

A Study on Startup Ecosystem in Madhya Pradesh

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Abstract

India ranks third in the global startup ecosystem in the world incubating more than 50,000 startups and witnessing 15% growth per year. Being a center of innovation and skilled labor, Indian startups have attracted investments from all over the world. This paper aims at exploring the trends that are driving the growth in the startup ecosystem in Madhya Pradesh. This state attracted investments in a diverse mix of sectors ranging from heavy engineering, information technology, electronics system design and manufacturing (ESDM), Telecommunications and automobiles. As a result, one of the interesting aspects about the state is the abundance of skilled technical workforce, thereby providing a tailor-made platform to promote startups in the state. In order to ignite the spirit of entrepreneurship and innovation for people in the state and converting ideas into potential businesses, the state government, in 2016, outlined a startup policy to provide an enabling environment to achieve this objective. This shows that the state has an aspiration for entrepreneurship but innovation is still at a nascent stage. But this does not mean there is no glimmer of hope, some mavericks have indeed broken the mould to build out-of-the-box ideas into businesses.

Keywords: Startups, Entrepreneurship, Innovative

INTRODUCTION

Meaning of Digitalization: - Digitalization is the process of taking something from its analog form, such as paper documents, pictures, or sound recordings, and converting it into a digital format. This process is also known as digitization and involves the use of special software and hardware to convert these analog forms into something more easily readable and usable by computers. Digitalization is being used for a variety of purposes, including healthcare records, e-commerce transactions, educational materials, entertainment media, and more. The world has embraced digitalization for the convenience and efficiency it provides. Digitalization has allowed people to simplify their daily lives by reducing paperwork and providing access to data from anywhere in the world. It has made communication easier and faster while also creating new opportunities for businesses.

LITERATURE REVIEW:

India has an estimated 26,000 startups, making it the third-largest startup ecosystem in the world, recording consolidated inflows of over \$36 billion in the past 3 years with 26 “unicorns” – startups valued over \$1 billion. The Indian startup ecosystem has expanded quite rapidly mainly through private investments including seed, angel, venture capital, and private equity funds, with technical support from incubators, accelerators, and the government. The government, for its part, is creating an enabling environment through its flagship Startup India initiative, which came into force in 2016. With India pushing towards a knowledge-based and digital economy, the government is attempting to deploy ICT infrastructure and provide

policy support for enhanced e-governance, investments, and technology innovation through research and higher education to support entrepreneurship and spur economic growth. Data suggest that the expansion in the startup ecosystem has largely been clustered in the large

(Tier 1) cities and states with financial depth, and especially in IT-enabled sectors including ecommerce, transport, and finance. Small businesses beyond the metros are not fully aware of, or integrated into, programs that provide startups with various government incentives and tax breaks. Availability of skilled manpower along with proportional number of training institutes makes the state an ideal destination for startups. The state has evolved its policies to offer a startup friendly ecosystem with a clear focus on incubation, funding and individual startups.

The policy offers benefits and incentives across various areas of intervention to startups. Madhya Pradesh Industrial Development Corporation (MPIDC) has emerged as the leading investment promotion agency worldwide. In the field of investment promotion, the state scored 97%. In parameters comprising inviting investors, taking investment to Madhya Pradesh, providing investors with facilities after setting up companies, building infrastructure and website, the state scored 100%. Madhya Pradesh is the second largest state in India and is among the fastest growing ones with significant investments and economic growth in the past few years. The State of Madhya Pradesh has developed a robust infrastructure along with conducive policy environment and industrial growth centered which has boosted the growth of industrialization. Realizing the high potential in the manufacturing industry, this State has positioned itself as a favorable destination for high tech industries with heavy Engineering, IT, Telecommunications, ESDM, Automobiles, Textiles, Cement, Pharmaceuticals, Agro and Food Processing based industries by establishing a dedicated Industrial Cluster in various places across the State. This has increased the growth of industries and has, therefore, resulted in the higher demand for Incubation, Plug and Play facilities for upcoming entrepreneurs in the State.

Objective of study:

This study has contributed toward structuring and documenting the growth driving trends, and it will help the budding entrepreneurs to get familiar with the contemporary trends, pros and cons associated with it and the ways to leverage these trends to build a successful startup. The study also shows enhancement of the business ecosystem for start-ups.

