



# Issues, Challenges, and Opportunities of Indian Startups: A Study

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## 1. Abstract

Startups are a new breed of organizations. They are the output of passion and determination of entrepreneurs. Startups are “a company, a partnership, or a temporary organization designed to search for a repeatable and scalable business model” (Blank, 2010). A startup is in its early stage. A startup young, dynamic, and built on technology and innovation. The founders of startups attempt to capitalize on developing a product or service for which they believe there is a demand. A startup is a company that is beginning to develop and grow. It is in the first stages of operation and is usually financed by an individual or small group of individuals. The company is still in the process of establishing itself. In this process, there are many challenges the startup has to face. The startup may face challenges in raising the capital, attracting and retaining human resources, lack of infrastructure and institutional support, etc. The current study evaluates the challenges faced by startups in the Indian context. The study analyzes articles, web pages, books, magazines, etc. to determine the various challenges faced by startups.

**Keywords: Startups, Issues, Challenges, Funding, Startup challenges, Indian Startups, Innovation, Opportunities**

## 2. Introduction

Startups are young innovative companies. They play a dominant and key role in modern economies (Akkaya, 2019). Startups are important for the economic development of a country. For an emerging economy like India, both established and startups play a critical role in the nation's development. The startups are a representation of the entrepreneurial spirit of the country. They play a significant role in attracting foreign investments, wealth creation and, employment generation. The terms "entrepreneur" and "startup" have long been associated with the creation of jobs and economic growth (Norris, 2014).

In the Indian context, they are present in all the sectors like ecommerce, B2B, engineering and construction, consumer internet, etc. (HV et al., 2016). Although the founders of startups are spirited enough to face adversities but many challenges hamper their entrepreneurial endeavors. There are many challenges that they encounter during the various stages of their startup journey.

## 3. Objectives of the Study

The study aims to identify the different issues, challenges, and opportunities facing Indian startups. The concept of startups is to be understood first. The concept of itself is intriguing. There is a genuine interest among researchers to understand the different facets of startups and the current study aims to do that. The study identifies various challenges, issues facing the startups, and opportunities that the startups can embrace.

- a. To study the concept of startups.
- b. To identify various challenges and issues faced by startups
- c. To assess the growth opportunities of startups

## 4. Methodology

The study follows an exploratory research design. Secondary data from articles, newspaper reports, magazines, websites, books, etc. were analyzed to assess the challenges and opportunities of startups in the Indian scenario. There has been abundant literature available on startups and related dimensions.

## 5. Discussion

### 5.1 Startups an Introduction

Startups are newly created companies designed to grow fast (Giardino, Bajwa, Wang, & Abrahamsson, 2015). Startup companies are newly formed businesses that are fighting for survival (Salamzadeh & Kawamorita Kesim, 2015). Startups struggle to achieve their potential and growth (Akkaya, 2019). Startups although struggling to reach their potential lead to employment generation, lead to regional development and contribute to the GDP of the country.

There are many theories of startups being developed they can be categorized into the organization, management, and entrepreneurship (Salamzadeh & Kesim Kawamorita, 2015). The theories shed light on the different facets of startups.

Any startup is an output of entrepreneurial efforts. Entrepreneurs are individuals who take the entrepreneurial plunge. These are the founders of the startups. These individuals identify a business opportunity, gather the

required resources and try to achieve the goals they had set out to. This process of creating something new is called New Venture Creation. The process is defined as "To organize is to assemble ongoing interdependent actions into sensible sequences that generate sensible outcomes" (Weick, 1979). The new venture created can be described around four dimensions individuals who create the organization, the organization itself, the environment surrounding the organization, and the new venture process (Gartner, 1985).

There have been studies concerning the stages of the life cycle through which an organization passes (Abernathy, 1976; Gabriel, 1982; Greiner, 1972; Smith, Mitchell, & Summer, 1985). Similarly, many authors have defined various stages through which a startup passes. According to Churchill and Lewis, a startup passes through the stages of existence, survival, success, take-off, and resource maturity (Churchill & Lewis, 1983). The startups pass through stages of bootstrapping, seed, and creation (Salamzadeh & Kesim Kawamorita, 2015). According to Scott and Bruce a startup goes through stages of inception, survival, growth, expansion and maturity (Scott & Bruce, 1987).

## 5.2 Startups: Indian scenario

India is gradually building a robust ecosystem for startups. There are many initiatives from the government. Startup India is a flagship initiative of the Government of India that aims to create a strong ecosystem conducive to the growth of startup businesses, drive long-term economic growth, and create large-scale job opportunities. Through this initiative, the government hopes to empower startups to grow through innovation and design.

There are many schemes introduced by the government for the startups as the Samridh scheme, Startup India seed fund, Startup India Initiative, eBiz portal to name some (Ashwini, 2021).

