking skills are good and they generally invest in financial market (**Shukla, 2018**).

Day et al. (2004) mentioned the need of broadening the concept of the leadership in case of startups and stressed upon the emergence of the shared leadership suitable for the expansion and extension of start-ups. **Pearce et al (2006)** also describes the perks of shared leadership over the vertical leadership and how it has an edge in reference to descriptive value. It suggests that the high-profile cases of success of reckless start-ups, whose different way of innovation and creativity, are mere stories, rather than the actuality.

Innovation has always been one of the main aspects

for the startup to flourish and with the changing needs and demands, some new innovations and more optimized form of working and constant need of changing is an important aspect. Success of products largely depends upon management of distribution channels in the target market. Company has to upgrade the product over the time to meet the expectations of customers (**Appu & Balaji, 2018**).

Kumar (2015) analyzed the suitable environment for startups within India and other countries and found India as one of harshest environment for the start-ups to grow. Government had also taken various measures and simplified the various rules and procedures to smoothen the process for setting up a start-up. However, due to lack in breakthrough innovation, there was some hesitation in initial findings for the startups. Incubator and accelerator culture had somehow, provided the relief to the start-up ecosystem within India.

Research Gap

Above discussed research papers and studies have explained different dimensions related with startups. After going through all of them some gaps such as employee issues, funding pattern and challenges, government support, credit and taxation problems, reasons of failure etc. have been identified and covered in this study. It analyzed prevailing challenges and vulnerabilities to explore and develop better ecosystem for startups.

Research Methodology

The research is conducted to know the state of startups in India and their different vulnerabilities. It is also looking into the problems faced by startups and also the factors behind the success or failure of startups.

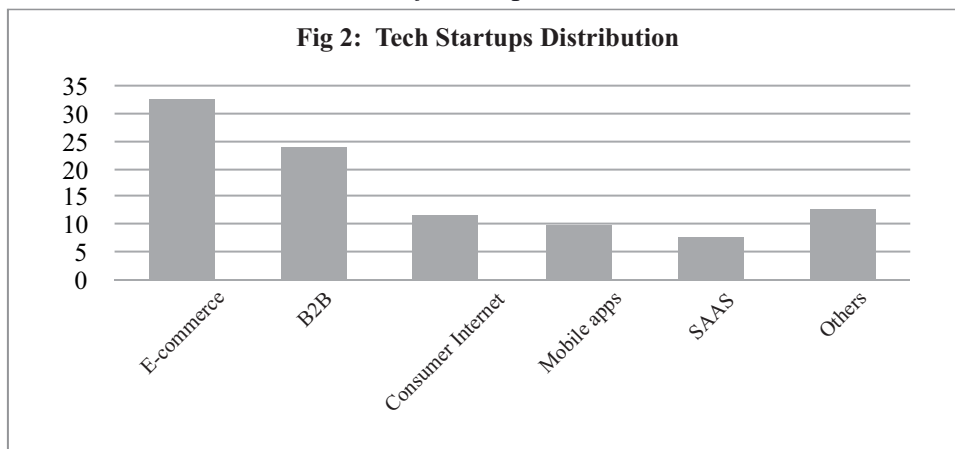
Descriptive research design has been used for the

research and 100 respondents (10 each from 10 startups of NCR region) have been covered while using convenient sampling technique. A questionnaire consisting of close ended questions

have been used for the data collection. At the same time a lot of secondary data has also been used to analyse the prevailing state of startups across India.

Discussion on Startup's Different Aspects

Distribution of Startups Sector Wise

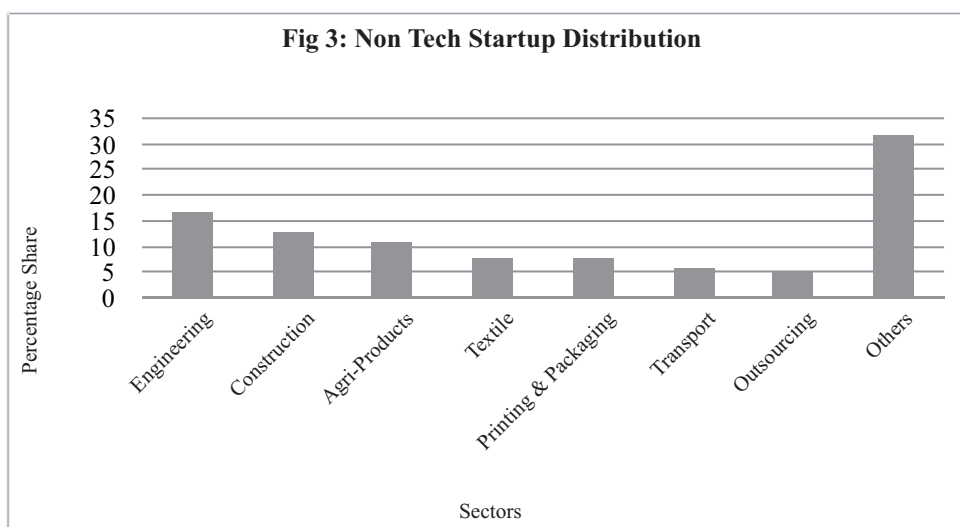


(Source: Xeler8)

It is clearly evident from the above graph that E-Commerce has the highest number of tech based startups in India, constituting around 33% of the total tech-based startups, followed by B2B, Consumer Internet, Mobile apps, SAAS. Most of the E-Commerce companies like Flipkart, Paytm

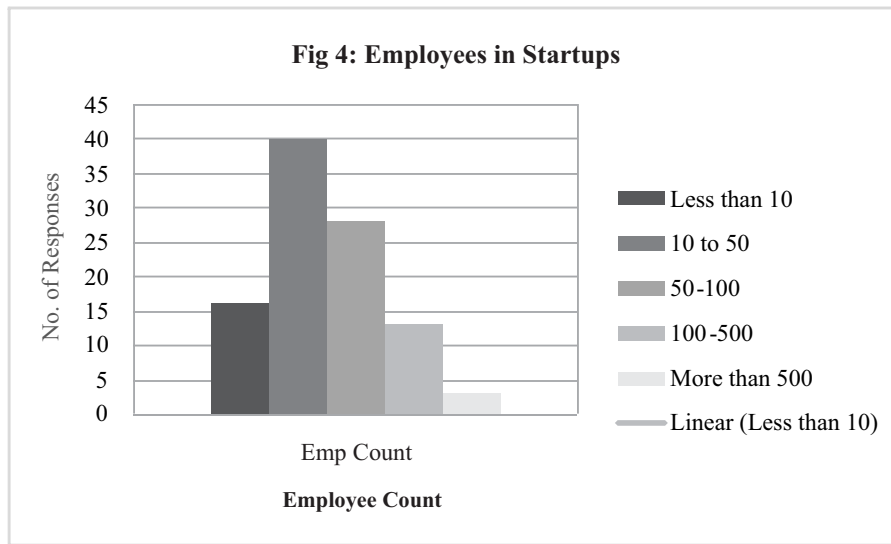
etc. are very popular among the people of India, and are quite a success.

