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"Why Indian Startups Fail?-Do's and Don'ts"

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***Abstract**: An increasing number of new generation startups have created something of an " euphoria" in major cities of India. Due to major shift in work culture, coupled by present government's effort to boost entrepreneurship by their major flagship program " Startup India", indian entrepreneurs have got the much needed momentum. But amidst this rosy picture what needs to be focused is that a major chunk of start ups fail and there is development of " fail fast" culture. The mad rush in VC funding, mounting losses, instable business models have become the reality of this industry. This article tries to identify the common reasons of failure of startups across different sectors. A case by case analysis of few successful models is given which can be emulated by rising entrepreneurs. Not only this, analysis of few failed start ups have been separately dealt with, providing a check list of mistakes not to be done.*
***Keywords**: Startups, entrepreneur, success, failure, business model*

I. Introduction

Emergence Of Start Ups In India

In recent years, the Indian startup industry has really taken off and come into its own—driven by factors such as massive funding, consolidation activities, evolving technology and an burgeoning domestic market. The numbers are telling—from 3,100 startups a projection of more than 11,500 by 2020, this is certainly not a passing trend. It's a revolution. And it's going to change the way the markets are working today in India. Between 2010 and 2014, the infusion of VC and PE increased from $13 million to $1,818 million. Angel investment too has multiplied almost 8 times from $4.2 million to $32.2 million. Based on data published by YourStory, in 2014, Helion Venture Partners was top of the investors list going by the total number of deals made, followed by Sequoia Capital, Blume Ventures, Kalaari Capital, and Accel Partners. In 2014, 43 startups were acquired; so far this year the number has been 41, with startups themselves being the most acquisitive of the lot. Of the 41, merely two deals were struck by large corporates, with Godrej and Mahindra & Mahindra as the buyers. In January 2014, Facebook had acquired Bangalore-based Little eye labs–a startup that made a software tool for analyzing the performance of Android apps. The deal was said to be worth somewhere in the range of $10-15 million. In an acquisition deal rumored to be around INR 50 Crores, Yahoo bought Bookpad last year, a Bangalore based startup that has built an end to end document handling technology for the cloud. In early 2015, Twitter acquired zipdial–a mobile marketing and analytics firm based out of Bangalore. ZipDial is a "missed call marketing" platform with an impressive client list including Unilever, Disney, Gillette, Amazon, Facebook. Startups in India have given rise to more startups. Enablers, accelerators, and incubators are firms providing startups with growth advice and decision-making tools. NASSCOM has come up with an ambitious initiative called "10,000 Startups", aiming to scale up the startup ecosystem in India by 10x. The program is supported by Microsoft, Google, Intel, Verisign, and Kotak.

Inspite of the immense growth opportunities mentioned above, it is seen that nine out of 10 start ups fail[1]. Not only this almost all top startups are running into losses and are burning cash to kill competition. Top start ups like Flipkart, Snapdeal are incurring losses in the range of 150-300 crore rupees. The top reasons often cited for failure of start ups are:-

1. **Not Serving The Need Of The Market**
   Often founders are too mesmerized with the idea of their start up. But this idea may not serve the market need at all.42 percent of the failed startups quizzed by CB Insights gave that as a reason for failing[2]. Customers are seldom interested in the model they prepare. They built solutions first and find the matching problem later.
2. **Running Out Of Funds**
   The most common problem faced by startups is shortage of funds. They somehow manage to get first round of funding but later when the venture requires more investment, they run out of cash. One such example is TalentPad which shut down less than a year after it raised funding from Helion Ventures.
3. **Wrong Team**

A start up has more chances of failure if the founders are alike. There should be enough diversity for variety of skills to be synergized. A post-mortem from Standout Jobs exemplifies this: "The founding team couldn't build an MVP (minimum viable product) on its own. We could have brought on additional co-founders, but we didn't." Not wanting to let go of equity or a fear of personality clashes can sometimes prevent a well-rounded team being formed.

