Indian Start-ups Ecosystem: Growth Drivers and Challenges

Dr. Reeta Arora, Assistant Professor of Commerce, SUS Govt. College, Matakmajri (Indri) Karnal

ABSTRACT

Today’s youth is a force to be motivated and harnessed. Start-ups are important because innovations are essential to a country's progress, hence their importance is undeniable. Startups are a part of a larger business ecosystem; they do not exist in a vacuum. In his speech on August 15, 2015, the Honourable Prime Minister of India, Shri Narendra Modi, announced the Start-up India programme, which aims to empower startups across India by fostering innovation and entrepreneurship. Three elements are the main emphasis of this initiative's action plan: Simplification and Handholding, Funding Support and Incentives. In order to understand the growth drivers and motives of Indian start-up founders, identify the challenges these start-ups face, and describe the opportunities available to them, this study analyses the current situation of the Indian start-up ecosystem. The strength of the conclusions is further supported by a review of pertinent literature. Many different viewpoints on the current state of the Indian start-up ecosystem were gathered for this analysis. It outlined the opportunities they see, the challenges they encounter, and the requirements for strengthening the bases of support for business owners. The development of start-ups will produce new inventions, and the expansion of innovations will produce new systems, services, and products that will improve our quality of life. Startups will promote long-term economic expansion, create numerous chances for employment, and reduce unemployment. It is appropriate to point out that some of these start-ups might become unicorns and turn into well-known companies by diversifying their markets internationally.

Key Words: - Job, Start-ups, Entrepreneurs, Growth Drivers, Economy.

INTRODUCTION

It is undeniably accepted that youth have a very special role in any nation economic development. Their fresh ideas, hard work, honesty, risk taking ability, energy and motivation can prove to be the best ingredients for a prosperous economy. In recent years, Start-ups have been getting increased interest in many parts of the world. India is in an advantageous position as a greater proportion (65%) of the population is or will be entering their productive age. In India, the number of start-ups has risen swiftly, and more assistance has become available in all aspects. Their numbers are on the rise, and they are now being broadly recognised as important engines for growth and jobs creation. Through innovation and scalable technology, start-ups can create impactful solutions and thereby act as means for socio-economic development and transformation. India has emerged as the fastest-growing major economy in the world and is expected to be one of the top three economic powers globally over the next 10-15 years, backed by its robust democracy and strong partnerships. The Indian government has launched numerous programmes over the years to boost the economy of the country. The government has been effective in developing policies and programmes that are not only beneficial for citizens to improve their financial stability but also for the overall growth of the economy. Over the recent decade, India's rapid economic growth has led to a substantial increase in demand for exports. Moreover, many of the government's flagship programmes, including Make in India, Start-up India, Digital India, the Smart City Mission and the Atal Mission for Rejuvenation and Urban Transformation are aimed at creating immense opportunities in India. The Indian start-up ecosystem has evolved vigorously over the last two decades. Some start-ups were started in the 2000s, but the ecosystem was still infantile as only a few investors were enthusiastic and the number of support groups such as incubators and accelerators was limited. Bangalore has
become apparent as India’s primary start-up hub, but significant establishing activity is also taking place in Mumbai and the National Capital Region (NCR), as well as some smaller cities.

OBJECTIVES OF THE STUDY
Startups are a part of a larger business ecosystem; they do not exist in a vacuum. The purpose of this study is to present a thorough understanding of the growth drivers and challenges faced by Indian start-ups. The study also looks into the evolution of the start-up ecosystem over the years.

RESEARCH METHODOLOGY
This paper is descriptive and analytical in nature. The study is based on secondary material that has been gathered from books, websites, research papers, periodicals, newspapers, and other publications. This research paper is bifurcated in three parts. Part I describes about the concept, literature review, problem definition, research methodology and objectives. Part II is a discussion based on the secondary studies of Start-up ecosystem in India and the start-up India initiative. The Part III of the paper includes findings as well as concluding remarks at the end.

