Failures and Resilience in Entrepreneurship: Lessons from startup setbacks

OPEN ACCESS

Volume: 3

Issue: Special

Month: May

Year: 2024

ISSN: 2583-7117

Published: 07.05.2024

Citation:

Ritesh Ranjan1. "Failures and Resilience in Entrepreneurship: Lessons from startup setbacks" International Journal of Innovations In Science Engineering And Management, vol. 3, Issue: Special, 2024, pp. 95–101.

Ritesh Ranjan[1]

[1]*Jai Prakash Vishwavidyalaya, Rahul Sankrityayan Nagar, Chapra - 841302, Bihar.*

Abstract

This review paper titled "Failures and Resilience in Entrepreneurship: Lessons from Startup Setbacks" provides a detailed examination of entrepreneurship in India, focusing on the challenges posed by startup failures and the subsequent resilience displayed by entrepreneurs. By analyzing recent years, the study highlights notable instances of failure within India's startup ecosystem, including Snapdeal, Practo, and Paytm, and uncovers the complex hurdles faced by entrepreneurs. It particularly emphasizes how entrepreneurs respond resiliently to setbacks. The paper identifies various adaptive strategies used by entrepreneurs, including iterative learning and strategic adjustments, to navigate through adversity. By dissecting these failures and exploring the ensuing resilience, the paper contributes valuable insights to understanding entrepreneurship in the Indian context. It stresses the importance of using lessons learned from setbacks to guide the actions of policymakers, investors, and aspiring entrepreneurs. Ultimately, the research aims to foster an entrepreneurial environment in India that not only encourages innovation but also nurtures resilience, thereby advancing entrepreneurship in a sustainable manner.

Keyword: Failures, Resilience in Entrepreneurship.

1. INTRODUCTION

In the fast-paced and dynamic landscape of entrepreneurship, the journey from inception to success is seldom a linear path (Bajwa et. al. 2017). The entrepreneurial ecosystem is characterized by its inherent risks and uncertainties, with startups often grappling with challenges that test their viability and resilience. This research paper, titled "Failures and Resilience in Entrepreneurship: Lessons from Startup Setbacks," delves into the critical exploration of setbacks faced by startups and the invaluable lessons derived from these experiences. By examining the stories of entrepreneurial ventures that encountered failures and, crucially, managed to rebound, this study seeks to unravel the intricacies of resilience in the face of adversity. According to Vedat Öndas (2021), Mainly, most previous studies paid attention to a failure in general – in all sectors. Through a comprehensive analysis of both the factors contributing to failures and the strategies employed in successful comebacks, the paper aims to distill valuable insights that can inform aspiring entrepreneurs, investors, and policymakers alike, contributing to a more nuanced understanding of the entrepreneurial journey and fostering a culture of resilience within the startup ecosystem. (Mahajan, 2022)

2. Literature Review

This section of the thesis delved into an extensive exploration of existing studies that have scrutinized the dynamics of startups and the myriad factors contributing to their failures.

The findings of the **Vedat Öndas (2021),** individual researcher underscores crucial insights into the principal causes of high-tech startup failures. The master thesis, focused on the causes of high-tech startup failures, identified three common themes—management problems, financial challenges, and product and market issues—based on data collected from 15 startups in the US, Finland, and Canada.

The study emphasized subthemes such as product timing difficulties, lack of selling strategies, and human errors, revealing that various factors contribute to the failure of high-tech startups, including dependency on few customers, inadequate selling strategies, and potential human mistakes

A study by **Claas Triebel (2018),** emphasizes that failure is an inherent part of entrepreneurship, and founders should possess high fault tolerance, acknowledging and learning from mistakes. Emphasizing the importance of learning from one's own failures, the text underscores that the path to success involves embracing and integrating failures rather than avoiding them, with a call for supporting and promoting entrepreneurs who have experienced setbacks.

In his study **Ikboljon Kasimov (2017),** The research challenges Howard Stevenson's assumption on new venture failure, emphasizing that the narrow focus and omission of relevant information limit its validity. The study suggests that successful startups hinge on careful planning, customer-focused product development, team-based management, and the entrepreneur's belief in their success, highlighting the importance of skills, abilities, and knowledge alongside resources for startup success.

