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Transforming Through Reinvention

In The Current Emerging Global Order 2020

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COVID 19 - Funding of Innovative Start-Ups in India

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Abstract -

The article focuses on recent trends in funding start-ups in India. Start-up is a new venture in the form of organization which is designed for scalable business. They are created in the process of development of new products or processes. The base of the start-ups company is innovation where entrepreneur comes up with an innovative idea that can be commercialized and generate societal benefits. In the recent past, there has been increase in start-ups in India in different fields like retail selling, e-commerce, food delivery, consultant, medical care, delivery of grocery items, fitness etc. Being small in size and new in the business, they often find it difficult to organize funds for their functioning. The start-ups are now being funded by other young start-up companies. These start-ups belong to the different fields. This paper explores the recent funding trends in innovative Start-up company in India.

Key words - Entrepreneur, Employment, Finance, 'Make-in-India', Startup

Introduction -

Start-up Company is designed for scalable business model for innovative products and processes. They can be found in all forms and sizes. The main challenge in starting a start-up company is to find funding for an innovative product or process that changes the way we live our life. Since start-up companies focus on a new product or process, they often find it difficult to convince investors to invest in their idea. Investors tend to weigh the start-up company with respect to potential rate of return in less time. They are attracted to new companies which are distinguished by their risk/reward profile and scalability. That is, they have lower costs, higher risk, and higher rate of return. Often successful startups are typically more scalable than an established business, in the sense that they have the potential to grow rapidly with limited investment of capital, labor or land. Initially start-up companies are funded by entrepreneurs only but in later stages with progress, they can catch attention of venture capitalists or angel investors. 2 By and large, start-up companies focus on innovative idea to make their mark in the competitive market. They recognize innovation as the dominant paradigms in business world. They can create new and differentiating market opportunities by adopting innovative ideas. Small and medium enterprises (SMEs) can also gain competitive edge over others through innovation. The first wave of entrepreneurs angels sprang up in India when the likes of Deep Kalra (Makemytrip.com) and Sanjeev Bhikchandani (naukri.com) took their companies public. Even the Paypal Mafia emerged after online payments gateway Paypal was sold to eBay.The likes of Peter Thiel and Reid Hoffman have since emerged as some of the biggest investors in the Valley endorsing the success of entrepreneur and turned investor breed. It is important to note that most of the investors are already into their business and doing well. The recent attention given to start-up companies forces us to explore funding tends in innovative startups in India.

Status of Start-ups in India -

Year 2019 witnessed a relatively lesser number of new tech product company launches with 379 companies launched this year as compared to 519 companies launched in 2011 and 452 companies launched in 2010. Bangalore has registered the highest number of new technology startups launches in the past five years, recording 591 new technology startups launches, followed by Delhi NCR which recorded 237 new launches and Chennai which recorded 203 new launches. – e-Commerce segment accounted for 33% of all the new tech entities, followed by B2B (Business-toBusiness) segment which accounted for 24% of all the new tech entities and Consumer Internet segment which accounted for 12% of all the new tech entities. Mobile apps segment accounted

10% of the new tech entities while SaaS (Software as a Service) segment accounted for 8% of the new tech entities and other segments accounted for 13% of the new tech entities – Among the companies that shut down in 2011, around 49% of the companies were only six months to one year old, while 31% of them were less than six months old. 20% of these companies were 1-2 years old. Bangalore registered the highest number of startup closures, registering around 70 closures as indicated by the graph below, followed by Delhi NCR which registered around 35 closures and Mumbai which registered around 25 closures. Note that these are approximations based on the graph below. 3 – 61 startups closed down due to the inability to raise funds, while 43 startups closed down due to the inability to collect money quickly and 39 startups closed down since the founders got a better opportunity. – Only 9% of the first time failed entrepreneurs have launched yet another company while 61% of the first time failed entrepreneurs have started working at a larger company. Remaining 30% of these entrepreneurs have started working at another startup. – 135 firm founders have kept their firms as side projects while 36 founders have sold their firm and 19 founders have shut down the entity. TECHINASIA recently came out with a few interesting statistics about the startup scene in India: An average of about 970 technology-product entities gets started every year in India, and onlyv about 380 incorporate the entity as a corporation. The mortality rate of these entities is quite high, with over 60% pivoting or going dormant withinv 12 to 18 months. 61 percent of startups are focused on business oriented offerings – and about 39% are gearedv towards consumer applications such as mobile apps, social networks and e-commerce, among others. In 2006, there were about 43 active venture investors investing in about 73 companies each year;v now there are over 80 angel investor networks, seed funds, accelerators and early stage funds, and over 153 companies get some form of institutional funding each year. There are three main challenges that the Indian startup ecosystem faces: the paucity of exits, thev lack of a sophisticated angel investor and mentor network, and the inherent risk-averse nature of the Indian middle class.

Challenges Faced by Start-ups in India -

Talent - In India, very few are ready to give up the comfort and security provided by their cushy jobs to become entrepreneurs. Hence, it becomes difficult for startups to attract and retain quality talent – since people generally do not want to quit their jobs at larger companies to go and work for a startup.

