

Unicorns and Business Incubators in the Indian Startup and SME Ecosystem : A Quantitative Analysis

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Abstract

This paper investigated the Indian unicorn (startups or privately owned companies which are worth over a billion US dollars) ecosystem of the last decade and the possible effects that business incubators located in the country might have in the nurturing and development of such startups. This paper provides a quantitative analysis based on the thirty-six unicorn startups coming out of India in the decade between 2011 and 2020 to support its findings on the noticeable effects of business incubators on unicorns, and whether these incubators truly do play a major role in the growth cycles of the said unicorn startups in India.

Keywords : Business incubators, incubation startups, unicorns, unicorn startups

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As defined by Investopedia, a unicorn (or unicorn startup) is a term used in the venture capital industry to describe a privately held startup company with a value exceeding \$1 billion (US dollars) (Chen, 2020). This popular term was coined in 2013 by the venture capitalist Aileen Lee, choosing the mythical horned animal to represent the statistical rarity of such successful ventures (Rodriguez, 2015). The number of unicorns is commonly (and unofficially) utilized to estimate the success of a nation's SMEs (Small and Medium Enterprises), as this measurement indicates the rate at which private companies grow and in turn create wealth for a nation.

It has been observed that business incubators have been quite effective for the development of the Indian economy (Jamil, Ismail, Siddique, Khan, Kazi, & Qureshi, 2016). A business incubator can be defined as an organization designed with the primary objective of accelerating the growth and success of entrepreneurial companies through an array of business support resources and services that could include (but are not restricted to) physical space, capital, coaching, common services, and networking connections (Business Incubator, n.d.). Due to the quantitatively observed positive impact provided by business incubators, one cannot help but wonder how effective the said Indian business incubators are at nurturing unicorn startups.

The primary focus of this writeup was to analyze the Indian unicorn ecosystem and to conclude the effects that business incubators have on said unicorns being generated from the Indian SME and startup markets.

Methodology and Analysis

36 recorded current and former (now publicly traded companies) Indian unicorn startups from the period of 2011 to 2020 (Venture Intelligence Unicorn Tracker, n.d.) were considered for this quantitative analysis. Two out of these unicorn businesses were subsidiaries of other companies present in the list of 36 unicorns, namely, Paytm Mall and Ola Electric, which are majority-owned subsidiaries of Paytm and Ola respectively.

It should be noted that out of the 36 unicorns produced by the Indian entrepreneurial ecosystem this decade, only

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Table 1. Unicorns and their Incubators

Unicorn	Incubator
Razor Pay	IIM Ahmedabad (Mallya, 2015)
Freshworks	1Mby1M (Mitra, 2019)
Oyo Rooms	Venture Nursery (Lunia, 2018), (Paul, 2015)
Policy Bazaar	Info Edge (India) Ltd. (Chatterjee, 2011)
Paytm	One97 (Khurana, 2013)

