



# Parle Tilak Vidyalaya Association's PTVA's Institute of Management

One Day National Conference On

'Be A Job Creator.....

Not A Job Seeker'

From the Perspective of  Startup India



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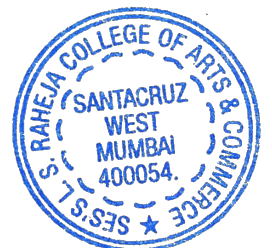
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## 2

# Exploring Reasons Why Most of the Start-ups Fail in India

**Mr. Ramsagar B. Yadav**

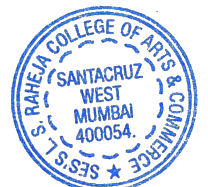
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## Abstract

*India is a country in South Asia. It is the seventh-largest country by area and the second-most populous country with over 1.2 billion people. Large population implies a large potential market in India; however, it also leads to heavy employment pressure in the Indian society. This paper is intent to explore the main difficulties faced by start-ups in India and discuss the financing resources of start-ups in India by using a literature-based analysis.*

*An entrepreneur is a person who is able to express and execute the urge, skill; motivation and innovative ability to establish a business or industry of his own either alone or in collaboration with his friends. His motive is to earn profit through the production or distribution of socially beneficial goods or services. He is enriched with the inborn qualities of adventurism, willingness to face risks, innovative urge and creativity and is eager to make dynamic changes in the production process, introduce innovations and to find out new uses for raw materials.*

**Keywords:** *Entrepreneur, Challenges, Motivation, Skill, Start-ups, Financing, SMES, Venture Capital, Graduates Entrepreneurship.*



## Introduction

### Definition of a Start-up

A start-up company or a young company that is just beginning to develop. Start-ups are usually small and initially financed and operated by a handful of founders or one individual. These companies offer a product or service that is not currently being offered elsewhere in the market or that the founders believe is being offered in an inferior manner.

Paul Graham says that "A start-up is a company designed to grow fast. Being newly founded does not in itself make a company a start-up. Nor is it necessary for a start-up to work on technology or take venture funding, or have some sort of "exit" The only essential thing is growth. Everything else we associate with start-ups follows from growth."

An entrepreneur is an economic leader who possesses the ability to recognise opportunities for a successful concern.

## Literature Review

The education system is a hindrance for start-ups. In college, students are usually trained with advanced techniques, but lack the marketing, sales and operational ability and leadership skills needed to advance their own enterprises. In addition, conservative lifestyle also contributes as one of the obstacles.

As a culture of the family remains, the family remains sceptical to change and prefer options that are able to provide a steady income rather than engaging risk. This places pressure on the budding entrepreneur who falls victim to the dichotomy of providing for the family instead of following some "whimsical" dream (Au & Kwan, 2009).

One of the major challenges is that there is a severe shortage of start-up support networks and entrepreneurship ecosystems.

In many western countries, there are special institutions which serve as incubators, start-up accelerators, start-up competitions for entrepreneurs to put their ideas to test and obtain necessary guidance. In India, incubators, start-up accelerators, and start-up competitions are slowly making their way into the first tier cities, but there truly are not enough to go around. As a result of this shortage, many start-ups fail at the "idea" stage of their business.

In his Independence Day speech, Prime Minister Narendra Modi had announced a new campaign "Start-up India; Stand up India" to promote bank financing for start-ups and offer incentives to boost entrepreneurship and job creation in the country.



## Objectives

1. To explore the main difficulties start-ups in India are facing and discussing the principle financing resources of start-ups in India.
2. To analyse challenges of Indian financing start-ups.
3. To identify the challenges faced by the new entrepreneurs and to analyse the measures to overcome them.

## Research Methodology

The data and information have been collected from secondary sources like business newspapers, journals, reports, textbooks and websites.

## Scope of the Study

Since India is striving to become a great nation in scientific research and innovation, it can be seen that the growing development of start-ups has significant influences. This paper figures out for solutions for Indian start-ups

## Challenges Faced by New Entrepreneurs

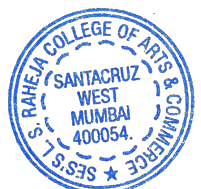
Entrepreneurs have to face numerous challenges on the road to success, in particular with regard to access to finance.

All entrepreneurs will at some point feel overwhelmed with the many responsibilities that fall on their shoulders. The common challenges faced by entrepreneurs are Overestimating Success, Misplaced Purpose, Negative Mindset, Poor Organisation, Jack of All Trades, Employee Motivation, Lack of Support.