Education - India is still lacking in a proper startup ecosystem to take full advantage of the opportunities up for grabs today. Other than a limited number of top business schools in the 4 country, most educational institutions fail to provide the necessary support and resources for their students to indulge in free-form thinking, and take up entrepreneurship.

Funding - Lack of funding is one of the major issues being faced by startups in India today. Add tov that the lack of government support, in terms of policy approvals, bureaucratic red-tape, and slow decisions by committee mentality – this poses a big challenge for Indian startups.

Vision - Most Indian startups lack the long-term vision and leadership to sustain and grow their business over the long run; too much emphasis is given on quick monetary returns instead of innovation – a situation that is not helped by the VCs/angel investors for these startups, either.

Infrastructure - The infrastructure in India leaves much to be desired – poorly planned roads, inefficient logistics, quality of Internet service, issues when it comes to water and electricity, among others, all contribute adversely to the startup ecosystem in India today.

Compensation - Indian startups, compared to their peers in other startup hubs, are generally reluctant in paying their employees in terms of industry standards; they usually blame the economy/recession as a part of these "cost-cutting measures", while on the other hand, the employees are overworked and underappreciated. This results in substandard performance by the employees, and in turn, the company as a whole.

Mentorship - The startup ecosystem in India faces a serious dearth of good mentoring and a support system – India does not have a large pool of successful entrepreneurs who have built successful companies from scratch, and are willing to mentor the next generation of entrepreneurs. A lot of entrepreneurs are looking for good mentors – as opposed to funding.

Empirical Findings -

This section presents some of the examples start-ups firms that gained prominence in the recent times in the Indian market. One such example is Yumist. Yumist (co-founded by Zomato's ex-chief marketing officer Frsh and Mumbai based Holachef have raised funds at a time when investors are chasing food related start-ups as the next big consumer internet opportunity in India. Orios Venture partners has invested in Yumist, India Quotient has backed Holachef and Gurgaon-based Frsh (Kae Capital is a co-investor). In 2018 there were 66 rt-ups companies that were started. This has gained momentum because of the popularity among urban ndian who are increasingly looking for healthier food options at reasonable price point simply by through mobile app. Many start-ups were started to solve the customer's pain point of daily meals at workplace. Many have their own production and focus on quality of food and meeting delivery time. The Indian meal markets is very large around middle and income and lower income. The main challenge faced by Indian food-tech companies is that 5 they have to differentiate from the US Europe by tweaking end-product pricing significantly. All the early stage have been in range of 1-2 million, the largest being TinyOwl that received 3 million from Sequoia Capital and Nexus Venture Partners.While the new breed of these start-ups is handling supply chain and logistics as well and wants to own the offering fully. This comes as a big opportunity for Indian restaurants servicing industry estimated at 50 billion, out of which only 5-6 % is organized. Food is entirely unorganized sector. Moreover, factors like real- estate and cost of capital makes it tough to be profitable. As of now most of the start-ups have restricted them to home cities. Earlier the food start-ups basically provided a means to connect link from consumers to restaurants. Also Google is mentoring start-ups in India. They will mentor 100 early stage start-ups in India this year through its globally successful mentorship programme called google Launchpad. The first Launchpad. They plan to hosts four such events. Globally they have mentored 350 start-ups. Launchpad is five day event intensive mentoring programme for early stage start-ups focused on areas including product strategy, user experience and user interface, technology and go-to-market. The mentors will be available to the start-ups for another three months for consultation. The aim is to create high quality network hyper local mentor network that is that is self-sustaining. The Indian start-ups eco-system is on the curse to getting its own version of the Paypal Mafia ,Silicon Valley's fabled group of prolific entrepreneurs angels as e-commerce entrepreneurs turned to angel investing in a big way. In 2014, co-founders of online retail biggies Flipkart and Snapdeal made investments in almost dozen start-ups which is substantial jump from last years record.Snapdeal has put money in Tripoto, TinyOwl, Bewakoof, Gigstart while Flipkart has invested in Ather, Roposo.com, Touchtalent.com and Spoonjoy. Significantly of these start-ups including Ola Cab and Housing.com- both these have received funding from these entrepreneurs angels have gone to raise millions of dollars in capital from heavyweights like Japan's Softbank corp. Venture Capital firms are now tracking these entrepreneurs angels. The investment footprint of entrepreneurs investing in start-ups is going to grow at a much accelerated pace in 2015. Besides money they get lot of benefits like resource pool available with entrepreneurs turned investors. As per report from CB Insights, VCs invested $146 million in the food and beverage industry in 2013. Food is considered as a difficult industry for entrepreneurship because of low barriers to entry but growth is slow. Moreover, large number of young food companies fail to progress beyond nascence. Due to this these start-ups often find it difficult to get funding support from outside. As per AngelList, Bangalore has more than 1700 startups. It is home to companies like Flipkart and InMobi, the city has seen growth of numerous startups in the past few years.

Conclusion -

It has been seen that now even start-ups firms are investing in the new business ventures that add value to life. Companies are partnering with new start-ups to commercialize and expand innovative ideas in software and related services. This unique partnership based mode provides technological edge, capital base and commercial expertise.

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