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Understanding the ease of doing business vs. financial problem to create new employment opportunities through start-up in India

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Abstract

Today India is a second biggest country in the world by its populations and seventh by its area in the world. India where have 1.2 billion populations. This large population contain big market potential in the world, however it also indicates of heavy employment pressure in India society. At present time the self-employment consciousness emerging among the college students. Because this increasing number of graduates entrepreneurship they less likely to be depend on parents at school time they wait of new opportunities as Small Medium Enterprise (SMEs). That by they tend to take initiatives to look for new opportunities for themselves. The aim of this research paper is to highlight the problems of finance and new employment opportunities on the way of ease of doing business, in the prospects venture capital for start-ups in India. This paper also highlighted on the various aspects of financing problems and opportunities faced by India. The start-ups in India and valuable discussion on finance resources related with start-ups in India are being explored by using authentic literature. This research is purely based on secondary data drawn from a number of sources like, journals, magazines, books and periodicals.

Keywords: Start-ups; Financing; SMEs; Venture Capital; Graduates Entrepreneurship

1. Introduction

Start-up India promotion is founded on an action plan aimed at promoting bank financing for start-up ventures to improvement entrepreneurship and inspire start-ups with jobs formation. The campaign was first announced by Prime Minister Narendra Modi in his 15 August, 2015 address from the Red –Forte. It is focused on to restrict role of States in policy domain and to get rid of "license raj" and interruptions similar in land permissions, foreign investment proposal, and ecological clearances. It was controlled by Department of Industrial Policy and Promotion (DIPP). A start-up is an entity which is the headquartered in India that was opened less than five years ago and has an annual turnover less than □25 crore (US$3.7 million) The government has already launched I MADE, an app development platform aimed at producing 1,000,000 application and PMMY, the MUDRA Bank, as a new institution set up for development and refinancing activities relating to micro units. This refinance of Fund of □200 billion (US$3.0 billion) The Stand-up India initiative is also aimed at promoting entrepreneurship among SCs/STs, women communities. Rural India's version of Start-up India was named the Deen Dayal Upadhyay Swaniyojan Yojana

2. Objective of the study

This paper is intent to explore the main difficulties facing start-ups in India, and discussing the principal financing resources of start-ups in India. More specifically, this paper tries to analyse problems of financing and ease of doing business as start-ups in India. This paper also tried to highlight the employment opportunities through start-up India.

a) Investment

Soft Bank, which is headquartered in Japan, has invested US$2 billion into Indian start-ups. The Japanese firm had pledged the total investments at US$10 billion. Declared to launch a start-up, based on the highest votes for which is the top three start-ups allowed to be join the next Google Launchpad in week and the final winner might win an sum of US$100,000 in Google fog credits. On 12 February Oracle 2016 announced to set up nine incubation centres in India is the youngest start-up nation in the world (Source) With over $5 billion worth investment in 2015 and three to four start-ups evolving each day, India has paved its way to secure the third position in the world in terms of the number of start-ups, 4200 and counting, a growth of 40%, by the end of 2015.The latest report by industry body NASSCOM and Zinnov, analyses the current scenario and emerging trends across the various dimensions that define the Indian start-up ecosystem, and gauge India's position as a global start-up hub that is becoming attractive for investors, start-ups, corporates. As per the figures given in the report, the number of active investors in the ecosystem has been grown-up from 220 in 2014 to 490 in 2015, showing a 2.3X growth. Further, 8 out of every 10 top VC/PE Firms in India are overseas, and worldwide investment in the Indian ecosystem is leading to an increased FDI. The report also states that total funding in 2015 has grown by 125% over 2014. The report reveals that the boom in the start-up ecosystem has created employment for nearby 80,000 to 85,000 people in total. More than 65% of the start-ups are located in NCR, Mumbai and Bangalore. The stats up on the demography of the ecosystem say that 72% of the founders are less than 35 years old. To making the India home to the youngest entrepreneurs in the world, with gender breakup of 91% male and 9% female. The 1200 new start-ups in majority are B2C, primarily present in 3 segments namely ecommerce, consumer services and aggregators tracked by agitated local, health-tech, edu-tech and analytics.

