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# Prospects and Challenges of Startups in Kerala

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## ABSTRACT

The most essential element for a country to be competitive in the world is to develop innovative products and technologies which constitute start-up ecosystem. The role played by entrepreneurs in boosting economic growth and employment generation is very important. The main purpose of the study is to analyze the prospects and challenges of start-ups in Kerala with special reference to those registered under Kerala Start-up Mission. The researcher explores the pertinent issues relating to the start-ups and their influence on the performance of start-ups which provide fresh insights about the functioning of start-ups in Kerala in general and those registered under KSUM in particular. Using SPSS analysis, this study analyzed the factors influencing the scalability and sustainability of start-ups and unveiled the fact that start-ups have a favorable environment in Kerala.

**Keywords:** startup, Kerala Startup Mission, KSUM, entrepreneur, entrepreneurship

## 1. INTRODUCTION

In the modern world, startups are the nexus for any country. A startup company is a venture which is fast growing and aims to fulfill unmet social need by developing an innovative product or service. An aspiring programme has been launched by Prime Minister Narendra Modi which is called Startup India Standup India. The programme was aimed at appreciating the startups and to build a startup ecosystem in India. For the economic growth, innovation is considered as the necessary thing by most countries in the world. So to be a leader in this innovative world, it is necessary to develop new unique products and services.

## KERALA STARTUP MISSION (KSUM)

The first move towards accelerating the startup ecosystem was taken in April 2006 with the formation of Techno Park Technology Business Incubator approved by the Department of Science and Technology and has recently been taken over by Kerala Startup Mission (KSUM). Since 2015, KSUM has been the nodal agency of the Kerala state government to nurture technology startups in the state. The startup village is an incubation center based on a PPP model set up in Cochin by the Kerala government that works to foster an entrepreneurial spirit among the youth. Through various initiatives like Startup box, Future Technologies Lab, etc., KSUM aims to nurture a new generation of young entrepreneurs who have excellent startup ideas to tackle the daily problems of the society. Kerala is one of the top startup destinations of the nation with a stable CAGR of 17 percentage during the past 7 years and marking a steep increase of 35 percentage in number of startups during the year 2018.

## 2. STATEMENT OF THE PROBLEM

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Many aspirant entrepreneurs have excellent startup ideas which have the potential to constructively disrupt any established industry structure. However, to convert these brilliant ideas into products with exponential growth potential, continuous nurturing and support is required. The initiatives taken by KSUM have encouraged the entrepreneurial spirit in the young minds. The focus of this paper is to understand the prospects and challenges of start-ups in Kerala. The researchers want to explore pertinent issues relating to the start-ups and their influence on the performance of start-ups which may provide fresh insights into the functioning of start-ups in Kerala in general and those registered under KSUM in particular. Hence the problem is stated as "**Prospects and Challenges of Start-ups in Kerala".**

## 3. OBJECTIVES OF THE STUDY

- To identify the factors influencing the scalability and sustainability of start-ups.
- To evaluate the challenges faced by the start-ups.
- To know the perception of start-ups' founders about KSUM.

## 4. SCOPE AND SIGNIFICANCE OF THE STUDY

The study provides insights to the founders of start-ups regarding the various challenges that could be turned into opportunities to exploit at different circumstances for better outcomes. Government, being the major promoter of start-ups would like to know the issues confronted by the start-ups so as to devise appropriate measures, either by way of creating and implementing new policies and programmes or by modifying the existing ones, will benefit from the findings of the study. The study may enlighten educational institutions to frame new curriculum with emphasis on entrepreneurial motivation that may inspire and attract students towards venturing viable innovative start-ups. Therefore, the present study has been undertaken to analyze the problems and prospects of start-ups in Kerala with special reference to start-ups registered under KSUM of Kerala state government.

## 5. HYPOTHESES OF THE STUDY

- There is no significant difference between the services offered by KSUM.
- There is no significant difference in the factors impeding the growth of the start-up business with respect to the current status of the start-up.

