

## **BOTTLENECK TO SUCCESS: CASE STUDY ON SCALING UP ISSUES OF INDIAN START-UPS**

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### **ABSTRACT**

The dynamic growth of start-up companies in India has significantly disrupted the business landscape. However, many start-ups encounter substantial setbacks during the scaling-up stage. This qualitative study explores the challenges faced by Indian start-ups as they scale their businesses. The findings reveal that the primary obstacles include the non-availability of financial resources, difficulties in acquiring the right talent, and challenges in achieving product acceptance. According to the Department for Promotion of Industry and Internal Trade (DPIIT), India is home to over 50,000 start-ups as of 2023, with a yearly growth rate of approximately 12-15%. Despite this robust growth, data shows that about 90% of Indian start-ups fail within the first five years, primarily due to scaling issues. This study highlights that limited access to financial resources remains a critical barrier, with start-ups often struggling to secure funding beyond the initial stages. Talent acquisition is another major hurdle, as start-ups compete with established companies for skilled professionals. Furthermore, gaining market acceptance for new products poses significant challenges due to high competition and market saturation. By developing a comprehensive model, the study demonstrates that government intervention can play a crucial role in addressing these challenges. Initiatives like the Startup India program, which offers tax benefits, easier compliance, and funding support, are steps in the right direction. Additionally, the results underscore the importance of clearly defining problem statements, exercising

patience, and possessing a risk-taking ability as essential factors for the success of start-up companies.

**Keywords:** *Scaling-up Challenges, Start-ups, Financial Resources*

## 1. INTRODUCTION

The dynamic growth of start-up companies in India has significantly disrupted the business landscape. (Khuan, Andriani, & Rukmana, 2023). Start-up firms are launched with the expectation of rapid growth in an uncertain environment. Daily, numerous start-ups emerge worldwide, driven by the advent of new markets and accessible technologies (Kárpáti-Daróczy, & Karlovitz, 2020). However, despite their ambitious goals, these start-ups face high uncertainty and alarming failure rates, with approximately sixty percent not surviving beyond their first five years. The few that do succeed often transform into influential companies, highlighting the critical need for a sustainable business plan with future scalability potential. Major factors influencing scalability include barriers to entry, imitation costs, growth rate, and expansion plans (Galli-Debicella, 2021). A start-up idea must be unique, promising, and capable of solving existing problems to thrive in such a competitive landscape.

According to the Department for Promotion of Industry and Internal Trade (DPIIT), as of 2023, India has become home to over 50,000 start-ups, reflecting a significant growth rate of approximately 12-15% annually. The Government of India's initiatives, such as the Startup India program, aim to bolster this growth by providing tax benefits, easing regulatory compliance, and offering funding support (Singh, 2021). Despite these efforts, the high failure rate of start-ups remains a concern, with the Startup India Annual Report indicating that around 90% of start-ups fail within the first five years. This data underscores the critical need to understand and address the challenges faced during the scaling-up phase to foster a more robust start-up ecosystem.

The purpose of this study is to investigate the specific challenges faced by start-up companies in India during the scaling-up phase (Garg & Gupta, 2021). By examining these challenges, the study aims to identify key factors that impede growth and propose strategies to overcome them. This research seeks to develop a comprehensive model to help start-ups navigate the complexities of scaling up, thereby increasing their chances

of sustained success (Trautwein, 2021). The study will draw upon empirical data collected from interviews with start-up founders conducted between December 2023 and January 2024. These insights will provide a deeper understanding of the practical issues encountered and the potential solutions that can be implemented.

While there is a substantial body of literature on start-up growth and failure, there is a distinct gap in research focusing specifically on the scaling-up phase of Indian start-ups. Previous studies have primarily concentrated on the initial stages of start-up development, including ideation, funding, and market entry. However, limited research addresses the unique challenges that arise when start-ups attempt to scale their operations (Audretsch et al., 2020; Joshi, 2021). For instance, reports by NASSCOM and Bain & Company highlight general growth obstacles but do not delve deeply into the specific issues faced during scaling.

