

# Opportunities and Challenges of Startups

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## Abstract

Innovative start-ups can create and shape new industries and generate considerable economic and societal impacts. Accordingly, a variety of policy initiatives are aimed at promoting the establishment, growth and impact of innovative start-ups. Designing such policies is a challenging task, because most start-ups fail. In addition, only a small share of those start-ups will ultimately prove to be innovative, and very few of those will eventually become high impact firms. Hence, effective policies require a better understanding of the processes by which innovative start-ups are formed, developed and create impact, as well as of the heterogeneous nature inherent to innovative start-ups along with their development trajectory. The purpose of the study is to discover what startups understand from the concept of innovation, how they innovate in their businesses and what they encounter as factors - both internal and external - driving or constraining their innovation activities. The theoretical framework of the study covers knowledge about the concepts of innovation and startup, the role of innovation in driving economic growth, the characteristics of innovation in startups and innovation drivers and barriers.

**Keywords:** Start up, Entrepreneurs, Challenges, Opportunities, Impact on Indian economy, Innovation.

## Introduction

In order to turn the educated youth from job seeker to job creator and in order to give support to the 'Startup' and 'innovative projects' in the state and to provide skills to the youth and potential investors to develop entrepreneurship "Chief Minister's Startup/Innovation Project/New Industries Scheme" has been formulated. The scheme envisages various incentives for startups so as to enable the entrepreneur's success in their venture. The scheme also makes provision of creation of incubation Centers in the host institution in the State in order to build capacities, develop networking, establish necessary infrastructure and generate awareness. The basic objective of this scheme is creation of self-employment and employment generation, upgrading the skills of entrepreneurs and to provide them support to set up their units under professional guidance, promotion of innovation in focus areas, setting up of incubation centers, creating working space for start-ups and innovation projects, providing incentives, etc. This Scheme also aims at helping and hand-holding entrepreneurs to select viable projects in the potential areas in manufacturing and service sectors and train them to set up startups and subsequently manage and run their enterprises professionally. The term startup refers to a company in the first stages of operations. Startups are founded by one or more entrepreneurs who want to develop a product or service for which they believe there is demand. These companies generally start with high costs and limited revenue, which is why they look for capital from a variety of sources such as venture capitalists.

- A startup is a company that's in the initial stages of business.
- Founders normally finance their startups and may attempt to attract outside investment before they get off the ground.
- Funding sources include family and friends, venture capitalists, crowd funding, and loans.
- Startups must also consider where they'll do business and their legal structure.
- Startups come with high risk as failure is very possible but they can also be very unique places to work with great benefits, a focus on innovation, and great opportunities to learn.

**Objectives of study:**

1. To examine the various issues and challenges of startups.
2. To analyze the growth and opportunities of startups.

**The Startup Scenario In India**

It is to be noted that every year more than 800 technology startups are being set up in India. By 2020, it is estimated that around 11,500 tech-startups are going to be established with employment potential of around 250,000 technical people (NASSCOM, 2015). It is admirable to note that India is amongst the top five countries in the world in terms of startups with 10,000+ led by US with 83,000+ comprising 43% tech-based firms with 9% managed by women entrepreneurs. The number of incubators also has crossed 100 in 2014-15 to give boost to the startup saga (Grant Thornton, 2015). Sector wise, the distribution of Indian businesses is:

**Table:1 Break-up of Indian Startup Businesses**

<b>Technology Based</b>	<b>Non- Technology Based</b>
E-Commerce - 33%	Engineering- 17%
B2B - 24%	Construction-13%
Internet - 12%	Agri- products- 11%
Mobile apps - 10%	Textile - 8%
SaaS - 8%	Printing & packaging - 8%
Other - 13%	Transport & logistics- 6%
	Outsourcing & support -5%
	Others-32%

Source: Startups India- An Overview, Grant Thomton, 2015

**EXAMPLES OF OPPORTUNITIES FOR STARTUPS**

Startups in Indian scenario have a tremendous scope in catering to local and niche markets that could be viable and sustainable with early potential of revenue generation. With small area of operations and right product /service the success rate could be high with possible chance for expansion. The bottom-of-the pyramid space is a potential market for offerings ranging from food, clothing, water and hygienic items. The selection of items would be based on the entrepreneurs' expertise and the area of operation.

Given below in Table: 2 is a list of current offerings by startups followed by list in Table: 3 (Low-Tech) and Table:4 (High Tech) of few potential domains.

**Table:2 List of Current Startups and Area of Operations**

Area of Operation	Startup Firm Name
Online food delivery	FRESHMENU, SWIGGY
Online fish, meat delivery	FRESHTOHOME
Big data analytics for trade	PEELWORKS
Online pharmacy	MYRA
Platform to get local businesses online	NOWFLOATS
Logistics management software	FAREYE
Lifestyle tracking platform	HEALTHIFYME
Payments solutions for credit/debit cards	PINELABS
AI-driven solutions for retailers-	STAQU
Packaged ready-to-cook idli /dosa butter	IDFOODS
Peer-to-peer lending	FAIRCENT

Source: 17 Startups to Watch, TOI, 2017

Other areas with tremendous potential for startups to establish themselves and thrive are listed in Table: 3 and Table: 4 as low-end and high-end ventures with varying degree of investments and resources. These ventures could be solution providers for underdeveloped and developing countries having similar economic profile at a very affordable cost.

