IJARASEM

ISSN: 2395-7852

International Journal of Advanced Research in Arts, Science, Engineering & Management

Volume 10, Issue 2, March 2023

INTERNATIONAL STANDARD SERIAL NUMBER INDIA

Impact Factor: 6.551

+91 9940572462 +91 9940572462 ijarasem@gmail.com www.ijarasem.com

International Journal of Advanced Research in Arts, Science, Engineering & Management (IJARASEM)

| ISSN: 2395-7852 | www.ijarasem.com | | Impact Factor: 6.551| Bimonthly, Peer Reviewed & Referred Journal|

| Volume 10, Issue 2, March 2023|

An Empirical Study on Reasons Why Startups Fail in India

Prince John Daniel M, Anjaneyalu Harshitha, Prof Prithwiraj Das

MBA STUDENT – AIMS IBS Business School, India

MBA STUDENT – AIMS IBS Business School, India

AIMS IBS Business School, India

ABSTRACT*:* Startups have been proliferating in India over the past decade, driven by a favorable government policy, growing investor interest, and a young and tech- savvy population. However, despite this favorable environment, 90% ofstartups fail to achieve their goals; of these, 10% fail within the first year and eventually shut down. Understanding the reasons behind startup failures is crucial for policymakers, investors, and entrepreneurs seeking to build successful ventures in this dynamic market. The study will draw upon existing literature on the topic. Through this research, we hope to gain a deeper understanding of the challenges facing startups in India and identify potential solutions to improve their success rates. The research finds that inadequate market research, cash burn, pressure from investors on profitability, lack of access to funding, and intense competition are the primary reasons why startups fail in India. One of the critical factors in startup failures in India is the lack of market knowledge, which results in entrepreneurs building products that are not aligned with market demand. This often leads to a mismatch between the product and market expectations, causing startups to fail. Additionally, inadequate execution, a lack of mentorship, and inadequate resources often undermine startup success. The high rate of startup failures in India underscores the need for entrepreneurs, investors, and policymakers to adopt a more nuanced and strategic approach to building successful startups. By addressing the key factors contributing to startup failures, India can build a thriving startup ecosystem that generates economic growth, creates jobs, and drives innovation.

KEYWORDS: Startups, failure, challenges, entrepreneurs, ecosystem, investors, success, factors, India

I. INTRODUCTION

Prospective entrepreneurs generate novel ideas, which they then convert into opportunities for their startups to capitalize on. Entrepreneurial startups "technovate" by fusing the power of technology and innovation, creating new jobs and opening up channels for creative potential to be realized.

An economy needs an increasing number of startups to grow into larger businesses. Entrepreneurship, employment, and the economy all grow as more entrepreneurial businesses enter the market. There are many obstacles in the entrepreneurial path of growing startups into well-established big businesses. Few businesspeople have the fortitude to swim against the tide and succeed. Entrepreneur-founded startups typically have a low survival rate (Pena, 2002), leaving many vulnerable to the hardship of failure. According to the US context, "90% of startups fail in the first five years," and the phenomenon is the same in the Indian context as well (Business Line, 2017). In other economies, the situation might not be significantly different.

Startup founders suffer, and so does the company they created if the startup fails. The economy and employment outside of the company are both impacted by entrepreneurial failure. Numerous entrepreneurs fail, and when their lessons are shared, other potential entrepreneurs in the ecosystem can use them to design their own paths to success. The ecosystem should ensure low failure costs and freedom for entrepreneurs to innovate (Bala Subrahmanya, 2015). Entrepreneurial learning is a fundamental requirement for an entrepreneur because it helps the startup succeed and benefits the ecosystem as a whole (Startup Genome Report, 2017). Watson (2000).

The effect of COVID has also made startups vulnerable. Investments in India decreased in value from $1.73 billion in March 2019 to $0.33 billion in March 2020, showing a drop of almost 81.1% (Business Line, 2020). The number of companies funded has decreased by 50% overall; there were 136 firms in March 2019 as opposed to 69 firms in March 2020 (ibid). A startup's ability to generate enough revenue to cover its costs is what determines whether it will succeed or fail. If a startup is unable to do so or if its costs are rising, it will fail.