## 6. RESEARCH METHODOLOGY

Primary data collected using structured questionnaire has been used for the study. Data has been collected from 75 founders of startups registered under Kerala Start up Mission using online google forms send through mail. For statistical analysis of data, various tools like mean, standard deviation, percentage analysis, Friedman Test and Kruskal-Wallis H Test have been used. Analysis has been done mainly using SPSS software.

## 7. REVIEW OF LITERATURE

**Kamaldeep Kaur, 2017** discussed about the opportunities and challenges of start-ups in his research paper titled, "Start-up India: Challenges and opportunities". The study has explored the major difficulties faced by the start-ups in India and discussed the various opportunities of start-ups in India through a literature based analysis. According to the study the Indian start-up ecosystem is

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driven by factors such as growth in number of funds/angels, evolving technology, higher smart phone and social media penetration, growth in incubators and accelerators, younger demographics, etc.

**Harminder Singh, 2017** in the research paper, "Startups in India- Retrospect and Prospects" studied about the opportunities and challenges of startups. According to the study funding is a major concern for startups and small businesses. There is a growing trend of smaller initial investments in early stage startups rather than big investments in bigger startups. However some of the prominent global Startups such as Uber, Cisco, etc. and leading private equity firms like Seedfund and IvyCap Ventures have confirmed their participation. In order to achieve real success, startups in all areas of business, not just in technology must be encouraged.

## 8. DATA ANALYSIS AND INTERPRETATION

**SOURCES OF FUND**

| | FREQUENCY | PERCENT |
|---|---|---|
| Share of founders, partners | 63 | 84 |
| Borrowings from family, friends | 34 | 45.33 |
| Loans from banks | 13 | 17.33 |
| Loans and grants from corporates | 7 | 9.33 |
| Government grants | 24 | 32 |
| Micro finance institutions | 2 | 2.67 |
| Other specialized financial institutions | 5 | 6.67 |

Source: Computed from Survey Data

**TABLE NO 1**

The Table 2 depicts the sources of fund of the startups. It is clear from the table that 84% of the startups' founders resort mainly on their share of founders and partners to meet the finance requirements of the startups, 45.33% of the sample depend upon the borrowings from family and friends, 32% depend on the government grants, 17.33% on loans from banks and 9.33% of the sample depend upon the loans from corporates and startups rely on micro finance and other specialized financial institutions constituting 2.67% and 6.67% of the sample respectively.

**ACTIVE INVESTORS**

| | INDIAN INVESTORS | FOREIGN INVESTORS |
|---|---|---|
| Angel Investors | 25 | 8 |
| Venture Capitalists | 15 | 11 |
| Corporate Investors | 18 | 10 |
| Incubators/Accelerators | 30 | 9 |

Source: Computed from Survey Data

**TABLE NO 2**

From the above table, it is evident that Indian investors play a vital role in funding the startups than the foreign investors. The Indian investors mainly boost the startups as incubators/accelerators. However foreign investors' participation is high in venture capital investment.

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**CURRENT STATUS OF THE START-UP**

| CURRENT STATUS | FREQUENCY | PERCENT |
|---|---|---|
| Initial stage | 15 | 20 |
| Growth stage (running successfully) | 38 | 50 |
| Panic sale (existed with loss) | 2 | 2.7 |
| Struggling to survive | 16 | 21.3 |
| Maturity stage | 2 | 2.7 |
| Shut down operations | 2 | 2.7 |
| **Total** | **75** | **100** |

Source: Computed from Survey Data

**TABLE NO 3**

Table 3 depicts the current status of the start-ups in Kerala. It is evident from the table that the majority of the startups accounting for 50% are in growth stage or running successfully followed by the startups struggling to survive with 21.3% and 20% of the sample are in the initial stage and 2.7% of the sample are in maturity stage and shut down operations.