Startup Ecosystem

The period 2018–19 is considered an inflection point for the Indian startup ecosystem with the emergence of six “unicorns” in those 2 years. Since then, the Indian startup ecosystem has evolved steadily owing to several underlying factors, including 600 million citizens are still under the age of 25, with rising internet, smartphone, and financial penetration. With the growing middle class with increasing disposable income and social media adoption, changing consumer demographics that were previously inaccessible, with mobile and data tariffs among the lowest in the world and incorporated and increasing number of active domestic and foreign angels/VC funders. The improvement in ease of doing business and conducive innovation environment through adoption of digital technologies and government initiatives like Startup India and Digital India and establishing regulatory infrastructure.

Higher education: India has a huge pool of engineering and technical graduates (though many

need training before they can be employed). At first glance, gas pricing in India appears notoriously complicated, as there are a variety of different prices at the wellhead. In a nutshell: the price of domestic gas to producers is set according to the terms of the fiscal regime that governs a producing field. Agglomeration effect in Tier 1 cities has created larger clusters of startups, investors, and supporting infrastructure.

Industry-academic-government linkages: growth in the number of university and industry-led incubators and accelerators, and setting up of government patent hubs. One of the major shifts in making digital services more accessible to the masses was spurred by the telecom industry shake-up, driven largely by a new entrant, Reliance Jio's price war over data in 2016. This near commoditization of the internet gave Indians the world's cheapest data plans and opened up an entirely new user base.

Recent Trends in Investment in Indian Startups and Data Availability:

Between 2011 and 2015, investment values increased at a compound annual growth rate (CAGR) of over 75% and the number of deals at a CAGR of over 80%. Since then, VC investments have increased rapidly according to various estimates and peaked in 2019. Under the Nomination Regime (covering the period from Independence to the early 1990s, whilst exploration and production turned into carried out completely by means of the NOCs) costs have been constant via the government below its Administered rate Mechanism (APM) on a 'price-plus' basis – or expenses plus a regulated price-of-return. A challenge for obtaining data on startup finance is that they are mostly in the private realm where companies charge a subscription fee for accessing investment data.

Challenges Faced by Startups:

A large market opportunity but Indians still do not have the discretionary income needed to create unparalleled products. India's middle class of about 78 million only earn INR 250,000 per year according to the National Institute for Applied Economic Research (The Economist 2019).

Regulatory and taxation complexities also affect startup profitability. Corporate tax rates are high, although recently reduced to 22% and 14% in 2019 from 33%. Terms for startups to qualify for government benefits are too stringent and the application process cumbersome, and once revenues exceed INR 1 billion they are disqualified. This has led to a third of the entrepreneurs actively looking at relocating out of India to reduce compliance and tax burdens, according to a survey.

Indian startups, like their global counterparts, struggle with a high failure rate with technology venture success rates at lower than 5% worldwide. While incubators and accelerators have been most effective in supporting startups, the government will need to focus on simplifying regulation around registering companies, bankruptcy laws, and getting failed entrepreneurs back into the system. Many Indian startups want to expand globally but face issues of credibility, except for software as a service (SaaS players) players, and even such entrepreneurs cannot tap into a global market as they are often unaware of global market opportunities. India also struggles with a lack of innovation, lagging behind Japan, the PRC, and the Republic of Korea in international patents. One study cited lack of innovation as the most common reason for the high rate of failure. A lack of skilled workforce, inadequate formal mentoring, and poor business ethics with over 70% of India's engineering graduates being considered "unemployable."

Conclusion:

Study expanded competitiveness of states accounts for increased investments in startups inside the ones states. This indicates that once states make investments extra in R&D, making it simpler to file patents, and develop tie-ups with universities and industry by means of expanding the incubator/accelerator ecosystem, startups benefit from better investment and access to technology and expertise. The government will now want to recognition on raising top-notch technical talent and international business skills through “reverse brain-drain” and making India a startup-friendly nation. India can learn from Israel and nations that make investments heavily in R&D, and strengthen linkages between startups, corporates, academic institutions, and the government. India punches above its weight in terms of international innovation and much more can be accomplished in developing human capital and investing in higher education and putting in place an intellectual property approach in innovation. Startups in India will also require support for entrepreneurs and innovators who are frequently only interested and constrained in producing their own products and services and do not have the expertise and capacity scale with higher accounting, marketing, and sales.

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