UNIT 12 START-UP INITIATIVES

Structure

12.0 OBJECTIVES

Having gone through this unit, you will be able to:

- explain the importance of finding a suitable accommodation;
- point out availability of utilities,
- describe contracts with vendors and suppliers;
- highlight the importance of customers;
- state the role of bankers;
- analyse the common problems faced by start-ups.

12.1 INTRODUCTION

There is a new startup idea sprouting up every other day. What is even better is that there are many minds out there, who are ready to support the concept and provide room along with the capital to grow. There have been multiple entrepreneurs over the years who have found that competitors are there. While initiating a start-up, it is vital to have relevant information. Such information should relate to overview of the company, mission and vision, key team players, and their relevant background, what problems are being solved and the proposed solution, size of the market, whether product or service, attracting target customers, adopters, the underlying technology, key competitors, press, partnerships, projected revenues, key assumptions, and the amount of the capital to be raised. The internet is a playground and the best tool available for entrepreneurs. Just as it takes a quality idea and pitch to find success and that doesn't come without due diligence, a well-crafted pitch with a realistic business plan, and a lot of research. It is a fact that there is no single stop solution to the surmounting challenges facing the startups in this age. There is no magic wand either that can help solve the so called challenges overnight. In this unit we will study the various aspects related to the initiation of start-ups like accommodation and utilities; establishing relationship with the vendors, suppliers, bankers, customers. And we will end with discussing the common problems faced by start-ups.

12.2 ACCOMMODATION AND UTILITIES

Determining where to put the office or even online presence requires careful thought. If one gets this wrong, one could be trapped with a commercial lease that costs a lot of money but doesn't result in getting new customers. The basic requirement of accommodation is the facility of the space in which a business's activities take place. Startups have to decide whether their business is conducted online, in an office/home office or store. All this depend on the product or service being offered. For example, a technology startup selling virtual reality hardware may need a physical storefront to give customers a face-to-face demonstration of the product's complex features. In the current age, location site is chosen based on several factors. It is always advisable to avoid picking a new accommodation just because it has cheap rent. Signing such a business lease could spell disaster for the business because one may not have access to the clientele and workforce needed to succeed. Paying a little more for the right address can boost the profits in a big way. For leasing an accommodation start-ups must follow a few guidelines:

i) Need to understand what the lease documents say. If there is trouble in deciphering the language, talk to a realtor and an attorney.

ii) A long, drawn-out negotiation process could kill a deal.

iii) One must be reasonable with one's demands. It is better to ask nicely. The initial lease is just a starting point. Following are the lease items that are subject to negotiation:

   a) Start of rent and lease amount (include anticipated increases).

   b) Length of lease.

   c) Termination clause.

   d) Configuration of the physical space.

   e) Tenant's rights and exposures.

   f) Common area maintenance costs.

   g) Tenant improvements as there may be need to do a substantial amount of work to prepare the space for occupancy.

Before signing a lease, make sure that everything is considered. How many rent increases have there been during the past three years? How old is the roof? Find out if there are any anticipated repairs coming up in the near future. The knowledge of all these will reduce the risk.

Utilities depend on the nature and size of the business. Running a business involves a wide variety of operational expenses. These include a number of utility costs for items such as electricity, water and natural gas.

12.3 CONTRACT WITH THE VENDORS

The term “vendor” is typically used to describe the entity that is paid for goods that are provided, rather than the manufacturer of the goods itself. However, it is possible for a vendor to operate as both supplier (or seller) of goods and a manufacturer. A vendor, also known as a supplier, is a person or a business entity that sells something. Large retail store chains such as “big bazar”, “more”, “reliance”, generally have a list of vendors from which they purchase goods at wholesale prices that they then sell at retail prices to their customers. Vendors are a part of the supply chain: the network of all the individuals, organizations, resources, activities and technology involved in the creation and sale of a product, from the delivery of source materials from the supplier to the manufacturer, through to its eventual delivery to the end user.

Parts manufacturers are vendors of parts to other manufacturers that assemble the parts into something sold to wholesalers or retailers. Retailers are vendors of products to consumers. In information technology as well as in other industries, the term is commonly applied to suppliers of goods and services to other companies.