The proposed study is grounded in several key theoretical frameworks that help explain the dynamics of start-up growth and scalability. One such framework is the Resource-Based View (RBV), which posits that a firm's resources and capabilities are critical to achieving competitive advantage and growth (El Nemar et al., 2022). By examining the availability and management of financial resources, talent acquisition, and product acceptance, this study aligns with the RBV framework. Additionally, the Diffusion of Innovations theory, which explores how new ideas and technologies spread within a market, is relevant in understanding the challenges of product acceptance and market penetration. (Khurana & Farhat, 2021). These theories provide a solid foundation for analyzing the empirical data collected from start-up founders and developing practical recommendations for overcoming scaling challenges.

The insights gained from this study have significant implications for start-up founders, investors, and policymakers. For start-up founders, understanding the common pitfalls and effective strategies for scaling up can inform better decision-making and resource allocation (Joseph, Aboobaker & KA, 2023). Investors can benefit from this knowledge by identifying more promising ventures with a higher likelihood of successful scaling. Policymakers can leverage the findings to design targeted support programs that address the specific needs of scaling start-ups, thereby fostering a more conducive environment for growth. Additionally, this study contributes to the broader discourse

on start-up success by highlighting the critical role of government support and the importance of a well-defined business model.

In conclusion, this study aims to provide a comprehensive understanding of the scaling-up challenges faced by Indian start-ups. By drawing upon empirical data from interviews with start-up founders, the research seeks to identify key factors that impede growth and propose practical solutions (Baltrunaite & Sekliuckiene, 2020). The subsequent sections of this paper will detail the methodology used for data collection and analysis, present the findings and discussion, and offer recommendations for start-up founders, investors, and policymakers. Through this comprehensive approach, the study endeavors to contribute valuable insights to the ongoing efforts to strengthen the start-up ecosystem in India and support sustained entrepreneurial growth.

## 2. INDIA'S START-UP REVOLUTION

### 2.1 Historical Development and Current Landscape

The history of start-ups in India illustrates the country's evolving entrepreneurial landscape and dynamic economic environment, marked by significant transformations due to technological advancements, government initiatives, and a growing culture of innovation.

**Early Beginnings: Pre-2000s** Before the 1990s, start-ups were almost non-existent in India, with entrepreneurship confined to traditional family businesses. The economic liberalization of 1991, which reduced trade barriers, deregulated industries, and promoted foreign direct investment, laid the foundation for private enterprises and new ventures (Jalaja, 2022).

**Dot-com Boom and Early 2000s** The late 1990s and early 2000s saw the first wave of Indian tech start-ups, driven by the global dot-com boom. Companies like Infosys, Wipro, and TCS paved the way for a tech-driven entrepreneurial spirit, though the dot-com bubble burst in 2000 highlighted the risks associated with tech ventures.

**Rise of New Age Start-ups: 2000-2010** The first decade of the 21st century saw more recognizable start-ups, such as MakeMyTrip, Naukri.com, and Rediff.com, leveraging

the growing internet user base (Azam, 2021). The IT industry's growth and increasing internet penetration provided fertile ground for these early digital ventures.

**The Inflection Point: Post-2010** The post-2010 era marked a true inflection point for Indian start-ups, with high-profile companies like Flipkart, Zomato, Ola, and Paytm revolutionizing e-commerce, food delivery, transportation, and digital payments. This period saw increased smartphone penetration, affordable internet access, and significant venture capital and private equity funding, bolstering the start-up culture.

**Government Initiatives and Current Landscape: 2015-Present** In 2016, the Indian government launched the Startup India initiative to support start-ups with simplified regulations, tax exemptions, funding, and credit access. Other initiatives like the Atal Innovation Mission and the Fund of Funds for Start-ups further strengthened the ecosystem.

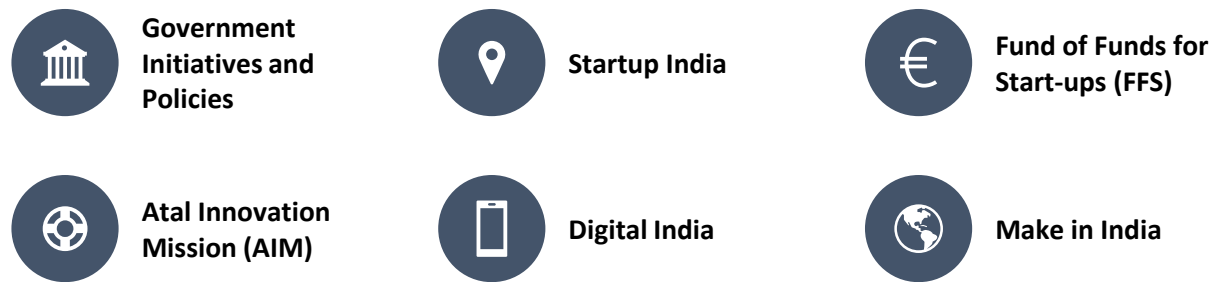
Today, India boasts over 50,000 start-ups across various sectors, with several unicorns like Byju's, Swiggy, and Oyo Rooms. The ecosystem has significantly matured, transforming industries and creating substantial employment opportunities. The future of Indian start-ups looks promising, driven by ongoing technological advancements and supportive government policies (Avittathur, 2024).