Currently, there are numerous startups in the unicorn club in the Indian context. Some of the prominent and recent entrants into the club have been mentioned in Table 1 (Bhasker, 2021).

Table 1 Indian startups (Unicorns)

Sl No	Startup	Sector
1	Zomato, Swiggy	Food Delivery
2	Licious	Food
3	Byju's, UpGrad, Vedantu	Ed Tech
4	BharatPe, Cred	Fintech
5	Grofers	Ecommerce delivery
6	CoinDcx, CoinSwitch	Cryptocurrency
7	Urban Company	Home Services
8	PharmEasy	Healthcare Delivery

The previous examples of popular startups in India which created ripples are Flipkart, Snapdeal, Paytm, Pepperfry, etc. India is adding startups at a very rapid pace. There are many prominent startups currently which are contributing to the economy immensely.

## 5.3 Issues and challenges of startups

Startups in India are facing numerous challenges. These challenges are not confined to startups but even established businesses go through some of these. But for startups with limited resources, it is a tedious process to overcome these challenges. The inability of a startup to overcome the challenge may lead to its failure. The challenges faced by startups are discussed below

### 5.3.1 Failure to Plan

The startups are an outcome of an innovative idea of a founder. These ideas may fail if they lack proper planning and execution. The startups fail to set long-term goals. They have an idea which they fail to convert into a vision. Once the startups fail to plan they lack effective execution. The entrepreneurs don't plan to fail but they fail to plan (Levinsky, 2021).

### 5.3.2 Human Resource

Finding skilled human resources is a difficult task for startups (Habebuddin & Sakariya, 2017). The startups have to estimate the human resource requirement accurately. Human resource planning is critical as the lack of human resources may lead to project delays and overestimation of the human resource may lead to additional costs for the startups. Startups with limited resources most of the times startups cannot equal the compensation provided by established businesses. The startups struggle to acquire and retain talented human resources. The challenge is to acquire human resources with complementary skill sets and to retain them for a longer period (Babu & Sridevi, 2018).

### 5.3.3 Funding

Startups grapple with the challenge of raising capital (Chokhani, 2017a; Giardino et al., 2015). Angel investments and seed investments are easily available to startups in the initial stage but it is tougher to raise funds in the latter stage. Although finance is the most important aspect it is difficult for startups to raise sufficient funds (D'souza, 2021; Mittal, 2014). The startups raise funds from family, friends, loans from financial institutions, grants, angel funding, and venture capitalists. As the business progresses the requirement of capital increases and the startups start feeling the dearth of funds. A critical aspect of startup success is proper cash management.

### 5.3.4 Rules and Regulations

The startups have the challenge of complying with various rules and regulations. In India, there are sector-specific, department-specific, state and center laws which the startups have to comply with (Chokhani, 2017b). This creates an additional challenge for the founders of startups who are still baffled by the challenges of research, finance, marketing, etc.

### 5.3.5 Revenue Generation

Revenue generation is a requirement for the survival of startups. As the startup grows the costs of operating the startup will grow. Poor revenue generation is leading to the downfall of many startups (D'souza, 2021). If the startup does not produce sufficient revenues then the founder's focus will shift to funding rather than the fundamentals of the business (Babu & Sridevi, 2018). Even the unicorns are facing the challenge of sufficient revenue generation.

### 5.3.6 Supporting Infrastructure

The chance of survival of a startup in the initial stages is dependent on the supporting infrastructure available to it. A startup requires the support of incubators, mentors, science and technology parks, business development centers, etc. (Babu & Sridevi, 2018).

A startup incubator is a group of people working together to assist new businesses to succeed. Incubators provide workspace, seed capital, coaching, and training to help entrepreneurs address some of the challenges that come with establishing a business. A startup incubator's only objective is to assist entrepreneurs in



growing their businesses (Willson, 2021). The lack of incubators in the ecosystem may not provide the required support for startups.

A mentor is someone who takes on the role of guiding a mentee through parts of business or life in which the mentor has more experience. A mentor in the case of startups can handhold the founders in many spheres of the startup journey. Mentors can guide the founders of the startup in decision-making and strategy formation. They can create a business case and business plan, introductions to potential customers, potential employees, potential partners, or even investors, Providing support during tough times, etc, (Raut, 2013). Lack of experienced and professional mentors will hamper the growth of startups.

### 5.3.7 Marketing and Promotions

Promotions refer to the full set of activities that inform the user about a product, brand, or service. The goal is to raise awareness, attract attention, and persuade consumers to buy the product over others. Although the startup may have a great product or service if the customers are unaware of them they are bound to fail. The customers are the ones who will pay for the products or services. They are the ones generating revenues for the company. If the customer is aware of the products or service the chances are high that he may buy the product. The startups have been finding it difficult to reach the right customers at the right time with the right message.

The customers of today are spending a lot of time on social media (Stephen, 2016). The startups have to embrace social media marketing along with orthodox forms of marketing. Choosing the right promotional medium and the promotional message is a challenge for startups.

