

# Unraveling the Collapse: A Study of Failed Startups in India

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## ABSTRACT

The Indian startup ecosystem has experienced remarkable growth in a relatively short period, driven by a combination of factors such as government initiatives, improved access to capital, demographic strengths, and rapid technological advancements. Despite ongoing challenges, the resilience and creativity of Indian entrepreneurs continue to foster innovation and inspire optimism for the future. Startup failures in India highlight the importance of adopting a comprehensive approach that includes sound business planning, strategic resource management, and a resilient entrepreneurial mindset. With the right mix of policies, infrastructure, and investment, India is well-positioned to become a global hub of innovation, generating employment, boosting economic growth, and addressing some of the world's most pressing issues through entrepreneurship. This paper examines the key factors contributing to the recent struggles of startups in India, focusing on 12 companies.

**Keywords:** Startups, entrepreneurship, failure

## INTRODUCTION

The roots of India's startup revolution can be traced back to the early 2000s when a handful of pioneering ventures laid the groundwork for what would become a thriving ecosystem. Companies like Infosys, Flipkart, and Paytm blazed a trail, demonstrating that Indian entrepreneurs were capable of building globally competitive businesses. The turning point came in the mid-2010s with the rise of digital technologies and the proliferation of internet connectivity, which democratized access to information and markets, empowering aspiring entrepreneurs across the country. Startups in India embody growth, entrepreneurship, and an innovative, future-oriented mindset. The country has the potential to emerge as a leading startup hub, on par with nations like Israel, the US, and Germany. However, the primary challenge lies in fostering the right entrepreneurial mindset and offering sufficient incubation support to enable startups to expand both organically and through acquisitions. Indian startups tend to exhibit a higher degree of innovation and creativity compared to more established, larger corporations (Upadhyay & Rawal, 2017). India's startup ecosystem is fueled by its vast population and the growing demand for employment opportunities. The enthusiasm of the younger generation for entrepreneurship and innovation is a key driver of this growth. As the ecosystem expands, it is anticipated to have a positive impact on the overall economy of the country (Akshaya, 2019). The development of startups will lead to new innovations, economic growth, job creation, and the potential for some startups to become unicorns and expand internationally (Arora, 2023).

India's startup ecosystem has grown rapidly, becoming the third-largest globally with an estimated 26,000 startups (Dharish, Gopalan, Ramachandran, 2021). The government's Startup India initiative, launched in 2016, aims to foster entrepreneurship and innovation (Venkatanarayana, 2016). This program provides loans, tax breaks, and other incentives to encourage young entrepreneurs (Venkatanarayana, 2016). Startups are crucial for job creation, with the potential to generate lakhs of jobs (Bindal, Gupta, Dubey, 2018). However, challenges persist, including a fragmented market, lack of infrastructure, and limited awareness of government initiatives in smaller cities (David, Gopalan, Ramachandran, 2021). The startup ecosystem in India is primarily concentrated in large cities and IT-enabled sectors (David, Gopalan, Ramachandran, 2021).

India's startup landscape demonstrates considerable potential, with an expanding ecosystem supported by both government initiatives and a large talent pool. Yet, this growth is often hampered by administrative, regulatory, and socio-economic hurdles. The Indian market presents opportunities for startups, especially in sectors such as technology, fintech, and agriculture, but the lack of infrastructure, complex regulatory policies, and administrative challenges hinder its full potential (Reshchikova, 2023). The Indian government's efforts have helped fuel growth by providing financial aid, tax exemptions, and easier access to markets. Despite these initiatives, startups often find it difficult to navigate through bureaucratic inefficiencies, resulting in delayed project execution and missed market opportunities. This inability to scale effectively limits startups' ability to stay competitive and survive in a crowded marketplace (Dwivedi, 2019)

