Extending the Concept of Delayed Gratification to Retail Start-ups in India: An Imperative Strategy for the Success, Long-Term Sustainability, and Protection of Founding Members' Majority Shareholding

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ABSTRACT

By definition, the key objective of an organized investor is to commit capital with an expectation of financial returns within a specified period. This definition neither explicitly nor implicitly indicates the *moral ways* through which such financial returns are to be expected. Thus, the founding members of any Retail start-ups in India need to be cognizant of the fact that the key objectives of external organized investors are contrary to the founding members' objectives of building a successful firm. This study demonstrates that the founding members of Retail start-ups in India knowingly or unknowingly *distance* themselves from understanding such objectives of investors, they are constantly reaching out to fund their start-ups. We have noticed that the most important aspects that have given the *highest attention* by the founding members *(implicitly influenced by organized investors' ideology*) and have a greater significance in the failure to protect the majority shareholding in the firm revolve around (i) Quick reward; (ii) Short-term reward; (iii) Immediate reward; (iv) Impulsivity and rapid decision-making for the reward; (v) A desire for prodigious financial returns. And the only strategy that has a significant association and determination in getting rid of such aspects is the concept of *Delayed Gratification* (DG) i.e., '*a person's ability to resist either a smaller or immediate reward to receive either a larger or more enduring reward later'*. This study indicates that even after ten years of operation, the founding members with high levels of DG were able to retain more than 65% of their original shareholding with a relatively better financial performance of their firm whereas, founders with lower levels of DG were able to retain less than 5% and founders with no DG are no more holding any shareholding of the start-up they founded. Besides finding evidence of the DG strategy's role for the founding members, our results are also consistent with the arguments, suggestions, and recommendations of Cognitive, Biological, Psychodynamic, Social, Behavioral, and Developmental psychologists. However, our findings are contrary to Evolutionary theorists.

Keywords: Indian Retail; Retail Entrepreneurs; Entrepreneurship; Start-up; Startup; Retail Start-ups; Start-up Investment; Start-up Investors; Angel Investors; Organized Investors; Founder Shareholding; Delayed Gratification; Differed Gratification

1. BACKGROUND AND MOTIVATION:

We have observed that a) many investors and investments in the retail start-ups have gone through a learning curve over the last five years, b) investors are trying to find better ways to evaluate the true potential of Indian retail start-ups, c) the majority of investments are attracted by retail start-ups whose business model is predominantly skewed toward online/internet retailing and, d) month-on-month revenue growth is given more preference over unit economics of retail start-ups. A majority of the investors are considering a few key factors while determining to invest in retail start-ups such as a) gap in the market, b) original concept/idea, c) short-term and long-term motives of the founding team, and d) previous academic/industry affiliations/associations of the founding team. Despite various issues faced by the existing/potential investors, senior leadership members of retail organizations and big conglomerates in measuring and evaluating the real performance of retailers in India, many start-ups and established retailers of Indian origin have attracted investors. To name a few Flip Kart, Myntra, Jabong, Snap Deal, Shop Clues, Big Basket, Grofers, Ur Door Step, Cars 24, Pepperfry, Urban Ladder, Bewakoof, Chumbak, Clovia, Koovs, Voonik, Zivame, Indofash, Kaaryah, Faballey, Zink London, Stock Buy Love, First Cry, Mama Earth, Hopscotch, 1MG, Med Life, Net Meds, Lens Kart, Purplle, Nykaa, The Man Company, Chaayos, Roll Mafia, Tea Box, Blue Stone, Melorra, eSardar, Envoged, Mojarto, Edge Fx and so on. In one of our recent empirical research it was evident that among more than 250 Retail start-ups in India, only a few have created a true retailer image in their employees, investors, competitors, and consumer's minds. Furthermore, the retailing business model adopted by a majority of them which is widely known as Digital or Technology-Enabled Retailing is still in question owing to no clear evidence of profit being reported by such Retail start-ups in India. Inferences drawn based on qualitative and quantitative findings from primary and secondary data indicated that a) sustainable profit is not an important aspect and priority; b) unit economics is not a need of the hour; c) overconfidence among founding team and investors is persistent; d) a majority of Retail start-ups are concentrated in a single retailing model that has serious limitations in reaching a majority of the population; e) investors are carried away by a few success stories of start-ups that may not be clear representations of the Retail segment, and most importantly f) exponential growth in revenue and *firm valuation* is given the highest priority by the founding team to *attract more investment* from existing/potential investors [1].

