STARTUPS FAILURE- A CASE STUDY OF SELECTED COMPANIES IN INDIA

Dr. Manisha Nagpal
Asssistant Professor, P.G. Department of Commerce & Management
Arya P.G. College, Panipat, Haryana

Pankaj Chaudhary
Asssistant Professor, P.G. Department of Commerce & Management
Arya P.G. College, Panipat, Haryana

Dr. Mohit Bindlish
Assistant Professor, Department of Commerce, S.D. College, Ambala Cantt, Haryana

ABSTRACT

In a startup system, the failure rate of startups is about 90%. This leads to higher costs of failure for the entrepreneurs. We use a case base methodology for studying the factors which causes the failure of startups. The paper proposed the three objectives. First, factors of failures of startups, second the list of 10 selected Indian companies and their reasons of failure and last, to make suggestions or recommendation in minimizing the failure rate. The research paper collected data from journals, websites and newspapers. It presented 10 case studies. A MICE methodology was used to identify the startups failures. Some of the factors identified such as lack of funds, improper planning and positioning of products, lack of marketing research, faulty customer segments, and intense competition. This paper also provides solutions and suggestions to minimize the risk of startup failure.

Keywords: Startup, Failure, MICE.

INTRODUCTION

The development of new technologies worldwide has given rise to exponentially and technically growing companies known as startup. Startup refers to launch a new business model. Its main objective is to open up a new market for its products or services or both. There are two crucial elements for establishing and success of a startup i.e. Planning and Research. Startups need a strategic business plan that should be based on scientific and thoughtful projections. It ensures the business model must be feasible, adequate supplies and customer base, competitive prices, continuous flow of funding and must provide an adequate return on investment. Entrepreneurs come with innovative ideas and transforms them into startup. A startup helps to prosper the economic growth of a nation by generating employment and additions to GDP. The entrepreneurial path is somehow tedious and very few firms prosper into larger corporations. Few entrepreneurs can go against the tide and achieve success. The survival rate of startups is very low. About 90% of startups fail in the first 5 years in the USA (Forbes Magazine, 2015) and the rate of startup in India is also the same (Business Line, 2017).

It requires nerves of steel, grim determination and precision planning. Despite having all qualities of strong determination and precision planning, 20% of new businesses fail within the first year and 50% failed within four years and 90% within five years. The impact of COVID has also made the startups vulnerable. The value of investments in India have fallen to $0.33 billion in March 2020 from $1.73 billion in March 2019, which indicates a fall of nearly 81.1% (Business Line, 2020). There has been a total fall of 50% in the number of companies funded - presently, 69 firms in March 2020, in contrast to 136 firms in March, 2019 (ibid).

The success of startup depends upon the excess of revenues over the costs, but a startup failed to generate the revenues or its costs are increasing and it leads to failure of startup. In a startup failure, micro and macro level factors can be responsible.

OBJECTIVES OF THE STUDY

1. To identify and analyse the factors why startups donot succeed
2. To elaborate the reasons of failed startups in India in the last 5

years.

3. To suggest solutions and recommendations for minimizing the risk of failure.

MATERIAL AND METHODS

The data were collected from academic and scholarly work and 10 cases of startups were chosen that includes Food Delivery, Grocery, Edutech and Fintech startups. The research identified start-ups failure by using MICE methodology. The study is based on secondary data which was collected through websites, journals and newspapers.

RESULTS AND DISCUSSION

M- Business Model

- Wrong Business Model Selected
- Faulty positioning of products in the market
- Ineffective Marketing
- No Research and Planning

I- Inventory

- Zero Inventory Model
- Not or less conform to quality
- Less focus on the products and services
- High Logistic Costs
- No differentiation in products or services
- Lack of Innovation

C- Customer

- Less Customer Base
- High Customer Acquisition cost
- High Retention Costs

E- Environment

- Intense Competition
- Lack of Funding
- Legal Challenges
- Regulations
- Inexperienced Management

Figure 1: The MICE model (Self Constructed by the Authors)

ISBN: 978-81-955611-5-5

THE MICE MODEL

The MICE model elaborates the four categories of startups failure:

1. **M: Business Model -** Most of the startup choose wrong business model. If a startup company selects a business model without proper planning and extensive research, it will lead to failure. Therefore, a company must analyse the market properly before floating a startup.
2. **I: Inventory -** Most of the startup which delivers the product or renders the services through softwares or apps, uses zero inventory model. Zero inventory model always creates disequilibrium between demand and supply which results into shortage of supply and orders cannot be met. Therefore, A startup must take into consideration this also.
3. **C: Customer-**Success of a company depended on its loyal and potential customers. If a company does not study the customer segments carefully and does not target the product or services among its potential customers, it will definitely face the customer crunch.
4. **E: Environment –** Lack of funding, cash churn, mismanagement, intense competition etc. are several factors that can lead to failure of a startup. These must also be considered.

Table 1: Reasons of Failure of 10 Selected Startups in India

Sr. No.	***Company, Year of Establishment, Founders, Closure***	***Segment in which the company was working***	***Reasons of Failure***
1.	***Doodhwala*** ***2015*** ***AakashAggrawal&EbrahimAkbari*** ***Closed in 2019***	• Hyperlocal Milk Delivery of Milk, Dairy Products, Groceries and other dairy essentials • Subscription based Service at consumers' doorsteps	• Low margins • Offered excessive cashback and discounts • Intensive competition from Bigbasket and Gofers with no differentiating factors • FIR by the sellers, default in salary, and protest by marketing heads.
2.	***Pepper Tap*** ***2014*** ***Milland, Sharma and Navneet Singh*** ***Closed in 2016***	• Groceries can be ordered online • Cheaper Prices	• Cash Burn • Zero Inventory Owned Model • Heavy Discounts offered without signs of profitability • Uncontrollable supply • Cancellation of orders due to inventory glitches

ISBN: 978-81-955611-5-5

3.	***Dazo*** ***2014*** ***Monika Rahtogi, Shashank and ShekherSinghal*** ***2015***	• Food Delivery - Fresh Meals at consumers' doorsteps from the best restaurants nearby • Working with around 20 fame restaurants that offered different cuisines.	• High Competition in this sector from Zomato, Swiggyetc • Struggled to get funds • Decreasing profitability due to slashed prices.
4.	***GrocShop*** ***2014*** ***AyushGarg& Rahul Kumar*** ***2016***	• Hyperlocal delivery of grocery • Online hybrid retail platform for daily essentials and well established brands	• High logistics and customer acquisition costs • Decreasing flow of money • Late entry into the market where other companies has established customers and posed intensive competition • Increasing operational costs
5.	***Local Banya*** ***2014*** ***Amit Naik, Karan Malhotra and Rashi Chaudhary*** ***2015***	• Fruits & Vegetables • Groceries • Personal Care Products • Household Supplies • Kitchen ware • Delivers wide array of such categories	• Worked against an inventory based model • Forged tie ups with local wholesalers and retailers • Gap in supplies and deliveries • Quality issues regarding products • Lack of constant flow of funds
6.	***Mr. Needs*** ***2016*** ***HitashiGarg, Ravi Wadhwa, Ravi Verma and YogeshGarg***	• Offered daily essentials grocery through the subscription • Orders could be placed Weekly/monthly, selected dates or as per the need through mobile app	• Intense competition from Bigbasket and Gofers with no differentiating factors • Unplanned expansion
7.	***iProf*** ***2009*** ***Sanjay Purhoit*** ***2014***	• Digital platform for educational content like videos, digitalized notes, practice questions on 7" touch screen • Supplementary learning modules which helps the students to revise what they've learnt	• Lot of free stuff is already available on internet • Increasing competition created by BYJU's and Unacademy • Low adoption • No differentiated products and services offered.
8.	***Purple Squirrel***	• Edtech company	• Failed to achieve the promised