Despite the growth of the ecosystem, the failure rate of startups in India is high. Over 90% of Indian startups fail within the first five years of operation. This high failure rate can be attributed to several factors, such as inadequate funding, poor product-market fit, and a lack of experienced leadership. Many startups suffer from insufficient capital to scale their operations or cover the costs of development, leading to early closure. Funding is cited as one of the most critical factors determining whether a startup will survive its initial stages (Kalyanasundaram, Ramachandru, & Hillemane, 2021). Moreover, many Indian startups struggle to build an effective marketing and sales strategy, further compounding their challenges. Without proper customer acquisition plans and market promotion, startups often fail to generate sufficient revenue to sustain operations. Additionally, lack of experience among entrepreneurs in navigating the lifecycle stages of a business leads to mistakes in execution and strategic planning, contributing to business failure (Goswami, Murti & Dwivedi, 2023). Startups face various challenges at different stages of their lifecycle. In the early stages, securing funding and finding the right market fit are critical, while in the growth phase, efficient scaling becomes crucial. Studies indicate that startups tend to fail when they are unable to adapt to the evolving market conditions or scale fast enough to keep up with demand. Mismanagement of funds and operational inefficiencies further exacerbate these issues, leading to failure (Kalyanasundaram, Subrahmanya & Ramachandru, 2021)

## OBJECTIVE

The primary goal of this paper is to provide an in-depth analysis of several startup failures in India, examining the underlying factors that contributed to their downfall. Additionally, it aims to propose actionable recommendations and strategies to help prevent similar failures in the future, offering insights into how new ventures can navigate challenges more effectively.

## PROMINENT CASES OF STARTUP FAILURES IN INDIA

### **Lido Learning**

Lido Learning, an EdTech startup founded in 2019 by Sahil Sheth, aimed to provide personalized live tutoring to school students. Riding the EdTech wave during the COVID-19 pandemic, the company initially saw rapid growth by offering small class sizes and interactive learning. However, by early 2022, Lido Learning faced significant financial trouble. The startup's aggressive expansion efforts drained its resources, and with increased competition from giants like Byju's, Vedantu, and Unacademy, Lido struggled to maintain profitability. The failure to secure additional funding led to a cash crunch, and the company eventually had to shut down. Despite raising over \$10 million in its early stages, it couldn't sustain operations due to high operational costs and an inability to scale efficiently in the highly competitive EdTech market.

### **Zilingo**

Founded in 2015 by Ankita Bose and Dhruv Kapoor, Zilingo was an e-commerce startup that initially focused on Southeast Asia's fashion industry. Over time, it expanded into a B2B platform for global supply chain solutions, connecting fashion retailers with manufacturers. Zilingo was considered one of Southeast Asia's most promising startups, securing over \$300 million in funding from prominent investors like Sequoia and Temasek. However, the company's rapid growth was plagued by corporate governance issues. In 2022, allegations of financial misconduct surfaced, leading to Bose's suspension as CEO. The internal management conflict, combined with investor distrust and lack of transparency in financial reporting, led Zilingo to collapse in 2023. Despite its early success, poor governance and financial mismanagement drove the company to failure.

### **Doodhwala**

Doodhwala, founded in 2015 by Aakash Agarwal and Ebrahim Akbari, was a hyperlocal delivery startup focused on delivering milk and daily essentials to customers' doorsteps. It aimed to capitalize on the recurring nature of milk delivery, combined with a subscription-based model. The startup initially gained traction in cities like Bengaluru and Pune. However, as the company tried to scale its operations, it faced logistical challenges in handling perishable goods. Additionally, Doodhwala struggled to compete with well-funded rivals like BigBasket and Swiggy's SuprDaily, who entered the same space. With unsustainable operations and limited funding, Doodhwala shut down in 2020, marking the end of its journey in the crowded grocery delivery market.

### **Housejoy**

Founded in 2014, Housejoy was a home services startup that aimed to provide a one-stop platform for users to book various services such as plumbing, beauty, electrical work, and home cleaning. The company grew quickly and attracted major investors like Amazon. However, despite the initial success, Housejoy struggled to establish a stable business model. The fragmented nature of India's home services market, coupled with quality inconsistencies and customer retention issues, proved challenging. High competition from rivals like UrbanClap (now Urban Company) further worsened Housejoy's position. By 2021, the company ceased operations in most of its service categories, unable to maintain profitability and operational efficiency in a low-margin, high-churn industry.

### **Faasos (Rebranded as Rebel Foods)**

Faasos, founded in 2011 by Jaydeep Barman and Kallol Banerjee, began as a quick-service restaurant chain specializing in wraps. By 2015, the startup had expanded rapidly, raising significant funding. However, by 2016, Faasos was on the brink of collapse due to high operational costs, unsustainable

discounts, and over-reliance on physical outlets. Recognizing the need for a pivot, the company rebranded as Rebel Foods and adopted a cloud kitchen model, focusing on multiple food brands under one roof without the need for dine-in space. The shift helped the company survive, but Faasos' initial model failed due to scaling issues and unsustainable economics in the food delivery sector.

