Startups Ecosystem in India : Recent Trends and Challenges

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Abstract: A startup venture could be defined as a new business that is in the preliminary stages of operation, beginning to grow and is typically sponsored by an individual or small group of entities. It is a young entrepreneurial, accessible business model built on technology and revolution wherein the founders develop a product or service for which they foresee demand through disruption of existing or by creating entirely new markets. Sources for Startup Funding Are Bootstrapping, Crowd Funding, Venture Capital and Angel Investment. Some of the major issues and challenges are Lack of Monetary Resources, Problems in Revenue Generation and Nonexistence of *Supportive* Infrastructure. Recent Trends in Startup India includes Artificial Intelligence, innovation, discovery and observance.

Keywords: Startup, Sources, Problems and Trends

Introduction

A startup venture could be defined as a fresh business that is in the preliminary stages of operation, beginning to grow and is typically sponsored by an individual or small group of entities. It is a young entrepreneurial, accessible business model built on technology and revolution wherein the founders develop a product or service for which they foresee demand through disruption of existing or by creating entirely new markets. Startups are idea that demonstrates a commercial undertaking. India has the third largest start up ecosystem in the world; expected to witness year over year annual growth of twelve to fifteen per cent.[1]

Department of Industrial Policy and Promotion (DIPP) outline a startup as an entity incorporated or registered in India with following parameters:

- Established not prior to seven years.
- Working towards modernization, development or enhancement of products or processes or services,
- It is a scalable business model with a high potential of employment generation It is to be noted that such entity is not formed by splitting up, or reconstruction, of a business already in existence.

Phases of Startups

There are multiple sources of funding accessible for startups. Phases of startups are as follows:

1.Idea Formation

This the stage where the entrepreneur has an impression and is working on bringing it to life. At this stage, the amount of funds needed is usually insignificant. Furthermore, at the preliminary stage in the startup lifespan, there are very limited and mostly informal channels available for raising funds.

2.Validation

At this stage, a startup has a prototype ready and needs to validate the potential demand of the startup's product or service. This is called accompanying a 'Proof of Concept', after which comes the big market launch.

Seed Stage

A startup will need to conduct field trials, test the product on a few potential customers, on board mentors, and build a formal team for which it can explore the funding from various sources.

3.Early Traction

At the Early Traction stage startup's products or services have been tossed in the market. Key performance indicators such as customer base, revenue, app downloads, etc. become important at this stage.Funds are raised at this stage to further grow the user base, product offerings, expand to new geographies, etc. Common funding sources utilized by startups in this stage are:Venture Capital Funds,Banks/Non-Banking Financial Companies (NBFCs)

4.Scaling

At this stage, the startup is experiencing a fast rate of market growth and increasing revenues.

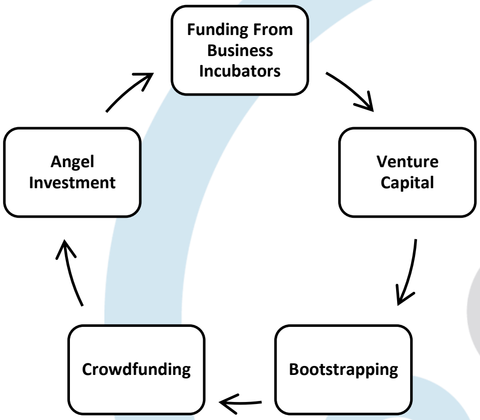
5.Exit Options

A firm can go for exit options through following :

Mergers & Acquisitions

The investor may decide to sell the portfolio company to another company in the market. In essence, it entails one company combining with another, either by acquiring it or by being acquired.

Initial Public Offering (IPO)
IPO refers to the event where a startup tilts on the stock market for the first time. Since the public listing process is sumptuous and brimming with statutory procedures, it is undertaken by startups with an extraordinary pathway record of profits and who are mounting at a sturdy stride.
Selling Shares
Investors may trade their equity or shares to other venture capital or private equity organizations.
Buybacks
Founders of the startup may also buy back their shares from the fund investors if they have liquid assets to make the purchase and wish to regain control of their company.
Distraught Auction
Under financially stressed times for a startup company, the investors may decide to sell the business to another corporation or financial institution.[2]
Basis of Funding
Some of these funding options are for Indian business are listed below:



1) Bootstrapping or Self-Funding

Self-funding recognized as bootstrapping, is an operative way of startup financing, especially when starting some new business. Primary entrepreneurs feel discomfort in getting funding at initial stage.

