

# Contrast between Startup Ecosystem of India and USA

Harshit Gupta, Harshit Kumar Singh, Lakshay Singh

**Abstract:** *In today's fast-growing business world, startups are an important part of the business economy and one of the largest job-producing sectors. Start-ups are usually set up to counter the lack of industry or marketplace and the set-up depends on various factors such as location, economy, culture, etc. In this article, we have tried to give an overview of the startup industry in the US and India and have touched on several key points such as taxes, funding, regulations, etc. that are important while setting up a startup.*

**Keywords:** Entrepreneurship, Start-up, Business, USA, India, Finance, Valuation, Market Cap

## 1. Introduction

Entrepreneurship takes place in many different forms. The course and nature of the start-up is often governed by various motivations and possibilities. Start-ups are usually set up in response to need or lack in the marketplace or industry. So, different marketplaces can be responsible for the setting up of different companies. Therefore, entrepreneurship in India is different from that in the USA. The factors driving the need for entrepreneurship i.e. society, economy, culture etc. are different in both countries. These factors lead to different needs that entrepreneurs must cater to.

### 1.1 Entrepreneurship in India

Entrepreneurship in India is a successful practice due to India's great tech talent and entrepreneurial zeal. Many successful start-ups are at the forefront of driving massive tech transformation in India, as well as job creation. And many of them are building products and services that are competing globally.

In order to understand the development of the entrepreneurship industry in India, we have to first look at the pre-1991 era. This was the time when most of the business and trade were dependent on working with governmental institutions and catering to the needs of government. The social connections and bureaucracy were far more important than the original function of the business. The primary aim was to reduce the consumption of western goods. But after the government liberalised the economy in 1991, the business landscape in the country changed suddenly. Now, the traditional businesses had to compete with the greater foreign companies with better technology. This helped in the boom of IT culture in India as family or traditional businesses were all involved in the development of traditional goods<sup>1</sup>.

In 2006, the share of China and India in the global level was only 2 percent, but they can account for a 25% share on the global level today [2]. India is now ranked 3rd (only behind US and China) for the greatest number of start-ups and is at

the top in terms of the number of new start-ups every day. According to the reports, around 50,000 start-ups were set up in the country in 2018. This indicates that India has a tremendous amount of business opportunities<sup>3</sup>.

### Indian Startup Ecosystem

In a nutshell

**55,000**

Startups Launched In India

**40,000**

Active Startups In India

**33,000**

DPIIT Registered Startups

**385**

Funded Startups That Have Shutdown

**\$63 Bn**

Funding Raised By Indian Startups

**5,400**

Funding Deals Witnessed

**3,202**

Number Of Funded Startups

**7 Years**

Average Time Taken By Indian Startups In Reaching Unicorn Status

**4,640**

Investors Participated In Indian Startup Funding

**Sequoia Capital**

Most Active VC In Indian Startup Ecosystem

**34**

Unicorns In Indian Startup Ecosystem

Source: Datalabs by Inc42+

Inc42+

### 1.2 Comparison of US and India

The Indian start-up ecosystem is currently the third in the world and is continuously evolving. The US can still be called the start-up capital but in comparison to the US, India has approximately twice the number of new start-ups. Indian and US start-up ecosystems have many parallels but at the same time have some differences. Along with different economic and social opportunities, entrepreneurs in the US and India vary in other aspects too. As different countries have different opportunities for innovation, India saw a huge development in technology and thus led to setting up of tech related businesses. The new generation has many opportunities which the old one did not have.

