

Can the Startups' Ecosystem Lead to Sustainable Development?

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Startups have provided numerous employment opportunities for the economy of India that counts 1.4 billion people among its population. Needless to state here that it caters to the needs of its consumers and generates huge amounts of revenue for the country through its innovative business ventures. This has become reality only because of the supportive environment. This supportive environment in which it thrives is named as the startup ecosystem, whose players have a major influence in its survival, development and growth. The Government of India under the leadership of honorable Prime Minister Modiji has set up many policies and schemes like the STARTUP INDIA to encourage the youth of the country to go ahead with their entrepreneurial spirit. India has emerged as one of the world's startup hubs due to the support by the ecosystem of startups. In spite of the decelerated growth of India in the past quarter and the covid-19 pandemic stretching its limbs to all the corners of the economy, the future of Startups still looks bright.

Preamble

Startups have changed the world and in the coming years, many more startups will emerge. With the demographic dividend which we enjoy having almost 65% of its population below the average age of 35 years, startups can act as a catalyst in attaining sustainable development in the economy. The rise of startups in India did not happen overnight, it was a gradual process that took time. After the IT revolution, there have been a number of Indian youth who have begun their own startups. There are about 50,000 registered startups in India as of

October 2019 with Gujarat having the highest number of startups in India -2787, followed by Karnataka with 2107 startups. The Indian Government is playing a major role in the development and promotion of startups through its 'Startup India' initiative announced in January 2016.

The 'Startup India' initiative was announced on January 16, 2016, for creating an environment conducive to startups in India. The government, in order to bring uniformity in understanding what a startup is, has given the following characteristics (Department of Industrial Policy and Promotion, 2016)-

- An entity shall be considered a startup up to 7 years and a Biotechnology startup up to 10 years from its date of incorporation/ registration.
- If it has not exceeded a total turnover of Rupees 25 crore in any of its financial years.
- It is working towards innovation, development, deployment or commercialization of new products, processes or services driven by technology or intellectual property.

Various other programs under this initiative are Rs. 10,000 crore funds for new enterprises, online recognition of startups, tax benefits, easier compliance norms and startup incubators.

Startups are small business ventures with tremendous potential to accelerate sustainable development in an economy. They create more employment opportunities which leads the economy to improved economic growth. Startups contribute to economic dynamism by spurring innovation and injecting competition. New entrepreneurs can bring new ideas to the table, much needed to stir innovation and generate competition (DIDAR, 2016). The widespread use of the internet, innovation and technology, along with a booming startup ecosystem has led India to be the "3rd largest startup hub in the world" in terms of startups getting established and running smoothly (PTI, 2019). As per a survey report by Innoven

Capital (survey of 140 founders); leading factors that make India appealing as a startup nation are (Government of India, 2020)

1. Lesser cost of starting with a business venture- a study by Prof. Amarnath Bhide shows that most Indian firms required an average amount of \$8,300 whereas a similar US startup would require \$10,000.
2. Better proximity to customers or even vendors- India has certain geographic advantage, which gives the stakeholders an upper hand over other countries.
3. Larger size of domestic market- India has one of the largest growing markets in the world which encourage the growth of new businesses and startups.
4. Wider internet reach - India has the 2nd largest number of internet users in the world.

