

Impact of internet and digitisation on SMBs in India

A study by KPMG in India and Google

January 2017

Highlights

Rising internet penetration and greater uptake for digital by SMBs, could help increase their contribution to India's GDP by 10 percentage points, taking it up to 46 to 48 per cent by 2020

Digital SMBs grow profits up to twice as fast as Offline counterparts

Nearly 51 per cent of digitally Enabled SMBs cater to customers beyond city boundaries as compared to 29 per cent of Offline SMBs

Digital SMBs employ up to five times more employees compared to those Offline



Executive summary



The Indian economy has emerged as the fastest growing major economy in the world^[1]. The Government's Twelfth Five Year Plan includes a vision to lift annual GDP growth to 8 per cent and to create additional 50 million job opportunities in the non-farm sector^[2]. The Plan repeatedly highlights the importance of Micro, Small and Medium-sized enterprises (MSMEs), skill development and internet connectivity to achieve these objectives.

Small and Medium Businesses (SMBs) form the backbone of the Indian economy making large contributions to important economic indicators as well as household incomes. The 2015-16 Annual report published by the Ministry of Micro, Small and Medium Enterprises reports that India is home to 51 million MSMEs. The report also states that MSMEs contributed 37.5 per cent of India's GDP^[3] and 37 per cent of the manufacturing output^[4] underlining their strategic importance to the Indian economy. Equally important, MSMEs employed 117 million people that is 14 per cent of India's working age population^[5].

Digital technologies have transformed the landscape in which SMBs operate. This is led by consumers going online, especially on mobile. As per the TRAI and BCG-Google study, India has 1.03 billion mobile subscriptions and 350 million internet users^[6]. These users increasingly discover, engage and transact with businesses online. Digital technologies also offer businesses the ability to innovate and achieve higher efficiencies through improved communication and digital productivity tools e.g. ERP and CRM systems.

This KPMG in India - Google report attempts to analyse the impact of digital technologies e.g. internet connectivity, websites and e-commerce on Indian SMBs. It classifies SMBs based on their levels of digital engagement into four tiers - Offline, Connected, Enabled and Engaged. Based on analysis of data from ITOPSTM and a primary telephonic survey by Kantar IMRB in November 2016 of 504 Indian SMBs, we find that Indian SMBs who adopt digital technologies:

- **Grow profits up to two times faster** than Offline SMBs
- **Scale across city and country boundaries.** The report finds that 51 per cent of digitally Enabled SMBs sell beyond city boundaries as compared to 29 per cent of Offline MSMEs
- **Employ up to five times more people** compared to Offline SMBs

Despite significant digital dividends, digital adoption by Indian SMBs is extremely low. The report shows that a staggering 68 per cent of SMBs in India are completely Offline and only 2 per cent of SMBs are digitally Engaged^[7]. It identifies low awareness of the benefits of digital technologies, lack of digital skills and knowledge, and limited internet infrastructure as the key reasons for such low uptake.

Given the importance of SMBs, the government has launched several initiatives to get more SMBs to digitise. These include making it easier to access Government services such as filing taxes, registering businesses online. Additionally, under the Digital India initiative the government aims to train one crore students to raise digital skill levels in India^[8]. Government actions have been complemented by the private sector to raise digital awareness and skills levels among Indian SMBs^[9].

Internet penetration in India is expected to rise to 50-60 per cent by 2020^[10]. This trend, coupled with significant digital dividends for SMBs, could help increase their contribution to India's GDP by approximately 10 percentage points to 46-48 per cent^[11]. This signifies the huge impact digital could have on SMBs as well as on the India growth story.

1. India's economic growth is still the envy of the world, Charles Riley, CNN, August 2016

2. Twelfth Five Year Plan (2012/2017), Planning Commission, Government of India, 2012

3. MSME Annual Report, Ministry of Micro, Small and Medium Enterprises, Government of India, 2015-16

4. MSME Annual Report, Ministry of Micro, Small and Medium Enterprises, Government of India, 2015-16

5. MSME Annual Report, Ministry of Micro, Small and Medium Enterprises, Government of India, 2015-16 and Asia Pacific Human Development Report, Shaping the future: How changing demographic scan power human development, United Nations Development Programme, August 2016

6. Telecom Regulatory Authority of India (TRAI) May 2016 and Digital Payments 2020, BCG-Google study, July 2016

7. Analysis of ITOPSTM Business 2016/ ITOPSTM Business 2015 and primary data collected by Kantar IMRB

8. CMAI Homepage: <http://www.cmai.asia/digitalindia/>

9. Intel India launches initiatives for digital literacy, Business Standard, December 2014 and Google launches Android Certificate and Skilling programme in India, Indian Express, July 2016