A startup that is successful will be able to cover its costs, but one that fails will not be able to do so. Its poor long-term prospects and cash flow problems could force it to stop operating. At the macro level, reducing the failure rate will aid businesses and entrepreneurs in their efforts to launch new ventures. At the micro level, determining the reasons for failure will assist in developing mechanisms that are resistant to failure, lowering the socioeconomic cost of failure, and allowing future entrepreneurs to benefit from the lessons learned, known as epiphanies.

II. LITERATURE REVIEW

1. THE FUNDING GAP:

Lack of capital is a major cause of startup failure in India. Startups that do not have access to funding may struggle to expand and scale. This could be due to a lack of angel or venture capital investments in the country. A lack of funds may also result in a lack of resources and competence on the team. Without the necessary funds, startups may struggle to survive in a cutthroat industry.

Stayglad is one instance of a startup that collapsed in India owing to insufficient funding. A business out of Bangalore named Stayglad provided on-demand beauty treatments to clients via a smartphone app. 2015 saw the company's founding, and it has already raised over $1 million from backers including Bessemer Venture Partners and Anil Chopra. But despite its early success, Stayglad was unable to expand, and in 2018 it was forced to close. The company's limited resources were one of the primary causes of its failure.

2. LACK OF MENTORSHIP & GUIDANCE:

Indian startups face a similar lack of mentoring. Mentoring can be extremely beneficial to startups because it provides guidance and assistance during the early stages of growth. Without proper mentoring, startups may struggle to make the best decisions and achieve success. Mentoring can help entrepreneurs gain industry knowledge and develop a profitable business plan. Startups frequently struggle to make the best decisions and can easily become overwhelmed in the absence of proper guidance.

Taskbob is an example of an Indian startup that failed due to a lack of mentoring. Taskbob, a Mumbai-based company, offered on-demand home services such as cleaning, plumbing, and handyman work. The company was founded in 2015 with over $5 million in funding from investors such as IvyCap Ventures and Orios Venture Partners. Despite a promising start, Taskbob struggled to grow its business and was forced to close in 2018. Its demise was primarily due to a lack of mentoring and guidance from experienced business professionals.

3. POOR BUSINESS PLANNING:

Startups in India frequently fail due to insufficient business strategy. Without adequate planning, startups may struggle to make the best decisions and may easily become overwhelmed. Poor planning can also lead to a lack of resources and insufficient team expertise. Without the right tools and knowledge, startups may struggle to survive in a competitive market. Startups can struggle to find success due to poor business planning, which can also lead to a lack of focus and direction.

One example of an Indian startup that failed due to poor business planning is PepperTap. The Gurugram-based company PepperTap offered on-demand grocery delivery services through its mobile app. Since the company's founding in 2014, investors like Sequoia Capital and SAIF Partners have invested more than $50 million in it. Despite its early success, PepperTap was unable to sustain its growth and was forced to shut down in 2016. One of the main reasons for its downfall was the execution of its expansion strategy and insufficient business planning.

4. LACK OF MARKET KNOWLEDGE:

Another reason for startup failure in India is a lack of market understanding. Without the necessary expertise, startups may struggle to understand the market and develop a successful business plan. Without the proper knowledge, startups can easily become overburdened. Inadequate market information can stymie startup growth by causing them to lose focus and sense of direction Without market research, startups fail because they lack the information needed to develop a successful product or service.

Ola Café is one example of a startup that failed in India due to a lack of market knowledge. Ola Café is a food delivery service launched by the Indian ride-hailing app Ola. The service was launched in 2015 in order to compete with established companies such as Swiggy and Zomato. However, after only a year of operation, Ola Café was forced to close due to a lack of demand. One of the primary reasons for its failure was a lack of market expertise and understanding of the food delivery sector.

| ISSN: 2395-7852 | www.ijarasem.com | | Impact Factor: 6.551| Bimonthly, Peer Reviewed & Referred Journal|

| Volume 10, Issue 2, March 2023|

5. COMPETITION:

Another requirement for entrepreneurial success is the ability to compete with other startups. Startups may fail quickly in the absence of intense competition.
Entrepreneurs must be able to distinguish themselves from similar businesses in order to stand out. Without it, they risk failure and rapid overwhelm.