The conclusion of a study conducted by **Lenka Mikle (2020),** highlights the distinct features of startups, emphasizing innovation, exponential revenue growth, and a visionary approach, distinguishing them from small businesses. The identified causes of startup failures, as indicated by the CB Insights web portal research, include lack of experience, insufficient marketing, inadequate funds, competition, and a founder's unwillingness to receive feedback, particularly critical during the initial five years.

The study by **Mohamed El Amine Noui (2023),** based on the analysis of 353 post-mortem reports, identifies significant factors contributing to startup failures, including product/market misfit, lack of capital, competition, law and regulation issues, and flawed business models. The research highlights that failures are predominantly concentrated in sectors such as information, art, entertainment, transportation, and manufacturing, with industries like e-commerce, services, healthcare IT, food, delivery, and social media being particularly susceptible, and the study also explores gender-specific patterns in the context of failure factors.

3. Objectives

- To Identify Common Causes of Startup Failures.
- To Examine Strategies Employed in Successful Comebacks.

4. Research Methodology

This research employs a qualitative approach, utilizing in-depth case studies of Snapdeal, Paytm, and Practo to comprehensively analyze the dynamics of their successes and failures. The methodology involves a systematic examination of key events, strategic decisions, and financial aspects within the context of market dynamics, competition, and financial management to derive valuable insights for the broader entrepreneurial landscape.

5. Case Studies of Failed Startups

In the pursuit of precision and depth, this research adopts a focused approach by exclusively examining three carefully selected startup case studies.

5.1 Snapdeal

5.1.1 Introduction

Snapdeal, founded by Kunal Bahl and Rohit Bansal, is an online shopping marketplace started in February 2010 as a daily deal’s platform inspired by groupon.com but expanded in September 2011 to become an online marketplace. It started as a member only website which gradually kept on growing to become the largest online marketplace in India offering an assortment of 12 million+ products across diverse categories from over 150,000 sellers catering to a user base of 25 million members. Snapdeal is now the second-largest e-tailing company after Flipkart in India.

5.1.2 Successful Marketing Strategy

Snapdeal, upon its launch, faced competition from platforms like mydala.com and DealsandYou but rapidly gained a significant user base, reaching 8-9 million within two years and securing a position among the top 100 Indian websites. To boost membership and traffic, they implemented referral programs and introduced the "Get your first deal free" offer, enhancing their brand value. Additionally, Snapdeal strategically engaged in affiliate marketing campaigns and countered competitors like Flipkart through targeted advertisements, notably during events like Flipkart's "Big Billion Day." Leveraging celebrity endorsements and television advertisements, Snapdeal focused on promotional activities to attract organic traffic to its platform.

5.1.3 Failure

Here, in this case study, we will get to know the mistakes made by Snapdeal, raising a valid question of what is wrong with Indian startup.

5.1.3.1 Execution Errors

Fundings were coming from everywhere and like many other startups SnapDeal also fails to execute those fundings. The founder himself admits about mistakes by saying, “Has our company and industry been going through a troubled time? Absolutely. Did we make errors in our execution? No doubt about that.” Snapdeal reportedly spent almost 200 cr. on changing its logo.

5.1.3.2 Not truly a Startup

“Innovation is the only way to win.”- Steve Jobs. A substantial problem for Indian startups lies in their inclination towards imitation rather than innovation, often replicating successful models from the US or Europe within the Indian market. This practice involves significant investments to duplicate established business models. While this copycat strategy has found success in China due to its closed market, India's open environment allows global giants such as Amazon, eBay, and Uber to freely enter and compete. The intense competition from both domestic and international players, coupled with the need for continuous innovation, highlights how relying solely on a copycat approach can become a significant factor in the failure of startups within the dynamic and competitive Indian business landscape.

5.1.3.3 Delayed initiation into mobile payments.

Snapdeal entered the mobile payments arena with FreeCharge Wallet, but their timing was somewhat belated compared to Paytm, which had already established a significant presence in the market. Despite the abundance of payment wallets, Snapdeal's inability to effectively expand and leverage the Freecharge platform has received criticism from industry experts and investors.