### **Koinex**

Koinex, founded in 2017 by Rahul Raj, Rakesh Yadav, and Aditya Naik, was one of India's largest cryptocurrency exchanges. At its peak, Koinex handled millions of dollars in daily transactions and attracted a wide user base. However, by 2019, the startup faced a major blow when the Reserve Bank of India (RBI) imposed a ban on banks dealing with cryptocurrency exchanges. This regulatory move left Koinex unable to facilitate withdrawals or deposits, essentially paralyzing its operations. The uncertain legal environment in India around cryptocurrencies forced Koinex to shut down, despite its initial promise. Regulatory roadblocks, not operational inefficiency, were the primary reason behind its failure.

### **Shotang**

Shotang was a B2B e-commerce marketplace founded in 2013, aimed at digitizing supply chains by connecting retailers directly with distributors. It sought to disrupt the traditional wholesale market by enabling efficient procurement for small retailers. Initially, the startup grew quickly, raising funding and expanding its operations across India. However, Shotang failed to scale its business model efficiently, struggling with thin margins in the B2B space and logistical challenges. As competition in the B2B marketplace sector intensified, the company found it difficult to differentiate itself. By 2018, Shotang ran out of capital and had to wind down operations, unable to secure further funding.

### **Overcart**

Founded in 2012, Overcart was an e-commerce platform that specialized in selling refurbished and pre-owned electronics. It aimed to tap into India's growing demand for affordable gadgets by offering refurbished phones, laptops, and accessories. Initially, Overcart gained attention due to the rising popularity of refurbished goods among price-sensitive consumers. However, the company faced significant challenges in managing inventory and providing consistent quality in refurbished products. High customer returns, warranty claims, and logistical issues hampered growth. Moreover, competition from larger players like Amazon's Renewed and Flipkart's 2GUD made it difficult for Overcart to capture market share. The startup eventually shut down in 2019 due to operational inefficiencies and growing competition.

### **YoloBus**

Founded in 2019, YoloBus aimed to transform the intercity bus travel experience in India by providing comfortable, tech-enabled, and premium bus services. The company initially attracted attention due to its focus on digitizing the traditional bus transport system. However, YoloBus struggled with operational challenges as it tried to scale across different regions. The COVID-19 pandemic severely impacted the travel sector, leading to a massive drop in demand for bus services. Despite efforts to stay afloat, the startup couldn't recover from the pandemic-induced losses, and by 2021, YoloBus ceased operations. The pandemic, coupled with logistical complexities, led to its downfall.

### **TinyOwl**

Founded in 2014, TinyOwl was an early player in the online food delivery space in India. The startup gained popularity for its user-friendly app that connected users with local restaurants for home delivery. Initially, TinyOwl expanded rapidly across multiple cities and raised substantial funding. However, the company's aggressive expansion strategy backfired due to unsustainable cash burn and operational

inefficiencies. High customer acquisition costs, deep discounts, and intense competition from better-funded rivals like Swiggy and Zomato put immense pressure on the company's resources. By 2016, after multiple rounds of layoffs and restructuring, TinyOwl was forced to shut down due to its inability to manage costs and secure further funding.

### **Stayzilla**

Stayzilla, founded in 2005, was one of India's first online platforms for budget hotel bookings and homestays. The startup initially found success by catering to the demand for affordable accommodation in smaller cities and towns. However, Stayzilla faced significant challenges in scaling its operations profitably. As competition from larger players like OYO and MakeMyTrip intensified, Stayzilla struggled to maintain its market share. The company's pivot to a homestay model in 2016 further complicated operations, as managing a decentralized network of properties proved to be difficult. By 2017, Stayzilla shut down after its founders admitted that they couldn't build a sustainable business model amidst rising costs and intense competition.

### **Frankly.me**

Frankly.me, launched in 2014, was a video Q&A platform that allowed users to interact with celebrities, influencers, and public figures through video-based questions and answers. The platform aimed to leverage the growing trend of video content consumption, but it faced significant hurdles in acquiring users at scale. Despite raising early funding, Frankly.me struggled to retain users and generate meaningful engagement. Additionally, the company's heavy reliance on influencers for growth did not translate into long-term user stickiness. By 2016, the startup couldn't raise additional capital and was forced to shut down due to lack of traction and an unsustainable business model.