While, the non-tech based startups includes various fields like Engineering, Construction, Agri-products, and Textile etc.



(Source: Xeler8 Analytics)

Employees in Start-ups

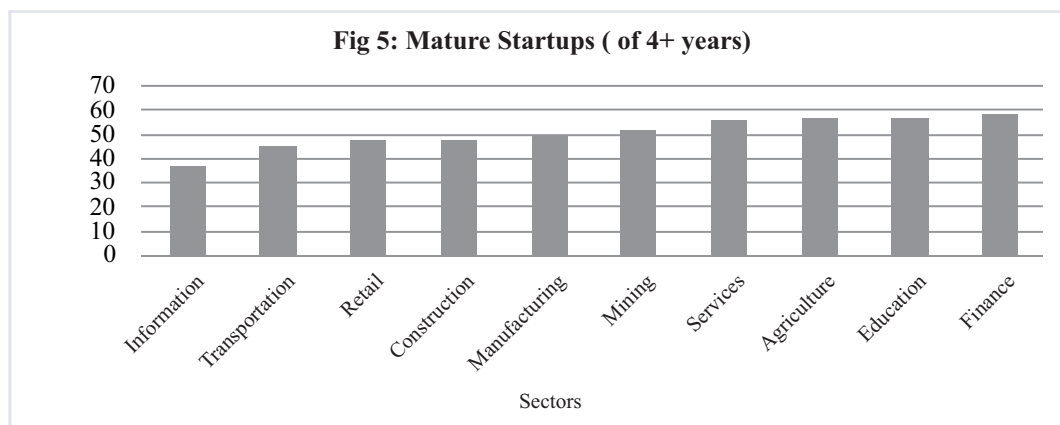


(Source: Data survey)

The above graph shows that most of the startups employs around 10-50 people and almost 85 percent of startups have employee strength of 100 or less. Around 15 percent startups do not have

strength of even 10 people. It suggests that the strength of most of the startups are not very high and they focus on specific set of people for their work.

Mature Startups

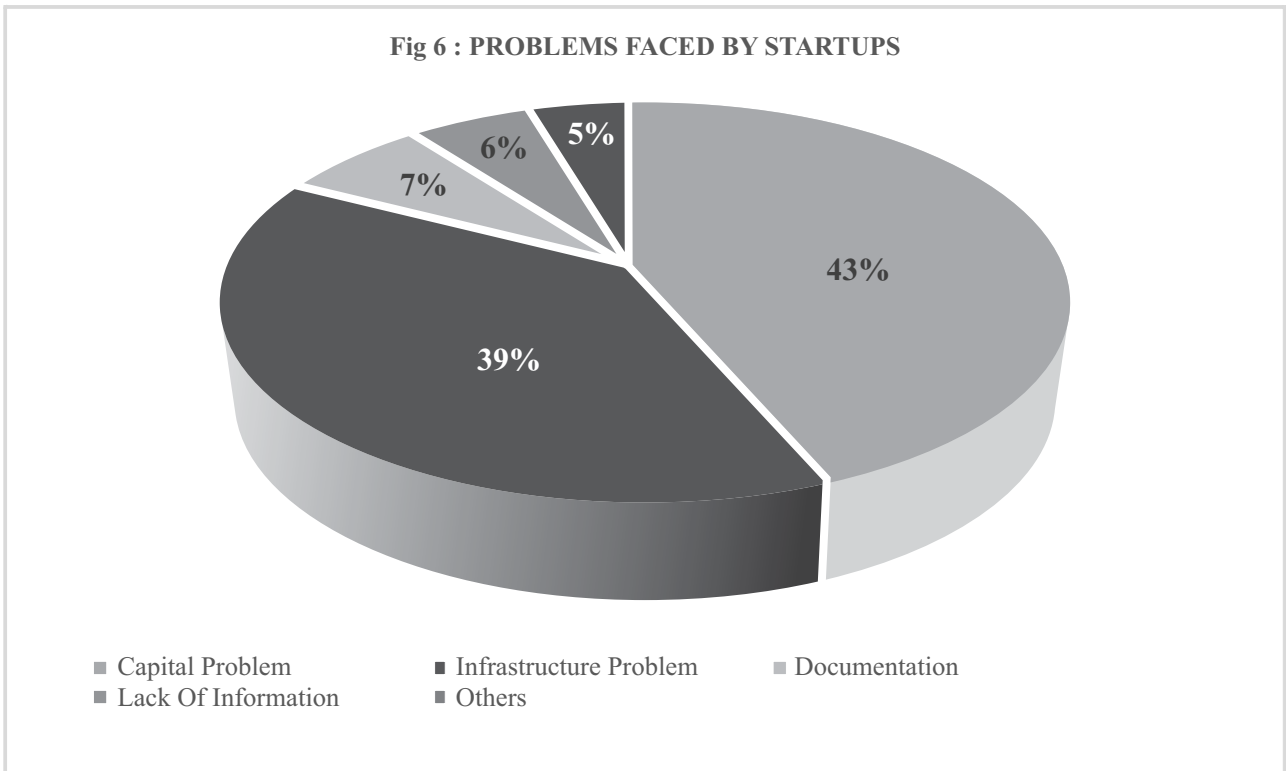


(Source: startup stories, Times of India)

As per the graph mentioned above, Finance sectors constitutes most of the startups surviving the vulnerable period of first four years and still operating after 4 years. And it is followed by

Education, Agriculture and Services. Mining, Manufacturing, Construction sectors comes behind them, followed by retail, transportation and Information sector.

