

SMB and Startups – Engine of Growth and Aspirations

Introduction: Nascent companies that are in their infancy will work as a mainstream media. What separate the startups from traditional businesses is the capacity to take an idea scrawled into the business for attracting investors and venture capitalist. Large corporations make investments including acquisition & merger in Startups, but finds it difficult to venture organically into developing such solutions. It's interesting to know pretty facets of life that undergoes transformation and not change. Technology-led disruptions are one among the key to this transformation. These disruptions stunned everyone in their own manner whether in personal, social, political, or economic. It's possible for startups to be an SMB, where nimble and well-funded people need to prepare to push into established markets and disrupt business models.

Today's generation is very exciting where you'll find Startups and New kids on the blocks giving sleepless nights to become biggies around the World. We'll discover customer, consumer and competitors are always evolving as every business operates in a continuous state of flux. Similarly, growing concerns for matters like Regulations & Compliance, Data Privacy & Protection, Cyber Threats, and growing socio-economic-political imbalances are added to the storyline. To keep up and stay relevant, one need to establish a competitive advantage by keeping the startup mindset and dedicated time. Pace & spectrum technological advancements and ever-growing skill-gap are among key dynamics to be successful in the long term.

Big Corporate are growing with focusing on outsourcing the non-core; on overall context, by relatively hiring less. Some are even squeezing to balance the efforts and investment to drive sustainable performance.

Moving on to another perspective, we are getting more and more in the world of 'Specialization with being generalist' by exploring new ideas and finding ways to develop into future profit centers

SME (Small and Medium Enterprises) is the engine of growth regarding numbers and size. Startups are characterized like some Agile, adventurous spirit and many in such fashion. SME and Startup successfully hold the title of real engine of growth which comes with full of opportunities.

SME @ a Glance: Some of the SME characteristics, contributions, and developments are worth taking note:

- **Number of SMEs in India:** Estimate 42.50 million registered & unregistered SME. A staggering 95% of the total industrial units in the country.
- **SME & Employment opportunity:** Employs about 106 million, 40% of India's workforce. Next only to the agricultural sector.
- **Products:** Produces more than 6000 products.
- **GDP Contribution:** Currently around 6.11% of the manufacturing GDP and 24.63% of Service sector GDP.
- **SME Output:** 45% of the total Indian manufacturing output.

- **SME Exports:** 40% of the total exports.
- **Bank Lending:** Accounts for 16% of bank lending.
- **Fixed Assets:** Current fixed assets at INR 1,471,912.94 crore.
- **SME Growth Rate:** Has maintained an average growth rate of over 10%.

Source: <https://evoma.com/business-centre/sme-sector-in-india-statistics-trends-reports/>

The NSE (National Stock Exchange) has launched the SME platform for small and medium-sized companies with high growth potential. The platform is expected to offer a new and alternative asset class to inform investors have longer investment horizon Trade Bodies in India like Nasscom, CII, FICCI, MAIT ... have created their respective SME/ MSME platform to support them. Most of the SME/ MSME sectors have their sectoral cluster.

A brief perspective and some data points are shared towards the end from selected sources to get a deeper insight on SME as a sector.

Challenges and suggested ways: Though SME is Engine of Growth and continues to grow. Still, SME has specific peculiar challenges overtimes. Some of the SME challenges can be identified as:

1. **Market Accessibility and Reach:** Market reaching SME and vice-versa for SME to leverage open market and be part of larger opportunities continues to be a real challenge. It is a matter of connecting dots to make SME still integral to overall Nation growth journey.
2. SME still not being part of larger development & growth ecosystem like Academia, Innovation & Research initiatives by design. The government, Industry bodies, and SME themselves have conceived & rolled many efforts to encourage & support SME, however making SME integral part of overall growth engine continues to be a concern. It is time to recognize the power, capability and capacity of SME to fuel the growth story further.
 - a. One definite recommendation to meaningfully develop, grow and strengthen the 'Academia – SME' relationship & engagement. This can be under the umbrella of Biggies of the Industry.
3. Get access to large and strategic market opportunities, & esp Government. The government continues to be a recession-proof business for a few more decades. It may be the need of the day to evaluate initiatives like 'SME in aggregation model' with healthy & wealthy competitive, collaborative manner. Whatever government undertakes initiatives for SME, it is time to link them to a larger purpose.
4. The challenge of Scale continues for SME. There are innovation, research & development, and other initiatives conceived by SME in various sectors. However, they continue to struggle with the challenge of 'Scale'.
 - a. How to run a business in 'auto' mode is a factor of Scale. This is a process and journey of making an organization to drive more process & data led. This is one among the real transformational aspect of Scale.
 - b. SME needs hand-holding for a larger ecosystem to raise the bar for them and enjoy the power of Scale. Achieving 'Scale' is science and art. Today, SME doesn't understand and benefit from Scale. SME needs to learn the game of 'Collaborative Competition.'

- c. SME require continuous hand-hold, mentorship, guidance, beyond lip-service, platform of collaboration, and occasional Rewards & Recognitions. SME needs to understand, learn, and exploit the power of 'Collaboration' and 'Competitive Collaboration'. SME require 365 days support in various discipline of life.
- 5. Ability to attract and retain the best of the talent. Among many challenges, a key challenge is for SME to aspire for Industry professionals with the ability to 'let go'. Partly, it is a challenge of affordability, partly Industry professionals joining SME, and to an extent both working together effectively. This is where possibly a new beginning needs to be made to decode & address this challenge.
 - a. 'Unlearn' and 'Insecurity Management' are among the key initiatives, especially SME leadership needs to go through.
 - b. It is good to have employee's longevity and people growing thru the ranks, however SME needs to recognize 'when do they become hindrance to the growth. This happens to all organization, however it hits hard to SME because of their size. This is among most critical of the stumbling block.

SME needs genuine and adequate attention to identify these situations and work through a plan, like a roadmap. There won't be one size that fit all also the options will be less. SME leadership needs to get out of comfort and emotion zone to the little-abused word 'Professionalism'. Professionalism means Focus, Look beyond, Accountability, Objectivity, Measurement, Teamwork, work with internal & external stakeholders like virtual teams, expand the horizon to engage with partners & external world.

- 6. Ability and Capability to adopt newer technologies to keep pace with times and continue to make appropriate, timely investments. SME invest in modern techniques, come up with further solutions for any problem, reach out to market, and grow their business incrementally.
 - a. SME needs support to stay focused and tuned to next steps, again and again. It is both science and art, hence handholding is more critical.

It's obvious & empathetical that one needs to focus on 'handholding' and not 'advisory/ consulting/ attending session'. It is more about hands-on mentorship. It can be one-to-one and one-to-many.

- 7. Challenge of LT-1 (Leadership Team - 1) not being fully exploited and exposed, largely & majorly promoters run the companies being the Leadership Team.
 - a. Till a point, it is natural and ought to be like this. There is a very thin & fine-line to identify the tipping point when to shift gears. Most SME misses this naturally and stays dragged. This two-fold cause impact on the organization in overall context (a) Promoters miss the opportunity to see and focus on big picture and (b) LT-1 lose the large growth opportunity effectively. Such a scenario has more far-reaching consequences that most SME goes thru the motions.
- 8. Appetite to take larger risk. To a point, SME are damn good in risk-taking and they do so. Beyond a point, either they lose focus or stay contended. At an appropriate time (it may be very fine), a bit of handholding can help SME to take the calculated and collaborative risk.

It is a brief and introductory perspective on some of the critical challenges of SME and select strategies to address these challenges. However, this will remain an evolutionary journey as benchmarks will keep changing with changing times and the achievements achieved.

