



The Flourishing Startup Ecosystem in India's Tier 2 and Tier 3 Cities

Komal Jamnani

PhD scholar, The Maharaja Sayajirao University of Baroda

Corresponding Author – Komal Jamnani

DOI- 10.5281/zenodo.13990681

Abstract:

The startup ecosystem is the community or clusters where entrepreneurs, educational institutions, investors, the government, and other stakeholders come together to support innovation and entrepreneurship. These startup ecosystems are a driving force for economic transformation. These startup ecosystems not only generate jobs and foster innovation, but they also have a social impact. In India, Mumbai, Bangalore, and Delhi-Gurgaon are the leading cities where startup ecosystems are flourishing. However, the diversification of these ecosystems is essential for the economic growth of the country. By promoting startup ecosystems in Tier 2 and Tier 3 cities, India can ensure inclusive growth and create equal opportunities for youth. Therefore, this paper studies the flourishing startup ecosystems of Tier 2 and Tier 3 cities and examines their potential and limitations compared to metropolis cities. In the second part, the paper presents the success stories of Jaipur and Vadodara as vital centres of innovation and development. This paper demonstrates the potential of the startup ecosystem in Tier 2 and Tier 3 cities through a comprehensive analysis of policies, investment, and infrastructure.

Keywords: Startup ecosystem, Tier 2 and Tier 3 cities, Innovation hubs, Regional Development

Introduction:

India has been ranked as the world's third largest startup ecosystem. With over 50,000 startups and 105 unicorns, India is rapidly becoming a hub for innovation and entrepreneurship. (Ministry of Science & Technology, 2022) In the contemporary world, startups are a proven panacea for the Indian economy. The journey of Indian startups is fuelled by creativity, innovation, technological advancement, and a new inspiring generation of entrepreneurs. The Indian government has also realized the importance of startups and has implemented various initiatives and schemes to support the startup environment in the country.

In the heart of this startup ecosystem, metropolitan cities like Bangalore, Mumbai, and Delhi are proven key players for the ecosystem. According to the 2020 NASSCOM report, Bangalore and Delhi are the biggest startup hubs in India, followed by Mumbai. According to the report, these three cities are home to approximately 55% of all Indian startups. (NASSCOM REPORT) These cities are home to groundbreaking innovations, incubators, accelerators, and co-working spaces that provide supportive and conducive environments for entrepreneurs. Furthermore, these cities offer accessible markets, a talent pool, financial facilities, cultural support, a government framework, and major universities that contribute to the growth and success of startups. Bangalore's Silicon Valley culture, Mumbai's financial centre, and Delhi's political and cultural support help Indian entrepreneurs thrive and scale their businesses.

Despite this, the Indian startup ecosystem is expanding not only in metropolitan cities but also in Tier 2 and Tier 3 cities, which are emerging as new engines of the Indian start-up economy. According to the 2022–23 economic survey, Tier 2 and Tier 3 cities are home to approximately 48% of Indian startups. Indian cities such as Jaipur, Surat, Pune, Vadodara and Chandigarh are undergoing a transformation, identifying localized solutions to their problems and contributing to the Indian startup ecosystem.

This paper delves deep into the challenges, opportunities, potential, and inspiring stories of Tier 2 and Tier 3 cities in India, shedding light on the diverse nature of the Indian startup ecosystem. Examining these cities' innovative practices—where creativity knows no bounds—is the study's sole objective. By highlighting the success stories of these cities, the paper aims to showcase the unexplored potential of cities in the Indian economy.

Literature review

The NASSCOM 2023 report 'emerging new technology hubs' highlighted that few locations have emerged as a 'next wave of technology hubs.' This report underscores this new shift in tier 2 and tier 3 cities, which recognize them as key players in the startup ecosystem. The report presents case studies of cities like Coimbatore, Bhuvneshwar, Guwahati, and Chandigarh. These cities have demonstrated remarkable growth in the technology sector, attracting investments and fostering innovation.

