



# Entrepreneurial India

*How startups redefine India's economic growth*

## Executive Report

Strategy

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## Jumpstarting India's startups

*Startups are redefining the Indian economy. With its favorable demography, open economic environment and culture of entrepreneurialism, India is highly conducive to entrepreneurial activity. However, India's startup economy has not reached full maturity, and many startups die in their infancy.<sup>1</sup> More proactive engagement between startup and established organizations can help startups harden their business models, accelerate growth and leapfrog into the big leagues, while enabling established companies to share in the entrepreneurial spirit of innovation and agility. Their mutual success will drive India toward an ever-more dynamic future.*

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## Out of the unknown

Entrepreneurship in India has grown significantly, and startups are beginning to dramatically impact the economy. Enabled by strong demographics and an open, commercial culture, new company registration has grown from 15,000 in the 1980s to almost 100,000 in the 2010s.<sup>2</sup> With an average age of 28, India's entrepreneurs rank among the youngest in the world.<sup>3</sup> Formalization of India's startup economy is also increasing, with funding for startup companies more than doubling between 2014 and 2015.<sup>4</sup>

To learn more about the rapidly evolving India startup ecosystem and its effects on the wider economy, the IBM Institute for Business Value, in collaboration with Oxford Economics, surveyed almost 1,300 Indian executives, including approximately 600 startup entrepreneurs, 100 venture capitalists, 100 government leaders, 500 leaders of established companies and 22 educational institution leaders. (For more information on the research, see the "Study approach and methodology" section).

Survey results reveal that startups can exploit a range of attributes and advantages unique to India. More than three-fourths of Indian executives (76 percent) pointed to India's economic openness as a major business advantage, while 60 percent identified India's skilled workforce. And 57 percent said that India's large domestic market provides significant advantages.

The Indian economy has benefitted from the country's accelerating startup activity. As of 2015, an estimated 80,000 jobs had been created by India's technology startup businesses.<sup>5</sup> Ninety-seven percent of India's startups said they planned to continue hiring in 2016.<sup>6</sup> And startups are beginning to spread benefits beyond traditional locations into regional economies.<sup>7</sup>

Startups are upending established business models and creating new markets. Across industries, startup companies – such as Zoctr and HealthKart in healthcare, Paytm and FreeCharge in financial services, Ecolibrium Energy and Glowship in energy and utilities, and Jugnoo and Ola in travel – threaten to disrupt established businesses



**The #1 reason most Indian startups fail** is lack of pioneering innovation.



**Almost ¾ of Indian leaders** surveyed agree that ecosystems can help accelerate innovation.



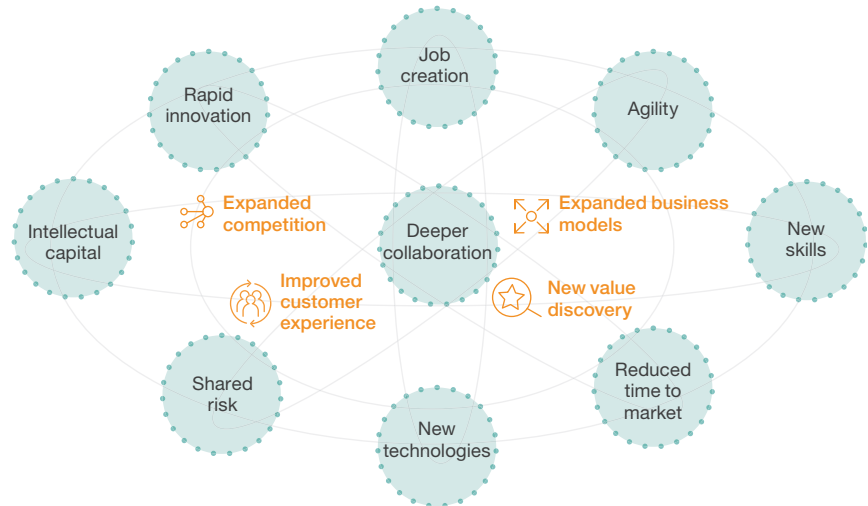
**Almost 80% of executives** from established companies say collaboration with startups accelerates new ideas.

and traditional channels.<sup>9</sup> In so doing, they can act as catalysts for innovation and collaboration throughout India's business ecosystems (see Figure 1).

