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## **THE START-UP ECOSYSTEM** **IN INDIA**

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### **Abstract**

In recent years, start-ups in many parts of the world have received increased attention. In India, the number of start-ups has rapidly increased and more support in all dimensions is available. Their numbers are growing, and they are increasingly being recognized as important engines of economic growth and job creation. Start-ups can generate impactful solutions and thus act as vehicles for socio-economic development and transformation through innovation and scalable technology. This paper analyses the present state of the Indian start-up ecosystem and contains three objectives: understanding the drivers

and motivations of Indian start-ups; identifying challenges for these start-ups and outlining their supporting pillars. The goal of this research is to gain a thorough understanding of both the growth drivers and the challenges that Indian start-ups face. The study also looks at how the startup ecosystem has changed over time and describes where and what kind of help is available. While the study focuses on technology-driven start-ups, it also acknowledges that non-tech, social, and micro-entrepreneurs have created innovative ideas and solutions.

### **Introduction**

Start-ups have gotten a lot of attention in India, as well as many other parts of the world, in recent years. Over the last two decades, the Indian start-up ecosystem has changed dramatically. Although some startups were founded in the 2000s, the ecosystem was still in its infancy, with only a few active investors and a limited number of support organizations such as incubators and accelerators. In the late 2000s, there were a few successful exits, and in the last

ten years, the number of startups has exploded, and more support has become available in all areas. Bangalore has emerged as India's primary startup hub, but Mumbai and the National Capital Region (NCR), as well as some smaller cities, are also seeing significant startup activity.<sup>1</sup>

### Opportunities and Growth Drivers

Start-ups do not exist in isolation; they are part of a larger business ecosystem. As a result, the growth drivers of the Indian start-up ecosystem must be understood in the context of a number of factors, including earlier economic reforms and current market trends, as well as the impact of technological change and shifting attitudes among government officials, large corporations, and society as a whole.

### Scope and Characteristics of the Indian Market

For its vast commercial potential for start-ups, India is frequently referred to as "the poster child of emerging markets." Even

niche products can have significant market potential in a country with a population of nearly 1.3 billion people. Economic reforms in India in the 1990s shifted the country toward a more market-based economy. The overall economic development has been dynamic since this liberalisation, and the Indian economy had a GDP of US\$2.726 trillion in 2017.<sup>2</sup> India is one of the world's fastest-growing large economies, with a GDP growth rate of 7.0 percent in 2018. As a result, the Indian market is thought to be capable of providing a plethora of start-up opportunities.<sup>3</sup>

Incomes and purchasing power in India are steadily increasing as the economy grows. The growth of the upper-middle and high-income segments of the population, which will increase from one in four households today to one in two households by 2030, is driving rising consumption.<sup>4</sup> Aside from that, the demographics of the population are a plus. Half of the country's population is under 25 years old, and the youth is ambitious.<sup>5</sup> The nearly 700 million people

<sup>1</sup>Inc42, "Indian Tech Startup Funding Report", 2018. (March 15<sup>th</sup>, 11:00 AM)  
<https://www.orfonline.org/research/the-indian-startup-ecosystem-drivers-challenges-and-pillars-of-support-55387/>

<sup>2</sup>"GDP (current US\$) (annual %)", World Bank, (March 15<sup>th</sup>, 11:00 AM)  
<https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=IN>

<sup>3</sup>"GDP growth (annual %)", World Bank, (March 15<sup>th</sup>, 11:00 AM)  
<https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=IN>

<sup>4</sup>World Economic Forum, "Future of Consumption in Fast-growth Consumer Markets: India," 2019.

<sup>5</sup>Vidisha Mishra, Terri Chapman, Rakesh Sinha, Suchi Kedia, and Sriram Gutta, "Young India and Work: A Survey of Youth Aspirations", Observer Research Foundation and World Economic Forum, 2018. (March 15<sup>th</sup>, 11:00 AM)  
<https://www.orfonline.org/wp-content/uploads/2018/11/YA-Digital1.pdf>

born between the late 1980s and the early 2000s have material ambitions and the financial means to realise them.<sup>6</sup>

India's vast cultural, linguistic, ethnic, and religious diversity has proven to be both a curse and a blessing for start-ups. On the one hand, a start-up's understanding of customers is frequently limited to specific geographic areas where they are familiar with the local language and people. This makes it difficult for start-ups to reach customers across the country with their products. If, on the other hand, strategies are effective in serving the needs of a wide set of consumers across India, they can almost inevitably find consumer acceptance in other regions such as Africa and Latin America, as well as the developing world. Furthermore, many Indian start-ups don't only focus on domestic issues; they also have customised solutions for international markets. Indian start-ups, for example, often perform pilots and service clients in the United States, where the consumer base is much more affluent.

### **Technological Change**

Innovative solutions, especially ones that reduce poverty and support a vast number

of people, are badly needed. Given India's size and limited capital, low-cost, high-impact solutions are needed. Because of their scalability and rapid growth potential, technology start-ups play a vital role in achieving this.

