INTRODUCTION

Small and Medium Businesses (SMBs) form the backbone of the Indian economy and make large contributions to the national economic indicators as well as household incomes. Digital technologies have transformed the operational landscape of SMBs, mainly led by consumers using mobile internet. Government actions, such as the Digital India Initiative, have been complemented by private sector investments to raise digital awareness and skills among Indian SMBs. Internet adoption and digitisation can help a SMB boost its revenue & profits up to 2x faster and scale domestic and international boundaries. However, despite significant digital dividends, digital adoption by Indian SMBs has been relatively low in the past. Rising internet penetration, coupled with constraints of the COVID-19 pandemic, are encouraging technology adoption across the sector.

In the next few sections, we will discuss the impact of digitisation on SMBs and its contribution to the national economic growth, along with the various digital technologies and solutions that are proving useful for SMBs.
MARKET LANDSCAPE

India has ~6.33 crore micro, small and medium enterprises. The number of registered SMBs grew 18.5% YoY to 25.13 lakh units in 2020, from 21.21 lakh units in 2019. As of 2020, registered SMBs were dominated by micro enterprises at 22.06 lakh units, over 18.70 lakh in 2019, while small enterprise units went up from 2.41 lakh to 2.95 lakh. Midsized businesses marginally increased from 9,403 units to 10,981 units in the same period.

SMBs and MSMEs currently employ >130 million people and contribute ~6.11% to the India’s manufacturing GDP, and 24.63% of the GDP from service activities as well as 33.4% of manufacturing output.

By definition, small businesses are organisations with fewer than 100 employees and midsize enterprises are organisations with 100-999 employees. Another popular attribute used to define the SMB market is annual revenue: a small business is usually defined as an organisation with <$US$ 50 million in annual revenue; and a midsize enterprise is defined as an organisation that generates >US$ 50 million, but less than $1 billion in annual revenue. Such companies usually employ part-time workforce to manage their clients, data, and IT aspects. Since a part-time employee usually dedicates 20 or fewer hours per week to fulfil their responsibilities, these businesses commonly use third-party or outsourcing services to maintain their operations.

DIGITAL ADOPTION BY SMBs IN INDIA

Due to its size, every SMB has different IT requirements and often faces different IT challenges than large enterprises, as their budget and staff for IT resources are highly constrained. Digitalisation of small and medium businesses (SMBs) has the potential to add Rs. 11,60,000–15,850,000 crore (US$158–216 billion) to India’s GDP by 2024 and contribute to the economic recovery post COVID-19 pandemic. According to a Cisco study on ‘Digital Maturity of Indian SMBs’, SMBs that are more digitally mature enjoy twice as many benefits in terms of revenue and productivity compared with those that have an indifferent approach to digitisation.

The study is based on a survey of SMBs in Asia Pacific; and was conducted by IDC and commissioned by Cisco. The 2020 SMB Digital Maturity Study gathered and analysed data from >1,400 SMBs across 14 markets in the APAC to assess challenges and opportunities faced by companies during their digital transformation journey. The 14 markets comprised Australia, China, Hong Kong, India, Indonesia, Japan, Malaysia, New Zealand, the Philippines, Singapore, South Korea, Thailand, Taiwan, and Vietnam. India currently ranks 9th on this list, with capital investments and technically skilled workforce being the key roadblocks in accelerating growth.

The report further elaborates that ~68% Indian SMBs seek to digitally transform to introduce new products and services and differentiate themselves from the competition. But being willing to embrace transformation is only the first hurdle, as 84% SMBs reported difficulties in executing their digitisation goals citing a shortage of digital skills and adequate talent, followed by lack of funds and insight into data. ~70% said that they are accelerating digitisation to ensure business continuity during COVID-19. ~60% recognise that competition is transforming and that they must keep pace, while 50% seek digital transformation due to customer demand for change. Given the current scenario, due to COVID-19, more and more consumers are shopping online, causing a boost in e-commerce sales; this provides SMBs with the potential to transform and build on digitisation. 

“During this time, small businesses have been
grappling with drastically reduced liquidity, disrupted supply chains and lending challenges. To bounce back, they need to pivot and adapt swiftly, reimagine their business models, and identify their place and role in the new normal. In these efforts, most small businesses have realised that going digital is critical and are displaying a willingness to disrupt themselves," according to Panish PK, Managing Director, SMB, Cisco India and SAARC.

**DIGITAL SOLUTIONS FOR SMBs**

SMBs can be categorised into one of the following two stages of digital maturity: digital followers and digital leaders. In addition, SMBs digitisation journeys may have different objectives—followers concentrate on securing their IT systems and networks, while leaders explore enterprise applications for enhanced digitisation—but investments in cloud technology, followed by upgrades in security and IT infrastructure, are ranked as the top three digital transformation priorities for SMBs over the next 18 months.

