

# Indian Startups Today: Perspectives, Challenges, and the Road to Optimization

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## Abstract

Start Up India, Stand Up India initiative was launched on August 15, 2015, by the Government of India. The primary focus was to strengthen the start-ups through encouraging funding flexibility by banks. The incentives provisioned were aimed to promote entrepreneurship and to provide employment to our youth. This kind of schemes provide support mechanism for commercialization and development of innovative products, services, and mechanisms, which are fuelled by intellectual property as well as any new indigenous technology. The Indian startup ecosystem has witnessed substantial growth over the past two decades, with a strong support from our wide corporate framework. These startups have played and will continue to play crucial role in socio-economic development and transformation of our economic setup. This paper attempts to examine the challenges and opportunities faced by Indian startups, supporting policies and initiatives of our government and impact of these startups on the Indian economy. It highlights the evolutionary pathway of the startup ecosystems, the existing support mechanisms and projections for future. The ever changing, adaptive and transformative nature of startups in our country and their role in India's economic landscape is also presented. It is quite important to mention the business supportive initiatives like "Make in India" and "Start-up India," that have generated hopes for significant growth of Indian economy in the days to come. The impact of "Make in India" campaign has already been observed on the Indian startup ecosystem, because of its focus on identifying and rewarding the potential for innovation and job creation. However, like other fields, a few challenges are lurking ahead, which range from finance, skill shortage, and sustainability. Though putting a lot of pressure on our resources, India's vast population also presents opportunities for businesses to fulfill diverse needs, starting from considerable necessities to innovative solutions. The start-ups may boost the economy in many ways, like making the products and services more affordable to a massive market of India. Some of the attractive start-ups may even be successful in widening their reach to the global market. This paper discusses the brighter sides of the start-ups in India, along with highlighting the challenges, also emphasizing the collaborative approach of the government and entrepreneurs for success of start-ups and to sustain a productive business environment.

**Keywords:** Indian startup, economy, Make in India

## 1 INTRODUCTION

During recent years, our country has witnessed transformative leaps in improving the innovation and startup ecosystem. This has been achieved through favourable measures by the present government, and

we are going towards becoming a well-prepared many grounds to support entrepreneurship. The demographic volume of India being the largest in world, we have ample opportunities, along with inbound challenges. Prime Minister of India officially launched "Startup India, Standup India" initiative on January 16, 2016, with the objectives centred around harnessing the potential of Indian young brains and to provide appropriate platform to the deserving innovative ideas. With such kind of support, such individuals and organizations, which can impactfully draw attention of the market through their ideas, may be enabled to start and sustain their businesses. The purpose of government's initiative is not only to provide funding through banks but also to develop such an ecosystem which brings cumulative culture of entrepreneurship and employment generation. Through the recent efforts of government in this direction, our country is now recognised as second largest startup ecosystem in the world, leaving only the United States ahead of us. The startups are spanned across diverse sectors like technology, healthcare, finances, education, e-commerce etc. Entrepreneurial skills are becoming globally evident and locally fruitful as they are boosting our social and economic growth. The role of government initiatives is very significant, as there are many obstacles which can only be overcome by government intervention. The educational system, particularly technical institutions, are pivotal in shaping the startup movement in India. The last seven years have seen a resurgence in the startup ecosystem, fuelled by venture financing and resilient business models. Cities like Bangalore and Gurgaon have become thriving hubs for tech startups, underscoring the ecosystem's potential. To further the "Make in India" initiative, similar ecosystems are required in the manufacturing sector. In order to create successful startup ventures, which turn to profound businesses, the focus of the government should be on ensuring the ease of doing business, simplify the taxation patterns, and to provide ample channels for procurement of goods and services on either side. For an innovative, job-centric economy in India, it seems that unconditional and rational support to the startups is very essential. The purpose of this research paper is to delve into intricacies of current market base, future potential and challenges that may be encountered by the startup ecosystem in India.

## **2 Review of Literature**

Goyal, in his study (2011), explored the evolving landscape of entrepreneurship, where he highlighted steady rise in societal regard for entrepreneurs. He also emphasized the critical role of business expertise in startup success, along with acknowledging the importance of initiatives by the government. The study provided the authors with foundational information for the research problem discussed in our paper.