Technological advances have reduced the expense of producing digital goods and opened up consumer opportunities in recent decades. Companies used to have to build up physical facilities to communicate with consumers, which resulted in high customer acquisition costs that were prohibitive for small businesses in the same sector as large enterprises. Business penetration barriers have been lowered as India's digital infrastructure has increased. Broadband growth is increasingly growing, with the number of wire line customers projected to grow 44 percent in 2018 over the next four years.<sup>7</sup> The number of internet users was reported to be 483 million in 2018, with a projection of 666.4 million by 2025.<sup>8</sup> In addition, the government's "Internet Saksharta Abhiyaan" programme was launched to encourage digital literacy and

<sup>6</sup>World Economic Forum, "Future of Consumption in Fast-growth Consumer Markets: India,"2019.

<sup>7</sup> Devina Sengupta, "Subscriber Base of Broadband to Grow 44% ", Economic Times, January 1, 2018. (March 15<sup>th</sup>, 11:00 AM) <https://economictimes.indiatimes.com/tech/internet/>

subscriber-base-of-broadband-to-grow-44-study/articleshow/62321272.cms

<sup>8</sup> Number of Internet Users in India From 2015 to 2023 (in Millions) , Statista, (March 15<sup>th</sup>, 11:00 AM) <https://www.statista.com/statistics/255146/number-of-internet-users-in-india/>

help people have a better understanding of the digital environment.<sup>9</sup>

Market penetration, as well as the ability to recognise and charge clients, is critical for start-ups. Identity checking and digital payments have become more readily available in recent years, enabling start-ups to serve legions of new clients.<sup>10</sup> The Aadhaar biometric ID scheme, which was launched in 2009 and assigns each Indian citizen a unique identification number, has made it easier for businesses to verify customer details. To foster financial inclusion, successive Indian governments have vigorously encouraged the opening of bank accounts as well as the extension of digital payments.<sup>11</sup> As a result, a significant portion of the population will now make digital transfers and collect government incentives and subsidies, allowing them to participate in the formal economy. Furthermore, Aadhaar and the payment networks are part of the "India Stack," which is imagined as a modern social

infrastructure that will "assist India in moving into the digital economy of the twenty-first century."<sup>12</sup> Fintech start-ups grew in popularity as a result of increased financial inclusion and banknote demonetisation in 2016, making it the well-funded industry in 2018.<sup>13</sup>

### **Increased Political Will and Government Support**

Prime Minister Narendra Modi, who took office in 2014, set digital transformation at the forefront of his agenda. Start-ups are gradually being regarded by the federal government and some state governments as significant engines of economic development. Furthermore, entrepreneurs are projected to build opportunities, which would help to reduce the country's high unemployment rate. Start-ups created 2.64 percent of all new jobs in India in 2018, and they are forecast to generate between 200,000 and 250,000 jobs in 2019.<sup>14</sup>

<sup>9</sup> Pradhan Mantri Gramin Digital Saksharta Abhiyaan, Abouts, (March 15<sup>th</sup>, 11:00 AM) <https://www.pmgdisha.in/>

<sup>10</sup> The Economist, Indian Business Prepares to Tap Into Aadhaar, A State-Owned Fingerprint-identification System, December 24, 2016, (March 15<sup>th</sup>, 11:00 AM), <https://www.economist.com/business/2016/12/24/indian-business-prepares-to-tap-into-aadhaar-a-state-owned-fingerprint-identification-system>.

<sup>11</sup> The Economist, India's Digital Platforms: Stack'em High, May 4, 2018, (March 15<sup>th</sup>, 11:00 AM), <https://www.economist.com/special-report/2018/05/04/indias-digital-platforms>.

<sup>12</sup> Arvind Gupta and Philip Auerswald, "How India is Moving Toward a Digital-first Economy," Harvard

Business Review, November 8, 2017. (March 15<sup>th</sup>, 11:00 AM)

[https://www.startupindia.gov.in/content/dam/invest-india/Templates/public/Status\\_report\\_on\\_Startup\\_India.pdf](https://www.startupindia.gov.in/content/dam/invest-india/Templates/public/Status_report_on_Startup_India.pdf)

<sup>13</sup> Inc42, "Indian Tech Startup Funding Report", 2018.

<sup>14</sup> Indian Tech Startup Funding Report, 2018, (March 15<sup>th</sup>, 11:00 AM) [https://pages.inc42.com/wp-content/uploads/woocommerce\\_uploads/2018/01/Inc42-Annual-Funding-Report-2018.pdf](https://pages.inc42.com/wp-content/uploads/woocommerce_uploads/2018/01/Inc42-Annual-Funding-Report-2018.pdf)

The Modi government has made a number of attempts to assist entrepreneurs. The prime minister launched the flagship programme, "Start-up India," in 2016 with the goal of "generating a strong environment that is conducive to the development of start-up companies, driving sustainable economic growth, and creating large-scale job opportunities."<sup>15</sup> Among the measures are an INR 100 billion fund, financial assistance for incubators, the creation of tinkering laboratories, tax breaks, and a streamlined acknowledgement mechanism for market formation.<sup>16</sup> So far, the Department of Industrial Policy and Promotion (DIPP) has recognised 14,036 start-ups, 660 of which have gained market funding, and 132 of which have been supported.<sup>17</sup>

### **Companies Increasingly Seek to Engage in Open Innovation**

Large businesses are under rising pressure to evolve at a quicker rate in an increasingly unpredictable and fast-paced market climate. Their task is twofold: to

incrementally innovate to expand their current company while still recognising ongoing market trends and planning for more drastic developments. The latter is proving challenging, as more major organisations are finding that they can't focus entirely on internally produced information and self-build anything. When this 'closed innovation' model loses its importance, more businesses turn towards open innovation approaches.