4. **Underestimating The Competition**
19% startups were over confident of their idea and underscored the challenge posed by their competitors. The competitor may outbeat by even a simple flanking strategy if underestimated. Eg: wesabe vs mint
5. **Wrong Pricing**
Pricing is the most important attribute which if set wrongly can be detrimental to the start up. An experience shared by visual analytics startup Delight IO illustrates this point. It had a monthly subscription plan which gave its users a certain number of recordings. This resulted in many subscribers opting out as they felt let down. The reason was that many of the recordings were short. Delight IO fixed this with subscription plans based on the the cumulative duration of recordings, and subscriptions began to climb. So it's not just about the price, but meeting expectations.[3]
6. **An "Un-User Friendly" Product**
Sometimes the product offered by start ups are complex to use and may simply lose out customers at the first go. Bad things may happen if user's wants and needs are ignored whether consciously or accidentally. For example, a gaming startup came up with an interface that required a user to "leave a trail of playful web annotations." This was too complex for most users who lacked the patience to dig into the core of the game and see how it worked.
7. **Flawed Business Model**
A business model may work upto a certain size but may simply flounder when the time to scale up comes.
Failed founders agreed that a business model is important – staying wedded to a single channel or failing to find ways to make money at scale left investors hesitant and founders unable to capitalize on any traction gained. As Tutorspree wrote, "Although we achieved a lot with Tutorspree, we failed to create a scalable business. Tutorspree didn't scale because we were single channel dependent and that channel shifted on us radically and suddenly"
8. **Improper Marketing**
A well marketed product can sustain whole business as seen in the case of many successful ventures. Knowing the target audience and pulling their attention and convert them into leads and ultimately customers is one of the most important skills of a successful business. The inability to market was a function of founders who liked to code or build product but who didn't accept the idea of promoting the product and came up in 14% of the startup post-mortems. As Overto wrote, "Thin line between life and death of internet service is a number of users. For the initial period of time the numbers were growing systematically. Then we hit the ceiling of what we could achieve effortlessly. It was a time to do some marketing. Unfortunately no one of us was skilled in that area. Even worse, no one had enough time to fill the gap. That would be another stopper if we dealt with the problems mentioned above."
9. **Inadequate Customer Feedback**
Ignoring customers and not seeking their feedback can prove to be fatal flaws for most start ups.VoterTide wrote, "We didn't spend enough time talking with customers and were rolling out features that I thought were great, but we didn't gather enough input from clients. We didn't realize it until it was too late. It's easy to get tricked into thinking your thing is cool. You have to pay attention to your customers and adapt to their needs."
10. **Wrong Market Timing**
Nearly 13% of the start ups marketed their product either to early when the market conditions were not ripe or too late when the customer expectations had advanced. As a Calxeda employee said, "In [Calxeda's] case, we moved faster than our customers could move. We moved with tech that wasn't really ready for them – ie, with 32-bit when they wanted 64-bit. We moved when the operating-system environment was still being fleshed out - [Ubuntu Linux maker]

Analysis

Reasons for success of start ups would be a natural corollary of the reasons of failure cited above. A case by case analysis of few successful and non successful startups is given below:

I. Successful

A)Grofers

Grofers is a Gurgaon based start up in hyperlocal delivery space, founded by Saurabh Kumar and AlbinderDhindsa in 2013 delivers groceries and other products from local merchants to consumers. The startup has 10,000 merchants on board and delivers over 120,000 products in 27 major cities like Delhi, Gurgaon, Mumbai, Bangalore, Jaipur, and Hyderabad and is looking to expand.Grofers can be said to be doing some right moves.

1. **Identified a basic consumer need:** Grofers found a pain point of consumers wherein they have to go to nearby places to source quality products and aims to bridge the gap.
2. **Simplistic Revenue Model:**Grofers earns its revenue as way of commissions from the merchants and retailers they source product from. This way their Revenue model is very sorted and simple
3. **Quality Service:**Grofers provided an efficient system of fulfilling deliveries, thereby winning trust and loyalty of the consumers. It assures to fulfill the order with 90 minutes from being placed.
4. **Quick to scale up:**Grofers added 7 new stations fulfilling more then 3000 orders a week worth INR 8 lakh. It now delivers 120,000 products. The company now fulfills around 6000 orders every day, which is tripling every month with a turnover of Rs.1.8 Cr. approximately. Grofers came up with its mobile app within a year.
5. **Quick to adapt and innovate :**Fulfillment of orders was the biggest challenge given the humongous growth in volumes. Given the trend they cannot only depend on local merchants, so they starting sourcing on their own.Currently, Grofers has a vegetable plant in AzadpurMandi (Delhi) and the company sources vegetables and fruits from Safal and NABARD.
6. **Funding:** Grofers has raised US$120 million in a series C funding round led by Japan's Softbank which has increased their valuation to Rs 1900 crore ($300 million). Others who took part in the round were Tiger Global, Sequoia Capital, and Apoletto Managers. This was the third funding for Grofers this year The Company has raised a total of $45 Million from Sequoia Capital and Tiger Global Management. These rounds include $35 Million (2015), $10 Million (2015) and $500K (2014). (Source: Crunchbase)
7. **Acquisitions:**Grofers acquired 3 companies MyGreenBox in April, Spoonjoy, a food delivery app andTownRush a B2B logistics service provider.
8. **Capture international markets:** In 2015 Grofers shifted base to Singapore and formed grofer international. Their Indian operations are under GIPL a fully owned subsidiary of grofers international. This move will benefit them from reduced tax structure of Singapore, ease in getting international venture funds, prospects of capturing new market.