By fomenting and directing innovation, startups not only can transform the way industries and customers interact, but redefine India's economy as a whole. Key to this transformation is further maturation of the startup economy – which requires the participation of crucial ecosystem stakeholders. Established companies, startups, venture capitalists, government and higher education institutions all have roles to play – and rewards to reap – in fostering further development of India's startup economy.

**Figure 1**

*Startup activity is one of the forces driving India's emerging business ecosystems*



Source: IBM Institute for Business Value analysis. 2016.

## Toward sustained maturity

Despite India's entrepreneurial strength, as many as 90 percent of startups fail within the first five years.<sup>9</sup> The 100 venture capitalists we surveyed identified 6 leading reasons why many startups are not successful (see Figure 2).

### Top roadblocks for India's startups

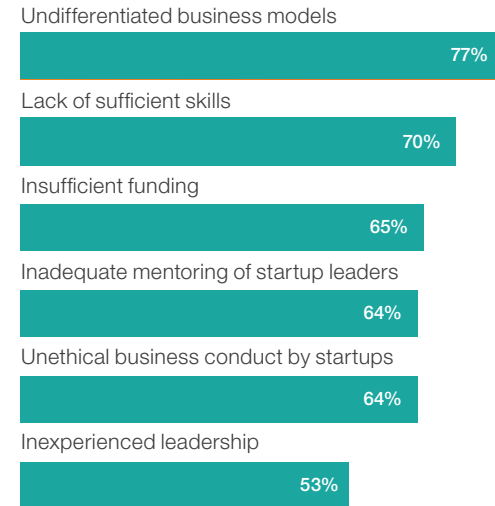
Seventy-seven percent of venture capitalists report that many Indian startups lack pioneering innovation based on new technologies or unique business models. Rather, they are prone to emulate already successful ideas from elsewhere. While such mimicry can create value by fine-tuning already successful concepts to local markets, generally it precludes sustainable expansion beyond India's borders and keeps barriers to competition – from home or abroad – low. Consequently, despite the country's large market size and robust startup activity, Indian startups comprise only 4 percent of globally recognized unicorns (startup businesses valued at USD 1 billion or more).<sup>10</sup>

Seventy percent of venture capitalists say that startups fail because they are unable to obtain employees with the right skills. Recent evidence suggests that tertiary education in India does not necessarily prepare students for employability, with one study reporting that as many as 80 percent of engineering graduates were deemed unemployable.<sup>11</sup>

Sixty-five percent of venture capitalists say that Indian startups are unable to source necessary funding. Indeed, of 997 Indian startups reported to have failed in 2014 and 2015, 97 percent were unable to obtain any external funding.<sup>12</sup> In addition, between 2010 and 2013, the value of India's M&A activity in the technology startup area was only 14 percent of Israel's, which has an economy less than one fifth the size of India's, and it was less than 1 percent of M&A value in the United States over the same period.<sup>13</sup>

**Figure 2**

*Venture capitalists identify major reasons for startup failures*



*Source: 2016 IBM Institute for Business Value India Business Survey.*

*Sixty-four percent* of venture capitalists, believe that India's startups struggle to succeed because their executives do not receive adequate mentoring from experienced leaders of established companies, incubators, investors and the like. Although numerous startup accelerators have been formed in India as part of public-private partnerships, mentoring typically remains informal and voluntary.<sup>14</sup>

*Sixty-four percent* of venture capitalists also believe that many startups are not successful due to poor business ethics. Misreporting of financial and other data, misrepresentation of financial plans or achievements, and ignorance of regulatory requirements can have a serious impact on the willingness of prospective partners to fund or collaborate with new startup businesses.

*Forty-five percent* of Indian venture capitalists assert that the presence of proven leaders is an essential ingredient in their willingness to invest in startups, and 42 percent say that an ability to bounce back from failure is critical. However, 53 percent of venture capitalists indicate that inexperienced leadership is a key reason for startup failures in India. Economic implications of this mismatch can be significant, with venture capitalists often passing up investment opportunities due to a lack of credible management.

