

The Question of Economic Choices-Startups: Service Sector Vs Product Sector

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Abstract:

Startups are young business firm selling some new or innovative product or services. These startup could be product based startup or a service based startup. Both are important for the speedy growth of the economy. Thus it is difficult to choose anyone of them. The choice of the startup is a combination of both depending on the availability of scarce resources. We may reach to an optimum solution by moving on production possibility frontier in the economy. This will help in maximizing our production with the available scarce resources.

Keywords: Product based startups, service based startups, profitability, employability, economic growth, limited resources, opportunity cost, economic decision, production possibility frontier.

I. Introduction:

A startup is a relatively new company that has started to grow recently. Startups are generally micro organizations and are initially funded and managed by a few persons. Generally these companies sell a product or service that is not being sold anywhere else in the market at that time.

More than 1,200 startups came up in 2018, including eight unicorns, taking the total number to 7,200 startups, NASSCOM reported. However, the seed stage funding of Indian startups has declined from USD 191 million in 2017 to USD 151 million in 2018. These companies created 40,000 new direct jobs while there was more than three folds increase in indirect jobs.

In this paper the main focus is on details of product based startups and service based startups and which should be promoted by the Government for speedy economic growth? What is the most appropriate choice for the government and Why?

2. Kinds of Startups:

- I. **The Lifestyle Startup:** Suppose a person initiates a new startup just to pay and enjoy their own interest more. For e.g. on a sea coast, we see lifestyle entrepreneurs like surfers and divers who have their own small surf or dive shop or train surfing & diving to pay the amount so they can surf and dive some more as per their interest.
- II. **Family owned and managed-Small businesses:** They work as hard as any Silicon Valley entrepreneur. They hire local people. Most of them are giving very little profit. Small business entrepreneurs are not designed for large scale production, the owners just want to have their own business and “feed the family.” Their enterprises create local jobs.
- III. **Big startups** — those which can be increased in size and scale of production.
Scalable startups tend to group together in innovation clusters (New York,

Boston, Israel, Silicon Valley, Shanghai etc.). They make up a small percentage of the six types of startups, but because of the huge return on investment, attract all the risk capital.

IV. Startups designed to be sold and merged in short time: Their ultimate objective is not to have a every lasting business, but are meant to be sold to a larger company for \$5-\$60M after attaining certain Milestone.

V. Large company startups: Changes in customer tastes, Choice, Habits new technologies, laws, competitors, etc., can create requirement for more innovation and creativity which requires big companies to create new products to bigger markets.

VI. Social startups -These are generally for social benefit in form of charitable organizations. Their objective is to make life easy, not to market any product or to earn profit.

3. Problem Statement:

This paper discusses the need and importance of the product based startups and the service based startups. But as a business trend it has been observed that service based startups rules the startup sector of the economy while product based startups are considered to indispensable for the speedy growth of the economy.

The economic question is which form of startup we should promote for the wellbeing of the economy and the nation at large.

a. Product based startups

With the rising startup industries and the advent of expensive software products, companies are looking more and more to improve the products of their own. The feel of being able to earn revenue using domestic skills is also attractive.

Production requires creativity and innovation to cater to requirements of customers.

Advantages of Product based startups

- Able to scale up
- Revenue forecast are more predictable
- Overheads may be lowered
- The founder can build his own vision
- People are increasingly motivated to create and innovate new products.

Disadvantages of Product based startups

- Requires a lot of investment
- Customer support could be burdensome
- Initially the demand is not known
- Difficult to change established product
- May lead to wastage of resources

Current business trends:

In the past few years, there has been a trend for product startups in the corporate economy. This is seems to be very promising or lucrative thought for entrepreneurs whose products are innovative and liked by the customers.

Actually, product based startups are innovatively designed to allow customers to take maximum advantage of products designed by their sellers. In this high tech era, the main requirement of the hour is, to develop new technology or products that can make life better for common man. The founder of the product proposed great creativity and innovation.

Cornerstone of product-based startups paves the way for generation-X business ideas. In the current business scenario, the founders of product startups make necessary efforts to develop creative products that fit the needs of local consumers.

b. Service Based Startups

Business that renders services in a professional way for the benefit of individual or team is called Service Based Startups. Service based business provide intangible products such as landscaping, accounting, cleaning, education, insurance, treatment, banking, consulting etc .

Managing a Service Based startups

Running service-based startups requires less investment costs and is not highly specialized. It just meets the needs of existing markets at low cost.

There is not much room for innovation, so the funds required for innovative products are not much. Entrepreneurs only focus on their profit income, because the time interval from starting a business to earning a profit is very short. As a result now-a-days startups in service sector are gaining importance and are popular.