b) Educational Institution Alliances

Background of Graduates Entrepreneurship in India

Large population infers a large potential market in India; however, it also indicates to heavy employment pressure in the society India. According to figures, there are around 700 universities and further 35,000 affiliated academies enrolling more than 20 million learners, in India higher education is a big and complex system. The structure of degree-granting institutes is unmanageable mainly due to "affiliation" and funding sources. The students are enrolled more than 85% in bachelor's degree programs with the majority of enrolling in three-year B.A., B.Com and B.Sc. degrees. One-sixth of all Indian pupils are registered in Engineering/Technology degrees. These results in an expected 26.5 million students registered in Indian higher education in 2014-15 and 9 million graduates. Enrolment of Indian Students by Level of Education

Student Enrollments and Graduates in Indian Higher Education

Level	Student Enrollment (2012-13)	Students Graduates/year (2012-2013)	Avg. Duration of program	*Student Enrollment (2014-15 Est.)*	*Students Earning Degree/year (2014-2015 Est.)*
Graduate (Bachelor's)	17,456	5,576		23,086	7,375
Graduate (Bachelor's three-year B.A., B.Com., B.Sc.) - Est.	14,547	4,849	3 years	19,238	6,413
Graduate (Bachelor's Engineering -B.E.) - Est.	2,909	727	4 years	3,848	962
Post-Graduate (Master's)	2,492	1,246	2 years	3,296	1,648
Research (Doctoral)	161	40	4 years	213	53
	20,109	6,862		26,594	9,076

Source: UGC Report 2013-14

Fig 1

A group of start-ups under this scheme will acknowledge an MOU with the prestigious institutions it will also establish the start-up centres campus. NIT-Silchar (The Nat In is the youngest start-up nation in the world (Basis) With over $5 billion value investment in 2015 and three to four start-ups emerging every day, India has covered its way to secure on the third position in the world. The statistics given in the report, the figure of active stockholders in the ecosystem has grown by 220 in 2014 to 490 in 2015, depicting a growth of 2.3X. Additional, 8 out of every 10 top VC/PE Groups in India are foreign, and global venture in the Indian ecosystem is leading to an increased FDI.

3. Literature of Review

Main Problems Faced by Start-ups in India

Financial problems: of start-ups in India

a) New Delhi: January 19.

Across the country First generation entrepreneurs are applauding the government's efforts to recognise their business ventures in the banner of Start-Up India, but for greatest challenges of money, patents and creation of intellectual property continue. "The Prime Minister of India sat with entrepreneurs on a national stage is a very positive signalling," said Abhishek Sinha, Co-Founder and CEO, Eco-India Financial Services, who was also a panellist in one of the conference. However, bank funding such as the minor problems in the lack of any collateral chance out to be big barricades for many entrepreneurs. "Whereas giving available credits banks are careful. When we on-going, we had to depend on loans and credit cards. The story is same even today," he told *Business Line*. Minister of State for Finance Jayant Sinha taken also noted that 90 % of funding, at present, comes from foreign ventures capitals and local financiers could change in the nature of innovation as well. A current study by Grant Thornton exposed that in 2015 more than 600 such companies acquired funding, with over $2 billion organized by PE and VC funds. In fact, that the □10,000-crore fund of funds that would start with an preliminary □2,500 crore yearly would be an incline in the ocean given the huge potential of the sector and the enormous number of companies.

b) Patents

Similarly, the process of patents registrations are very long that's by of encouragements for research and development is another bone of argument, which according to many is a reason that why many start-ups prefer to be domiciled overseas. "I have been registered our patents in the US and

Singapore but they have not been capable to do so in India till now," said another start-up proprietor. "The intent of the government is decent and a lot has been done but the not everything that was required has been given," said Umesh Sachdev, Co-Founder and CEO, Uniphore Software Systems, emphasizing that further could be done for R&D that would have also assisted in patenting. According to government figures, as many as 2, 46,495 pendency in patent requests and 5, 32,682 trademark applications were pending as on November 1, 2015.

c) Taxation

Today Industry has called for clear definition for digital products and services after a taxation point of view. "This is crucial. We cannot obligate a long list of intangibles in our balance sheet. There has to be an acknowledgement that IT products being produced, it is" said by Mr. Abhishek Sinha. As a start, the Centre t has prolonged capital gain tax exemption for investment in afresh formed manufacturing MSMEs by individuals to all start-ups and has promised that investment in 'computer or computer software' would also be measured as purchase of 'new assets' to promote technology.