As a result, Indian businesses are gradually turning to entrepreneurs to boost their own inventiveness. They develop strategic alliances and exchanges with start-ups, as well as supplying them with a range of corporate-specific services.<sup>18</sup> These partnerships have the potential to be mutually beneficial.<sup>19</sup> Although corporate managers needed to be reassured of the benefits of partnering with entrepreneurs a few years ago, views have changed, and many existing businesses now understand the strategic advantages of start-ups, especially in terms of pace and enthusiasm.

<sup>15</sup> Startup India, Government of India, (March 15<sup>th</sup>, 11:00 AM), <https://www.startupindia.gov.in/>.

<sup>16</sup> Startupindia: The Status Report, Startup India, (March 15<sup>th</sup>, 11:00 AM), [https://www.startupindia.gov.in/content/sih/en/about\\_us/action-plan.html#:~:text=The%20Government%20through%20this%20initiative,ecosystem%20on%2016th%20January%202016.](https://www.startupindia.gov.in/content/sih/en/about_us/action-plan.html#:~:text=The%20Government%20through%20this%20initiative,ecosystem%20on%2016th%20January%202016.)

<sup>17</sup> Ibid.

<sup>18</sup> Tobias Weiblen and Henry Chesbrough, "Engaging with Startups to Enhance Corporate Innovation," *California Management Review* 57 (2015): 66-90; Thomas Kohler, "Corporate Accelerators: Building Bridges between Corporations and Startups," *Business Horizons* 59 (2016): 347-357.

<sup>19</sup> NASSCOM, Co-Innovation: Enterprise Startup Collaboration, 2019, (March 15<sup>th</sup>, 11:00 AM), <https://nasscom.in/knowledge-center/publications/co-innovation-enterprise-start-collaboration>



## **Changing Perceptions towards Entrepreneurship**

Many who are able to take chances are the ones who will translate their thoughts into motion and take advantage of opportunities. The majority of Indian start-up founders describe being motivated by their ambition, enthusiasm, gratification from problem solving, and ability to make a meaningful difference in society. Many Indian entrepreneurs have previously worked in a corporate world, but despite the job security and rewards of high pay and other incentives, they saw those jobs as limiting their ingenuity. Since they don't associate with a corporate society, they also build something of their own, helping them to develop their own beliefs and guide their own path.

Furthermore, there is a significant shift in societal expectations. The success stories of incredible exits and India's first unicorns have gotten a lot of press. As a result, several founders have acquired a reputation as India's "start-up heroes," leading to the existing view of entrepreneurship as "cool" and "glamorous." Despite some hype, entrepreneurship professions are becoming more socially appropriate.

## **Challenges**

There are some common problems that start-ups face all over the world. Certain

challenges, on the other hand, are unique to the Indian business climate. India was frequently listed in this report as a challenging environment for start-ups.

## **Building and Scaling an Indian Start-up**

Indian start-ups face a variety of challenges, including recruiting and maintaining a staff, communicating with clients, and designing a marketing campaign. Many Indian entrepreneurs, in fact, come from a technological background and lack business experience.

A considerable amount of working capital is needed to operate a start-up. Many companies, particularly those in their early stages, are bootstrapped, meaning they are self-funded or dependent on funding from friends and family. Some start-ups have enough paying clients to be or become self-sustaining and able to expand organically as a result of the sales and income they produce. Although not every start-up requires outside capital, many of them begin searching for investments as they prepare to grow. And if they have earned good reviews on their offering and have some industry validation, attracting the right investor and raising funds can be challenging.

## **Diversity and the Digital Divide**

There is an awareness gap between those who have ideas and those who are expected

to use them in general. Start-ups must fill this divide and cultivate a deep understanding of consumers and their needs in order to build effective goods. This is especially challenging in the Indian context, since the country is extremely diverse, with a wide range of cultures, languages, ethnicities, and faiths. Since Indian consumers are so diverse, start-ups' knowledge of them is mostly restricted to particular areas that they are acquainted with and where they have local connections. Comparative benefits are related to particular areas in this manner. As a result, creating a pan-Indian start-up is more difficult due to their lack of awareness of consumers in other parts of the world.

Furthermore, there is a misalignment between start-up leaders and the clients for which they are producing products. The majority of start-up entrepreneurs are well-educated and come from affluent families in big cities. Customers of the mass market, on the other hand, tend to come from low-income backgrounds in villages, as nearly 70% of the Indian population lives in rural areas<sup>20</sup>. Because of their varied living conditions, start-ups often lack a comprehensive understanding of their clients and their needs.