Attracting more investment from existing/potential investors being the key priority of founding members of a Retail start-up has indirectly influenced a majority of the investment decisions into retail start-ups based on;

- the results of early consumer traction to a few new/innovative retailing models although such trials were carried out on a very small proportion of the population.
- a few success stories of start-ups that may not be clear representations of the Retail segment.
- the new retailing model in India i.e., digital/technology-enabled retailing model which holds less than 3% of the overall retail market share in India. Though the digital/technology-enabled retailing model holds a minority share in the overall market, they are successful in disrupting the Brick-and-Mortar retailing formats in the country holding 97% of the market share [2].
- dramatic and exponential growth levels in the revenue that are achieved by offering high and deeper-levels of discounts/offers to acquire consumers despite one of the well-established business theories indicate that a sustainably profitable business model cannot be built on strategies based on price-war [3] and such business models in addition to disrupting the existing market could also implicitly impact the overall economic development of a country negatively in the long-term.
- a predisposition in their mind which forces them to invest in start-ups focusing on consumers representing Tier-1 cities in India [4].

Understanding the ecosystem and key factors that determine the success and sustainability of a start-up business organization has been one of the key areas of interest among researchers across domains around the globe. Based on available literature (1957-2020) we have listed a majority of them in **Table 1** by grouping them into Individual factors; Environmental factors; Organizational factors; Financial factors [5-80]. We firmly believe that *almost half* of the factors listed in Table 1 are necessary for even an established retail organization to protect its existence in the Indian market for a longer-term. The most important factors that are *unique* to a start-up retail business organization are represented by many of the *Individual and Financial factors*; whereas most of the factors that are *common* across start-up and established retail business organizations are represented by Environmental and Organizational factors. This belief motivated us *to identify the most important strategy* that could influence the success and long-term sustainability of a Retail start-up in India. To identify such an important strategy, we would first need to understand;

- key stages of a start-up journey and funding requirements;

- key traits of founding members that play an important role in the journey;
- influence, association, and determination of key traits;
- identification of the most important trait;
- a strategy to improve the identified trait that could influence the success and long-term sustainability of a retail start-up in India besides protecting the majority shareholding of the founding members.

Table 1: Factors determining Start-up success [5-80]

Individual Factors	Environmental Factors	Organizational Factors	Financial Factors
Academic Affiliation of Founding Team	Access to Existing Market	Ability to Scale	Exit Strategy
Age of the Entrepreneur	Access to New Market	Access to Talent	Investment Size
Founding Team Confidence Level	Competitors	Balanced Scaling	Investment Timing
Effectuation	Compliance Support	Employees	Investor Objective
Entrepreneur Personality	Cultural and Social Norms	Human Capital	Investors
Entrepreneurial Experiences	Government Policies	Infrastructure	Inventory Turns
Founding Team	Location	Innovation	Investment Experiences
Founding Team Objective	Market Dynamics	Market-Entry Strategy	Type of Investment
Gender	Political Stability	Market-Entry Timing	Unit Economics
Mentorship	First-Mover Advantage	Marketing-Mix	
Pre-Start-up Planning	Competitive Edge	Organizational Structure	
Social Capital		Product-Market Fit	
		Target Market	
		Value Proposition of Products/Services	

2. APPROACH AND METHODOLOGY:

Step I: A series of open-ended semi-structured in-depth direct *mystery* interviews were conducted with founding team members (existing and exited) of a few select Retail start-ups representing i) only product start-ups; ii) only Retailing start-ups; iii) both product and Retailing start-ups, selected through convenience sampling to understand their perspective and attitude towards the Retail start-up business and their experience in the overall journey till now.
Step II: Creating a Retail start-up journey map and mapping the funding requirements to respective stages and sub-stages.
Step III: Mapping the key individual factors of founding members with actual financial performance.
Step IV: In the last step, we have analyzed the collected primary data vis-à-vis exploratory qualitative findings from direct interviews to identify the most important trait and a strategy that could influence the success and long-term sustainability of a retail start-up in India besides protecting the majority shareholding of founding members.