5.1.3.4 Two big controversies

Snapdeal faced major reputation challenges with two controversies. The first involved its brand ambassador, Aamir Khan, criticized for views on intolerance, leading to users uninstalling the app. Despite Snapdeal's attempt to distance itself, the app saw mass removals. In the second, Snapchat's CEO's alleged “Poor India” remarks prompted users to target Snapdeal confusingly, affecting its credibility. These controversies highlight Snapdeal's struggle in managing brand image amid external issues, causing user backlash.

5.1.3.5 Challenges in securing funding

The firm is facing challenges in securing additional funds, primarily attributed to fierce competition from Amazon and Flipkart. Two venture capital firms, Kalaari Capital and Nexus Venture Partners, both with representatives on Snapdeal's board, are engaged in a valuation dispute with SoftBank Group Corp., which holds two board seats, potentially impacting a sale. Despite the ongoing financial struggles, the board permitted Snapdeal to continue expenditures, resulting in a cash shortage. By July 2016, Snapdeal, having raised around $1.4 billion since October 2014, retained approximately $500 million. During this period, Snapdeal initiated a INR 200 crore campaign for brand transformation, focusing on discount and marketing strategies. Simultaneously, the company declined at least two funding offers due to board-level disagreements.

5.1.4 Resilience to Failure

A trailblazer in the Indian e-commerce sector, Rohit Bahl co-established Snapdeal, one of India's early unicorns, at the age of 24 in 2010. However, this success story faced a severe setback in the summer of 2017, with an imminent shutdown looming after a failed merger with Flipkart, leaving the Gurugram-based company with insufficient funds for survival. Despite Flipkart and Amazon dominating the Indian market, Bahl and Bansal were determined to fight back rather than walk away from the challenging situation. In 2018, Bahl shared on LinkedIn that their focus on creating "value e-commerce" became a pivotal move. This strategic shift involved specializing in selling unbranded or lesser-known brands with high value, targeting the low- and middle-income categories. Bahl highlighted the $163 billion opportunity in India for this segment. In a nation where approximately 40 million new internet users, mainly from the lower-middle class, join daily, Snapdeal aims to convert them into value e-commerce users by offering niche products. Bahl emphasized that this approach is about fulfilling aspirations for those with limited financial means, focusing on delivering value within a narrow price band. Looking ahead, Bahl expressed the belief that the future belongs to companies that can concentrate on specific areas, ensuring higher certainty and probability of success in their pursuits.

5.2 Paytm

5.2.1 Introduction

Established in August 2010 by Vijay Shekhar Sharma, Paytm stands as one of India's major fintech startups. Initially offering versatile payment solutions, e-wallets, and business platforms, the startup has undergone a significant evolution in its business model. From its inception as an exciting platform in 2010, Paytm has transformed into a marketplace and a virtual banking model, becoming a key player in the cashback business model. The company has grown into an Indian giant, providing services such as mobile payments, banking services, marketplace functionalities, Paytm gold, recharge and bill payments, Paytm wallet, and various other features, catering to approximately 100 million registered users.

5.2.2 Biggest IPO Failure of India

Paytm's debut on the stock market, marked by its initial public offering (IPO), stands as the largest ever witnessed in the country. Although the IPO, conducted in November 2021, successfully garnered over ₹18,000 crores ($2.2 billion), the share price experienced a significant decline on the listing day and in the subsequent period.

5.2.2.1 Lack of guidance

As mentioned earlier, Paytm's journey post its IPO revealed a brief moment of success followed by a substantial decline. Further analysis uncovered a lack of strategic direction within the company. It became evident that the stock issuance did not align with the dynamics of the Indian share market. Notably, 75% of the promoters, hailing from foreign territories, were divesting their shares through an offer for sale (OFS). The valuation methods employed by foreign investors often involve a higher risk appetite. In contrast, Indian public markets determine stock prices based on traditional profitability and earnings metrics.

5.2.2.2 Pricing Issue

Numerous reports characterized Paytm's initial public offering (IPO) valuation as "costly." Despite the stock being initially priced at ₹2150, it concluded at ₹944.50. Analysts suggested that the company had overestimated its share value, leading to a sustained downward trend. Both experienced and novice investors hesitated to invest in the company, contributing to its decline. Additionally, the stock exchange through offer for sale was assessed at ₹10,000 crores, encompassing over 50% of the IPO value, and was determined based on the preferences of foreign promoters rather than aligning with the dynamics of the Indian market.

