

# **Digital Transformation and its influence on various functions in Small and Medium sector enterprises in India**

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## **Abstract**

The main aim of this paper is to understand how digitalisation can be implemented across various functions in Small and Medium scale enterprises in the Indian context. Since SME growth is vital for taking the country forward, understanding digitalisation, and its impact on various core functions is important. This paper throws light upon the need for digitisation in SME's, benefits derived thereof, and various technologies which can be harnessed by businesses for transformation. Digitisation of core and support functions can give various competitive advantages to small businesses. The challenges for digitisation have also been discussed in the context of smaller firms.

## **Introduction**

### **What is Digitalisation?**

Digitalization is the generic term for the Digital Transformation of society and the economy. It describes the transition from an industrial age characterized by analogue technologies to an age of knowledge and creativity characterized by digital technologies and digital business innovation (innolyticsinnovation.com) Digitalization is the use of digital technologies to change a business model and provide new revenue and value-producing opportunities; it is the process of moving to a digital business. (Gartner)

Thus, the basic term digitalisation refers to changing the existing structure of business into a digitised one by converting various processes and operations

into a digitised format. It can be done at the highest level of strategy formation and planning right upto the lower more operational levels. This trend has spread rapidly across the globe due to its apparent benefits to industry. Basically, it involves modifying existing systems structures or processes with the use of new and advanced technologies like Machine learning, Internet of things, Artificial Intelligence, Business and Customer Analytics and similar technologies to reorganise business. For example, converting a simple process of taking customer complaints from telephonic format to online format can be termed as digitisation. For a small enterprise, moving to an online format for Employee appraisal and Compensation systems can also be termed as digitalisation.

The VIBRANT Gujrat Global Summit held in 2019 very clearly showcased the rapid growth of MSMEs in India which contributes to around 37.5% to the GDP and 37% of the manufacturing output. This number can easily go up if a boost is given to this sector and one of the ways suggested in this summit was bringing rapid digitalisation in SME sector.

### **The Indian SME Sector**

Small and medium enterprises are the backbone of the Indian economy. As per the 2018-19 Annual report by the Ministry of Micro, Small and Medium Enterprises, MSMEs account for around 29% of India's GDP and 32% share of India's GVA. It was estimated that there are a total of 633.88 Lakh MSMEs in India across Manufacturing, trade and other services. This did not include agriculture.

These MSMEs accounted for total employment of around 1109 lakh people. The sector contributes to 45% of manufacturing output, 40% of exports and produces more than 6000 products.

A large part of the working population is employed by the MSME sector. However, Indian SMEs lag behind global peers in terms in terms of productivity. Also, more than 900000 MSMEs have closed in the last 18 months due to demonetization, GST and economic slowdown.

### **Today, this industry faces different challenges like:**

- 1 Competing with the larger companies who have increased focus on digitization
- 2 Low productivity - Productivity improvements expected by customers
- 3 Scaling of business, lack of marketing knowhow,
- 4 High operational costs - Margin pressures due to high competition
- 5 Customer connect - Constantly changing customer demands

6 Lack of strong systemic systems and processes

7 Ad-hoc decision making

8 Lack of innovation and Technology gap with respect to larger peers

It has been found that digitization of SMES can lead to more than a 10% increase in contribution to India's GDP.

**There is thus a huge opportunity for SMEs to compete globally and become more competitive with respect to larger peers. However, undertaking digitization by SMEs can mean the following:**

– Not being sure on what to digitize and the benefits of digitization

– Increased cost and time spent by senior management and people across the organization

– Delay in planned ROI due to digitization

– Requirement of Technical knowhow, increased need of technology resources

– Facing internal backlash from people affected by digitization

Small and medium organisations struggle to put in systems and standardisation in processes. Human intervention in processes and unavailability of the right data causes quality to drop and also affects productivity. Automation and Digitisation has a direct impact on improving quality in manufacturing sector by reducing manufacturing defects and reducing human errors. Right from the design stage to production stage, entering markets, customisation and satisfying new demands, digital transformation reduces time at every stage also resulting in cost saving.

Scaling of business is a challenge for every small enterprise. Digitalisation has created a road through online platforms to reach out to customers from all corners of the globe for doing business. This has helped businesses to scale faster and service a large number of customers with lower marketing costs. Similarly, customisation has become a reality which cannot be ignored. Small or medium enterprises often struggle to meet varying demands of customers.

One of the major areas where digitalisation can create metamorphosis in organisations is strategic planning. Knowledge based decision making helps in taking correct decisions and creates flexible and agile organisations which can react very quickly to changing business challenges. Older business models do not allow organisations to be proactive, and reaction times are very slow. In the context of SME's, it can be seen that knowledge is generated on a large scale but not managed and disseminated at the right time. In today's fast paced digital world, time is of essence as time lag will result in opportunity loss.

