

# EMERGING TRENDS IN GLOBAL MANAGEMENT AND INFORMATION TECHNOLOGY



*Edited by*  
**Ketaki Sheth, Rupal N. Patel and Sanjay K. Radadiya**

# Emerging Trends in Global Management and Information Technology

Complimentary Copy

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# Startup India—The Next Big Theme for Economic Development

Sanjay R. Ajmeri<sup>1</sup>

## INTRODUCTION

Our country has witnessed a phenomenal growth in the startup landscape in the recent period, in the process emerging as one of the largest startup destination globally. The credit for India reaching such remarkable heights, largely goes to the success stories created by firms such as MakeMyTrip.com, Info Edge, and many more, which encouraged the creation of an immensely promising entrepreneurial culture in the country.

A clear definition of a 'Startup' does not exist in the Indian context due to the subjectivity and complexity involved. Considering various parameters pertaining to any business such as the stage of their lifecycle, the amount and level of funding achieved, the amount of revenue generated, the area of operations, etc., some conceptual definitions are: A startup is a young company that is beginning to develop and grow, is in the first stages of operation, and is usually financed by an individual or small group of individuals.

A startup is a young company which could be an entrepreneurial venture or a new business, a partnership or temporary business organisation designed to search for a repeatable and callable business model. A startup is a young company that searches for an unknown business model in order to disrupt existing markets or create new ones. A startup is a young, dynamic company built on technology and innovation wherein the founders attempt to capitalize on developing a product or service for which they believe there is a demand.

A startup business is an organization incorporated for three years or less, at a funding stage of Series B or less and an entrepreneurial venture/a partnership or a temporary business organization. A startup is a business that engages in development, production or distribution of new products,

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<sup>1</sup> Associate Professor, B.J. Vanjiya Mahavidyalaya, Vallabh Vidyanagar.



processes or services, new and existence for not more than five years, revenue of up to INR 25 crores, not formed through splitting or restructuring, and formed through splitting or restructuring.

Stages of the Startup Lifecycle

<i>Pre-Startup</i>	<i>Startup</i>	<i>Growth</i>
<i>Discovery:</i> Identify a potential scalable product/service idea for a big enough target market.	<i>Efficiency:</i> The entrepreneur begins to define his/her business model and looks for ways to increase customer base.	<i>Maintenance:</i> Maximising benefits and facing problems derived from the global dimension that the business has achieved.
<i>Validation:</i> The service or product discovered hits the market, looking for the first clients ready to pay for it.	<i>Scale:</i> Pushing the growth of the business aggressively while increasing its capacity to grow in a sustainable manner.	<i>Sale or Renewal:</i> The decision to sell the startup to a giant or acquire huge resources that the brand will need to continue growing.

## GROWTH DRIVERS

Startups are new businesses. The new startups that offer opportunity for growth and employment generation are innovating, driven and looking to scale.

With 40,000 plus startups in the country, the ecosystem in India is riding two waves—the boom of consumerism and the digital explosion, specifically via smart phones. Then there's a favourable demographic dividend, a growing middle class and a huge domestic consumer market. In addition to this we have a big talent base in engineering, complex problems waiting to be solved at massive scale and an expanding pool of risk.

As per a survey report by Innoven Capital (survey of 140 founders); leading factors that make India appealing as a startup nation are cost of doing business, proximity to customers/vendors & Size of domestic market.

Several academic institutions (Science and Technology and management focused education) in India have incorporated incubation programmes to encourage, assist and mentor budding entrepreneurs, favourable demographics and India's economic growth presents immense opportunities for global investors to invest in India are others driving forces for the Startups.

## COMPOSITION OF A STARTUP ECOSYSTEM

A startup ecosystem comprises of: Entrepreneurs with a technology-driven business idea; and Investors (equity investments, debt finance, grants).

Academic institutions (especially those offering entrepreneurship programs and incubation, e.g. certain IITs and IIMs). At present a great number of universities and colleges today offer entrepreneurship courses, several have incubation services and many more student clubs encouraging startups an entrepreneurship.

Non-financial support systems (incubators, accelerators, etc.): Enablers, accelerators, and incubators are firms providing startups with growth advice and decision-making tools. From advising on government policies to act as market catalysts, they grow the maturity of young ventures. Enablers like iSpirt and NASSCOM brought together key stakeholders of the ecosystem including startup accelerators, incubators, venture capitalists, angel investors, support groups, technology corporations and mentors. Simply, their main aim is to provide funding and support for startups. Incubators work with startups to develop entrepreneurial skills such as building a business around an idea, creating and testing a prototype and understanding the market. Incubator programmes can be relatively long-term—over a year.

Accelerators offer usually shorter and more intense programmes to hone in on the business model, the market opportunity and the product. Startups often require non-financial support, including capacity building, management advice, improved business plans and networking, and specialist technical services such as accounting or legal advice. Non-financial support is a way of reducing the risk (of default) of the financial support.

Co-working spaces are shared offices that typically have open space and offer desk space as well as other facilities such as administrative help or services such as couriers. In addition, there may be formal or informal networks of mentors or entrepreneurs based at the co-working space.