5.2.2.3 Tough Competition from other UPI Apps

Certainly, Paytm once held a prominent position in the fintech sector, but its relevance has diminished over time. The emergence of new fintech applications like PhonePe, Google Pay, MobiKwik, and others has led to a decrease in Paytm's user base. The intensification of this competition has further contributed to a reduced demand for Paytm. The company, unfortunately, failed to adequately assess its supply and demand dynamics before setting its stock price, leading to a decline in its market standing.

5.2.2.4 Receding Liquidity

The timing and diminishing liquidity were additional factors contributing to the decline of Paytm's IPO. Despite raising ₹18,300 crores, the market did not exhibit enthusiasm for such substantial amounts. With a recent decline in equity mutual fund schemes, Foreign Institutional Investors (FIIs) exercised caution, leading to a gradual decrease in Domestic Institutional Investors (DIIs) liquidity and a steady decline in market performance for Paytm.

5.2.2.5 Company's Doubtful Future

During its IPO, Paytm operated as a dispersed company without a clear-cut business model. The company introduced numerous schemes without adequate future planning for their closure or benefit realization. Paytm lacked a cohesive vision and possessed a flawed business model. Notably, major entities like Aditya Birla and HDFC Mutual Funds opted not to invest in the company, signaling a lack of investor interest.

5.2.3 Resilience and Comeback

After experiencing a 40% decline below its IPO price in the initial two days of trading, Paytm has made a noteworthy comeback in the stock markets. On November 23, the stock exhibited a nearly 10% increase throughout the trading day. This positive momentum persisted, with Paytm's stock rising by an additional 18%, reaching Rs. 1752 per share. Although the stock still trades approximately 20% below its IPO price, the recent surge represents a remarkable 40% increase within less than three trading sessions. This stands in stark contrast to Paytm's challenging start in the stock markets when it hit the lower circuit on its IPO day, experiencing a 28% plunge from its IPO price, leading to a temporary trading halt. The following day witnessed a further 18%

decline, with the stock trading at Rs. 1270 per share. During this challenging period, Paytm's IPO was widely perceived as a disaster, prompting Mobikwik to postpone its own IPO until a more opportune moment.

5.3 Practo

5.3.1 Introduction

Practo, founded by Abhinav Lal (CTO) and Shashank ND (CEO) in 2008, is an app facilitating online doctor appointment bookings. The platform, born in Bengaluru, strives to streamline clinic visits, making them cashless, paperless, and effortless. With roots in National Institute of Technology, Karnataka, both founders offer practice management software to doctors at two price points – Rs. 999 and Rs. 1999 per month, the latter also featuring a cloud telephony-based IVR system. Boasting over 4 million monthly users, Practo witnesses 120,000 monthly appointments, experiencing a 24% month-on-month traffic growth. Promotion channels include doctors and digital marketing. Supported by 11 investors, with the latest being Trifecta Capital Advisors and Tencent Holdings, Practo has successfully acquired five organizations.

5.3.2 Shadow of Failure

In 2015, Practo appeared prosperous, securing three consecutive funding rounds in Dec 15, Aug 15, and Jan 17, reaching a valuation of $600 Million. Recognized by CB Insights as a potential unicorn alongside Cardekho, Razorpay, and Dailyhunt, the recent funding round at a 50% discount suggests a downturn. Additionally, the company's failure to disclose financials for FY19 raises concerns about its current status.

5.3.2.1 High customer churn

Practo generates revenue by offering a SaaS platform to small clinics at Rs. 999/month, as it doesn't charge customers directly. Convincing small clinics to commit to an annual fee of Rs. 12,000 proves challenging, leading to potential high churn. The elevated operational expenditure associated with the fleet-on-street model could further worsen unit economics.

5.3.2.2 Spreading itself too thin

Competitive landscapes in all sub-segments include well-funded rivals, and several newcomers, buoyed by the Covid-induced momentum, have recently secured funding. Notable players in this sphere encompass Care.fit, Healthplix, Onco, Tattvan, 1mg, Medlife, and others.

5.3.2.3 Unsuccessful acquisitions

Practo ventured into hospitals and health records by acquiring a total of five companies, four in 2015 and one in 2016. However, reports suggest that these acquisitions faced challenges, and in 2017, the company had to undertake workforce layoffs of 10% due to redundancies resulting from these acquisitions.

