International Journal of Management, IT & Engineering
Vol. 7 Issue 3, March 2017,
ISSN: 2249-0558 Impact Factor: 7.119
Journal Homepage: http://www.ijmra.us, Email: editorijmie@gmail.com
Double-Blind Peer Reviewed Refereed Open Access International Journal - Included in the International Serial Directories Indexed & Listed at: Ulrich's Periodicals Directory ©, U.S.A., Open J-Gage as well as in Cabell's Directories of Publishing Opportunities, U.S.A

START-UPS: SOME REASONS FOR SHUT DOWN

Adjunct Professor Harishchandra Parshuram *

ABSTRACT

The paper contains an empirical analysis of the strategy process that are followed by start-ups and improvements that may be necessary. Evidence gathered from secondary data sources indicates that start-ups who proactively use the principles of formal strategic planning, will possibly tend to perform better than those who prefer to follow a more 'visionary' or reactive approach to run the chosen business. The reason for hiccups in the case of business start-ups is because they **(i)** lack prior history about the start-up business**(ii)**face the possibility high failure risk of their business, and **(iii)**have highly concentrated ownership which can prove detrimental for the business. Start-ups also face initial hiccups in financial decisions because there are problems of receiving information and feedback and further, start-ups have an advantage (or, actually, a disadvantage) of entrepreneurial private benefits of control.

This paper also simultaneously looks into the impact of these issues on leverage, debt mix and maturity.It has been observed that start-ups are tied up with high adverse selection and risk shifting problems. Hence, generally speaking, they contract less bank debt but compensate with other debt sources.

This paper has attempted to examine the process and problems encountered by new business start-ups. An analytical overview, based on the available past as well as current literature in the field, explains and understands the process and problems of new ventures.It is well-known that

* **B.Tech. (Hons) in Mech. Engg (IIT, Bombay) ; MBA (Opers) ; P.G.D.Ed.M.(NMIMS) ; D.Ed. (Cal), Anil Surendra Modi School of Commerce,Narsee Monjee Institute of Management Studies**

the establishment of a new organization is not instantaneous, though the process is a largely complex one. The nature of this process - which is generally characterized by spontaneity and uncertainty - makes it more challenging and grueling to pin down an exact conclusion. As Gartner (1985) points out, entrepreneurial and start-up firms are too diverse to permit any sort of generalization, and therefore today, the process of starting up of a new business has become a multidimensional phenomenon.

The different approaches which are suggested in literature, explaining the process of creation of a new venture, have attracted much academic controversy, given the lack of consistent empirical research on the process of new business creation. In this light, the paper suggests that a more

holistic understanding of the process may be gained through the integrated theoretical frameworks of new venture creation which are presented in the literature and which aim to capture the most important variables and characteristics which are typical to the new venture creation process.

The second part of the paper deals with the problems facing entrepreneurs in new venture creation. Many start-ups never reach establishment, and the majority close up within one year after they have become established. Embarking on a new business is one of adventure and challenge but it brings with it high risk and uncertainty. This paper does not seek to detail each and every industry-specific problem that start-ups experience, but aims to identify and examine the most common difficulties encountered by start-ups in the early stages of establishment, irrespective of sector or industry

Key Words :E-commerce, robotics, life cycle, Angel Funding, Venture Capital, Total Quality Management

INTRODUCTION

Fundamentally, the hindrances and obstacles faced by entrepreneurs are not, generally speaking, caused by a lack of capital but it is basically due the absence or deficiency of foresight on how to judiciously use the capital that is available to them. Market analysis have indicated that around 40% of startups which were set up in the last two years have already shut shop.

Since June 2014, some 2,281 Indian startups had begun operations across a range of sectors, including lucrative ones such as e-commerce, health technology, robotics, logistics, business intelligence and analytics, food technology, home delivery services, and online recruitment. But,

according to available data which was analyzed by Delhi-based research firm Xeler8, out of these start-ups, around 1,000 of these have already failed.

However, the emergence of start-ups has been driven by factors such asavailability of funding, evolving technology, increase in the demand for various types of products and services in the domestic market, and so on. It has been projected that by 2020, there would be nearly 11,500 start-up firms.

Prime Minister, Shri Narendra Modi, has unveiled an ambitious program called Startup India Standup India. He believes that Indians must become job creators rather than job seekers. To create awareness among new start-ups and to build an entrepreneurial environment in the country, emphasis must now be on the building of suitable infrastructure for aiding the surge in the number of startups. Our Commerce Ministry is planning a lot of initiatives for the budding startups to help them to firmly establish their business ventures.