### **Taking Products to Market and Low Willingness to Pay**

Another obstacle for entrepreneurs is bringing their goods to market in India, which continues to be tough to enter into. One explanation is the business landscape: many companies are already there, and many others, including copycats, join the industry. Another explanation is that small enterprises are at a disadvantage as opposed to multinational firms. In the one hand, this is because major business participants are best prepared to cope with bureaucratic legislation. Public procurement, on the other hand, is seen as ineffective, and the government continues to conclude contracts with well-established firms. Big businesses, on the other hand, may find it easier to encourage start-ups (for example, by collaborating with them in the form of their open innovation initiatives). A third explanation is that consumer communication and satisfaction require time and commitment. It's difficult to convince Indian consumers, particularly if the start-up introduces creative products and targets new market segments.

Furthermore, it is difficult for start-ups to create demand for their goods and services. Despite rising wages, India's consumer base

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<sup>20</sup> Business Standard , 70% Indians Live in Rural Areas: Census, January 20, 2013. (March 15<sup>th</sup>, 11:00 AM) <https://www.business->

[standard.com/article/economy-policy/70-indians-live-in-rural-areas-census-111071500171\\_1.html](https://www.business-standard.com/article/economy-policy/70-indians-live-in-rural-areas-census-111071500171_1.html)



remains price sensitive and reluctant to pay for goods and services. Customers often expect discounts or purchase cheaper Chinese models. As a result, entrepreneurs face the task of developing cost-effective alternatives, which may also mean sacrificing efficiency. As a result, many firms rely on volume to produce marginal returns. Collecting and guaranteeing timely payment can be a challenge for start-ups who do not bill consumers by digital payment methods.

### **Hiring Qualified Employees**

Joining a start-up as an employee is not an enticing career choice for many job applicants, owing to the implicit possibility that the start-up would fail. Instead, the vast majority choose to work with multinational companies, which provide more secure employment opportunities. Furthermore, companies are not able to contend with the market awareness and pay systems that big organisations can have. After a few years, many people who work with start-ups go on to existing businesses. Since many people become used to the perks of a corporate career, job shifts in the opposite direction are less frequent.

A second explanation is that many work candidates lack the requisite credentials. Start-ups see a disconnect between the knowledge imparted to students in colleges and the knowledge required for jobs,

notably in industries where technology advances rapidly. New graduates are usually not easily employable due to their lack of knowledge of business needs. As a result, when recruiting new hires, start-ups would dedicate a considerable amount of time and resources to training them.

A third reason is that a large number of highly trained professionals relocate to other countries in search of work. At the same time, Indian entrepreneurs are yet to draw foreign talent, in comparison to many other start-up hubs around the world. Because of bureaucracy and visa requirements, hiring workers from outside India is challenging, and expatriates are drawn to areas like Singapore, where the living standard is higher.

### **Complex Regulatory Environment**

The Indian government has adopted initiatives aimed at making the corporate climate more favourable to entrepreneurs. The new regulatory climate in which start-ups work, on the other hand, is generally viewed as challenging, unreliable, and volatile. India is ranked 77th in the World Bank's Ease of Doing Business index and

137th out of 190 countries in the World Bank's starting a Business Ranking index.<sup>21</sup>

In India, many start-ups are plagued by regulatory procedures that tend to lack underlying criteria. They don't have enough avenues to locate knowledge, and there's no clarity about how long procedures will take. Furthermore, laws will adjust at any moment, and start-ups can receive unwelcome notifications.

Other difficulties include legal incorporation and certification as a start-up, as well as market termination. Despite the government's announced aim to speed up the process of starting a company, most people characterise it as time-consuming and expensive. It necessitates multiple permits, creating a major barrier to entry. Formal registration as a start-up is required after the legal setup is done in order to apply for tax exemptions and other benefits. The government's start-up concept has clear requirements, but only a few start-ups have met them. The conditions were later relaxed, but it seems that start-ups are already having difficulty securing registration certificates. While certain start-

ups crash, it has been said that shutting down a company is much more daunting than starting one.

The tax policy, as well as its compliance, is thought to be unfavourable to entrepreneurs. In the one side, the Good and Services Tax (GST), which went into effect in July 2017, is an example of this. There is also some controversy regarding how it operates and which products count as tax bases or not. And if they are yet to produce any income, start-ups must file their taxes on a regular basis. Furthermore, if consumer payments are overdue (which is not uncommon), start-ups run the risk of running out of cash.<sup>22</sup> They face paying hefty penalties if they do not file their taxes on time. In the other hand, the so-called "Angel Tax," which was enacted in 2012 with the aim of combating money laundering, has received a lot of flak?<sup>23</sup>

### The State of the Indian Start-up Ecosystem

The entrepreneurship community involves a range of stakeholders, including

<sup>21</sup> Global Entrepreneurship Monitor, "2018/19 Global Report", 2019, (March 15<sup>th</sup>, 11:00 AM), <https://www.gemconsortium.org/file/open?fileId=50274>