Service Business Specialist

- Low installation cost
- Provide various jobs and customers
- Popular business model
- Cater to existing market needs

Service based business disadvantages

- Customer management becomes labor-intensive
- Highs & lows of cash flow
- Time-based billing
- Huge scale
- Establish the vision of others
- Agents tend to please customers at a later stage
- Low creativity and innovation

Why service-based startups are popular in India's emerging industries?

Today, India has become one of the fastest growing economies in the world. Economic liberalization and affordable technology make it possible for entrepreneurs in the new era to compete with established companies.

Flipkart and Snapdeal in electronic tails; Quikr, Sulekha and Ask in classifieds; Zomato, Uber eats and Swiggy in food technology; housing and public floors and others in the real estate sector; Aura in transit; Yatra and GoIbibo in travel and tourism.

On the contrary, there are very few success stories about product-based startups. Micromax, one of the leading electronics product company, are some of the names we think of and have a place in Indian startups. GECKO is a device that can be used as a key finder, while GoQii is a fitness tracker wearable.

This clearly proves that service-based startups are more dominant in startup industry, and product based startups are still trying to achieve that level.

4. Transition from service to product and vice versa

As the government unswervingly pushes for the "Make in India" initiative, the smartest and smartest will continue on this path until something bigger is determined in the Indian economy.

In fact, as mentioned earlier, they all have their advantages and disadvantages. The choice between the two depends on a variety of things, such as objectives, business ideals, financial situation, and the risk taking capacity of the merchant.

In broad terms, we can identify the following differences between both systems on six dimensions of the business:

1. The managerial efficiency

Products and services start-ups have their strengths and weaknesses, so we only need effective management on the business side to run our business.

2. Investment is important

Manufacturing and selling physical products involves significant fund investment, time and effort. It generally requires a loan from NBFC's or funding from financiers. On the contrary, service-based startups have almost no or very less startup overhead or production costs.

3. Low business risk

Every business has certain risks, but compared to product-based counterparts, start-ups in the service industry face less risks. The customer of a paid service generally knows his requirements, so no guesswork is required, so the risk is lower. You are servicing & billing it for a specialized skill / professionals you may already have employed. Finally, in the service industry, customers pay before you start work.

4. Change is possible

In addition, the service based business is more adaptable & flexible. Not only can you work from anywhere, but you may easily change, modify and adapt services you are providing to the needs of your individual customers.

5. Corruption & Red Tapism

Even in the Modern times, India has not shaken off the shackles of corruption and red autocracy. Sadly, this social evil tradition still continues. Entrepreneurs evade anything related to the government, and usually the production

sector has to deal with various regulations. On the contrary, the service industry is modern and is not facing any such regulations.

6. Legal issues

The product industry is having a lot of rules & regulations. The factory owner must not interact with inspector Raj who is generally not cooperative, but he must also pass labor unions & series of labors' laws that make system difficult to him. The service industry has relaxed laws that allow third parties to rent, hire, and fire things with very little regulation over them.

7. Poor Infrastructure & Funding Support

To build a production department, you need funding and infrastructure. Indian banks are conservative (as long as they do not provide loans to large companies, these companies are also large defaulters). They don't lend money easily to small entrepreneurs, and startups which are too fancy for them. In addition, India's infrastructure is backward and incapable of supporting large industries.

8. Investing time

Investing time in service-based startups is much less than investing in product-based startups. As with the former, you only need to provide services to customers based on their choices. There is negligible room for innovation & improvement in service quality. In contrast, product development can have continues improvement, which requires a lot of time & efforts.

9. Scalability

Extending product-based startup is easy because any work that needs to be done is done initially and further requires replication of the innovative product. Therefore, it is very easy to expand your product based business. In the service based business, other customers cannot

use the same service. The merchant has to redo the process again, so expanding the business is a tough task.

10. Business risk

Because selling products or services is easy and involves less business risk, service-based businesses are in a better position in this case. In the product based business, merchants will go all out to create demand for their products and therefore involve greater risk.

11. Reusability

After the product is manufactured, multiple copies of it can be reused multiple times by different customers. This involves efforts that start early and don't need to do much later. To get the service, the merchant needs to make the same effort every time with a new customer.

12. Time spent

Due to the core skills of customers paying merchants, less time is spent on product business. Entrepreneur only needs to implement his core skills to develop a product that too one time only. For other consumers, he only needs to replicate and improve his basic product. On the other hand for service-based startups, you put your product into production every time (multiple copies) tailor made as per the need of the customer.

13. Control

In the product business, once the product is ready, it can be sold quickly. You don't need to do much each time you just need to develop a marketing strategy based on your needs. In the service business, he needs to shape it with each different customer according to his requirements.