## Enterprise Tech Record 49% Hike In Funding Amount

With the funding amount secured by late stage startups growing at 37%, the average ticket size & median funding amount record 40% & 33% jump respectively



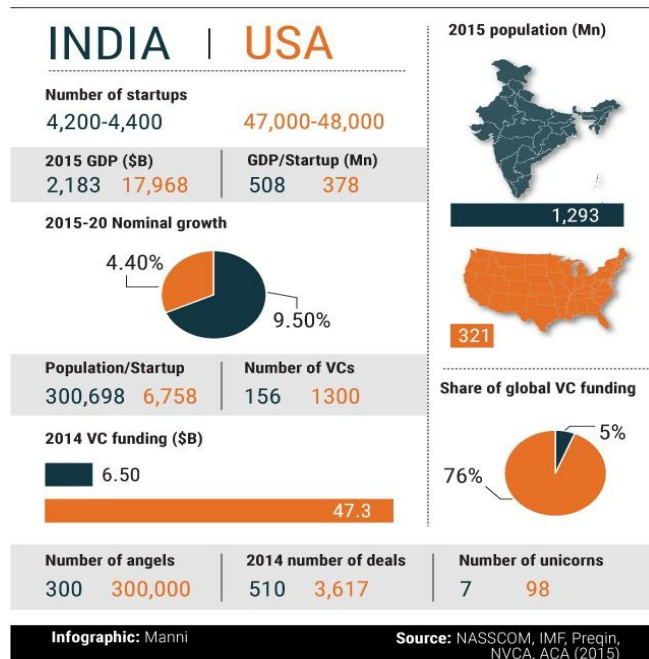
Source: Indian Tech Startup Funding Report 2019  
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DataLabs  
by Inc42

There are some categories where we can see parallels as well as differences between the two ecosystems-

**Population:** India and the US are currently 2nd and 3rd respectively in terms of their population. In 2015, India had a population of about 1.3 billion whereas there were only 330 million people living in the US i.e., a quarter of that in India<sup>4</sup>.

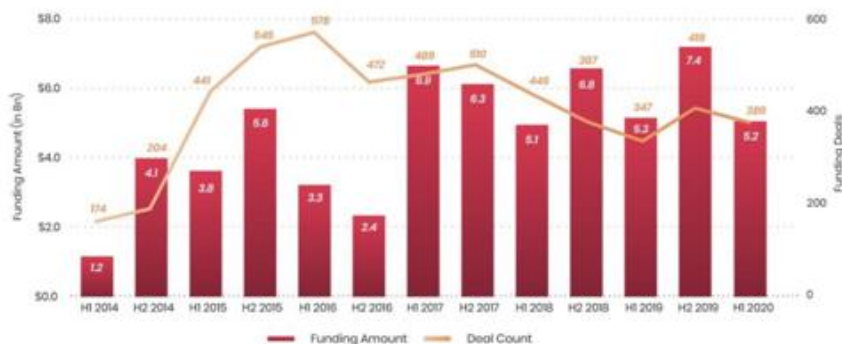
**Number of Start-ups:** In recent times, the Indian start-up ecosystem is scaling fast. According to the reports, the US had around 10 times more start-ups than India in 2015. The US had approximately 45,000 start-ups to its name while India had only 4400. In fact, the number of start-ups in India has nearly tripled from 4400 in 2015 to over 11,500 by 2020. Owing to the population in both the countries, the people involved per start-up in India is quite more than that of the US<sup>4</sup>.



**Number of investors:** Most of the funding for a start-up comes from Angel Investors and Venture Capitalists. In 2015, the number of Angel investors in India were around whereas in the US, the number was close to 3,00,000. Also, VC funding in India was approximately \$6.5 billion whereas in the US, it was \$47 billion<sup>4</sup>.