<sup>22</sup> Harichandan Arakali, Startup Founders Cheer Withdrawal of Angel Tax; Say Decision Will Boost Ecosystem, Forbes India, August 26, 2019. (March 15<sup>th</sup>, 11:00 AM) <https://www.forbesindia.com/article/special/startup>

-founders-cheer-withdrawal-of-angel-tax-say-decision-will-boost-ecosystem/54967/1

<sup>23</sup> Economic Times, Angels & Demon: Decoding the Tax Row that's Making Startups Nervous, February 9, 2019. (March 15<sup>th</sup>, 11:00 AM) <https://economictimes.indiatimes.com/news/et-explains/angels-demon-decoding-the-tax-row-thats-making-startups-nervous/articleshow/67914626.cms>

incubators and accelerators, founders, infrastructure companies, educational and academic organisations, and major businesses, in addition to the entrepreneurs themselves. This segment discusses how the Indian start-up ecosystem has grown, as well as when and how start-ups can get help.

### **Evolution of the Indian Start-up Ecosystem**

Over the last two decades, the Indian entrepreneurship landscape has shifted drastically. More players have joined, offering various types of funding to start-ups. As a result, the biodiversity has evolved dramatically and is now maturing.

In the late 1990s, before the dot-com bubble exploded, a few businesses had already arisen in the Emerging Economy. Broadband coverage was poor at the time, Internet access was limited, and support systems were sparse. The situation steadily improved over the next decade, with more start-ups entering the market. Some of them did well, and some of them had to resign. Flipkart, a Bangalore-based e-commerce start-up, secured a significant investment in 2009. This was a landmark moment. The

number of start-ups, as well as incubators, accelerators, and other support organisations, expanded exponentially in the following years. Between 2013 and 2018, between 7200 and 7700 tech start-ups were created, resulting in an overall growth rate of 12-15 percent.<sup>24</sup> InMobi, a Bangalore-based advertisement technology start-up, was the first Indian unicorn.<sup>25</sup> One97 Communications, the parent company of the payment system Paytm and the e-commerce site Paytm Mall, is reportedly the most valuable Indian start-up, estimated at \$10 billion.<sup>26</sup>

Simultaneously, foreign capital became even more available. Large funds were established in India, with capital coming from the United States, Singapore, China, Japan, and the Middle East. During an early fundraising boom, a lot of investment was pumped into start-ups focused purely on innovations, which culminated in significant financial losses. Following the closure of some funds and the subsequent sector cleansing, investment strategies became more cautious. The condition has started to change again in recent years.

<sup>24</sup> “ The Global Unicorn Club: Current Private Companies Valued at \$1b+ ”, CB Insights, (March 15<sup>th</sup>, 11:00 AM), <https://www.cbinsights.com/research-unicorn-companies>

<sup>25</sup>Status Report on Startups In India, 23<sup>rd</sup> December 2018 (March 15<sup>th</sup>, 11:00 AM),

[https://www.startupindia.gov.in/content/dam/invest-india/Templates/public/Status\\_report\\_on\\_Startup\\_India.pdf](https://www.startupindia.gov.in/content/dam/invest-india/Templates/public/Status_report_on_Startup_India.pdf).

<sup>26</sup>Supra at 25

Government and CSR projects are also having an effect on the investment scene.

More awareness has become accessible in the ecosystem as the first generation of Indian entrepreneurs has learned from their mistakes and experiences. Any of these pioneers went on to be famous, encouraging more to follow in their footsteps. Furthermore, over time, a sense of community has grown for those interested in the start-up ecosystem. Overall, the Indian ecosystem has evolved to a certain size, with substantial assistance in all dimensions.

### **Geography of Start-up Support**

The majority of assistance is available in Indian metro cities, each of which has its own tradition and cultural peculiarities, as well as a distinct ecology. Bangalore, in the state of Karnataka, is India's primary hub, with the largest concentration of start-ups, service groups, and developers. Bangalore is home to one out of every four Indian tech start-ups. [xxix] Bangalore's development as a start-up hub is due in part to the presence of numerous engineering colleges and prestigious academic institutions.

Because of the ready-made talent pool, many Indian as well as multinational companies and R&D centres in the aerospace, biotech, and later IT industries established offices in Bangalore. Bangalore is home to three of India's top four IT employers, including Infosys, IBM India, and Wipro.<sup>27</sup> In addition, the state of Karnataka has developed a dedicated authority tasked with developing and implementing innovative policies to foster a start-up-friendly climate.