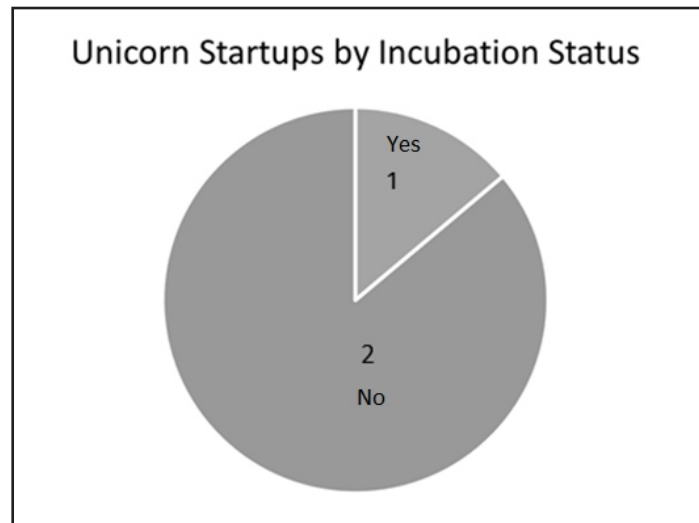


Figure 1. Distribution of Incubated and Non-Incubated Unicorns

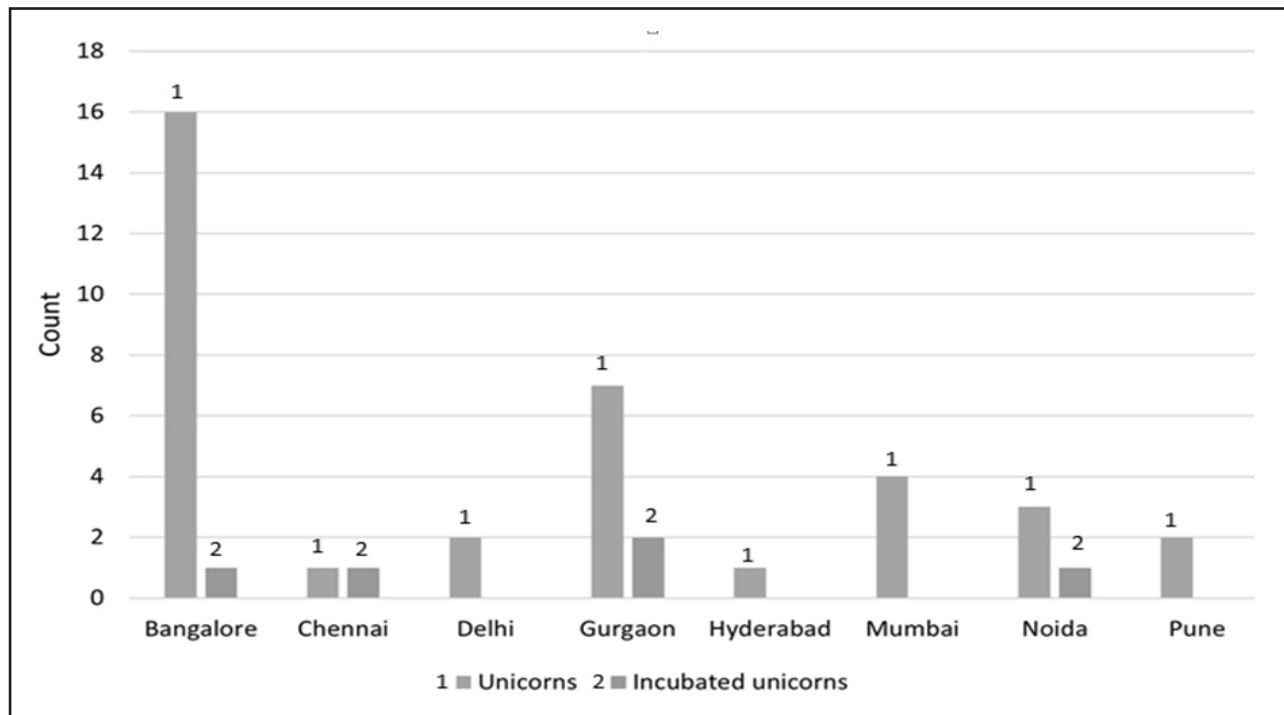


Figure 2. Unicorns by Location in India

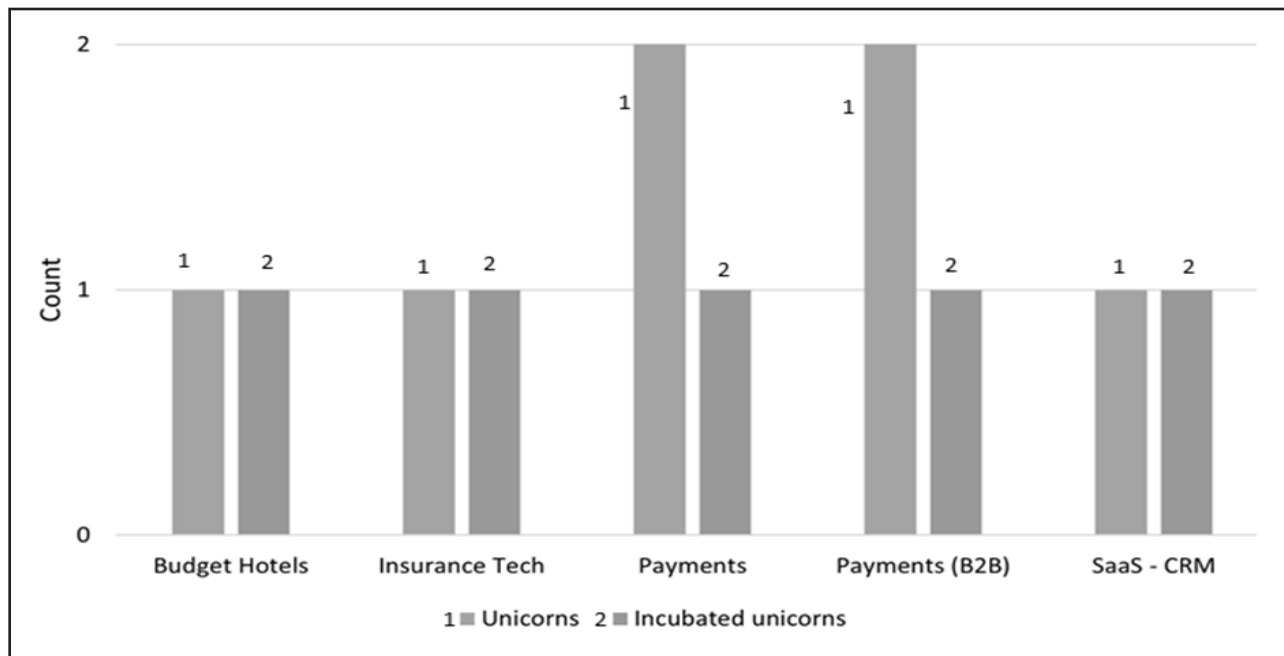


Figure 3. Industry-Wise Distribution of Incubated Indian Unicorns