## **2.2 Current Start-Up Ecosystem**

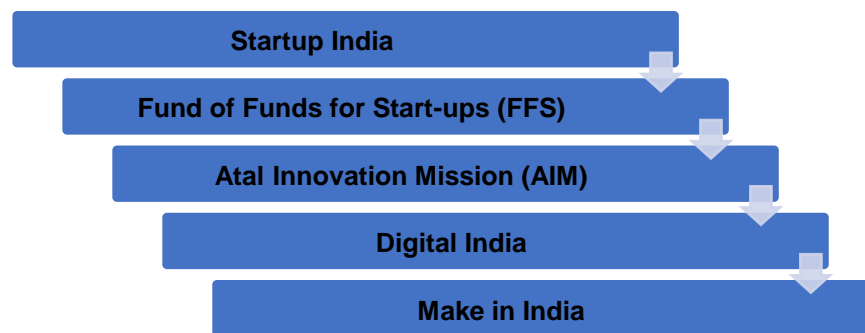
### **Start-Up Landscape in 2023**

As of 2023, India has solidified its position as one of the largest and most dynamic start-up ecosystems in the world. According to the Department for Promotion of Industry and Internal Trade (DPIIT), India is home to over 50,000 recognized start-ups, spanning various sectors and regions. The ecosystem is characterized by a vibrant mix of early-stage ventures, growth-stage companies, and numerous unicorns (start-ups valued at over \$1 billion). The major metropolitan cities such as Bengaluru, Delhi-NCR, and Mumbai continue to be the primary hubs, but there is also significant activity in emerging start-up cities like Hyderabad, Pune, and Chennai. The overall growth rate of start-ups in India is approximately 12-15% annually, reflecting the increasing entrepreneurial spirit and supportive infrastructure.

## Key Sectors and Emerging Trends



## Government Initiatives and Policies



## Challenges in Scaling Up



### 3. THEORETICAL FRAMEWORK & HYPOTHESIS DEVELOPMENT

This study integrates the Resource-Based View (RBV) and Diffusion of Innovations Theory to explore the scaling challenges faced by Indian start-ups and offer strategic insights for overcoming them (Khuan, Andriani & Rukmana, 2023). The RBV framework underscores the importance of unique, valuable, and inimitable internal

resources, such as skilled employees, adequate funding, proprietary technologies, and effective management practices, in achieving a sustainable competitive advantage. Concurrently, the Diffusion of Innovations Theory highlights the need for start-ups to focus on market acceptance and the adoption process of their innovative products or services. By ensuring innovations are perceived as advantageous, compatible, and easily observable, start-ups can effectively target early adopters and leverage various communication channels to enhance market penetration (Guckenbiehl, de Zubieta, & Lindsay, 2021).

Combining these theoretical perspectives, the study suggests that start-ups with strong internal resources can better navigate the scaling-up phase by strategically managing the adoption process in the market. The empirical findings indicate that financial resource constraints, talent acquisition difficulties, market acceptance, and operational challenges are significant obstacles to scaling. The study proposes the hypothesis that start-ups leveraging unique internal strengths (RBV) and effectively managing innovation adoption (Diffusion of Innovations) are more likely to achieve successful scaling. This comprehensive framework provides valuable insights for start-up founders and managers, guiding them to develop targeted strategies that enhance both internal capabilities and market acceptance, ultimately contributing to the sustainable growth and success of start-ups in India.

