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**Research Paper**

# Bootstrapping vs. Venture Capital: How Funding Choices Shape Startup Survival Rates

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***Abstract***
*Founders hit a point where they must choose. They either bring in outside money or keep control and build with what the business earns. On the surface, that feels clear. In practice, it shapes the whole next phase. It affects how much danger a company can take, how it plans for tough months, and whether it makes it past its first real stress test.This article looks at the issue using an Indian view. The goal is to compare startups that start without outside capital to those that raise venture funds. The focus is on survival, how quickly they grow, and how much power founders keep over key decisions.India is a strong case for this question. The country built a large startup scene in a short time. In 2015, there were about 4,200 startups. By mid-2019, the count neared 49,000. At the same time, venture funding rose sharply. It moved from around 5 billion dollars in 2015 to about 14.5 billion dollars in 2019.Even with that growth, many startups still fail. A study often cited from IBM Institute for Business Value and Oxford Economics suggests that more than 90 percent of Indian startups shut down within five years. The study also points to funding gaps. It lists lack of innovation as a major factor too.So, the question becomes more specific. Why do well funded startups not always last longer? This article explores that idea. It uses the example of Zerodha, a brokerage that was bootstrapped. Zerodha was started in 2010 and did not take venture money. It also ties in the wider funding picture tracked by Nasscom, Tracxn, and Inc42.The argument is not that venture capital is useless. Instead, it says venture money often pushes speed and market reach. It can also bring added pressure to grow quickly, even when unit economics are not ready. In contrast, bootstrapping may limit how fast a firm scales. But it can force tighter discipline. It may also help founders keep working longer without running out of cash.The piece ends by looking at what this means for policy talks in India. It is also aimed at founders who are not based in metro hubs. For them, getting institutional capital is harder.*
***Keywords:*** *venture capital, funding strategy, entrepreneurship, bootstrapping, Indian startup ecosystem, startup survival*

## I. Introduction

Chat with enough startup founders in Bengaluru or Gurugram and you will get the same core tale, told in two tones. In one telling, the team raised a major round, hired quickly, pushed spend hard for growth, and then either hit scale fast or collapsed in a dramatic way. In the other telling, the team kept spending tight, grew step by step from their own sales, turned down many requests, and is still around years later, even if most people outside the startup world never noticed them. You see both paths often in India, and neither path is the full answer.

That push and pull between growing with bootstrapped cash and using venture funding sits behind whether a startup lasts or fades. India is a good place to look at this because the same years brought both a funding surge and a wave of failures. Reports show that venture capital into Indian startups rose a lot from 2016 to 2019, about a threefold jump, from 4.3 billion dollars to 14.5 billion dollars, based on Tracxn data cited by TechCrunch in 2019. In a similar time window, the IBM Institute for Business Value reported that over 90 percent of Indian startups did not make it past five years after launch, using IBM's 2017 findings. So money was moving in quickly, yet many companies still failed. This mismatch is what the article aims to sort out.

### 1.1 Why the funding question matters more than it seems

People love to frame the bootstrapping versus VC call as a style choice. Like picking a car. Some founders want more control. Others want faster momentum. Yet it is not just a preference. It changes how the business runs day to day.If a founder raises venture money, they are tied to targets they may not fully grasp at first. The plan is shaped around an outside timetable for returns. That pressure affects hiring, spending, and how quickly decisions get made.If a founder bootstraps, they hold the timeline in house. They do not answer to a fund's schedule. But there is a limit. Growth can slow if cash is tight, even when the market is ready for speed.So this is not a purely theoretical question. It is about what helps a startup last, and when each path works best. It can be the line between being around in five years and shutting down.

## II. The Indian Startup Funding Landscape: A Quick Tour

### 2.1 How fast the money grew

India's startup funding climb in the later part of the 2010s looks steep. One tracker says total money for Indian startups rose from about 550 million dollars in 2010 to 14.5 billion dollars in 2019. That is about 25 times higher, based on Tracxn'syear-end check, as noted by TechCrunch in 2019. Inc42 put the 2019 total a bit lower, at 12.7 billion dollars across 766 deals. Inc42 also said this was about 15 percent more than in 2018, citing Inc42's 2019 annual report. So the final number shifts by source, but the trend does not. More and more funds were entering Indian startups, and the speed surprised many people.

Early-stage rounds show the same push. In 2019, startups that raised angel or pre–Series A funding collected 6.9 billion dollars. That is well above the 3.3 billion dollars reported for 2018. The figures came from InnoVen Capital's report, shared by TechCrunch in 2019. Larger checks also showed up more often. In 2019 there were 27 rounds worth over 100 million dollars. That compares with just nine such rounds two years earlier. Taken together, the data suggests India stopped looking like a small outpost for venture money.