Professional and technical services such as accounting, legal and financial expertise are important for new startups that cannot afford to provide these services in-house. A number of service providers have emerged in recent past.

Central as well as state government's policies and programmes concerning startups are promoting the startups. Industry associations, formal and



informal networks & events such as business plan competitions have cropped up across India and often provide an entry route for startups to the ecosystem.

## **POLICY INITIATIVES**

Government of India has initiated number of programmes/schemes to support startups in India viz., Make in India, Stand up India, Digital India, Financial Assistance, Startup Stock Exchange, SETU-Self utilization and Talent utilization, IAF-India Aspiration Fund, SMILE-SIDBI Make in India Soft Loan Fund For Micro, Small and Medium Enterprises, MUDRA Bank and ASPIRE-A Scheme for Promotion of Innovation, Rural Industry and Entrepreneurship.

## **CHALLENGES FACED BY INDIAN STARTUP ECOSYSTEM**

### **Cultural Issues**

Entrepreneurship relates to learning from failures and taking a new leap again. People need to start accepting failures and allow second chances. The Indian culture has conditioned people to look down upon failure. Most common questions for anyone to become an entrepreneur are:

What to do: problem related to creating a business idea, finding business opportunity or having a vision.

Why to do: issues related to reward/incentive analysis, risk evaluation or any other benefits, & How to do: issues related to legalities and requirements such as clearances, licenses, approvals required. Issues related to resource.

Availability including finances, technology and manpower supply.

Most people think that having a domain name, setting up a website, moving to social media are complex, costly and time consuming. People are conscious about risk and rewards, and India is referred to as a price sensitive market. People at large are unaware about how they can contribute to economic growth, generate employment, and contribute to social development.

### **Social Issues**

Quality Mentorship/Guidance: It is observed that most of failed startups are due to lack/absence of proper guidance and mentorship especially in terms of industry knowledge/support.

**Market structure:** Indian markets are largely unorganized, scattered and fragmented that creates a hurdle for a startup to succeed.

**Consumer behaviour:** Behaviour of consumer is unpredictable and it makes it really difficult for a startup to create business or market strategy for their products or services. Most startups generally get stuck in stagnancy and gradually shut down.

**Location:** Another important problem faced by startups is related to location of their business. India is a place of varied culture and taste and thus every product might not be accepted equally in every region.

**Technological Issues:**

**Technology Infrastructure:**

Appropriate IT-infrastructure has become a need of the hour in 21<sup>st</sup> century for Indian businesses as consumers are fonder of technology.

It is absolutely important for new startups to train their employees for handling critical customer information such as that of credit card numbers and related data.

### **Cyber Security**

Most startups have a B2B business model. This is where cyber risk may rise as they are not aware of potential risks that might exist for their startup business.

No back-up plan to keep the startup company running when an accident destroys some key equipment in their data centre.

### **Financial Issues**

**Operational finance:** Imperfect business models and lack of innovative revenue strategies have led to the failure of many startups and they are forced to shut down operations. **Funding/Capital Deficiencies:**

Government and private sector investors have set aside funds through investment channels but they are not available for all forms of business. The biggest problem for such organisations has been to attract investors and gain their trust with regard to their mode of operations.

In the initial phase of operations, startups do not get funding from banks given no credit history of the firm. Most startups are self/family funded with limited workforce who makes it difficult to maintain records both financial and operational. In addition, there is limited number of credit rating firms for small and medium sized enterprise.



Despite having raised good investments, startups struggle to survive the competition. Startups are unable to mitigate the gap between burn rate and revenue.

## CASH FLOW MANAGEMENT

Management of cash is an important factor to achieve short term and long term objectives. Cash is still a preferred option for payments owing to the fact that electronic payment has not achieved complete penetration to Tier 2 and Tier 3 cities.

Gap between burn rate and revenue: Given rising competition from peers both from big as well as small, it becomes imperative for startups to scale up the business and require external funding for the sustainability/growth in the market.

Both the investor and the entrepreneur are now more consciously focusing on innovation, capital efficiency and client/customer satisfaction, a view which is bound to impact the funding scenario hence-forth.

## Regulatory Issues

Multi window clearances: Budding entrepreneurs have to make multiple trips to government offices to register and seek clearances. Urgent need to scrap multiple regulatory clearances.

## Taxation Issue

Taxes like octroi, VAT, excise creates problems for entrepreneurs while starting up a business. NASSCOM has batted for the exemption of both direct and indirect taxes for all startups in India. Taxation is a barrier for technology adoption and proves to be an immense hurdle for budding entrepreneurs. With taxation out of the way, startups will be able to stem the cash outflow.

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## About the Book

This book is a compendium of papers presented in the International Conference on **Emerging Global Economic Situation: Impact on Trade and Agribusiness in India**. The book covers thirty four papers covering the emerging trends in global management and information technology. This book will be very useful for all those are interested in issues related to global management and information technology.

## About the Editors



**Dr. Ketaki Sheth** is presently serving as Principal in B.J. Vanijya Mahavidyalaya, Vallabh Vidyanagar. She has 36 years of teaching experience. Under her able guidance 4 students have completed Ph.D. and 8 students are pursuing Ph.D.



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