### Tackling roadblocks and sharing success

Deeper cultivation of India's startup community can reap benefits that extend well beyond the startups themselves, driving growth and development in the Indian economy overall. A key part of mitigating many of the constraints identified involves deeper engagement in evolving business ecosystems. Ecosystems offer an accelerated way for India's startups to augment skills, capabilities and experience.

Indian leaders surveyed believe that ecosystems can help accelerate innovation and improve customer experience. They also recognize the potential for ecosystems to facilitate creation of new business models, improve access to necessary skills, and connect organizations with new customers and markets (see Figure 3).

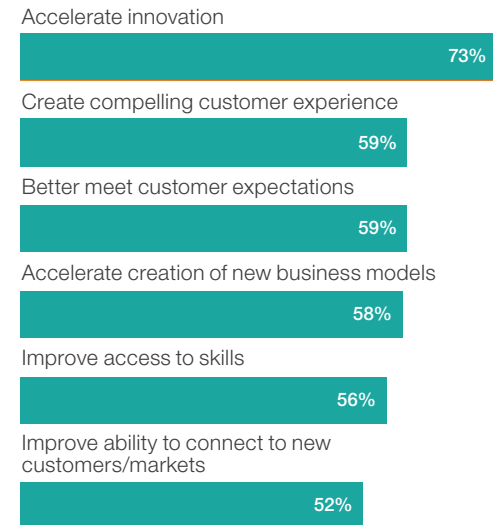
Ecosystems are crucial for India's entrepreneurial economy to thrive. Each stakeholder's involvement and contributions are essential to creating an environment in which the whole creates substantially more value than the sum of its parts.

The following sections outline the importance of each stakeholder's involvement, as well as offer recommendations designed to increase the value of their contributions and accelerate outcomes. Specifically, they address the impact of promoting startup ecosystems for the following key stakeholder groups:

- Established business community
- Startup community
- Venture capital community
- Government
- Higher education community

**Figure 3**

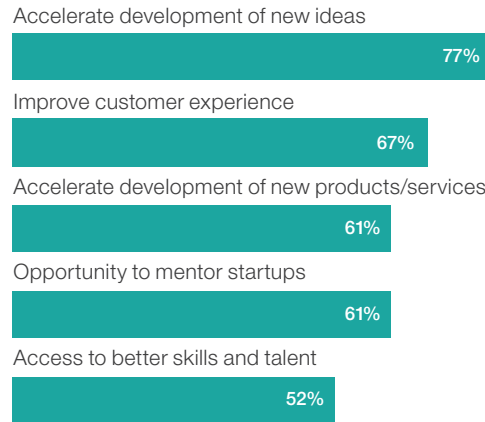
*Executives across all categories recognize the benefits of engaging in emerging business ecosystems*



*Source: 2016 IBM Institute for Business Value India Business Survey.*

**Figure 4**

Leaders of established companies identify the benefits of collaborating with startups



Source: 2016 IBM Institute for Business Value India Business Survey.

## Established businesses

Collaboration with startups can help established organizations achieve greater agility and improve their customer experiences (see sidebar: *HDFC and Chillr create innovative banking solution*). Specifically, leaders of India's established businesses believe that collaborating more closely with startups helps accelerate identification and development of new ideas, augment and improve development of products and services, and enable better access to skills (see Figure 4).

When we examined the specific actions of India's most successful established businesses (identified as those with the highest rates of revenue growth and operating efficiency), we found that this elite group is especially focused on engagement with the startup community (see Figure 5).

### HDFC and Chillr create innovative banking solutions

Indian banking and financial services company HDFC Bank partnered with Chillr, a fintech startup, to launch a new banking solution designed to offer customers more flexibility in transferring money. The Chillr app allows users to instantly transfer money to any contact within their phonebook 24 hours a day, 7 days a week.<sup>15</sup> HDFC customers are now untethered from formal depository details but still retain the benefits of operating within the formal banking system.