### The State Of Indian Startup Funding

Between 2014 to H1 2020, Indian startup ecosystem recorded \$63 Bn in funding

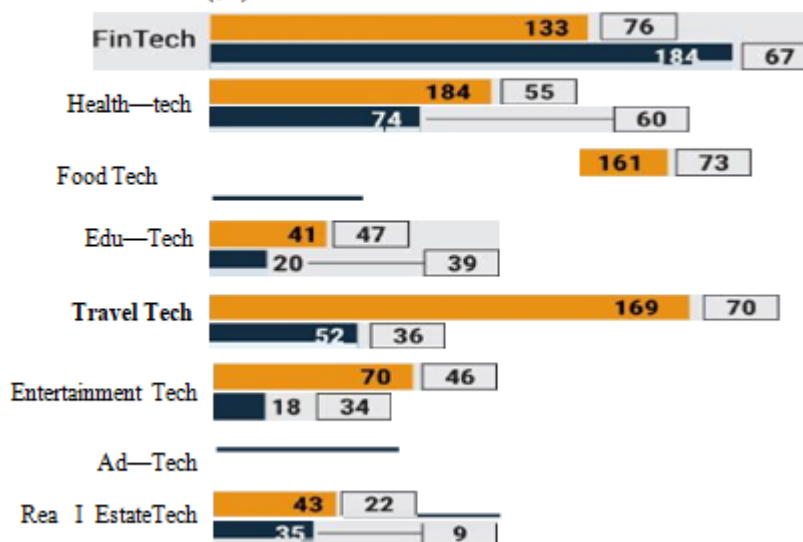


Source: DataLabs by Inc42+  
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### INDIAN FINTECH STARTUPS GOT MORE FUNDING, IN BOTH NUMBER AND VALUE

Deal value (\$B) a. 2015W2016 Number of deals

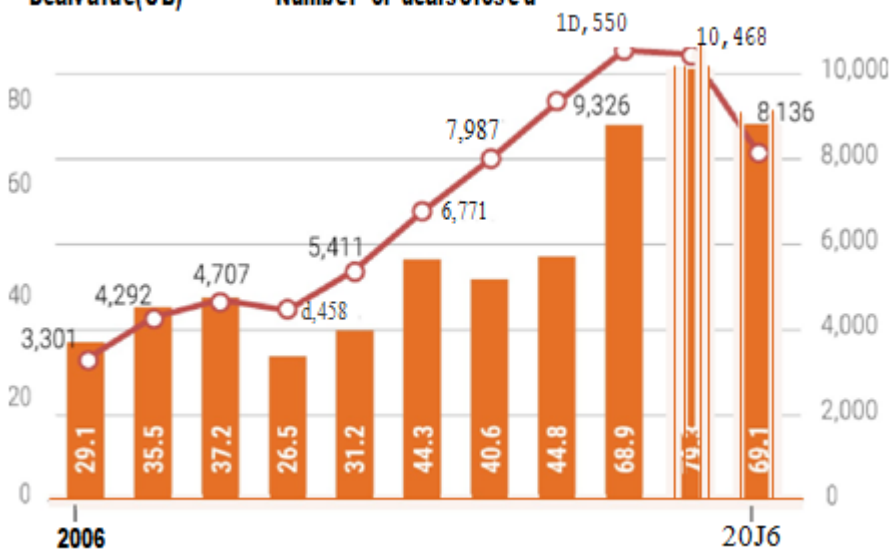


Infographics: BE2<4'j

Source: v'2CFFJ: H:071

### Venture Activity Declined in 2016 in the US, but the invested Capital is still high

Deal value(\$B) - Number of deals closed



Infographic: h1F1T

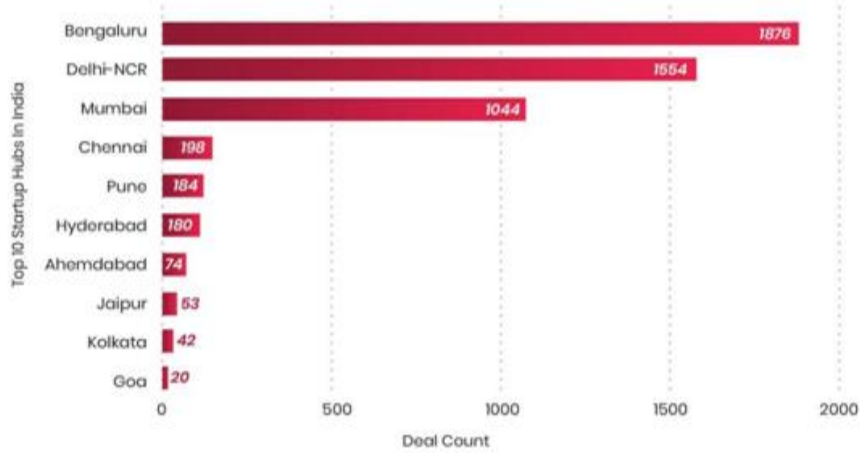
Source: PitchBook (2017)