## **CRITICAL FACTORS BEHIND STARTUP FAILURE**

### **Lack of Sustainable Business Models**

Many startups, such as Stayzilla and Housejoy, struggled to develop a sustainable business model that could generate consistent revenue and profit. Despite initial success, they failed to balance growth with profitability, leading to high operational costs without sufficient returns. Startups often focus heavily on scaling without validating the long-term viability of their business model. As costs rise and profits don't keep up, they become unsustainable.

### **Cash Flow and Funding Issues**

Companies like Lido Learning, Doodhwala, and TinyOwl faced severe cash flow problems due to aggressive expansion without securing enough capital for the long term. The inability to raise additional funding left them unable to cover operational expenses. Startups need consistent funding to fuel their growth. When growth is not balanced with capital reserves, cash shortages lead to a rapid decline, as seen in these cases.

### **Overexpansion and Operational Inefficiencies**

Startups such as TinyOwl and Faasos expanded too quickly across multiple cities without optimizing their internal operations. This led to logistical challenges, inefficiencies, and high burn rates. Overexpansion often leads to fragmented operations, where companies cannot maintain quality or manage costs effectively across different regions. This hampers growth and accelerates losses.

### **Fierce Competition**

Many startups, such as Zilingo, Stayzilla, and Frankly.me, faced overwhelming competition from larger and better-funded players like OYO, Swiggy, Zomato, and MakeMyTrip. This made it difficult to capture



market share or maintain a competitive edge. In sectors like food delivery, e-commerce, and travel, established competitors with deep pockets and strong brand presence can easily outcompete newer entrants, forcing them out of the market.

### **Corporate Governance and Mismanagement**

Zilingo faced internal management issues, with allegations of financial misconduct leading to a loss of investor trust. Poor corporate governance and a lack of transparency were major factors in its downfall. Mismanagement and governance issues create uncertainty among investors, employees, and customers. In cases like Zilingo, this can lead to a complete loss of confidence, cutting off funding and crippling operations.

### **Regulatory and Legal Challenges**

Koinex faced a hostile regulatory environment in India as cryptocurrency laws remained uncertain, with the Reserve Bank of India banning banks from dealing with crypto exchanges. This regulatory pressure made it impossible for Koinex to operate. Startups in highly regulated industries, such as fintech or cryptocurrency, are particularly vulnerable to abrupt policy changes. Without a clear legal framework, these companies cannot plan long-term strategies, leading to collapse.

### **Market Shifts and External Factors**

YoloBus and other travel-related startups were deeply affected by the COVID-19 pandemic, which caused a massive drop in demand for travel services. Similarly, external market shifts can have devastating effects on businesses. Unforeseen market disruptions like pandemics or economic downturns can devastate industries, especially those relying on physical infrastructure or discretionary consumer spending.

### **Customer Retention and User Acquisition Issues**

Frankly.me and Housejoy both faced challenges in acquiring and retaining a steady user base. While they managed to generate early interest, long-term engagement and customer retention remained low. Startups often attract users through initial novelty or discounts but struggle to retain them without offering long-term value. Customer churn increases costs and erodes the potential for profitability.

### **Logistical Challenges**

Companies like Doodhwala and Overcart faced significant logistical hurdles in managing their supply chain, especially when dealing with perishable goods or refurbished products. Their inability to handle inventory and delivery operations efficiently led to failure. Startups with complex supply chains need highly optimized logistics. Inefficiencies in inventory management, delivery, or quality control can quickly erode margins and impact customer satisfaction, leading to failure.

In summary, these startup failures underline the importance of having a scalable business model, maintaining cash flow discipline, managing growth prudently, and preparing for external risks like regulatory shifts and market competition.

## **LESSONS LEARNED FROM STARTUP COLLAPSES**

### **Develop a Sustainable and Scalable Business Model**

Startups must prioritize validating their business model before expanding too quickly. It is essential to ensure the business generates sustainable revenue and can be profitable in the long term without relying solely on external funding. Startups like Stayzilla and Housejoy collapsed because they couldn't build a long-term sustainable model. Ensuring consistent cash flow, even in a competitive environment, is crucial for survival.

