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Impact of Startups on Indian Economic Growth

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Abstract

A start-up company (start-up or start-up) is an entrepreneurial venture which is typically a newly emerged, rapidly-growing business that aims to meet a market need by developing or offering an innovative and extraordinary product, process or service. A start-up is usually a company such as a small business, a partnership or an organization deliberately designed to rapidly develop a commercially viable business model. More often than not, start-up companies deploy technologies, such as Internet, e-commerce, computers, telecommunications, or robotics to make a niche for them in the market.

1. INTRODUCTION

A start-up company (start-up or start-up) is an entrepreneurial venture which is typically a newly emerged, rapidly-growing business that aims to meet a market need by developing or offering an innovative and extraordinary product, process or service. A start-up is usually a company such as a small business, a partnership or an organization deliberately designed to rapidly develop a commercially viable business model [1-3]. More often than not, start-up companies deploy technologies, such as Internet, e-commerce, computers, telecommunications, or robotics to make a niche for them in the market.

Start-ups are set to play a big role in the growth of economy as boosters and the huge number of employment subject to better handholding by Government campaigns to facilitating start-ups through the market regulator Securities and Exchange Board of India (SEBI) has also relaxed some rules to facilitate the flow of funds from the market to the start-ups

1.2. THE INDIAN START-UPS STORY

The Start-up ecosystem found its roots in Silicon Valley, California where chips were manufactured. It later became the invention hub of the microprocessor, personal computer, video games and a lot of high-tech products such as pocket calculators, cordless telephones, lasers or digital watches, etc.

Today it is home to many technology giants like Google, Face book etc. which were once start-ups.

The Start-up fad is not only budding in India but also China is trying to transform itself from a manufacturing hub to a knowledge based economy.

According to the Economic Survey of Government of India our country is home to 19000 tech start-ups!

1.3. STARTUPS CULTURE

With the gen-next cool trend to start working on new and innovative ideas, India is all set to outperform all other nations on the world stage in the years to come [4]. Setting up of small businesses by these young entrepreneurs is definitely going to boost the Indian economy in the near future. India is a home for almost 3100 start-ups starting per year standing just behind US, UK and Israel according to the NASSCOM report. If the growth is continued on the same pace then it is expected that Indian tech start-ups will generate almost 2.5 lakh jobs in the next five years.

India is also said to enjoy demographic dividend and it is anticipated that by 2020 India will be a home to 112 million working population falling in the age bracket of 20-24 years as compared to that of 94 million workers of China. This demographic dividend will definitely boost the start-up culture in the country.

Initially, India was considered as the market for providing cheap labor to the world and for export of Indian services in the field of IT. Due to this India has witnessed low product development and innovation in the past. But, still it is not too late and the culture of start-ups has started in India in the recent past. It has already started bearing fruits and is all geared up to benefit the Indian economy in the long run.

2. WORLD BANK & DEVELOPED NATIONS FUNDING TO INDIAN ECONOMY:

Tech start-ups are leading the growth of start-up era and it is ready to boost revenue generated by IT-BPM sector by almost 12-14 per cent for the current fiscal year as well. It is anticipated that the e-commerce market of India will grow by more than 50% within the next five years. India witnessed the largest infusion of capital from overseas through venture capital funds in the year 2014 in the indigenous start-ups. After the inception of new government in the centre, an optimistic view has been developed around the growth story of Indian economy. This government has also started working towards improving India's rank in World Bank ease of doing business in which India is currently ranked at 142 positions. This will definitely boost the start-ups of the country. Foreign investors have started looking towards India as a favourable investment destination. Indian start-ups are proving to be the major tool for diverting a huge chunk of foreign wealth into the Indian economy [5-9]

Developed nations are now looking towards fast growing and emerging nations such as India to tap the huge untapped potential in these markets. In the recent years, different countries are taking different initiatives to link up their businesses with the Indian start-ups. For Example: Business council of India in United Kingdom (UKIBC) is hosting start-ups of India in UK. Similarly, Swissnex, an agency of Switzerland is conducting market research in India with the help of its entrepreneurs to identify suitable business opportunities for them. On the same lines, Zone Start-ups based in Toronto Canada is also conducting research to understand Indian taste, culture and requirements that they can fulfil. It is said that almost all global giants such as Wal-Mart, Goldman Sachs, Target, Thomson Reuters are eyeing towards Indian start-ups to tap the huge business opportunity.