In Maharashtra, as well as the National Capital Region (NCR), especially in Delhi, Gurgaon, and Noida, there is a lot of startup activity. NCR is home to 21% of all Indian tech start-ups, while Mumbai is home to 14%.<sup>28</sup> All three cities are part of a community of so-called "Elite Global Entrepreneurship Hubs," which also includes Austin, Chicago, San Diego, and Seattle in the United States, Berlin, Paris, and Stockholm in Europe, Shanghai and Singapore in Asia, and Tel Aviv in Israel, according to a new study on the geography of start-up activity.<sup>29</sup> San Francisco Bay Area, New York, Beijing, Los Angeles, Boston, and London are among the six

<sup>27</sup>India's Biggest Employers, The Economic Times, on 29<sup>th</sup> June 2015, (March 15<sup>th</sup>, 11:00 AM), <https://economictimes.indiatimes.com/nation-world/indias-eight-biggest-employers/wipro/slideshow/47861231.cm>

<sup>28</sup> NASSCOM, "Indian Tech Start-up Ecosystem, Approaching Escape Velocity," 2018, (March 15<sup>th</sup>, 11:00 AM), <https://www.slideshare.net/RemotePanda/indian->

[tech-startup-ecosystem-2018-approaching-escape-velocity](https://www.slideshare.net/RemotePanda/indian-tech-startup-ecosystem-2018-approaching-escape-velocity)

<sup>29</sup> Richard Florida and Ian Hathaway, Rise of the Global Startup City: The New Map of Entrepreneurship and Venture Capital, 2018, (March 15<sup>th</sup>, 11:00 AM), <http://www.ianhathaway.org/blog/2018/10/5/rise-of-the-global-startup-city>

"Superstar Hubs" that make up this community.

Since Mumbai is India's financial hub, the city is home to a host of Fintech start-ups. The NCR region's start-ups are involved in a diverse range of sectors. Both cities have considerably higher costs of living and rentals than Bangalore, where accessible office and co-working space is more readily available. Culture and social attitudes are more traditional in the NCR, which leads to a lower social approval of entrepreneurial professions. In addition, unlike Bangalore and Mumbai, interview partners in Delhi indicated that safety is a problem, especially for female workers, and that work place flexibility is restricted.

In some other Tier-1 and Tier-2 cities, start-up communities are also emerging. According to the study on global start-up cities listed above, Chennai, along with Bangalore, Mumbai, and Delhi, is considered an established global start-up hub, while Pune, Hyderabad, Ahmedabad, and Calcutta are considered emerging start-up hubs. Kerala, Jaipur, and Chandigarh are also listed by NASSCOM<sup>30</sup> as emerging hubs. These cities' entrepreneurs have less exposure, less help organisations, and less opportunities for designers to connect with and learn from one another. In that context, these habitats are not as evolved as the ones

mentioned above, but there is reason to expect that optimistic patterns will continue in the coming years. In addition, several state governments, such as Kerala's ("Start-up Mission") and Karnataka's ("Start-up Cell"), have taken additional measures to encourage early-stage start-ups by launching programmes. In remote areas, there is no assistance available.

### **Core Ecosystem Actors and their Provided Support**

When more players have entered the industry in recent years, the amount of support available to start-ups has grown in all dimensions. There are a number of service agencies, and their services differ based on their institutional missions and the kinds of start-ups they target. Patent filing costs), and creating a seed fund for B2G (business to government) start-ups, where they will apply to perform pilots with government agencies.

### **Office Space and Infrastructure**

The allocation of work room is one aspect of service. Offices, dining rooms, and leisure facilities such as a cafeteria or break room are also included. A conference space, which is ideal for conducting activities for a wider crowd, is often used in such work environments. Start-ups may use basic amenities such as computers, coffee

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<sup>30</sup>Id at 29

machines, Wi-Fi access, and front desk service. Furthermore, they are often fitted with the hardware and software that start-ups need to create their products. In addition, a few service groups offer lab space with professional equipment such as 3D printers, IoT computers, lasers, and virtual reality headsets.

Incubators that are financed by the government put a heavy emphasis on offering physical space to many early-stage businesses in exchange for a weekly, subsidised rent. Many university incubators have the benefit of being able to have access to lab space and equipment on campus. The government has raised support for tinkering laboratories in recent years. In some cases, private independent and corporate incubators and accelerators do not have office space for start-ups, instead directing them to a co-working space like the well-known chain WeWork. Furthermore, several incubators provide simulated incubation to start-up teams located in remote areas. Usually, owners should not offer office space to the firms in their portfolio.

A few years back, there was a hole in the ecosystem and there was no place for people to function. However, as more

incubation groups and co-working spaces have opened over time, a shortage of accommodation does not seem to be a major concern. Many interviewees found out that having space is secondary to building a community and bringing the right people together, as successful start-up support agencies rely more on building a community and bringing the right people together. This is in line with studies that showed that, in addition to the more conventional focus on office space, there is an increasing focus on having access to funding and specialist resources to help start-ups get to market quicker and enter a common network.<sup>31</sup> As a result, incubating companies are separated from ordinary co-working spaces by the availability of external resources. In reality, certain self-described incubators and accelerators were considered to be merely offering a shared workspace without providing significant additional assistance.