**Migrate to cloud solutions**

Companies that leveraged cloud technology during the pandemic found that cloud services were critical to facilitate remote working with web-based applications, virtual desktops, and other cloud-based tools. The ability to access and maintain a centralised repository of assets and information allowed businesses to pivot quickly to working from home without a dramatic loss in productivity; this minimised the impact of remote working on business continuity.

For businesses, cloud storage improves resilience and eliminates the vulnerability of maintaining physical on-site servers; and users can sync their devices to the cloud to seamlessly update their files and systems for a smoother working experience. Moreover, cloud services can be easily scaled up and down according to business needs, making it a cost-effective proposition for SMBs with limited budgets, especially in the current climate.

Since cloud technologies are hosted by service providers such as Microsoft, SMBs do not have to install and maintain the technology. In addition to tracking real-time data and preventing unauthorised access, cloud technology and applications also help SMBs communicate, monitor, and delegate crucial tasks even in the work from home environment. Further, cloud solutions help SMBs acquire customers in a cost-efficient way; help supplement some physical processes undertaken by SMBs and open new ways to deliver products and services. Thus, SMBs can use cloud technologies to grow and enhance their productivity.

Indian businesses are now poised to adopt cloud computing and software at a heightened pace. According to an IDC report, on the impact of COVID-19 on IT spending, 56% SMBs are expected to increase demand for cloud software to support the new normal. The need for remote working is bolstering the demand for cloud technology, especially for SaaS-based collaborative applications. However, not all SMBs have the necessary knowledge and education to adopt cloud technologies. Traditional SMBs—that do not consider technology solutions as factors of production—may consider these solutions as expenses rather than investments. Technology is one of the
resources that drive factors of production and SMBs looking to lower costs, drive productivity and respond to market changes quickly, need to look towards cloud solutions as a way of improving their P&L statements. This mindset can help in thinking of technology as an investment.

However, there are no standardised solutions for SMBs, as all SMBs have different requirements and different ways of navigating the current scenario and preparing for a comeback in a post COVID-19 world. Microsoft is investing heavily in this sector and introduced 'Back2Business' solution to help SMBs address their needs. The solution offers a network of 11,000 partners that combine their services with Microsoft applications and offer services across Azure, Modern Work and Business Apps. These services are curated for specific scenarios across SMBs of different sizes operating in different sectors.

With a rise in cloud spending, SMBs represent a significant cloud sales and service opportunities for Microsoft and its partners. The pandemic and nationwide lockdown made business continuity a priority for Indian SMBs, which are now increasingly migrating to cloud infrastructure such as Microsoft Azure. To survive, SMBs are minimising expenses and staying afloat by adopting cloud technologies for digital payments, e-commerce, digital bookkeeping, CRM, automation, etc.; this boost in cloud adoption is expected to significantly impact cost-cutting and play a role in determining the survival of small businesses. Cloud technology allows solutions such as CRM, ERP, web servers, enterprise applications and IoT solutions to be hosted online by a service provider. In 2020, SMBs that adopted technologies such as cloud solutions fared better than their counterparts who did not transition to similar solutions. Only this small segment of SMBs understood what it took to collaborate, connect, and communicate in a remote working environment. Small businesses that responded fast enough were able to migrate to remote working quickly and resume business without much disruption. SMBs, which did not have cloud-based collaborative tools and systems to access common applications found their problems magnified under the new normal. The rapid adoption of cloud adoption is thus expected to play a key role in helping SMBs become more efficient and resilient, and pave the way towards economic recovery.

Implementation of data security protocols

While digitisation unlocks more opportunities for SMBs, it also exposes them to more cybercrime. Due to its popularity, email is the number one threat, wherein email-based phishing attacks and malware are used to gain illegal access to a company’s sensitive data when unsuspecting employees click on a link in an email or are convinced into providing personal information to the attacker. The resulting privacy breach or attack can carry enormous legal and financial complications, as well as a loss of customer trust.

With 80% hacking-related breaches tied to compromised credentials, SMBs should prioritise training their staff on proper cybersecurity hygiene such as good password management and Internet usage practices. This can be reinforced by installing credible anti-malware programmes and robust firewalls, as well as implementing two-factor authentication on work devices. Enhanced cybersecurity builds trust and introduces more business opportunities, especially for Indian SMBs that are now a part of global supply chains.