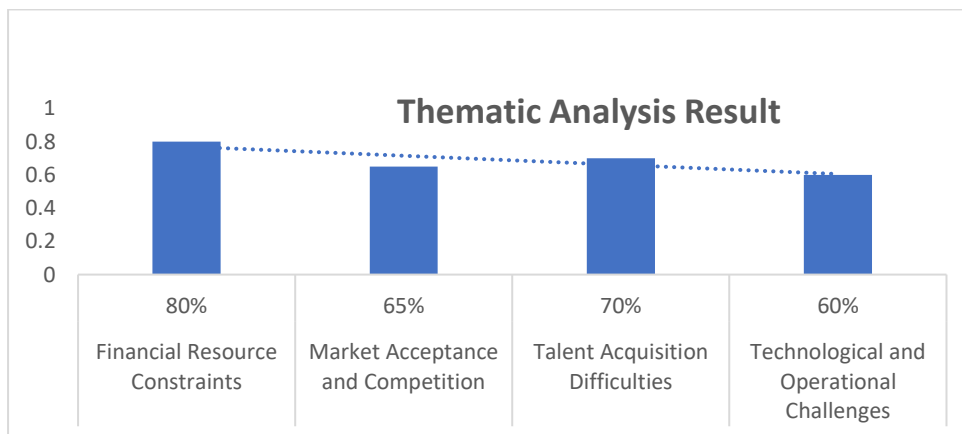
#### 4. FINDINGS

##### 4.1 Data Collection and Methodology

The research adopted a qualitative approach to explore the challenges faced by Indian start-ups during the scaling-up phase. Semi-structured interviews were conducted with founders and key management personnel from 20 start-ups across various sectors, including technology, e-commerce, fintech, and healthtech. This method allowed for flexibility in responses while ensuring that essential topics were covered. The data collection occurred over a two-month period, from December 2023 to January 2024. To analyze the collected data, thematic analysis was employed, which helped identify common themes and patterns across the interview responses. This approach provided a comprehensive understanding of the diverse challenges encountered by start-ups.

<b>STARTUP DEMOGRAPHICS</b>	
<b>BUSINESS MODEL</b>	<b>%</b>
B2B	50
B2B+ B2C	30
B2C	20
<b>MODE OF FUNDING</b>	<b>%</b>
Self-funding	80
Friends & relatives	10
Angel investor	10
<b>Types of start-up</b>	
Private limited	50
proprietorship	40
<b>Age of start up</b>	<b>%</b>
Less than 1 yr	2
1-2 yr	7
More than 2 yr	91

Source: Author Own Work



Source: Author Own Work

#### 4.2 Key Insights from Start-Up Founders

Several key insights emerged from the interviews with start-up founders. One of the most frequently mentioned issues was financial resource constraints. Founders highlighted the difficulties in securing second and subsequent rounds of funding, emphasizing the challenge of convincing investors about their sustained growth



potential (Stevenson et al., 2022). Another major concern was talent acquisition. Many founders discussed the intense competition with established firms for skilled professionals, making it difficult for start-ups to offer competitive salaries and benefits (Aryadita, Sukoco & Lyver, 2023). Market acceptance was also a significant challenge, with founders citing high competition and customer skepticism as barriers to gaining traction. Additionally, operational challenges were a common theme, particularly related to scaling infrastructure and maintaining efficiency as the customer base grew. On a positive note, many founders appreciated government initiatives like Startup India, although they also called for more streamlined processes and additional support mechanisms.

### **4.3 Analysis of Interview Responses**

The thematic analysis of interview responses revealed that financial constraints were the most frequently mentioned challenge, with 80% of respondents identifying it as a primary concern. Issues such as managing the burn rate and investor reluctance were commonly noted. Talent acquisition was another major issue, with approximately 70% of founders emphasizing difficulties in hiring and retaining skilled employees, particularly in competition with established companies. Market penetration challenges were highlighted by around 65% of respondents, who struggled with differentiating their products and gaining customer trust in a saturated market. Operational hurdles were cited by about 60% of the start-ups, focusing on the challenges of scaling infrastructure and ensuring efficient processes. While 50% of the respondents appreciated government initiatives, there was a consensus on the need for more practical support and easier access to funding. These findings underscore the multifaceted nature of the challenges faced by start-ups and the critical areas that need addressing to facilitate successful scaling.

