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Sustainability Of Startups In India

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Abstract

The startup culture in India is redefining the Indian economy. The Indian economy is gaining from the accelerating startup activity. One of the biggest contributions of this is the generation of employment. As per NASSCOM, approximately 80,000 jobs were created by India's technology startup enterprises in 2015. Another benefit of the startups is the creation of markets and a challenge to traditional ecosystems. India has a rich pool of resources which act as a catalyst in shooting up the startup culture. But despite India's entrepreneurial strength, more than half of the startups fail within the first five years of their inception. This raises a big question mark on the sustainability of business in the country. This paper focuses on the sustainability of startups in India, taking a case of few startups which have failed in the recent years and the reasons attributable to the failure of startups in this ecosystem.

Objectives

The following are the objectives of the research paper:

1. To elaborate on the concept of sustainability, going beyond the environmental concept of sustainability.
2. To do the case analysis of a few recent startups that have failed.
3. To elaborate and analyze the reasons of failure of startups in India.

Research Methodology

This study follows a qualitative research design, using the descriptive analysis. The research examines certain concepts related to the Startup culture in India and a content analysis has been done to find out the sustainability issues of the startups in India. Case study analysis has been done in order to lay emphasis on the in-depth nuances of the reasons of failure of startups in India.

Introduction

The generic definition of Sustainability is "to meet the current needs without compromising the future needs". This concept is most read and written with regard to Environmental Sustainability, but it is much more than that.

The three major components of Sustainability are Social, economic and environmental. Social sustainability refers to providing a healthy, livable, equitable and just life to the citizens of a country or the employees of an organization. The following definitions best describe the concept of social sustainability:

1. According to WACOSS, Western Australia Council of Social Services: "*Social sustainability occurs when the formal and informal processes; systems; structures; and relationships actively support the capacity of current and future generations to create healthy and livable communities. Socially sustainable communities are equitable, diverse, connected and democratic and provide a good quality of life.*"
2. Social Life, a UK based social enterprise defines social sustainability as "*a process for creating sustainable successful places that promote wellbeing, by understanding what people need from the places they live and work. Social sustainability combines design of the physical realm with design of the social world – infrastructure to support social and cultural life, social amenities, systems for citizen engagement, and space for people and places to evolve.*"
3. The Business Dictionary describes social sustainability as "*The ability of a community to develop processes and structures which not only meet the needs of its current members but also support the ability of future generations to maintain a healthy community.*"

Economic sustainability refers to a set of all those practices that lead to a long-term economic growth of a country or an organization. Thwing.org explains that Economic sustainability occurs when a political unit, such as a nation, has the preferred percent of its population below its preferred minimum standard of living

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level. The percent needs to very low, somewhere around 5% or less, because everyone below the level is suffering, either physically due to poor health or psychologically. They also claim that the level of GDP does not define whether a nation will sustain itself economically as it does not tell how much the average income of the population is. A steadily growing GDP also cannot depict that a nation is economically stable, as it does not show many people are at the lower end of the income distribution and are thus deprived of the basic amenities.

Thus, economic sustainability refers to the formulation and execution of such economic policies which makes a large percentage of its population economically independent and leads to a long term growth of the nation.

This paper focuses on the Business Sustainability, which is one of the components of the economic concept of sustainable development.

Entrepreneurship does not only define the choice of life a person has chosen to live or the struggles he/she has encountered or the possession of skills by an individual. It reflects the status and growth of a country. Entrepreneurs are considered to be an asset to any nation, as they not only change the way that the citizens live and work but also are a boon to the economic condition of a country.

Big multinational firms engage Indian workforce and reduce the unemployment but are they in any way contributing to the economic indicators of our country? No. They are causing a cash outflow. On the other hand, Indian startups not only generate employment opportunities but also contribute significantly to the GDP of our country. To start a new venture, entrepreneurs channelize the idle funds into their business and lead to capital formation. Thus, they act as catalysts to wealth creation and contribute to the development of the country.

To start a new business, entrepreneurs need relatively low investment thus they prefer establishing their units in rural and semi-urban areas. Approximately 70% of our population resides in rural and semi-urban areas. Hence, these business units provide employment to the people in these areas and play a vital role in ensuring balanced regional development. The growth and development of businesses and industries in these areas lead to the generation of good infrastructure facilities such as roads, transport, health, and education etc. over a period of time.

But startups cannot function and sustain in a constrained environment. They need a good supportive eco-system to hone their inception, growth, development and ensure sustenance. It does not just take a good idea to build and sustain a startup. It takes a lot more than that. The most important of all is a good funding strategy. Most of the startups that have failed in India recently are due to the unavailability of right funds at the right time. One must catch hold of risk taking Angel investors. Having said that, a rational investor will only supply his/her funds if it is backed by a good business plan that explains not only the introduction and growth strategies but also the crises responses. We all are a bit conscious in terms of loosening up our money and the question of "What if it does not work?" always pops up. A good business plan not only elaborates on its idea and uniqueness but also talks about the extent of security of investment.