The World Bank report presents the results of a survey of micro, small and medium companies in Georgia, and analyses factors that inhibit the growth of entrepreneurial and innovative activity of Georgian firms.

The private sector creates 9 out of 10 jobs in the global economy. Therefore, the creation of attractive investment climate and conducive business environment for new business entries and growth of the private sector is paramount for sustainable economic growth of the country and poverty reduction.

In Georgia, however, the share of small and medium businesses in GDP remains small at less than 20 percent of GDP and is much lower as compared to many countries in the neighbourhood (like Armenia where SME contributes 42 percent of GDP) or in Europe and Central Asia region, with an average 60 percent share of SME in GDP.



## Main Problems of Indian Venture Capital

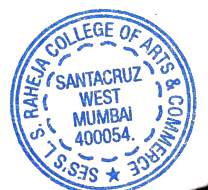
VCF is in its nascent stages in India. The emerging scenario of global competitiveness has put an immense pressure on the industrial sector to improve the quality level with minimization of cost of products by making use of latest technological skills. The implication is to obtain adequate financing along with the necessary hi-tech equipment to produce an innovative product which can succeed and grow in the present market condition.

The various problems/queries can be outlined as follows:

- (a) Requirement of an experienced management team.
- (b) Requirement of an above average rate of return on investment.
- (c) Longer payback period.
- (d) Uncertainty regarding the success of the product in the market.
- (e) Questions regarding the infrastructure details of production like plant location, accessibility, relationship with the suppliers and creditors, transportation facilities, labour availability etc.
- (f) Financial considerations like return on capital employed (ROCE), cost of the project, the Internal Rate of Return (IRR) of the project, the total amount of funds required, the ratio of owners investment (personal funds of the entrepreneur), borrowed capital mortgage loans etc. in the capital employed.

## Main Financing Difficulties of SMEs in India

1. The small and medium-sized enterprise property right is not clear, which hinders the corporate financing.
2. The small and medium-sized enterprise has weak credit concept and low credit performance. Generally small and medium-sized enterprise credit rating is not high in India. Data shows that, in India, more than half of small and medium-sized enterprise financial is of poor management, in which some Unreasonable phenomenon commonly exists such as "off-balance - sheet business" and "check by cash".
3. Poor ability to resist risk and slow development. Compared with large enterprises, the ability to resist risk of small and medium-sized enterprises is significantly weaker. The main reason for small and medium-sized enterprises have slow development pace is their financing difficulties.
4. Limited guarantee agencies cause mortgage difficulty. In terms of guarantee, many guarantee agencies adopt membership system, where small and medium-sized enterprises need to pay some deposit to become the member.



5. Limited profits make banks reluctant to lend to small and medium-sized enterprises. The first principle of commercial bank management is profitability. The character of Small and medium-sized enterprise loan from the bank is a small amount, but high frequency.
6. The capital market and private financial institutions develop slowly. The financing channel of China's small and medium-sized enterprise is narrow. At present, the main source of funds is its own accumulation. Since the formal financial system unable to meet the financing needs of small and medium-sized enterprises, some of them turn to private lending market financing and become the main participants in the private lending market.

## Unforeseen Business Challenges and Expenses

Just as a sailor prepares for unexpected storm, just as a pilot is always on the watch for unpredictable bad weather and thunderstorms, so must an entrepreneur prepared for whatever comes. Unexpected challenges can come in the form of:

1. Unexpected lawsuits
2. Inconsistent government policy
3. Not being able to make payroll
4. Unpaid bills and taxes
5. Unexpected resignation of staff from sensitive office

These business challenges, if not handled properly can ruin the plan to build a successful business. Another challenge an entrepreneur must expect is an unforeseen increase in business expenses. If not handled properly, it might result in constant negative cash flow and eventually; business

## Exiting the Business

When building a business from scratch, an entrepreneur is going to face the challenge of determining the exit strategy. Most entrepreneurs run their business without any plans to exit and even if they have an exit strategy, they find it difficult to implement it. Before starting a business, it is advisable to plan an exit.

Lack of an exit plan is the primary reason why most businesses crumble after the death of the founder. An exit strategy is very important to the long-term survival of a business.

Most smart entrepreneurs will use a certain benchmark as a target and once this specific target is reached, they exit the business. Examples of such benchmarks are Annual sales, Annual Turnover, Asset Base, Market Saturation Customer base, subscribers or number of users.



## Down in the Doldrums

According to several studies, entrepreneurs are more prone to depression and anxiety than the average company employee.