START-UPS ECOSYSTEM
A start-up is a business that is just starting to operate. Start-ups are young businesses created to create a special product or service that is unmatched by anything else on the market right now, or that the creators feel is being provided in a substandard manner. A start-up, which is rooted in innovation, strives to address flaws in current products or develop completely new categories of goods and services, upending long-standing methods of thinking and conducting business across entire industries. Various players, including incubators and accelerators, investors, service providers, educational and research institutions, and large corporations, make up the start-up ecosystem. Organizations that promote the creation and expansion of new firms through a variety of resources and services, research institutions are known as business incubators and accelerators.

ELEMENTS OF START-UP SUPPORT
It's difficult to launch a start-up. When start-ups need handholding, the essential support dimensions are as follows:

- Office Space and Infrastructure
- Business Support and Mediation
- Funding and Assistance with Fundraising

HOW DO STAR-UPS SUCCEED?
For a start-up to succeed, the following important questions must be answered:

- Is the team fervently committed to their idea?
- Do the founders have domain expertise and knowledge?
- Are they willing to devote their time?
- Why this idea and why now?
- What is the market size?

If a start-up can answer all these questions, a start-up may have a chance of joining the 10% of early-stage companies that survive.

THE STATE OF THE INDIAN START-UP ECOSYSTEM
Due to its enormous commercial potential for start-ups, India is frequently referred to as "the posterchild of emerging markets." Over the past 20 years, the Indian startup ecosystem has undergone significant change. The ecosystem has considerably expanded and is still maturing. In the New Economy of the late 1990s, which came to an end with the bursting of the dot-com bubble, few start-ups had previously emerged. At the time, there was little support infrastructure, low Internet access, and limited broadband penetration. The scenario steadily evolved in the subsequent decade as additional start-ups entered the market. Some of them did well, and others left the group. The number of start-ups has rapidly expanded over the years, along with the number of incubators, accelerators, and other support organisations. A lot of money was invested in start-ups with only suggestions during the early financing boom, which led to enormous financial losses. As a result, investing methods became more cautious when several funds closed, and the market was cleaned up. The situation started to deteriorate once more in recent years.

Government and CSR initiatives are also having an impact on the investment landscape. Startups in India have a huge opportunity to serve regional and niche markets that have a tremendous scope to be successful and sustainable with early income generation potential. More information is now available in the ecosystem due to the mistakes and experiences of the first generation of Indian entrepreneurs. Some of these founders
ultimately found success, which encouraged many people to take similar entrepreneurial efforts. Additionally, over time, a sense of community has developed among those involved in the start-up ecosystem. The Indian ecosystem has grown tremendously in all aspects and has now reached a particular size overall. The success rate could be high with a prospect for expansion if the business has a small operating region and the correct product or service. The area at the base of the pyramid represents a potential market for goods including food, clothing, water, and hygiene supplies.

Most of the support is offered in Indian metropolises, each of which has its own history, unique local characteristics, and distinct ecosystem. India's main hub, Bangalore in the state of Karnataka, is the most developed in terms of the number of start-ups as well as support organisations and investors. A dedicated authority has also been established by the Karnataka government with the goal of developing and implementing progressive policies to foster an environment that is favourable for start-ups. Along with the NCR, particularly in Delhi, Gurgaon, and Noida, Mumbai in Maharashtra is also experiencing a lot of start-up activity. Mumbai is home to numerous fintech start-ups as it is India's financial hub. Tier-1 and Tier-2 cities are also creating startup eco-systems.

ROLE OF INDIAN GOVERNMENT INTERVENTION IN PROMOTING START-UP ECOSYSTEM

According to the number of start-ups and unicorns, India has the third-largest start-up ecosystem in the world today. The country is right behind two global superpowers – the US and China. The government of India's Start-up initiative aims to create a robust environment for nurturing innovation. Startups are nothing more than an idea that materialises into a business venture. There are a lot of ambitious people who want to launch their own business but lack the funding to do so. As a result, the nation loses out on wealth generation, economic growth, and employment opportunities because their ideas, creativity, and skills go unutilized. The government intends to support start-up businesses through this effort in order to increase employment, economic growth, and entrepreneurship throughout India. The start-up eco-system in India has gained international attention. The business world has seen an explosion of ground-breaking start-ups providing solutions to the real problems at a mass level in the past years due to hundreds of creative young people choosing to pursue the path of entrepreneurship rather than joining multinational corporations and government ventures. India's startup ecosystem offers a lot of potential for ground-breaking innovation. India has a ridiculous funding deficit for start-ups in the early stages. This limits startups' capacity for creativity and risk-taking. Therefore, it is the responsibility of the Indian government to encourage and support a strong startup ecosystem. For this rationale only the “Start-Up” act has been passed.