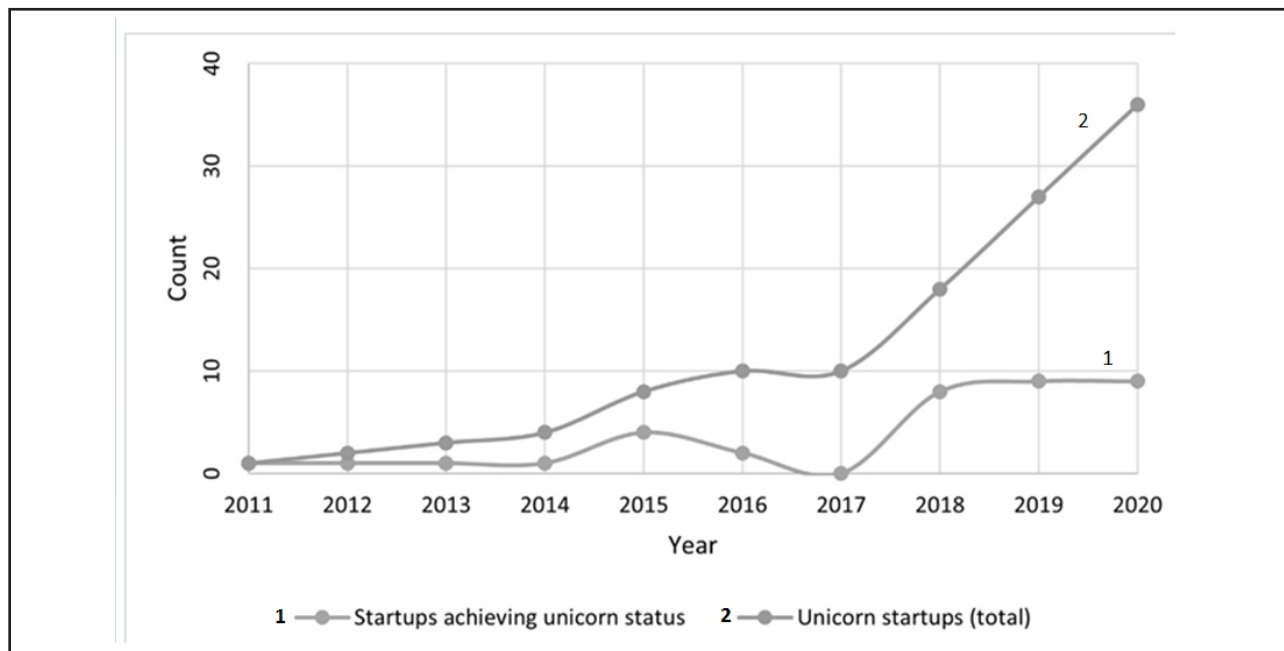


Figure 4. Total Number of Indian Unicorn Start-Ups Per Year

five of them had been recorded to have undergone any incubation programme. These unicorn startups and their respective incubators are listed in Table 1.