ISBN: 978-81-955611-5-5

Sr. No.	*Company, Year of Establishment, Founders, Closure*	*Segment in which the company was working*	*Reasons of Failure*
9.	*Loan Meet* *2015* *Ritesh Singh & Sunil Kumar* *2017*	• Fintech Company • Finance Capital Requirement • Cash Credit requirement • Channel financing in the range of Rs. 5000 to Rs. 5 lakhs for short term period ranging from 15 days to 9 months	• Loan Meet could not face competition from Capital Float, Loan Frame, Happy Loan because of Aggressive SME loans and larger loan booked by them • Failed to raise funds because investors were not convinced due to overcrowded lending market and deep pocket players.
10.	*Zebpay* *2014*	• Fintech Crypto • Provided seamless trending experience in crypto currencies like bitcoin, ripple and many more with the wallets that serve customers across the globe	• Legal challenges • RBI banned and announced to stop business relationship with entities dealing with virtual currencies entities • The regulation has put to cease the bank accounts of the exchanges and customers

SOLUTIONS FOR MINIMIZING THE RISK OF FAILURE

To minimize the failure risk at the early stage, a startup must focus on the following points:

- Selection of Strong Business Model infused with technology
- Advice from Mentors
- Proper Financial Planning
- Selection of Investors – Angel investing, Venture Capitalist that depends on the business ideas
- Avoid offering of heavy discounts and other incentives at the early stage
- Focus on Marketing Research – Target the customers and positioning of the products and services

SUGGESTIONS/RECOMMENDATIONS

1. Integration of Entrepreneurial Spirit with Education and Curriculum

ISBN: 978-81-955611-5-5

2. Bridging the Digital Divide
3. Making the Regulations feasible for establishing Startups
4. More Tax Incentives
5. Capitalizing the Demographic Dividend
6. Make the favourablelabour laws for hiring of employees
7. Special relaxation for rural startups as the more than 50% of the population resides in villages
8. Creating favourable startup ecosystem

CONCLUSION

Many startups do not succeed because they don't analyse the needs of the market, inexperienced management and invest their own funds due to lack of funding. Startups should scale their operations and create solutions to mitigate failures. They must align their activities with customer needs, source of funding, scalable operations, and advice from mentors and avoid unnecessary discounts and offerings. An entrepreneur must be ready to accept the challenges and must take the right decisions whenever needed. In order to make a startup successful, an entrepreneur must have to focus on to competition, financial planning and market research, procurement of funding, demand and to strengthen the business model. These steps can give the wings of success to a startup and it can avoid the failure at its early stages.

REFERENCES

1. Forbes Magazine (2015) Retrieved on 25 Jul 2022 from https://www.forbes.com/sites/neilpatel/2015/01/16/90-of-startups-will-fail-heres-what-you-need-to-know-about-the-10/?sh=6d387a3e6679
2. Businessline (2017) Retrieved on 25 Jul 2022 from https://www.thehindubusinessline.com/companies/95-startups-fail-but-100-entrepreneurs-succeed/article9760621.ece
3. Anjum, Z. (2014) Start-up Capitals: Discovering the Global Hotspots of Innovation, Random House India, Gurgaon.
4. Gartner, W., Starrr, J. and Bhat, S. (1999) Predicting new venue survival: an analysis of 'anatomy of a start-up', cases from Inc. magazine, Journal of Business Venturing, 14(2), 215-232.

5. Singh S., Corner, P. and Pavlovich, K. (2007) Coping with entrepreneurial failure, Journal of Mangement and Organization, 13(4), 331-344.
6. Pena, I. (2002) Intellectual capital and business start-up success, Journal of Intellectual Capital, 3(2), 180-198.
7. 17 Failed Startups Founded in India from https://www.failory.com/startups/india-failuresa
8. Business Line (2020) Retrieved on 31 Jul 2022 from https://www.thehindubusinessline.com/companies/investments-in-indian-start-ups-crash-nearly-81-in-march-y-o-y/article31218813.ece
9. Why Startups Fail? Top 9 Reasons And How Entrepreneurs Can Avoid It retrieved on 30 Jul 2022 from https://digest.myhq.in/9-reasons-why-startups-fail/#:~:text=India%20has%20the%20third%2Dlargest,5%20years%20of%20their%20inception.
10. A. Raini, 5 ways to minimize early-stage business risk, entrepreneur .com, 2019. https://www.entrepreneur.com/article/324898 accessed on 30 Jul 2022
11. T. Skyes, 7 Keys to Overcoming Risk on the Path to Success, entrepreneur,com, 2019. from https://www.entrepreneur.com/article/341455 accessed on 30 Jul 2022

ISBN: 978-81-955611-5-5