10. Digital Payments 2020, BCG-Google study, July 2016 & Trading Economics Forecast (<http://www.tradingeconomics.com/india/population/forecast/>), December 2016

11. KPMG in India research and analysis

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India's SMB story



1.1 Role of SMB's in the Indian economy

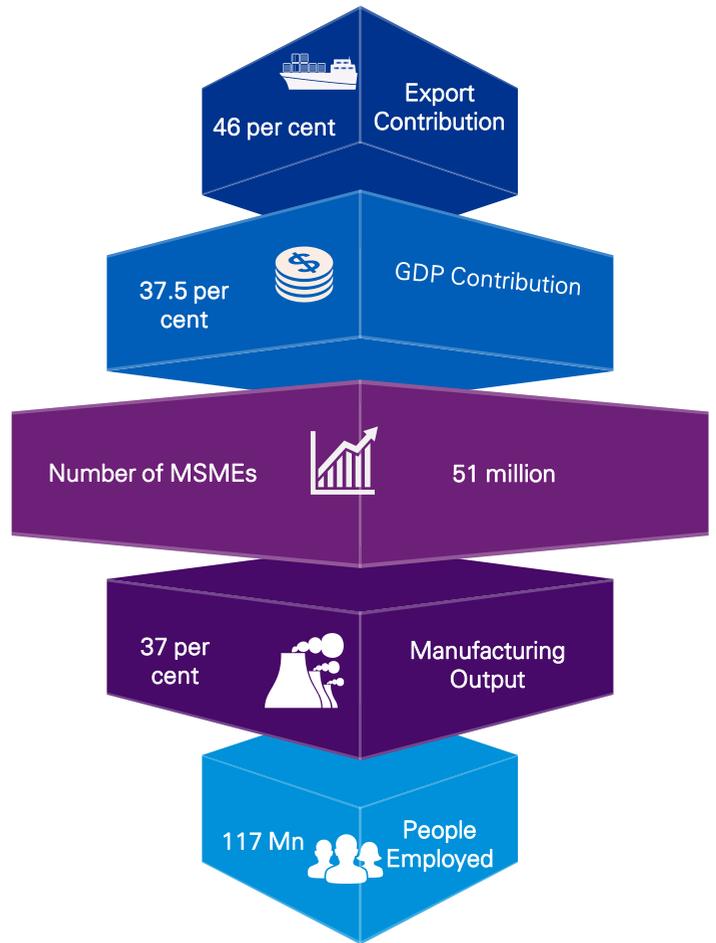
Small and Medium Businesses (SMBs) are the backbone of the Indian economy. They make significant contributions to major economic drivers and generate employment supporting the government in meeting unparalleled demand of more than a billion strong economy.

The 2015-16 Annual Report of the Ministry of Micro, Small and Medium Enterprises states that India is home to 51 million MSMEs with total fixed assets worth INR 14 lakh crore. The Report also states that MSMEs contributed 37.5 per cent of the overall GDP, 7 per cent from manufacturing and 30.5 per cent from services. Since FY07 total manufacturing output from MSMEs has grown at 5 per cent CAGR reaching INR 12 lakh crore by FY15. These numbers underline the importance of SMBs to India's GDP growth.

Further, SMBs play an important role in driving regional development. Driven by a strong entrepreneurial culture, Indian SMBs are able to operate with limited capital and infrastructure. This allows them to establish in semi-urban and rural centers that may be less attractive to larger organisations. Indian SMBs engage in diverse trades, including 32 per cent in manufacturing, and drive quality employment and economic development in all corners of the nation.