Jain (2016) narrated the role of funding, tax holidays, and innovation centres in making up of India's start up ecosystem. She drew the direct link between GDP boost and innovations, recommending organization of mentorship programs, workshops, and seminars etc. to overcome challenges faced by entrepreneurs in India.

Chhikara (2016) presented a critical analysis of prevailing Startup Action Plan, and claimed this to be of paradoxical nature, where state involvement is claimed to be minimized, but introduction of many bureaucratic hurdles takes away the ease, reminding of the "license raj." The author advocated such a role of the government where facilitation, transparency, and accountability are prioritized. This, according to him, can be achieved by simplifying procedures, responsibly utilizing public funds, and cultivating a positive government-entrepreneur relationship.

According to Dwivedi (2019), the startups are financially vulnerable, therefore, shuffling the taxation system, implementation of new tax procedures like GST or processes like demonetisation, may create a

negative impact on them. He particularly asserted that demonetization brought widespread impact on several industries, decelerating the rate of progress. Inadequate financial resources contribute to failure of start-up ventures. Due to lack of secure funding, many of them ultimately face their closure. A huge fraction, amounting to about 90 per cent of the startups, fails to maintain the viability in the market. Another notable concern is that many of the startups come up with identical concepts, fall broadly within the same industry, ultimately failing to secure funding and subsequently close down.

Kumari (2024) presented analysis of India's economic progress powered through government initiatives like Startup India and MUDRA. The hurdles in finance, human resources, and development exist in plenty; still the startups can flourish, if strategically planned. The startup movement gains momentum from the government's support to innovation and design. Startups are becoming key contributors to economic growth and job creation, strengthening India and providing employment opportunities.

### **3 Objectives:**

1. To study the present scenario of opportunities of the Startup India programme.
2. To identify the major challenges faced by Indian start-ups, including the impact of government policies.
3. To analyse the productivity enhancement issues regarding the startups.

### **4 Challenges Encountered by Startups**

Any startup will need an inspiring leadership that demonstrates clear entrepreneurial skills, possesses knowledge of market trends, business etiquette, good communicative abilities and calculative risk-taking capabilities. In light of these and many other factors, the following challenges may be faced by the startups:

#### **A. Founders' Persistence:**

Startup founders must demonstrate unwavering determination to achieve their goals. Persistence plays a crucial role in overcoming obstacles and staying focused on the desired outcomes. In terms of the marketing mix, their strategies might be ahead of their time, leading to slower market acceptance. In such scenarios, it is vital for entrepreneurs to remain consistent in their efforts and not lose hope. Despite facing early challenges or setbacks, founders should focus on long-term success, using persistence as their guiding principle to navigate the journey toward their vision.

#### **B. Mentorship:**

Entrepreneurs embarking on their journey often require guidance from experienced mentors. This is particularly important as many start their ventures with innovative ideas but may lack the practical knowledge needed to manage and grow a commercial enterprise. Evidence suggests that even the most brilliant ideas succeed only when executed effectively (Mittal, 2014). According to Milan Hoogan, Vice President of Sales and Marketing at Erfolg Life Sciences, one of the significant challenges within the Indian startup ecosystem is the absence of proper mentorship and guidance (Choudhury, 2015).

#### **C. Rules and Regulations:**

Starting a new business involves obtaining various permissions, approvals, and No Objection Certificates (NOCs) from government authorities, which can be a challenging process for entrepreneurs. While the business ecosystem has become more supportive in recent years, navigating these regulatory requirements remains a significant hurdle.

**D. Growth Hurdles:**

At times, certain agencies within the startup ecosystem can become obstacles during the early stages of a startup's development. According to Sneh Bhavsar, Co-founder & CEO of OoWomaniya.com, one of the primary challenges is the undue influence exerted by incubators, institutes, and similar organizations that, while claiming to offer help and mentorship, often try to control and manage startups.

**E. Infrastructure Support:**

For startups to succeed and scale, they require access to various support systems, including incubators, prototype testing labs, quality assessment laboratories, science and technology parks, business development centres, and additional services like marketing assistance and patent registration support. The lack of these resources or limited access to them can hinder the success of a business. Organizations like the National Chemical Laboratory are stepping in to provide crucial infrastructure, offering essential support to startups as they grow and develop.