A vendor management system is an online web-based tool that acts as a single node to manage all vendor related activities in any organization or business while ensuring improved efficiency and long-term growth in a cost-effective manner. In many situations a company presents the vendor with a purchase order stating the goods or services needed, the price, delivery date, and other terms. Generally, when the vendor delivers the goods or services it will also send an invoice to the company. The company should then match the vendor’s invoice with its purchase order and receiving report. If the three documents are in agreement, the company can than arrange for payment to the vendor.

Importance of vendors: Vendor management is the process that empowers an organization to take appropriate measures for controlling cost, reducing potential risks related to vendors, ensuring excellent service deliverability and deriving value from vendors in the long-run. This includes researching about the best suitable vendors, sourcing and obtaining pricing information, gauging the quality of work, managing relationships in case of multiple vendors, evaluating performance by setting organizational standards, and ensuring that the payments are always made on time. So, that’s where the vendor management system or VMS comes in place.

Vendor management allows to build a relationship with the suppliers and service providers that will strengthen both businesses. Vendor management is not negotiating the lowest price possible but constantly working with vendors to come to agreements that will mutually benefit both companies. Vendor management prioritizes long-term relationships over short-term gains and marginal cost savings. Constantly changing vendors to save a penny here or there will cost more money in the long run and will impact quality. Other benefits of a long-term relationship include trust, preferential treatment and access to insider or expert knowledge. It is well to understand vendor’s business too. Remember, vendor is in business to make money too. Asking questions from the vendors will help understand their side of the business and build a better relationship between both the parties. It is never easy to manage multiple vendors at the same time. While some vendors may prove really fruitful, others may not. But managing relationship among the vendors is the key to successful business. Assess the internal strengths and weaknesses of the vendors and study how the external opportunities and threats can affect the transaction as well as the vendor management process. Once the start-ups have ensured a complete start-to-finish evaluation process, it's time to choose the vendor. Vendor evaluation is important as it can reduce supply chain costs and improve the quality and timeliness of the delivery of items to the company. The skill in evaluating vendors is to determine which criteria are important and the weighting that these criteria are given.

12.3.1 Suppliers

Finding dependable supplier is a crucial step in starting a successful business. It is advisable to put together a **comprehensive package of resources** that will help **find suppliers (foreign and domestic)** and launch firm's own online store from complete scratch. Suppliers are essential for the business. Depending on the nature of the business, one may need a few or dozens of suppliers. Sometimes suppliers will contact through their sales representatives, but more often, particularly when one is starting out, one will need to locate them either at trade shows, wholesale showrooms and conventions, or through buyers' directories, industry contacts, the business-to-business and trade journals, or websites. Suppliers can be divided into four general categories *manufacturers, distributors, independent craftspeople, and import sources*. While selecting supplier one needs to consider the following:

i) Identifying the kind of supplier needed.

ii) Choosing the right supplier.

iii) Negotiating the best price.

iv) Finding a supplier who can meet the needs

v) Getting to know the supplier.

vi) Making comparisons

Compare all against the above factors and choose the best two for each thing. One can develop a core group of suppliers one can trust.

Remember that suppliers are in business to make money. As a new business owner, one can't expect to receive the same kind of attention a long-standing customer gets. Over time, however, one can develop excellent working relationships that will be profitable for both the one's business and suppliers. Once a list of possible suppliers are compiled, ask for quotes or proposals, complete with prices, available discounts, delivery terms and other important factors. Only the consideration of the terms is not significant, investigate the potential supplier's financial condition, too. Ask for customer references; and find out how well the supplier has performed. If there have been any problems, ask for details about how they were reconciled. Every supplier relationship hits bumps now and then; the key is to know how the rough spots were handled. Whether the supplier was prompt and helpful in resolving the problem, or defensive and uncooperative?

The start-up company must be open, courteous and firm with the suppliers, and they will respond in kind. It is important to make them clear about what and when is the need and there should be specific understanding about the total cost, and expected delivery schedule. Keep in constant communication with suppliers about possible delays. Suppliers often establish a minimum order for merchandise, and this minimum may be higher for first orders to cover the cost of setting up a new store account. Some suppliers also demand a minimum number of items per order.

Be loyal to good suppliers as they are essential to the business's good health and growth. They are a nuanced bootstrapping strategy. There are following ways in which suppliers can impact the company:

a) Quality.

b) Timeliness.

c) Competitiveness.

d) Innovation.

e) Finance, etc.