## Overestimating

Another challenge entrepreneurs face is overestimating their initial success. The company in 1 year had made millions and you can do the same.

## Focus

One of the biggest mistakes entrepreneurs make in their early days is trying to be all things to all people. They attempt to sell their product or service to too wide a market.

Entrepreneurs also face another challenge in this area. They focus on the wrong things. They spend too much time building their product without validating that the Marketplace wants, needs and will actually pay for it.

## Passion and Purpose

Many entrepreneurs choose an oxymoronic approach to business. They decide to start their own company because they want unlimited income potential, to be their own boss and holder of their own destiny. Yet as they work on building their business they realise they lack passion for what they're doing.

## Global Reports

### GEM 2012 Global Report

The GEM 2012 Global Report, launched on 17th January 2013 in Kuala Lumpur, Malaysia, estimates that nearly half of the world's entrepreneurs are between the ages of 25 and 44. The survey also reports that in all geographic regions surveyed.

### GEM 2011 Global Report

The GEM 2011 Global Report focuses on entrepreneurs and entrepreneurial employees across the globe. More than 140,000 adults (18-64 years of age) in 54 economies, spanning diverse geographies and a range of development levels were surveyed. Based on this survey.

### GEM 2011 Global Report – Extended

Taking the GEM 2011 Global Report and extending the discussion for an in-depth technical look at the data. Included are one-page summaries of the activity in each of the economies surveyed in GEM 2011 and four Appendices among them:



### **GEM 2010 Global Report**

With this report, the Global Entrepreneurship Monitor (GEM) has completed 12 annual surveys of the Entrepreneurial attitudes, activities and aspirations of individuals around the world. Starting with just 10 developed countries in 1999, GEM has grown to include over 80 economies.

### **GEM 2009 Global Report**

Based on more than 180,000 interviews conducted between May and October in 54 countries, 2009 GEM data show that the global economic downturn reduced the number of people who thought there were good opportunities to start a business in many

### **GEM 2008 Global Report**

This is the 10th annual GEM Global Report. Over the past decade, harmonised data on entrepreneurial attitudes, activity and aspirations have been collected to provide annual assessments of the entrepreneurial sector for a wide range of countries.

### **GEM 2007 Global Report**

This report constitutes the ninth annual assessment and review of entrepreneurial activity and entrepreneurial perceptions in countries participating in the GEM project. Since the first report was published in 1999 by scholars at Babson College and London Business School, GEM

### **GEM 2006 Global Report**

The Global Entrepreneurship Monitor (GEM) cross-national assessment of entrepreneurial activity is now in its eighth cycle. Started in 1999, with ten participating countries, the project has expanded to include 42 countries in 2006.

### **GEM 2005 Global Report**

This is the seventh-annual Global Entrepreneurship Monitor (GEM) cross-national assessment of entrepreneurial activity. Started in 1999 with 10 participating countries, the project has expanded to include 35 countries in 2005.

## **Suggestions**

1. An entrepreneur must possess the ability to see what others cannot see. While others see problems, an entrepreneur must see opportunities.
2. To overcome the challenge of raising capital, an entrepreneur must develop the ability to sell their idea and vision to potential investors.
3. An entrepreneur to make sure that their team sees the future as the entrepreneur see.
4. To find out an efficient location that has a rapidly growing population, good road network and other amenities at a good place.
5. In order to overcome negative mindset, an entrepreneur should empower himself by reading inspirational articles, successful stories, great books, movies etc.



6. In order to overcome the lack of support, an entrepreneur should find out a virtual group of people in Social Media that support and promote each other.

## Conclusion

Many businesses start with a dream, but it takes more than just a dream for them to grow into successful businesses—including the tenacity to overcome the many challenges facing start-ups today.

Start-ups take time, effort, and energy. Funding is a major concern for start-ups and small businesses. When the economy tanked, it made it harder to convince investors and banks alike to part with the cash that's essential for growth in the early days of a business.

The most important challenges faced by new entrepreneurs include Developing the Vision and Business Idea, Raising Capital for Start-up, Assembling a Business Team, Finding the Right Business Location, Finding Good Employees, Finding Good Customers, Dealing with competition, Unforeseen Business Challenges and Expenses, Keeping Up With Industrial Changes and Trends, lack of support, negative mindset, lack of marketing facilities, lack of infrastructural facilities etc.

So it is necessary to overcome these challenges in order to conduct an efficient business.

## Limitations

The investigation is made on the basis of secondary data alone.

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