



# AN IMPERATIVE STUDY ON THE ROOT CAUSES OF STARTUP LAYOFFS IN INDIA

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**Abstract:** The Startup India initiative was announced by the Shri Narendra Modi Hon'ble Prime Minister of India on 15th August, 2015. The flagship initiative aims to build a strong eco-system for nurturing innovation and Startups in the country that will drive sustainable economic growth and generate large scale employment opportunities. Further to this, an action plan for Startup India has focused on areas such as “Simplification and handholding, Funding support and incentives” and “Industry-academia partnership and incubation”.

Indian start-ups have made their mark on the global stage. The ecosystem's rapid growth and maturity have unleashed a tremendous appetite for scalability, alternative funding options, global market expansion, and the ability to enable millions of jobs. This meteoric rise of start-ups has made India the world's third largest start-up ecosystem, and it has had a significant impact on the Indian economy, demonstrating the ability to contribute approximately 4-5 percent of India's GDP. The start-ups, like any other business, have been hit by the macroeconomic factors such as the Covid-19 pandemic, Russia-Ukraine conflict, the inflation in crude oil prices, and the changing public market valuation are some of the global factors that are slowing down the growth of the start-ups. This study aims to understand the growth of startups across the country, and the causes of startup layoffs.

**Keywords:** Startups, startup ecosystem, layoffs, fundings, macro economic factors

## I. INTRODUCTION

The Government of India has launched ‘Startup India’ on 16th January, 2016 which is intended to catalyze startup culture and build a strong, inclusive ecosystem for innovation and entrepreneurship in India.

India is the third-largest startup ecosystem in the world with an estimated 26,000 startups, 26 “unicorns” (startups valued at over US\$1 billion), and US\$36 billion in consolidated investments over 2017–2019. The ecosystem has expanded rapidly, mainly through private investments including seed, angel, venture capital, and private equity, along with technical support from incubators/accelerators, and public policy. According to the Economic Survey Report 2022-23, the startups in the country are 84,012.

The startup industry has suffered greatly from a worldwide closure when the Covid-19 outbreak hit in early 2020. Most businesses hurried to cut spending and stop hiring to withstand the extraordinary crisis. However, the shake-up did not pan out as badly as anticipated until the following year or so.

The situation changed, however, when the Russian invasion of Ukraine began in February 2022. The impact of geopolitical unpredictability on the world economy, in addition to failing markets, rampant inflation, and the worry of a protracted global recession, has curbed the newfound euphoria in the startup world in India and overseas.

Nearly 42.3% of the startups laid off their employees citing organizational restructuring such as M&A-related redundancies. The challenges include funding, revenue generation struggles and lack of access to supportive infrastructure. The regulatory environment and tax structures have also posed hurdles for startups.

## II. INDIAN STARTUP ECOSYSTEM & ITS GROWTH

**Startup ecosystems** are networks of resources intended to foster innovation through startups. Designed to aid startup growth in early and growing stages, these ecosystems provide startups access to mentorship, office space, and investment options and also enable them to network with other businesses. Typically connected by geography, these networks involve assistance and resources from governments, local authorities, academic institutions, coworking spaces, and major corporations.

The transition from an early-stage ecosystem to the current growth phase began in 2021 when Indian startups raised record-breaking funding and shot up in the global rankings. Startup India & Stand up India!" and kickstarted the Startup India journey, which has grown exponentially.

India has emerged as the third largest startup ecosystem in the world, with 107 unicorns (startups with valuations of \$1 billion or more) with a total valuation of \$340.79 billion, as of 7 September 2022. The year 2021 witnessed a record set of 44 entries to the coveted unicorn club, even as many 'sooncorns' (soon to be unicorns) waited in line. The Indian startup ecosystem reached a combined valuation of \$450 Bn. Startups have also created more than 7.5 Lakh jobs in the country, as per government data. But when we go deeper into the ecosystem, we start to see the cracks that need to be filled up.

## III. AN OVERVIEW OF INDIAN STARTUPS LAYOFFS

Indian startups have laid off their people throughout February-December 2022. But as the capital inflow dried up, many startups found themselves on very short runways, and thousands were asked to leave.

Indian startups seem to be facing an early winter, with only \$885 million in funding received in August 2022. Similarly, looking at quarterly data, the quarterly funding of Indian startups peaked in the third quarter of 2021 at \$14.8 billion, and has been steadily declining since then. The figures for startup funding in the first and second quarters of 2022 have been \$10.3 billion and \$6.84 billion respectively.

Rupee depreciation too would impact both startups that are trying to raise funding in dollar terms and those which have already borrowed in dollars. In the case of the former, depreciation of the rupee affects their funding and also their valuations in the process. For those which have already taken dollar loans, their debts would become more expensive on account of rupee depreciation. Such startups may not be in a position to use the complex hedging strategies used by large corporations. The Indian currency's depreciation is also likely to increase the operational costs of several startups, affecting their margins negatively.

Financial constraints and adverse economic conditions added another 11% of employees to the layoff list. Overall, the capital crunch was the most-cited reason for maximum layoffs (46% of employees) across Indian startups in 2022.

The major reason for the layoffs is unplanned hiring. Usually start-ups are in a rush to on-board talent that might be of no use after some time. Such layoffs and a toxic culture create conflicts and communication issues which later affects the mental health of the employees,"

The Russia-Ukraine conflict has increased costs. The start-ups, like any other business, are being hit by the macroeconomic factors that are affecting the country as a whole. Corporations are going through a rough patch themselves and during periods like this it becomes difficult for the start-ups to raise funds. In fact, in these times, the shareholders of the large companies also take a step back from investing large amounts, they would rather want the start-ups to minimize the cash burn and start optimizing.