14. Profit

If you do business honestly, both parties will make a profit. But the stage and quantity of profit are different.

As shown in the figure (Figure 1.1), the product startup's revenue will decrease in the initial stage, but the profit will increase after a while. Instead, service startups will earn more in the early stages, but will eventually slow down.

Service start-ups quickly started to make money, but then profitability slowed.

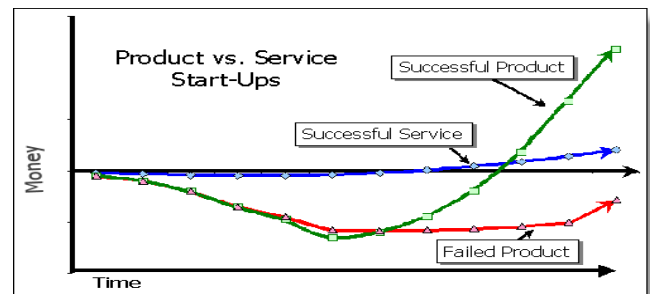


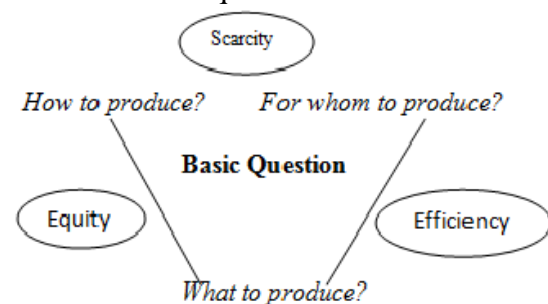
Figure: 1.1

During this time, only good product or service businesses can survive, and a week or inefficient business will perish.

5. The proposition: The tough choice!!

Business is the back bone of any countries prosperity. Every economy in the world has to answer the basic economic question namely: What to produce? How to Produce? For whom to produce?

We also agree that the basic problem everywhere is due to 'Scarcity of available resources'. Because resources are always scarce in comparison to human wants. Thus we may answer the above questions as:

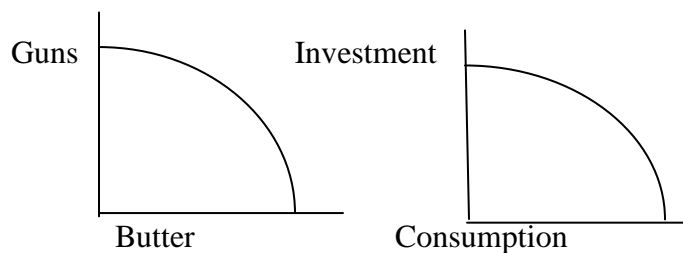


(Figure 1.2)

- What to produce?i.e. Choose a bundle of goods to be produced in an economy
- How to Produce?.....i.e Select a production method as per economic conditions
- For whom to produce?.....i.e. Determine who consumes what

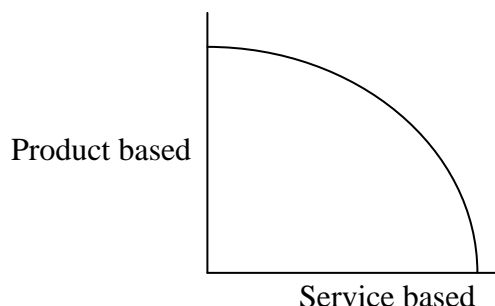
It may future be explained with the help of PPF. In economics the Production possibility frontier (PPF) shows maximum production with the available resources. For example the opportunity cost of giving up production of guns for butter is shown in the below given diagram figure 1.3.

The country has to make a tough decision that whether to produce guns or to produce butter with the available resources. Thus a choice has to be made between Investment and consumption as only limited resources are available for production. A general statement regarding this may thus be '*Sacrificing consumption for investment can help economies grow faster.*'



(Figure 1.3)

Production possibility frontier of startups in an economy



(Figure 1.4)

On the same lines we may sum up that a choice has to be made between product based startups and service based startup. No definite number can be given of each type of startup for any economy. The choice depends on the availability of resources and other economic condition of the economy in question.

The consumer behavior towards the startup would depend on marketing insights which would in turn depend on pricing and market positioning.

The production theory depends on operation management which includes least cost production, least cost distribution, location discussions, build or outsource.

In case of any market failures or market inefficiencies may require government intervention for the speedy growth of the economy.

Conclusion:

In this modern era, the main requirement of hours is to develop new technology or a variety of products that meet people's needs. Product and service-based startups are important in the country's economic development. The choice between the two depends on the availability of resources and economic conditions.

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