This program aims to encourage people to become “Job creators” rather than being “Job searchers.”

To help startups, there are many formal and informal government initiatives.

- **Start-Up India**: This programme offers three-year tax and compliance benefits designed to reduce bureaucracy and red tape.

- **MUDRA Yojna**: Through this programme, banks provide loans to new businesses to help them launch, expand, and stabilise their operations.

- **SETU (Self-Employment and Talent Utilization) Fund**: Government has allotted Rs. 1,000 Cr. in order to foster opportunities for new jobs and self-employment, particularly in technology-driven fields.

- **E-Biz Portal**: To facilitate quicker clearances and increase the convenience of conducting business in India, the government created an e-biz portal that consolidates 14 regulatory permissions and licences into a single source.

- **Royalty Tax**: The royalty tax paid by businesses and start-up companies in India has been decreased from 25% to 10% by the Indian government.
GROWTH DRIVERS OF THE INDIAN START-UP ECOSYSTEM: Growth drivers of the Indian start-up ecosystem need to be understood in the context of various factors:

1. **Start-Ups and Characteristics of the Indian Market**
   - Even niche products can have a considerable market potential in a nation with a population of about 1.3 billion people.
   - Economic reforms in the 1990s helped India transition to a more market-based economic system.
   - India is one of the world's major economies with the quickest growth rates. As a result, it is believed that the Indian market is capable of offering an abundance of opportunities for start-ups.
   - Incomes and purchasing power in India are rising gradually as the economy continues to grow.
   - Increasing consumption is driven by the growth of upper-middle income and high-income segments of the population, which currently make up one in four households and will increase to one in two households by 2030.
   - The country's youth, who make up half of the population, have high aspirations.
   - India’s extreme diversity in culture, language, race and religion has found to be both a curse and a boon for start-ups.

2. **Start-Ups and Technological Change**
   - Technology start-ups play a vital position in achieving this, because of their potential for scaling and exponential growth.
   - Over the past few decades, technological advancements have lowered the cost of creating digital products and made consumer markets more accessible.
   - As India's internet connectivity increased, obstacles to market access were removed. Internet users, subscribers to wirelines, and broadband penetration are all rising quickly.
   - The government initiative, "Digital Saksharta Abhiyaan", was launched to encourage digital literacy and aid individuals in learning more about the digital world.
   - Startups depend on opportunities to find and charge clients as well as market access. The Aadhaar biometric ID system, which was launched in 2009 and provides Indian citizens with a unique identity number, has made it simpler for businesses to verify client data.
   - In order to increase financial inclusion, successive Indian governments have also actively encouraged both the opening of bank accounts and the spread of digital payments.
   - Moreover, the payment systems and Aadhaar are intended to serve as a new social infrastructure that will "assist India enter the digital economy of the 21st century."

3. **Increased Political Will and Government Support**
   - The government under Prime Minister Narendra Modi, which came to power in 2014, prioritised digital transformation in all of its objectives.
   - Start-ups are increasingly recognised by the federal government and some state governments as key drivers of economic growth.
   - Start-ups are anticipated to generate employment that will lower the nation's high unemployment rate.
   - The prime minister launched the flagship programme, "Start-up India," in 2016 with the goals of "creating a strong ecosystem that is conducive to the growth of start-up firms, to drive sustainable economic growth, and to create a significant number of employment opportunities."

4. **Companies Increasingly Seek to Engage in Open Innovation**
   - Large firms are under pressure to innovate more quickly than ever in a business climate that is becoming more unpredictable and dynamic.
   - In India, businesses are collaborating with startups more frequently to boost their own innovativeness. With start-ups, they engage in trade and strategic alliances while providing them with a range of corporate-specific resources. These agreements may be advantageous to both parties.