**Unicorns:** A start-up with a valuation of \$1 billion or more is known as ‘unicorn’. It can be calculated either by using the relative value of prior investments or market capitalization. In 2015, India had about 15 unicorn

companies while the US had close to a 100 (although the population of India is 4 times that of the US). Most of the unicorns in India are from metropolitan cities such as Delhi-NCR, Bengaluru etc.

### Top 10 Startup Hubs In India As Of H1 2020

83% of the total funding deals between 2014 to H1 2020 came from the top three hubs



Source: DataLabs by Inc42+

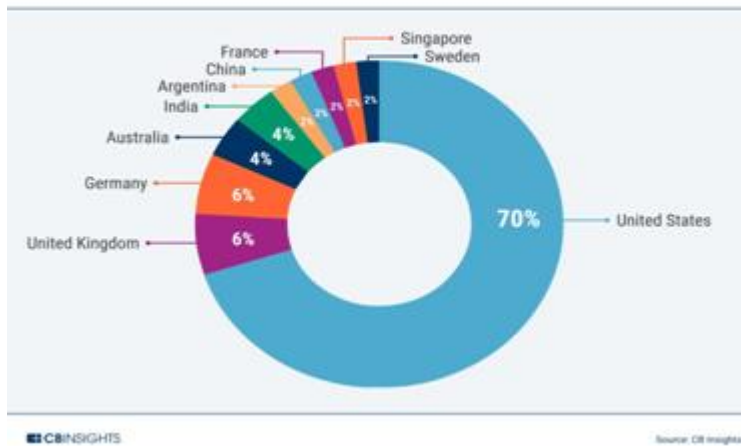


But ‘unicorn’ cannot be considered as a true indicator of success. This is because ‘value creation’ is far more important than ‘value’. Many great and flourishing start-ups

are either bought or are merged with big companies before they are able to reach the ‘unicorn’ status<sup>5</sup>.

### THE US IS HOME TO A MAJORITY OF FUTURE UNICORNS

Future unicorns 2020 by country



CBINSIGHTS

Source: CB Insights

## Indian Unicorns Raked A Total Revenue Of \$9.2 Bn At An Expense Of \$12.2 Bn In FY19

Between FY18 and 19 the revenue surged 47% compared 55% increase in express



Note: Lenskart, Postman, Zerodha and Ola Electric are not included INR to Dollar exchange rate 69.4 for both years  
Source: DataLabs by Inc42+



**Government Regulation:** Indian economy should be more investor friendly. The government regulations have not been very helpful for the entrepreneurial ecosystem in India. As per the report of *World Bank's Ease of Doing Business Index 2017*, India is ranked 130 out of 190 countries. On the other hand, the US has a better performance with a rank 51 and requires less procedures to start a business<sup>3</sup>. Although, there have been government initiatives such as establishing of Rs. 10,000 crores FFS, reducing taxes and creating other friendly policies, but still the governmental support to Indian start-up ecosystem is quite less as compared to that of US and China. Also, there has been a lot more policy uncertainty in India as compared to the US and UK<sup>4</sup>.

**Taxes:** There is not much difference between the marginal corporate tax of India and the US with 38.6% for the former and 38.9% for the latter. One of the biggest concerns for the

start-up ecosystem has been Angel tax which is currently 30% in India. This threatened the survival of some budding start-ups; therefore, some companies have been exempted from paying this tax<sup>4</sup>.