A startup, therefore, is a young company which could be an entrepreneurial venture or a new business that is beginning to develop and grow with the help of existing technology or with innovative ideas, so as to attempt to capitalize on developing a product or service for which the founders believe that there is lucrative demand. Further, a startup business is expected to be incorporated not more than three years and which has a turnover of INR 25 crores. The number of employees may be 50 or less.

STARTUP LIFECYCLE

In the ***pre-startup*** stage, the founders look towards discovering a product or a service which is being looked for by the potential customers and which has a large market, both locally and across the country. When the product or service is ultimately launched, the founders of the startup look for the customers who will pay for it and accordingly evolve suitable market strategy.

The next phase is the ***startup*** stage. Here the entrepreneurs look towards improving the efficiency of their product or serviceby incorporating and establishing a suitable business odel whereby the existing customer base can be increased further. For this, the founders may resort to aggressive market strategies by improving further the marketability of their product or service. The scale of growth would depend largely on the sustainability of the product or service in the market vis-à-vis the competitors.

The final phase is the ***growth*** stage.In this stage of the startup business, the entrepreneur tries to maintain the benefits which he has accrued. He may even contemplate in expanding his business globally. Or, the startup founders may think in terms of selling off their business to a large business house that may have the resources to expand the current business to global heights.

FINANCIAL CYCLE OF A STARTUP

In the early stages, startup founders would look around for ***Angel investors*** who may be highly experienced individualsand who are willing to invest in the startup in their personal capacities. The amount invested could possibly be around INR 5 crores. Angel investors may not be, initially, interested in exercising control over the business. Seed funding of startups pertains to the ***initial*** funding by, say, Angel funds, or, Venture Capitalists. It basically goes to analyze how the business progresses with regard to the funds disbursed.Angel Investors and Seed Funders invest with a view to encouraging an entrepreneur with an idea.However, they do not burden or hinder the entrepreneur with all the formalities of corporate governance knowing very well that such a step would stifle the entrepreneur.

As the startup business grows and the founders are getting set firmly into the business, they would now go about looking for Venture Capital which may be in terms of Institutional finance. The business model of the startup may now have become technically feasible and economically viable, which now demands the establishment of an effective market strategy with a large sales force.

Once the startup has firmly established itself in the field of business, the startup may now go in for Public Markets. This would help in obtaining large amount of liquiditywhich would be utilized to innovate upon the existing product and service as well as to expand the market base globally.

Ultimately, any startup should realize that ‘money-is-money’ and ‘support-is-support’. The founders have to examine critically how much they would require and who would be willing to finance them on lucrative terms. A business-like, professional approach is called for. This is because many corporates in India are now shifting their focus from investments into their own research to investments in innovations brought about by startups. Corporates find this attractive because there is less bureaucracy and fewer approvals required in the case of startups.

SOME OF THE CHALLENGES FACED BY START-UPS IN INDIA

In India, funding of start-ups by Angel Investors and Venture Capitalists is on the rise. But many start-ups are faced with severe competition as well as effective market strategies for their products and services. Due to this, many of the start-ups struggle to survive and eventually face the harsh reality of closure. Some of the key factors that are responsible for the closure of start-ups in India, are as follows:

Effective Team to establish and run the start-up

Start-ups in India, in general, apparently do not have a dedicated team whose members are required not only to excel in their work but also be sincerely dedicated to their work without any reminders. If the team is not a coherent one, the start-up would probably fail at the nascent stage itself. In fact, it has been estimated that around 25% of the start-ups have shut down because of ineffective team. The team may excel in their skills but lack of communication among the team members, transparency in dealings among the team members may lead to early winding up of the new business venture.

Impractical ideas regarding the establishment of start-up business

Young entrepreneurs today have a plethora of ideas for business. But not every idea that comes up in the mind need necessarily be a profit-worthy idea. An idea such as printing puzzles, Sudoku on toilet paper rolls may hardly be worth experimenting. Another start-up venture pertaining to supplying and recommending priests, cremation/burial materials within a given geographical area may not be marketable because death-rate statistics won't provide any fillip for a profit-aspiring start-up. Likewise, I know of a person who wanted to sell toilet rolls with Sudoku puzzles printed on them because, he assumed, toilet users would love to solve puzzles while…………?

