

# CHALLENGES FACED BY STARTUPS

Entrepreneurship is becoming increasingly popular with the youth and experienced professionals in India and abroad. This has led to the mushrooming of Startups. Entrepreneurs face multiple problems while starting and running a new business. This paper explores some of the severe challenges and potential solutions.

© Nellooli P Rajasekharan



## Challenges Faced by Startups

The world is seeing a boom in new businesses. Starting a new business has attracted new management graduates and experienced professionals alike. Though many countries have started supporting startups and the environment has become generally more supportive, entrepreneurs still face numerous challenges on the road to success. Fortunately, today, they are also blessed with more resources and information than ever before to deal with such problems.

### **1 Picking the right business**

Many fail as entrepreneurs as they do not choose the right business. They get carried away by their rainbow rather than finding the gaps and providing customers with what they need or want. It takes experience, knowledge and analytical skills to decide whether a business idea is viable. For example, building a Google search engine was a good idea in the 1990s, but most entrepreneurs could not execute that idea to the quality required for success. So, a business idea has to be highly personalised to the entrepreneur to leverage their abilities, interests, passion, knowledge, access to capital, connections, etc.

### **2 Developing the Vision and Business Idea**

To have a great idea, many of them are necessary to start with. There is far more opportunity today than there is ability. Envisioning ideas is the first task of an entrepreneur. While others see problems, an entrepreneur sees opportunities. The main business challenge is converting an opportunity into a business idea. The entrepreneurial process creates value out of nothing, a process of alchemy that creates innovative products and services.

Most individuals are comfortable with the current way of doing things. An entrepreneur has to envision and forecast the future. An entrepreneur who does not live ahead of time loses his relevance. In the late 70s and early 80s, while IBM saw an increase in demand for their mainframe computers, Steve Jobs envisioned a personal computer in every home, and Bill Gates envisioned the need for easy-to-use software for personal computers. Those visions made Bill Gates the wealthiest man in the world and Steve Jobs the most famous businessperson of the 21st century.



### **3 Delivering the promise**

Often, first-time entrepreneurs make the mistake of immediately trying to go too big with the idea. Some common mistakes are trying to open more than one business at once or opening a business that requires millions of dollars when they only have access to a few thousand dollars. It is good to have ambition, but some small wins and proof of concept are needed to learn and reframe ideas before growth. To have a great business, the entrepreneur must believe in the product/ Services they offer and focus on delivering the promise.

### **4 Financing the business**

Every entrepreneur faces this issue at some point. While some businesses can be bootstrapped (operated without a cash injection), most businesses need a cash injection for their needed resources. This is critical in businesses that need a minimum scale to be profitable.

Entrepreneurs often over-focus on investors. But private equity, angel funds or venture capital are not the only options. Other options include project financing, pre-selling, Original Equipment manufacturing for other brands, donations via crowdfunding, pre-selling, co-branding, technology licensing, loans, and grants.

### **5 Focusing on the right customers**

In the initial stages, startups mainly focus on providing good quality products and services. So they do not need to spend heavily on advertising or marketing. However not everyone is a customer. So, focusing on the target customer group that needs the product or service is critical for success. Selling to people who have expressed interest or desire in the product helps save time compared to convincing people with no interest. So it is more effective to find interested people.

Possessed and entirely convinced by their ideas, entrepreneurs sometimes do not invest in adequate market testing or tend to discount the feedback from such studies that do not fit their views.

### **6 Finding the Right Business Location**

Finding the appropriate business location is not easy. Many business models dictate the nature of the business place needed. This needs careful attention in the beginning. Modifying the business model to suit the location is not unusual.

### **7 Dealing with the 'no paycheck'**

Entrepreneurs are initially short of cash due to the need for investment and the lack of a steady paycheck. This affects their sense of financial security. If the person has a family, the stress multiplies manifold. The situation remains unstable till the business becomes stable and profitable.



## **8 Cash flow management**

Cash flow decides small business survival. Yet many entrepreneurs do not understand it or take it seriously. They struggle to pay bills while waiting for checks to arrive. Usually, the problems stem from delayed invoicing, poor follow-up and collection of dues, liberal credit policy in sales, lack of hard negotiation for the credit period with suppliers, building an unsustainable fixed cost base, and overstaffing. When a customer doesn't pay on time, everything is at risk.

Proper budgeting, planning, and controlling expenses are critical to effective cash flow management. Sometimes, profitability may have to be compromised to meet cash flow requirements. However, doing that without compromising the intended price positioning in the market is a big challenge.