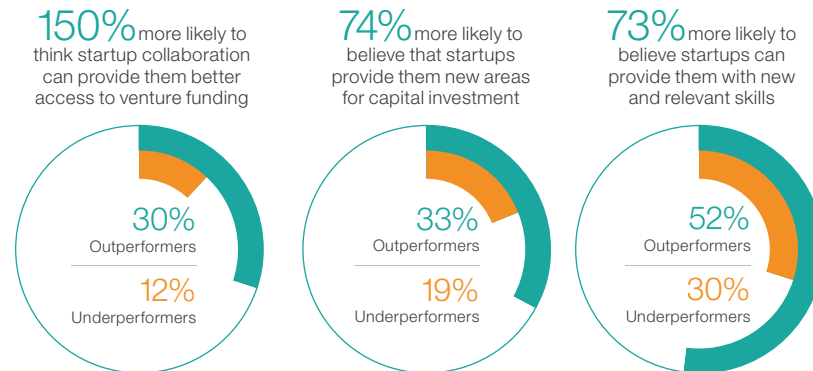


Established businesses are able to accelerate benefits from startup collaboration by creating startup accelerator programs specifically designed to share their experience and expertise (see Figure 6). For example, TLabs is a business accelerator and early-stage seed fund founded in 2011.<sup>16</sup> Part of The Times of India Group, TLabs provides access to more than 100 experts and engagement with venture capitalists and angel investors.<sup>17</sup> Investing up to USD 50,000 seed investment per startup in exchange for a small equity share, TLabs has helped with the formation of more than 50 new companies, many of which went on to obtain additional funding from other sources.<sup>18</sup>

**Figure 5**

*Outperforming organizations are aware of the benefits from engagement with startups*

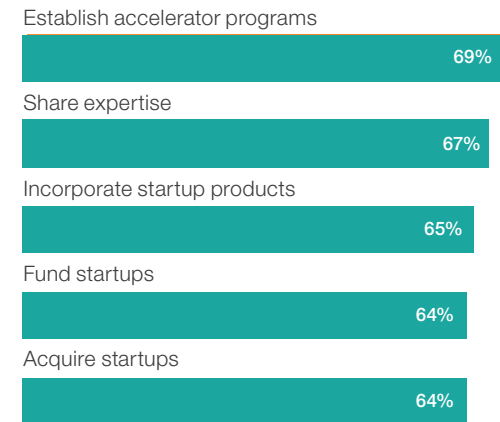
Outperforming organizations are....



Source: 2016 IBM Institute for Business Value India Business Survey.

**Figure 6**

*Leaders of established companies identify ways in which they can promote closer startup collaboration*



Source: 2016 IBM Institute for Business Value India Business Survey.

**Recommendations for the established business community**

*Embrace new ecosystems:* Collaborate extensively to exploit new technologies and business models within and outside your traditional industry. Define new shared value propositions based on the broader range of capabilities possible from a more diverse set of ecosystem partners.

*Source innovation from startups:* Enable and support relationships with startup organizations aligned to your overall strategic objectives. Pursue startup relationships in which you share innovations, unique skills, technology and dynamic cultures by augmenting the ability to develop and scale.

*Exploit new opportunities:* Focus resources on identifying, sizing and exploiting new market, channel and segment opportunities available through engagement with a diverse range of new partners. Codevelop new go-to-market strategies and embrace cocreation opportunities.

**Key questions for the established business community**

- Are you ready to be flexible and transparent when engaging with ecosystem partners?
- How is your organization leveraging startups to foster continuous innovation?
- How successful is your organization in collaborating within and outside your industry to improve agility and customer responsiveness?

## Startups

Leaders of startups also identify substantial benefits from deeper collaboration with established companies. While some established companies might be weak in innovation and agility, they have the advantage of experience.

For example, broad scope, scalability, established organizational structures and operations, and a loyal customer base are advantages startups typically lack. By collaborating closely with established businesses, startup leaders not only capitalize on these advantages, but also gain exposure to a deep pool of specific industry knowledge and expertise (see Figure 7).

