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Start-ups in 21st Century – Pros and Cons in a Developing Economy

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Abstract

Indian start-ups have flourished over the last decade thanks to the country's supportive business climate and government programs. From a meager 7,000 in 2008 to 50,000 in 2018, the number of start-ups increased by 7.14 times, according to a report by KPMG released in February 2019. After China and the United States, India has the third greatest ecosystem for successful start-ups worldwide. In 2019, Indian start-ups raised nearly $11 billion, a 55% increase in value and a 30% increase in transaction volume from 2018. The aggregate employee benefit expenditure of Indian start-ups was $1.25 billion, an increase of 33% from the previous fiscal year, which is another measure of value-adding investment. The US-India Strategic and Partnership Conference projected that Indian start-ups will bring in over $21 billion in investment, resulting in 550,000 direct and 1,400,000 indirect employment. Before the COVID-19 breakout, business professionals were optimistic about India's potential to become the dominating start-up center of the globe.

Keywords: start-ups, environment, government initiatives, eco-system, value-addition, fiscal, attract investment.

Introduction

Though the effects of COVID-19 were first felt in December 2019 in Wuhan Province of China and then across the world, the real heat was felt by Indian start-ups on 25th March 2020, when the Indian Government declared the initial phase of lockdown to restrict the spread of disease in India in response to the World Health Organization's declaration that the disease was a pandemic. From 25 March 2020, a total of 68 days have passed since the lockdown began, with the first phase of unlocking beginning on 8 June 2020. The Indian start-up scene was thrown into chaos by the prolonged closure. Lack of investors willing to keep investing in the business, the threat of a worldwide recession, and restrictions on the movement of products and people all contributed to make it impossible for Indian start-ups to survive.

A recent survey by NASSCOM found that the majority of India's about 9300 IT startups were severely impacted. The effect was especially large for startups in their early to mid stages of development. Ninety percent or more of these startups had a precipitous drop in income, and 30–40 percent temporarily ceased operations as a result. According to another analysis by Datalabby Inc42, numerous Indian startups, including some of the largest in the country like OYO, Blackbuck, MakeMyTrip, Limeroad, Fabhotels, Shuttl, and many more, have recently announced layoffs, hiring freezes, and compensation cutbacks for founders and top management. The study also found that 278 Indian startups have declared hiring freezes and 246 have already begun layoffs. In a separate poll conducted during the late stages of shutdown, Praxis Global Alliance found that the startups faced a significant liquidity shortage.

Covid-19: The Challenges for Start-ups in India

There would be significant difficulties for Indian startups. The Indian startup ecosystem has yet to fully flourish and mature. Indian startups will need to overcome the following obstacles:

Flow of Capital: Ideas and big stakes fuel most startups. This is likely why they have such a hard time getting approval for more conventional forms of credit. In the early stages of a company's development, funding is often raised from angel investors, VC firms, and private investors. Because to the protracted lockdown, millions of jobs were lost, and the economy is already showing signs of a catastrophic recession as a consequence. In May of 2020, the unemployment rate was at 23.48 percent. In May, the PMI was at 30.8, and by June of 2020, it had risen to 47.2. Production dropped 55% in April 2020 at factories throughout the world. Almost all international organizations have downgraded their growth rate projections below 2%. Not only that, but in only two months the budget deficit has already reached 58.6 percent of the 2020-21 annual goal. Investors will be understandably wary in light of all these numbers. Committed investors will want to see the goals again or will insist on continuing the transaction until conditions return to normal. It's unclear what the valuations should be since it's unclear when the startups will resume their previous growth rates of expansion. This will further decrease the outflow of funds. The requirements for making an investment from VC firms will increase. They will look to the new businesses to reduce the time and money spent on acquiring customers. Companies with stable cash flows will be prioritized above those with large marketing costs. Ultimately, they will be more likely to invest solely in startups that really stand out from the crowd in terms of their business plan. It might take a bit longer than normal to finish investment rounds and negotiate deals. Investment capital will dry up as a result of the failure or decline of many already-operating start-ups and a modest rate of return on investors' investment. Even when multiples and values collapse significantly, fewer seed stage funds and family offices will make sizable investments in new start-ups. The number of initial public offerings (IPOs) will drop dramatically if investors' faith is shaken. Exit values will also decrease. There will be more pressure on entrepreneurs to raise money in smaller rounds if they want to get follow-up investment in light of the drastically reduced exit value.