It should be noted that this indicates that less than 14% of all unicorn startups produced by the Indian market in the last decade had undergone any sort of business incubation programme, despite the numerous organizations that offer incubation services in the nation ([Complete list of startup incubators in India], n.d.). Despite this relatively low

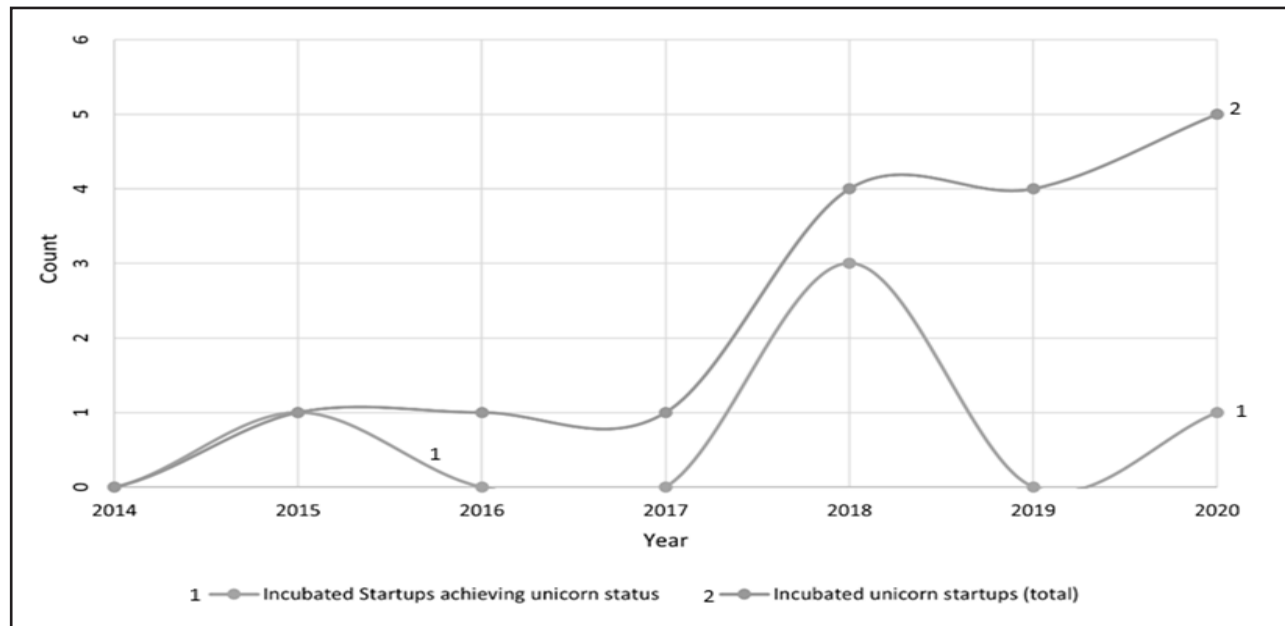


Figure 5. Number of Indian Start-Ups Achieving Unicorn Status by Year

number of unicorns being produced, incubated unicorns having an average valuation of \$ 6.3 billion, while those which have not undergone any incubation programmes have an average valuation of \$ 2.87 billion.

The city of Bangalore has produced the largest number of unicorns (Kalyanasundaram, 2018) in India, while Gurgaon is where the majority of incubated startups are located as indicated in Figure 2. Due to the extremely low number of incubated unicorns, it is tough to come to any conclusions based on location for such companies in India. Figure 3 shows industry-wise distribution of incubated Indian unicorns. Figure 4 shows the total number of Indian unicorn start-ups per year. Additionally, it has been observed that the majority of incubated startups achieving unicorn status was in 2018 (approximately 60% to be precise) as illustrated in Figure 5.

Limitation and Future Scope of Study

The limitation of the study was that the sample size was small. In future the study can be extended to a larger sample.

Conclusion

Despite the indisputably positive influence of business incubators in the SME and startup markets of India in the last decade or so, there seem to be no quantitative indications that incubation programmes have any positive effects in the development of unicorns in India. In fact, the data seems to imply that non-incubated startups might have a higher chance of becoming unicorns. However, it is likely that this might be a case of correlation and it does not indicate causation.

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About the Author

Adithya Vikram Sakthivel lives in Chennai and is the Co-Founder of Project Blueberry, a specialized website to assist entrepreneurs. He has an educational background in electronics and communications engineering and has considerable experience working in the Indian startup ecosystem, private equity and venture capital, and product management in relation to web-based applications.