2) Crowd funding

Crowdfunding is when a "crowd" funds a business, rather than one or two major stockholders. There are four different types of crowdfunding: rewards, donation, debt and equity. To run a successful crowdfunding campaign, an entrepreneur need to capture the attention of a large number of sponsors and convince them for investing his respective business. Crowd funding is means taking a loan, advance order, contribution or investments from more than one person at the same time.

An entrepreneur has to specify the goals of his business, plans for making a profit, how much funding he needs and for what reasons, etc. and then consumers can read about the business and give money if they like the idea. Those giving money will make online pledges with the promise of pre-buying the product or giving a donation. Anyone can pay money toward helping a business that they really believe .The best thing about crowd funding is that it can also generate interest and hence helps in marketing the product alongside financing.

Types of crowdfunding

- **Donation:** Donation-based crowdfunding is when people give a campaign, company or person money for nothing in return. The individuals who give money do it out of provision for the growth of the business .
- **Debt:** Debt-based donations are peer-to-peer lending, which is a form of crowdfunding. In debt-based donations, the money pledged by sponsors is a loan and must be repaid with interest by a certain time limit.
- **Rewards:** This is when donors receive something in reoccurrence for their donations. The rewards vary by the size of the donation, which incentivizes higher contributions. Based on how much money participants give to a campaign, they may receive a the product or service usually at a discounted rate.
- **Equity:** Some crowdfunding campaigns don't allow sponsors to own a portion of the company they're supporting, equity-based crowdfunding permits small businesses and startups to give away a portion of their business in exchange for funding.

These donations are a type of investment, where participants receive shares in the business based on how much money they contribute.

Challenges of crowdfunding

- Discovering and executing a cost-effective marketing strategy previously, during and after the campaign
- Constructing the right messaging in the campaign description that will determine interest in the product or service
- Developing an enlightening and exciting campaign video that elucidates the product and its benefits.
- Creating and planning the rewards program to deliberately maximize the Return on investment.
- Finding the most active and cost-efficient contentment method for the rewards.

Crowdfunding benefits for investors

Stakeholders have a lot to gain from putting their money into crowdfunding campaigns.

- Investors appreciate a low-risk venture, and crowdfunding offers just that. Since it's not part of the financial market, investors don't have to worry about the effects of the economy or stock market impacting their investment.
- It's easy to invest in a crowdfunding campaign. Investors can put money into a project or company through a direct online process.
- Equity crowdfunding allows investors to fund multiple campaigns, which helps them to expand their financial opportunities and diversify their portfolios.

3) Angel Investment

Angel investors are individuals with spare cash and a keen interest to invest in future startups. They also work in clusters of networks to collectively screen the proposals before investing. They can also offer mentoring or advice alongside capital. Angel investors have helped many prominent companies, including Google, Yahoo and Alibaba. They prefer to take more risks in investment for higher returns. Angel Investment as a funding option has its shortcomings too. Angel investors invest lesser amounts than venture capitalists.

4)Venture Capital Funds

Venture capitals are professionally managed funds who invest in companies that have huge potential. They usually invest in a business against equity and exit when there is an IPO or an acquisition. VCs provide skill, mentorship and acts as a litmus test of where the organisation is going, evaluating the business from the sustainability and scalability point of view. A venture capital investment is suitable for small businesses that are beyond the startup phase and already generating revenues.

5) Funding From Business Incubators & Accelerators

Incubators are like a parent to a kid, who raise their funds for the business in the form of shelter tools .

6) Raising of Funds By Winning Contests

An increase in the number of contests has tremendously helped to maximize the opportunities for fund raising. It encourages entrepreneurs with business ideas to set up their own businesses. In such competitions, you either have to build a product or prepare a business plan.

Normally, banks is the first place that entrepreneurs go when thinking about funding.

The bank provides two kinds of financing for businesses. One is working capital loan, and other is funding. Working Capital loan is the loan required to run one complete cycle of revenue generating operations, and the limit is usually decided by hypothecating stocks and debtors. Funding from bank would involve the usual process of sharing the business plan and the valuation details, along with the project report, based on which the loan is sanctioned.