As an example, consider Ola, an Indian app-based transportation company that formed a strategic alliance with Mahindra and Mahindra, one of India's largest automakers, to make it easier and more affordable for drivers to buy vehicles. Ola driver partners are now offered a Mahindra-Ola package, which allows them to purchase Mahindra cars at special prices with zero down payment and provides access to special insurance premiums and other benefits. The relationship is expected to generate approximately USD 400 million in sales and financing.<sup>19</sup>

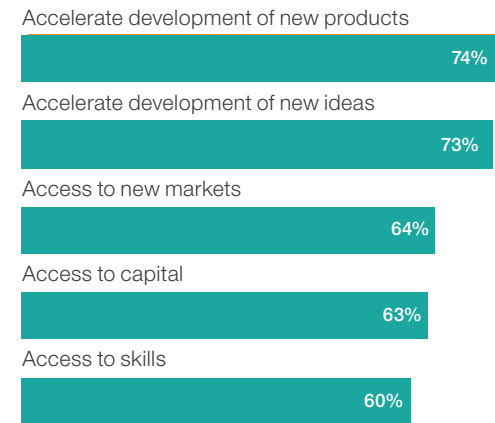
### Recommendations for startup community

*Strengthen value propositions:* Be specific in articulating the uniqueness and innovation underpinning new products or services. Focus on client centricity rather than product centricity and utilize scenario envisioning or design thinking techniques to define new offerings or markets. Seek real-life data to test prototypes for likely feasibility, cost structure, market responsiveness and scalability.

*Leverage ecosystem partners:* Identify and leverage mentors from corporations and venture capital firms when designing new products and services. Embrace cocreation with ecosystem partners. Maximize use of APIs and platforms to mitigate any gaps in skills and funding.

**Figure 7**

*Startup business leaders identify benefits from deeper collaboration with established companies*



*Source: 2016 IBM Institute for Business Value India Business Survey.*

*Build sustainable advantage:* Stress innovation and application of new technologies to create advantage. Assess medium- to long-term objectives across a spectrum – growth, IPO, acquisition target, etc. Keep looking for unique ways to integrate into existing value chains or emergent ecosystems to maintain relevance and value.

**Key questions for the startup community**

- How are your activities unique to the business environment in which you operate?
- How essential is your partnership to your ecosystem stakeholders?
- How can you create incremental value in the ecosystem for your long-term success?

## Venture capitalists

As part of our survey, we asked venture capitalists what actions they think are necessary to make India a global leader in entrepreneurship (see Figure 8). India's venture capitalists can play a significant role in improving the likelihood of success of the startups in which they invest by providing increased mentorship, guidance and business insight, in addition to capital funding.

For example, Kalaari Capital has been instrumental in the success of many startups in India. An early-stage, technology-focused venture capital firm based in Bangalore, Kalaari offers more than capital to the startups in which it invests. The firm focuses on forging long-term partnerships with entrepreneurs to help unlock increased value through disruptive innovation.<sup>20</sup> Its strategy appears to be working: After starting operations with USD 150 million in 2012, Kalaari was valued at USD 650 million by 2016.<sup>21</sup>

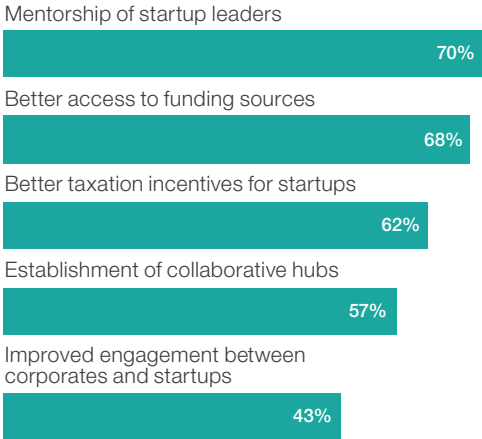
### Recommendations for the venture capital community

*Mentor startups across their lifecycle:* Engage with startups and mentor them at critical stages of evolution – from idea seeding to building a technical platform, devising digital marketing and “go-to-market” strategies, and finally scaling up. Encourage startups to take risks but, at the same time, be tolerant of failures.

