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## IMPACT OF COVID-19 ON STARTUPS

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### Abstract

### Research summary

The discovery of the coronavirus (SARS-CoV-2) and the spread of COVID-19 have led many governments to take drastic measures. The lockdown of large parts of society and economic life has come as an exogenous shock to many economic actors, not least innovative start-ups. This rapid response research combines a qualitative research design informed by entrepreneurial ecosystem actors with an analysis of policy measures called for, announced, and reportedly implemented in the international press. Interviews from an entrepreneurial ecosystem offer a first-hand account of the adversity start-ups face during a crisis and how by utilizing bricolage responses they cope, and the analysis of policy measures can serve as an inspiration to design support initiatives to protect start-ups from the consequences of the current lockdown and to alleviate the effects of future crises.

Most start-ups have witnessed a decline in supply and or demand, except for those start-ups that are engaged in the supply and, or delivery of 'essential services', educational technology, gaming or streaming services. Notwithstanding the above, glitches in the supply chain network have either way presented challenges for all start-ups

## Managerial summary

The lockdown measures as a response to the spread of the new coronavirus threaten the existence of many innovative start-ups. Our rapid response research first illustrates the challenges entrepreneurs face as a consequence of the crisis. Second, we illustrate how entrepreneurs are dealing with the effects of the crisis and what they are doing to protect their ventures. Finally, we present measures that could be utilized by policymakers to assist entrepreneurs facing challenges. The research conducted suggests that while start-ups are successfully leveraging their available resources as a first response to the crisis, their growth and innovation potential are at risk. Therefore, policy measures should not only provide first aid to start-ups by alleviating the pressure caused by constrained cashflow, but also involve long-term measures embedded in and supported by the wider entrepreneurial ecosystem to ensure rapid recovery and growth.

## INTRODUCTION

### ABOUT COVID 19:

The consequences of the coronavirus disease (COVID-19) outbreak are unprecedented and felt around the world. The world of work is being profoundly affected by the pandemic. In addition to the threat to public health, the economic and social disruption threatens the long-term livelihoods and wellbeing of millions. The pandemic is heavily affecting labour markets, economies and enterprises, including global supply chains, leading to widespread business disruptions. With the discovery of the severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2) in late 2019 (Zhu et al., 2020) and very recently with the subsequent pandemic of COVID-19 (JHCRC, 2020), society and economies worldwide are experiencing an unprecedented exogenous shock (GDA, 2020). Although the occurrence of a pandemic caused by a new virus is unsurprising for virologists, the infection control measures such as social distancing (Glass et al., 2006) taken to slow the spread of COVID-19 exert tremendous pressure on large parts of a nation's economy. Most actors central to shaping the economy would admit to the current pandemic being a metaphorical black swan event, that is, a surprising, unpredictable event of great significance and severe consequences that dramatically changes the political and economic environment (Winston, 2020). While such events could be interpreted as opportunities, the unprecedented lockdown of large parts of society arising from the COVID-19 crisis marks the current situation out as an acute crisis. SARS-CoV-2 triggered a twofold crisis: The COVID-19 pandemic has placed an unprecedented burden on many health systems worldwide, and the infection control measures have caused an economic crisis by bringing a vast amount of economic activity to an abrupt halt. Moreover, while many other past crises have hit humanity at a specific point in time and regionally (e.g., hurricanes like Katrina in 2005) or developed over a longer period of time with global effects (e.g., the 2008 financial crisis), the COVID-19 pandemic has developed globally and the necessary countermeasures put in place have hurt economies suddenly. Solving Covid-19's Mental Health Impact As if the pandemic wasn't bad enough, it came with a severe impact on the mental health of individuals as lives changed everywhere. The lockdown precipitated

feelings of isolation, which was made worse by the fear of contracting Covid. WHO has agreed that bereavement, isolation, loss of income and fear of contracting the virus have been triggering mental health conditions or exacerbating existing ones? At the time of crisis, several mental health platforms like Wyse, Mind house, Cure fit and others started offering their services free of cost to provide a safe haven for those deeply affected by the pandemic.

### **STARTUPS IN PANDEMIC:**

COVID-19 has adversely impacted the overall investment sector. While businesses across all sectors can sense the repercussions of COVID-19, start-ups have particularly been one of the most vulnerable, and in fact, are facing various formidable challenges both, from a business as well as from an operations' perspective. Most start-ups have witnessed a decline in supply and or demand, except for those start-ups that are engaged in the supply and, or delivery of 'essential services', educational technology, gaming or streaming services. Notwithstanding the above, glitches in the supply chain network have either way presented challenges for all start-ups. However, the start-up ecosystem has been continuously striving to adapt to the present situation as flexibly as possible, by focussing on the need to innovate and diversify their business techniques and its operations. In the past couple of years, the start-up ecosystem in India has emerged as a reckoning force, largely attributable to the efforts of the stakeholders, and the initiatives implemented by the government to facilitate the growth of the start-ups. Investments in start-ups have dramatically surged to \$14.5 billion in 2019 from the previously \$550 million in 2010.