4. Another five important reasons; problems of startups in India

Reason 1: Market Problems

A major cause why companies flop is that because they route into the problem being of their little or no market for the product that they have constructed. Here are some common signs: There is not a convincing enough value proposition, or compelling event, to cause the buyer to actually commit to buying. Good deals reps will tell you that get to an order in today's tough situations, you have to find purchasers that have their "mop on fire", or are "in dangerous pain". You also hear people talking about whether a commodity is a Vitamin which (nice to have), or an Aspirin (must have). The market size of the people have pain, and have funds is simply it is not large enough

Reason 2: The Business Model Failure

As outlined in the introduction to the Business Models section, after spending time by hundreds of start-ups, it is i realized that one of the most common causes of failure of start-up in world is that entrepreneurs are too optimistic about how to easy it will be to acquire customers. They assume that because they will shape an exciting web site, product, or service, that customers will beat a path to their door. It may happen with the first few customers, but after that, it quickly becomes an expensive task to attract and to win customers, and in many cases the cost of obtaining the customer (CAC) is actually higher than the lifetime value of the customer (LTV). The observation that you have to be able to acquire your customers for less money than they will produce in value of the lifetime of relationship of your business with them is impressively obvious. Yet notwithstanding that, I see the enormous majority of entrepreneurs failing to pay adequate attention to figuring out a realistic cost of the customer gaining. The very large number of business plans that I realise as a venture capitalist have no assumed given to the critical number, and as I have work through along with the topic of the entrepreneur, they often begin to recognise that their business model may not be work because the CAC will be larger than LTV.

The Essence of a Business Model

As a Business Models, outline introduction a simple way to focus on what matters in your business model is look at these two questions:

Can you find the scalable technique to acquire customers?

Can you then customise those customers at a significantly higher level than your cost of purchase?

Rational about belongings in such simple terms can be very helpful. I have been also developed two "rules" close the business model, which is less hard and fast 'this rules, but have more plans. These are outlined below:

The CAC / LTV "Rule"

This rule is very simple:

CAC must be less than LTC CAC = Cost of Acquiring Customer

LTV = Lifetime Value of a Customer

To calculate CAC, you have to take the entire cost of your sales and marketing functions, (including salaries, this marketing programs, lead to generation, travel, etc.) and it divide by the number of customers that you closed during that period of time. Therefore the example, if total sales and marketing of your spend in Q1 was $1m, and you closed 1000 customers, then the your average cost to obtain a customer (CAC) is $1,000. To compute LTV, if you will want to look to the here at gross margin associated with the customer (net of all fixing, support, and operational expenses) over their lifetime. This is pretty simple for one time fees for business for businesses that have recurring subscription revenue, this is calculated by taking the monthly periodic revenue, and it is dividing that by the monthly churn rate. Because most businesses have a chain of other functions such as G&A, and Product Development that are additional expenses afar sales and marketing, and delivering of the product, for a profitable business, you will want CAC to be less than LTV by some significant multiple.

The Capital Efficiency "Rule"

If you would like to have a capital efficient business, than I believe it is also significant to recover the cost of making your customers in less than 12 months. Wireless carriers and banks break this rule, but they have the luxury to access to inexpensive capital. So stated simply, the "rule" is:

Recover CAC in less than 12 months

Reason 3: The Poor Management Team

An incredibly common problem that causes start-ups to fail is by the weak management team. A good management team here will be smart enough to avoid these given Reasons 2, and 4, 5. Weak management teams make mistakes in the multiple areas: They are often weak on strategy; building a product that no-one wants to buy as they failed to do enough work to validate the ideas before and during expansion. This can be carrying through to poorly think through go-to-market strategies.