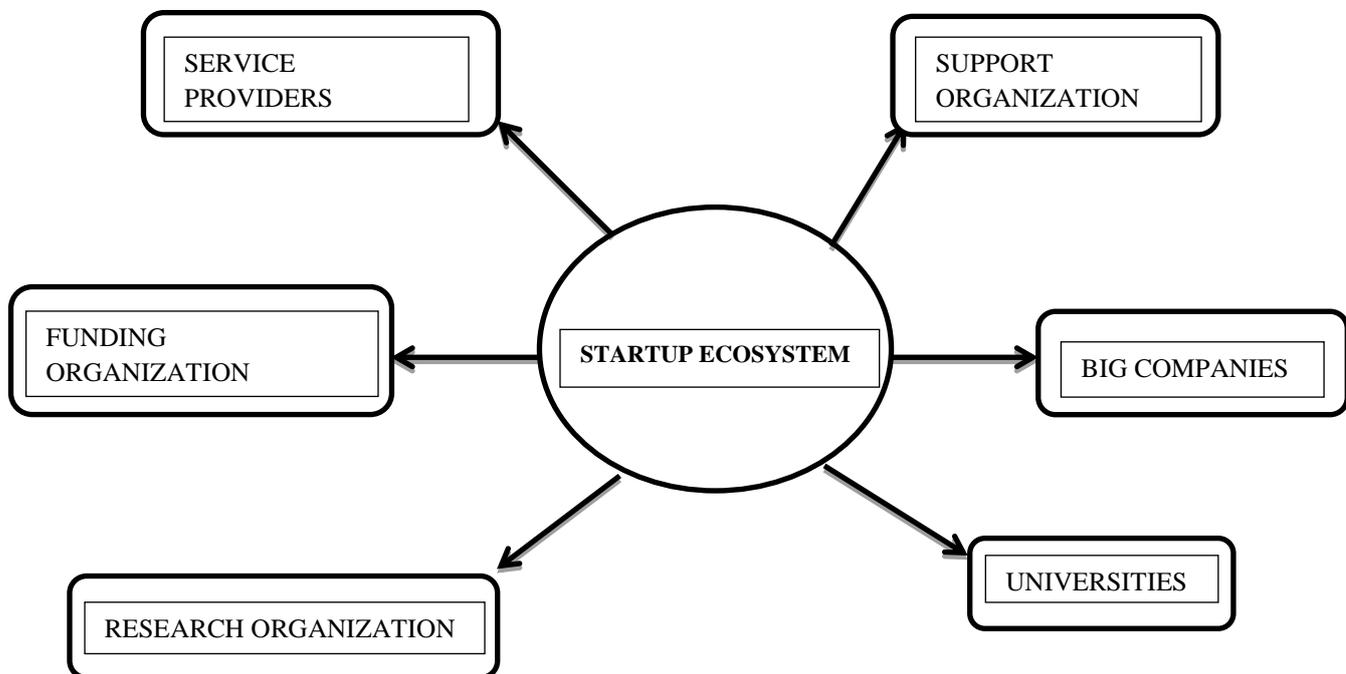
Need for Startup Ecosystem

Just like any other growing business venture, a right ecosystem is very important for the survival, development and growth of a startup. A startup ecosystem can simply be understood as a combination of social and economic factors consisting of people with ideas, inventions, new technology, angel¹ investors with funds, startups at different stages, startup advisors and entrepreneurs interacting as a dynamic system to create and scale new startups. A startup ecosystem can therefore be defined as ‘a set of interconnected entrepreneurial actors (both potential and existing), entrepreneurial organizations (e.g. firms, venture capitalists, business angels, banks), institutions (universities, public sector agencies, financial bodies) and entrepreneurial processes (e.g. the business birth rate, numbers of high growth firms, levels of ‘blockbuster entrepreneurship’, number of serial entrepreneurs, degree of sellout mentality within firms and levels of entrepreneurial ambition) which formally and informally coalesce

to connect, mediate and govern the Startups may be small companies those play a significant role in economic growth. They create more jobs which mean more employment, and more employment means an improved economy. (DIDAR, 2016). Startups, due to their dynamicity, have been the engine for employment of a large number of people.

The participants in a startup ecosystem are represented in diagram 1. They take up six pivotal roles in the capacity of Service Providers, Support Organizations, Big Companies, Universities, Research Organizations and Funding Organizations.

Diagram 1 : Participants of a Startup Ecosystem



Source: <https://commons.wikimedia.org/wiki/File:StartupEcosystem.png>

Each of the above 6 components of startup ecosystem as mentioned above play a crucial role in accentuating the working of the flourishing of startups in India and for that matter in any other country as well. It also consists of the ten elements that add value to the ecosystem. First among them is the investors followed by entrepreneurs and innovation. Fourthly, research and new ideas are important. The fifth integral element is the employees who cannot act in the absence of mentors and advisors. Seventhly, financial climate is also important. The collaboration with big companies have the eighth role. The analytical comprehending and data analysis come up as the ninth integral element, whereas the tenth is the startups at various stages.

The knowledge of a startup ecosystem is essential not only for startups but also for investors, businessmen and the government. A startup ecosystem is hence important because it is a combination of many factors that contribute to the growth of startups in a country. A good startup ecosystem can help in knowledge sharing. The startups are not confined only in sharing work places, but at a greater level they share senior level executives in finance, HR and marketing. As a result costs are low. It has been observed that there are enough executives today who are happy to work part time for multiple startups (Ayyar, 2017). Several Chief Finance Officers (CFOs) who work with multiple startups have good knowledge and experience and can help startups to progress. When startups share their executives, they also lower their costs of hiring new, specialized and experienced personnel for specific jobs.