3. FINDINGS AND INSIGHTS:

In the first step, open-ended semi-structured in-depth direct mystery interviews were conducted with founding team members (existing and exited) of a few select Retail start-ups to understand their perspective and attitude towards the Retail start-up business and their experience in the overall journey till now. The following are some of the key findings that were unanimous.

- Affiliation with a premier institute helps to attract early-stage investments despite the invisibility of long-term sustainability in the proposed business model. However, this overconfidence in the investors' minds implicitly induces undue pressure to constantly showcase positive performance.

- Despite initiating a start-up with a long-term objective of building a firm for self as majority shareholders, the founding team eventually gives up to investor's objective of *prodigious* returns on investment (ROI) in a *shorter time* and end up being minority shareholders in the firm or even completely exit from the firm.
- The key determinant of quick and prodigious ROI is the dramatic improvement in the *firm valuation* irrespective of the health of unit economics, current profit levels, and forecast overall financial performance of the firm.
- Owing to a strong belief, that the easiest/quicker way to achieve dramatic improvement in the firm valuation is by demonstrating exponential growth in the revenue, the founding members constantly adopt strategies that can guarantee exponential growth in the revenue despite invisibility and poor competence to sustain such growth in the long run. This is one of the reasons for a significant number of Retail start-ups in India to adopt a *predatory pricing strategy* most of the time.
- Another strong belief is, that quicker expansion of products/retail model/service model/presence to cater to a larger population can guarantee exponential revenue growth. While adopting this approach, founding members are *bypassing* the most important stage of a start-up, i.e., pilot testing of expansion plans before actual expansion.
- Striving for generating *funds from operations* and utilizing them for expansion investment is neither known nor a priority as the same does not fit into the *quick and exponential growth ideology*.
- Somehow, founding members are *conveniently convinced* that their start-up idea is unique, innovative, disruptive, and can cater to a larger population of the market over a period irrespective of whether or not such qualities of their idea are short-term or long-term.
- The *key focus* of the founding members slowly *shifts* from a business idea, planning, execution, and continuous evaluation to arranging more funds from existing investors and convincing new investors.
- Consciously or unconsciously founding members adopt an ideology of quick and prodigious ROI that is prevalent among a majority of organized investors. In other words, this ideology is sometimes referred to as a well-known idiom in Hindi *'iski topi uske sarr'* which is equivalent to *'To rob Peter to pay Paul'* in English. The attitude of a majority of unorganized investors (Angle investors) is however is contrary to organized investors' ideology.

In the second step, we have attempted to understand the funding requirements for a Retail start-up across key stages and sub-stages of the Retail start-up journey. **Table 2** indicates that only about five sub-stages among over 35 sub-stages in the journey require external funding. Based on findings from the interview step one can notice that about 85% of the focus of the founding team is directed toward 5% of the overall journey i.e., arranging more funds from existing investors and convincing new investors. And most of the sub-stages that are crucial for determining the success of a Retail start-up are knowingly or unknowingly bypassed.