The Russia-Ukraine war has increased costs, and the growth in online business is slowing down with the offline engagement increasing post-pandemic. "These major start-ups are large companies now. And like any company, they are impacted by different macroeconomic factors.

In India, the worst offender is edtech, it has come under intense scrutiny across the country.

### **BYJU'S Lays Off 2,500 Employees After Notching Up INR 4,588 Cr In Losses**

India's most valuable startup BYJU'S laid off 2,500 employees from its workforce, citing its push to achieve profitability by the end of FY23. The decacorn laid off employees across product, content, media, and technology teams. The edtech giant has also restructured its business, consolidating its K-10 acquired businesses such as Toppr, Meritnation, TutorVista, HashLearn, and Scholar into one unit, while Great Learning and Aakash would operate independently. The move comes seven months after BYJU'S announced raising \$800 Mn in a funding round and just weeks after it published its financial report for FY21. The edtech major clocked up INR 4,588 Cr in losses, almost 20X higher compared to FY20.

Edtech unicorn **Unacademy** conducted its layoffs citing "unprecedented times", as communicated to the employees in an internal email. The layoffs impacted 12% of its workforce fired by Unacademy. However, Unacademy's losses almost doubled year-on-year (YoY) to INR 2,848 Cr in FY22. At the same time, the startup reported consolidated revenue of INR 719 Cr in FY22. Unacademy said that the affected employees will receive severance pay equivalent to the notice period and an additional two months. It is also said that the affected employees will get medical insurance coverage for an additional year and a supposed 'dedicated' placement support.

Foodtech unicorn **Swiggy** fired 380 employees as part of a restructuring exercise to cut costs and citing challenging macroeconomic conditions and slowdown in growth of its food delivery business. The layoffs impacted around 5% of Swiggy's workforce. Online food delivery platform Zomato has also fired employees in 2022, saying that it may lay off 250+ employees or around 3% of its total workforce after a performance review.

Swiggy's losses during H1 FY23 were six times higher than **Zomato's** standalone losses during the same time. Swiggy's losses in the first half of FY23 were at around \$315 Mn (INR 2,570 Cr), while Zomato's standalone loss during the period remained around the \$50 Mn (INR 410 Cr) mark.

Mobility startup **Ola** fired 200 employees across verticals, citing an organizational restructuring. The laid off employees are from Ola Cabs, Ola Electric, and Ola Financial Services verticals. The layoffs constitute 10 percent of its 2000-strong engineer workforce.

### **Meesho Shuts Down Meesho Superstore Operations In 90% Cities, Lays Off 300+ Employees**

Ecommerce unicorn Meesho shut down the majority of its Superstore business. This has resulted in around 300 people being laid off as Meesho rolled back Superstore to only two cities, after expanding to six states in a short amount of time. Meesho offered two months of salary as a severance package to the employees. It has also absorbed some of the on-roll employees in its core business. Low revenue and high cash burn prompted the ecommerce unicorn to roll back its e-grocery service. The layoffs come after Meesho raised a whopping \$570 Mn in 2021 alone, having raised \$1.1 Bn since it was founded in 2015.

### **Fresh Fruit & Vegetable Delivery Startup Fraazo Lays Off Over 150 Employees**

Mumbai-based fresh fruit and vegetable delivery startup Fraazo has laid off more than 150 employees amid a cash crunch, winding down operations in Delhi NCR entirely and shutting down 50 dark stores across the country in the process. The layoffs took place across operations, tech, product, procurement, HR store managers, and planning and growth teams, among others, to cut expenses amidst a fund crunch. The employees that will leave the startup will receive a month's salary as a severance package, mostly based on notice periods of the said employees.

The layoffs come nine months after the startup raised \$50 Mn in a Series B funding round. Fraazo is shutting down more dark stores in Bengaluru and Hyderabad, which will result in more layoffs, particularly for the off-role employees.

## Blinkit Lays Off Nearly 1,600 Employees After Splurging INR 600 Cr

Quick commerce startup Blinkit reportedly laid off employees across major cities including Mumbai, Hyderabad and Kolkata. The layoffs impacted close to 5% of Blinkit's overall workforce, which amounts to around 1,600 people, including riders, pickers and store managers.

Blinkit has had to cut back after reportedly splurging INR 600 Cr on expanding its business last year between November and February. The deep discounting tactics backfired and the startup cut costs and corners to reduce its cash burn by firing employees.

## IV. CONCLUSION

The current economic scenario in India is in expansion mode. The Indian government is increasingly showing greater enthusiasm to increase the GDP rate of growth from grass root levels with introduction of liberal policies and initiatives for entrepreneurs like 'Make in India', 'Startup India', MUDRA etc. On the other side, the startup arena has a lot of challenges ranging from finance to human resources and from launch to sustaining the growth with tenacity. Indian startups have also faced the same challenge as they have struggled to raise funds. According to the data, more than 27,000 employees have been laid off by the Indian startups till date. The Indian startups that have resorted to firing of employees including several unicorns.

This includes several edtech majors, according to data 10,000 jobs were cut off from the edtech sectors alone with at least 22 edtech startups firing their employees. Layoffs are a worldwide phenomenon, and India clearly is no exception. Many homegrown startups and businesses have also laid off thousands of employees.

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