

Creating Ecosystem for Startups – A Review

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Abstract

This paper is a review of the Statup India scheme launched by government and of the startup movement in India. The authors look at the current status of startup ecosystem in the country.

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Introduction

In India on Jan 16, 2016 a very important movement called 'Startup India Movement' was launched for encouraging the startups by our Prime Minister Shri Narendra Modi. We feel proud to say that India is amongst the five largest startup communities of the world and the youngest of them all as per a survey statistical report available. In the current scenario defining startups we can say that '*A startup company is a new venture, developing innovatively a product, process or service to meet the marketplace needs*' Presently the 'Entrepreneurs' are often visualized as larger-than-life characters, the dissatisfied ones questioning things which everybody else takes for granted, taking big risks, making their own rules and individuals who think out of the box types, to be more precise. Prime Minister pointed out that successful startups are usually created by those who are driven by an idea and are passionate towards solving problems faced by the masses as a social cause. Hence such entrepreneurs are not into making money but passionate towards solving problems, wherein money turns out to be a by-product for them.

To give impetus to the 'Startup Wave' Prime Minister Narendra Modi has launched the "Startup India movement" for such entrepreneurs who are compassionate for others and startup innovators. Shri Narendra Modi wished the Indian youth to turn from job-seekers to job-creators and to focus on crop wastage and cyber security as a major issue faced by our nation.

Startup India for a Prosperous India:

To give a boost to the Startup India movement and as a step towards patronizing and promoting the movement various new incentives were declared for the Startups:

A self-certification based compliance system for Start-ups would be introduced for 9 labour and environment laws. He said the Atal Innovation Mission will be launched to give a boost to innovation.

- No inspection for the first 3 years.

- He said Start-ups will be exempted from paying income tax on their profit for the first three years.
- Mobile app for startup registration in one day
- Startup India hub as single point contact
- Exemption from capital gains tax on personal property sold to invest in startup
- 80% rebate on patent filing fee
- Bankruptcy Bill 2015 – 90 days to exit business
- 500 tinkering labs
- 35 public – private incubators
- 31 Innovation centers at National Institutes
- A dedicated Start-up fund worth Rs.10,000 crore will be created for funding of Start-ups.
- Credit Guarantee scheme for loans
- 5 new Bio – clusters and 7 new Research Parks
- Patent regime and IPR to be simplified

Advantages associated with Startups:

Adding pace to the movement there have been various venture capitalists in India like Helion venture partners funding startups like Make-my-trip, Net-ambit etc. Accel Partners (Flip-kart, Book-my-show), Sequoia Capital India (Justdial, Bankbazaar.com) just to name a few. These venture capitalists provide expert opinion to the startups on how to expand their business besides funding them.

For a developing economy like India Entrepreneurship proves to be very important as it causes economic growth by creating job opportunities. Employment results in creation of wealth for the people hereby increasing their purchasing power.

Balanced Regional Development and Balanced Economic Development are important advantages associated with a start-up. Startups requiring low investment can easily be setup in rural and semi-urban areas based on availability of local resources in such areas very conveniently, availability of manpower hereby checking migration of the local youth to the metros. Since majority of the population resides

in rural areas hence the developmental efforts should be more in such areas. Growth of business and industries in such areas also leads to various other benefits like development of road transport, focus on health and education. Hence promotion of developmental activities in such backward areas leads to regional development.

India supports Entrepreneurs for startups: Despite a perception that the ecosystem in the country has slowed down in the last one year (TOI report), India has emerged as the third largest startup base and new ventures are almost ready to grow at a pace 2.2 times to reach 10,500 by 2020. Currently India is in the third position just behind US and UK, and as per a report Bengaluru, NCR, and Mumbai continue to lead as the major start-up hubs in the country. The Startup boom in all sectors: Reinventing things how they have to be done characterizes the power of startups. Startups have shown a marked difference as they are not tied to the age old technology domain alone; they aren't simply trying to improve upon the old conventional systems but they are trying to be innovative. Needless to say they borrow from Henry Ford, to invent automobiles. Disruption enables the Startups to be more responsive and innovative. A quick comparison shows the Startups to be more flexible to build the best products for the market by interrupting the established ways and procedures whereas the larger companies cannot move as quickly because they have the defined procedures and scrutiny, they are limited by older technology, and other competing investments to be made. A healthy growth of the ecosystem has been witnessed World over with a total funding of approximately USD 4 billion and a count of close to 650 start-ups being funded.

Startups are agile, fast, and light in movement hence they can be disrupted and rebuilt easily than the established companies. On the contrary the established companies often focus on improving the existing products, delivered through established processes and ways of thinking hereby delivering incremental change.

Startups have been characterized by having a lean size; they have limited headcount and

budgets, so they are focused on building products that serve one industry or business function, hence specific in nature. On the contrary larger organizations compete across verticals and functions, hence do not cater to a specific role or function. Being the need of the hour the Startups can focus specifically on building solutions that address concerns for one business function, so customers know they have a best-of-breed solution to their problem.