Despite metropolises, startups in smaller cities are creating their own place with localized

solutions and a community-driven approach. Your story's article on emerging startups in Tier 2 and Tier 3 cities provides insight into these startups by examining case studies. Agrohubs, a Jaipur-based startup, aims to bridge the gap between farmers and technology. The article discusses how startups such as Agrohubs focus on regional issues and develop solutions based on local resources. LeewayHertz, a startup based in Chandigarh, is a blockchain and software company. This article highlights this company as an important player in the blockchain industry. (Dalal, 2023)

Inc. 42 presents unique challenges and hurdles faced by Tier 2 and Tier 3 cities due to regional boundaries. According to the article, the number of startups in these areas is increasing, as is the failure rate. Access to funding, scalability, and incubation support are the challenges faced by startups in these regions. The article also highlights how important it is to research the unique requirements and challenges these cities face. (Lone, 2022)

Government policies and initiatives also assist startups in Tier 2 and Tier 3 cities. The Ministry of Electronics and Information Technology (MeitY) intends to fund a GENESIS scheme worth 490 crore over five years to support and accelerate successful startups in Tier II and Tier III cities, thereby promoting digitization and economic growth. (Ministry of Electronic and information technology)

Literature shows that Tier 2 and Tier 3 cities have the potential to emerge as important hubs for the startup ecosystem in the country. However, this paper seeks to investigate the opportunities and challenges that Tier 2 and Tier 3 cities face in cultivating a startup ecosystem.

Objectives of the study

The study of the startup ecosystem in Tier 2 and Tier 3 cities is necessary for two reasons: first, to explore the wide range of opportunities available in these non-metropolitan cities, and second, to identify the challenges these cities face.

These are the objectives of the study in order to provide insights on how to leverage the strengths and address the weaknesses of Tier 2 and Tier 3 cities in fostering a thriving startup ecosystem. Ultimately, this research aims to contribute to the overall development and sustainability of entrepreneurship outside of major metropolitan areas.

Additionally, the paper also offers a case study of Jaipur and Kochi as new destinations for the startup ecosystem in the country.

Potentialities in Tier 2 and Tier 3 Cities

1. Low-cost investment:

Tier 2 and Tier 3 cities offer good quality infrastructure, land, and labour at a lower cost. Dr. Vishesh Kasliwal, founder of Medyseva, says that

these cities provide skilled and unskilled talent at a lower cost compared to Tier 1 cities, which makes them an attractive place for startup entrepreneurs. Furthermore, Tier 2 cities like Jaipur, Ahmedabad, Indore, and Surat offer more space at a lower cost. (Ojha, 2023)

2. Familiar market:

Compared to metro cities, entrepreneurs are more familiar with the markets of tier 2 and tier 3 cities. These familiarities help in evaluating market behaviours and preferences and finding localized solutions. Additionally, low competition also helps them establish a strong presence in these cities.

3. Digital penetrations

In the modern world, this is the most crucial element for success in any field. With 900 million internet users, the Indian digital market is booming. As a result, entrepreneurs in these cities have access to more information, ideas, and knowledge. (Mishra & Saha, 2022) As a result of digitization, e-commerce companies have emerged as major supporters of tier 2 and tier 3 city entrepreneurs. These companies offer a wider customer range to small business owners. A report by BCG said that 50% of shoppers at e-commerce companies are from Tier 2 and Tier 3 cities.

4. Government support

The federal and state governments have launched a variety of initiatives and programs to help startups in smaller cities. The Ministry of Electronics and Information Technology launched the initiative GENESIS to support start-up centric schemes and initiatives in Tier 2 and Tier 3 cities. MeitY has launched startup-focused conferences, boot camps, workshops, and specialized financing to assist deep-tech and early-stage firms as part of this strategy. These initiatives are helping to create a startup friendly environment in smaller cities. Through assistance and support, the government works to create a decentralized startup ecosystem within the nation.

Additionally, state governments also play a crucial role in Tier 2 and Tier 3 cities. According to the Startup India report, 31 states and union territories have dedicated startup policies to foster the startup ecosystem in the country. In order to bolster the state's startup ecosystem, the Rajasthan government launched Startup Policy 2022. (Government of Rajasthan, 2022) This policy has been designed to encourage startups to provide localized solutions in education, health, and rural development. Additionally, the policy aims to support transgender people, women, and SC/ST communities in their entrepreneurial endeavours. As a result, Rajasthan has experienced a rise in startups within the healthcare, education, and e-commerce sectors.

