International Journal of Advanced Research in Management and Social Sciences
ISSN: 2278-6236
Impact Factor: 7.065

THE ERA OF STARTUPS

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I commenced my day with a cup of coffee and toasted bread that was delivered last night by a Grofers delivery boy. I was reminded by an SMS that the flight I booked through the Goibibo app was scheduled in two hours, so I packed up and summoned an Uber cab to reach the airport. After a long flight I reached the hotel booked via Stayzilla and sent a text to my wife via WhatsApp informing her of my successful journey. These services we are availing everyday to make our lives convenient and hassle free are a result of numerous people coming together to make a mark in the corporate world with their ideas and initiatives, popularly known as 'Startups'.

So what is a Startup? What do they do? What are they after? What will be the future? These are the questions that cloud our minds. If we begin to search for it's meaning we might conclude that everybody has his or her own perceptive impression regarding what it essentially is. The Oxford Dictionary defines a startup as "a newly established business" which is a simplistic definition. Steve Blank's definition is slightly elaborative- "A startup is an organization formed to search for a repeatable and scalable business model".

A startup's goal is to cease being a startup, to graduate up to being a large business or to fail and move on to another opportunity. An early stage venture that isn't capable of this type of rapid scale-up is a small business and not a startup.

A startup, backed by a brilliant business idea, transforms into a big multinational company such as Infosys, through emboldening leadership and tactical management. The main goal of a startup is to scrutinize and build a product or service, which consumers would desire and be willing to pay for.

The emerging enterprises are constantly creating a vicious circle of disruptive innovation and compelling some of the well-established companies to make a run for their money. But not every startup is a revolutionary idea; rather some of them are just an integration of two resources that results into a unique concept. A Harvard Business Review article focusing on the topic, 'Is Uber is a Disruptive Innovation?' explained how this popular startup is essentially just an amalgamation of the already available cab transportation system and IT platform.

Here, as per Clayton M. Christensen (1995). "A disruptive innovation is an innovation which creates a new market and eventually disrupts an existing market, displacing established market leaders and alliances.

Stages of Development of a Startup

There are four basic stages of the life of a startup:

- **Startup stage 1:** Research & Discovery – What is the Problem?

At this point, an entrepreneur is trying to analyze the problem that they are focusing on. This stage typically involves a lot of research, reading, and discussion about the market conditions and anticipated demand that their solution could meet.

- **Stage 2**: Validation of Product/Market Fit – Does the Solution Make Sense?

This stage is where an entrepreneur works out whether they are even solving a problem. Do people need it? Does the market understand it? Can it grow? Is it something that is understandable?

There are many ways to work this out, but entrepreneurs generally survey people, conduct a test pilot run to find out how things are actually falling in place. They try to locate the main pain points of the target consumers and how they can improve in order to solve them. This process is called Customer Discovery, where one goes through many customers conducting interviews, questionnaires and analyzing the data to get a better understanding of customer requirements.

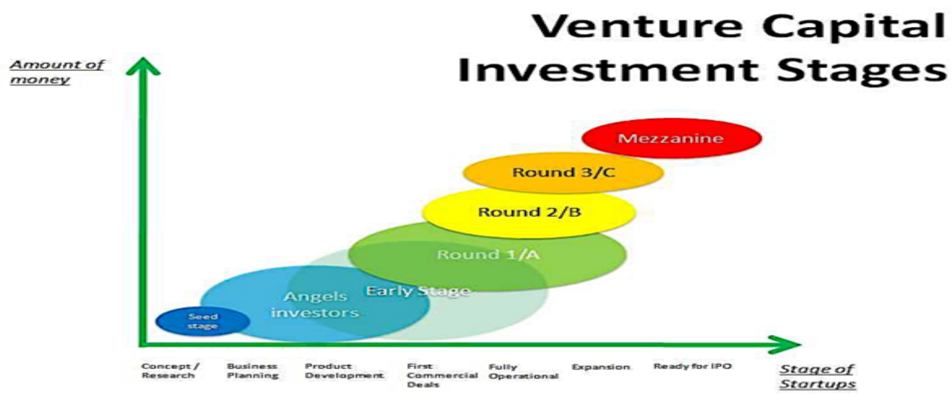
- **Stage 3:** Efficiency & Process Improvement – How Can We Do This Better?

In stage three when an entrepreneur is focusing on scaling his business, he is talking about process improvement and efficiency. If the business model is not adequate then it needs a serious overhaul, which requires refining the entire business model, removal of the extra practices and adding more value to the customer by cutting cost or providing better services. This stage inculcates introspection and enhancement to set a strong foundation for the business.

- **Stage 4:** Scale/ Growth – Can We Leverage Our Process for Fast Acquisition?

In this final stage of the startup life, entrepreneurs have found the suitable product-market fit, which works. They have got the process to a point where they can gain clients and eventually build a strong customer base. So now it's time to move into the top gear and drive growth quickly, efficiently, and smartly.

Funding of Startups



There are 5 phases of investment:

Self-Funding, Seed Funding, Growth, Expansion and Mezzanine.

1. Self-funding

The first phase of the investment stages is Self-funding. In this stage a founder invests his or her money to begin the startup journey. Some people also reach out to their friends and family members and ask them to put some portion of money to back their idea.

2. Seed Funding: The seed stage of investing is the second phase of raising funds besides capital. The funds in this round are sourced from professional, or semi-professional Angel Investors. Either individually, or in an angel group ("Angel Investor is an individual who invests his or her own money in an entrepreneurial company"). In most of the cases angel investors are founders of other companies. Being a founder, the Angels have experience and they provide more than just capital to the startup. People look for three things in an Angel investor:

- Wisdom - Experience of successfully managing his companies.
- Wealth – Money to back the business idea
- Work - Willingness to provide valuable time for adding value to the company.

3. Growth/Early Stage: Early Stage Investing is the first round into venture capital funding. Usually, this is referred as series A funding. The main goal of round A financing is to cover up the salaries of the people involved and to fund market research and product development activities. Series A funding is generally sort after the company starts generating a revenue, irrespective of the status of profit.

4. Expansion: At this stage the service or product have successfully penetrated the market. Series B, C funding are required by the company to scale up & increase the market share to support the development of assets and internal capabilities, necessary for stronger sales growth.

5. Mezzanine: This round is the final raise before going public. At this point, the company may have several hundred employees and maybe operating in more than one country. The company is starting to communicate with investment banks, and build the final bridge for an IPO (initial public offering).

India has emerged as one of the fastest growing startup ecosystem in the world, with the total number of startups crossing 9,000+ mark. Globally India ranks third in number of startups as per IT industry body Nasscom latest report.

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