### 2.2 The other side of the coin: how many startups actually survive

This part of the story feels hard to read. Nasscom said India had about 4,750 tech startups in 2016. By 2019, it put the number near 49,000. It got that figure from totals in its yearly startup ecosystem reports (Nasscom, 2019). The growth looks massive. Yet starting a company is not the same thing as keeping it alive.An IBM Institute for Business Value report points to the other side. It used interviews with more than 1,300 Indian leaders. That group included 600 startup founders and 100 venture capitalists. The report says that more than 90 percent of Indian startups shut down within five years (IBM, 2017). Many investors gave a clear main cause. In their view, 77 percent said the issue was weak real innovation. They also claimed that some startups were just copying what already worked in other markets, then adjusting it for India.Other problems were named too. Talent shortages came up. Funding gaps also showed up often.

As shown in Figure 1, the growth in total venture funding and the persistently high failure rate did not move in opposite directions the way you might expect. Both trends climbed at once, at least through 2019.

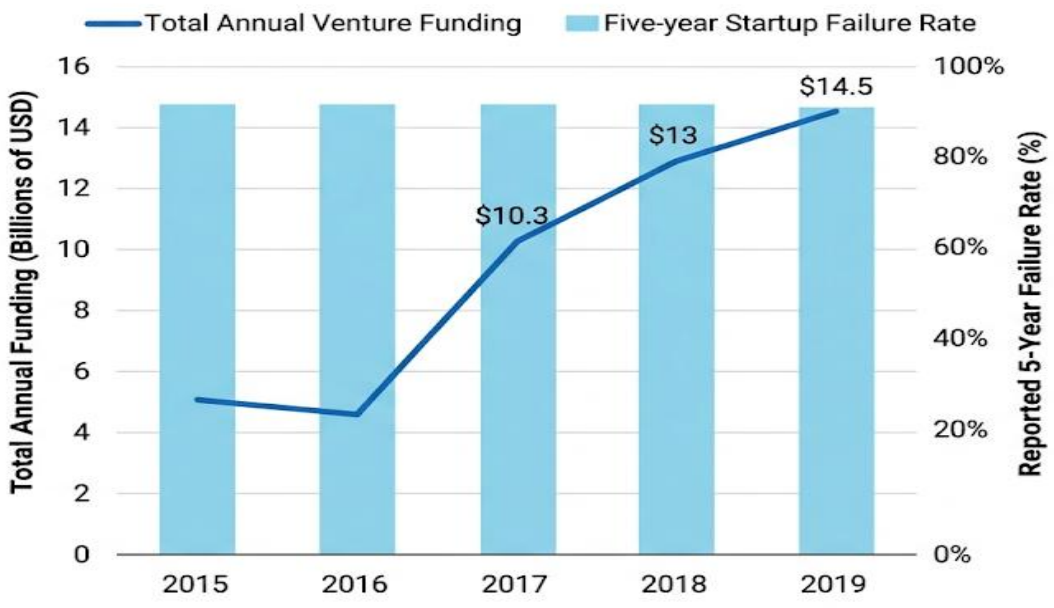


Figure 1: Indian Startup Funding Growth Versus Reported Failure Rate, 2015-2019

The chart shows two things each year: how much venture money went into Indian startups, and the five-year failure rate that IBM often reports. Funding is measured in billions of US dollars. The failure rate is the same level across the whole span.From 2015 to 2019, the funding figure rises in a fairly smooth way. It starts near 5 billion dollars and reaches about 14.5 billion dollars by 2019. This number comes from Tracxn data as it was covered by TechCrunch.Over the same years, the failure-rate bar stays at one value. It sits at around 90 percent, the figure IBM tied to its 2017 study. So, the chart does not show any drop in failure risk during the period of higher funding.The main point is simple. More money in the market did not automatically help the typical startup stay alive. It hints that the use of funds may matter more than the total amount. Sources are Tracxn and TechCrunch (2019), and IBM Institute for Business Value, "Entrepreneurial India" (2017).

## III. What Venture Capital Actually Buys — and What It Costs

### 3.1 Speed, validation, and market share

Venture capital can help in a few specific cases. It matters when a company must take share fast, before another player locks in customers. It also matters when the product gets stronger as more people join in, so early lead actually counts. In those situations, outside money lets the business run faster than its own sales would allow.