Problems Faced

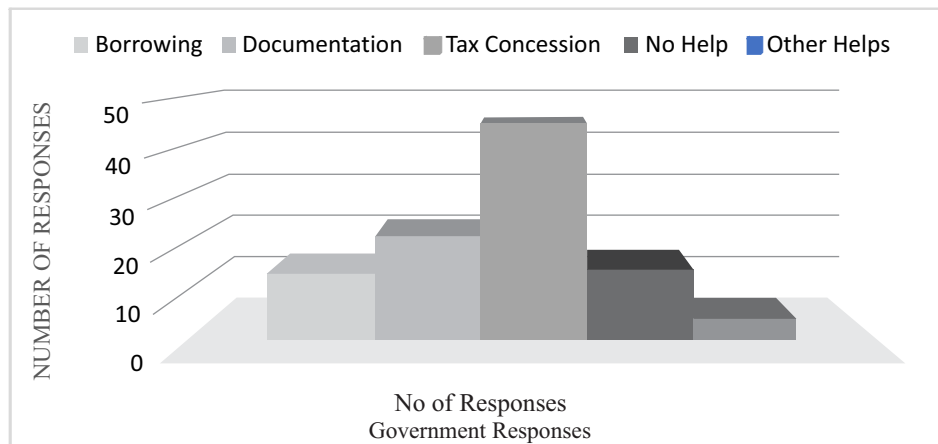


(Source: Data survey)

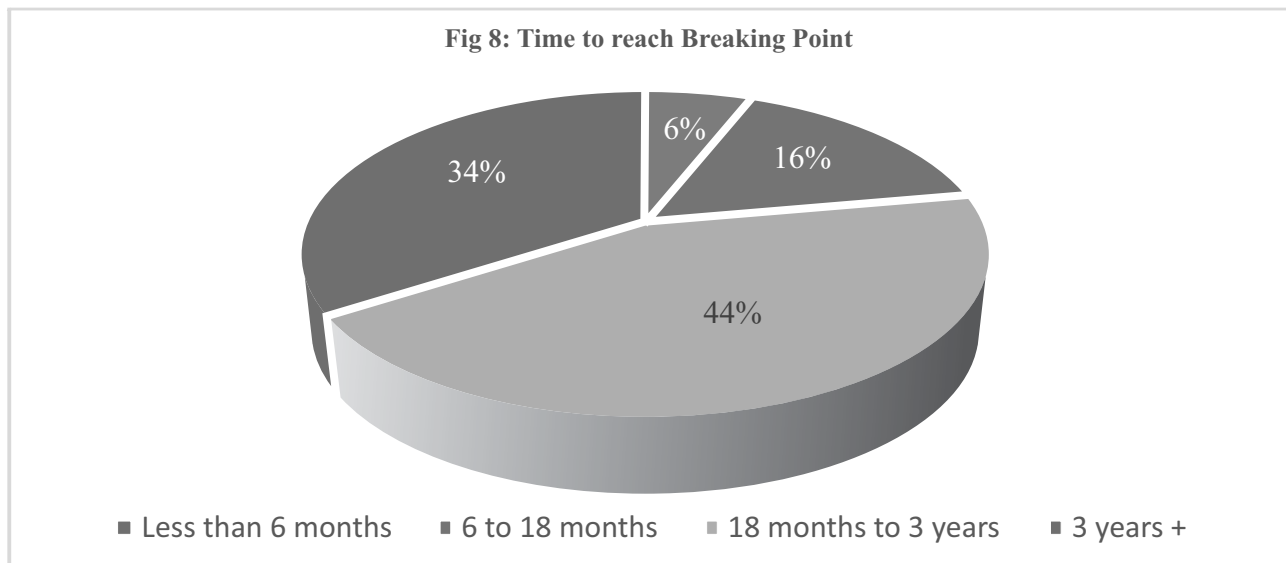
As per the study, Capital Problem and Infrastructure problems are the most critical problems faced by the startups in India. Most of the startups fail due to lack of funding as suggested by other studies. Even the startups working successfully, they still have problem in generating

capital or resources and availing right infrastructure. Government need to focus on how to generate revenues or bring in more investment for the startups and also has to work on providing solution to infrastructure problem.

Fig 7 : Government Support



(Source: Data survey)

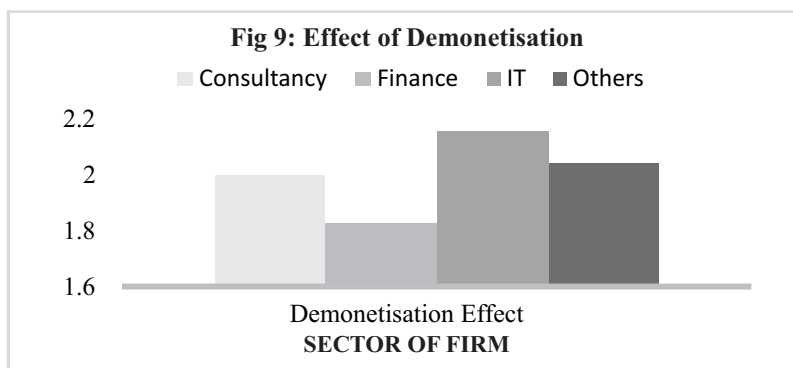


(Source: Data survey)

Time for Reaching Break Point

Many of the companies require more than three years reaching the breaking point stage for their businesses. More than 75 percent of startups took more than 18 months to finally recover the