TinyOwl was a Mumbai-based meal delivery company that offered a mobile app- based platform for ordering food from nearby restaurants. The company was founded in 2014 with over $27 million in funding from investors such as Matrix Partners and Sequoia Capital. Despite its early success, TinyOwl struggled to compete with well- known competitors such as Swiggy and Zomato, which had a larger brand presence and more market resources. These competitors, who had a larger user base and a wider range of restaurants and cuisines to offer, were fierce competitors for the company. The company was forced to close its doors in 2016 because it was unable to generate enough revenue to cover its operating expenses.

6. POOR EXECUTION:

Poor strategy execution is another common cause of startup failure in India. Without adequate execution, it is impossible to deliver on the promise of the good or service. A startup may lose potential customers as a result of poor execution, which causes product development delays.

A firm called QikPod offered automatic lockers for e-commerce delivery. Despite getting money from Flipkart, the company had to cease operations as a result of poor execution, which included problems with logistics and inventory control.

7. LACK OF ABILITY:

Startups in India face significant challenges in attracting qualified employees. Without the right people, development, marketing, and business management can be difficult. Inadequate skill can also delay product development, costing the startup potential customers.

Talaash, a Bangalore-based company, offered an online booking platform for local services such as plumbers, electricians, and carpenters. Since its inception in 2014, the company has raised over $1 million in funding from investors such as M&S Partners and Powerhouse Ventures. Despite its early success, Talaash struggled to manage its operations and successfully scale its business. It was difficult for the company to expand into new cities and attract new customers. In addition, the company had difficulty managing its finances and obtaining additional capital to sustain its growth.

8. FAILURE TO INNOVATE:

Startups in India frequently fail as a result of a lack of innovation. Without innovation, it is impossible to produce a distinct product or service that stands out from the competition. Startups that lack innovation will fail because they lack the competitive edge required to thrive in the market

CarTrade, an online marketplace, may help buyers and sellers connect. Unfortunately, due to a lack of innovation, it was unable to compete with well-established companies such as CarDekho and Truebil, and it shut down its consumer-facing operations in 2021.

9. LACK OF CONCENTRATION:

Startups can fail due to a lack of concentration. Without a clear vision and mission, startups may struggle to define their goals and objectives, as well as order their tasks.

Furthermore, they may be unable to focus on their key competencies or differentiate themselves from their competitors.

Dazo was a food delivery company that expanded too quickly and tried to cover too many cities at once. The company struggled to stay in business and was forced to close in 2016.

10. INSUFFICIENT NETWORKING:

Businesses that fail due to a lack of networking can fail. Without the necessary connections and relationships, startups may be unable to find suitable partners or investors to support their growth. They may also struggle to market their goods and services and identify the appropriate target market.

AdWyze was a digital advertising platform that struggled to build strong client relationships and network. The company struggled to attract and retain customers, and it went out of business in 2017.

11. INADEQUATE RESOURCES:

If a startup lacks the necessary experience, it may struggle to understand the market and develop an effective business plan. Startups can quickly become overburdened due to a lack of knowledge. A lack of market data can stymie startup growth by causing the company to lose focus and direction. Entrepreneurs who are not properly guided frequently make poor decisions and succumb to overburdening

Stayzilla provided online reservations for guesthouses, homestays, and other types of alternative lodging. The company raised millions of dollars in fundraising, but it ran out of funds in early 2017 and had to shut down.

12. PRESSURE FROM INVESTORS ON PROFITABILITY:

Investors frequently anticipate that startups will eventually turn a profit and generate positive cash flow, as these factors are regarded as critical to a company's long-term viability and success. As a result, investors frequently place pressure on companies to demonstrate progress towards profitability. Investors may want to maximise their returns on investment, and a productive company is more likely to deliver a higher return than one that continues to squander capital without a clear path to profitability. Investors may be concerned about the risks associated with investing in early-stage companies and may view profitability as a way to mitigate some of these risks.
Investors may be concerned about the risks associated with funding early-stage businesses and may look to profitability to mitigate some of those risks.