### **Indian Start-ups Vs Covid-19 Pandemic**

In India, nearly 600 entrepreneurs and investors across the technology industry came together with activists and policy makers for the “StartupsVsCovid-19” group. Together, the likes of former Flipkart exec Makin Maheshwari and the founders of Bounce, Homeland, Cred, Urban Company, Blackbuck, My Gate, 1mg, Arminda as well as venture capitalists like Matrix Partners, Stellaris Venture Partners took on several initiatives to help during the crisis. These included contact tracing apps, apps for reporting symptoms and more, to targeted communications for Covid literacy in multiple languages.

### **Start-ups Bring Their Workforce to The Pandemic Fight**

Covid-19 put ecommerce at the forefront of retail, with groceries segment as the crown jewel. According to a Forrester Research report, ecommerce segment is expected to grow by 6%, amounting to \$35.5 Bn in 2020. In this, the grocery segment is set to take the lead with about \$3 Bn in sales, representing a whopping 76% hike compared to \$1.7 Bn recorded last year. This may be commendable, but the growth would not have been possible without several mobility and food delivery players jumping into mend the broken supply chain. As people switched to online solutions, there simply weren't enough agents in the B2B or B2C segment to keep the supply running. Players like Ola, Uber, Rapido, Bounce, Domino's, Meru Cabs and others decided to deploy their workforce to ensure that essential services were available to everyone, even to those stuck in containment zones. In addition to this, Uber launched Bermudas to provide transportation support to the front-

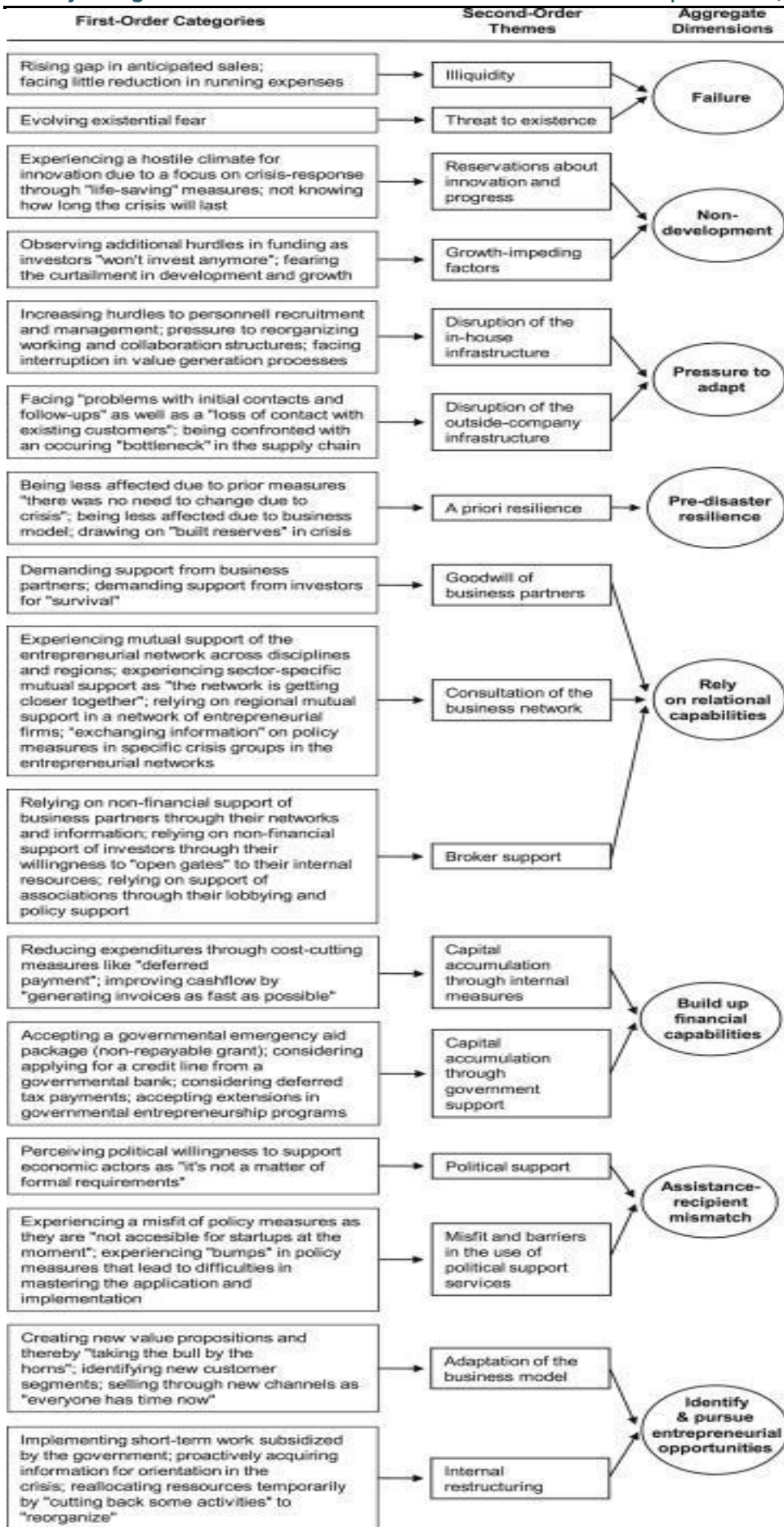
line healthcare providers and Ola offered 500 cars to the Karnataka government for Covid-19 pandemic-related work