**Manage Cash Flow and Funding Prudently**

One should focus on financial discipline, ensuring the startup has enough reserves to withstand challenging periods. It's important to avoid aggressive expansion unless sufficient funding is secured and there is a clear path to profitability. Companies like Lido Learning and TinyOwl burned through their cash reserves quickly and couldn't secure additional funding. A well-planned financial strategy, including smart cash flow management, contingency planning, and measured growth, can prevent cash shortages.

**Avoid Overexpansion**

Startups must expand gradually, focusing on optimizing operations in core markets before scaling to other regions. Ensuring a solid operational framework to handle larger volumes and more complex logistics is crucial. Companies like TinyOwl and Faasos expanded too quickly without optimizing internal operations, leading to inefficiencies. Scaling should be based on proven success, not the assumption that growth will resolve operational problems.

**Stand Out in Competitive Markets**

Startups must create a strong value proposition that differentiates their company from competitors. Focusing on what makes a product or service unique, rather than relying solely on pricing or discounts, is key to success. Companies like Stayzilla and Frankly.me struggled due to intense competition and a lack of differentiation. Building a distinct brand, offering superior customer experiences, or targeting niche markets can help startups stand out from larger players.

**Focus on Strong Corporate Governance**

One should ensure transparency, accountability, and sound financial management within the company. Building a leadership team with the necessary skills and experience is essential for guiding the business effectively. Zilingo collapsed due to corporate governance issues, resulting in a loss of investor confidence. A well-governed company is better positioned to secure funding, manage growth, and maintain trust among stakeholders.

**Prepare for Regulatory and Legal Challenges**

Startups must thoroughly understand the regulatory environment of their industry. Engaging with policymakers, ensuring compliance, and preparing contingency plans for regulatory changes are crucial steps to avoid setbacks. Koinex faced regulatory uncertainty in India, leading to its downfall. Startups in highly regulated sectors should have a clear understanding of potential legal changes and be ready to adapt quickly to new rules or restrictions.

**Build Resilience Against Market Shocks**

Startups should develop strategies to mitigate risks from external market shocks, such as pandemics or economic downturns. Diversifying revenue streams, reducing reliance on one market segment, or building a robust digital infrastructure can be effective. YoloBus and other travel startups were deeply affected by the COVID-19 pandemic, as their businesses relied on physical travel. Having a flexible business model that can adapt to unforeseen changes can help startups survive external disruptions.

**Focus on Customer Retention and Product-Market Fit**

Rather than solely focusing on user acquisition, startups must invest in customer retention. Ensuring that products or services continue to meet evolving customer needs and provide long-term value is essential. Companies like Frankly.me and Housejoy struggled with customer retention due to inconsistent service or lack of engagement. Gathering user feedback and continuously improving the offering helps maintain customer loyalty and long-term success.

### **Streamline Logistics and Operational Efficiency**

Startups that rely on complex logistics must invest in technology and processes to optimize supply chains. Focusing on quality control, inventory management, and customer service can help minimize inefficiencies and losses. Startups like Doodhwala and Overcart faced significant logistical challenges, ultimately leading to their failure. Building an efficient and scalable logistics framework is essential for any business dealing with physical goods.

### **Balance Innovation with Practicality**

While innovation is important, startups must ensure their product or service is practical and scalable. One should focus on solving real problems with viable solutions that can grow efficiently. Many startups, like Frankly.me, launched with innovative ideas but failed to scale or attract long-term users. Innovation must be accompanied by operational feasibility and a clear market demand for the product or service.

### **CONCLUSION**

Startup failure is an inevitable aspect of the entrepreneurial journey. While setbacks can be discouraging, they also present invaluable opportunities for growth and the development of resilience. By identifying the common causes of startup failures in India—such as inadequate market research, premature scaling, funding difficulties, regulatory barriers, challenges in talent acquisition, and an inability to pivot—entrepreneurs can better navigate risks and improve their chances of success. Additionally, cultivating a culture of innovation, collaboration, and continuous learning within the startup ecosystem can foster sustainable growth, creating a supportive environment for future entrepreneurs to flourish. A clear focus on sustainable growth, sound governance, operational efficiency, and strong market positioning is key to thriving in competitive environments. In the end, failure should not be viewed as a final defeat but as a crucial stepping stone toward greater success. With adaptability, learning, and perseverance, entrepreneurs can transform failures into opportunities to build impactful and lasting ventures.

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