Reason 4: The Running out of Cash

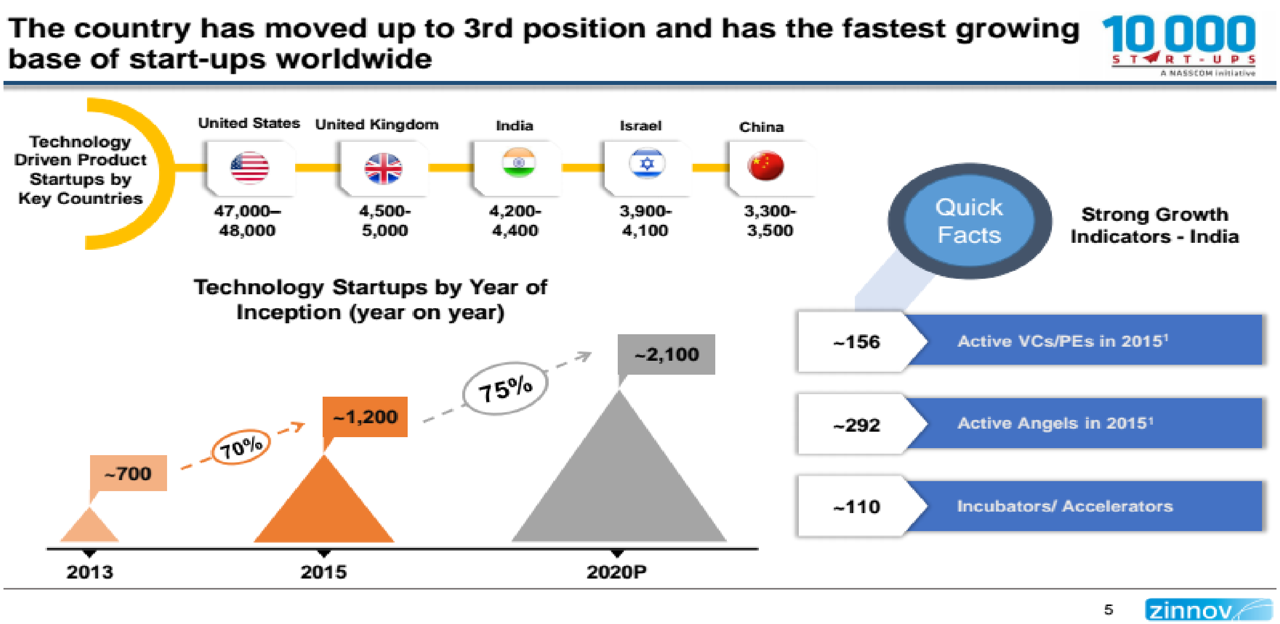
A fourth major reason that start-ups fail is because they ran out of cash. To understand how much cash is left and whether that will carry the company to a milestone that can lead to a successful financing, or to cash flow positive this will be the key job of a CEO of an organization.

Reason 5: The Product Problems
Another reason behind the failures of companies fail is because they fail to grow a product that meets the market need. This can either be due to simple implementation or it can be a far more tactical problem, which is a failure to achieve Product/Market meet. In the most of the time core product that start-ups bring to market they won't meet the market need. In the best cases, it will take a few revisions to get the market/product fit right. In the worst cases, the product will be technique off base, and a complete re-think to require. If it is happens this is a strong indication of a team that didn't do the works to get out and validate their ideas with customers before, and during, expansion.

a) What goes wrong?
What normally drives wrong, and tips to a company running out of cash and which is also unable to raise more, is that here management is failed to achieve the next milestone before the cash ran out. Many times it is still possible to raise cash, but the valuation will be significantly lower.

b) When to hit Accelerator Pedal?
One of a CEO's most significant jobs to knows how to regulate the accelerator pedal. In the initial stages of a business, whereas the product is being industrialized, and the business model developed, the pedal needs to be set very informally to conserve cash. There is no point hiring lots of sales and marketing persons if the firm is still in the process of final the product to the point where it really meets the market need. Really this is the common mistake, and it will just result in a fast burn, and lots of frustration though, on the flip side of this coin, there comes a time when it finally becomes apparent that the business model has been proven itself, and that is the time when the accelerator pedal should be pushed down hard.