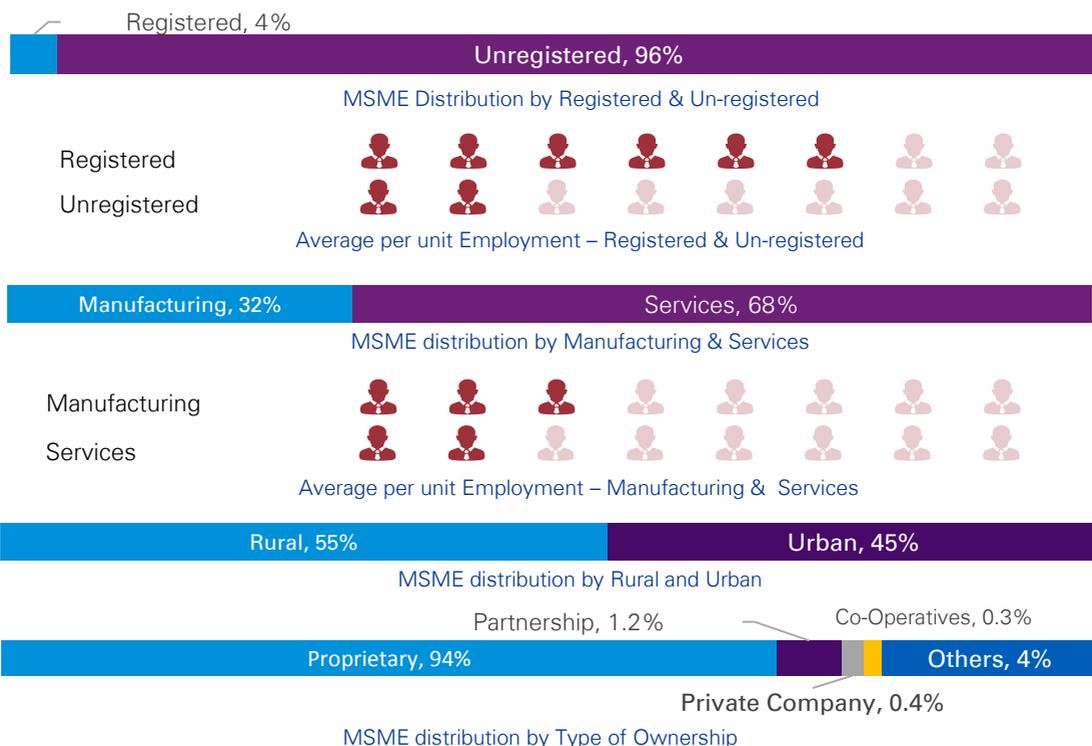
Recognising the importance of SMBs to the Indian economy, the government has launched several initiatives to aid their growth. These have focused on providing access to low cost capital, developing skills and raising technology awareness among SMBs. For instance, the Credit Link Capital Subsidy Scheme for Technology Upgradation was introduced to provide INR 2267 crore assistance to SMBs for technology upgrade^[12]. In addition, programmes such as Marketing Assistance & Technology Upgradation Scheme and Rural Industry Service Center were launched to develop skills for the SMB sector.^[13] Finally, flagship programmes such as Make in India and Start-Up India provide financial and administrative support to SMBs.

Contribution of SMB's in the Indian economy



Source: MSME Annual Report, Ministry of Micro, Small and Medium Enterprises, Government of India, 2015-16

Characteristics of India's SMB sector



Source: MSME Annual Report, Ministry of Micro, Small and Medium Enterprises, Government of India, 2015-16

1.2 Changing landscape for Indian SMBs

The macro-economic environment in which Indian SMBs operate is changing rapidly. SMBs' growth is being driven by increasing consumer demand which is expected to rise by 55 per cent by 2020.^[14] This has also helped fuel greater investment by foreign players in the Indian market, and the emergence of a start-up culture among the youth who account for 42 per cent of India's population.^[15]

In addition, digital technologies are transforming the landscape in which Indian SMBs operate. This is led by consumers moving online; especially on mobiles. Recent estimates released by TRAI and BCG-Google study suggest that there are 1.03 billion mobile subscriptions and 350 million internet users in India^[16]. These users increasingly expect to discover and transact with businesses online. This represents a significant opportunity for SMBs to engage with customers beyond local boundaries, and grow their business online.

Further, several SMBs can now leverage digital technologies for critical business processes such as procurement, sales and marketing, production and fulfillment. These technologies help SMBs scale faster and become more efficient. Unprecedented access to information, and tools to communicate with ease also help SMBs innovate to bring new offerings to market.

Given the potential digital technologies offer, further sections of this report analyse adoption of digital solutions by Indian SMBs and attempt to quantify their impact on SMB business outcomes.



12. Official website, Development Commissioner Ministry of Micro, Small & Medium Enterprises, http://www.dcMSME.gov.in/schemes/credit_link_scheme.htm

13. MSME Schemes, National Institute for Micro, Small and Medium Enterprises, December 2014 (<http://msme.gov.in/WriteReadData/Whatsnew/Sch-vol1-151214.pdf-sri.pdf>)

14. Ministry of statistics and programme implementation (MOSPI), TradingEconomics (www.tradingeconomics.com), September 2016

15. United Nations projection, socialcops (<https://blog.socialcops.com/>), June 2016

16. Telecom Regulatory Authority of India (TRAI) May 2016 and Digital Payments 2020, BCG-Google study, July 2016

Digital adoption by Indian SMBs



A staggering 68 per cent of Indian SMBs are completely offline, with only 2 per cent actively selling or promoting their business online.