Further, the Gujarat government also emphasized the importance of startups in the

economic transformation of the country and initiated the SSIP initiative to support startups in Gujarat. The SSIP support system has four objectives: to foster a startup ecosystem within the state. These goals include fostering a startup culture in schools, colleges, and universities; providing pre-incubation services; providing infrastructure; providing policy and funding support; establishing industrial-market links; and giving public policy support. This initiative has become a key driver for startups in Gujarat, resulting in an increase in the number of startups founded in Gujarat.

5. Work life balance:

In metro areas, traffic congestion, air quality, and high costs significantly affect the quality of life. However, after the pandemic, people are moving towards their hometowns. This shift opens up more opportunities for startups to succeed in Tier 2 and Tier 3 cities.

Obstacles Confronting Entrepreneurs in Tier 2 and Tier 3 cities

1. Lack of mentorship

In every phase of startup, entrepreneurs required constant guidance, from ideation to scaling. In tier 2 and tier 3 cities, entrepreneurs often face a lack of mentors who guide them on their entrepreneurial journey. On the other hand, metropolises have well developed incubation centres, meetup programs for entrepreneurs, university organized conferences, and networking events that provide guidance and support to entrepreneurs. Entrepreneurs face difficulties scaling their businesses in the absence of proper guidance. As a result, the number of startups in Tier 2 and Tier 3 cities has increased, but their success rates remain lower than those in metro cities.

2. Lack of infrastructure

In Tier 2 and Tier 3 cities, entrepreneurs face basic infrastructure facilities such as internet connectivity, office spaces, and transportation. There are a limited number of incubation centres available in Tier 2 and Tier 3 cities. Furthermore, these incubation centres have not been adequately developed for startups. The motive behind incubation centres is to provide networking opportunities to startup entrepreneurs. Incubation

centres, on the other hand, provide only basic services in small cities. (Lone, 2022)

3. Limited market opportunities

In tier 2 and tier 3 cities, startups have limited market access compared to metro cities. However, after a while, the growth of a startup becomes staged, making business scaling difficult. For tier 2 and tier 3 startups, doing market research is also difficult. As a result, startups in these cities face difficulties expanding their businesses.

4. Skilled talent

In tier 2 and tier 3 cities, startups may face difficulties while hiring skilled talent for their businesses.

Emerging startup hubs in India

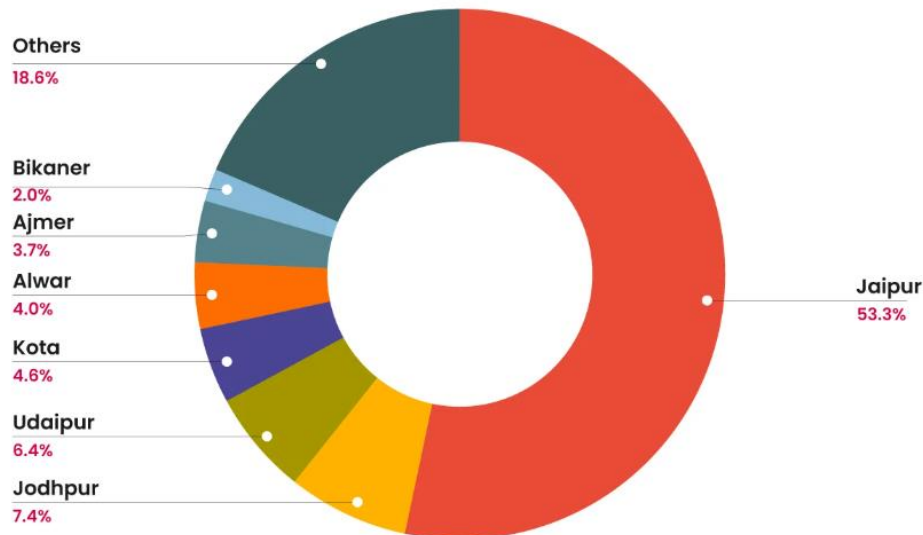
In this section, the paper discusses the opportunities, challenges, and success stories of India's Tier 2 and Tier 3 cities. This paper focuses on Jaipur and Vadodara as India's emerging hubs, explaining how these cities overcome challenges and provide innovative solutions to promote startup growth in their regions.