Startups are quick in implementation. By virtue of being flexible in the initial phase Startups without many constraints are able to quickly deliver powerful services to the new customers. In keeping the minor conformations up front the customers realize the value of their investment much sooner. Implementation of strategies are faster in startups as the people working in the startups are anxious to make their presence felt, hence they put in their best of efforts in building their business.

Venturing into the Global markets and to test uncharted waters a new breed of Indian startups is increasingly stepping out of the safe haven of Indian shores. The founders of the desi brands like the cab-hailing companies, craft beer startups to homegrown quick service restaurant (QSR) chains are all finding new destinations in the global markets.

To quote a few startups venturing into the Global market are (as example of the trends): -

- The Gurgaon-headquartered QSR startup Burger Singh which serves Indianised variants of the fast food that go by the names of Malabar Express and Bunty Pappah Da Aloo burger, has piloted two outlets in the UK and plans to launch 18 more by 2021. The Londoners will now be able to feast on Biharigosht burgers and aloopiyaz rings.
- Ola, headquartered in Bengaluru have bold plans to venture its business in the UK, very soon.
- Also the Oyo Rooms expanded to China in the month of June and also have plans to foray into the European markets very soon.
- Venturing into the Global markets of the US and Southeast Asia with their product craft beer Bira 91 the New

Delhi-based manufacturers B9 Beverages have taken a bold step, similarly their rival group White Rhino has tapped into the UK and Nepal to compete with the local brands prevalent in the area.

- Ankur Jain, founder of Bira has acknowledged that “Barriers like high transportation costs to foreign markets that existed for traditional businesses 20 years ago are no longer there”.
- In order to suit the global tastes, which the Indian entrepreneurs have been quick to realize, some tweaking had to be done like “The packaging of White Rhino beer that is being sold in the UK has a higher aesthetic value,” admitted IshanPuri, founder of White Rhino. Accordingly, the labels on the bottles boast distinct Indian motifs and Devnagri script.
- Similarly to cope up with the global markets Burger Singh outlets in the UK will serve liquor and will function on the lines of a pub, suggested KabirJeet Singh the cofounder of the chain.

As per a study, the statistics related to the Startups include the following observations: -

General Startup Statistics:

- 51 percent of owners of small businesses are 50-88 years old, 33 percent are 35-49 and only 16 percent are 35 years old and under.
- 69 percent of U.S. entrepreneurs start their businesses at home.
- According to the National Association of Small Business’s 2015 Economic Report, the majority of small businesses surveyed are S-corporations (42 percent), followed by LLCs (23 percent).
- While around 9 percent of all American businesses close each year, only 8 percent are opened.
- 51 percent of people asked, “What’s the best way to learn more about entrepreneurship?” responded with “Start a company”.

Startup failure rate Statistics:

- A bit more than 50 percent of small businesses fail in the first four years.
- In fact, of all small businesses started in 2011:
 - 4 percent made it to the second year
 - 3 percent made it to the third year
 - 9 percent made it to the fourth year
 - 3 percent made it to the fifth year

Leading causes of small business failure:

- Incompetence: 46 percent;
- Unbalanced experience or lack of managerial experience: 30 percent;
- Catchall category (includes neglect, fraud, and disaster): 13 percent; and
- Lack of experiences in line of goods or services: 11 percent.

Startup Finance Statistics:

- The vast majority of startup funds (82 percent) came from the entrepreneur himself or herself, or family and friends.
- 77 percent of small businesses rely on personal savings for their initial funds.
- 40 percent of small businesses are profitable, 30 percent break even and 30 percent are continually losing money.
- Having two founders, rather than one, significantly increases your odds of success as you’ll:
- Raise 30 percent more money,
- Have almost 3X the user growth, and
- Are 19 percent less likely to scale prematurely?
- 82 percent of businesses that fail do so because of cash flow problems
- 27 percent of businesses surveyed by the NSBA claimed that they weren’t able to receive the funding they needed.
- Industries with the Best Startup Statistics:
 - The industries with the highest success rates were finance, insurance, and real estate — 58 percent of these businesses were still operating after 4 years.
 - 15 most profitable small business industries by net profit margin (NPM) are:

- Accounting, tax preparation, bookkeeping and payroll services: 18.4 percent NPM
- Management of companies and enterprises: 15.5 percent NPM
- Offices of real estate agents and brokers: 15.19 percent NPM
- Automotive equipment rental and leasing: 14.55 percent NPM
- Legal services: 14.48 percent NPM
- Offices of dentists: 14.41 percent NPM
- Electric power generation, transmission and distribution: 14.02 percent NPM
- Lessors of real estate: 14.01 percent NPM
- Offices of other health practitioners: 13.30 percent NPM
- Offices of physicians: 13.01 percent NPM
- Commercial and industrial machinery and equipment rental and leasing: 12.58 percent NPM
- Religious organizations: 12.41 percent NPM
- Management, scientific and technical consulting services: 12.05 percent NPM
- Specialized design services: 11.4 percent NPM
- Office administrative services: 11.3 percent NPM
- Industries with the worst Startup Statistics:
 - Of all startups, information companies are most likely to fail, with only a 37 percent success rate after four years.
 - 15 least profitable industries in the US by net profit margin (NPM) are:
 - Oil and gas extraction: -7.6 percent NPM
 - Support activities for mining: 0.6 percent NPM
 - Beverage manufacturing: 0.8 percent NPM
 - Grocery and related product merchant wholesalers: 1.9 percent NPM
 - Lawn and garden equipment and supply stores: 2.0 percent NPM
 - Miscellaneous durable goods merchant wholesalers: 2.3 percent NPM
 - Petroleum and petroleum products merchant wholesalers: 2.4 percent NPM
 - Grocery stores: 2.5 percent NPM
 - Automobile dealers: 3.2 percent NPM
 - Building material and supplies dealers: 3.2 percent NPM
 - Continuing care retirement communities and assisted living facilities for the elderly: 3.3 percent NPM
 - Other motor vehicle dealers: 3.3 percent NPM
 - Home furnishings stores: 3.3 percent NPM
 - Furniture stores: 3.3 percent NPM
 - Beer, wine, and Liquor stores: 3.4 percent NPM

Observations

A renowned entrepreneur remarked - “If you want to start your own business, don’t let the startup statistics provided above put you down because after all, you’re more likely to succeed if you’ve failed than if you’ve never tried” Founders of a previously successful business have a 30 percent chance of success with their next venture; founders who have failed at a prior business have a 20 percent chance of succeeding versus an 18 percent chance of success for first time entrepreneurs.

Startups with more than a billion-dollar valuation are known as Unicorns. We too in India have 10 unicorn companies, making them the poster boys of the country's startup ecosystem. With almost all the founders being IIT alumni and their startups holding outstanding positions in the elite club , we have e-commerce giants like Flipkart, Snapdeal and Shop-Clues, cab aggregator Ola, restaurant aggregator Zomato, classified ads platform Quickr, digital payments company Paytm, mobile adtech player InMobi, messaging app Hike and analytics company Mu Sigma. The most remarkable fact about the Unicorn founders is that the maximum founders have been from IIT – Delhi :Sachin and BinnyBansal of Flipkart, Sanjay Sethi of ShopClues, Zomato founders DeepinderGoyal and PankajChaddah,

Snapdeal's Rohit Bansal and Quikr's Pranay Chulet and Jiby Thomas (now founder of Webbuterjam Digital). IIT – Bombay alumni include Ola's founders Bhavish Aggarwal and Ankit Bhati. IIT – Kanpur alumni include Inmobi's founders Naveen Tiwari, Abhay Singhal and Amit Gupta, while their co-founder Mohit Saxena was an alumnus of IIT Roorkee.

According to statistical study that lists universities that have produced the most unicorn founders, the Indian Institutes of Technology (IITs) bagged the fourth spot, US-based Stanford University claimed the top rank with 51 unicorn founders, followed by Harvard University with 37. Lastly it was The University of California that came third with 18 unicorn founders and IIT followed with 12 founders.

The momentum for promotion of startups was set by the Government's 'Make in India' initiative. Previously 'Startup India' has been a much appreciated, much needed and an innovative initiative of the Government of India for encouraging people for startups in India inviting them to contribute and strengthen the country's main economy. The 'Startup India' campaign has been an equally ambitious campaign as the Make in India program. As part of the campaign currently the core focused segments in Startup India are technology & digitalization in the area of agriculture, manufacturing, social sectors, education & healthcare sectors. India's large demographics availability is itself a huge opportunity for any business segment trying to

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establish a dominating position in the global market. Needless to say any multinational company, wanting to become a trend setter in the upcoming time, has to have its presence in India. In the present scenario startups and entrepreneurs in India have the best opportunity and a huge home advantage.

The Narendra Modi-led government at the Centre has in the last couple of years encouraged the setting up of Startups by providing easy accessibility of funds for entrepreneurs to start new businesses. To further accelerate the setting up of Startups, SEBI raised the total number of angel investors who can now invest in a startup company to 200 from 49. Further impetus was given by reducing the minimum investment amount to Rs 25 lakh from Rs 50 lakh earlier. The major thrust from the regulator said that an investment by an angel fund would be locked-in for one year, down from three years which used to be earlier.

Conclusion

Looking at the present scenario we can conclude that our nation is poised to entrepreneurial environment in the true sense. With the Government's encouraging behavior towards the people to start setting up their businesses and the liberal steps being taken to boost up the environment seems to provide a bright future for the startup industry in India. This will certainly boost the GDP as well as strengthen our Indian economy.