After the inception of the business idea the next task is to find a niche in itself. In this era of fast growing consumerism, it is very important to focus on market segmentation. Once the target market is decided, entrepreneur needs to understand the demography of the potential customer. What factors govern their buying behavior, what is the consumers' need and want.

Over and above all the factors, an entrepreneur needs the support of a competent team. To channelize an idea into a success, the right set of individuals with the same vision, mission, passion and motivation is required, who not only share the idea but also a belief. As has been rightly said by Mike Khorev, Digital Marketing Strategist, that "*Acknowledge the fact that you can't do everything alone. So, recruit the right people, make them grow, and keep them happy. Also, 'don't be afraid to fire the wrong ones*"

Another key factor is to establish a good network within the industry or outside it. As an entrepreneur, one has to establish a liaison with each participant of the supply chain so as to enable smooth functioning of the business unit.

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Startup Failure in India, analysis of a few cases

1. Cardback, a Delhi based startup in the Financial technology sector (shortened as FinTech) founded in 2012 was an online platform for loyalty cardholders. The platform recommended the best credit card or wallet to pay for a particular service or product. It was a platform for credit, debit and loyalty cardholders to check rewards.

   Brief overview: Cardback was a payment recommendation platform that helps credit, debit, and prepaid cardholders save decent bucks every time they pay. The platform used to identify the suitable card or wallet for a payment, based on several factors, including card and wallet features, ongoing offers, cashbacks, discounts, surcharge waivers, earning, redemption and conversion of reward points using cards, and their fee structure.

   It was co- founded by Nidhi Gurnani and Nikhil Wason and funded by prominent angel investors such as Rajan Anandan, Sunil Kalra, and Alok Mittal.

   The startup was shut down in 2017 and the reason for its failure was the lack of funding. As quoted by Nidhi Gurnani "*The kind of investor ecosystem in India was not suitable for product like ours which needed deep pockets to educate customers in safety and security of our products*". Nidhi also added that the market that they were targeting was not mature enough in India as most people in the country do not have multiple credit cards. Due to which the company tried to move headquarters to Singapore where the system of multiple credit cards existed but it could not be executed due to the large investors backing out.

Such failures raise a big question on the financial sustainability of the business in India.

2. Finomena, a fintech startup launched in 2015 by Riddhi Mittal and Abhishek Garg, IIT Delhi graduates was used to provide small loans to students and youngsters to purchase electronic appliances and devices and for this purpose they instilled data and machine learning to access the credit worthiness of the borrowers and also for disbursement of loans. It also provided the facility of installments to its borrowers to purchase high valued gadgets online.

   The startup received seed funding from Matrix Partners and other angel investors in March 2016, but it had to shut its doors in August 2017. The primary reason quoted for its shut down was a high cash burn out rate. (Cash burn refers to the rate at which a startup is utilizing its venture capital funds to finance overhead costs before generating substantial or positive cash from operations. It is a kind of a negative cash flow). Reports suggest that the company somehow managed to reduce the costs but was unable to increase the transaction size so as to generate substantial operating cash flow. In order to bring up the average ticket size the startup needed funds for facilitating further expansion. The inability to generate the required funds led to the close of this innovative fintech startup.

   Finomina was a promising startup due to its innovative idea. According to the founders, a massive chunk of college students, young working professionals, freelancers, or self-employed individuals, are left untouched by most banks and are out rightly rejected for loan because of the lack of any substantial income and credit history. The founders thought of this as an untapped market. In the words of Abhishek Garg , co-founder of Finomena "India is a credit-starved country. True financial inclusion will only come by use of mobile technology at mass scale. We believe we can use the power of machine learning algorithms and the digital footprint being created by each person today to evaluate their credit risk more holistically, thereby creating a win-win situation for the entire ecosystem."

   Finomena is yet another case that raises questions on the financial sustainability of new technology oriented, innovative and promising business ideas in India.

3. HotelsAroundYou was a hotel booking application which offered its users a service of last minute and short stay bookings. It had liason with the hotels and showed the options of unsold rooms to its owners and gained a commission from the hotels if the rooms were booked from their app. HotelsAroundYou offered users two options, transit stay hotels during the day (could be booked between 6 am and 6 pm for 4, 8 and 12 hours) and night-use hotels (which could be booked between 9 am and 2 am). The company worked on the principle of unsold inventory, where hotels offered unsold rooms at a discount to the

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company. The startup had raised seed funding from ten angel investors that were associated with Venture Nursery, an angel-backed start-up accelerator.