Changed Customer Perceptions: The current COVID-19 epidemic is expected to alter consumer perception in numerous ways, unlike the last financial crises. Their purchasing habits will shift as a result. They may reevaluate their life's ambitions since their own survival is at risk, while a financial crisis would just alter the way they plan to use their cash. This shift in perspective will cause them to alter their behavior and reevaluate their priorities.

Sourcing Various Resources: In contrast to other types of startups, those in the fintech industry rely only on technology and hence have less need for large amounts of human capital or logistical assistance. These new businesses rely heavily on several M&S&Es for the procurement of essential

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supplies and materials. The Indian MSME industry has been hit hard by the 68-day closure. For this extended duration, they continue to be completely ineffective. Even once the unlock process begins on July 8, 2020, this industry is expected to have significant challenges due to a lack of capital and skilled labor. Because of this, the start-ups' supply chains are also badly impacted. Several start-ups are severely impacted on the logistical front as a result of a lack of staff. Due to a lack of available manpower, online retail startups had to close shop during the lockdown's early stages, even if the delivery of necessities like food was permitted and even encouraged. The situation is still not normal even after the second step of unlock. Due to the exodus of migrant workers to their home countries, there is now a severe shortage of workers.

Regulatory Restrictions: The world will not be the same after COVID-19. Regulative restrictions on medical grounds, such as restrictions on free movement of people, proper sanitization, using protective personal equipment, and social distancing, are bound to be there for a few more years since there is still no cure for the deadly disease and even the medical practitioners and researchers are also clueless regarding its process of transmission and proper way of treatment. It might become quite expensive for a start-up to comply with these regulations. The cost of manufacturing will skyrocket if, for instance, it is necessary to operate in shifts or with just half of the crew to guarantee sanitization at regular intervals, even within a day. Product or service delivery costs will rise as a result of socially distant standards and a lack of available workers. Yet, it may not always be possible to pass the costs onto consumers in the form of higher product or service prices. There will be a higher probability of the sickness spreading, which might force authorities to once again shut down the firm. There might be other limitations imposed by law. It's expected that funding constraints will follow the post-COVID geopolitical friction between China and India. Among the largest investors in Indian start-ups were companies from China and the United States. U.S. companies are unlikely to invest owing to the country's unstable political climate, while funding from China may soon be prohibited by the government. The Government of India has issued a directive requiring GoI approval for any foreign investment made by a person (including the beneficial owner of an investment) from a country that shares a land border with India (specifically China, Nepal, Myanmar, Bhutan, Afghanistan, Pakistan, and Bangladesh) as of 17.04.2020. This would have a major effect on the influx of funds into Indian start-ups, forcing them to expand their search outside China and Hong Kong. Certain industries (such as medicines, biotech, and electronics) rely heavily on imported raw materials from China, thus any restrictions on these imports would only make their already difficult situation worse. The price of raw materials will rise if they must be purchased from an inland supplier.

Indian startups are vying for the government's attention. The government has made several steps toward this goal, including the stimulus package announced in April 2020 and the Atmanirbhar India program announced by the Prime Minister in May 2020.

Indian start-ups with the necessary enabling technologies have jumped on these chances early on. Indian startups may find opportunities in a number of different areas:

Biotech: The prospects presented by COVID-19 to Indian biotech and medtech firms are substantial. In order to meet the immediate medical requirements of the patients, it is crucial that India develops high-quality PPEs and testing kits locally. Despite a more difficult environment, Indian biotech startups have been manufacturing items to international standards. They were also helpful in meeting the unexpectedly high demand for disinfectants and sanitizers. Several pioneers responded by developing no-touch sanitizers, ozone generators for reusing personal protective equipment, and rapidly deployable, scalable healthcare systems. Most significantly, all the items were made accessible at far lower prices than their overseas analogues. The innovations may also be patentable, meaning they will be there long after the pandemic threat has passed (and may even be exported). COVID-19 testing kits have been created by MyLab, Bione, and Redcliffe Life Sciences, and a DIY-testing kit for online reporting has been developed by a startup powered by artificial intelligence. Several companies, like as Biocon, Bharat Biotech, and the Serum Institute of India, are actively pursuing the creation of a vaccine against the virus.

Healthcare and Telemedicine: Many aggregators (such Yourdoctors, Practo) are offering comparable services via freshly designed applications, while several big nursing facilities have begun the service for their out-patient department (OPDs). Pathological tests may be performed following consultations with the help of these services, which also include sample collection and home delivery of test results. As the gyms are closed indefinitely, a lot of new businesses have emerged offering fitness instruction through the internet. For instance, the sense.biopremium membership includes everything a person and their family could possibly need. ReTiSense, Healthifyme, and GetActive are a few more well-liked fitness applications in India. Fitness enthusiasts may download videos and step-by-step guides from these applications. Many fitness centers (like Gold's Gym) have joined the internet revolution in an effort to keep their members. The online drugstore industry is another successful sector. During the lockdown time, online medcommerce companies like Pharmeasy, Sasta-sunder, Apollo 24*7, and Medlife saw a huge uptick in demand for pharmaceuticals after the first period of uncertainty and ambiguity around government rules passed.