All of these improve the cash position of the company. Having said how valuable and important a supplier can be, at the same time, the company should be a demanding and a fair customer. It is always good to state quality and time needs clearly. Hold suppliers to their agreements. Make sure they stay competitive and not to pay higher prices than other purchasers. It's not prudent to rely on one supplier. If that supplier has a strike or a fire, so keep a second or multiple suppliers on hand.

In order to be a valued customer to the suppliers, remember few things like always pay on time; provide adequate lead times; personalize the relationship; and share information. Developing good relationships with suppliers is not a complicated process. It is crucial to be communicative to the suppliers.

12.3.2 Bankers

The start-up companies must know the amount they need and who can provide fund. It is said that 'Raising Money is Painful'. It is not easy as banks are not always willing to take risk. The entrepreneur would need to pitch his idea/venture to the banker and this is something which ultimately will be done by entrepreneur himself. An overriding challenge is the completely different mindsets and perspectives of banks and the start-up. Bank staff come from a complex, risk-averse, legacy environment. Start-up companies are much simpler, and tend to be single-focused and agile. The important factor is the critical need to understand the banking industry. This isn't just a matter of general knowledge. It means understanding bank culture and organization, decision-making criteria and processes.

The banker's role is a vital for every growing business. Choosing a bank may seem to be a purely economic decision, based on fees and interest rates. But the service component should play at least an equal role in the choice. In theory, it seems it would be easier to establish a consultative relationship with local business banks. Typically, a personal attention to business owners' needs is the competitive advantage they claim. Hallmarks of excellent service include the ability to advise on how to manage cash flow for the specific business needs; how much credit can afford to take on – and the most economical way to access it; and helping create a long-term financing strategy that supports the plans for growth. Following are five things to think about when looking for funding:

i) Get clarity upfront about the process.

ii) Make sure the Bank understands firm's segment and can pitch for business.

iii) Banks should have experience in firm's business segment.

iv) Ensure the Banker's motives are in consonance with firm's motives.

v) Pick a partner, not just a banker.

These are just a few of the items entrepreneurs should think about as they are contemplating the bank route. Raising capital is definitely a distracting process as the firm is running a business. Bank can often provide leverage throughout the process. Just be careful when choosing the banker. The decision is bigger than one thinks.

12.3.3 Indian Scenario

In India, choosing the right bank account for a startup is not an easy job. Most of the banks provide very little information on their website. Today most of the banks in India have tailor made current accounts to cater to the need of startups. When it comes to business banking for startups, following is a list of the top five business bank accounts in India:

i) The best current account in India is offered by a fintech not a bank! It's a startup called "Open", it's a fintech startup that have partnered with ICICI Bank to offer a business banking service that takes care of the entire banking and accounting needs in one simple service. It's also the fastest way to get a current account in India — thanks to their digital Onboarding flow. Through Open one gets a current from ICICI Bank , but what sets it apart from other bank accounts are it's set of integrated tools that helps receive and send payments like invoicing and online payment gateway, transaction reconciliation and more importantly automated bookkeeping. It also helps connect and link other bank accounts to the Open dashboard — so that one can manage all bank accounts from a single dashboard.

ii) *HDFC*: HDFC bank is also preferred bank by SMEs in the country. The bank has also launched a specially designed current account for startups called SmartUp.

iii) *Yes Bank headstart*: Yes bank is considered to be a startup bank which was built in the early 2000s. Being built from the ground-up means the bank very well understand the pains of the startups and have come up with a specially designed current account for startups called Headstart.

iv) Axis Bank startup: The startup account from Axis bank comes with a two year waiver on its minimum balance requirement. Post 2 years the minimum balance requirements for the account is Rs 10,000/month.

v) *RBL Bank India startup club*: RBL Bank offers a specially designed current account for Startups where startups gets access to specially designed branches of RBL for servicing their accounts. It also organises regular meetups and hackathon for startups and have also partnered with co-working spaces, accounting softwares to give special discounts to startups. The minimum balance requirement for the account is Rs 20,000 and charges a fee of Rs 300/month for non-maintenance.

If the requirement is less (say upto Rs 10 lakhs) may try loan under Mudra scheme. There are also certain Government schemes where can get up to Rs 100 lakhs without security. Banks processing of loan are a bit cumbersome and it may help to get in touch with a consultant. They are good at preparing Bankable proposals for a fee.