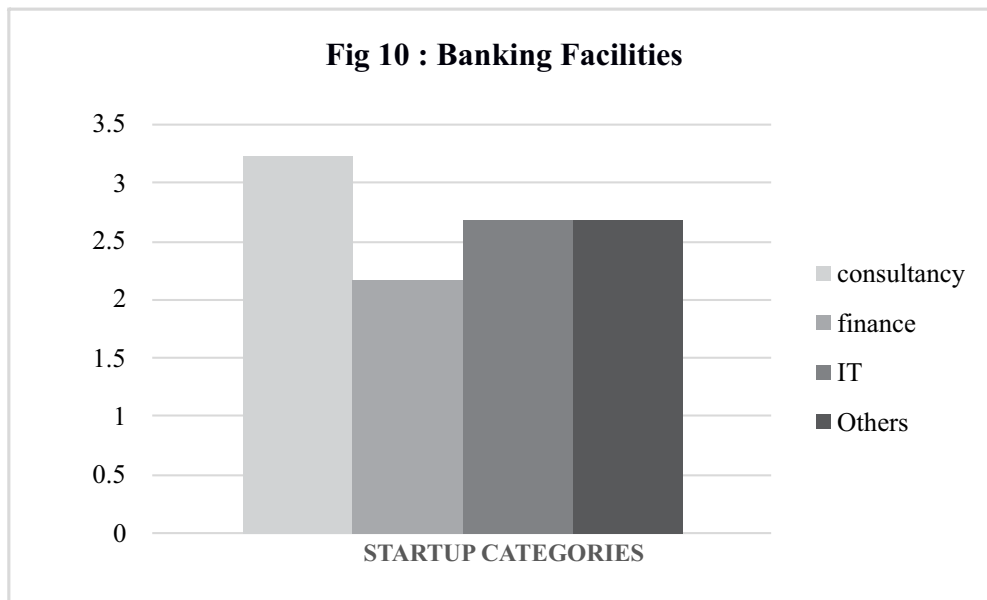
investment put in by them for setting up the business, out of which 34 percent of businesses took even more than 3 years. As per the study, around 2-4 years is required for a startup to reach the breaking point and start making profits.



(1- Severe, 2-Moderate, 3- Normal, 4- Almost Negligible, 5-Positive Impact) (Source: Data survey)

As the above graph states, the effect of demonetization is visible on the various sectors of startups. The responses received shows that demonetization had an adverse effect on the business of various sectors and no sector found to have a positive impact of

the demonetization. Most of the companies faced various difficulties due demonetization and termed the demonetization as severe process for their business. As per our study, Demonetization affected companies and startups business negatively and created several difficulties in the running of business.

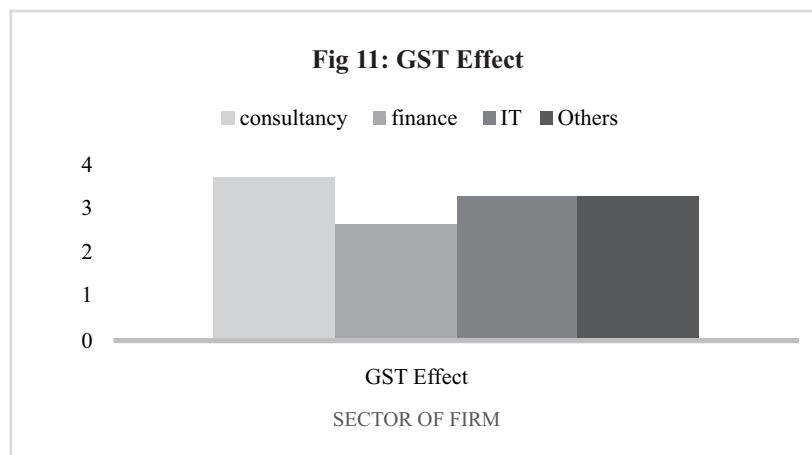


(1- Very Poor, 2-Not Helpful, 3- Average, 4- Good, 5-Very Cooperative)

(Source: Data survey)

The graph above shows that banking facilities available for starting new business in our country is not very promising and need to be focused upon. As per the survey, people working in startups rated the banking facilities as average. Even after so much

efforts are being made by government to boost up the ecosystem for startups in India, such responses are little disappointing, more efforts must be made and policies must be properly implemented to get the desired results.



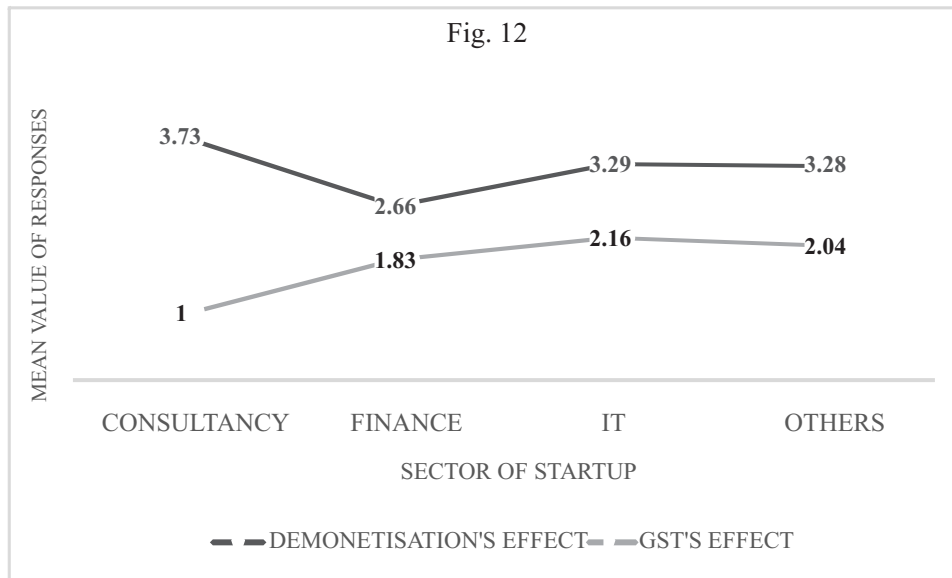
(1- Severe, 2-Moderate, 3- Normal, 4- Almost Negligible, 5-Positive Impact)

(Source: Data survey)

The new taxation system, GST introduced by government seems to have no odd effect on the startups. As per the survey, the effect of GST was normal and startup companies and firms have accepted the new taxation system without much

difficulty. However, the responses suggest that there was not much positive impact of GST too. However, Survey states that introduction of GST hasn't also guaranteed or provided any benefits for the startups.