Edtech: Although scholars continue to argue over whether or not classroom instruction is superior than online instruction, the education community as a whole has embraced the New Normal with surprising speed. Although Microsoft (MS Team) and Google (Meet) have led the way in developing video conferencing applications, several new companies in India are entering the market with Learning Management Systems (LMSs) that provide comprehensive support for online education. ByJu's, Eupheus Learning, LogicRoots, IMAX Program, Vedantu, mGuru, and CampK12 are just a few of the other startups that provide a wide variety of education solutions, from combining classroom and outside study to giving online tutoring and practice exams. India's educational technology market is sitting on a multibillion dollar goldmine.

Fintech: Given the scale of India's economy, fintech has proven to be a popular and promising concept there. As compared to other industries where start-ups are common, this one is quite well-established. Despite this, the latest epidemic presents enormous prospects for this industry's rapid expansion. The scenario is analogous to the unexpected increase in digital transactions that followed the Government of India's Demonetisation effort in November 2016. Paytm, Freecharge, and PhonePe, all semi-open prepaid payment instruments, had massive success at the time. The time has come for similar expansion. Now that more businesses are taking online payments, it might be a boon for startups that provide payment solutions (like Bill desk, Razorpay, and Mswipe). Companies

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that aggregate insurance offerings (like policybazar and Coverfox) in order to help customers choose the best policy for their needs might benefit from the current epidemic. Small businesses might find success in the relatively new market niche of providing working capital finance (Capital Float, Lendingkart, Offbusiness).

Online streaming and gaming platforms: The impact of COVID-19 on the entertainment business has been substantial. Due to the significant risk of spreading the virus, all cinemas throughout the globe have been ordered to shut indefinitely. On the other side, this opens up massive expansion potential for internet streaming providers. Both TV viewing and cell phone use have skyrocketed in popularity. On March 24 and April 24, Zee5's viewership increased by 259 percent, according to data compiled by JustWatch. Netflix subscriber growth in India was at 204 percent, while Amazon Prime Video grew by 189 percent within the same time period. Similar increases were seen by AltBalaji (174%), JioCinema (161%), and Disney+Hotstar (149%). Although the aforementioned entertainment giants have always had a foothold in the Indian industry, a slew of other companies have emerged to either broadcast existing material or create new works from scratch. WinZo Games, Paytm First Games, Gameberry Labs, Ludo Star, and Parchisi Star are just a few examples of popular online gaming platforms that have seen user growth of over 300 percent.

E-commerce and M-commerce: When early regulatory indecision caused countrywide disarray by making it unclear which businesses and product categories would be authorized, newer companies like Bigbasket and Groffers emerged as the primary providers of necessities to many households and cooperatives. Swiggy and Zomato swiftly followed suit by adding a grocery delivery option to their already extensive menu of services. In April of 2020, Bigbasket's daily grocery delivery orders topped one lakh.

Analytics and Digital Marketing: The field of analytics is poised to usher in the next technological revolution. Traditional advertising methods may not work now because consumers' needs and priorities have shifted in response to the epidemic (for example, they may choose to take Yoga sessions online rather than in person or choose health insurance over an overseas vacation). Individual customers might be singled out for these exclusive offers. As a result, the demand for data analytics services is expected to skyrocket in the New Year. Zendrive, vPhrase, Spoonshot, Pisquare, Pentation Analytics, and Dataweave are just a few of the promising new companies that are expected to flourish in the next years.

Conclusion

Education, talent, creativity, and incubators with support from financing agencies are all on the rise in India's startup scene. The government has recently increased its assistance to new businesses, known as "Start-ups." The Indian startup scene is ranked third in the world by NASSCOM. Despite the fact that they are having a hard time, entrepreneurs are displaying the determination to launch and focus their efforts on Start-ups in order to realize their goals and boost the economy. Quick corporate approvals, streamlined exits, tax breaks, and streamlined patent registration are all part of the government's new "Start-up India" strategy. Even if the manufacturing industry is in decline, this effort has the potential to provide new employment opportunities. India is at a juncture when it must meet the expectations of a billion people. The greatest way to go ahead is via start-ups and entrepreneurship, since here is where a billion brains can be put to use.

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