# Decoding The Loss Making Startup Culture & Why To Invest In Loss Making Startups

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*By Nandini Marwah*

**A start-up is like a baby. You give birth to it; you take care of it and then you watch it go.**

*"What if equity value has nothing to do with current or future profits and instead is derived from a company's ability to be disruptive, to provide social change, or to advance new beneficial technologies, even when doing so results in current and future economic loss but a lot of gain in the future?" Hedge fund billionaire David Einhorn, founder of Greenlight Capital*

India is struggling to become the third-largest startup ecosystem in the whole world but it is actually going towards unemployment since more and more startups are getting shut down. A report was given by IBM Institute for Business Value and Oxford Economics where they found that 90% of the startups in India fail in the initial 5 years because of lack of innovation or too much innovation. Here are the few issues which lead to startup failure:

1. Often it is told that if you make a different and out of the box product, your company will touch the sky. So then this saying is followed and a very unique product is trailed. Amidst this whole scenario, one very essential component is lost, the need for the product. Startups come up with such a unique product but forget that those products aren't needed and aren't right for the market.

2. Lack of solving the market problem is another issue. Startups in India have a lot amount of data, technology, great advisors and a good reputation because of thorough marketing. But one issue that prevails is that of market understanding. They do not solve the market issue at large.

3. India is the second-most populous country in the world and a major economy; however, most startups only cater to a section of the society and not a large chunk of it. The population in the rural areas remain untouched by this. In India, there are less than twenty retailers to serve the market chunk. but there exist way too many

online retailers for the customers. likewise, there exist too many startups in a concentrated environment. The increasingly crowded startup ecosystem means there aren't enough funds to go around for every startup. This is a major challenge that hampers the growth of a startup even when it has all things in its favour.

4. Another major issue for the fall of startups has been lack of talent/ dedication and shortage of funds. Startups hire the wrong employees and go into the vicious circle of bad human personnel for the whole period. Startups were initially not able to gather a competent workforce due to the limited resources available and the inability to pay high salaries. There was simply the right talent shortage. In the second case, the founders wasted good two years with the wrong staff and paid them from the limited capital they had with negligible returns.

### Why Are Startups Bought By Big Giants?

- The big companies end up buying the startups because of the major reason, cost. Rather than acquiring services from them, they end up purchasing the startup so that in the long run, a very profitable alliance is formed. The entire setup, talent and technologies are purchased. The benefit of two service firms is way more than hiring the service.

- One of the major reasons of merger and acquisition is that acquiring the startup, the sales of the startup merge with the parent company's sales. The bigger organization has a win-win situation. The major example here can be of Kiva and Amazon. When the firm, Kiva built robots, Amazon uses that in their warehouses for all the in-house operations.

- N Ganapathy Subramaniam made a statement that, "We continue to remain open and hungry for acquisitions. We have one of the best track records in terms of acquiring companies and integrating them… the approach is that clearly, we are in the market looking for the right asset which will add a certain amount of intellectual property, market reach or client addition."

- Another major reason is the research and development. Research takes up many years. People who start their own ventures have done their share of research. So when a big company acquires a startup, it ends up buying all the things associated with it in a package along with the killer and apt research ideologies.

### Why Investors Invest In Loss Making Startups?

- Going for profitability too early often means limiting growth. An extensive customer base needs to be developed and research needs to be done. Profit in the early stage means something isn't right.

- If a venture capitalist firm specializes in technology, they would try to dominate the tech sector by buying as many companies as possible. This way their competitors won't have much choice but to buy the remaining less appealing firms. This unique strategy can create a favourable jump in their portfolios and often the word investment is deemed to be more attractive than the concept of profit.

- Investors can still make money from unprofitable companies. VCs frequently sell their stake and often go ahead with the mergers and acquisitions.

- There is also another very exquisite reason, the brand value. So uber isn't making profits right now but if a VC invests in uber, he can benefit from it because of the popular name of the brand. The startups market themselves in unique ways and often become more popular than the conventional companies.

**Competent examples which show that losses MIGHT lead to REVENUES**

For about 20 years, Amazon was dependent on investors to grow and stay in business.

"One of the main reasons for Amazon's success was their ability to raise capital and have a story where people believed they would be profitable," said James Cassel, Founder, and Chairman of investment banking firm Cassel Salpeter & Co. This bond ultimately paid off. In the first quarter of 2019 the e-commerce giant reported about $60 billion in net sales, and it seems like they will maintain these types of massive profits for the foreseeable future because they are one of the biggest companies right now.

Comparing amazon and uber. Amazon took two decades to reach the profitability stage, maybe uber will too. "Until and unless Uber can find ways to overcome the numerous weaknesses in its business model, the company will never be profitable." Said a great economist.

*Each startup has its own strategy to achieve a certain level of dominance in their category, and their own timeline for a path to profitability. The reason why Indian startups end up being acquired is because of the lack of funding and a promise for a better future!*