In fine, it is important to consider:

1) Minimum balance requirement
2) Cash deposit and withdrawl charges
3) Debit /ATM cards and Internet banking
4) Other services: Apart from providing banking solutions, one can get advisory services, payment services, collection services, forex solutions, trade solutions, etc.

Every bank provides different facilities and the business may have a different need from others, so one should make a choice carefully. While choosing a current account, one should first know and understand the business goals. What might be suitable for one start-up may not be suitable for others. And the most important thing is that only the price doesn't matter, the quality of services is also essential.

12.3.4 Principal Customers

Customer is the king. Paying attention to customers and adapt to their needs is very crucial. Knowing target customers and how to get their attention is one of the most important skills of a successful business. '*Make something people want*' should be the motto of start-ups. With a highly satisfied and loyal customer base, startups can scale and make progress towards excellence. Finding good customers is a task in itself. Customers are the real force behind a startup's success. Their word-of-mouth power and their presence on social media can give startups an edge.

In the process of building a business, one finds out that there are good customers as well as bad customers. One must be on guard for bad customers. Good customers are really hard to find. A good customer will be loyal to the company and will be willing to forgive if one makes a mistake and apologize. A good customer will try to do the right thing that will benefit both himself and the company mutually. Bad customers will always look for loopholes in the company's policy to exploit and make a few gains. Bad customers will always try to exploit the company's goodwill and look for ways to rip off the company. Good customers build the business.

Some things books can never teach. Many startups use data to know their customers. While the data-driven approach is commendable, it must be complemented by actual engagement with customers. Data coupled with ethnographic insights from customer engagement can help startups truly understand what their customer wants. Instead of obsessing over undercutting competitors, startups should be driven by solving customer problems, particularly principal customers. As long as competition and collaboration is driven by serving such major customers, it makes business sense.

Winning trust of principal customers: Winning a customer's trust is one of the most important challenges that businesses in general – and startups in particular – face today. To win principal customers' trust and loyalty, startups need to work aggressively to implement a customer-centric working philosophy, so as to enable them to succeed in their pursuit of attaining the height. Sustainable growth and progress they desire to achieve in this tech-savvy and challenging business world. The highest priority should be to satisfy the customer through early and continuous delivery of value.

Check your progress 1

1) Highlight the importance of accommodation and utilities.

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2) Who is a vendor? Is he also a supplier?

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3) Are suppliers essential for the business?

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4) List the banks in India which provide loans to start-ups?

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5) Why is it said to make something which customers want?

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12.4 BASIC START-UP PROBLEMS

Challenges are everywhere. And businesses – in general and startups in particular – are no exception to myriad of challenges. Every startup brings with it a set of challenges. If not taken care of, these challenges could have serious repercussions. In this section, we will be discussing the common challenges faced by startups. Startups struggle for many reasons. Some even die, or never quite attain the degree of success as early as they had hoped. They may not have anticipated obstacles and may not even know how to respond. The following are some of the common problems which startups face:

1) *Insufficient capital:* Many entrepreneurs find themselves unable to grow their business because of resource limitations. The most important element in starting a business is funding. This is always going to be a problem faced when starting up a business. One of the biggest challenges that startups face relates to financial management. Money is the bloodline of any business. The long painstaking yet exciting journey from the idea to revenue generating business needs a fuel named capital. Cash flow issues will hit hard, either delaying the roll-out of products, hiring key staff, or fitting out new offices. There is need for capital to fund software or product development, office space, marketing as from these success flows. Sometimes companies can't raise the money they need is because one of their competitors already did. It is important to manage the time and money to get to the next level without running out of either one. Money and time are finite and need to be allocated judiciously.

2) *Neglecting marketing/sales*: Startups fail when they are not solving a market problem. It is always a challenge for startups to figure out best ways to market their product or service. Without putting a comprehensive marketing strategy in place, companies' profits take a steep plunge. Some startups encounter problems because they haven't put enough resources into marketing and sales. Sometimes they ignore them completely and put their faith in word of mouth, or that sales will grow organically online and sales and marketing aren't needed. Its money well spent. Ignoring users is a tried and true way to fail. A start-up business owner needs to be optimistic, but often is too optimistic about seeing profits. Without adequate cash flow, slow sales or a downturn in the market can end the business before it has a chance to gain momentum.