Another approach to improve cash flow is to require faster invoice payments. Many companies now demand immediate payment upon delivery. In this digital age, when customers can pay invoices from their mobile phones, it makes sense for startups to be tight on credit and follow up to realise payments due to them. Levying penal interest on overdue payments ensures that bank loan costs are covered, without which the whole profit from a transaction could be lost.

Cash flow management can also be addressed by asking suppliers to extend the credit period. Building solid relationships with suppliers based on trust and sharing relevant aspects of your strategy, rather than balance sheets, is critical to this relationship-building process.

## **9 Recruiting Staff**

The recruitment process can take time. Reviewing CVs and sitting through interviews to find the diamonds can be a time-consuming process. Entrepreneurs find it difficult to invest the time required for this. However, delegating this critical function to others could have disastrous long-term consequences.

Attractive packages may have to be offered to get the best people on board and retain them long-term. Given the financial constraints of a startup, this has to be done on a very selective basis to fill strategically significant positions where long-term retention is essential for business success. At this stage, the employee hunt has to be approached the same way, through excellent targeting, like the customer hunt, as the organisation has no recruitment brand or market presence.



Referral from staff is another way to get suitable candidates, especially if existing staff would recommend based on the work ethic and potential of the candidates. It is also cost-effective. Making expectations clear for the staff and the organisation lays the foundation for a long-term, mutually rewarding relationship.

### **10 Time and priority management**

Given the multiple and conflicting demands on their time, time management is one of the biggest problems for entrepreneurs. They have to wear many, if not all hats. The solution is very effective prioritisation. It pays to invest in a good training program and constantly ask;

- Is this the best use of my time to build my business?
- Who else, inside or outside the organisation, can do it effectively?

Effective delegation also becomes very important in this context.

### **11 Outsourcing:**

Startups struggle with the decision of whether to build internal capacity or outsource. Outsourcing non-core activities can immensely help startups. Even if the payment is a little higher, the savings in time, opportunity cost and ease of scalability could easily offset it. With the increasing availability of high-quality services in the market, this is a serious issue for consideration. One approach is to build internal capacity for non-core functions only if they cannot be effectively outsourced. Some functions that can be effectively outsourced are accounting services, statutory filings, payroll, compensation surveys, market surveys, cleaning services, transport, travel support, process design, training, and ERP deployment.

### **12 Marketing strategy**

Entrepreneurs want to maximise their return on investment with efficient, targeted marketing that gets results. If an entrepreneur is not strong in creating marketing plans, seeking professional advice and support is better. At this point, a core marketing plan is required to motivate purchases. The marketing expert should craft a plan with options to use the allocated budget and produce the expected profits.



### **13 Business Planning**

The actual value of business planning is to identify the challenges and pitfalls and plan for them before they happen rather than getting bogged down by them after the business has been launched. The planning process is more important than the plan itself.

Business planning is a way to view the business holistically to help align the vision for the product with a significant market segment to be profitable. It should also address all aspects of the business, such as marketing, sales, production, supply chain, technology, finance, human resources and computer systems.

### **14 Self-doubt**

An entrepreneur's life is not enviable, at least in the beginning. It is easy to get discouraged when something goes wrong, or you're not growing as fast as you had planned. Self-doubt creeps in, and they feel like giving up. Being able to overcome self-doubt is essential for new entrepreneurs. It is precious to have a sound support system of family, friends, and an advisory board that can objectively critique and help the business stay on track.

### **15 Dealing with competition**

John D. Rockefeller famously said, "*Competition is a sin*". Why bother competing when you can be an innovator and start something new? Hundreds of heavy metal bands copied Metallica's unique style, and none had the same success as Metallica. Copying is the path to mediocrity, and pioneering is the path to success. Successful entrepreneurs ask: "*What is missing in the market?*" And how can I fill it profitably?

### **16 Unforeseen Business Challenges and Expenses**

Just as a sailor prepares for an unexpected storm, an entrepreneur has to prepare for whatever comes. Unexpected challenges can come in lawsuits, changes in government policies, inability to pay staff and bills on time, taxes, staff resignation, bad customer debts, loss of market share, dwindling working capital, inadequate stock or inventory and many others. If not handled properly, these business challenges can ruin the plan to build a successful business.

Another challenge an entrepreneur must expect is an unforeseen increase in business expenses. If not handled properly, it might result in constant negative cash flow and eventual closedown. On the positive side, an unexpected surge in demand could result in a negative reputation if the supply chain is not scalable to cope with it.



