

Ecosystem in India

The Indian SME continues to lack the spark and luster. A mechanism has to be found to help overcome the challenges

SMEs comprise more than 99% of the organizations world over, including in India. Global factors like increased FDI inflow into India, China opening various business avenues for Indian SMEs, positive outlook of businesses: 71% trade growth in Asian businesses in 2008, are some of the positive external factors for this sector to flourish despite the global factors reflecting a slowdown. However, the Indian SME continues to lack the spark and luster. FII, PE funds, SPV find them less attractive. There is a compelling need to identify the current challenges which startups and SMEs are facing, and a mechanism to overcome them.

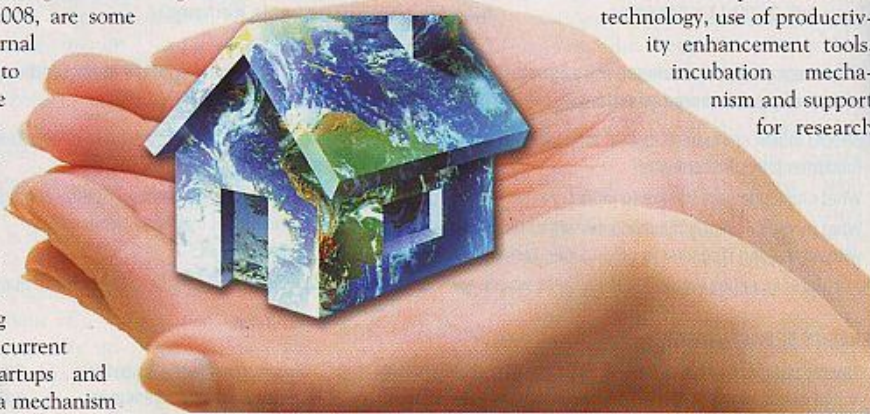
Current Day Challenges

Over the last decade, SME sector has witnessed a diverse and deep growth. There has been an acute rise in domestic demand, fueled by increasing domestic consumption and exports. Larger number of enterprises need even larger number of small suppliers, causing extreme price competitiveness. The three most important factors in sourcing decision making process have come down to price, quality and reliability of delivery. In this scenario, SMEs are always pressed on controlling costs and not compromising on quality assurance and delivery. The challenges are

further accentuated by lack of availability of startup funds or working capital, lack of know-how and other regulatory and tax related information. Other factors are lack of skilled labor due to inadequate vocational training facilities and business intelligence

tributed as under developed management due to lack of exposure, mentorship and financial support. Thus an already challenged SME finds it difficult to differentiate itself from rivals.

There is also lack of innovation in an SME in terms of penetration of technology, use of productivity enhancement tools, incubation mechanism and support for research



for various domains and geographies.

Many times the FII and PE firms shy away from the small and medium sized companies or even startups, since they find that the business management lacks financial management skills and offers poor financial positions. Due to lack of trust, companies try not to disclose the exact details to hide the poor positioning. They offer insufficient security causing a further degradation in the FII/PE confidence in the investment.

It is not that SMEs and startups have poor management backing the company. It can more reliably be at-

tributed as under developed management due to lack of exposure, mentorship and financial support. Thus an already challenged SME finds it difficult to differentiate itself from rivals.

What Indian SMEs Need

Incubation Platform: This directly points to the fact that India lacks business incubation setup. The industry majors need to provide mentorship to SMEs of their domain, on how they could be better aligned with their objectives of a low cost structure, broadbasing their services and products, and a more reliable environment for operation. The enterprises, SMEs, government and the society are an integral part of the same ecosystem, that can col-

lectively grow and not in isolation.

Support from Government

In the most recent UPS Asia Business Monitor report, 81% SME respondents feel that government needs to play a larger role in sustainability practices. Let us look at the model deployed by Japan, way back in 1953. Japan Finance Corporation for Small Business (JFS) was created to enable a basic law which would represent a shift in policies to enable development and growth of diverse and independent SME businesses. JFS soon became an integral part of policy drafting and implementation process, and established a deep understanding of the SME market. It built a pool of businesses and understood its pulse. Today, it has more than 100,000 businesses and it leverages this information to groom newer businesses. The essence behind formation of JFS was not just funds, but critical advisory, that would keep the businesses alive in long term. There is a strong need for such a platform to be provided in India.

Need for Communication

India is awakening to the need of communication and its importance to businesses. Till recent past, PR was considered a luxury and spelt in the same breath as advertising. However, the communication modes and climate is changing. As a result, businesses are making use of various channels of communication to reach out to their audiences such as clients, masses at large, industry bodies, etc. On the globalized platform, global tools like PR need to be used to gather the outreach and use it towards expanding not only clients but further expansion, forming associations and tie-ups.

Valuation & Consolidation

Indian economy has progressed towards building knowledge enterprises to remain competitive in the global arena. Innovation and application knowledge are going to be the key to growth. However, in the SME segment, it remains vastly fragmented across mushrooming businesses. Joint ventures and some kind of consolidation will help pull strengths of companies and businesses together, and fasten the growth and maturity path.

Incentive for Creating Employment

This is best described by an example. Let us say, an individual A as an employee, gets Rs 20 lakh salary and pays approximately Rs 3.5 lakh as tax. On the other hand, an entrepreneur B, who employs eight people, grosses Rs 50 lakh of revenue and clocks 40% profits before tax. He essentially gets the same income of Rs 20 lakh and pays Rs 3.5 lakh as tax.

What is the incentive for A to give up a cushy job and become B to create employment, handle the nuances of running a business, stress and play a larger role in the value chain?

The only incentive currently is personal satisfaction, whereas a lot can be done by the government to encourage professional community to start independently and create employment. Experienced professionals should be given a boost and encouragement, since they are best placed to start new ventures, transfer technology and inculcate professionalism in the small and medium setups as well.

—Rohit Gupta

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