5.3.2.4 Concerns over data privacy

Doctors' express apprehensions regarding the security of patient data, suspecting that Practo may potentially sell the data in the market. In terms of hospitals utilizing Practo, many hospitals opt to create their own in-house software for tasks such as appointment scheduling, data storage, and messaging patients for appointment updates.

5.3.2.5 Lack of doctor verification

Practo attracts users primarily through SEO rather than the quality of the listed doctors. The salespeople at Practo often neglect thorough verification of doctors, prioritizing the onboarding process for website listing. There are concerns about doctors potentially paying higher fees to secure a higher position on the platform, resembling the model seen in Justdial listings. Numerous Twitter posts have raised concerns about Practo listing unqualified practitioners.

5.3.3 Resilience to Failure: Navigating Challenges and Paving the Way Forward

Practo, a noteworthy health tech startup in India, serves as a compelling case study, navigating challenges while showcasing resilience. Despite obstacles, it maintains a strong brand recall, driven by organic growth during the COVID-19 pandemic. Practo's active role in constructing the National Health Stack positions it strategically for potential success, offering a unique opportunity to digitize patient data and create online healthcare service platforms, akin to the UPI in fintech. A key factor in Practo's resilience is its strategic investment from AIA Hong Kong, a major player in pan-Asian life insurance, providing financial backing and collaboration potential. Drawing inspiration from WeDoctor in China, Practo aspires to scale with a similar vision.

Acknowledging initial challenges, Practo plans to bounce back by learning from global successes, like Teledoc in the US, highlighting the potential for success in the health tech sector. Despite fierce competition, Practo's resilience stems from its adaptability and innovation. By focusing on brand recall, learning from global models, and streamlining operations, Practo aims to emerge as a frontrunner in the dynamic health tech landscape, fortifying its competitive advantages in its operational segments.

6. Discussions

In the discussion of this paper, it is essential to underscore the commonalities that permeate the narratives of all three startup failures. Despite differing industries and unique circumstances, overarching themes emerge, offering valuable insights into the challenges faced by startups. One recurring aspect is the significance of market dynamics and competition. Each startup, irrespective of its domain, grappled with intensified competition, leading to a struggle for market share. Another commonality lies in the strategic missteps and decision-making, reflecting the critical role of effective leadership and decision-making processes in the success or failure of a startup. Financial management, especially in terms of fundraising and investor relations, also emerges as a shared challenge. Understanding these commonalities provides a holistic perspective, enabling a more nuanced analysis of the contributing factors to startup failures and offering valuable lessons for future entrepreneurs and researchers in the field.

6.1 Market dynamics and competition

In examining the trajectories of Snapdeal, Paytm, and Practo under the lens of "Market dynamics and competition," a recurrent theme emerges – the pivotal role of market dynamics and the fierce competitive landscape in shaping the destinies of these startups. Snapdeal's struggle, stemming from a copycat approach and intense competition in the Indian business landscape, highlights the necessity for continuous innovation and strategic differentiation. Paytm, once a frontrunner in fintech, faced a decline due to the emergence of formidable competitors like PhonePe and Google Pay, emphasizing the critical need for businesses to adapt and assess supply-demand dynamics in a rapidly evolving market. Practo, amidst well-funded rivals and newcomers catalyzed by the pandemic, underscores the ongoing challenges of navigating a highly competitive health tech sector. Collectively, these cases accentuate the imperative for startups to navigate market dynamics adeptly, innovate continually, and remain vigilant in the face of intense competition to sustain and thrive in dynamic business environments.

6.2 Strategic missteps and decision-making

In the examination of "Strategic Missteps and Decision-making," Snapdeal, Paytm, and Practo collectively showcase the repercussions of critical errors in strategic decision-making. Snapdeal faced controversies related to its brand ambassador Aamir Khan and a belated entry into the mobile payments sector, illustrating the impact of misjudging user sentiments and market timing. Paytm's IPO journey revealed a lack of strategic direction, a dispersed business model, and financial decisions incongruent with the Indian share market, resulting in dwindling investor interest. Practo's acquisitions and subsequent layoffs underscore the challenges arising from strategic missteps in managing acquired entities, impacting the overall workforce. These cases serve as cautionary tales, emphasizing the imperative for startups to prioritize strategic acumen, foresee consequences, and adapt to dynamic market conditions for sustainable growth and resilience. The narratives collectively underscore the profound impact of strategic missteps on brand image, investor confidence, and organizational stability, highlighting the need for startups to navigate controversies, foster a cohesive vision, and adeptly manage acquisitions to secure enduring success.