### **Business Support and Mediation**

Start-ups (especially younger teams) can lack the requisite knowledge or contacts to develop a successful company. As a result, entrepreneurs can gain internal assistance from the on-site staff of an incubator or accelerator, who serve as a first point of

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<sup>31</sup> Rosa Grimaldi and Alessandro Grandi, "Business Incubators and New Venture Creation: An Assessment

of Incubating Models," *Technovation* 25 (2015): 111-121.



touch and can assist with logistical problems and have some first-level support. They also host various conferences and lectures, usually in the form of a planned schedule lasting a few months in the case of accelerators. Since entrepreneurs are co-located and attend classes together, they begin to connect, exchange insights, and offer meaningful input to one another. Incubators and accelerators deliberately cultivate an open and competitive community to promote peer-to-peer learning. If the internal team lacks the technical skills or expertise that start-ups need, they will support by organising introductions to established founders or business leaders in their external network. For example, they connect start-ups with advisor's who can provide one-on-one advice, or they connect start-ups with potential clients and investors with whom they can run pilots to validate their product. Furthermore, venture support agencies provide a pool of service providers that can offer pro-bono advice in fields such as HR, marketing, accounting, and legal matters to start-ups. Incubators and accelerators also deliberately create a community by organising gatherings such as casual networking meet-ups, technical expert lectures, and awareness trips to conferences or international ecosystems. Offline communities are often developed to facilitate more networking.

Incubators and accelerators of multiple styles all seek to provide market resources and link their start-ups, but they have differing foci. University incubators, for example, have an advantage of assisting start-ups with recruiting so they can recruit interns from nearby campuses. Corporate accelerators' core competency is to help entrepreneurs close the distance between them and the consumer by assisting them with their distribution strategies and introducing them to their own user base for genuine feedback. Independent-private incubators place a heavy focus on community and linking start-ups with seasoned mentors throughout their network. Since many angel investors hold or have held executive positions in conventional industry sectors, they may be able to support entrepreneurs with their vast industry expertise.

#### **Funding and Assistance with Fundraising**

Finally, start-ups need financing to remain running. While some start-ups are self-sustaining due to their generated income, others need outside investment, especially if they expect to expand.

Usually, incubators and accelerators do not have any funding or only have a limited amount of funding. Instead, they work on training start-ups for funding by advising them how to pitch and getting input on their

decks. Furthermore, they normally work for a group of investors and may make introductions to relevant investors. Accelerator services, in particular, typically finish with a demo day, which encourages start-ups to pitch in front of a diverse crowd, including founders and business executives. If corporate executives see promise in start-ups, a long-term strategic alliance could be feasible, in which both sides enter into a buyer-vendor agreement or invest in a revenue-sharing arrangement. Although the programme itself does not invest in start-ups, corporate incubators and accelerators are often in contact with corporate venturing units, which can invest capital at a later stage. Any private independent incubators and accelerators have their own investment fund or tout their vast network of prospective investors. One of their bonuses is that their mentors get to know the start-ups closely, helping them to make better investment choices. Finally, angel and venture capital investors have the largest sums of money.

In 2018, Indian entrepreneurs raised a total of \$11 billion in funding. As a result, it seems that generating money for start-ups has gotten even simpler. However, the majority of the start-ups interviewed claimed that they are bootstrapped and not

self-sufficient, and that they are having trouble obtaining funding despite having a proof of concept and some industry validation. The suggestion was floated that the amount of start-ups that currently earn financing is incredibly limited.

Raising funds is, of course, a highly competitive operation, and not every start-up is deemed promising. The wide difference in views, however, necessitated a closer review of the selection criterion. There were a few aspects that stand out. Next, some private investors "burned capital" following an initial funding surge, getting a deeper understanding of what works and what doesn't. As a result, many founders have been more conservative and are now investing in more developed companies that already have an MVP (minimum viable product) and some market momentum. Seed stage support fell by 40% in 2018 as compared to 2017. As a result, raising funds at an early stage is difficult for Indian start-ups. The scarcity of angel investors willing to put up the first Rs 50 lakh to Rs 1 crore to help start-ups develop a prototype and conduct early consumer tests is widely regarded as the most significant challenge that Indian start-ups face.<sup>32</sup> Second, since they have little knowledge, investors put a high importance

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<sup>32</sup> Ajit Balakrishnan, "Giving Wings to Startups", Observer Research Foundation, September 12, 2019, (March 15<sup>th</sup>, 11:00 AM),

<https://www.orfonline.org/research/the-indian-startup-ecosystem-drivers-challenges-and-pillars-of-support-55387/>

on individuals. As a result, capital is distributed on a confidence basis, implying that investors spend in known circles and on the basis of similarities rather than diversity. Founders who come from a business family, graduated from reputable colleges, and have major brand names on their CV are seen as more qualified. This is partially real, since they have already passed through a filter. However, it is often perceived as a "elitist thing," with those with bright ideas but from less fortunate backgrounds having trouble raising funds. Women founders, in particular, face prejudices and bias in the investment cycle. Third, the evaluation criteria are specifically intended to recognise tech businesses that have the ability to expand rapidly and appeal to industries with millions of consumers.

