

Chapter 18

Scaling Up in Style: Nykaa's Evolution From Bootstrapping and Venture Capital–Backed Startup to Initial Public Offering

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ABSTRACT

The case tells the story of Nykaa, a startup based in Mumbai, India. Nykaa, established by Falguni Nayar in 2012, is a beauty and wellness brand that has gained much attention recently. Nykaa filled the gap in online e-commerce for the beauty market and provided a platform for a wide range of beauty products. Their unique value proposition lies in authenticity, variety, and reputed house brands. From being bootstrapped to IPO, Nykaa's journey is a tale of balancing profit and growth. Students will learn to make strategic decisions, diversify, and be competitive in e-commerce in the context of emerging markets. The case presents a dilemma: how does a startup balance both sustainable growth and profitability? Through this case study, students will be asked to learn the intricacies of fundraising for startups up to how a startup can grow and successfully go public.

1. INTRODUCTION

A startup can be defined as an innovative entity that solves a common issue and thus achieves exponential growth. Startups usually challenge traditional concepts of the market and transform their idea into a new successful business venture. One of the biggest challenges for any startup is its ability to gain funds to grow and advance. Fundraising must be aligned with the company's long-term and short-

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term goals to ensure that the company can sustain itself long-term. Many entrepreneurs lean towards depending on personal funds or relying on the revenue generated by the startup to avoid complexities.

As a startup keeps growing, external funds are required to support the exponential growth that is a standard feature for any startup. And, thus founders are often forced to look for funds from venture capital firms, crowdfunding, angel fundraising and so on. Angel funding or funding from individual investors provides funds in exchange for partial ownership of the company in exchange for potential buy-in in a future time where their stake is worth more. On the other hand, venture capital firms are attracted by the efficiency and growth of the firm. Crowdfunding is another source of funds, where platforms help to raise a modest amount of money from a sufficient number of individuals. This helps measure the market interest in a product or service offering. Getting funds can be a complex and difficult task for a founder. Investors fear losing control, losing equity dilution, or overvaluation on their investments.

Fundamentally, the procedure of looking for funding is a crucial stage in the life of a startup. It shows the confidence of the founders and investors in the potential of the startup. Regardless of the complexities and barriers, obtaining finance is important in turning new concepts into reality, developing entrepreneurs, and making their mark on the world.

The digital transformation in the retail industry has redefined the way businesses and consumers interact, marking a significant evolution from traditional in-store shopping to a more integrated omnichannel approach. With the rise of e-commerce giants like Alibaba and Amazon, retailers have faced the challenge of competing and adapting to the changing dynamics of consumer behavior. The growth of digital technologies, including mobile applications, augmented reality, and artificial intelligence, has enabled retailers to enhance online and physical customer experiences, creating a seamless integration of these platforms (Hagberg et al., 2017). Digital transformation in retail involves not only the adoption of e-commerce but also the transformation of physical stores into more engaging, tech-enhanced environments that cater to the modern consumer's need for convenience and personalization.

Understanding entrepreneurial strategies in e-commerce is crucial for navigating this transformation effectively. E-commerce businesses must leverage artificial intelligence, data analytics, and digital storytelling technologies to create compelling value propositions and foster emotional connections with customers. Effective digital strategies should optimize processes, automate operational tasks, and enhance customer experience to remain competitive in the digital age (Azaryan & Makhnonosov, 2023). Understanding these strategic elements as e-commerce continues to grow helps entrepreneurs innovate, respond swiftly to market changes, and drive sustainable growth in a highly dynamic marketplace.

2.0 STARTUP FINANCING

Startup financing is a critical element for entrepreneurs aiming to grow and sustain their businesses, offering various options that cater to different stages of the startup lifecycle. Initially, many startups rely on personal funds or contributions from friends and family, known as bootstrapping. Bootstrapping allows entrepreneurs to maintain control but often limits rapid scaling due to restricted funding resources (Rutherford & Phillips, 2021; Ahmed et al., 2024). Many companies in the past has started off with the same model (Ahmed et al., 2023; Dia et al., 2024; Islam & Akif, 2024).

As startups grow, they may seek funding from angel investors—typically affluent individuals providing capital in exchange for equity. Angel investors often take an active role in the startup's development, offering mentorship alongside their financial contribution. Angel financing is seen as crucial, especially

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