Apart from the above factors, start-ups in the two countries tend to differ due to some social factors too. Some of them are:

**Failure:** In the US, failure may be seen as the stepping stone to success as they celebrate comebacks as gladly as success. Conversely, in India, failure is something which is usually frowned upon and is considered a bad omen. Given the fact that a majority of the start-ups fail, Indian ecosystem must increase its tolerance for initial failures and should instead encourage the failure which may help in future success<sup>6</sup>.

### STARTUP FAILURE BY INDUSTRY



STATISTICS FROM STATISTICBRAIN.COM/STARTUP FAILURE BY INDUSTRY

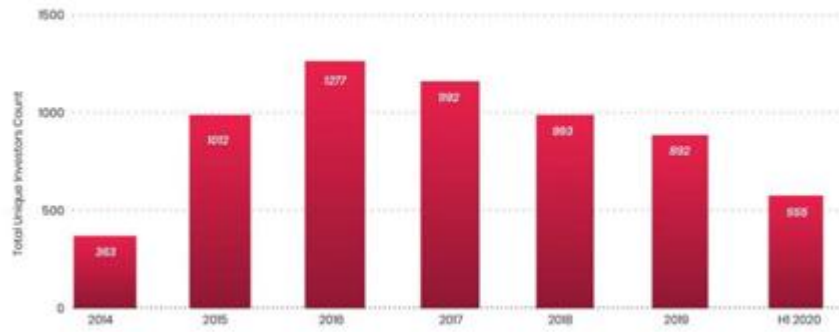
## 2. Funding

In the US, the concept is given much more importance as compared to the revenue model or business model of the start-up. Whereas in India, investors are usually interested in

giving cash if the start-up can present a strong revenue model. Thus, access to capital is somewhat limited in India. This may result in some missed opportunities in India as in the US, many start-ups sacrifice revenue and profit to refine their product and gain a customer/user base<sup>6</sup>.

### 555 Unique Investors Participated In Startup Funding In H1 2020

Sequoia Capital emerged as the top investor in H1 2020



Source: Data.csis by Inc42+

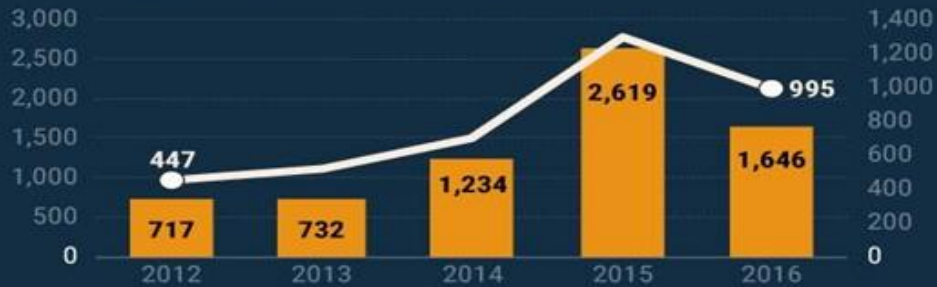


## INDIAN STARTUPS FACED A FUNDING DROUGHT IN 2016

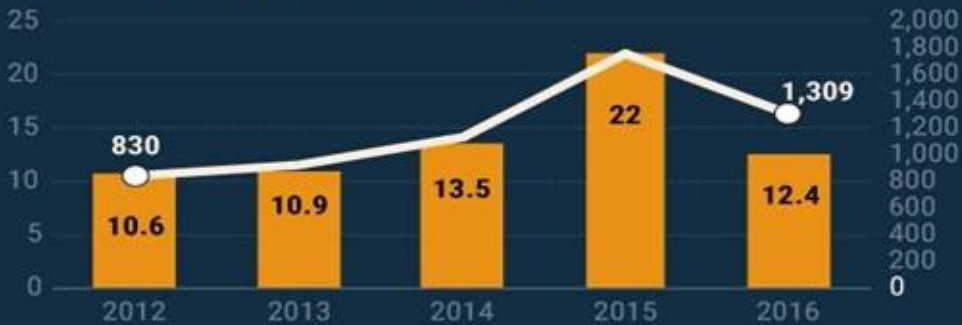
■ Number of deals

— Deal value (\$M)