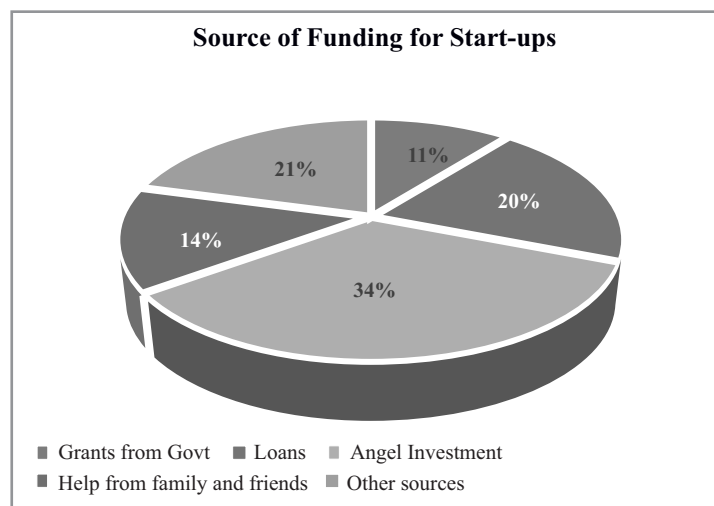
Sector wise Impact of GST and Demonetization



(Source: Data survey)

Demonetization had adverse impact on the startups as suggested by the survey. On the other hand, GST too created difficulties for the startups, but impact was not as critical as due to demonetization. The respondents rated demonetization effect from 1.8 to 2.1 in various sectors, which states that

demonetization had bad to severe effect. While GST was rated in the range of 3.2 to 3.7 which states that the effect was moderate. However, GST had no benefits for the startups too, as per the survey.



(Source: Data survey)

Angel investment is the most common source of funding for startups. Almost 34 percent of startups generate their revenues from angel investment. Loans are also one of the common source, with 20 percent of startups opting for loans to set up and run their businesses. Around 14 percent of startups opt

for help from families and concerned people; while as many as 11 percent receive grants from the government. Around 21 percent generate their revenues from other sources. It states that still there is no specific source of funding and different startups rely on different sources for their funding.

Discussion On Startups Funding (2015-2017)

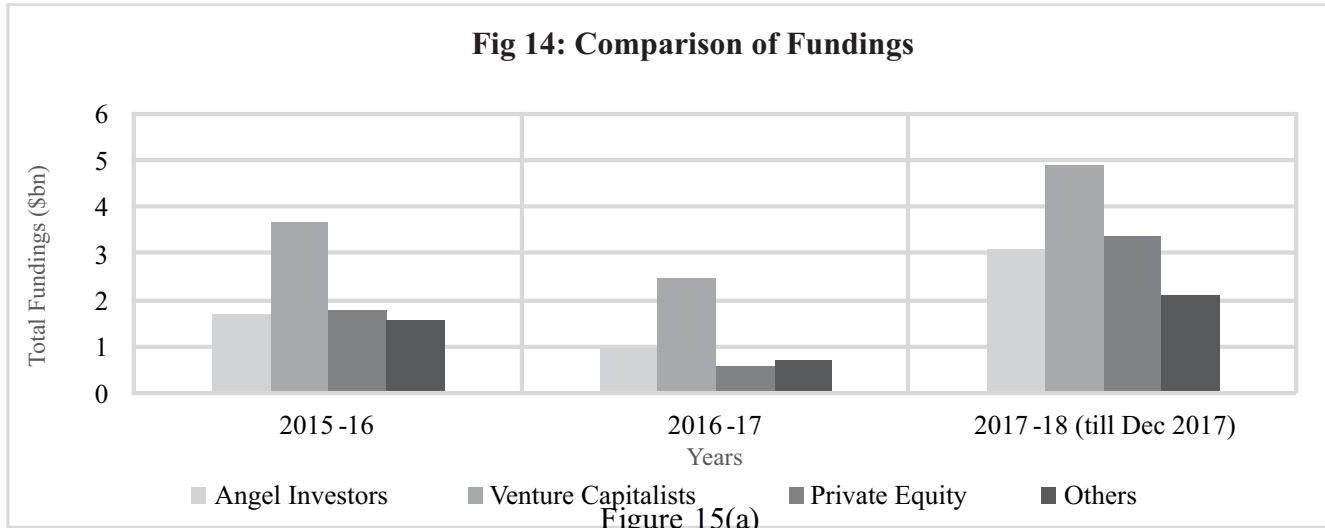


Figure 15(a)

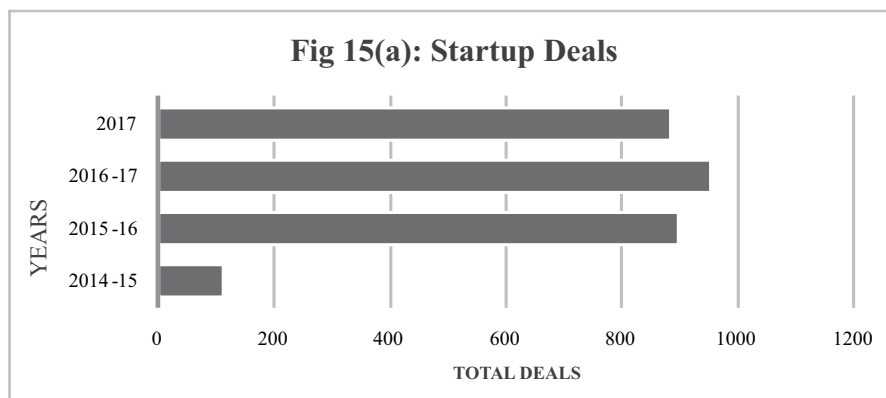
(Source: Nasscom startup report 2017)

Above table and graph below are showing funding trend of different investors from last 3 years in startups. Contribution of angel investors keeps on increasing every year which is 19%, 21% and 23% of respective year 2015-16, 2016-17 and 2017-18, whereas venture capitalist consists the maximum contribution of total funding all the three years. On

the other hand, demonetization effect can be seen clearly on private equity as contribution of PE has decline tremendously in the year 2016-17. Angel investors had not got effected by demonetization as they invests at very early stage with less amount of money as compare to venture capitalists and private equity firms.