8) Get Business Loans From Microfinance Providers

Microfinance is basically access of financial services to those who would not have access to conventional banking services. It is progressively fetching popular for those whose requirements are restricted.

9) Government Programs Offering Startup Capital:

Government sponsored 'Pradhan Mantri Micro Units Development and Refinance Agency Limited (MUDRA), different states have launched different programs to encourage small businesses. Small Industries Development Bank Of India also offer business loans to MSME sector.

Indian government is encouraging entrepreneurship at the startup level and has taken a number of initiatives to ensure apposite funding. In this aspect it is relevant to mention 'Make in India' campaign introduced to attract foreign stashes and encourage domestic companies to participate in the manufacturing division. The government has increased the foreign direct investment limits for most of the sectors and underwired intellectual property rights (IPRs) protection to instill confidence in the startups. In order to make the country as number one destination for startups, Government of India has announced a new campaign called 'Standup India' in 2015 aimed at encouraging entrepreneurship among women and to help startups with bank funding. Another praiseworthy initiative is 'Digital India' in 2015 is to provide government services to every citizen through online platform that aims to attach rural areas by developing their digital infrastructure which translates into a gigantic business opportunity for startups.

Types of Start ups Schemes are as follows:

Startup India Seed Fund Scheme, An Experts Advisory Committee, Aatmanirbhar Bharat App Innovation Challenge, The Micro Units Development Refinance Agency MUDRA Banks, Credit Guarantee Fund Trust for Micro and Small Enterprises and Multiplier Grants Scheme (MGS).

10) Quick Ways To Raise Money for the Business

Product Pre-sale: Selling the products beforehand they launch is an often-overlooked and highly effective way to raise the money needed for financing your business. It's a great way to improve cashflow and prepare yourself for the consumer demand.

Selling Assets: This might sound like a tough step to take but it can help you meet your short term fund requirements. To overcome the crisis situation, buy back the assets can be done.

Credit Cards: Business credit cards are among the most readily available ways to finance a startup and can be a quick way to get instant money. If you are a new business and don't have a tons of expenses, you can use a credit card and keep paying the minimum payment. However, keep in mind that the interest rates and costs on the cards can build very quickly, and carrying that debt can be detrimental to a business owner's credit.[3]

Some of the major issues and challenges are as below:

1) Lack of Monetary Resources

A number of finance opportunities ranging from family members, friends, loans, grants, angel funding, venture capitalists, crowd funding etc. are available. The requirement twitches growing as the business progresses. Scaling of business requires timely infusion of capital. Proper cash management is critical for the success of the startups.

2) Problems in Revenue Generation

Several startups flop due to pitiable revenue generation as the business grows. As the maneuvers increase, expenses grow with reduced revenues forcing startups to concentrate on the funding aspect, thus, adulterating the focus on the fundamentals of business. Revenue generation is critical, guaranteeing efficient management of burn rate which in common parlance is the rate at which startups spend money in the initial stages. The experiment is not to engender enough capital but also to expand and sustain the growth.

3) Absence of unity among Team Participants

To find and hire the right compassionate of aptitude for the business with skills to match growing customer expectations are one of the biggest challenges .Apart from founder(s), startups normally start with a team entailing of members with harmonizing skill sets. Usually, each member is specialized in a specific area of operations. Assembling a good team is the first major requirement, failure to have one sometimes could break the startup .

4) Nonexistence of Supportive Infrastructure

There are a number of support mechanisms that show a momentous role in the lifecycle of startups that include incubators, science and technology parks, business development centers etc. Lack of admittance to such support mechanisms spreads the jeopardy of catastrophe.

5) Generating Awareness in Markets
Startups fail due to lack of attention to limitations in the markets. The environment for a startup is usually more difficult than for an established firm due to uniqueness of the product. The situation is more difficult for a new product as the startup has to build everything from scratch
.

6) Exceeding Customer Expectations
The next most important challenge is gauging the market need for the product, existing trends, etc. Innovation plays an important role, since, that the startup has to fine-tune the product offerings to suit the market demands. The entrepreneur should have thorough purview knowledge to counter competition with apposite strategies. Due to new technologies that are emerging, the challenge to provide over and above an earlier innovation is pertinent.

7) Obstinacy of Originators
Founders of startups have to be tough when the going gets tough. The journey of starting a venture is fraught with delays, setbacks and problems without adequate solutions. The entrepreneur needs to be persistent, persuasive, and should never give up till he/she achieves desired results.