Jaipur case study

In the states' startup ranking for 2022 released by DPIIT, Rajasthan emerged as a top performing state in India. Jaipur is situated in the heart of Rajasthan, with its rich heritage, culture, and architectural marvels. Jaipur's unique geographical location connects it with Delhi, Gurugram, and Mumbai, providing benefits to the Jaipur startup ecosystem in India. Jaipur is also called the gateway of North India for startups that want to expand their businesses in North India. In comparison to Delhi and Mumbai, Jaipur offered cheaper labour, land, and other resources.

However, the state government recognized the importance of the startup ecosystem to the economy and implemented the Rajasthan Startup Policy 2022 to assist startups in the state. The policy's primary goal is to encourage startups to develop innovative solutions, create jobs, and grow the region's economy. Additionally, iStart Rajasthan operates incubation centres, which provide infrastructure facilities, networking opportunities, and mentorship. As a result, Rajasthan is home to 3.7k startups, with 53% of them originating in Jaipur. (Inc42, 2023)

DPIIT registered startups in Rajasthan 3.7k



Source: (Inc42, 2023)

The city's startups are primarily in traditional Rajasthani businesses such as jewellery, furniture, textiles, and handicrafts, but also new generation tech startups have also emerged from the region. The startups are also focused on local problems to find innovative solutions that can benefit the community. Ecowrap is a cleantech startup based in Jaipur that uses IoT and blockchain technology to segregate, collect, track, and recycle waste. Another startup recognized the travel importance of the region and launched a startup company called ToRoots, which offers travel packages for rural Rajasthan.

Furthermore, Jaipur is receiving good funding, which is important for startups. In a single year, Jaipur received \$110 million dollars in funding, the most funding of any tier 2 city, according to the Inc42 study. (soni, 2019) Further, Jaipur has good educational institutions, such as Manipal University, Malviya National Institute of Technology, Amity University, and Jaipur University, which provide a skilled and talented human pool for startups. In addition, the city is home to more than 22 incubators that support, mentor, and assist entrepreneurs in growing their enterprises. Jaipur's growing infrastructure facilities, road connectivity, and connection to Delhi and Mumbai make it a desirable destination for India's startup ecosystem.

Overall, Jaipur's growth as a startup hub is aided by its culture, strategic location, government policies, incubation centres, education centres, and access to skilled human resources.

Vadodara- emerging startup hub

Gujarat has ranked as the best performing state in India for the startup ranking after competing in seven categories, including institutional support, entrepreneurship and innovation promotion, market

access, funding support, incubation and mentorship support, sustainable future, and capacity building. The city of Gujarat, Vadodara, has the potential to become a startup hub for the state. After Ahmedabad, Vadodara is the state's next burgeoning startup hub. There are eight key players in the startup ecosystem: access to the market, human resources, and finance. (Foster & Shimizu, 2013) Vadodara's strategic location is connected to Mumbai, Delhi, and other major cities in the country. Vadodara's roads, airways, and rail connectivity provide a wide range of markets for startup entrepreneurs. Additionally, Vadodara's smart city initiatives and growing infrastructure facilities also contribute to the city's booming startup ecosystem.

Further, the city is also called 'Sanskar Nagari' due to its rich heritage and culture, making it an attractive place for inspiring entrepreneurs. The city also has numerous educational institutions and universities, including Maharaja Sayajirao University of Baroda, Navrachana University, Parul University, KJ Institute of Engineering, and vocational institutes like ITM Vocational University and Vadodara Startup Studio. These educational hubs provided skilled talent for a variety of professions and industries. These universities also provide mentorship and networking opportunities, as well as collaboration with industry to bridge the education-industry gap. The Maharaja Sayajirao University of Baroda has a dedicated startup and innovation centre that assists entrepreneurs and provides vocational training for aspiring business ideas.

Furthermore, because of their cultural values, Vadodara residents have the guts to take chances and have entrepreneurial spirit. Gujaratis are known for their strong business minds and work ethics,

which have helped make Vadodara a thriving startup hub for the state. These factors also help in getting financing for new ventures in the city. Besides, the state government also offers different funding options through seed funding, venture funds, policies, and initiatives. There is a 'scheme for assistance for startups and innovation' that provides funding assistance in various stages of startups.