Grofers still face a lot of challenges ahead.Recently Grofers has ceased its operations from 9 Indian cities namely Bhopal, Bhubaneswar, Coimbatore, Kochi, Ludhiana, Mysore, Nasik, Rajkot and Visakhapatnam saying that tier 2,3 cities are not ready for it yet.Moreovergrofers faces competition from players like bigbasket, peppertap local banya, flipkart has also its Nearby app and amazon has kirana The total funding in this sector has gone over 400 mllionUS$ and now its testing time for different players, their business models and business matrix.

B) Oyo Rooms- On Your Own

RiteshAggarwal of Orissa founded ORAVEL STAYS in 2012, which was an aggregator of bed and breakfast stays across India. But recognizing the growing need of travellers to find good and affordable hotels to stay made him Tweak his business model and in 2013 oravel stays was relaunched as OYO rooms. Oyo Rooms is a Leading player in branded budget accommodation segement. It has around 15000 rooms in 80+ cities in India.

1. **Consistent Funding.**In 2015 Oyo rooms raised a massive $125.7 US million from japans's Softbank. [4]Prior to that, it raised $25 US million A series funding in March 2015 from Lightspeed venture partners, sequoia capitals and Greenoaks capital management. In 2014 Oyo raised RS. 4 crores from Light speed venture partners and DSG consumer partners.
2. **OYO WE**: Considering 40% of their customers to be women, Oyo launched OYO WE in 2015. OYO WE properties are equipped with all latest features like automated Locks, hair dryers, Beauty on call etc. with all women staff ensuring women safety. OYO is considering converting many existing properties and 15 new properties into OYO WE.
3. **Rapid Expansion- Oyo Café, and Oyo Care**: As per ET Oyo is all set to venture into food tech as Oyo café which will aggregate kitchens in its own listed hotels as well as housekeeping services as Oyo care.Apart from this, Oyo rooms also plans to venture in nearby Asian markets.
4. **Acquisitions**: OYO is considering to acquire its major competitors ZO rooms, which will further help them to establish their dominance in the market.
5. **Mobile-Focused approach**: Oyo has developed an integrated mobile app that enables user to book a room in just two taps.It has 500,000 app downloads across android and IOS platforms. While Speaking at Mobisparks, AnuragGaggar, Product Manager, Oyo rooms said. [5]"Operational integration through a gamut of apps also enables us to weed out issue-prone properties/rooms and keep tabs on inefficient and lethargic employees. The app gives us the power to own the entire value chain and track the movement of our operation managers."

C) Ola Cabs

BhavishAggarwal and AnkitBhati founded Ola in 2011. Ola is India's largest taxi aggregator with over one million bookings per day. It is the largest platform with about 275,000 cabs and 75000 auto rickshaws in 102 cities. Ola quoted a growth of 30 times in last year and currently it captures 80% of the market share in taxi domain. It is 3rd most valuable venture backed company in India and no.1 in taxi space.