**F. Financial Resources:**

For entrepreneurs with a commercially viable idea, the lack of funds can become a significant obstacle in executing their vision. Access to finance is crucial for startups, and obtaining sufficient capital is often a challenge (Mittal, 2014; Truong, 2016). Reports suggest that approximately 85% of new companies are underfunded, which increases the risk of failure (Iwasiuk, 2016). Various financing options, such as funding from family members, loans, grants, angel investors, venture capital, and crowdfunding, are available. However, scaling a business requires timely capital infusion.

**G. Generation of Revenue:**

If the startups are not able to pace up revenue generation, they cannot sustain for long and usually fail to operate after a time. Usually with the growth of business, the running costs proportionately rise, therefore revenue generation as well as fund management becomes pivotal. Many startups' founders struggle with the financial management aspect of their business. From a business perspective, the focus should also be on sustaining growth while managing finances effectively.

**H. Awareness Creation:**

Startups often develop innovative solutions to address customer pain points, but they may fail if they are unable to generate sufficient market awareness. While this challenge can affect established firms as well, it is particularly pronounced for startups due to their new and unique product offerings. Without effective awareness creation, even the best solutions may struggle to reach their target audience.

**I. Customer Expectations:**

The credibility of any startup largely comes from customer satisfaction. The customers look for quality of the product, service support, and general communication or responsiveness of the seller. Startups must not only identify the customer expectations but should try to meet them if not exceed them. Whatever improvements are required to increase the effectiveness of the system, they should be incorporated.

**J. Lack of Proper Branding:**

Every organization needs to create and enhance its image, positioning itself as the provider of the best solutions to clients' problems. This is especially critical for startups. Therefore, having a solid branding strategy is essential for their success. However, many startups focus primarily on acquiring new clients and managing day-to-day operations, often neglecting to develop a proper and sustainable branding strategy.

**K. Replicating Other Startups:**

Many startups attempt to replicate the strategies of successful startups, both in foreign markets and within India. More than often, they are usually influenced by the startups which exhibit some kind of success. However, generalizations do not always work, and there are certain specific requirements of the different sectors, and, therefore, similar strategies often do not work as such. The strategies and planning of different markets, customers and industries are usually different. Therefore, to sustain itself, every startup must chalk out its own plan and implement it according to specific requirements.

**5 Opportunities for Startups in India****A. Large Population:**

Massive population of our country, and with the present age structure, gives us clear edge over almost every nation, in terms of available manpower. It is also assumable that we shall have maximum proportion of working or young people per capita of population. This demographic composition opens way for availability of manpower for establishment of startups. Not only the working hands are available, but the market base for entrepreneurial initiatives is also expanded.

**B. Connectivity:**

One of the countries with a widespread telecom connectivity, India is having a very wide array of telecom sector services, catering to around 100 crore users in rural as well as urban setups. Digital drives by the government are further making the services more accessible and affordable, and this forms a very positive point towards expanding the outreach of the startups to large customer base. The connectivity offers extended canvas to share ideas, to increase business volume, to reach the people through publicity campaigns and to make use of available human resources.

**C. Working-Class Mentality Shift:**

Working in leading established corporations has been long cherished by our society and rated well by the young workers. However, the career priorities are shifting now, towards entrepreneurship and innovation and a number of youths are interested either to start their own ventures or to join good startups. With a greater number of talented workers getting interested in working with startups, the future of startups seems to be bright in context of India.

**D. Innovative Society:**

India is a hub for creativity, ambition, and new ideas, which largely comes from necessity due to large population. We face challenges in many vital areas, like availability of sufficient infrastructure for healthcare, business and education. The rural-urban divide can be specifically seen prevalent. However, it is only due to these changes that we have lots of issues to be addressed and thus, we need a wealth of opportunities for startups to provide innovative solutions.

**E. Government initiatives to promote startups across the country**

Our government has already taken various initiatives to promote startups across the country. The details of the various initiatives taken by Ministries/Departments of the Government to promote startups are as under:

- **Startup India Action Plan:** Launched on January 16, 2016, this plan includes 19 action items focusing on simplification, funding support, and industry-academia partnerships to build a vibrant startup ecosystem.
- **Startup India: The Way Ahead:** Unveiled on January 16, 2021, this plan promotes ease of doing business, greater use of technology for reforms, and building stakeholder capacities for a digital



aatamnirbhar Bharat.