*Promote ecosystem participation:* Encourage startups to collaborate extensively with other ecosystem players to gain access to unique skills and technology. Leverage the network of your portfolio companies to establish connections for startups so they can engage and add value to the ecosystem.

**Figure 8**

*Venture capitalists share their perspectives on what will make India a global entrepreneurial leader*



*Source: 2016 IBM Institute for Business Value India Business Survey.*

*Create a high-quality startup base for future growth:* Focus on identifying and providing expanded support to high-potential startups. Groom them to position their companies as major acquisition targets or ones that offer high-quality initial public offerings (IPOs) to generate wealth and boost economic growth.

#### **Key questions for the venture capital community**

- What steps can venture capitalist firms take to guide startups toward being unique and innovative?
- In what ways can venture capital firms provide better guidance and mentoring to relatively inexperienced startup managers?
- How can venture capital firms promote greater cross-pollination and knowledge sharing between their portfolio of startups and other major stakeholders, including established businesses?

## Government

Indian governments also have a strong interest in supporting emergent startup ecosystems both nationally and regionally. In addition to contributing to improved economic vitality, a robust startup community can support expanded economic openness, skills improvement and transformation of the economy overall into one based on technological and business innovation. The Indian startup community in particular believes government needs to play an activist role in building an Indian startup ecosystem (see Figure 9).

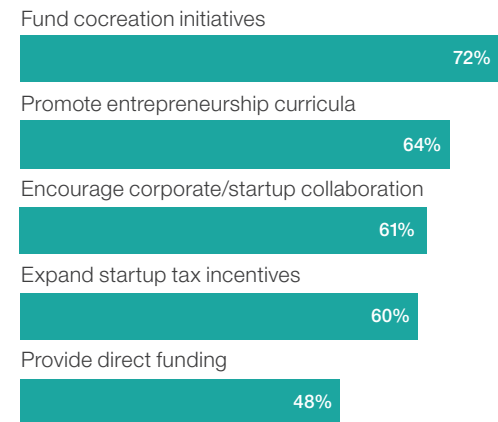
The Startup India campaign is a good example of how the government can help foster growth of India's startup community. Established by the Indian government, Startup India includes a series of initiatives designed to encourage accelerated startup formation and development.<sup>22</sup> As part of the program, the government is offering financial incentives for startups, including 100 percent tax exemption for three years, and has allocated Rs 500 crore to support funding for specifically targeted groups, such as women entrepreneurs.<sup>23</sup> Additionally, the Indian government has announced a capital gains tax exemption for startups, as well as an 80 percent rebate for startups filing patents.<sup>24</sup>

### Recommendations for government

*Promote startup ecosystems:* Encourage businesses and academic institutions to engage with startup entrepreneurs by providing physical or virtual environments or structures to make partnering more conducive. Support establishment of platforms that facilitate communication, knowledge sharing and innovation.

**Figure 9**

*Startup leaders identify ways government can encourage success for startups in India*



*Source: 2016 IBM Institute for Business Value India Business Survey.*

*Encourage new business formation:* Simplify regulations for setting up new businesses. Simplify tax policies and support global connectivity and engagement. Address weaknesses in capital markets by supporting structures in which new businesses can more easily connect with financial investors.

*Utilize startup innovations:* Leverage innovations from startups or collaborative efforts between startup and established businesses to address chronic economic challenges.

### **Key questions for government**

- How can government promote buoyant startup activity to improve economic vitality?
- How can government encourage other economic stakeholders to participate in and promote startup ecosystems?
- How can government support improved engagement between Indian startup ecosystems and other major global centers?



## Higher education

All major groups surveyed agree that educational institutions have an increasingly important role to play in encouraging evolution of a sustainable and dynamic startup community. Executives believe that India's universities should actively build more commercial, usable skills among student populations.

Specifically, universities and colleges should include entrepreneurship in course curricula, provide practical experience in addition to text book learning and strive to improve educational standards across the board. According to educational institution leaders surveyed, education standards must improve to produce a highly skilled talent pool and promote entrepreneurship (see Figure 10).

