

IBM Study: Innovation Key to Startup Success in India

77% of venture capitalists surveyed as part of an IBM “Entrepreneurial India” Study believe that Indian startups lack pioneering innovation

New Delhi,, India - 18 May 2017: IBM (NYSE: IBM) recently released an entrepreneurial study conducted by the IBM Institute for Business Value (IBV) based on a survey done in collaboration with Oxford Economics, to understand the rapidly evolving India startup ecosystem and its effects on the wider economy. The results reveal that startups can exploit a range of attributes and advantages unique to India. More than 76% of Indian executives pointed to India’s economic openness as a major business advantage, while 60% identified India’s skilled workforce and 57% of the executives said that India’s large domestic market provides significant advantages.

Key findings:

- More than 90% startups in India fail in their first 5 years. Lack of pioneering innovation (77%) is the topmost reason for the failure of most Indian startups.
- India’s economic openness (76%), skilled workforce (60%) and large domestic market (57%) seen as major business advantages for startups
- 73% of Indian business leaders surveyed believe that ecosystems can help accelerate innovation
- Almost 80% of executives from established companies say collaboration with startups accelerates new ideas
- Stakeholders’ (established businesses, startups, VCs, Government, Higher education) involvement and contribution is key to creating a conducive environment for the success of startup economy

The IBM study, **“Entrepreneurial India”** is based on interviews with more than 1,300 Indian executives, including 600 startup entrepreneurs, 100 venture capitalists, 100 government leaders, 500 leaders of established companies and 22 educational institution leaders to analyze the macro impact of startups on the economic growth of the country. The study further focuses on how 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.

*“Startups are redefining the Indian economy by being the catalysts for technology innovation and collaboration. The Indian startup community; ranked third globally in terms of number of startups has been creating new job opportunities and attracting capital investment. We believe that startups need to focus on societal problems like healthcare, sanitation, education, transportation, alternate energy management and others, which would help deal with the issues that India and the world face. These require investments in deep technology and products which are built to scale globally, said **Nipun Mehrotra, Chief Digital Officer, IBM India/South Asia***

He further added, "At IBM, we work closely with startups, VCs, incubators, academia, and individual developers to foster a culture of innovation and disruption and provide access to deep technologies such as cognitive, blockchain, cloud and other emerging technologies as well as the business mentoring needed for their growth."

Startup activity is driving India's emerging business ecosystems

India's startup community is expanding rapidly with a strong entrepreneurial culture, especially among millennials. Strong government promotion of entrepreneurship has strengthened a rapidly evolving startup culture – a proposed reduction in corporate tax from 30% to 25% is expected to further boost startup activity. The study further stated that market valuation of Indian startups has grown significantly over the past four years, with three times increase in startup investment recorded in 2015. According to the study, approximately 35% of startups are being set up in tier two and tier three cities, thereby promoting accelerated development and industrialization of rural and other less developed areas.

Top roadblocks for India's startups

Despite India's entrepreneurial strength, the startup economy still has not reached full maturity and more than 90% of startups fail within the first five years.

- **Lack of innovation:** 77% of venture capitalists surveyed believe that many Indian startups lack pioneering innovation based on new technologies or unique business models. Indian startups are prone to emulate already successful global ideas.
- **Lack of skilled workforce:** 70% of the venture capitalists believe that talent acquisition is one of the biggest challenges faced by Indian startups, and limited availability of necessary skills impedes growth. As per a study, 80% of engineering graduates in India are deemed unemployable and 48% of employers in India face difficulty in filling vacancies.
- **Lack of sufficient funding:** Indian startups face funding roadblocks both at entry and exit stages while successful global startup ecosystems are well supported by active investor communities. 65% of venture capitalists revealed that funding is one of the major challenges for these companies.
- Other roadblocks include **inadequate formal mentoring, poor business ethics** and **lack of experienced leadership**.

Stakeholder engagement key to derive significant benefits in startup ecosystems

Ecosystems are crucial for India's entrepreneurial economy to thrive. The IBV study also outlines the importance of stakeholders' involvement, along with offering recommendations designed to increase the value of their contributions and accelerate outcomes. Established companies, startups, venture capitalists, government and higher education institutions have significant roles to play and rewards to reap in fostering further development of India's startup economy.

A robust startup community improves the vitality of the Indian economy and provides a gateway to systemic economic transformation. The formation of ecosystems in which established companies, startups, venture

capitalists, government and centers of higher education are able to engage and interact can empower India to consolidate its place as a leader in the global economy.