As a result, Vadodara is home to many innovative startups, such as CHARGEZONE, CoolCrop, Eyelash Technologies, and MyLa. CHARGE+ZONE is a startup company that creates an electric vehicle charging network. CoolCrop focuses on sustainability and farmers in India and creates solar based cold storage for them. Besides, Eyelash Technologies is working on web development and web design services, while MyLa is focused on an organized laundry marketplace that provides customers with convenient services. These startups show the diversity of industries and localized solutions that are emerging from Vadodara.

However, Vadodara's startup activities highlight the city's potential to help promote the country's startup ecosystem. The city's rich heritage and modernism are a combination that helps the city grow as a startup hub. Additionally, the city's startup ecosystem is fuelled by the education system, developed industry background, government policies, and supportive infrastructure.

Way forward:

The growth of the startup ecosystems in Tier 2 and Tier 3 cities is promising for the economy. These cities have not only the potential to contribute to the local economy but also support the overall growth of the country's startup ecosystem. This study, however, shows the limitations of tier 2 and tier 3 cities in terms of infrastructure, networking opportunities, skilled talent, and market opportunities.

As a result, stakeholders such as the government, universities, investors, and entrepreneurs must work together to close the gap between Tier 2, 3, and metropolis cities. These cities can develop into India's startup hubs by focusing on digitalization, financial opportunities, and other supporting programs. The paper presents Jaipur and Vadodara as case studies of tier 2 and tier 3 cities that can help to understand the potential and limitations of these cities. These cities are new hubs of economic transformation that can attract innovation and investments. Further, Tier 2 and Tier 3 cities can also contribute to the metropolis' startup ecosystems.

References:

1. Dalal, M. (2023, October 21). Beyond metros: Emerging startups in tier II & III cities. Retrieved from yourstory: <https://yourstory.com/2023/07/startups-revolutionising-tier-2-3-cities-india>
2. Foster, G., & Shimizu, C. (2013). Entrepreneurial ecosystem around the global and company growth dynamics.
3. Government of Rajasthan. (2022). Rajasthan startup policy 2022. Retrieved from https://istart.rajasthan.gov.in/public/pdf/Rajasthan_Startup_Policy_2022.pdf
4. Inc42. (2023, September 26). A Deep Dive Into The Rapid Rise Of Rajasthan's Startup Ecosystem. Retrieved from <https://inc42.com/features/a-deep-dive-into-the-rapid-rise-of-rajasthan-startup-ecosystem/>
5. Inc42. (2023, September 26). A Deep Dive Into The Rapid Rise Of Rajasthan's Startup Ecosystem. Retrieved from Inc42: <https://inc42.com/features/a-deep-dive-into-the-rapid-rise-of-rajasthan-startup-ecosystem/>
6. Lone, I. (2022, December 30). 4 Challenges Faced By Founders From Tier II & III Cities. Retrieved from Inc42: <https://inc42.com/resources/4-challenges-faced-by-founders-from-tier-ii-iii-cities/>
7. Ministry of Electronic and information technology. (n.d.). GENESIS 'gen-next support for innovative startups'.
8. Ministry of Science & Technology. (2022, August 22). India ranks globally 3rd in Start-Up ecosystem and also in terms of number of Unicorns. Retrieved from PIB delhi: <https://pib.gov.in/PressReleasePage.aspx?PRID=1851207>
9. Mishra, B., & Saha, D. (2022, November 17). How Tier 2, 3 and 4 cities are contributing to India's startup boom. Retrieved from yourstory: <https://yourstory.com/2022/11/how-tier-2-3-and-4-cities-are-contributing-to-indian-startup-boom>
10. Ojha, S. (2023, January 11). Why Tier 2, 3 cities are rising as India's most rapidly growing startup hub. Retrieved from livemint: <https://www.livemint.com/news/india/why-tier-2-3-cities-are-rising-as-india-s-most-rapidly-growing-startup-hub-11673415892047.html>
11. soni, y. (2019, November 19). The Rising Startups Of Rajasthan: The State's Most Promising Tech Startups. Retrieved from Inc42: <https://inc42.com/features/the-rising-startups-of-rajasthan-the-states-most-promising-tech-startups/>