**Table:3 Startup Opportunities-**

Startup Opportunities-	Low-end Ventures
Snacks and Tiffins	Franchising
Waste management	Food Processing
Washing and Ironing	Retailing
Supply of Drinking water	Health & Pharmacy
Diagnostics Centers	Food Delivery

Source: Author's perspective

**Table: 4 Startup Opportunities- High-end Ventures (Export Oriented)**

Auto-Components	Ayurvedic medicines
Horticulture Engineering Goods	Software Exports
Organic Farming	Biotechnology
	Floriculture

Source: Author's perspective

**CHALLENGES AND OPPORTUNITIES OF STARTUPS:**

- **Large Population:** The population of India is a huge asset for the country. By 2020, it is expected that the working age population would surpass the non-working population. This unique demographic advantage will offer a great opportunity to any startup.
- **Financial Resources:** Availability of finance is critical for the startups and is always a problem to get sufficient amounts. A number of finance options ranging from family members, friends, loans, grants, angel funding, venture capitalists, crowdfunding etc are available.

- **Supporting infrastructure:** There are a number of support mechanisms that play a significant role in the lifecycle of startups which include incubators, science and technology parks, business development centers etc.
- **Creating 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.
- **Huge Investments in Startups:** Huge investment in Indian startups from foreign and Indian investors is taking place. In 2015, more than 300 deals were done by 300+ angels and venture capital/ private equity players with around \$6.5-billion (Rs 42,300Cr) investments making India the most sought-after destination for investments.
- **Government Policies:** If entrepreneurs are the planets in the solar system, then the government is the sun, the single largest facilitator. The government policies are slowly and steadily increasing, although, it must be noted that India still maintains a dismal ease of doing business ranking as per the World Bank report.
- **Innovation Society:** India has the largest youth population, which is the largest driver for innovation, workforce, talent and future leaders. India has its own challenges of education, health, infrastructure and the rising gap between India and Bharat.
- **Change of Mind Set of Working Class:** Traditional career paths will be giving way to Indian startup space. Challenging assignments, good compensation packages would attract talented people to startups. Also, it is seen that several high profile executives are quitting their jobs to start or work for startups.
- **Connectivity:** Indian telecom industry has nearly 100 crore subscribers, mobile connectivity has made inroads in the rural and urban population. Government of India's digital push is going to improve connectivity and data to the next level.
- **Revenue Generation:** Several startups fail due to poor revenue generation as the business grows. As the operations increase, expenses grow with reduced revenues forcing startups to concentrate on the funding aspect, thus, diluting the focus on the fundamentals of business.

#### **IMPACT OF STARTUP AND INNOVATION IN INDIAN ECONOMY:**

- **Providing Consumer Satisfaction:** Small entrepreneurs are now producing a wide range of mass consumption items and provide consumer satisfaction. There is a close and direct personal contact with the customer and employees.
- **Economical Use Of Capital:** For small entrepreneurs less investment and compared to large scale units. Due to shorter gestation period small scale units provide quick returns on investment.
- **Social Advantage:** Small entrepreneurs reduce concentration of income and wealth. By reducing concentration of income and wealth small entrepreneurs contribute towards the development of a socialistic pattern of society. Thus, they provide an honourable and independent living to people of country.
- **Promotes Exports:** Small scale industries have shown a phenomenal growth in export over the years. Small scale industries contributes major portion in India's total export. By increasing export they play important role in increasing the country's foreign exchange reserves the pressure on balance of payment of the country.

- **Improved Standard Of Living:** Small Scale industries bring higher national income, higher purchasing power of people in rural and semi- urban areas. Thus, improved standard of living.
- **Promotion And Development Of Entrepreneurship:** Small entrepreneurs also help in developing a class of new entrepreneurs. The development of small scale industries contributes to increase in per capita income or economic development in various ways.
- **Balanced Regional Growth:** In India there has been massive concentration of industries a few large cities of different states. Small entrepreneurs encourage decentralised development of industries. They play important role in removing regional disparities by setting up industrial units in rural and backward areas. Thus, they promote balanced regional growth and help to improve the standard of living in sub-urban and rural areas.
- **Mobilisation Of Resources:** Small entrepreneurs are generally based on local resources. Small entrepreneurs mobilise and utilise local resources and in the absence of small business units these local resources are likely to remain unutilised. These industries facilitate the effective use of local resources and generate employment opportunities and source of income for the local population.

### Significance:

Startups have played and continue to play significant roles in the growth, development and industrialization of many economies all over the world. Startup is flagship initiative of the government of India, intended to build a strong ecosystem for nurturing innovation. Startup will drive sustainable economic growth and generate large scale employment opportunities and minimize unemployment.

### Conclusion:

There has been surge of new start-ups and innovations in India in recent years. The Indian start-up ecosystem has evolved, being driven by factors such as growth in number of funds/angels, evolving technology, higher smart phone and social media penetration, growth in incubators and accelerators, younger demographics etc. Recent government initiatives like 'Start up India, Stand up India' India will only result in additional momentum in this space but as it is well known that "every coin has two side" so there is few obstacles in way of Startup India like it take time, effort, and energy. Funding is a major concern for startups and small businesses.

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