5. **Changing Perceptions towards Entrepreneurship**
   - A change among the general public's perceptions is noticeable. The people who are able to put ideas into reality and take advantage of opportunities are the ones who are willing to take risks. The majority of start-up founders in India claim...
CHALLENGES OF THE INDIAN START-UP ECOSYSTEM

All over the world, start-ups face some common difficulties. However, some of the challenges are particularly unique to the Indian corporate environment. The five main difficulties faced by Indian start-ups are described in this section:

1. **Building and Scaling an Indian Start-up:** The challenges faced by Indian start-ups begin with the basics such as hiring and managing the staff, dealing with clients and developing a marketing strategy.
   - Many Indian entrepreneurs have non-technical background and lack commercial acumen. Even while skilled workers are not in short supply in India, startups simply cannot always afford them. Often, however, the multi-skill needed to create start-up success stories are very difficult to find.
   - A significant amount of working capital is needed to run a start-up. Many start-ups, particularly those in their early phases, are bootstrapped, i.e., self-funded by the founders via their own funds or by borrowing money from friends and family. Experiments can provide a variety of questions that all start-ups urgently need to know the answers to. However, they are frequently overlooked or stalled due to turnaround times or financial constraints.
   - Start-ups require outside investment, many of them begin looking for investors as soon as they decide to scale their business. However, finding the right investor and raising funds is difficult, even if they have received positive responses on their product and have some proven market validation.

2. **Diversity and the Digital Divide**
   - There is a knowledge gap between those who offer solutions and those who are expected to apply them.
   - In order to create successful products, start-ups must gain a thorough understanding of their target market's needs.
   - India is a highly diverse country, home to many different cultures, languages, ethnic groups, and faiths.
   - Building up a pan-Indian start-up is more challenging because their start-ups understanding is frequently restricted to a single region and they have little understanding of clients in other regions.
   - There is a disconnect between the start-up founders and the clients, for whom they are trying to build products. Due to diverse living conditions and socioeconomic backgrounds, start-ups often have lacked an adequate grasp of the clients and their needs.

3. **Taking Products to Market and Low Willingness to Pay**

   Starting a business in India presents another challenge to take their products to the market as Indian markets seem tricky to penetrate.
   - The competitive environment is one factor: There are frequently numerous companies that are already existing and many more that enter the market, including copycats.
   - A second factor is that start-ups are at a disadvantage compared to established businesses. This is because large market participants are better able to comply with administrative rules, public procurement is viewed as weak, and governments prefer to sign contracts with well-established businesses.
   - A third factor is the time and effort required for client retention and communication. It might be challenging to persuade Indian buyers, particularly if the start-up creates novel items and targets fresh market niches.
   - In addition, it can be challenging for startups to build demand for their goods and services. The Indian consumer base continues to be price-sensitive and has a low willingness to pay for goods and services, despite rising incomes.
   - The problem for startups is to create solutions that are economical, sometimes at the sacrifice of quality. For this purpose, many startups are volume driven, with minimal earnings.
   - For those start-ups that do not charge clients through means of digital payment, collecting and assuring on-time payment might be a problem.

4. **Hiring Qualified Employees**

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Due to the inherent danger that a start-up may fail, joining one as an employee is not a popular career choice for many job seekers. Instead, the majority favours employment with big businesses because they offer more secure employment.

Start-ups can rarely match the reputation and pay structures which big businesses can offer. Many of those who begin working for start-ups, switch to established businesses after a few years. Career transitions in the reverse direction are less common.

Many job applicants lack the necessary skilled. Therefore, start-ups have to spend a lot of time and money training new employees when they hire new employees.

Many highly qualified professionals relocate abroad in search of employment. Indian start-ups have failed to draw in foreign talent, in contrast to many other start-up hotspots around globally. It is challenging to hire workers from outside of India due to bureaucracy and visa requirements.

5. Complex Regulatory Environment

The Indian government has implemented measures to make it easier for startups to conduct business. The current regulatory environment, however, is often regarded as being complex, ineffective, and unpredictable.

In India, startups frequently experience a burden from bureaucratic procedures that seem to lack fundamental norms. Regulations can abruptly change, and start-ups may receive arbitrary notices. They have insufficient opportunities to discover information, and there is little planning security regarding how long processes can take.