Funding Pattern & Deals (2014-2017)

Figure 15(a)



Source – Indian tech startup funding report 2017)

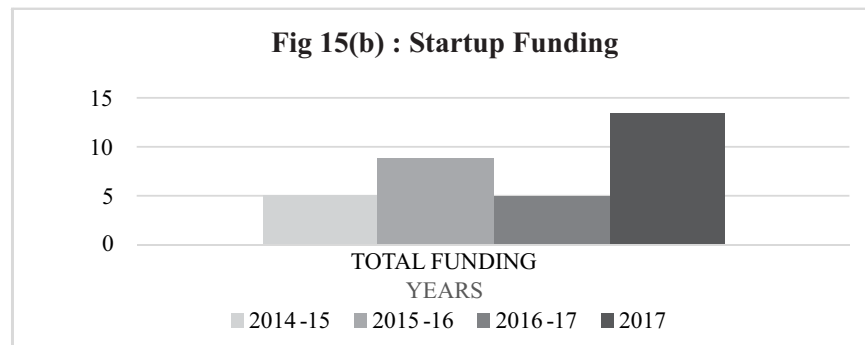


Figure 15 (b)

(Source – Indian tech startup funding report 2017)

It is clearly shown that number of deals has been increasing from 2014 to 2016, but there is slightly fall in number of deals in 2017. On the other side in year 2016 there was drastic fall in the amount of total funding which means average amount of each

deal is very low as that was post demonetization effect where country faced problem of lack of liquidity. It means funding of startups was also got affected by demonetization.

Sectorwise Deals & Funding

Table 2

SECTORS	TOTAL DEALS (2017-18 till Dec 2017)	TOTAL FUNDING (2017-18 till Dec 2017)
ENTERPRISE	131	\$4.6bn
HEALTH	111	\$3.01bn
FINTECH	111	\$1.65bn
HYPERCOAL	99	\$0.79bn
E-COMMERCE	79	\$0.53bn
OTHERS	354	\$2.92bn

(Source – Indian tech startup funding report 2017)

Table 3

SECTORS	TOTAL DEALS (2016-2017)	TOTAL FUNDING (\$bn) (2016-2017)
E-COMMERCE	142	\$1.2bn
HEALTH SECTOR	115	\$0.14bn
FINTECH SECTOR	96	\$0.47bn
ENTERPRISES	93	\$0.37bn
MEDIA AND ENTER.	54	\$0.14bn
OTHERS	453	\$2.48bn

(Source – Indian Tech startup funding report 2017)

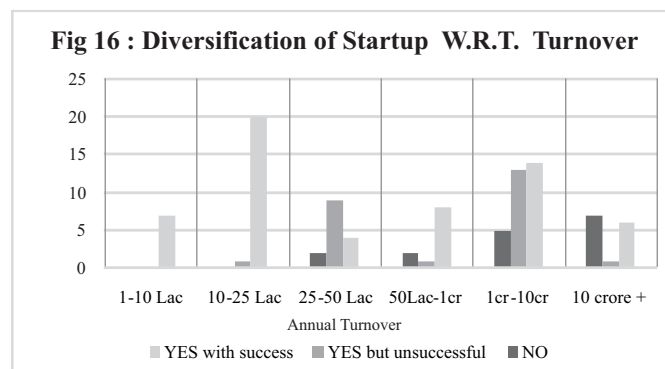
Above tables and statistics states that the E-Commerce is the most popular sector which brings in the highest number of funding and deals for the financial year 2016-17 and 2017-18. While in 2016-17, the transportation sector brings in the second highest number of deals, finance sector

performed better than transport sector in number of deals cracked. The above chart clearly stated that the E-commerce, Finance and transport sector are the most favored sectors as per the investors, cracking most of the deals and generating large amount of funding.

Venture funds for Start-ups

Table 4

Annual Revenue	YES, with success	YES, but unsuccessful	NO
1-10 Lac	0	0	7
10-25 Lac	0	1	20
25-50 Lac	2	9	4
50Lac-1cr	2	1	8
1cr-10cr	5	13	14
10 crore +	7	1	6

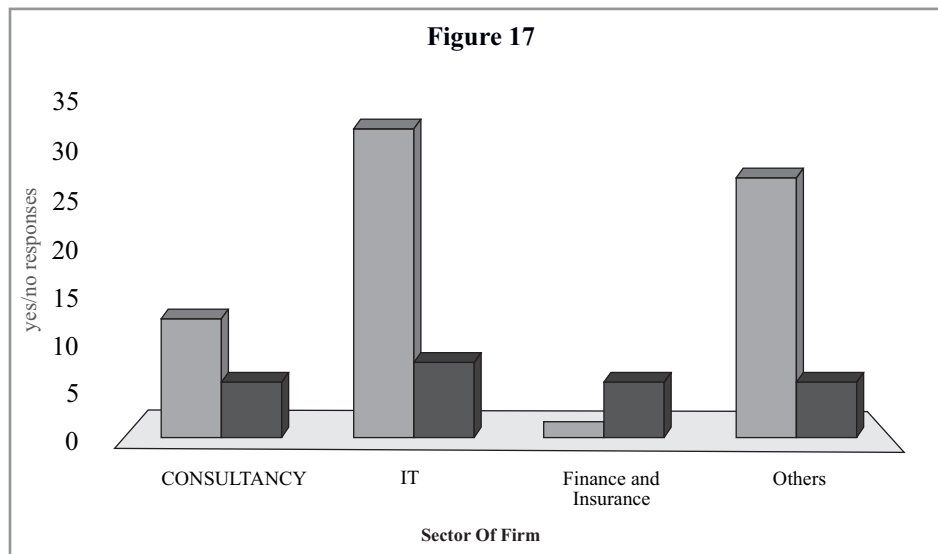


(Source: Data survey)

Our analysis based on the responses received from the survey among various startups finds out that raising venture finance for new project is dependent on the annual turnover of the startups operating. As per the study, the attempts to raise venture for a new project and the rate of success for getting finance increases with the annual turnover of the company. Startup companies having higher annual turnovers, tried to raise the finance for new project too often than other companies and their

success rate is also higher as compared to companies with lower annual turnovers. Companies with annual turnovers of over 10 crore have success rate of around 50 percent, while companies with annual turnover below 25 lac have almost no success in getting finance. It suggests that the investors are more interested in investing with those startups which have established annual returns and involve lesser risk.