6.3 Financial Management

In examining the financial management of Snapdeal, Paytm, and Practo, a common theme of challenges and strategic missteps becomes apparent. Snapdeal's struggle to secure additional funds amid fierce competition and internal valuation disputes reflects the complexity of financial negotiations, exacerbated by ongoing board-level disagreements. Despite raising substantial capital, the company's decision to continue expenditures without aligning with potential funding offers led to a cash shortage.

Paytm's IPO journey, characterized by a perceived overvaluation and subsequent decline in share price, highlights the critical importance of accurate valuation and investor confidence. The substantial offer for sale, primarily shaped by foreign promoters' preferences, underscores the need for aligning financial decisions with the dynamics of the Indian market.

Practo's revenue generation model, reliant on a SaaS platform for small clinics, faces hurdles in convincing clients to commit to annual fees, potentially contributing to high churn. The associated operational expenditure, particularly in the fleet-on-street model, raises concerns about the sustainability of unit economics.

Collectively, these cases underscore the intricacies and challenges in effective financial management for startups. The narratives emphasize the significance of aligning financial decisions with market dynamics, accurately valuing offerings, and fostering investor confidence to ensure sustainable growth and resilience in the competitive business landscape.

Conclusion

In conclusion, the examined case studies of Snapdeal, Paytm, and Practo collectively underscore the multifaceted challenges inherent in the startup landscape. From strategic missteps and decision-making pitfalls to financial management complexities, these narratives offer valuable insights for entrepreneurs, investors, and researchers. The resonance of market dynamics, competition, and financial acumen as recurring themes highlights the need for startups to navigate these intricacies with foresight and adaptability. As cautionary tales, these case studies emphasize the importance of aligning with market realities, accurately valuing offerings, and fostering investor confidence. The resilience demonstrated by these startups in the face of adversity also serves as a testament to the dynamic nature of the entrepreneurial journey. Ultimately, these narratives contribute to a nuanced understanding of the factors shaping startup success or failure, offering lessons that extend beyond individual cases to inform and guide future endeavours in the ever-evolving startup ecosystem.

References

[1]. El-amine, N.M., Mohammed, D., (2023). Analysing Startups Failure Factors: Evidence from CB Insights Tech Market Intelligence Platform. Journal of Economic Growth and Entrepreneurship JEGE, 6(1), 10-30.

[2]. Triebel, C., Wandke, H., (2018). Failure in Startup Companies: Why Failure Is a Part of Founding. Strategies in Failure Management, 121-140, DOI: 10.1007/978-3-319-72757-8_9

[3]. Kasimov, I., (2017). Startup Critical Analysis and Reasons for Failure. The IAARHIES INTERNATIONAL CONFERENCE ON BUSINESS AND ECONOMICS – 2017, 1-10, DOI: 10.13140/RG.2.2.10037.14569

[4]. Mikle, L., (2020). Startups and reasons for their failure. SHS Web of Conferences, 1-7, DOI: 10.1051/shsconf/20208301046

[5]. Bajwa, S. S., Wang, X., Nguyen Duc, A., & Abrahamsson, P. (2017). "Failures" to be celebrated: An analysis of major pivots of software startups. Empirical Software Engineering, 22(5), 2373–2408.

[6]. Kalyanasundaram, G. (2018). Why Do Startups Fail? A Case Study Based Empirical Analysis in Bangalore. Asian Journal of Innovation and Policy, 7(1), 79–102.

[7]. Griffith, E., (2014). Why Startups fail, according to their founders. Fortune,

[8]. Nazar, J., (2013). 16 Surprising statistics about small business. Forbes

[9]. Mahajan, S., (2022). Paytm IPO: Case of Failure and the Behemoth. SSRN,

Websites

www.allstartups.info

https://technovans.com/

https://startupsindia.in/

https://www.forbesindia.com/

https://dsim.in/