3) *Problem of pricing the product or service*: Pricing is a dark art when it comes to startup success, and startup post-mortems highlight the difficulty in pricing a product high enough to eventually cover costs but low enough to bring in customers. Pricing the goods and services too low can delay the process of turning a profit. Instead of erring in this way, list fair retail prices, and make sure the start-up excels in customer service. Along with this have a convenient location and hours.

4) *Competitors*: Competition is the most inevitable challenge that startups face. In fact, startups have to bear the brunt of facing two-way challenge: one coming from monopolistic businesses that have dominated the market and making difficult for newcomers to emerge. Second, new rivals may have altered the playing pitch so it is highly likely to get swallowed by the shadow of other startups. Despite the product or service being great, it's a crowded market place. The competitive environment keeps the startups on their toes and drives to constantly improve the products and services, as there is no margin of error available. Competition can make the business lose its relevance in the eye of customers so it is important always to be on guard.

5) *Lack of proper planning and management*: An incredibly common problem that causes startups to fail is a weak management team. One thing startups can't afford is ineffective management. A team that worked well in the initial

stages, may find itself exposed as the startup expands, or is tested by everything from poor sales or market conditions. Procrastinating won't help. The issue needs to be tackled urgently or the result will prove very damaging. Contingency planning is vital, but so is a proper business plan. Get the details right, no matter how small.

6) *Finding the right people*: The right individual is someone who is very technical, data-driven, a natural problem solver and very familiar with the type of business. Strong project management skills, good with people and high EQ are also critical traits. A diverse team with different skill sets was often cited as being critical to the success of a company. Certain skills are crucial not only for the business to survive, but also to grow. Delays in finding the right personnel will not only eat up valuable time but also lead to severe bottlenecks, perhaps delay the rollout of new products or services. These are delays no startup can afford. Finding the right people can also eat up valuable time that could be spent on other areas of the business.

7) *Time management*: Time relates to the problem of adapting or pivoting quickly enough. There's never enough time. So, start by eliminating or minimizing distractions – anything that gets in the way of running the business. Prioritize decision-making. A business start-up requires a tremendous time commitment and a strong will. Starting a business is not a part time Saturday job, business owners need to be able to commit to extremely long hours in the start-up phase. So having the right strategy, or being able to think quickly and adapting to the new reality will define the success – or failure. All startups face challenges, but some can be avoided with careful planning. The others need quick decisions when they do occur.

8) *Lack of mentor*: Even if a start-up firm having a great product/idea, but lack the necessary guidance, market experience, and knowledge to move a stage further. That's where a mentor comes in, with the wisdom and confidence to help clear those roadblocks that are holding the startup back. Mentors can also help to strategize better. He can lean on when major decisions have to be made, or startups need a sounding board, is very useful.

9) *Cyber Security*: This is the digital age. And surviving the challenges in this age requires small startups – especially the ones operating online – to be super agile to counter the so called online security threats. Hackers are everywhere, and they are going to take advantage of any loophole within the systems installed within a startup firm. Startups that are active online do face online security threats. Be it unauthorized access to startup's sensitive information, employee records, bank accounts' information, or any other related information that is deemed important for the survival of a tech startup, they are at risk. In order to safeguard the all-important online data, startups need to have robust and military-grade security systems in place.

10) *Issues pertaining to legal and contractual matters:* This problem is especially important in case of intellectual property and employee issues. Business involves many and complex legal terms. A legal contract also must be in the proper form. Typically, this means that the contract must be in writing. Many contracts between merchants and consumers must be in writing. A mortgage contract for property must be in writing and made by a notary. There are some problems that deserve careful attention during entering into a contract includes:

i) The terms of a contract must be precise and definite and there must be no room for ambiguity or misconstruction thereon should exist.

ii) In cases where standard forms of contracts are not used, legal and financial advice should be taken in drafting the contracts and before they are finally entered into.

iii) Validity of contractual documents should be ensured.

iv) 'An Act of God' is the event which is outside the control of business. The problem lies in completely preventing from respecting the contract and from having someone else carry out the duties under the contract.

Implementing and following good contract management processes is good practice, whatever the size of the business.