- **Startup India Seed Fund Scheme (SISFS):** Provided ₹945 crore over four years (from 2021-22) to support startups with proof of concept, prototype development, product trials, market entry, and commercialization.
- **Fund of Funds for Startups (FFS) Scheme:** Established with ₹10,000 crore to meet startups' funding needs, managed by SIDBI, supporting startups at various stages and reducing reliance on foreign capital.
- **Credit Guarantee Scheme for Startups (CGSS):** Offers credit guarantees for loans to DPIIT-recognized startups, provided by Scheduled Commercial Banks, NBFCs, and VDFs under SEBI registered Alternative Investment Funds.
- **Regulatory Reforms:** Over 55 reforms since 2016 to enhance ease of doing business, raising capital, and reducing compliance burdens for startups.
- **Ease of Procurement:** Relaxed conditions for prior turnover and experience in public procurement for DPIIT-recognized startups, supported by Government e-Marketplace (GeM).
- **Self-Certification under Labour and Environmental Laws:** Allows startups to self-certify compliance with 9 Labour and 3 Environment laws for 3 to 5 years from incorporation.
- **Income Tax Exemption for 3 Years:** Startups incorporated on or after April 1, 2016, can apply for a three-year income tax exemption within their first ten years of operation.
- **Faster Exit for Startups:** Recognized as 'fast track firms', startups can wind up operations within 90 days, compared to 180 days for other companies.
- **Exemption under Section 56 of the Income Tax Act:** DPIIT-recognized startups are exempt from provisions of section 56(2) (vii(b)) of the Income Tax Act, providing significant relief.
- **Support for Intellectual Property Protection:** Fast-tracked patent applications, with Startups Intellectual Property Protection (SIPP) scheme offering 80% rebate on patent filing and 50% on trademarks.
- **Startup India Hub:** Launched on June 19, 2017, this online platform connects stakeholders in the entrepreneurial ecosystem, including startups, investors, mentors, and government bodies.
- **International Market Access to Indian Startups:** Connects Indian startups with global ecosystems through government partnerships, international forums, and events, promoting cross-collaboration with around 20 countries.
- **Startup India Showcase:** An online discovery platform for the most promising startups, exhibiting their innovations across various sectors like Fintech, HealthTech, and EdTech.
- **National Startup Advisory Council:** Established in January 2020 to advise the government on measures to build a strong startup ecosystem, driving sustainable growth and employment.
- **National Startup Awards (NSA):** Recognizes outstanding startups and ecosystem enablers, providing handholding support across various tracks such as Investor Connect, Mentorship, and International Market Access.
- **States' Startup Ranking Framework (SRF):** Promotes competitive federalism by ranking states based on their startup ecosystem policies, encouraging good practices and policy interventions.
- **ASCEND:** Conducts sensitization workshops on entrepreneurship for Northeastern States, aiming to build knowledge and create a robust startup ecosystem.

- **Startup India Investor Connect Portal:** Co-developed with SIDBI, this portal links startups with investors, facilitating early-stage startups in showcasing themselves to leading investors and venture capital funds.
- **National Mentorship Portal (MAARG):** Provides accessible mentorship for startups across the country through the Mentorship, Advisory, Assistance, Resilience, and Growth (MAARG) program.

## 6 Conclusion

Indian economy is growing significantly at present, which may be attributed to our government initiatives like “Make in India,” “Start-up India,” MUDRA etc. All these initiatives have nurtured the entrepreneurial ecosystem, which, in turn, has played a role in boosting the GDP of the nation. Our startups have been catalysed immensely by many such campaigns, especially the “Make in India.” It is hoped that these circumstances will be incredibly positive for our economy in the coming times. It is to be highlighted that this ecosystem is not free from challenges, and major challenges include financial accessibility, pooling the right talent and sustaining the pace of growth. Again, our large population size comes at rescue, as it offers a huge market base, with ever demanding nature in various sectors like food, energy, medicine, education, retailing, health, and technical fields. Despite the inherent potential of some startups to catch global attention as a brand of value, a structured collaboration is required between the entrepreneurs and the concerned government to expand the reach of these startups at national as well as global level.

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