## **5. MANAGERIAL AND THEORETICAL IMPLICATIONS**

Start-up founders can benefit greatly from prioritizing clear communication, goal-setting, and fostering a culture of innovation and continuous learning within their teams to drive creativity and adaptability. Building strong relationships with key stakeholders, such as customers, investors, and industry partners, is crucial for fostering trust and collaboration. Continuous monitoring and evaluation of business strategies, along with

seeking mentorship from experienced entrepreneurs, can provide valuable insights for scaling ventures successfully. Investors, on the other hand, should conduct thorough due diligence to assess scalability, engage actively with founders for strategic support, maintain a long-term perspective, and diversify their portfolios to mitigate risk and seize opportunities. Policymakers can contribute significantly by streamlining regulatory processes, investing in infrastructure and ecosystem support, incentivizing investments through tax benefits and grants, and promoting entrepreneurship education to build a pipeline of talented innovators. Theoretically, this study highlights the importance of the Resource-Based View (RBV) and Diffusion of Innovations Theory in understanding the scaling challenges of start-ups (Khuan, Andriani, & Rukmana, 2023). By leveraging unique internal resources and managing the innovation adoption process strategically, start-ups can enhance their market penetration and sustain competitive advantage. This integration of RBV and Diffusion of Innovations Theory provides a comprehensive framework for addressing scaling challenges, offering valuable insights for both practitioners and academics in the field of entrepreneurship and innovation management (Hällérstrand, Reim & Malmström, 2023).

## 6. CONCLUSION

The Indian government has played a pivotal role in nurturing and supporting the burgeoning start-up ecosystem through a series of strategic interventions and initiatives. The Startup India Program, launched in 2016, stands as a landmark initiative aimed at fostering innovation, entrepreneurship, and economic growth. This program has had a profound impact on the start-up landscape by providing a conducive environment for start-ups to thrive and scale their operations. One of the most significant aspects of the Startup India Program is the array of tax benefits and incentives offered to start-ups. These include a three-year exemption on profits, aimed at reducing the financial burden on emerging businesses and encouraging reinvestment for growth. Additionally, the program has streamlined regulatory compliance procedures, making it easier for start-ups to navigate bureaucratic hurdles and focus on their core business activities.

Furthermore, the Startup India Program has facilitated funding support through various mechanisms. The Fund of Funds for Startups (FFS) is a notable initiative under this program, with a corpus of INR 10,000 crore aimed at providing financial backing to

early-stage ventures. This fund, managed by the Small Industries Development Bank of India (SIDBI), plays a crucial role in mobilizing domestic capital and improving access to funding for start-ups. Additionally, the Credit Guarantee Fund for Startups (CGFS) ensures collateral-free loans, further enhancing credit access for new ventures. Such funding support mechanisms have been instrumental in fueling innovation and driving the growth of start-ups across diverse sectors. Other initiatives, such as the Atal Innovation Mission (AIM), provide essential support services, mentorship, and infrastructure to budding entrepreneurs.

Successful scaling requires a strategic approach and the implementation of various key strategies. Start-ups must define their problem statements clearly, identifying and understanding the core challenges they face to develop targeted solutions and allocate resources effectively. Patience and risk-taking are essential qualities for start-up founders and management teams, as scaling a business often involves navigating uncertainties and facing unexpected obstacles. Effective use of financial resources is another critical aspect of successful scaling, requiring start-ups to prioritize and allocate funds strategically. This may involve investing in product development, marketing and sales efforts, talent acquisition, and infrastructure expansion. Talent management and retention are paramount, with start-ups needing to hire and retain skilled employees who align with the company's values and vision. Creating a positive work culture, offering competitive compensation and benefits, and providing opportunities for professional growth and development can help attract and retain top talent. Finally, market penetration strategies play a crucial role in scaling a business and expanding its customer base. Start-ups need to develop effective marketing and sales strategies tailored to their target market segments, leveraging digital marketing channels, forming strategic partnerships, and implementing innovative pricing and distribution strategies.

The implications for the Indian start-up ecosystem are substantial, as these strategies and interventions can drive innovation, job creation, and economic growth. However, future research should explore additional factors influencing scaling success, such as industry-specific challenges and regional variations. Understanding these nuances will help tailor more effective support mechanisms for diverse start-up needs.

Fostering a supportive ecosystem, embracing innovation, and nurturing talent are crucial for sustaining the momentum of India's start-up revolution. Continued collaboration between start-ups, investors, policymakers, and other stakeholders is vital to realize the full potential of the Indian start-up ecosystem and position it as a global hub for innovation and entrepreneurship. By implementing these strategies and leveraging government support, start-ups can navigate the complexities of scaling and contribute significantly to India's economic and technological advancement.

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