Venture capital funds from abroad and angel investors are proving to be a big boon for Indian start-up story. Indian start-ups such as Flipkart, Olacabs, Snapdeal, Hike, Shopclues, Freecharge, Inmobi etc. receive various rounds of follow-on financing as well either from their existing investors or from any new investor. These various rounds of funding also help these firms to hire more talent into the company. This helps the company to grow strategically and also add some more experienced people in the firm. In the recent times head hunting and poaching are common among these tech start-ups. There is a huge demand for Indian software engineers around the world. Any start-up owner in any country sets an eye to hire talent from India, since it reduces their cost by almost 25% and at the same time it provides a very good employment opportunity for the developer.

2.1. ACQUISITIONOF STARTUPS BY TECH GAINT

Apart from funding, mergers and acquisitions are also helping these start-up companies to grow by acquiring new capabilities directly and expanding into the market share of the acquired company. The best example of this could be buying of Myntra, an app based shopping portal by another technology giant Flipkart to gain the market share. Snapdeal recently acquired Free charge to grow into the area of mobile payment gateways, since mobile payments are a next hot spot sensed by various start-ups presenting immense opportunities for further penetration. Not only in India but also internationally tech giants have used acquisition of companies as a way to maintain their position of market leader and also as a way to enhance diversification. An example of this could be acquisition of messaging app Whatsapp by another giant Facebook [8].

2.3. B2B STARTUPS IN VARIOUS SECTORS

Start-ups are flourishing in India not only in the field of internet but in various other fields as well. Educational tech start-ups are a new hot bee among various investors since it is anticipated that the complete educational system will be digitized in the near future. Similarly, start-ups are also eyeing big data for analytics, healthcare, beauty and fitness, biotechnology and other areas as well. Several start-ups have also ventured into food delivery service as well. Examples include Mast Kalandar in Mumbai and Bangalore, Eatlo, Freshmenu,

TinyOwl etc. These have generated employment opportunities in large number for unorganized sections of the society in the form of delivery persons. At the same time, it has increased convenience for consumers as well.

Apart from shiny conventional start-ups there are enterprise start-ups as well. They are broadly classified into two types: Application and platforms. These are basically B2B start-ups and aims to simplify the various underlying processes for businesses. Application start-ups are basically for IT, developers etc. Exotel, Knowlarity are start-ups for developing applications. Young entrepreneurs are also exploring opportunities in the field of development of gateways for mobile or online payment. It is a well-known fact that India is all set to become the second largest market for smart phones by 2016 after United States. It is mainly going to happen due to increase of affordable smart phones in the country. This sector witnessed almost 50% growth in the year 2014 only. Due to this, it is anticipated that the number of people using online transactions will also increase at the same pace, presenting huge opportunities for Indian start-ups. Start-ups such as Paytm, Inmobi, freecharge etc. have already started covering this market.

3. AN STARTUPS GIVE A BOOST TO THE INDIAN ECONOMY?

India needs a revival and that didn't seem to happen until the start-ups came in. India needs 10 million jobs a year and data shows that it is the start-ups that come to the aid for creating new jobs in the country. Most of the new jobs are created by the start-ups. They are also the centres of innovation. Thus, with innovating new things, start-ups are a great way to enhance employment opportunities. They also bring in the technological enhancement they bring to the country. This leads to a value addition which in later times yields more employment opportunities. With more start-ups coming up India can aspire to be the world leader all the people want it to be and not only remain a cheap outsourcing destination for cheap IT services.