11) Unexpected challenges can come in the form of:

i) Unexpected legal suits.

ii) Inconsistent government policy.

iii) Unexpected resignation of staff from sensitive office.

iv) Bad debts from customers.

v) Loss of market share.

vi) Dwindling working capital.

vii) Inadequate stock or inventory.

viii) Unforeseen increase in business expenses.

In order to face and tackle the so called challenges of a violent business world, startups need to be resilient and focus on keeping their integrity in tact against all odds. "Survival of the fittest" is the adage not just relevant for humans alone; it is, in fact, quite true for startups as well. These business challenges, if not handled properly can ruin the plan to build a successful business.

Check your progress 2

1) "Every startup brings with it a set of challenges". What are they? Explain.

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2) What are the unexpected challenges faced by start-ups?

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12.5 LET US SUM UP

Running a business, especially a startup, is no way an easy task. There are so many decisions involved, right from choosing the workplace to hiring your workforce to buy software, and so on. First and foremost requirement for a business plan is that the idea makes sense and is not just a dream but can be a viable reality because time, money, and efforts are involved. So a solid business plan should be a blueprint for a successful business. For many entrepreneurs, developing a business plan is the first step in the process of deciding whether to actually start a business.

Along with this one may discover issues or challenges that had been not anticipated. Successful businesses do not remain static. They learn from mistakes, and adapt and react to changes: changes in the economy, the marketplace, their customers, their products and services, etc. Successful businesses identify opportunities and challenges and react accordingly.

One wants to be near the customers. This requires proper accommodation with utility services. Although location is a long-term investment, a firm does not decide on a location with the sole objective of maximizing its profits or minimizing its costs. Personal factors of the people involved are also important. Finding accommodation in a good locality is one of the first decisions in the design of a start-up. It impacts profitability and scope for future expansion.

Introduction of facilities to an area is usually viewed as the most direct way to stimulate the business. Political and strategic considerations are also important. Government sometimes gives fiscal and other incentives to encourage start-ups to be built in specific areas. Physical assistance such as roads, water, and other public infrastructure are more popular than financial assistance.

In business there is need to deal with suppliers at some point. Picking a banker should be exactly like picking a business partner. Building strategic relationships with key vendors can deliver competitive advantage. As a buyer working closely with key vendors, the business will benefit from the latest technologies and developments. Open and transparent communication means sharing data and information. Vendors must first share basic information on their companies, locations, contact details and everything about the products or services they provide. Building trust is perhaps the most important factor and proving that the start-ups' intentions are above board is critical.

Common startup problems include poor planning, poor leadership, failure to differentiate a product or service from others that are already available, ignoring the needs of customers, and not learning from failures. Capital shortages, poor locations, and scaling too soon can also cause a startup to have problems.

12.6 KEY TERMS

Customer-centric: It is an approach to doing business that focuses on providing a positive customer experience both at the point of sale and after the sale in order to drive profit and gain competitive advantage.

Ethnographic: Ethnography is defined as an illuminative account of social life and culture in a particular social system based on multiple detailed observations of what people actually do in that social setting that is observed. Contemporary ethnography is based almost entirely on fieldwork and requires the complete immersion of the anthropologist in the culture and everyday life of the people who are the subject of the study.

Working philosophy: A work philosophy, or mission statement, sums up what the firm value in the profession. For example, if teamwork is valued, include something in the philosophy about the benefit of working with others to accomplish a task. Interviewers ask questions to get a sense of the values and to determine if philosophy is consistent with the orientation of their organization. Think of the philosophy as a brand.

12.7 FURTHER READING

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12.8 CLUES TO CHECK YOUR PROGRESS EXERCISES

Check your progress 1

1) See section 12.2
2) See section 12.3
3) See section 12.3.1
4) See section 12.3.2.1
5) See section 12.3.3

Check your progress 2

1) See section 12.4
2) See section 12.4

12.9 QUESTIONS FOR PRACTICE

1) Analyse the significance of vendors, suppliers, and customers. What problem are involved in finding them?
2) How will you establish business relationships with vendors and suppliers? How will those relationships impact the day-to-day operations?
3) How does the banker's role is vital for every growing business. How to get loan for start-up in India from any banks? Discuss.
4) What are the common problems being faced by the start-ups? Also indicate their solution.