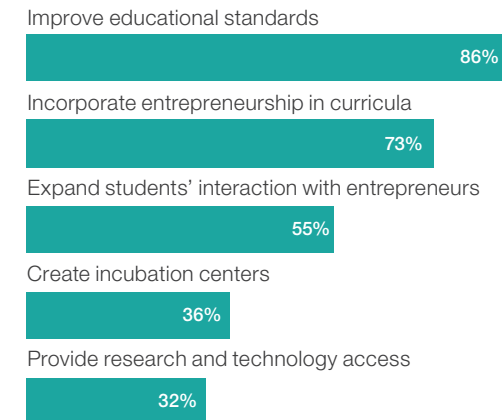
A good example of an educational institution supporting the startup ecosystem is the Indian Institute of Technology Delhi (IIT-Delhi), a premier educational institution in India that established the Technology Business Incubator program to help entrepreneurs develop new technology-enabled ideas. Eligible participants include proposals initiated by faculty, students, alumni or businesses led by them; startup companies formed by first-generation entrepreneurs; and R&D divisions of existing small and medium enterprises. Selected participants are provided access to IIT-Delhi lab facilities, mentoring and networking opportunities, and potential seed investment.<sup>25</sup>

### Recommendations for higher education community

*Expand collaborative research activities:* Promote expanded joint research and development activities in campuses between startups, established corporations and faculty. Evolve academic culture by supporting a more entrepreneurial culture of risk taking in research, development and commercialization of joint innovation outputs.

**Figure 10**

*Leaders from educational institutions identify ways they can encourage startup participation in ecosystems*



*Source: 2016 IBM Institute for Business Value India Business Survey.*

*Encourage greater interaction between students and industry:* Develop new programs that expose students to real-life business activities. Encourage engagement with mentors from industry, corporations or entrepreneurs. Establish or expand university-based incubators to commercialize research.

*Include entrepreneurship in course curricula:* Expand education horizons by incorporating practical entrepreneurship in business, engineering, economics and other relevant courses. Evolve educational standards to align with leading global benchmarks, bringing in world-leading talent either directly or through global partnerships.

### **Key questions for higher education community**

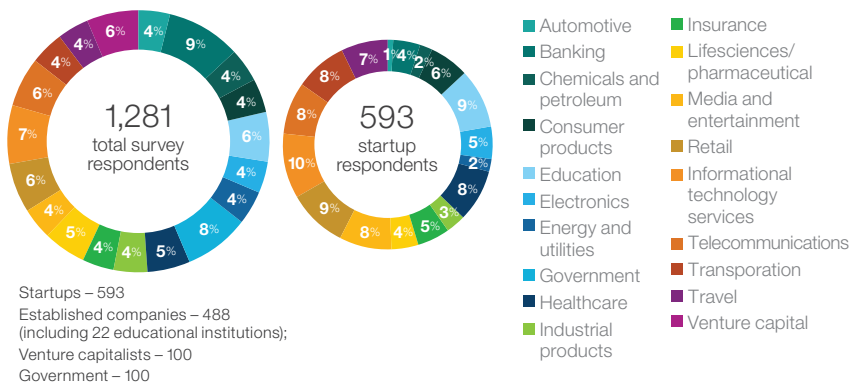
- How can academic institutions support transformation of research into business propositions?
- How can academic institutions promote a culture of entrepreneurship among the student community?
- How can academic institutions more readily incorporate entrepreneurialism into class curricula?

## Toward the future

A robust startup community not only helps improve the vitality of the Indian economy, but provides a gateway to systemic economic transformation. Benefits to businesses and the Indian population at large are immeasurable. The formation of ecosystems in which established companies, startups, venture capitalists, government and centers of higher education are able to engage and interact can accelerate and amplify these benefits, enabling India to consolidate its place as a leader in the global economy.

### Study approach and methodology

In cooperation with Oxford Economics, the IBM Institute for Business Value surveyed more than 1,300 Indian executives representing 18 industries. Approximately 500 of them were executives from established companies, including 22 educational institutions. Participants also included approximately 100 leaders from government organizations, 600 leaders of startup companies and 100 venture capitalists.



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### For more information

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Produced in the United States of America  
November 2016

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