Difficulty faced by start-ups in diversification of Venture



(Source: Data survey)

As per the study, most of the startups needs governmental help in order to setup their business and to successfully venture their idea. Survey states that most of the companies got help from government departments in one or another form. Most of the respondents found the information provides by government agencies to be adequate, but still feels that there is a scope of improvement to ease out the process of doing business. Tax concession and Documentation help is the most common form of assistance startups receive from the government.

Correlation Between Government Support and Satisfaction level within Startups

The study was done to understand the degree of association between support startups get from government and satisfaction with that.

Null hypothesis H0: There is no significant relationship between the help which government provide and the level of satisfaction with that.

Alternative hypothesis H1: There is significant relationship between the help which government provide and the level of satisfaction with that.

Table 5

		What type of support you get from the government for your startup	How much are you satisfied with the government policies regarding your startup
What type of support you get from the government for your startup	Pearson Correlation	1	.911**
	Sig. (2-tailed)		.000
	N	101	101
How much are you satisfied with the government policies regarding your startup	Pearson Correlation	.911**	1
	Sig. (2-tailed)	.000	
	N	101	101

** . Correlation is significant at the 0.01 level (2tailed).

Interpretation:

- The degree of correlation between both the variable is high
- There is positive correlation between the variables
- Pearson coefficient $r=0.911$
- Sig. value (p) $< \alpha$, therefore there is an association between two variables

$P = 0.0001 < \alpha = 0.05$

From table 14, the significance value is .000 which is less than alpha (.05) therefore we reject null hypothesis and accept alternative hypothesis and the Pearson correlation coefficient is .911. Therefore, there is a positive, significant and high degree of association between satisfaction level of startups and government support they receive towards their development.

5.5 Difficulties Faced by Startups

Table 6

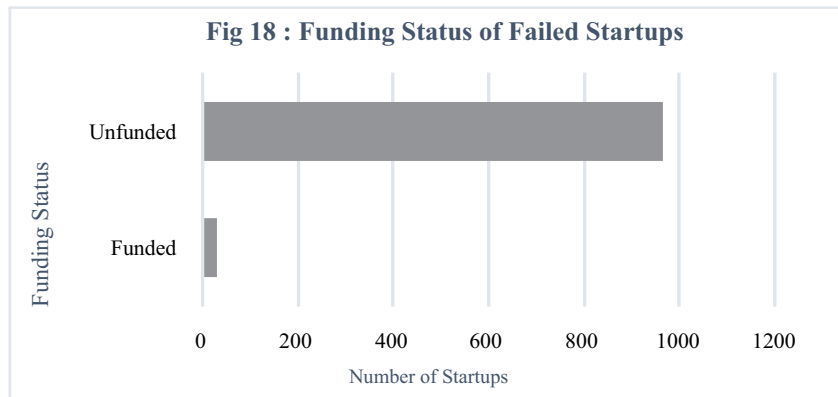
Count		Difficulty faced while starting business					Total
		capital problem	infrastructure base	documentation	lack of information	others	
Employees at start up	less than 10	5	1	5	4	1	16
	10-50	11	12	12	2	2	39
	50-100	13	7	7	3	1	31
	100-500	2	5	5	0	1	13
	more than 500	2	0	0	1	0	3
Total		33	25	29	10	5	102

The above table shows that the difficulty faced by most of the start-ups which have less than 100 employs while starting their ventures. Most of the

start-ups faced the problem of capital, documentations and Infrastructure.

Discussion On Failed Startups

Funding Status of Failed Startups in Last Two Years

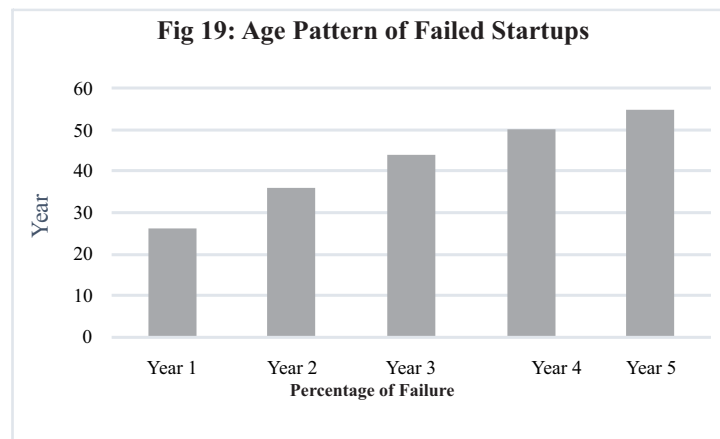


(Source: Xeler8 Analytics)

It is very hard for the startups to survive in the Indian ecosystem. There are various reasons like lack of infrastructure, knowledge, government policies, funding etc. due to which the failure rate of startups are high. One of the main reasons is funding. Most of the startups do not get the

required funding in order to survive and compete in the Indian market. The above stats clearly suggest that very few startups are able to raise funds for themselves and most of the startups remain unfunded.

Age Pattern of Failed Startups

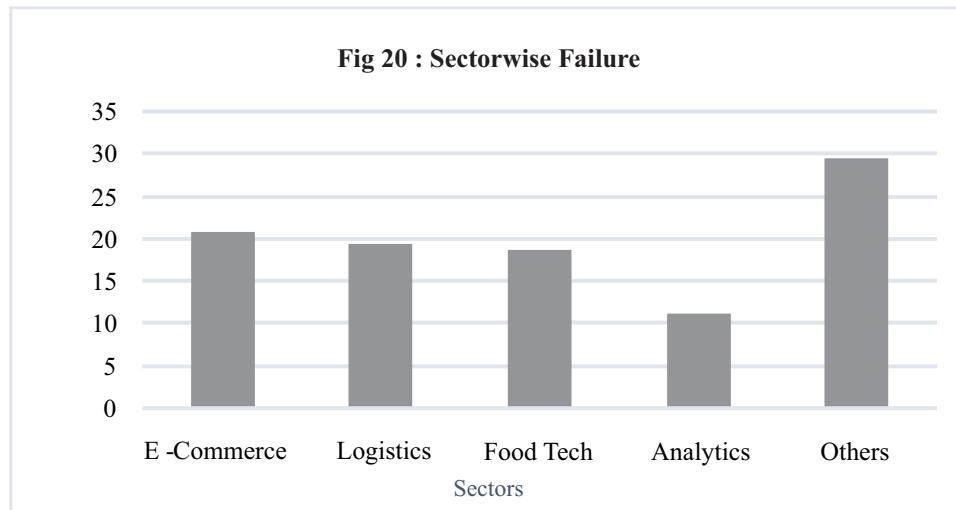


(Source: Xeler8 Analytics)

Most of the startups failed in very early stage of their lifecycle. Around 26% of the startup fails in their inception year, while 36% cannot cross the lifetime of two years. Around half of the startups

are unable to cross lifespan of four years. It is clearly evident from the above stats that startups have very high failure rates and they are more prone to failure in the early stage of their lifespan.