The question, therefore, before an entrepreneur lies in **critically questioning himself** about the proposed business. Filling up questionnaire forms are not always trustworthyin terms of knowing the fruitfulness of the new venture. Many times the targeted respondents are not sincere enough in responding to the questions put forward. The responses are casual and lack-luster.

Market need for the product/service

The entrepreneurs have themselves to the market to find out at the grass-root level how the sales of similar products/services are faring. The start-up has to compulsorily do a serious search about the market-need for its innovative product/service. The start-up has to gauge the future demand in terms of time and revenue vis-à-vis any similar existing product/service available in the market. It is not easy to create a market. For example, McDonald's took nearly six years to establish its first outlet in India, i.e., in Bandra (West), Mumbai. A thorough Market Research, preferably concerning collection of primary data, is very essential. All this work helps to minimize the chances of the start-up shutting shop within a short period of time

Several hundred crores of rupees have been invested in nearly seventy start-up firms in India. This amount, according to industry sources, is not sufficient for rapid economic growth. Venture capitalists are apprehensive about heavy investments because they are not very confident about the start-up plans in the country. Again, approaching banks for funding is generally cumbersome and tedious for start-ups, couple with the high rates of interests. This source of funding may not be a viable option for many start-ups. Personal funding by the entrepreneurs also poses a major issue because the startup may not produce immediate sources of revenue, at least in the initial stages of the start-up company.

Revenue Generation and Capital Burn

Totally out-of-the-box ideas that may not have any competition are generally very rare among start-ups in this country. Most of the start-ups concentrate more on raising funds, not realizing the money value depletes with time. This delay in the start of the company delays the generating of revenue. Thus the unplanned and short-sighted manner of running the business results in the start-up losing its track on the burn-rate of the capital and raising of revenue. All this results in the start-up possibly going bankrupt

Giving importance to re-invention

Customer satisfaction and customers' expectations are important for every start-up. Start-ups must understand that their products/service must match with what the customer wants. The biggest hindrance is that start-ups adhere to and give relevance to what they want to do rather than doing what the customer wants.The fast-advancing technology coupled with fierce competition and diminishing product life cycles makes it very imperative that these and other unforeseen challenges are effectively confronted with revolutionary new innovations to match diverse customer requirements. If these are not fulfilled, the drop-out rate of start-ups would be on the rise.

LITERATURE REVIEW : Gavin Cassar (2004) in his paper titled *The Financing of Business Start-ups* has analyzed the influence of start-up size, asset structure, the organization type, growth orientation and the owners' characteristics in the choice and in the magnitude of finance use.

Julia A. Smith (1998)in the paper titled *Strategies for Start-ups*has made an empirical analysis of the strategy processes followed by new small firms to achieve speedy growth and success

Norm Brodsky (1995) in his paper *Why start-ups fail* has opined that the problems faced by entrepreneurs are not generally caused by a lack of capital but by the lack of foresight on how to use the capital available to them

Peter Witt (2004) in the paper titled *Entrepreneurs' Networks and the Success of Start-ups* assumes a positive relationship between the networking activities of founders and their start-ups' success

TOTAL QUALITY MANAGEMENT FOR START-UP COMPANIES

Total Quality Management is a management approach and is a description of the culture, the attitude as well as the organization of a company that endeavors to provide customers with those products and services that gratify their needs. The culture requires quality in every aspect of the company's operations, with processes being done right the first time and defects and waste being eradicated from operations.

Total Quality Management, therefore, is a method by which management as well as the employees can become involved in the continuous improvement of the production of goods and services. It is a combination of quality and management tools that are aimed at increasing business and reducing losses due to wasteful practices.

Characteristics of Quality Leaders in Start-ups

First: Entrepreneurs must place themselves in the shoes of the customers and service their needs from that perspective. This would help to continually evaluate objectively the ever-changing requirements of the customers.

Second: Start-ups must demonstrate their commitment to quality. Rather than mere words, entrepreneurs must communicate their level of commitment by actions rather than by mere words. Their 'quality statements' should become their decision-making guide.

Third: Start-ups must analyze and lean from the mistakes committed by competitors in similar product lines. It's rightly said: Prevention is better than Cure. Start-ups must understand the cause of the problems as well as search for methods to prevent it from occurring.

Fourth: Effective, clear communication is the glue that holds together an organization that has committed itself to Total Quality Management. Start-up leaders must disseminate information to everybody down the supply chain about their commitment to quality

standards. Communication helps in demonstrating that the organization is firm aboutdelivering quality to its products and services.