With the help of analytical tools, it may be possible for an organisation to develop different business scenarios based on opportunities available. Business analytics can play a major role in comparative analysis of opportunities and

give different combinations of decisions which are difficult for the human mind to predict. Predictive analysis is also a tool which can be used to take strategic decisions for entering new markets, pruning or shelving product lines or adding new products or services to the product mix. Small and medium enterprises can especially benefit from this due to the limited financial resources they have. Digitalisation has created a huge opportunity for these organisations to remodel their businesses from the perspective of cutting costs and increasing revenues.

#### Data Driven V/s Traditional organisation

Decision making in traditional organisations is based mostly on gut feel and intuition plays a big role in this. Especially in smaller companies the managers do not have reliable data nor do they have quick access to this data. Traditional organisations do not have systems to share information seamlessly. They also lack the culture of archiving and sharing available information which can be used by all decision makers in the organisation. Top leadership plays an important role in creating data driven organisations and this is not seen in many SMEs. Even where data is available, methods or tools for using this data are typically absent. Especially in Indian SME's organisation of data is a huge impediment and thus right type and amount of data is not available at the right time. Another problem present in many traditional organisations is the lack of skill sets required to analyse and organise available data.

Data driven organisations are those which have the capability to use available data through analysis and interpretation which results in longevity of the organisation, faster response to changes, and standardisation and consistency in decision making. They create a capacity in themselves to increase productivity through understanding their own processes better and transform the operations to gain better results.

#### **Data driven organisations have the following benefits:**

1. More agility
2. Higher efficiency and cost effectiveness
3. Faster and accurate decision making
4. Accurate Strategic decision making
5. Larger reach (for markets and consumers)
6. Higher profits due to more revenues

Digitalisation thus creates a proactive organisation which can better adapt to the continuously changing market place. It is easier for small or medium enterprises to adapt to the changing needs as they are inherently more flexible in nature than larger companies. Having a strong data support would allow them to be more proactive than reactive and thus reap benefits of the changing markets much faster in this highly competitive market scenario.

### Digitization by SMEs

SMEs can carry out digitization across the organization ranging from support functions to the core business.

1. Digitization of Sales and Marketing
2. Digitization of core functions
3. Digitizing support functions like HR
4. Other Digitization - Digitization of Customer connect, finance, accounting

### **Digitization of Sales and Marketing**

There are multiple ways in which digitization can benefit SMEs from the perspective of sales and marketing. SMEs can use the massive increase in internet/broadband penetration and increased mobile/tablet usage in India and abroad to their benefit.

### **DIGITAL MARKETING**

- Moving the business online or having a website for the company including online payments. According to Google-KPMG report, digitally engaged SMEs grow twice as fast as businesses which are offline
- Running Digital Marketing campaigns allowing SMEs to reach more customers, and increase sales volume. The digital marketing campaign allows SMEs to use various marketing options like social media, search engine marketing, blog marketing, email marketing, video marketing to do everything from advertising to creating a brand to lead generation to customer connect and payments.
- SEO (Search Engine Optimization) allows SMEs to better position their services/products when users search for keywords related to their service/product

### **USAGE OF TOOLS**

SMEs which have a B-2-B offering can use tools like Global Linker which allows a SME to network and sell to other SMEs on the Global Linker SME Networking platform. This allows a SME to only pay-on-conversion, i.e if it converts any business using the platform.

CRM (Customer Relationship Management) / KAM (Key Account Management) tools

SMEs normally have traditional sales teams in place which leads to inefficient sales and limited reach to potential customers because of limited sales bandwidth. Sales planning is done in excel sheets and there is no data about potential customers, business with individual customers, competitors, leads tracking. This put them at a disadvantage with larger companies who have standard processes and tools for sales and CRM.

Affordability prevented SMEs from using CRM tools but over the last few

years, with the advent of Cloud computing and IAAS (Infrastructure as a Service), CRM tools have become affordable.

It has been seen that usage of CRM/KAM tools lead to a massive increase in reach to potential customers as well as the ability to sell and develop better customer connects.

SMEs can look at using Customer Management/Key Account Management tools like Zoho /Sales Force or free CRM tools like Suite CRM which can be customized to increase sales effectiveness and taking a data driven approach to sales.