In the third step, we have evaluated the actual financial performance of eleven select Retail start-ups and mapped key individual factors of founding members to further understand their association and determination with the current status of their Retail start-ups. **Table 3** indicates that i) the average age is 30 years, ii) 82% are Male, iii) motivation of a majority was to become rich quickly, iv) two-third of them had a short-term orientation, v) most of them have graduated from premier Indian and International institutes, vi) have shown an average of 7 years of previous work experience out of which 3 years were into managerial positions, vii) only a few had mentors, viii) most of them were high on the social capital and had first-mover advantage, ix) a majority of them gave up a significant portion of their shareholding within five years of start-up and nearly half of them have even lost their shareholding within ten years, and most importantly x) two of them completely abandoned their start-up, half of them are running severely loss-making firms, and others are operating with moderate losses. Glaringly, all these Retail-start-ups are still not able to fund their firms through operations and they are still on the constant lookout for new funds/investors to *protect the existence* of their firms.

Table 2: Stages/sub-stages of the Retail start-up journey and funding requirements

Stage	S.No	Sub-Stage	Funding Requirement
Pre-Start-Up	1	Motivation	Not Applicable
	2	Ideation	Not Applicable
	3	Planning	Not Applicable
	4	Conceptualization	Not Applicable
	5	Team-up	Not Applicable
Start-Up	6	Business Plan Pitch to Investors for Funding	Own Funding
	7	Development - Product(s)	Own/Angel Investment
	8	Development - Retailing Model(s)	Own/Angel Investment
	9	Development - Service Model(s)	Own/Angel Investment
	10	Market-Fit Test - Product(s)	Own/Angel Investment
	11	Market-Fit Test - Retailing Model(s)	Own/Angel Investment
	12	Market-Fit Test - Service Model(s)	Own/Angel Investment
	13	Evaluation of Market-Fit Test Results	Not Applicable
	14	Correction - Product(s)/Retailing Model(s)/Service Model(s)	Own/Angel Investment
	15	Market-Entry Launch - Product(s)/Retailing Model/Service Model	Not Applicable
	16	Evaluation of Financial Performance	Not Applicable
Grow-Up	17	Evaluating Available Business Expansion Avenues	Not Applicable
	18	Expansion Planning - Products (Vertically)	Not Applicable
	19	Expansion Planning - Products (Horizontally)	Not Applicable
	20	Expansion Planning - Consumer Reach	Not Applicable
	21	Expansion Planning - Manpower	Not Applicable
	22	Overall Growth Plan Pitch to Investors (Existing/New) for Funding	Not Applicable
	23	Growth Funding	Venture Capitalists/Private Equity
	24	Execution of Expansion Plan (Testing)	Venture Capitalists/Private Equity
	25	Evaluation of Test Expansion Results	Not Applicable
	26	Evaluation of Financial Performance	Not Applicable
Settle Down	27	Rationalization - Products	Venture Capitalists/Private Equity
	28	Rationalization - Supply-Side Partners	Not Applicable
	29	Rationalization - Demand-Side Partners	Not Applicable
	30	Rationalization - Target Consumer Group	Not Applicable
	31	Rationalization - Expansion Avenues	Not Applicable
	32	Execution of Real Expansion Plan	Venture Capitalists/Private Equity
	33	Continuous Evaluation and Correction of Business Model	Not Applicable
	34	Evaluation of Financial Performance	Not Applicable
	35	Settle Down Funding	Operations/Commercial Banks/IPO

In the final step, based on in-depth interviews and evaluation of key individual factors of founding members of select Retail start-ups in India, we have observed that the most important aspects that have been given the highest attention by the founding members (implicitly influenced by organized investors ideology) and have a greater significance in the failure of Retail start-up founding members to protect majority shareholding in their firm revolve around few keywords such as;

i) Quick reward
ii) Short-term reward
iii) Immediate reward
iv) Impulsivity and rapid decision-making for reward
v) A desire for prodigious financial returns

All these five aspects enabled us to identify one key strategy for founding members of a Retail start-up that has a significant association and determination concerning getting rid of such qualities. The key strategy which we have found during this research study is '***Delayed Gratification (DG) which is also known as Deferred Gratification'*** and the level of DG could determine the success and long-term sustainability of a Retail start-up in India besides protecting the majority shareholding of the founding members in their firm.