## **17 Keeping up with Industrial Changes and Trends**

Entrepreneurs must be prepared for changes in trends when starting a small business. Trends have made or broken businesses. Industrial changes and trends have wiped out profitable businesses. The challenge is to know that trends can be friends. Smart entrepreneurs swiftly adjust their business plans to capitalise on trends. They develop potent sensors that constantly monitor trends.

## **18 Legal questions**

Most entrepreneurs struggle to understand three critical legal aspects of business:

1. How should they structure the business while incorporating?
2. What licenses and permits are required by their city, county, state, country or globally?
3. What level of protection is needed for the business regarding patents, copyrights, trademarks, and liabilities?

To understand how to incorporate the business, people can either research or seek the advice of a lawyer. Determining the licensing and permit requirements can be as simple as calling the city, county, and local offices. Many of them have such information online.

Deciding on patents, trademarks, and other protection mechanisms is one of the legal grey areas entrepreneurs face. Lawyers tend to be conservative on this issue and recommend complete protection at a substantial cost.

This is an area where professional help must be sought. Generally, most people never need patents. So, depending on the business model and what needs to be protected, the entrepreneur has to decide how and what to protect.

## **Additional challenges faced by entrepreneurs in India**

### **19 Bureaucracy**

According to Max Weber, an influential social thinker who studied bureaucracy in detail, some of the main characteristics of bureaucracy are:

- Official business is conducted continuously.
- Official business is conducted according to written rules.
- Roles and responsibilities are defined within a hierarchy with rights of supervision and appeal.
- Official and private business and income are kept strictly separate.



There are many procedures to be followed and clearances to be obtained to start and operate a business. Each of these procedures can take an inordinately large amount of time. Procedures are established to safeguard the interest of the ordinary person. But, sometimes, rules and regulations stop serving the purpose they were designed for. They become tyrannical, leading to an enormous waste of time and effort in ensuring statutory compliance. Lack of resources is a significant problem faced by new ventures, who find it extremely taxing to divert time and attention to such procedural issues. But non compliance is not an option no matter what it costs.

## **20 Corruption**

While corruption cannot be justified under any circumstances, it is a bitter truth that it is rampant in many countries. As it hampers business growth and increases wasted expenses, it challenges startups. Sometimes, people pay money to hasten processes and do not ask for undue or illegal favours. In an environment where bureaucratic burden and delay are endemic, firms find bribes helpful to reduce the crippling red tape it faces. Entrepreneurs have experienced high levels of corruption among employees of large private-sector companies and in the government.

Many entrepreneurs choose the middle path and give in to corruption in some instances, but some have later on fought vehemently against it and succeeded. Some unethical entrepreneurs use their access to corrupt officials or personal networks as a competitive advantage and create entry barriers for the competition.

## **21 Labour**

Lack of growth in the manufacturing sector in India is often attributed to red tape, corruption, and the crippling tax regime that creates an uneven playing field between local and imported goods. But the low productivity of labour is also a significant factor. In the early days of offshoring, firms from the US and Western Europe preferred to set up manufacturing facilities in Thailand, Mexico, and China rather than in India, though these countries also had equally bad records of red tape and corruption. The labour cost in India has increased substantially over the past decade due to increased demand without a corresponding increase in skills or productivity. An entrepreneur needs to look at the cost of doing business compared to lower-cost locations outside India.

## **22 Regional Sentiments**

Many businesses have failed because they did not consider the sentiments and culture of the local population. Many successful businesses have managed to identify and capitalise on local sentiments. Many international fast food chains, such as Pizza Hut and McDonald's, do not serve beef or pork as a sign of respect for the local culture. Some businesses suffer due to the activities of anti-social elements who use cultural differences to go on rampages and destroy shops.





Local communities expect to gain from every business set up in its vicinity. This is especially true of businesses that come up in economically backward areas. The expectations range from employment in the firm, contributions to infrastructure development, and contributions to social and cultural causes. Many communities do not respond positively to the large-scale employment of migrant workers. Resistance from local communication can have a severe negative impact on businesses, including potential closedown.

### **23 Gray Market and Counterfeit goods**

Grey market refers to the flow of goods through unauthorised distribution channels not intended by the manufacturer. Going around the authorised dealer or smuggling usually supports it. Generally, this happens when the price of a product in the local market is much higher than that in other markets.

In India, the goods that are usually smuggled in are cell phones, electronic goods, jewellery, and alcohol.

Another problem is that of counterfeit goods. Counterfeit goods are not part of the grey market, but increasingly, people are clubbing the two together and including counterfeit goods in the definition of 'grey' products. Such goods create unhealthy competition and could create serious problems for a startup.

These aspects could work as a checklist for entrepreneurs, constantly reminding them of potential pitfalls and helping them increase their chances of success.