Fifth: Suppliers should be chosen on the basis of quality, not price. This is because the 'bitterness of poor quality remains for a long time after the sweetness of low price is forgotten'. Quality leaders are well aware that the supply of quality materials greatly affects the life-cycle cost.

Sixth: Complaints received from customers are extremely important in gathering vital information about customers' perceptions. A dissatisfied customer is actually a lost customer. A start-up must use customer dissatisfaction as a primary measure to assess its process improvement efforts

HOW TO GO-ABOUT A START-UP BUSINESS

Every start-up begins with an idea either by a single individual or a group. It generally happens with an innate feeling of filling up a market gap. The entrepreneur need not look out for some totally out-of-the-box idea or some splendidly creative proposition. He must look around and understand the disgruntled feelings of people around him or in the market place. The grimaces of customers buying a product or accepting a service should be critically analyzed and studied. For example, the weight of empty suitcase materially affects the amount of items carried by a person on flight. Is it, therefore, possible to manufacturesuitcases with less weight, but yet sturdy? To do this, the entrepreneur himself has to do a detailed study of various materials to make the suitcases. The quality aspects has to be thoroughly checked. In other words, the ***necessity aspect*** of any product or service is required to be exploited for viability of a start-up idea.

Once the necessity aspect has been identified, the market segment which would be tapped has to be recognized and distinguished. Primary data collection by the entrepreneur is of great importance. The entrepreneur, as for as possible, should avoid relying heavily on

… page 11 …

and possibly only secondary data.

Letting Imagination to search for practical ideas

The entrepreneur should allow his imagination to think of down-to-earth practicable ideas. The ideas should preferably address the concerns and problems faced either by individuals or society as a whole. Once a practicable concept is hit upon, it should be focused upon, even if it may be not be believed in by others. Ideas may pertain to reducing the stress and tensions faced by consumers in any walk of life. It may be regarding door-step delivery of essentials, maybe food items/medicines, service personnel like painters, carpenters, plumbers, etc. Ideas are plenty, but prefer to choose that particular idea which would fetch revenue on a continuous basis for the next few years.

Being Focused on the Acceptable Idea

Once an idea has been hit upon as being practicable, the focus should be concentrated on fruitfully developing that idea.Also, discussing the idea with a lot of people may prove unproductive since the views of people may induce negative thoughts about the proposed business idea. The entrepreneur must look for avenues and opportunities where his idea can be put to profitable use. I know of a student who analyzed the pulse of his classmates with regard to their requirements like practice sheets, model answers, project reports, etc. He began seriously working on collecting loads of information on this. He was surprised about the huge response to this venture and is brimming with confidence about the assured success of this business.

Getting into the Act so that Funds will flow

Any funding agency is always skeptical and apprehensive in funding start-ups. Their cautious approach acts as deterrent to the budding entrepreneur. If possible, therefore,

an entrepreneur must fall back upon funds from his family and start the proposed business in a small way. This will help him to 'test waters' and also give him confidence about expanding his business. He will have primary data available with him to argue his case with funding agencies.

Learning through mistakes and failures

It has to be clearly understood that no start-up is going to be a cake-walk. At the same time, mistakes can be minimized and chances of failures reduced if a cautious approach is resorted to. At the same time, risks have to be taken in business but instead of blind, reckless decisions a judicious approach with a calculated risk should be preferred. For example, mistakes can occur in terms of judging the market. Consumers may not prefer the product/service offered due to a variety of reasons. Their moods should be gauged by their body language. Their aspirations and requirements should be understood more by analyzing their inherent thoughts. Planting of, say, dummy customers who may prod the potential customers to air their grievances would help in understanding the market requirements on a first-hand basis. Such and allied methods would help the entrepreneur to modify the offered product/service, or, maybe look for other marketing avenues and more innovative sales strategies.

Keeping the business venture ALIVE

In business scenario today, competition is fierce and cut-throat. An entrepreneur, especially a new start-up, should not expect customers to approach him for the new product/service offered. In fact, it should be other way round. The entrepreneur has to contemplate on ways to create demand as well as awareness about the product/service offered. Different out-of-the box strategies should be thought of in order to effectively and profitably sell the product/service. How to evince customers' interest in the product/service should be focused primarily on thoughtfully answering the question: '***Why*** should a customer be interested at all in the product/service offered?'

Initially, such a question would sounda little defeatist and possibly frightening to the entrepreneur. But being frank and down-to-earth is very important rather than fire-fighting later for the mistakes andblunders committed. To-day's customers are a little lethargic to try any new product/service. To convince them about anything new, therefore, calls for totally innovative sales strategies. Offering freebies initially is risky as customers may look upon it as a 'bribe'. Offering discounts too may be construed as such.