Sector Wise Failure



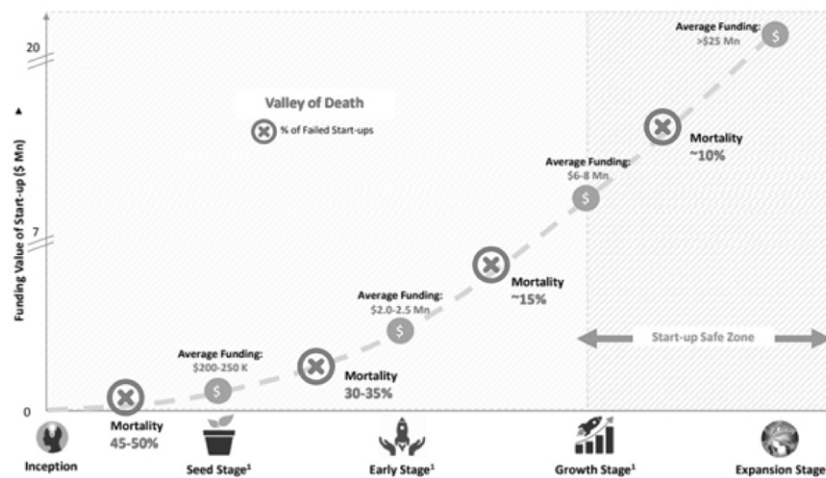
(Source: Xeler8 Analytics)

Since E-Commerce is one of the most popular sector for the startups due to easy accessibility as well as user friendliness.

It also accounts for most failures in the startup arena. It is followed by Logistics, Food-Tech and Analytics industry.

6.4 Mortality Analysis of Indian Startups

Figure 21



(Source: Nasscom Startup Report 2017)

It is clearly visible from the above study that startups have very high mortality rate at the initial stages and are most prone to fail at the earliest. Around 45-50% of the startups die even before securing seed stage foundation, i.e. without generating any funds. The initial years of startups are termed as “valley of death”. The startups need

maximum support at the kick start level only. If any of the startups survive the initial stages, they are more probable to succeed and have lesser failure rates later on. As the revenue generated by a startup increases, their chances of survival increase exponentially.

FINDINGS

- Lack of funding is one of the main reasons for the failure of the startups. Most of the startups remain unfunded and finally led to their shutdown. Around 90 percent startups fail to survive the market.
- The government policies sometimes are also very rigid, that hinders the process of setting up startups. Startup India has smoothened the process, but there is still lack of awareness and stringent policies that need to be smoothen.
- Too many startups came up with the same idea, lack innovative solutions and operate in the same sector and fail to raise capital and finally shutdown. Many entrepreneurs set up a start-up without proper research about market, which ends up in disappointment.
- As per the study, many times startup fails due to “No Market Need”. Market and Product fit is very essential. The solutions offered sometimes are for a very rare problem, thus leading to lack of customers for the product. While many startups fail due to lack of proper leadership and weak team. It is very necessary to innovate and change as per the changing needs of the customers.
- Poor Marketing and lack of business model sometimes, lead to failure, even if the company offer great prospect and have very good idea. Bigger companies with better market research and proper business model, out-competes them.
- Majority of the respondents in a survey have a view that the decisions like demonetization have marred their progress of their startups and

many of them have faced huge loss of business and still have not recovered from its impact.

- According to the study, introduction of GST taxation in the mid financial year created difficulties for the various startups to adopt the change and also in managing their finances.
- Even after so many changes in policies for making the process of setting up startups the benefits are not much as the various facilities provided are of average quality. Most of the respondents feel that there have been some improvements but still the improvements are not sufficient.
- Angel Investment is the biggest source of investment, followed by helps from friends and family. Bank loans are still not very common option for the people setting up startups.

2. Conclusion & Recommendation

The startups in India are improving and increasing year by year, but the rate is not very good and much more is needed to get the desired results. The startups are not very strong with respect to the changes financially and any change in taxation system like GST or any process like demonetization has adverse effect on startups. Demonetization has affected all the sectors and slowed down the progress rate. Lack of funding is one of the main reasons for the failure of the startups. Most of the startups remain unfunded and finally led to their shutdown. Around 90 percent startups fail to survive the market. Too many startups came up with the same idea, lack innovative solutions and operate in the same sector, and fail to raise capital and finally shutdown. Many entrepreneurs set up a start-up without proper research about market, which ends up in disappointment.

Recommendations are as follows:

- Awareness level for all aspects related to startups should be raised at proper level by all stakeholders.
- Funding is crucial for the startups so that details of all players such as angel investors and venture capitals etc. should be provided.
- Better focus on core issues like taxation (GST), business research and marketing has to be taken up more professionally and vigorously.

Research Implications

The research has thrown light on different aspects of startups and challenges they are facing which can be further analyzed and solutions can be designed. This study has shown impact of different factors such as GST, demonetization etc. on the health of startups. Also, role of different stakeholders have been discussed in detail to understand how they can benefit the startups.

8.2 Limitations of the Study

- The research is limited to the respondents in researcher's network who were available and agreed for the interview using convenience sampling.
- Research is based upon the NCR region only the sample size of 100 (10 each from 10 startups). Respondent's age group was also mixed no specific group has been targeted.

Future Scope of Research

Startups are becoming very essential part of current economic progress and this momentum needs to be strengthened further more. Future studies should focus more on crucial business models and innovative ways for performance enhancement in for better tomorrow.

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