### 5.3.8 Unexpected events

The startups in recent times are facing new unexpected challenges as natural calamities, health hazards leading to the economic downturn as, earthquakes, floods, Covid 19, etc. Due to the recent pandemic of 2019 startups in many industries as lending, fashion, travel, and mobility have been negatively impacted (Kalogiannidis & Chatzitheodoridis, 2021). The scenario in India is no different many startups had to cease their operation in recent times. A recent survey of FICCI of 250 Indian startups revealed that 70% of the startups had a negative impact on their business due to Covid 19 (*FICCI-IAN Survey on the Impact of Covid-19 on Indian Start-ups*, 2020).

## 5.4 Opportunities

There are great opportunities for startups in India. With government initiatives as Startup India, there is a great emphasis provided to the startups. India today has one of the youngest populations in the world. The 130 crore population of India is considered to be an important market which the companies (established and startups) cannot ignore. Some of the opportunities available for startups are

### 5.4.1 Population

India with its population of more than a billion is the aptest market for startups. The Indian startups do not have to look elsewhere for a market for their products and services (Habebuddin & Sakariya, 2017). The rising dispensable income among the middle class and their growing aspirations will act as a boon for startups. The average age of the citizens of India is among the youngest in the world (Babu & Sridevi, 2018). This younger generation is open to newer products and is hungry for experiences. This creates an opportunity for startups to meet the growing needs of the youth.

#### 5.4.2 Changes in Mindset

There is a change in the mindset of the working class in the country (Babu & Sridevi, 2018). The corporate executives are making the shift from their more established secure jobs towards the challenge of embracing entrepreneurship. The recent success of startups as Flipkart, Myntra, Unacademy, Byjus, Apna.com, etc. have provided confidence to the budding entrepreneurs.

#### 5.4.3 Investments in Startups

In recent times, startups have been able to attract huge investments. India's startups have bagged investments of 17 billion dollars in the year 2021 (Outlook). There are many venture capitalists, corporate, celebrities, who have invested in startups. Venture capitalists as Sequoia Capital, Accel, Blume Ventures, Elevation Capital, Tiger Global Management, Kalaari Capital, Matrix Partners, Nexus Venture Partners, etc. have invested billions of dollars in the Indian startups. The corporate honchos such as Shri Ratan Tata (Snapdeal, Cure.fit, Ola, CarDekhoetc), ShriAzimPremji (Data stax, Myntraetc) have invested in the Indian startups. There is a recent trend in the startup circle where celebrities as cricketers and film stars are investing and partnering with startups. For example cricketers Mahendra Singh Dhoni has invested in startups Khatabook and Cars 24, whereas ViratKohli has invested in startups digit, sportsbiz, and convo (Inc 42).

#### 5.4.4 Government Initiatives

Currently, there are many government and semi-governmental initiatives to assist the startups in their journey as Startup India, Mudra Yojna, SETU (Self-employment and talent utilization), E-Biz portal, Royalty Tax to name some (Babu & Sridevi, 2018). Along with this, there are many efforts by the state governments to foster entrepreneurship and startup growth.

### 6. Conclusion

Currently, in the Indian context, startups do face many challenges. The startups fail in their planning process in the initial stage as the founders may be inexperienced in operating the business. The founders may be from a technical background and may lack the nitty-gritty of running the business. During the initial stages or even for that matter in the latter stages of the startups lack the support of mentors and supporting infrastructure then may find it a challenge to succeed.

The unexpected events as Covid 19 may hamper the growth of startups and impact their revenue generation. The external environment plays a vital role in the growth of a startup. The recent pandemic has dealt a body blow to many startups which are struggling to survive. Without revenues running a business and attracting funding is a challenge for the startups.

Startups after the introduction of products and services in the market face the challenge of acquiring and retaining customers. For customer acquisition and retention to be effective the startups have to market their products and services efficiently. This requires investment from the startups. With the established companies in the particular industry spending huge amounts on promotions and marketing startups although with a good product or service find it difficult to acquire and retain customers.

Table 2 Representation of current issues, challenges, and opportunities of Indian startups

SL No	Issues and Challenges	Opportunities
1	Failure to plan	Population
2	Human resource	Change in mindset
3	Funding	Investments in startups
4	Rules and Regulations	Government Initiatives
5	Revenue Generation	
6	Supporting infrastructure	
7	Marketing and promotions	
8	Unexpected events	

As represented in Table 2 although with many challenges some Indian startups have found the required success. There are many factors responsible for it. In recent times the government is making efforts to support Startups with several initiatives. There has been a keen interest among venture capitalists and investors in the Indian startup scenario. In 2021 India added a large number of startups to the unicorn club beating many established economies. The change in the mindset of the people in the country towards startups is one more added boon. Overall the future for startups appears to be positive.

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