**A CRM/KAM tool can help SMEs with the following:**

- Smart Selling => sales teams have all information on customer specific leads at their fingertips with interactive dashboards and triggers helping them to plan their time better
- Helps to Prioritise sales leads and focus on those with a higher chance of conversion
- Eliminates human errors by making sure that leads are not missed my mistake
- Contextual Sales Dashboards
- Seamless transition in case of changes in sales teams as data is available online
- Some CRM tools have AI(Artificial Intelligence) inbuilt like predictive analytics, voice assistants
- Allows Multi-channel communication with customer
- Easier decision making

Other Tools are often used including customized tools for operations and sales tracking,

**Digitization of Core Functions**

Digitization of core business can happen in various ways. Industry 4.0 is defined as digitization of manufacturing. It allows companies to do the following:

- Process automation
- Increased automation of core functions / machine floor
- Automated diagnosis of issues without need for human intervention
- Improved communication and monitoring of inter-connected machines and sensors through IOT
- Optimization of supply chains
- Optimization of logistics

Industry 4.0 is a double- edged sword – it leads to increased productivity and efficiency and reduced errors but can lead to workers becoming redundant.

In SMEs in India, the approach followed is a mixed approach - automate only the most important functions of high complexity which can result in significant savings while leaving the other functions as is.

Usage of ERP (Enterprise Resource planning) Tools

A majority of SMEs use some form of ERP software which is a business software that integrates different aspects of a SME business. This ranges from marketing/sales to raw materials traceability to maintenance to machine shop to quality control to finance and accounting functions. ERP systems help businesses improve productivity and have high visibility in supply chain operations. ERP systems, if used properly, can lead to a reduction in operating costs, better schedule compliance, increased productivity and lower inventory costs.

Digitization OF HR is a buzzword in the industry just now whereby SMAC (Social, Mobility, Analytics and Cloud) is used to transform HR. There are multiple phases in which digitization of HR can take place.

- Increasing HR Efficiency by building or buying HR technology platforms that efficiently manage HR processes that are important to the organization.
- Higher HR Effectiveness by usage of technology for process digitization in staffing and recruitment, performance and appraisal management, employee communication etc.
- HR innovation through combining internal employee data with external data to create better employee insights, usage of intelligent platforms like gaming platforms for employee connect and motivation. People analytics is leveraged through multiple data points to create a stronger employee connect to the organization. The focus is on improving employee experience and using tools for key employee functions like appraisal, knowledge management and training etc.

### **Other Digitization**

There are a lot of other places where SMEs can look at digitization options.

- One of the trending areas is usage of CEM(Customer Experience Management) platforms
- Digitization for Workforce enablement like skill development
- Digitization for Risk Management by usage of tools to protect company sensitive information
- E-commerce
- Usage of Chatbots internally and for customer support

### **Challenges faced by SMEs in their digitization journey**

1. Lack of a vision and clear path for digitisation: Many small businesses do not have a clear road map for digitisation. It is difficult for the owners or

managers of smaller organisations to have the necessary understanding of different forms of using technology. Unless long term vision is in place for transformation, and a clear method developed to achieve this vision, digitisation will only lead to added cost. The ability to understand how to use technology and its importance is a major challenge.

2. Lack or prohibitive cost of tools: Digital solutions come at a cost. Many times businesses only think of short term gains and are not ready to invest for long term gain. High cost of new technology is a big impediment for small and medium enterprises. Also lack of appropriate tools or unawareness of low- cost technology is an impediment.

3. Data literacy: Often it is seen that data which is available is not captured and therefore difficult to use constructively. Capturing the right data would require skilled manpower and this is an added cost for the companies. Also training employees is also higher cost and retaining these people a bigger challenge.

4. Changing company culture: Digitisation can bring many changes to the existing processes and ways in which the organisation faces customers. A sudden shift may not be acceptable to the employees and there may be resistance from within the organisation itself. The customer can suddenly come closer to the organisation handling this can be difficult to employees who were previously shielded. Change management is thus something which is tricky to handle.

5. Fear about cybersecurity: Many businesses do not have the expertise and knowledge to protect themselves in case of a cyber- attack. Frustrated employees, ex- employees, all these threaten organisations. In case of any failure in the system, these businesses do not have the capacity to fix them and business can be affected thereof.

## **Conclusion**

It can be seen that digitalisation can bring about huge benefits for the Small and Medium enterprises. There are opportunities for digitization across all functions in a SME ranging from core business functions to support functions like HR and finance. Any SME has to have a digitization strategy in place based on priorities and current state of business and future considerations. Digitization can lead to cost and a SME need to plan its strategy based on financial considerations and ROI expected. This paper outlines the opportunities and benefits from digitization across different functions including core business and also challenges that SMEs face due to digitization. These benefits can be in the form of increased productivity, reduced costs and more satisfied customers. In this tremendously dynamic marketplace organisations can



become more flexible and can grow leaps and bounds with the help of digital transformation. There are however certain challenges which need to be addressed before the organisation moves towards using new technologies, but needless to say there is no way forward for SMEs other than adopting digitalisation.

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