### **The future of Start-ups: what to expect?**

Given the global scale pandemic and the uncertain economic situations spurred by it, there is a strong likelihood that fundraising for start-ups would become a significant challenge in the future, since various investors may choose to focus their future fund deployments only on the existing portfolio companies, in order to ensure that they are able to tide over the present global crisis. Furthermore, the various restrictions that have been imposed by the Department for Promotion of Industry and Internal Trade ("DPIIT") on April 17, 2020, vide a Press Note (being 3 of 2020, hereinafter the "Press Note"), would also delay or rather, dis-incentivise a large number of strategic and financial investments from China, some of them such as from the Alibaba Group, the Tencent Holdings, Osun etc. from investing in the Indian start-ups, even though there has existed a long-standing professional relationship between these investors and the Indian start-ups<sup>9</sup>. Pursuant to the release of the Press Note, fresh funding from new investors, and additional funding from the existing investors would be requiring prior approval from the Government of India. Traditionally, India has been heavily reliant on foreign direct investment ("FDI") to fund and sustain growth opportunities. An assessment of the impact of the Press Note would be particularly crucial, especially in the post-pandemic era, where open and free markets would be significant towards ensuring a steady investment flow and job creation. While it is stated that the Press Note has been formulated so as to prevent opportunistic takeovers/acquisitions, it would be interesting and critical to examine the notifications issued thereunder, in order to assess the extent of scrutiny now involved for Chinese companies investing in India, and also whether any carve outs would be applicable in the scenario. Start-ups are likely to witness heavy negotiations on deal valuations since the new investors may now demand bargains or discounts in the value, which may result in potential delays in the deal execution and closing. Investors may also adopt a more cautious approach towards funding and would also insist on thorough diligence (both commercial as well as legal) of the subject start-ups' business prospects, including any/all contingency plans implemented during the COVID-19, so as to ascertain sustainability of the start-up in the longer-run.

### **Consideration and Comments**

While the regulatory measures (as mentioned in the preceding paragraphs) have been introduced, they may temporarily assist the start-ups to deal with 'business continuity plans and issues' and limit expenses arising on account of certain statutory breaches, stakeholders within the industry have strongly demanded 'fiscal' support, in the sense, access to cash-flows and capital. The Scheme does alleviate various and concerns amongst start-ups and the stringent eligibility criteria might result in exclusion of a large segment of start-ups from the market.



Certain countries such as the United Kingdom and France have announced a relief package for start-Ipswich includes various measures such as establishing funds to invest in start-ups as well as providing loans/financial assistance to the start-ups<sup>10</sup>. India is also contemplating to implement a comprehensive and a more formal relief scheme that would provide access to capital, while also establishing an effective monitoring system to

assess the utilisation of the funds. Start-ups play an important role since they not only encourage innovation among the home-grown entrepreneurs but also generate employment opportunities. Given the vast potential, established by the start-ups, a swift and running action by the concerned regulatory authorities would be crucial in shaping the future of our Country's start-up bionetwork.

### **Discussions and Conclusions**

The Indian start-up industry is doing every bit to help the community at large. Founders from the e-commerce industry, health & fintech firms and a number of sectors including real estate firms are doing every bit needed to help counter the COVID situations Taking the fight right to the virus, the start-ups of India are continuously developing technological support for the world, spreading awareness about the preventive measures, or simply providing help on the ground zero. Which has been taken up wholeheartedly by these small teams and businesses all across the nation, from food to shelter and entertainment, the start-ups have been helping all hands-on deck amid this crisis. Major eCommerce portals have started delivering groceries and essential commodities only to help ease up the system in place. OYO Rooms has turned many of its hotels into makeshift hospitals and isolation centres. Restaurants, F&B aggregators and other portals getting restaurant food to your home are all abiding of WHO specified safety precautions. To help further, many of these firms have come up with relief packages of their own and contributed largely from their own pockets. A new consortium of tech start-ups named “Start-ups VS COVID 19” has emerged as the one making the most impact. Started off with a strength of 60 entrepreneurs is a 600+ body in just a matter of days. They are actively helping the COVID vaccine research with tech support for telemedicine, building multistage testing procedures, scaling the manufacturing of test kits and the healthcare infrastructure. They also have further planned to counter the pandemic if it scales to a more devastating stage 3 in our nation.

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