Upgrading IT infrastructure

While most SMBs heavily rely on and recognise the importance of technology because of COVID-19, they often find it challenging to build or upgrade their IT infrastructure, which covers a wide range of interchangeable components such as data storage, network solutions and software tools. Plus, there is no universal solution for SMBs, so they need to understand both their business needs and the tool capabilities in addressing those needs.
Outsourcing IT services to a qualified managed service provider is one way to bridge the digital divide. Professional IT partners can help SMBs tailor digital solutions to their business needs and manage those solutions for them. This helps SMBs improve their business agility and crisis resiliency, as well as avoid incurring high capital expenditure as they no longer need in-house hardware and software. Choosing scalable, flexible packages to suit their budgets also allows them to scale these services up and down quickly and more cost-efficiently.

Use digital payments to preserve cash flow and improve efficiency

It is an open secret that the COVID-19 pandemic and ensuing lockdowns shifted consumer behaviour online. Since the nationwide lockdown in March 2020, consumers increasingly relied on digital platforms for their daily needs such as groceries, education, and other essentials. Agile SMBs adopted technology at a rapid pace and showcased tangible advantages in taking operations online. The shift to online buying taught all stakeholders in the small businesses ecosystem the importance of adopting digital, contactless payments for small businesses, kirana and merchants.

Digital payment solution providers now believe contactless payments are here to stay, even as the country relaxes lockdown rules and unlocks in stages. Arguably the most critical aspect of digital transformation, digital payments ensure that small merchants or kiranas can continue to accept or send money and preserve cash flow in an increasingly contactless world. The technology for digitising purchases and payments has the potential to completely transform the way small businesses operate. According to Noopur Chaturvedi, Country Head - SMB Businesses, PayU India, SMBs and merchants used to be content with the traditional ways of accepting payments. But, after the pandemic, there has been a surge in interest from offline merchants for digital solutions. She believes having an online presence will help SMBs connect with customers and attract business. Consumers worldwide are adopting digital payments and are becoming more comfortable conducting transactions online.

Digital payments in India was expected to grow over three-fold to Rs. 7,092 trillion (US$ 97 trillion) by 2025 from Rs. 2,162 trillion (US$ 30 trillion) in 2019-20. The government policies around financial inclusion and growing digitalisation of merchants were the primary factors for the growth of payments fintech sector. It is estimated that India’s current 160 million unique mobile payment users will multiply by 5x to reach ~800 million by 2025. In April 2020, closure of e-commerce sites for non-essential items, restaurants and others caused a dip in transactional value for UPI payments. But by May 2020, UPI transactions surged, wherein the total transaction volumes for consumers were the highest on Google Pay, followed by PhonePe and Paytm. On the merchant side, the highest was on PhonePe. By July 2020, digital payment transactions had rebounded and reached pre-COVID-19 levels. This was despite the lockdown-induced contraction in the Indian economy. NPCI data showed that UPI payments clocked 1.49 billion transactions worth Rs. 2.9 trillion in July 2020. In August 2020, UPI volumes touched 1.61 billion transactions worth Rs. 2.98 trillion. Digitisation of payments is introducing much-needed simplicity, streamlining business processes, reducing timelines, and improving overall efficiency for SMBs. Industry experts state that this new behaviour of contactless transactions is likely to become a deep-rooted consumer trait post pandemic as well and will overhaul the payment transaction landscape globally.

Save money and prevent losses through digital accounting

SMBs and MSMEs follow the traditional route in running their business operations that rely on manual work for all processes, especially accounting. SMBs can now employ customised digital accounting solutions to save money. Tally Solutions and Vyapar are two of the biggest enterprise resource planning companies offering customised digital accounting solutions to SMBs. Small businesses outsource to financial firms, hire CAs for their account entries, or manage accounts on their own, as they feel more confident when they have direct control of operations and often undermine or are
sceptical of adopting digital accounting solutions. With the burden of managing expenses, payment cycle, keeping a track of stock, tax, GST and more, it poses a mental and financial challenge to manage everything manually. It often leads to wrong entries and recurring losses—something small businesses cannot afford in the current scenario.

Digital accounting solutions provide support and enhance the ease of financial management experience. It helps SMBs access critical business data in a hassle-free environment. However, lack of awareness and digital education remains the biggest challenge in adopting technology-driven financial solutions. Entrepreneurs tend to be unfamiliar with common financial terms such as credit and debit but follow the laymen language of revenue and expense. Trusting technology appears to be another challenge in rapid adoption. Small business owners tend to feel fearful of such solutions and require substantial handholding during the transition phase. They are afraid of handling their accounts digitally; fearing breach of confidential data, inability to handle the software and time required for training and up-skilling staff. Boosting financial literacy through simplified financial solutions—that are built specifically for SMBs—is proving critical for rapid adoption.