**DISTRIBUTION OF THE EMPLOYEES**

| No. of employees / Year | | <5 | 5-10 | 11-15 | 16-20 | 21-25 | 26-30 | 31-50 | 51-100 | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **Inception Year** | **Frequency** | 57 | 10 | 4 | 2 | 1 | 1 | 0 | 0 | 75 |
| | ***Percentage*** | *76* | *13.3* | *5.3* | *2.7* | *1.3* | *1.3* | *0* | *0* | *100* |
| **Current Year** | **Frequency** | 24 | 31 | 14 | 3 | 1 | 0 | 0 | 2 | 75 |
| | ***Percentage*** | *32* | *41.3* | *18.7* | *4* | *1.3* | *0* | *0* | *2.7* | *100* |

Source: Computed from Survey Data

**TABLE NO 4**

As can be observed from the table, majority of the startups (76 percentage) have only less than 5 employees (including full time and part time employees) at the time of inception. On analysis of the current year employee composition, it can be understood that 41.3 percentage of startups have 5-10 employees, which is followed by a composition of 11-15 employees. This indicates an increase in the number of workers and which in turn marks an improvement in the efficiency of the startups.

**CHALLENGES FACED BY STARTUPS**

The study analyzed the challenges faced by the startups with respect to marketing related, fund raising related, product related, government related and organization and startup ecosystem related factors.

**MARKETING RELATED FACTORS**

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| STATEMENTS | MEAN | S. D. |
|---|---|---|
| Strong competition | 3.79 | 1.16588 |
| Poor Marketing strategies | 3.64 | 1.24813 |
| High cost of advertisement & promotion | 3.6 | 1.15079 |
| Wrong marketing channels | 3.2133 | 1.22246 |
| Lack of market research & experience | 3.5867 | 1.20912 |
| **Overall** | **3.5653** | **0.83269** |

Source: Computed from Survey Data

**TABLE NO 5**

The table 6 gives us information about the marketing related factors that hindered the growth of the start-up business. High mean scores signify that all the above mentioned problems affect the growth of startups in Kerala. Strong competition has the highest mean score of 3.79.

**FACTORS RELATED TO FUND RAISING**

| STATEMENTS | MEAN | S. D. |
|---|---|---|
| Ignorance relating to legal formalities for raising funds | 3.6133 | 1.24002 |
| High cash burn rate | 3.72 | 1.08503 |
| High cost of funds | 3.6 | 1.09050 |
| Inability to find and communicate with right investors | 4.0133 | 1.12097 |
| Inefficient use of capital | 3.2 | 1.36560 |
| **Overall** | **3.6293** | **0.87777** |

Source: Computed from Survey Data

**TABLE NO 6**

The table 6 depicts the challenges faced by the start-ups in respect of their fund raising. It shows that the inability of the founders of start-ups to find and communicate with the right investors posed a great challenge for the start-ups to raise funds for their operation.

**PRODUCT RELATED FACTORS**

| STATEMENTS | MEAN | S. D. |
|---|---|---|
| Poor demand for the product | 3.2533 | 1.25303 |
| Failure to upgrade the products | 3.2267 | 1.30045 |
| Inability to invest in R&D for product improvements | 3.5733 | 1.28582 |
| Failure to meet expectations of customers | 3.3467 | 1.27865 |
| Lack of feedback from customers | 3.3067 | 1.29420 |
| **Overall** | **3.3413** | **1.11296** |

Source: Computed from Survey Data

**TABLE NO 7**

Table 7 gives us information about the product related factors causing hindrance to the growth of start-up business. It shows us that the inability of the founders to invest in Research and Development for the product improvements caused a great hindrance for the development of start-ups.

**GOVERNMENT RELATED FACTORS**

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| STATEMENTS | MEAN | S. D. |
|---|---|---|
| Complex administrative procedural compliances | 3.9333 | 1.00449 |
| Procedural delays in government offices | 3.84 | 1.21966 |
| Lack of government subsidies | 3.6 | 1.21922 |
| High rate of tax | 3.64 | 1.28020 |
| **Overall** | **3.7533** | **0.97736** |

Source: Computed from Survey Data

**TABLE NO 8**

The table 8 depicts the challenges faced by the start-ups from the government. It is evident from the table that complex administrative procedural compliances hindered the smooth functioning of the start-up business.