One possible effective method could possibly be, as a marketing strategy, to form small groups of hired individuals who should be effectively trained to discuss about the high quality of the product/service offered on either the social media, or, in market places, or, in restaurants, etc. People over-hearing may be tempted to try the product/service offered.

CONCLUSION

The mission of any startup company is to provide quality goods and services. For this, the company must be clear about what type of customers would be targeted. Most often than not, Indian startups do not get fully involved with the startup in terms of finding out why should customers be interested in the products/services offered. They, many times, continue with the age-old practice that '*this is how it has been always done*' and stick to such dogmas.

Innovativeness and creativity seem to be lacking. Many of the early stage startups appear to have the common problem of not being able to successfully find out about product positioning, envisaging the right product and how to monetize their traffic. Basically, therefore, these issues have invariably become the reason of failures and shutdowns of several startups in India.

Early stage startups will find it difficult to survive if they try to fiercely compete with other similar startups. Instead of competing with each other it would be preferable if startups with similar products/services can rather be of help each other to grow. Working along with people is always beneficial rather being at loggerheads with each other. Such an attitude will contribute to the startup ecosystem and help India create multiple profitable businesses.

BIBLIOGRAPHY

Bourdeau, Annette: *THE 5 ESSENTIALS OF SUCCESSFUL STARTUPS*. **Journal**: Profit. **Year**: 2010. **Volume**: 20. **Pages**: 35-38. **ISBN**: 1183-1324

Bradberry, John:*6 SECRETS TO STARTUP SUCCESS*. **Journal**: Publishers Weekly. **Year:**2011. **Volume:** 258. **Pages:** 68. **ISBN:** 00000019

Brodsky, Norm:*WHY START-UPS FAIL*. **Journal**: Inc. **Year**: 2004 **Publisher**: Mansueto Ventures LLC. **Volume:**17. **Issue** 18. **Pages**: 27. **ISSN:**0162-8968. **ISBN:**9781430241409

Cassar, Gavin: *THE FINANCING OF BUSINESS START-UPS.***Journal**: Journal of Business Venturing: **Year**: 2004. **Volume**: 19. **Issue**: 2. **Pages**: 261-283. **ISSN**: 08839026. **ISBN**: 08839026

Crow, David: *VALUING USABILITY FOR STARTUPS*. **Journal**: Cost – Justifying Usability. **Publisher**: Elsevier Inc.: **Year**: 2005. **Pages**: 165-184. **ISBN:**9780120958115

Graham, Paul: *HOW TO START A STARTUP*. **Journal**: Hackers and Painters. **Year:** 2005. **Volume:**2005. **Issue:** March 2005. **Pages**: 1-18. **ISSN:**1749-4885

Harrison, Roger. *STARTUP: THE CARE AND FEEDING OF INFANT SYSTEMS*. **Journal:** Organizational Dynamics. **Year:**1981. **Volume:** 10. **Issue**: 1. **Pages:** 5-29 **ISSN:**0090-2616. **ISBN:**0090-2616

Shepherd, Conne:*STARTUP FINANCING*. **Journal**: Indiana Business Magazine. **Year**: 2004. **Volume**: 48. **Issue**: 5. **Pages**: 4. **ISSN:**1060-4154

Smith, Julia A.: *STRATEGIES FOR START-UPS*. **Journal**: Long Range Planning **Year**: 1998. **Volume:** 31. **Issue**: 6. **Pages**: 857-872. **ISSN**: 00246301. **ISBN**: 00246301

Witt, Peter: *ENTREPRENEURS' NETWORKS AND THE SUCCESS OF START-UPS*

Journal: Entrepreneurship and Regional Development **Year**: 2004. **Volume**: 16. **Issue:** 5 **Pages:**391-412. **ISSN:**0898-5626. **ISBN:**0898-5626\r1464-5114

https://www.indiafilings.com/learn/challenges-faced-startups-india/

http://www.businessinsider.com/20-innovative-startups-2011-11?IR=T

http://www.businessnewsdaily.com/1646-great-business-ideas-2012.html

https://www.quora.com/What-are-the-biggest-problems-faced-by-Startups-in-India

http://www.cse.iitd.ac.in/~srsarangi/startups.html

http://www.iamwire.com/2015/10/biggest-roadblocks-faced-startups-india/124312