**Choose simple, easy-to-use digital solutions**

Simplicity and cutting down on new features seem counterintuitive for a company trying to acquire small business users at scale. But Indian small businesses prefer simple and easy-to-use solutions. Many small businesses are willing to consider using digital solutions, but they can be overwhelmed with too many features or complex interfaces. A simple, intuitive app that works on a basic smartphone is better for a small business than a heavy software application that requires a high-end desktop to run. Hiren Shah, Founder and Chairman, Vertoz, and Logesh Velusamy, Founder and CEO, Effitrac, explained how such simple solutions make more sense for small businesses and why they should adopt digital products that are easy to use in an interview with YourStory. Logesh said, “Usability and simplicity are important to help users understand a digital solution. Further, SMBs are generally not used to running their business digitally, and so, they will not adopt a tech solution that offers little to no assistance and customer service at the ground level. The key to acquiring SMB users at scale lies in the simplicity of the product.”

However, this is something only players such as Vyapar, OkCredit and Khatabook have managed to achieve. For instance, the Vyapar app does not have ‘credit’ or ‘debit’ sections, the company believes most SMB owners have little to no knowledge of accounting terms. The application automatically classifies a transaction as simply an ‘income’ or ‘expense’. Such solutions make more sense for SMBs as these businesses usually do not hire an accountant to do the books. Product builders need to develop their solutions that are more intuitive for small business owners and try to use vernacular that is familiar to SMBs. Although simplicity and cutting down on new features seems counterintuitive, both Logesh and Hiren agreed that it remains the way to go for building digital products for SMBs.

**Opportunity to capitalise on D2C business models**

The pandemic brought two major realisations to MSMEs—the need to connect more closely with consumers and the need to go online at all costs. Both have given rise to implementation of the D2C model for conducting business and garnering sales. In a traditional business model, wholesalers, distributors, and retailers are present between the buyer and the seller. In the D2C model, these middlemen are eliminated, and the seller can directly sell to the buyer through their website, online stores, or offline stores.

D2C model works primarily via two channels—either a company sells through its own website or through online marketplaces such as Amazon and Flipkart. Selling through company websites has the advantage of increasing customer engagement and building a community. On the other hand, selling through marketplaces increases brand visibility and sale volumes. SMBs can
also reduce the cost of customer acquisition by getting listed on marketplaces.

In the wake of COVID-19 pandemic, this model poses a big opportunity for small businesses to reach customers directly, cut expenses arising from payments to middlemen and distributors and pass on the cost-benefit to customers. The gross margins tend to increase multi-fold when businesses transition to a D2C model. The model also provides a platform for brands to connect with customers directly and gather feedback on their products and services.

India has seen a boom in the number of D2C brands across categories such as FMCG, apparel and consumer electronics with brands such as MamaEarth, Mom’s Co., The Souled Store, Wakefit and others. Setting up a D2C business involves a lot of ease and comfort, compared with setting up an offline business wherein several aspects of supply chain, logistics, distributors, and vendors need to be considered.

Several SMBs are utilising e-commerce marketplaces to gain visibility and sell products directly to customers.

DIGITAL JOURNEYS OF SMBs

SMBs use a diverse set of digital tools for business operations. Despite that, SMBs can be largely grouped into four key stages of their digital adoption journey as follows:

Basic
These businesses have a website and use e-mail for all business communications. They do not utilise data to generate insights and perform all marketing activities in a traditional format with limited online presence. Sales and revenue generation for these businesses occur in brick-and-mortar stores. In addition, they do not deploy any cloud-based solutions for business operations. Most SMBs in India are at this basic stage in their digital journey and have low online presence. For example, 50% SMBs in the category do not have a website, while 60% have no social media presence. Only a third of SMBs in this category engage in online marketing such as ad banners on websites or search-related advertising, as most of their sales come from offline channels. Businesses in this category are the least likely to use any digital tools for internal management, for example, only 6% reported using enterprise resource planning tools and 10% used software to connect sales with supply chain operations.

Intermediate
Such businesses have a website with basic customer interaction and ability to buy online; and some even use analytics and data insights to market products. They usually have some degree of social media presence with a relatively high percentage of in-store sales. They tend to deploy cloud-based solutions for business operations. Only some SMBs in India are at an intermediate level of digital engagement. ~70% of these ‘intermediate’ businesses have a website, and ~one-third have a website with some level of customer interaction and one-fifth can sell products and services from their website. Almost half of SMBs in this category engage in online forms of marketing such as ad banners on websites or search-related advertising, and 40% of these businesses generate most of their sales from online channels. Businesses in this category have a low likelihood of using digital tools for internal management, for example, only 16% reported using enterprise resource planning tools and 20% used software to connect sales with supply chain operations.