Indian e-commerce shows this very clearly. Inc42 reported that firms in the sector took the biggest share of total funding by value through 2019. They did so because scale was the main goal, not a side benefit (Inc42, 2019). If the market tends to reward a single winner, you cannot rely only on better execution. You end up needing funds so you can compete with the same resources as the other side.

There is another effect too, and many people miss it. When a startup lands a big round from a known investor, it can become easier to do several things at once. That includes hiring experienced staff, talking with large enterprise buyers, and getting attention in the media. In 2019, Sequoia Capital was the most active venture investor in India. Inc42 notes that its backing gave added credibility to the companies it funded that year (Inc42, 2019). That credibility helps. It can make a skeptical buyer more willing to try a new vendor. It can also help a careful senior engineer take a risk on a young firm.

### 3.2 The pressure that comes attached

None of this is free. After a founder takes venture money, the firm takes on an investor's idea of how returns should look. Those goals come with timing pressure that the founder did not choose. Many venture funds run on about ten-year lifecycles. Inside that window, portfolio companies are expected to grow enough for the fund to earn several times what it put in. Because of that, founders often lean hard on growth numbers. They track user growth, gross merchandise value, and revenue run rate. At times, that focus can crowd out the less flashy basics. Unit economics and customer retention do not sound exciting, but they are what help a business last.

This pattern is also what the IBM work points to. The venture capitalists in that study raised it as a concern. In the survey, 77% of the VCs said Indian startups rely too much on copying what already works. The report says this "precludes sustainable expansion beyond India's borders and keeps barriers to competition low" (IBM, 2017). Put simply, when money is easy to get, some founders may follow a known script. A pitch that looks familiar can get funded faster than a plan that is new, even if the founder has not solved the real problem in a careful way.

### 3.3 Dilution and the loss of control

There is another quiet expense people do not talk about much. It is the part of the company that gets smaller over time. Each new funding step lowers what the founders own. If a startup goes far enough, into later rounds, the founders may end up with less than half of the company they started.This is not always a bad thing. A smaller share in a bigger company can still be a strong result. Still, founders may have to work with a board. That board might not want the same path they first imagined. The debate often turns on how fast to grow compared with pushing for profits.

## IV. The Case for Bootstrapping

### 4.1 Forced discipline as a survival mechanism

Bootstrapped firms have limits that feel different from firms backed by outside investors. With no outside cash to spend, each rupee needs to connect to sales that already exist. Because of that, founders often push toward profit sooner. They do not wait for some later funding step to make it "someone else's job."Zerodha is one of the most mentioned Indian cases. It started in 2010, set up by Nithin Kamath and his brother Nikhil. The business grew into a major retail stockbroking platform in India. Kamath has spoken directly about why they chose that route. In an interview, he said that the habit of raising venture money to lift valuations, while not paying enough attention to steady profit, can lead to weak outcomes. Zerodha's early pace was not as fast as a venture backed rival's. Still, it did not have to chase goals set by investors. It also did not deal with the fear that the funding scene could suddenly shut down.

**4.2 The limits of bootstrapping**

Calling bootstrapping a fix for everyone would be misleading. Plenty of firms do need money first, before they can make real sales. In deep technology, the work can take a long time. There may be years of research and testing before a usable product even exists. A Nasscom report from 2019 said that in India, more than 18 percent of startups were in deep tech. That meant over 1,600 companies, and many of them cannot just fund themselves until a product is ready (The Week, 2019). Other heavy spend areas can run into the same wall, like building logistics systems or making hardware. If you tell a biotech founder to live only on customer revenue, that advice misses the point. When there is nothing to sell for the first years, bootstrapping has clear limits.

**4.3 Slower growth, narrower ambition**

Many bootstrapped companies linger in one area or focus longer than others. A plain reason is that they lack cash to enter brand new markets or launch new categories in one big move.That can be fine for survival. A small firm that keeps working for a decade can look like a real success. It might even outperform a business that grows quickly and then stops after a few years.Still, it can weigh on founders. They watch venture-funded rivals go into new spaces sooner. Even if those rivals stumble later, the early rush is still tough to see.

## V. Comparing the Two Paths Side by Side

Table 1 draws together the core differences between the two funding approaches as they played out in the Indian startup ecosystem through 2019, based on the sources discussed above.