Frankly. Me was a video-focused social media site that received $600,000 in funding from backers including Matrix Partners. Unfortunately, due to fierce competition from well-established firms such as Facebook and Snapchat, the company struggled to scale its operations. It was eventually shut down in 2017.

13. CASH BURN:

Cash burn is one of the most common causes of startup failure because it occurs when a company spends money faster than it can make money. To begin with, many businesses overestimate their initial predictions and underestimate the time it will take to start making money. This could lead to a cash shortage and the inability to pay debts. Second, entrepreneurs may overspend on unnecessary expenses such as costly office space, costly benefits, or ineffective marketing campaigns. This makes operations difficult to maintain and can quickly deplete a startup's cash reserves. Last but not least, some businesses may be lacking in a solid business plan or a clear path to profitability. This may make finding investors or obtaining additional funds difficult, resulting in a cash shortage and eventual failure.

Zebpay, a cryptocurrency exchange, aimed to reduce its cash outflow by lowering marketing costs and downsizing its operations. Unfortunately, the company was forced to close in 2019 due to regulatory pressure from the Indian government.

III. CONCLUSION

India now has one of the startup ecosystems with the fastest rate of global expansion. Despite having great potential, a lot of startups fail to thrive and eventually shut their doors. Indian startups fail for a variety of intricate reasons. In this study, we identified 13 key factors that contribute to the failure of startups in India and provided 13 distinct examples for each factor. Additionally, it may be challenging for entrepreneurs to take risks and recover from setbacks due to bureaucratic red tape, governmental regulations, and cultural attitudes towards entrepreneurship. Overall, startups in India face a special set of difficulties, but with the proper attitude, plan, and assistance, they can get past these problems and succeed.

Entrepreneurs must conduct their due diligence, understand the market, and be prepared to pivot their strategy if necessary. Having access to experienced mentors, a supportive community, and dependable funding sources can also make a significant difference in a startup's success.

REFERENCES

1. "The top reasons why startups fail in India" by Financial Express (June 2020) Link: https://www.financialexpress.com/industry/sme/the-top-reasons-why- startups-fail-in-india/1986808/
2. "Top 10 Reasons Why Indian Startups Fail" by Entrepreneur India (August 2020) Link: https://www.entrepreneur.com/article/354235
3. "Why do Indian startups fail? Here are the top 20 reasons" by YourStory (September 2019) Link: https://yourstory.com/2019/09/indian-startups-fail-reasons
4. "Why do Indian startups fail? It's not about the idea, says experts" by Mint (June 2020) Link: https://www.livemint.com/companies/start-ups/why-do-indian-startups-fail-it-s- not-about-the-idea-says-experts-11592668863497.html
5. "Why Do Startups Fail In India?" by StartupTalky (January 2021) Link: https://startuptalky.com/startup-failure-reasons/
6. "Why do Indian Startups Fail: Analysis and Remedies" by The Startup (July 2020) Link: https://thestartup.com/why-do-indian-startups-fail-analysis-and-remedies/
7. https://promotedigitally.com/every-reasons-why-do-indian-startups-fail/#:~:text=The%20most%20important%20reason%20why,or%20failure%20of%20Indi an%20startups
8. why startups fail a new roadmap entrepreneurial success by Tom Eisemann
9. ."The top reasons why startups fail in India" by Financial Express (June 2020) Link: https://www.financialexpress.com/industry/sme/the-top-reasons-why-startups-fail- in-india/1986808/

INTERNATIONAL STANDARD SERIAL NUMBER INDIA

International Journal of Advanced Research in Arts, Science, Engineering & Management (IJARASEM)

| Mobile No: +91-9940572462 | Whatsapp: +91-9940572462 | ijarasem@gmail.com |

www.ijarasem.com