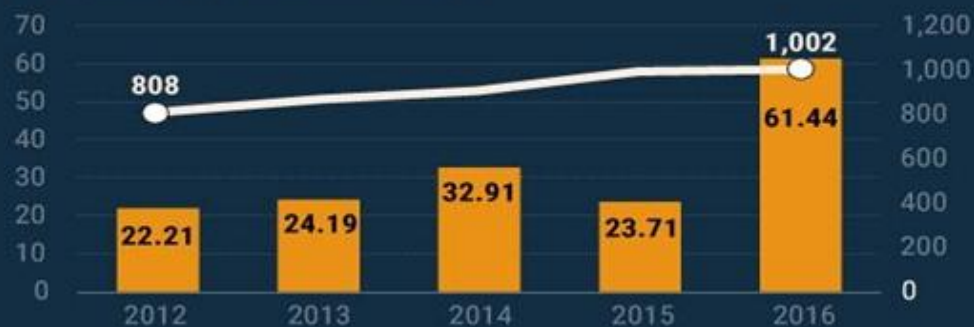
### VENTURE CAPITAL INVESTMENTS

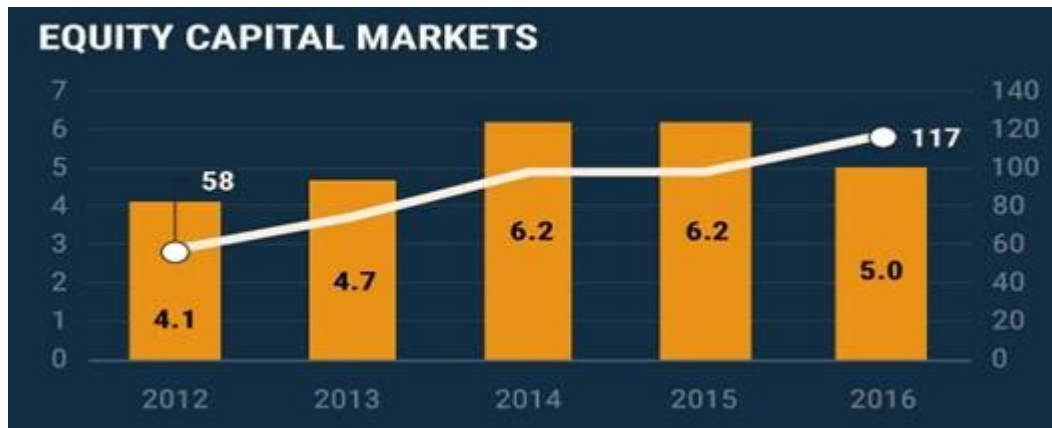


### PRIVATE EQUITY INVESTMENTS



### MERGERS & ACQUISITIONS



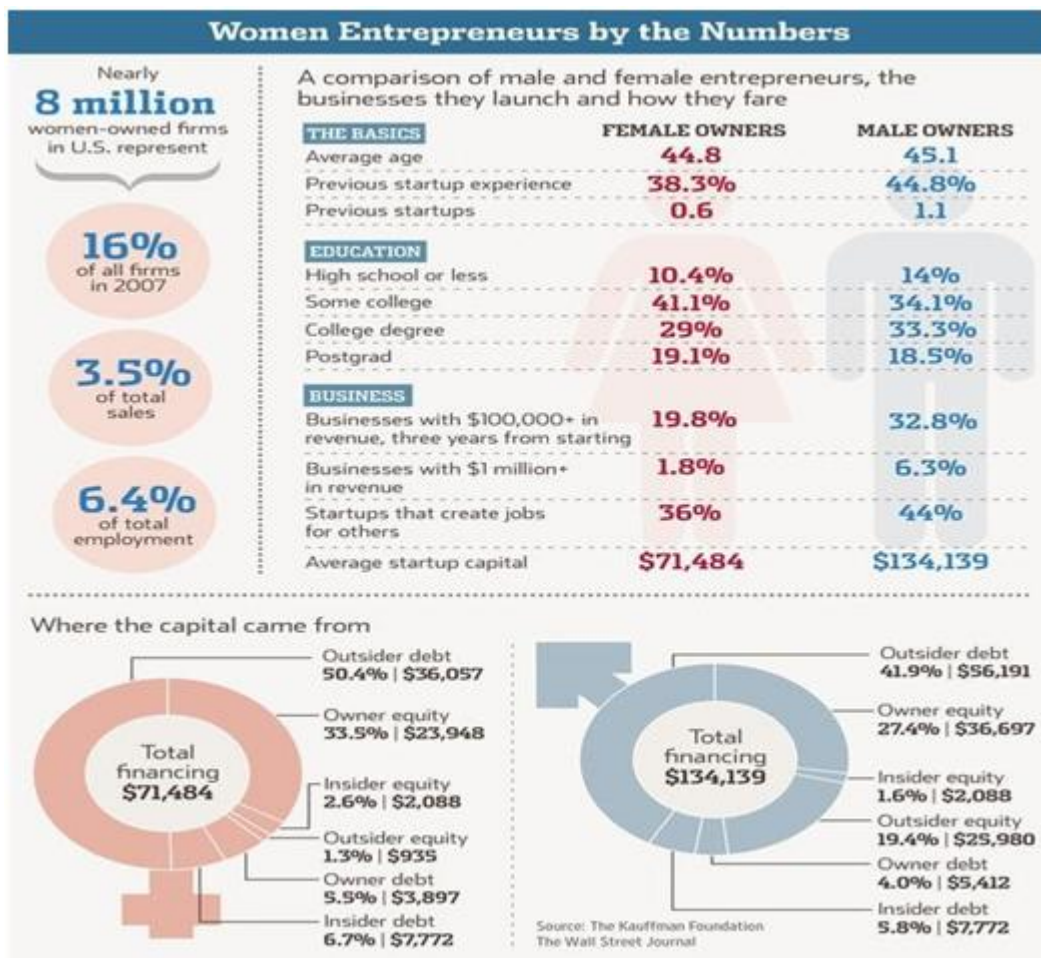


Source: VCCEDge (2017)

**Customer base:** The US start-up ecosystem is renowned for its great customer base as it is easy to retain and repeatedly serve an already existing customer as compared to attracting new customers. According to recent studies, Indian start-ups are not as successful in retaining the customers as their American counterparts. The Indian start-ups must improve their customer retention figures that would help in the fast growth and better revenues in future<sup>6</sup>.

good in terms of gender equality but still has a long way to go. In India, only 25% of the total workforce comprises women and only 15% of the women are members of board of companies. In India, 98% of the women entrepreneurs want their start-up should also have a positive social outcome whereas in the US this percentage is limited to 86%. In contrast to this, 43% of men in the US and 41% of men in India want their start-up to also have a positive social outcome<sup>1</sup>.

**Gender Inequality:** Although the US start-up ecosystem is



**Employee base:** In the US, there is a tough competition for recruiting the best talent out there. So, start-ups usually tend to give great perks and recognition (i.e., higher position in the company ladder) to talented people to attract them. This

helps in faster growth for the company and enhances the work culture environment. On the other hand, in India, most of the employees let go of perks and recognition to retain their high salaries in established companies<sup>6</sup>.

The US Start-up ecosystem has long been benefiting from all kinds of talent around the world by attracting them. But the rapidly improving social and economic conditions in India will now encourage entrepreneurs in India to start their own businesses and use ideas from other entrepreneurial ecosystems to develop their business in India<sup>6</sup>. The present-day India is nothing like its older self and is the leading producer in terms of IT industry, healthcare etc. It is one of the fastest growing markets of the world (comparable to US and China). All of this is due to the fact that young entrepreneurs are starting their own enterprises and are competing with big international companies.

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