8) Regulations
Starting a business requires a number of authorizations from government organizations. Although there is a perceptible change, it is still a challenge to register a company. Regulations pertaining to labor laws, intellectual property rights, dispute resolution etc. are rigorous in India which takes about thirty days to comply compared to just nine days in OECD countries.

9) Growth Decelerators
Some of the agencies which are part of the startup ecosystem themselves can sometimes become hurdles in the growing stages. Major issues is the influence of incubators, institutes and similar organizations which try to control, manage and be the daddies of the start-ups in the name of helping, mentoring etc. This desires proper coordination among the organizations for conjoint benefit.

10) Lack of Mentorship
Most of startups have brilliant ideas and/or products, but have little or no industry, business and market experience to get the products to the market. It is a proven example that a brilliant idea works only if executed promptly. Lack of sufficient mentoring is the biggest challenge which could bring a potentially good idea to an end.

11) Lack of a Virtuous Branding Strategy
Absence of an effective branding strategy is another issue that prevents startups from flourishing at a faster pace.

12) Government Policies:
The government policies are slowly and steadily increasing, but India still upholds a despondent position in terms of ease of doing business raking.

Startups India- Recent Trends

1. Innovation in Business Funding

With new trends like crowdfunding, Initial Coin Offerings (ICOs), SPACs, and tokenization, companies can grow in very different ways from what was possible in the past.

2. Unicorns Galore

India has over 105 unicorn startups with a valuation of over $1 Billion.[4]

3. Focus on Indomitable Business

Customers are more prospective to buy from and remain loyal to brands with a strong sagacity of tenacity. Today's most successful startups not only deliver amazing products, services, and experiences to customers, but they also work to wrestle the biggest challenges of the current market.

4. Sustainability

All startups should be weave sustainability into every aspect of their businesses, including products, services, and processes. This can include efforts like plummeting waste, transitioning to energy proficient manufacturing practices, and pursuing the environmental impact of their operations and supply chains.

5. Discovering and Observance Ability
Startup founders must make enticing candidates and engaging their best workers a top priority.

6. Structuring of Effective Customer Relationship

Building unswerving connections with customers will become perilous for startup organizations. Collecting direct data from the customers will empower to understand how customers use products including what they like, dislike, or snub.

7. Concept of Tech Company

When incorporating artificial intelligence, blockchain, and Web3 technology into business processes; in this period of rapid digital transformation, every organization needs to deliberate itself as a tech company..

8**. Finding a Balance Between Automation and Human Talent**

Human beings have skills like creativity, critical thinking, and strategic foresight .Startup founders need to give humans the jobs they outshine at while automating the things they can with machine learning and AI.[5]

9. **Tranquil Connectivity**

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.

10. **Mutable Mind Set of Working Class**

Old-fashioned career paths will be giving way to Indian startup space. Challenging assignments, good compensation packages would invite talented people to startups.

Government Policies for Indian Start ups

There are innumerable government and semi-governmental cunnings to assist startups.
(a)Start-Up India: This enterprise provides three-year tax and compliance breaks intended for cutting government regulations and red tapism.
(b). Mudra Yojna: Through this scheme, startups get loans from the banks to set up, grow and stabilize their businesses.
(c). Self-Employment and Talent Utilization Fund: Government has allotted Rs 1,000 Cr in order to create opportunities for self-employment and new jobs mainly in technology-driven domains. (d). E-Biz Portal: Government has launched e-biz portal that integrates 14 regulatory permissions and licenses at one source to enable faster clearances and improve the ease of doing business in India.
(e). Royalty Tax: Indian government has reduced the royalty tax paid by businesses and startup firms from 25per cent to 10 per cent Investments by the Big Business Houses Big business houses have already investing in startups.

Conclusion

"Startup", the current generation's buzzword, is one sheering subject worldwide, so much so that it finally has a reality display in India. The present situation in India is on development approach. The Indian government is focusing on providing various opportunities to start ups in India like 'Make in India', 'Startup India', MUDRA etc. Start ups in India is facing lot of challenges as well as opportunities. It can be concluded that Indian startups will not only make the lives of the individuals easier through their reasonable and expedient services but will also act as a chief booster for the growth and development of the Indian economy.

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