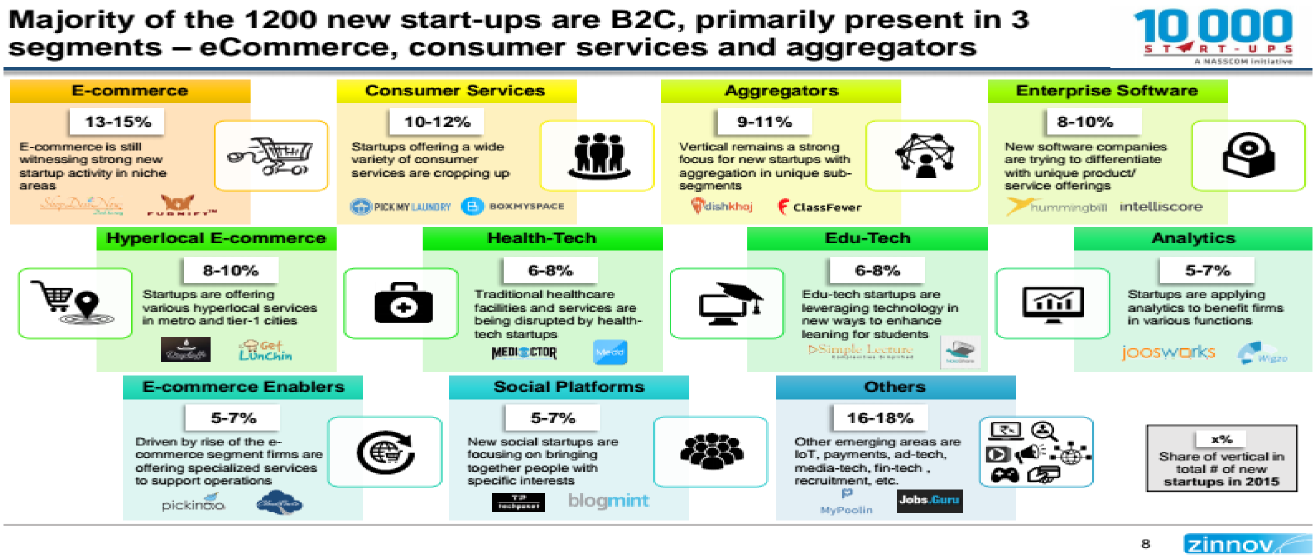
Employment scope in starts up in India
India is the youngest start-ups nation in the world. NASSCOM Start-ups Ecosystem Report 2015: India the Next Tech Hub. India with over $5 billion investment worth in 2015 and three to four start-ups emerging every day, India has covered its way to secure the third position of the world in terms of the number of start-ups, 4200 and counting, 40% growth, by the end of 2015. The latest report by industry body NASSCOM and Zinnov, analyses the current scenario and emerging trends through the various dimensions which define the Indian start-ups ecosystem, and gauge India's position as a global start up hub that is changed attractive for the investors, start-ups, & corporates. As per the statistics given in the report, the number of dynamic investors in the ecosystem has grown-up from 220 in 2014 to 490 in 2015, showing a 2.3X growth. Further, it is 8 out of every 10 top VC/PE Firms in India are foreign and foreign investment in the Indian environment is leading to an increased FDI. A report also states that the total funding in 2015 has 125% grown-up by over 2014.Similarly, the number of accelerators raised by 40% from 80 in 2014 to 110 in 2015. "Now we are the fastest growing ecosystem today in the world – so the first big wow number. As compared to last year, we have progressed up from the fourth largest ecosystem in the world to the third largest. If all drives well, next year by this time we should be the second largest," said NASSCOM President, R Chandrasekhar. India serves as fastest rising start up-base worldwide and stands third in technology driven product start-ups just after US and UK respectively.



Sources: NASSCOM Start-ups Ecosystem Report 2015.

Fig 2

The report divulges that the boom in the star up ecosystem has been generated employment for around 80,000 to 85,000 people now in total. More than 65% of the start-ups are situated in NCR, Mumbai and Bangalore. The demography sates of the ecosystem says that 72% of the initiators are less than 35 years old whose making India home to the growing youngest entrepreneurship in the world, with gender division of 91% male and 9% female. Majority of the 1200 new start-ups are B2C, typically present in 3 segments namely e-commerce, consumer services and aggregators followed by agitated indigenous, health-tech, edu-tech and analytics.



Sources; NASSCOM Start-ups Ecosystem Report 2015

Fig 3

The boom in the Indian start-ups ecosystem has made a noticeable impact on the certain critical areas such as education, healthcare, employment, agriculture etc. On the level of macroscopic so the ecosystem has been contributed majorly to the Indian economy by improving citizen's life, by generating scope for opportunities for stakeholders through building innovative solution. The digital revolution coupled with start-ups development become instrumental in transforming India's image as the repository of next big idea. Gone are the days when Silicon Valley was considered, "the space" for start-ups to be in.

5. Findings and Discussion

Today's starts of a new business not remain only a simple task. This businesses environment absolutely changed on the various components. These components are globalization. Technology, political, economic, legal right and somewhere else lack of professional knowledge also be major aspects to run smoothly whatever business. In spite the funding pattern cost of operation also is a major concern for start-ups and small businesses. We should take new start up more than just a dream for them to grow into successful business—including the tenacity to overcome the many problems facing start-ups today. Therefore many problems hinder on the way of "Ease of doing business" also in start-up in India today. Employment scope point of view -India is the youngest start-ups nation in the world. Because India has vast young human resource with around 54 % and biggest market place in the world by population after China. In India there is no lack of graduate entrepreneurship if they provide proper technical and professional skills by implemented skill India scheme.

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