SME SECTOR IN INDIA – STATISTICS, TRENDS, REPORTS

1. What is the ratio of SMB revenue in GDP

Currently around 6.11% of the manufacturing GDP and 24.63% of Service sector GDP.

India's GDP composition, according to multiple sources, is as follows: Agriculture: 16%; Industry: 26%; Services: 58%.

Source: <https://evoma.com/business-centre/sme-sector-in-india-statistics-trends-reports/>
<https://economictimes.indiatimes.com/small-biz/sme-sector/most-powerful-engine-of-indias-growth-service-msmes/articleshow/62670137.cms>

2. How much MSME has grown 5-10 years

Contribution of MSMEs in Country's Economy at Current Price

(Figures in Rs. Crores adjusted for FISIM ³ at current prices)						
Year	MSME GVA	Growth (%)	Total GVA	Share of MSME in GVA (%)	Total GDP	Share of MSME in GDP (in %)
2011-12	2583263	-	8106946	31.86	8736329	29.57
2012-13	2977623	15.27	9202692	32.36	9944013	29.94
2013-14	3343009	12.27	10363153	32.26	11233522	29.76
2014-15	3658196	9.43	11481794	31.86	12445128	29.39
2015-16	3936788	7.62	12458642	31.60	13682035	28.77

Source: <https://msme.gov.in/sites/default/files/MSME-AR-2017-18-Eng.pdf>

3. How much SMB has grown 5-10 years

With changing customer preferences, an increasing base of customers, and more initiatives, small businesses have seen great growth in 2017. The customer base in India is going through a big change with an increased access to the Internet and digital channels. There are over 462 mn+ Internet users in India, with over 34% Internet penetration. This is also changing the customer demographics, with 72% of Internet users below the age of 35 years.

The next wave of growth in the Internet users is expected to come from rural areas in India. There are going to be an estimated 280 mn users from rural areas in 2018, up from 163 mn.

4. Which Are Sector/Industry Grown

According to International Monetary Fund's latest forecast, India is projected to grow at 7.4 percent this fiscal year. And experts feel SMBs comprising manufacturing, infrastructure, service industry, food processing, packaging, chemicals, IT and more, will be the force behind India's growth story.

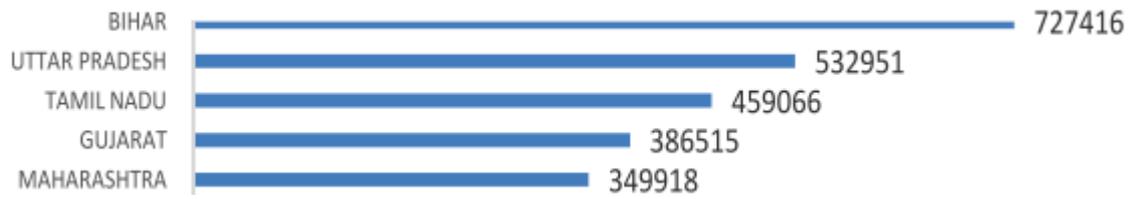
Source: <https://yourstory.com/smbstory/understanding-the-smb-market-in-india>

5. Growing Sectors In Next 5 Years

With the Indian economy expected to touch \$5 trillion by 2025, and with ground-breaking economic reforms kicking in, SMEs are expected and bound to play a much more important role. The services sector contributes more to India's economy (58 per cent) than agriculture (16 per cent) and industry (26 per cent) combined.

Source: <https://evoma.com/business-centre/sme-sector-in-india-statistics-trends-reports/>
<https://www.smefutures.com/four-challenges-that-keep-msme-sector-from-growing-in-india/>

- **Top 5 States Where MSMEs Has Grown In India**



Bihar: 727416

Uttar Pradesh: 532951

Tamil Nadu: 459066

Gujarat: 386515

Maharashtra: 349918

Source: <https://msme.gov.in/sites/default/files/MSME-AR-2017-18-Eng.pdf>