**FACTORS RELATED TO ORGANIZATION AND START-UP ECOSYSTEM**

| STATEMENTS | MEAN | S. D. |
|---|---|---|
| Disputes between co-founders | 3.3467 | 1.29962 |
| Lack of right mentors and advisors | 3.72 | 1.07251 |
| Absence of right team | 3.8 | 1.19684 |
| Inability to employ skilled labour and manager | 3.92 | 1.04958 |
| **Overall** | **3.6967** | **0.90633** |

Source: Computed from Survey Data

**TABLE NO 9**

The table 9 gives us information about the organizational factors that hindered the growth of the start-up business. It is evident from the table that the inability of the founders of start-ups to employ the skilled labour and managers posed a great threat for the functioning of the start-up business.

**FACTORS INFLUENCING THE SCALABILITY AND SUSTAINABILITY OF START-UPS**

| STATEMENTS | MEAN | RANK |
|---|---|---|
| Availability of fund and effective communication with the investors | 3.1067 | 2 |
| Strategic planning | 3.52 | 3 |
| Practical Knowledge | 4.24 | 4 |
| Right Team | 3.0267 | 1 |
| Use of proper technology | 4.9467 | 5 |
| Right marketing strategies | 5.12 | 6 |
| Customer Relationship Management | 5.5467 | 7 |
| Regular Improvements in products through R&D | 6.4667 | 8 |

**TABLE NO 10**

From the above table, it is observed that having a right team is the most important factor influencing scalability and sustainability of startups, followed by proper availability of funds. Customer relationship and regular improvements through R& D are identified as the least important factors.

**HYPOTHESIS 1**

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**SERVICES OF KSUM**

| SERVICES | MEAN | RANK |
|---|---|---|
| Entrepreneurship Support & Exchange Programme | 3.06 | 1 |
| Legal advice & compliance assistance | 4.74 | 6 |
| Marketing related assistance | 4.49 | 4 |
| Fund raising assistance | 3.45 | 2 |
| R&D Support assistance | 4.46 | 3 |
| Patent Support schemes | 5.23 | 7 |
| Tax incentives | 5.86 | 8 |
| Technical and infrastructure support | 4.71 | 5 |

**TABLE NO 11**

The table 11 gives us information about the various services offered by KSUM towards the founders of start-ups. Entrepreneurship Support and Exchange programmes conducted by the KSUM found so beneficial for the start-up business with mean score 3.06 and the tax incentives offered by the government through KSUM found to be the least beneficial among the services offered by the KSUM. Since there is a difference in mean scores, Friedman Test is used to test whether the difference is significant or not. The hypothesis is stated as under:
$H_0$: There is no significant difference between the services offered by KSUM.

**FRIEDMAN TEST**

| | |
|---|---|
| Chi-Square | 61.415 |
| Df | 7 |
| Asymp. Sig. | .000 |

**TABLE NO 12**

As the significance value obtained at 5% level of significance and at degrees of freedom 7 is less than 0.05, the null hypothesis is rejected. Therefore there is significant difference between the services offered by KSUM.

**HYPOTHESIS 2**

**FACTORS IMPEDED GROWTH OF START-UPS WITH RESPECT TO CURRENT STAGE OF START-UPS**

| CURRENT STATUS OF START-UP | MARKETING | FUNDING | PRODUCT | GOVERNMENT | ORGANIZATION & START-UP ECOSYSTEM |
|---|---|---|---|---|---|
| Initial stage | 3.6800 | **4.0933** | 3.5467 | 3.9667 | 3.9333 |
| Growth stage | 3.5632 | 3.5053 | 3.4053 | **3.7237** | 3.6579 |
| Panic sale | 3.7000 | 3.5000 | 3.5000 | 3.7500 | **3.8750** |
| Struggling to survive | 3.5375 | 3.6125 | 3.1625 | **3.7344** | **3.7813** |
| Maturity stage | 3.0000 | 2.5000 | 1.9000 | 3.0000 | 2.2500 |
| Shut down | 3.4000 | **3.9000** | 3.3000 | 3.6250 | 3.2500 |