Table 3: Key Individual Factors of founding members and the financial performance of their start-ups

Factors (Founding Team)	Start-up 1	Start-up 2	Start-up 3	Start-up 4	Start-up 5	Start-up 6	Start-up 7	Start-up 8	Start-up 9	Start-up 10	Start-up 11
Motivation	Become Rich (Quick)	**Build a Firm**	Become Rich (Quick)	**Build a Firm**	Become Rich (Quick)	Become Rich (Quick)	Become Rich (Quick)	Become Rich (Quick)	**Build a Firm**	Become Rich (Quick)	**Build a Firm**
Gender	Male	Male	Male	Male	Male	Male	Male	Male	**Female**	**Female**	Male
Age (Years)	31	31	26	35	30	30	31	30	25	30	35
Orientation	**Short-Term**	Long-Term	**Short-Term**	Long-Term	**Short-Term**	**Short-Term**	**Short-Term**	**Short-Term**	Long-Term	**Short-Term**	Long-Term
Academic Affiliation	Premier	Premier	Premier	**Non-Premier**	Premier	Premier	Premier	Premier	Premier	Premier	**Non-Premier**
Work Experience (Years)	5	8	0	18	6	7	6	5	2	6	12
Managerial Experience (Years)	2	5	0	10	0	2	2	1	0	3	5
Mentorship	No	No	Yes	Yes	No	No	No	No	Yes	Yes	No
Effectuation	**Low**	High	**Low**	Medium	High	**Low**	High	Medium	**Low**	High	High
Overconfidence Level	**High**	Low	**High**	Medium	Low	**High**	Low	**High**	Medium	Low	Low
Social Capital	Medium	High	High	High	High	High	High	High	High	High	**Low**
First-Mover Advantage	Yes	Yes	Yes	Yes	Yes	**No**	Yes	**No**	**No**	Yes	**No**
Shareholding - First Year	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Shareholding - Fifth Year	1%	25%	80%	100%	7%	15%	12%	5%	100%	12%	100%
Shareholding - Tenth Year	**0%**	**7%**	65%	100%	**0%**	**5%**	**0%**	**0%**	100%	**0%**	Not Applicable
Current Status of Founding Team	**Exited**	Existing	Existing	Existing	**Exited**	Existing	**Exited**	**Exited**	Existing	**Exited**	Existing
Current Status of the Start-up	**Closed**	Operational	Operational	Operational	Operational	Operational	Operational	**Closed**	Operational	Operational	Operational
Firm's Net Profit - FY 2019-20	Not Applicable	Moderately Negative	Moderately Negative	Moderately Negative	**Severely Negative**	**Severely Negative**	**Severely Negative**	Not Applicable	Moderately Negative	**Severely Negative**	Moderately Negative

4. RELEVANCE OF 'DG' STRATEGY:

Walter Mischel who was ranked as the 25th most cited psychologist of the 20th century; specialized in personality theory and social psychology; spent most of his academic/research career studying DG, is the pioneer of the concept of DG [81]. Mischel's studies with pre-schoolers in the late 1960s often referred to as *'the marshmallow experiment'*, basically evaluated the processes and mental mechanisms that enable a young child to forgo immediate gratification and to wait instead for a larger desired but delayed reward [82]. Simply put, *DG is a person's ability to resist either a smaller or immediate reward to receive either a larger or more enduring reward later* [83]. DG is also the opposite of delayed discounting i.e., a person's preference for either smaller or immediate rewards against either larger or delayed rewards [84].