High
Such businesses generally have a website with basic customer interaction and ability to buy online. Most of them use analytics and data insights to market products with a relatively high use of digital advertising tools. Most businesses in this category report relatively high proportion of sales from
online channels. They tend to deploy cloud-based solutions for business operations. Very few SMBs in India have a high digital engagement. More than 70% businesses in this category have a website, ~40% have a website with some level of customer interaction, and one-fifth sell products and services from their website. ~60% SMBs in this category engage in online marketing such as ad banners on websites and >50% of these businesses generate most of their sales from online channels. Businesses in this category have a low likelihood of using digital tools for internal management, for example, 30% reported using enterprise resource planning tools and 20% used software to connect sales with supply chain operations.

Advanced
Such businesses generally have an advanced website that enables domestic and international sales. They use analytics and data insights to market and personalise products. Most SMBs in this category report the use of advanced marketing tools such as SEO and SEM. Majority sales of these businesses occur via online channels. They deploy cloud-based solutions for business operations. A handful of SMBs in India are at an advanced stage in their digital journeys. ~80% of these businesses have a website, 50% have a website with some level of customer interaction, and one-third sell products and services from their website. >75% collect data of visitors to their website, and many use this data to personalise their products and services. ~75% SMBs at this ‘advanced’ stage engage in online marketing, and >65% of these ‘advanced’ businesses generate most of their sales from online channels. These ‘advanced’ businesses have the highest likelihood of using digital tools for internal management, for example, 40% reported using enterprise resource planning tools and software to connect sales with supply chain operations.

In addition, there are distinct differences in the way an SMB operates at these different stages, which can be exemplified with five day-to-day activities across their communications—their own website and advertising; internal management and logistics—data insights to inform business decisions and resource planning tools; and sales management—sales channels. Firms with a more advanced use of digital tools are, on average, around twice as likely to have a website that allows customers to buy products and services than more basic SMBs. On average, advanced businesses are twice as likely to advertise online. SMBs that are more digitalised are ~8x (on an average) more likely to use resource planning tools to support their operations, when compared with firms that have a more basic use of digital tools. More advanced SMBs are, on average, twice as likely to sell most of their products online when compared with firms that have a more basic use of digital tools, and 50% less likely to sell them in-store. More digitalised SMBs are almost four times more likely to market and personalise products based on the use of data insights from visitors and customers who visit their online or mobile tools than less digitalised peers.

WAY FORWARD
Digitisation has mostly been an enterprise-centric theme for the past years, and most large organisations have made good progress. Even as enterprises understand the urgency, most SMBs are still in status quo—still debating why change is necessary and what they should be doing to adapt. Many are not making any changes, especially when it comes to technology investments, as they tend to remain reactive to market forces and challenged by the lack of skills, budget, and impetus.

However, a new breed of SMBs is emerging and setting the benchmark for what is possible to achieve. They are rethinking their processes, operations and customer engagements and moving towards becoming technology-dependant digital-first organisations. These can be categorised as future-oriented SMBs—ecosystem and technology-first organisations that are amplifying their presence and
capabilities to drive sustainable business growth, productivity, and competitiveness. They are incorporating cloud, cyber security, AI, analytics, IoT, CRM and ERP services and solutions. These SMBs are data-driven, customer-centric, and highly automated organisations attempting to keep pace with the changing market conditions. They are taking on an experiment-learn-iterate approach to deliver breakthrough solutions and create new markets. These early adopters all agree that technology will serve as the greatest enabler in helping SMBs leverage opportunities created by the emerging low-touch economy. The successes and failures of these early adopters are building a digital playbook or repository of do’s and don’ts for other small and medium businesses planning their digital implementation strategies.

Digitisation may be unfamiliar ground for some SMBs, but it need not be laborious or intimidating. SMBs first need to develop a digital technology road map and prioritise the critical business processes to automate. After evaluating and investing in the available technologies that match their scale and needs, they can follow up with building digital talent and skills, employing a suitable technology partner, staying up-to-date with industry trends and scaling their efforts up as the business grows.

Besides saving costs and enhancing operational efficiency for SMBs, digitisation also opens new markets and increases customer satisfaction via delivering a better experience. It has become the new business standard and SMBs must change their reactionary mindset to stay competitive. Instead of seeing digitisation as a one-off shift, SMBs should view it as a constant state of progress that emphasises efficiency, resilience, and innovation—all necessary traits to survive in the new normal.

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