The Reasons for Success and Failure of Startups

Certain startups succeed, while others fail, because there is more to their success than just good luck and favourable conditions. There may be businesses that have healthy cash-flows and growth rates, but at the same time, do not have enough Venture Capital. To get venture capital, the business must be innovative enough to make it unique from the other participants in the field and have the potential to become the market leader.

Deoli (2019) put forth certain factors which results in the success of startups. The development of effective and feasible ideas as well as sound management are important. Thirdly, the far sightedness to predict consumer behavior in the future and rapidly adapt to the dynamic business environment are important. Fourthly, a team of experienced mentors who are able to guide them through difficult times is integral. The fifth pivotal aspect is to build a workplace that aims at quality rather than just profits. Above all, having patience and persistence in spite of the timing mismatch between expectations and reality.

Deoli (2019) sums up six factors which results in the failure of startups. He says, lack of motivation and quitting too early in the process is one such aspect. Shortage of money is second aspect. The lack of general or specific business knowledge, leading them to incorrect interpretation of the market and hence making wrong decisions can also result into failure. Fourthly inability to adapt to the changing business environment and no market demand could be integral. Finally poor product or poor marketing also contributes to failure.

It is amazing to witness the fact that by surpassing all potential failures, some top startups function in India, as claimed in their respective web-sites. They are

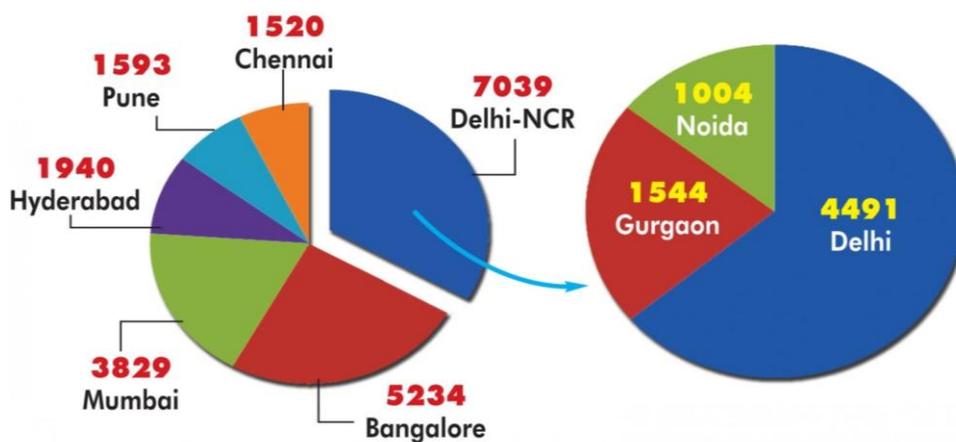
1. EPIGAMIA – A Greek yoghurt company that sells 25 lakh units a month and competes with Greekyo from Swiss food company Nestle and French Dairy company DANONE.

2. CUREFIT – This is a health and fitness company that offers both online as well as offline experience of physical fitness, nutritional advice, mental well-being and food. It has a total funding of \$174.6 million.
3. DUNZO – Using the app, a person can connect to the nearest delivery person who can pick up items from a store, restaurant and also serve as a bike taxi. It operates in Bengaluru, Delhi, Gurgaon, Pune, Chennai and Hyderabad. This company also has a total funding of \$29.6 million.
4. EAZYDINER – A restaurant table reservation platform which is valued at Rs.280 Crore. Its major competitors are Eatigo, Open Table, and Dineout.
5. COOLBERG – A Mumbai based startup that offers a range of flavored non-alcoholic beer.
6. DAILYHUNT – India’s number 1 news and local language application which provides content in 14 regional languages, from over 1000 content providers.
7. TREEBO HOTELS – This is a hotel chain operating on franchising with 600 hotels in over 113 cities in India. Its main competitors include OYO Rooms and MakeMy Trip.
8. PORTER – This is India’s largest truck booking app that has transformed the way goods are moved around cities. It operates in Bengaluru, Mumbai, Delhi, Chennai, Hyderabad and Ahmedabad. Its competitors are Delhivery, Blackbuck and TruckEasy to name a few.