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| | | | | | |
|---|---|---|---|---|---|
| operations | | | | | |
| Total | 3.5653 | 3.6293 | 3.3413 | 3.7533 | 3.6967 |

Source: Computed from Survey Data

**TABLE NO 13**

From the above table, it can be observed that raising finance acts as the major constraint to startups during initial and shut down stage. It can be identified that all the above mentioned factors have significant impact on firms at the initial stage as well as the ones which are struggling to survive. In case of firms at the growth stage and those which are struggling to survive, government related problems posed a greater threat. It should be noted that at maturity stage, none of the factors are relevant. In order to analyze the impact of factors impeding the growth of start-up business on different stages of start-up, the hypothesis is stated as under:

$H_0$: There is no significant difference in the factors impeding the growth of the start-up business with respect to the current status of the start-up.

**KRUSKAL WALLIS H TEST**

| | **MARKETING** | **FUNDING** | **PRODUCT** | **GOVERNMENT** | **ORGANIZATION & START-UP ECOSYSTEM** |
|---|---|---|---|---|---|
| Chi-Square | 2.181 | 8.728 | 3.912 | 1.242 | 4.422 |
| Df | 5 | 5 | 5 | 5 | 5 |
| Asymp. Sig. | .824 | .120 | .562 | .941 | .490 |

**TABLE NO 14**

As the significance value in all cases is above 0.05, it can be conclude that factors impeding the growth of start-ups do not significantly differ with respect to current status/stage of start-up.

## 9. MAJOR FINDINGS OF THE STUDY

- Majority of the startups claim to have less than 5 employees at the inception year and its distribution has increased in the subsequent years which states the growth of the startups which results in job creation.
- Indian investors contribute significantly to startups compared to foreign investors. Incubators and accelerators form a significant share of the active Indian investor mix while venture capitalists and corporates are the most active foreign investors.
- Majority of the startup founders have depended on funds by themselves or partners. Most of the respondents do not find government grants as a major source of finance. Micro finance institutions and corporates do not contribute significantly to funding of startups.
- Strong competition, inability to find and communicate with right investors, inability to invest in R&D for product improvements, complex administrative procedural compliances, inability to employ skilled labour and managers etc. posed a great threat for proper and effective functioning of the start-ups.
- Various services provided under KSUM had been useful for startups, particularly the entrepreneurship development programmes conducted and fund raising assistance provided.

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## 10. CONCLUSION

The study on the prospects and challenges of start-ups in Kerala has unveiled the fact that start-ups have a favourable environment in Kerala. Start-ups contribute significantly to the economic growth, employment generation and balanced regional development in Kerala. Kerala start-up ecosystem is attractive for Indian as well as Foreign investors. The start-up ecosystem has witnessed the mushrooming of a significant base of start-ups building solutions for the grass root level problems. The youth with innovative ideas plays a prominent role with high gender disparity in the start-up world. Though the start-ups find difficulty in marketing, fund raising and product development, they survived and sustained successfully. Kerala Start-up Mission Plan creates a vibrant ecosystem of sustainable start-ups.

## 11. SUGGESTIONS

- Attractive tax incentives and reduced procedural compliances for start-ups to be implemented.
- Startups should be provided opportunities to create linkages with corporate enterprises inorder to effectively communicate and mobilize funds from investors.
- The availability of funds from banks to the start-ups in simpler terms should be ensured by the government. Especially LoU, LC etc should be made available to them.
- The government should come up with more efforts and discounts for the Start-ups, especially for those other than IT based start-ups and to encourage women entrepreneurship.

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