1. **Funding.:**Ola raised a massive funding of $500 US million in Nov 2015, which makes its total funding of $900 US million in 2015. Its investors include Tiger Global, Matrix Partners, Softbank, Steadview Capital, Sequoia Capital, Falcon Edge Capital, DST Global, Didi-Kuaidi, Accel Partners, ABG Capital, GIC. (source: NDTV). Ola's total equity funding is about$1.18 US billion in & rounds from 19 investors. (Source: Crunch base)
2. **Acquisitions:**Ola had two major acquisitions since 2011. It acquired Geotagg, a trip planning app in Nov 2015 and Taxiforsure on 2nd march 2015 for $200 US million.
3. **Diversification:**Ola has diversified into different ventures, which has fuelled its growth. Ola started Ola café (a food delivery service), Ola store (a grocery ordering application), ola shuttle (shuttle bus service), and ola wallet (a mobile payment app).
4. **Early traction:**Ola understood the local market really well and had first mover advantage in the segement. Its ubiquitous Branding and innovative marketing campaigns like 'ChaloNiklo' in Jan 2015 helped it to strengthen its position.
5. **Ahead of competitor:**Ola introduced 'ola luxury' in different cities like Bangalore, Mumbai etc. where people can book higher segement cars like Mercedes, BMW, Toyota Camry etc. Ola also introduces 'Ola Mini' in different cities like Ahmedabad, Hyderabad, Jaipur, Chandigarh etc. where in the basic starting fare is as low as 10-13/km which makes it as cheap and affordable as an auto rickshaw. Ola beats its biggest competitor Uber that has only 20% share in 18 cities.
6. **Ola mobile:**Ola has launched very user-friendly mobile site and application using latest technology as products like cabs require "on the go" service.

II. Non Successful

However, unfortunately some of the most promising start-ups could not sustain their business and had to shut down.Two such Players were Done by None and TalentPad among others:

A)Done By None

Done by None was founded by AmarinderDhaliwal, Vijesh Sharma and Vijay Mishra. It seemed to be one of the most promising women online private labeled brand. It was seed funded with $2 US million. It was first launched as Handpick.com in February 2011but was later rebranded as Done by None in 2012. Despite of immensely experienced team, Done by None went offline in Jan 2015.

Following were the reasons for its demise.

1. **Difficult Funding:** Done by None cofounders were facing enormous challenges in securing consistent funding. As a result, the cofounders had quit the company and have either joined other companies or are launching their own ventures.
2. **Inability to Scale up:**Done by None was facing tough competition from large giant like Flipkart, Amazon, Snapdeal. Being Small it was not able to provide deep discounts and increase its market share.
3. **Inefficient business model:**Done by None were facing difficulties in fulfilling orders. In October, they announced a 70% off but were unable to handle the demand and were incompetent to make deliveries in time. On 11th December they posted an apology on their Facebook Page promising the consumers to fix themselves and resurface again.
4. **No pivoting or Re-pivoting:**Mahesh Murthy, founding partner of Seedfund claimed that there was no pivoting "The investment was always on condition that we pick a new brand name with a clear attitude and statement, for a particular demographic. The company is the same and the focus – ladies' fashion brand – is also the same," said Murthy. [6]Although, the company claims to revamp its business model, and resurface with a new team but for now the future seems uncertain.

B) Talent pad

Talentpad was founded by Mayank Jain, Raghavjain and Viz in February 2014. Talentpad an online recruiting company intended to provide a proper matching solutions i.e. marrying the right candidate to the right opportunity using analytics, technology and data science. The company was started as talent auction in 2014 and was later relaunched as Talentpad. It received its initial funding from Helion Venture partners in Oct. 2014; it also acquired its Bengaluru based rival OptimizedBits. But within 18 months, the company ran into difficulties and it ceased its operationson 5th August 2015.

1. **Failed to find a scalable model**The current online recruitment market is growing at a rate of 20% per year and finding a scalable model for a large enough market was a challenge."We struggled to scale our business as the market size of the space we were playing in was relatively small," said co-founder Nikhil Vij [7]
2. **Giant competitors:** There were some major dominant players in Horizontal verticals like Naukri.com, Monster.com and social media platforms like LinkedIn. Talentpad could not find a scalable differential proposition to out beat them. For vertical market places like IIMjobs, hashgeek etc., there is an issue of market size and to succeed they will have to expand globally.
3. **Improper assessment of market:**They discovered on the way that total market was divided into 3 sub markets each being of a small size which were completely different from each other and would require 3 different businesses to serve their customized needs. Talentpad found it difficult to scale up to serve all of different markets.Moreover they were finding it difficult to find a scalable way for assessment of Non – technical skills of candidates.

II. Conclusion

A close analysis of reasons for success and failure of start ups particularly in India only points out to the fact that Indians have moved away from the deep rooted Asian culture where failure is not readily accepted. " Its OK to fail and try again" has become the new norm. The indian startup industry is beaming with new ideas and immense talent. Big homegrown models like Flipkart, Snapdeal, Inmobi set up by former executives from the likes of amazon, google, Microsoft have created role models encouraging graduates to the risks and moving away from the fear of not trying at all. The suggestion is to remain vigilant and evolve as per the market need and not to be too consumed by a short sighted idea. A comprehensive and long term planning is recommended.

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