9. OYO – This is one of the fastest growing hospitality chains in India. It operates through leasing, franchising hotels, homes and living spaces.
10. MEDLIFE – This is an Indian online platform that provides pharmacy, diagnostics and e-consultancy. The company’s turnover for the financial year 2019 – 2020 was Rs. 330 crore.

It has been reported as on October 2019, that the city that has the largest startup ecosystem in India is Delhi, housing 7000 startups. Its cumulative market valuation stands at around \$50 billion, followed Bengaluru with \$32-37 billion and Mumbai at the third position with \$12 billion. Delhi has also been adding at least one unicorn to the ecosystem (Gurung, 2019).

Diagram 2: Startups founded in Key Locations



7000+
Start-ups founded in Delhi-NCR
between 2009 and 2019

23%
Share of Delhi-NCR region
among all start-ups in India

Source: Crunchbase, angel.co, Zinnov CoNXT Research and Analysis

IANS GRAPHICS

Government Initiatives

The Government of India considering that startups are an important engine to drive economic growth in the country, has launched the following programs with an intention to encourage the growth of startups in India -

Startup India

Quoting The Honorable Prime Minister, Narendra Modi, “Startup India is a revolutionary scheme that has been started to help the people who wish to start their own business. These people have ideas and capability, so the government will give them support to make sure they can implement their ideas and grow. Success of this scheme will eventually make India, a better economy and a strong nation”.(GOI, 2016). The special provisions are already mentioned earlier.

Startup India Yatra

This is a platform which helps investors, especially from non-metropolitan cities realize their startup dream. This has been conducted in 12 states as of now- Gujarat, Odisha, Uttarakhand, Uttar Pradesh, Madhya Pradesh, Chhattisgarh, Jharkhand, Telengana, Andhra Pradesh, Maharashtra, Himachal Pradesh and Jammu and Kashmir (Department for Promotion of Industry and Internal Trade, 2018).

Technology Business Incubators (TBIs)

It is a type of business incubator to support startups through augmentation of incubation and R&D efforts. They provide critical value-added inputs for these startups. 15 TBIs have been set up in top educational institutions. 11 TBIs have been approved and other 4 are in

advanced stages. INR 42 crore has been sanctioned and INR 17crore has been disbursed to 11 TBIs (Department for Promotion of Industry and Internal Trade, 2018).

Challenges confronting Indian Startups

There are always challenges faced by startups and businesses all around the world and such challenges necessitates the need for ecosystems of startups in a country.

Hiring right personnel

Procuring the right personnel with good knowledge and skills often proves difficult for many startups as there are numerous competitors in the field. As Korreck (2019) says the already established large businesses offer good salaries which startups cannot afford and job security, which attracts these highly skilled people to them.

Financial constraints

Yet another major hurdle is getting adequate amount of funding. In the initial stages, it is not very easy to get enough funding as a significant amount of working capital is required, which almost all the time, is provided by the founders, or is received as capital from family and close friends, as opined by Korreck (2019) . A startup may not necessarily require venture capital if it is doing well in its business and able to meet the needs of its customers, but at the same time, if it wants to survive the current and continue operating, it may necessarily have to look forward towards getting foreign capital. However, getting this capital may not always prove successful even if the business has a good name and has been constantly doing well because there are a number of other factors that always influence the venture capitalists in investing in a company.

Constant Innovation to satisfy the Customers

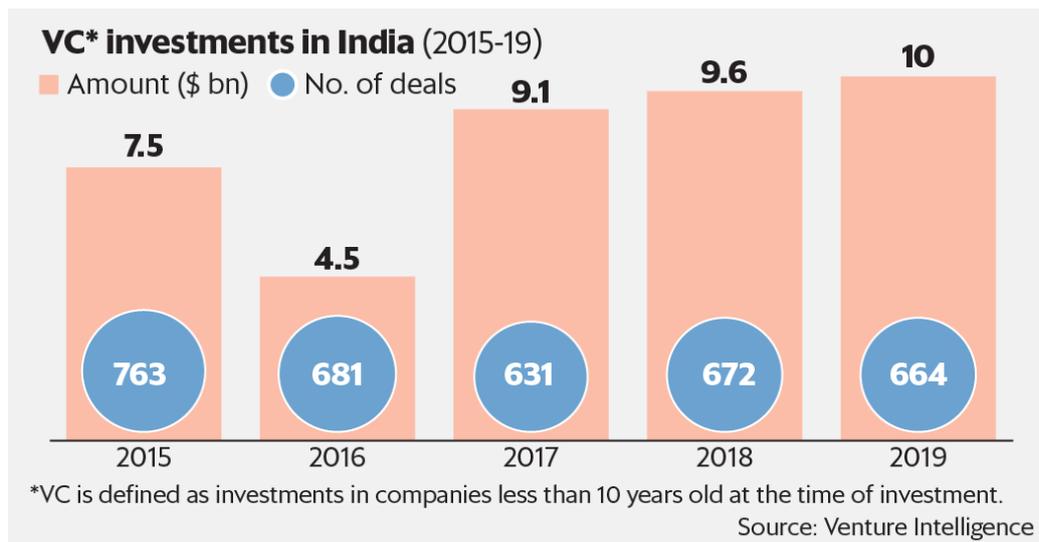
Businesses often face challenges from an ever-changing market, whose customers have numerous, ever-growing and continuous needs that need to be satisfied before another market participant wins over these customers. This is an issue faced by all new startups as customers tend to rely on those businesses that are well-known and with whom they are familiar. This calls for constant innovation and immense creativity. In order to overcome the price sensitivity of customers as Mc Cormick(2016) says, we should emphasize on the quality of products.