**Table 1: Bootstrapping Versus Venture Capital in the Indian Startup Context (up to 2019)**

| Dimension | Bootstrapped startups | Venture-backed startups |
|---|---|---|
| Primary capital source | Founder savings, early revenue | External equity investment |
| Growth pace | Typically slower, revenue-paced | Often rapid, investor-timeline-driven |
| Founder ownership | Retained near-fully (e.g., Zerodha, founded 2010, zero VC) | Diluted across funding rounds |
| Pressure profile | Self-imposed, tied to own cash flow | External, tied to investor return expectations |
| Suitability | Services, brokerage, capital-light models | Deep-tech, e-commerce, capital-intensive network-effect businesses |
| Reported ecosystem-wide failure rate (5-year) | Included within the broader ~90% figure | Included within the broader ~90% figure |
| 2019 sector funding leader | Not applicable (external capital not primary driver) | E-commerce topped funding by value (Inc42, 2019) |

Sources: IBM Institute for Business Value (2017); TechCrunch/Tracxn (2019); Inc42 (2019); The Week/Nasscom (2019).

**5.1 Reading the table honestly**

Look at the table and focus on one key point. The 90 percent failure rate is for the ecosystem overall. It is not only about a single funding type.Also, no path is a sure guard from failure. Bootstrapping does not make failure impossible. Venture funding does not either.What changes is how the risk shows up. Companies that bootstrap often end without much noise. They may slow down, then run out of fuel when the founder's own money and energy fade. In many cases, they never get much public attention.Venture-backed firms often fail in a more visible way. They might look strong for a while, then collapse after high-profile funding rounds. They can also grow teams in the process. The money that helps them scale quickly can also help them burn through resources quickly if the business model does not work.

**5.2 A hybrid reality**

Many Indian startups do not fit neatly into just one category. A lot of them start with cash they already have. They test whether the plan works without a large budget. After they can show real momentum, then they look for outside venture capital. Doing it this way gives them a firmer footing when they talk to investors. It also makes the whole process feel less forced. But the timing still changes the results. If a founder brings in investors after product-market fit is clear, they may be able to keep a larger share for themselves. They might also agree to deals that do not demand the same level of fast growth. On the other hand, if fundraising happens too soon, when it is mainly a concept and a few slides, the cost can be higher. The deal terms can also be tough to live up to.

## VI. What This Means for Founders and Policy

**6.1 Matching the funding path to the business model**

How you raise money should match the business itself. It should not depend on what feels hot in the startup world at that time.If the firm is built to use less capital, like some services or fintech, it may grow without heavy cash. When early profit is realistic, a model similar to Zerodha can often start on its own. That approach can also help a founder keep control and keep options open.

But if the business needs a lot of money up front, the story changes. Deep tech and health tech infrastructure often take years. They may need big R and D work before they earn anything. In those cases, you usually have to bring in outside funding. Pretending you do not need it just leads to trouble.

**6.2 The role of ecosystem support beyond metros**

Nasscom's 2019 report also noted that Bengaluru, Delhi NCR, and Mumbai account for roughly 70 percent of all startups in India. That means people and money tend to gather in a few places (NASSCOM Community, 2019). If someone is trying to start outside those hubs, the situation can feel tougher. They may end up bootstrapping just to keep moving, or they may not launch at all. The reason is simple. Venture capital links are not as strong in many tier-two and tier-three cities. When India talks about keeping startups alive, it should deal with this uneven geography. It should not assume funding is spread evenly across the country.

## VII. Conclusion

There is no clean winner in the debate about bootstrapping versus venture capital. Deal funding for Indian startups rose by nearly thirty times over the decade. By 2019 it hit 14.5 billion dollars. Yet the often-quoted share of failures for Indian startups stayed stuck near 90 percent within five years during that same time. If money were the main driver, the failure number should have eased as funding grew. It did not, at least not by 2019. That mismatch is the key takeaway here.

A closer look points to fit instead. The question is whether the funding style a founder picks matches the real financial shape of the firm. Venture capital tends to help when the business must race to scale. In those cases, speed can decide the result. Investor pressure to grow fast also lines up with what the company actually needs. Bootstrapping tends to help when profitability can come with smaller capital. In that setup, careful choices by the founder matter more than heavy spending. Zerodha's long stretch of profitable growth, run by the founders and without any institutional rounds, is often cited as evidence that a venture route is not the only way to build something that lasts in India.

If you are deciding this now, the takeaway is not some slogan like “skip venture capital” or “bootstrap no matter what.” It is more direct than that. First, look at your business and describe it as it is. Do not guess. Do not soften the truth.Next, think about the pressure you can handle day after day. Be honest about what you will do when things get tense.Also, do not raise money just because it is easy to find. Do not do it because others in your group are doing the same thing.What mattered for startups in India was not mainly the size of the funding round. Survival came from whether the money, big or small, fit the real needs of the company.

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