Besides this, regulations can unexpectedly change or start-ups get random notices. Start-ups are forced to come up with annoying workarounds, squander time, or change their company model as a result.

Other challenges relate to a start-up's incorporation and registration as well as its closure. Despite the government's stated desire to speed up business establishment, the procedure is typically regarded as time-consuming and expensive. It has a high entry barrier and requires numerous approvals.

Once the legal structure is complete, formal registration as a start-up is a necessary to be eligible for tax exemptions and additional benefits. The government's definition of a start-up has specific requirements, yet few startups met them. The requirements were later relaxed, but start-ups still appear to have issues acquiring registration certificates.

Some start-ups fail, but closing a startup has been described as being even more difficult than starting one.

The tax code and how it is applied are thought to be unfriendly for new businesses. It is still unclear how the GST works and which items qualify as tax bases or not. Even if startups haven't yet made any revenue, they must regularly file their taxes. They must bear risk of paying hefty penalties if they don't file the tax on time.

RECOMMENDATIONS

Changes in the broader cultural environment would be beneficial to inspire people to take risks and perhaps create impactful solutions.

To make it easier for start-ups to conduct business, it is considered that the regulatory framework's application of current start-up policies and the elimination of bureaucratic inefficiencies must be improved.

Start-ups would benefit from reduced administrative burdens, better information accessibility, more standardised operating practices, and defined standards.

Additionally, it is crucial to direct investments in education to generate a larger talent pool. Intellectuals involved in the study of the ecosystem argued that entrepreneurship classes should be included in college curriculum to better prepare students for careers in start-ups.

Despite a significant growth in angel and venture capital investments in Indian start-ups in recent years, the ecosystem still lacks resources. In order to bridge the gap between ideation and the next stage, younger start-ups need more funding because investors prefer to invest in more established businesses.

Startups and ecosystem participants expect that governmental authorities can encourage angel investments by, for example, eliminating the angel tax or providing other types of tax benefits.
Moreover, government efforts to establish a seed fund and provide grants to startups are seen as successful initiatives.

It was also mentioned that more start-ups ought to be purchased by big, established businesses. In addition, the frequent practise in established start-up ecosystems of successful entrepreneurs assisting promising younger start-ups needs to accelerate.

Assistance must be extended to startups in smaller tier 2, 3 and 4 cities.

It shouldn't obscure the truth that worthwhile solutions could also come from other kinds of entrepreneurial endeavours.

Thorough market and user research is essential for startups. Even if they gain some industry information via mentors, it is likely that they will still discuss with their users to get a better understanding of their demands.

In order to address the mismatch between start-up founders and customers, particularly in rural India, they need to conduct more field research and obtain greater exposure to people in the field.

Regarding the difficulty of recruiting talent, start-ups may have to widen their net when hiring and be ready to learn from first-time employees.

Most start-ups rely on other incentives to recruit people because they can't pay as much as major businesses can, such providing learning opportunities. Fostering a positive workplace culture can also aid in drawing in and keep talent.

The desire to take risks should be valued more, and failure should be seen with less negativity. Additionally, breaking down prejudices is a crucial step in fostering diversity, which will enable the big ideas of our time to receive the ecosystem of support they require to have a chance.

**CONCLUSION**

The government of India's Start-up initiative aims to create a robust environment for nurturing innovation. Numerous factors, including a sizable population with a significant proportion of middle-class people, educated youth with technical backgrounds, IT dominance, high internet and mobile penetration have created chances for the start-up movement to spread throughout India. The Indian market presents start-ups with a variety of opportunities, and as a result, start-ups have high expectations for fostering growth and creating jobs. In India, there have been more start-ups during the past 20 years, and the ecosystem surrounding them has grown rapidly. There is undeniable confidence over the ecosystem's future development. However, there are many difficulties for Indian startups. All stakeholders, including the start-ups themselves, governmental agencies, and ecosystem actors must work together to overcome these obstacles. Start-up India will stimulate entrepreneurship and economic growth by providing proactive support and incentives at various levels to those who have the potential to innovate and launch their own businesses.

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