As a result, the impression has arisen that founders want to finance start-ups that are expected to exit in a few years for several times the original investment. Fewer founders are able to invest in R&D-intensive start-ups so they have a longer-term outlook. Furthermore, despite the fact that more start-ups are entering the consumer market, the environment is much less favourable for start-ups that produce hardware or other physical goods, according to the study. This gives the impression that many people in India have high hopes for technology. Furthermore,

several investors chase trends and finance start-ups working on emerging technology that, despite a few intriguing use cases, have little relevance to solving more pressing Indian problems.

### **Conclusion**

The Indian market provides many opportunities for entrepreneurs, and start-ups, in exchange, have high expectations of promoting growth and creating jobs. In India, more entrepreneurs have arisen in the last two decades, and the related ecosystem has expanded rapidly. As a result, funding has expanded in a number of fields, including office space and infrastructure, company mentoring and networking, and the availability of financial resources. There is a tangible sense of hope about the ecosystem's potential growth. Despite this, Indian start-ups face major difficulties. Overcoming such barriers would necessitate the efforts of all players, including ecosystem players, government departments, and start-ups themselves. Changes in the wider societal landscape can also be useful in motivating individuals to take chances and eventually create impactful solutions.

Start-ups are not independent entities; they are a part of the wider economy. Start-ups are projected to benefit from policy changes that boost general economic conditions as well as improvements in digital and

physical infrastructure (for example, internet access, roads and public transit, power and electricity). In terms of the regulatory system, it is thought that optimising the execution of current start-up regulations and eliminating inefficiencies within the bureaucracy are critical to making it easier for start-ups to do business. Reduced paperwork and reporting, increased database access, and more standardised operating practises and transparent requirements will all favour start-ups. Furthermore, investments in education must be channelled in order to create a wider talent pool. Participants in this research, in particular, called for the incorporation of entrepreneurship classes in college curricula, which would help train students for careers as entrepreneurs.

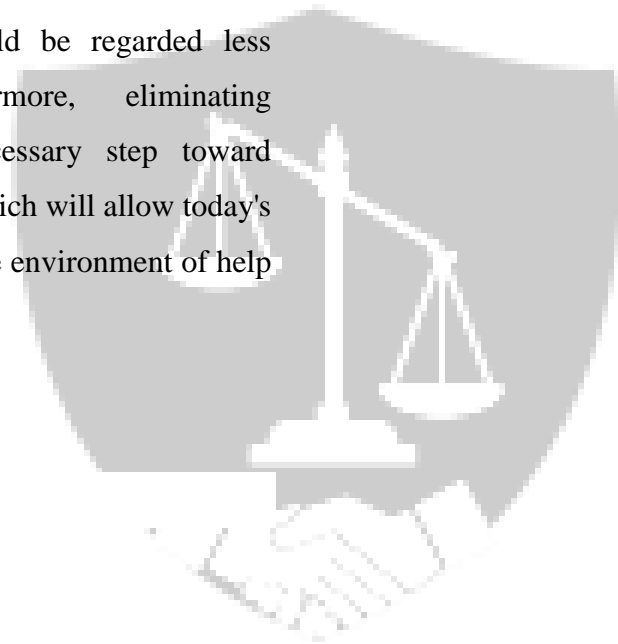
Though angel and venture capital investments in Indian start-ups have risen dramatically in recent years, the ecosystem still lacks resources. Since investors continue to finance more experienced start-ups, more funding is needed to assist the newer ones in creating innovations and MVPs. To close the gap between ideation and the next move, entrepreneurs and ecosystem players expect that government officials can incentivize angel contributions by repealing the angel tax or offering other tax benefits. Furthermore, government programmes to create a seed fund and offer grants to entrepreneurs are known as good

initiatives. Furthermore, it was suggested that larger, existing firms buy more start-ups. Furthermore, in established start-up environments, the pattern of existing entrepreneurs funding aspiring newer start-ups needs to gain momentum.

Support has grown in terms of office space and market support dimensions in line with the rise in resources. The ecosystem players, on the other hand, are geographically clustered in metro cities, making it more difficult for start-ups who are not based in these regions and cannot move bases to thrive. Entrepreneurs in smaller tier 2, 3, and 4 cities must be sponsored. India needs low-cost, high-impact technologies due to capital limitations, so the emphasis on scalable tech start-ups is understandable. However, this does not detract from the fact that other forms of entrepreneurial projects can also have useful solutions.

Aside from the previously stated help dimensions, another important consideration is the general culture's attitude toward entrepreneurship. Start-ups have gotten a lot of coverage recently, with stories of successful failures and stories of "start-up legends" circulating in the newspapers and popular culture. As a result, becoming a start-up founder is now considered "smart," and entrepreneurship occupations have become more socially

appropriate. Many enterprising individuals, however, appear to be prevented from following their interests by their communities and social structures, and are under pressure to choose a career and lifestyle that is considered to have more security. Rather, the society should be more tolerant of people who take action to build things on their own. The ability to take chances should be rewarded further, and disappointment should be regarded less negatively. Furthermore, eliminating prejudices is a necessary step toward growing diversity, which will allow today's big ideas to obtain the environment of help they need to thrive.



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