The Right Mentors

In business, it is often seen that there is only a very thin line of difference between success and failure. Nowadays, there are many youth who are starting their own businesses who end up as failures. Here comes the role of a mentor, who has the knowledge and experience needed to run a business and has the same interest in the success of the business. As Mishra(2018) opines, they offer expert opinions and help to establish links with clients.

Indian startups raised \$10 billion through venture capitalism in 2019, higher than the \$9.6 billion and \$9.1 billion in 2018 and 2017 according to data from Venture Intelligence, although there was slight investment cautiousness in the latter part of the year (M.Sriram, 2020).

Diagram 3 Venture Capital Investments in India



Startups and Corporate Social Responsibility

Just like the biological ecosystem and its correlation with its environment and sustainability, startup businesses also live hand in hand with the society and its nuances in each and every sense. Practicing Corporate Social Responsibility (CSR) is a must not only for established major players in the market, but also for startups. They should perform these activities from day one and not wait until they make enormous revenues to give back to society because it is difficult to incorporate these activities into a fully grown and established business. Instilling a CSR model within a company is of immense value nowadays and always acts as a tool of drawing customers towards it(Grimes, 2018).In a nutshell, the ecosystems of startups have a very close tie up with the all-round developments and dynamisms in the sphere of its operations and goes hand in hand with the environment and all its participants.

Conclusion

The future of startups looks very bright due many reasons like the support given by the Indian Government, the boom in IT, growth of the B2B organizations, the right mentors, finance providers and the emergence of startups not only in the popular hotspots like Bengaluru, Delhi-NCR, Mumbai and Hyderabad, but also in other cities like Ahmedabad, Chandigarh,

Kochi and Pune. Also, today we can witness a good amount of funds from abroad coming into India that is furthermore making startups popular. This would also become the platform through which a large number of Indian youth would be gainfully employed in the future. In the past few years, there has been an increase in the number of startups in areas like food delivery, retail, consulting, medical services, e-commerce and fitness. Startups can survive and emerge to success mainly due to their ability to use technology and innovation and stand out from the rest. This implies that they are to face challenges like: continuing to be innovative in order to keep their business alive and also, adapting to the constant changes in the business environment for example, Artificial intelligence and Virtual reality play an important role in E-commerce wherein the customers see the products and understand the features without undertaking the trouble of physically visiting the stores and then order them online.

Looking at the other side of the same coin, there is a huge amount of competition among startups to win the attention of investors for their funds and this is a big struggle for many. There are a number of angel investors and venture capitalists who are ready to invest in startups, but due to their risk averse behavior, many of them resort to investing in already mature startups. Another issue could be that new startups require huge amounts of capital to start with, which is not readily available to them. They also face difficulties in hiring experienced and skilled workers because they cannot match up to the salaries offered by other big businesses. Unfortunately in India, entrepreneurs take up ideas that have worked in other countries and try to make it their own, which is not such a good thing to go with (Ayyar, 2017).

In business, there is always the need to make profit and the accumulation of power, but it has now been understood that there is more to it than just that- quality, the ability to move along with the dynamic market forces and above all, meeting the needs of its clients with its most

powerful weapon of innovation will help any startup business survive in this highly competitive system. Co-operation and competition will be the buzz word in the emerging startup ecosystem and the next few years will be absolutely vital in the sector.

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