Start-up companies are the most dynamic individual companies since they bring new competitive dynamics in the economic system. They bring competitiveness in the market. Therefore, the economy stays healthy, vital and diligent. Start-up companies are vital because they do what is needed. They provide services easily and they bring innovations, jobs and provide a healthy and competitive business environment. They test different business models in order to find the best among all. They keep on trying until they find the best fit for the market. In companies, large stakeholders have a say in the policy of the company but start-ups are free from that burden. This makes the start-ups disruptive and agile. They work in dynamic and technological environment and in some time they find an alternative technological solution for the problems for they understand that technology is the future. Without technological advancement, they can do no good for themselves, the customers and the economy.

Developed nations have always looked towards as a potential market left untapped but now the bigger companies are looking for mergers with Indian start-ups to tap the markets because it is not possible singlehandedly now. We can proudly say that India is a home to almost 3100 start-ups starting per year standing just behind the US, UK, and Israel according to the NASSCOM report of 2016. If this continues the way it is, we can expect a job generation of around 2.5 lakhs in the next 5 years only from the tech start-ups. By 2020, we will be a home to 112 million working in the age group of 20-24 as compared to 94 million in China. This growth has also boosted the Indian economy and will continue to do so in the coming years. And this has also boosted the start-up culture in India.

Considering the importance of role that the Indian start-ups are all set to play in the growth of Indian economy, the amount of income and the huge number of jobs that can be created by facilitating start-ups, even the market regulator Securities and Exchange Board of India (SEBI) has also relaxed some rules to facilitate the flow of funds from the market to the start-ups.

Hence, taking into consideration all the above developments, it can be concluded that indigenous start-ups will not only make the lives of the people easier through their affordable and convenient services but will also act as a major booster for the development and the progress of the Indian economy.

So can start-ups give a boost to the Indian economy? The answer is a resounding yes. In fact, it has been continuing to do so.

3.1. INDIAN GOVERMENT

All is not Well with this Start-up Movement in India !

Amongst all this, the product start-up sector has been largely ignored. In fact, India's start-up successes are mostly about software enabled firms and rarely about hardware product companies. The reason for this can be attributed to the lack of funds. Products have to evolve from being a concept to a physical prototype and undergo various iterations before they can hit the market. But unlike software ideas where even simplistic ones that can find ready backers, products have to climb a steep arc to prove their worth in a market not known for its manufacturing prowess. Without initial investment, product stat-ups would find it extremely difficult to sustain themselves., while there is clearly a great deal of capital flowing into the start-up ecosystem, only a very small amount reaches these start-ups. This problem is further compounded by the lack of Early Stage Funding – Angel and Seed Funding. Venture Capital funds in India generally invest in firms that are already generating revenues, therefore investing relatively late in the start-up cycle. Likewise, India-based investors prefer to make a few relatively large investments of around Rs. 3 crores to Rs. 5 crores rather than spreading smaller investments across a large number of firms. Start-ups looking for funding of less than Rs. 50 lakh therefore often struggle to access investors. In fact, start-ups in India spend five times the amount of effort to raise funds as compared to US start-ups.

Indian government is also taking several steps to build an environment which is suitable for start-ups, since small businesses can play a very important role to develop and boost Indian economy in the future. In the Union Budget of 2015, government has established a process or a mechanism known as Self Employment and Talent Utilization (SETU) to support all the aspects of start-ups right from their seed financing stage to their growth stage. Also, government is also setting up 'innovation labs' at various places which are similar to that of 'incubation centers' in large national and foreign universities. It is also anticipated that government may roll out a Rs. 2000 crore fund to provide seed capital to start-ups related to IT and biotechnology.

4. CONCLUSION

As we see some of the Indian start-up founders turning angel investors to support and encourage new innovation in India, we will surely see the ripple effect of their efforts in the long run. Governments should be well prepared to create a culture of start-ups to impact their cities, countries and citizens.

How can we and our governments help support the start-up growth? I believe efforts should be made in helping start-ups with tax clarity, incubation, affordability and licensing. It could also be by providing start up capital, resources to broaden awareness, inspiration and more and more meeting space for the newest innovators & tomorrow's business leaders.

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