DG is one of the important aspects of *self-regulation* such as impulse control, patience, self-control, and willpower [85]. It is theorized that a person's ability for the DG is controlled by the cognitive-affective personality system (CAPS) and suggests that a person's level of DG is the result of an ability to use *cool* self-regulatory strategies such as calm, controlled, and cognitive strategies over *hot* self-regulatory strategies such as impulsive, emotional, and automatic reactions [86]. The use of cool self-regulatory strategies such as distraction, restructuring of perception of a tempting stimulus, and imagining another desirable reward to make it seem less appealing or diverting the attention from immediate reward can result in control over behavior [87-88]. Behavior psychologists suggest that DG is an adaptive skill learning and adopting which can induce positive social behavior [89]. Developmental psychologists argue that with age, developing children are capable to retain impulsivity, however, they gain control over their desire for immediate gratification and develop an ability for delaying gratification [90]. Clinical psychologists suggest that the ability to delay gratification plays an important role in the overall psychological adjustment of a person and persons with a higher level of DG report higher self-esteem, higher wellbeing, and openness to experience, in addition to being highly productive in responding to provocations [91]. Psychoanalytic theorists argue that a person with lower levels of DG is plagued by *'intrapsychic conflict'* i.e., the *'ego'* cannot adequately regulate the battle between the *'id'* and the *'superego'* resulting in experiences like psychological distress often in the form of anxiety or 'neurosis' [92].

Furthermore, unless the delay contingency is *self-imposed* it is very difficult to develop higher levels of DG as the externally-imposed delay contingency leads to greater levels of frustration [93]. As long as the reward is not being flaunted focussing on the work or assigned task can help a person to effectively generate distraction from immediate rewards [94]. It is observed that Women can delay gratification better than Men [95] and this might be one of the reasons for Women-founded start-ups outperforming all-Men founding team [65]

Nevertheless, evolutionary theorists argue that the DG strategy is associated with both *risks and costs* such as i) *opportunity cost* of time spent waiting, ii) failure of utilizing the waiting time to *find alternatives*, iii) risk of others taking away the opportunity that is also referred to as *interruption risk*, and iv) risk of rewards getting cut short that is also referred to as *termination risk* [96-97].

5. DISCUSSION:

Results of this qualitative and empirical study indicate that founding members with high levels of DG even after ten years of operations were able to retain more than 65% of their original shareholding whereas, founders with lower levels of DG were able to retain less than 5% and founders with no DG are no more holding any shareholding of the start-up they founded. Another finding is that the higher levels of DG have enabled Retail start-ups to financially perform relatively better than the ones with lower levels of DG. Most importantly the founding members have adopted the immediate gratification ideology of organized investors thereby seriously bypassing the mandatory steps to be followed for a Retail start-up in India to be successful and sustainably profitable. Such bypassing practices are a result of the inability of founding members to adopt a DG strategy.

We determinedly recommend founding members of Retail start-ups in India to *shift focus* from constantly looking out for new funds from investors to *generate funds from operations* through i) long-term goal orientation [98], ii) sustainable marketing-mix [75-76]; iii) rational organizational structure [77] iv) attrition control and retention model for employees playing crucial roles irrespective of their level in the organizational hierarchy [78]; v) healthy unit economics [1]; vi) understanding the phenomenon within the phenomenon of the Retailing model adopted [99-100]; vii) objectively measuring the true potential of their start-up through investor lens [101-102] and most importantly, viii) constantly striving for creating enough Margin of Safety for the firm [103]. By directing the founding members' focus on such tasks could immensely improve the levels of DG thereby i) influencing the success and long-term sustainability of their retail start-up besides protecting the majority shareholding in the firm, and ii) distracting them from any stimuli in a Retail start-up environment that is capable of explicitly or implicitly influencing the desire for immediate gratification.

Besides finding evidence of DG strategy's role for founding members of Retail start-ups in India, our results are also consistent with the arguments, suggestions, and recommendations of Cognitive, Biological, Psychodynamic, Social, Behavioral, and Developmental psychologists. However, our findings are contrary to Evolutionary theorists.

6. LIMITATIONS AND SCOPE:

The main limitation of this study is the coverage of various stakeholders viz., the *existing and exited* Retail start-ups, and their founding members selected for the direct interview. The second limitation would be that the empirical validation is restricted to the actual performance data of only select Retail start-ups in India. However, it provides significant inputs concerning the attitudes and perspectives of founding members in the Retail start-ups toward the DG. We recommend researchers to use this methodology to understand the attitudes, perspectives, and levels of DG among founding members of start-ups in other business segments to further validate the reliability of DG strategy.

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