It was launched in 2013, with limited location based hotels for the last minute bookers. It has a commission based revenue model. HotelsAroundYou was surrounded by severe competition from decade old experienced players. In order to keep up with this competition, the startup needed another round of funding from their investors, which the founders were unable to generate. And it had to terminate its operation in 2017.

Hotels Around You is one example where the startup lacked the strength to compete with the existing players due to which the investors lost trust in the company and denied to fund it further.

4. Stayzilla, an online travel agency platform. It was founded by Yogendra Vasupal (Yogi), Rupal Yogendra, Sachit Singhi in the year 2005. It was a Bengaluru based Hotel Aggregator. The company was initially launched with the name Inasra, but later in the year 2010 it was renamed as Stayzilla to give it an inclination and image of a place to stay booking business.

   Stayzilla initially raised $500 thousand in 2012 from Indian Angel Network, a venture capital consortium having more than 400 venture capitalists who invest in different markets. It later got funding from Matrix Partners and Nexus Ventures of the amount $20 Million in 2015 and $13 Million in 2016 respectively.

   Stayzilla was an Indian cersion of Airbnb, where people could put up there properties and become hosts i.e. they can rent out these spaces to travelers. Stayzilla had a first-mover advantage in 2005 as companies like Airbnb, fabhotels, Oyo were not deep rooted in India as they are today. Hence, there was a huge potential in the Indian “stay” market. Initially, the company faced a some challenges due to the unfamiliarity of the internet space at that time. The company was going good, it had generated adequate corpus by four rounds of funding. Prior to the rounds it had already generated money by selling some of its stake to Angel Network. The founders proclaimed that these funds will be focused towards scaling up the business. By 2014, the company had become a worthwhile player. But 2016 witnessed a tragic hault in the operations of Stayzilla leading to its shut down in 2017. It was alleged that the firm had defaulted in its repayments. This led to a civil complaint by the lenders and imprisonment of the founder. The reason behind non repayment of the principle amount by the founders was a high cash burn. The popularity of the company was standing in the grounds of heavy discounts, which means there was a tonne of money going out but not a lot of it coming in.

   The case of Stayzilla proves that an aggressive strategy can lead to success for a limited time but does not hold good in the long run. As it has been observed that in order to gain market share the firms resort to a low-price strategy which in most cases, financially backfires, as it did in the case of Stayzilla.

Why startups fail in India

The IBM Institute for Business Value, in collaboration with Oxford Economics, surveyed 1,300 Indian executives, including approximately 600 startup entrepreneurs, 100 venture capitalists, and 100 government leaders, 500 leaders of established companies and 22 educational institution leaders in 2017 to understand the entrepreneurial ecosystem in India. The study conducted on 100 venture capitalists revealed the major 6 reasons of why startups fail in India.

The first and foremost being lack of innovative ideas using pioneering technologies. Most of the new companies try to mimic the already existing ideas which raise a big question mark on the sustainable and across border expansions.

The second factor that contributes in this is the lack of availability of employees with the right skills. An article published by Economic times on 24th Jan 2016 states that “Over 80 per cent engineering graduates in India are unemployable”. The Indian graduates have very limited exposure to the practical aspect of education which makes them incompetent to practically apply what they have learnt theoretically.

The third reason attributed to the failure of startups in India is the lack of funding.

The other reasons are the lack of adequate mentoring by experienced leaders, poor business ethics and inexperienced leadership.

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In the article published by Mr. Vineet Singh, Chief Business Officer Mobikwik, explains the 7 reasons that in his view are the main reasons of startup failures in India, these 7 reasons are: Lack of vision, lack of market understanding, poor competency, poor execution, focusing more on *W* of the *SWOT* than the *S*, every founder cannot be a CEO (which basically means that an innovative mind might not necessarily be a good managerial mind) and lastly the lack of meritrocracy.

As per an article published by Money Control in July 2018, the main reason attributed to the failure of most of the startups is the lack of uniqueness which in turn has led to the contraction of investments by the venture capitalists. In India there is a lack of technical innovation, as most of the startup ideas are mere replicas of the western business models.

Conclusion

The growth of the Indian startup community can give benefits that extend way beyond the startups themselves. It can drive growth and development for the overall economy. Establishment of such ecosystems that enable the growth and sustenance of entrepreneurship is what our country needs today.

The established business communities can collaborate with the new firms and provide them with appropriate mentoring. This will accelerate the identification of startups and improve the idea generation procedure.

India's venture capitalists can also be very fruitful in accelerating the growth of the startups by providing mentorship, guidance and business insight, in addition to capital funding.

The Indian Government can also play a major role in supporting the startups. Tax rebates, technological and financial assistance, establishment of e-cells can be some of the steps that a government can take.

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