To understand the digital engagement landscape, this report assumes a digital pyramid based on sophistication and investment by SMBs to engage with specific technologies. The pyramid focuses on digital technologies used by SMBs for information and communication, marketing and commerce. It classifies Indian SMBs broadly into four tiers as described below:

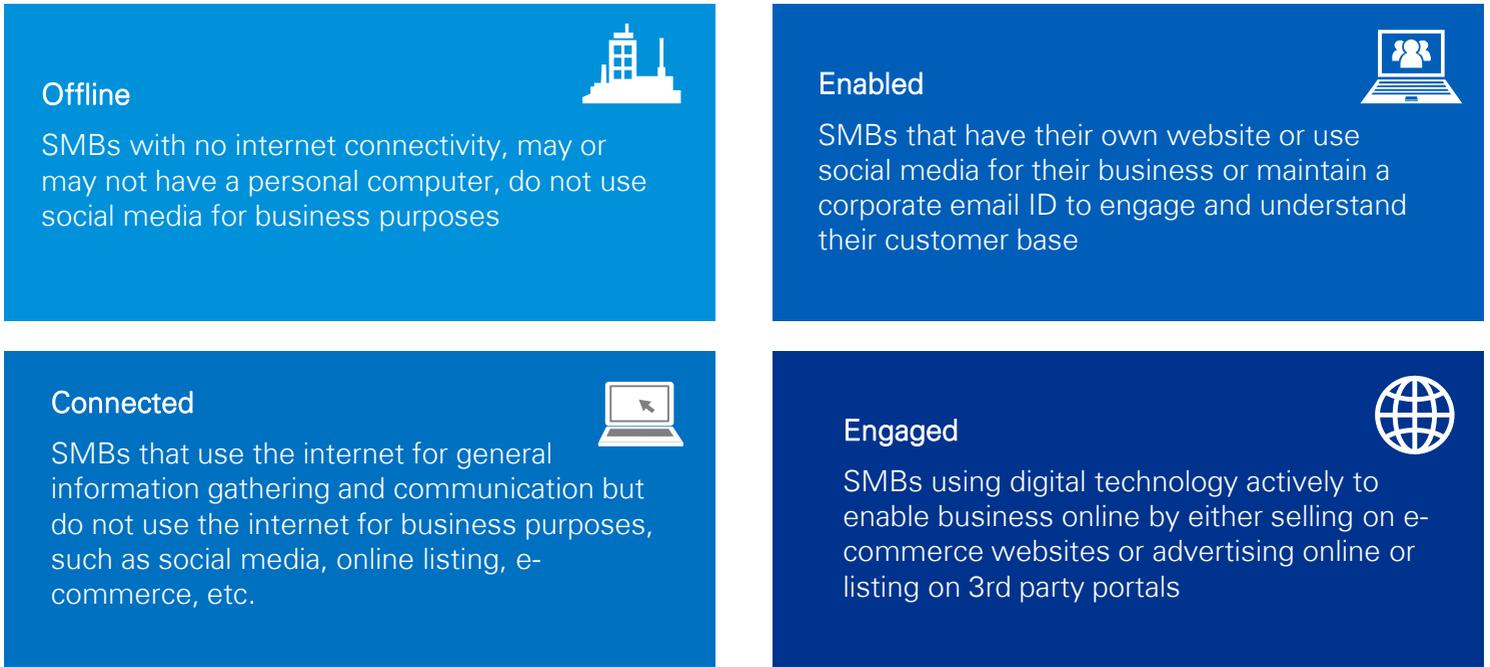
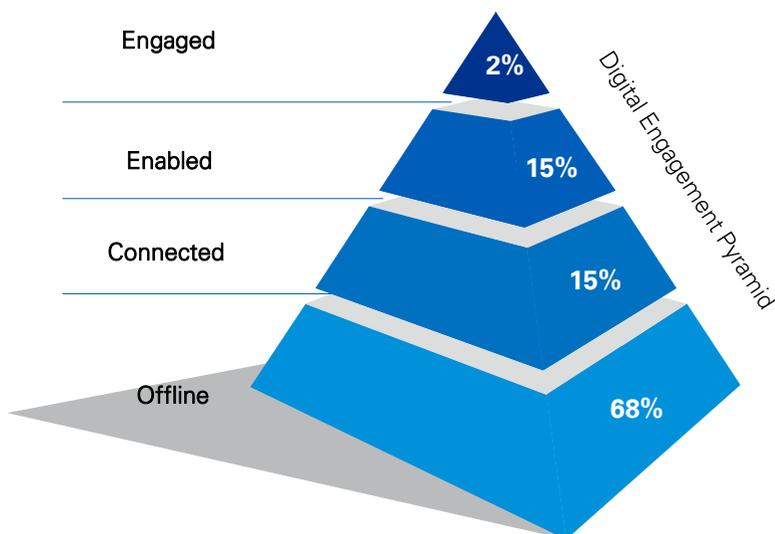


Figure 1: Digital engagement pyramid

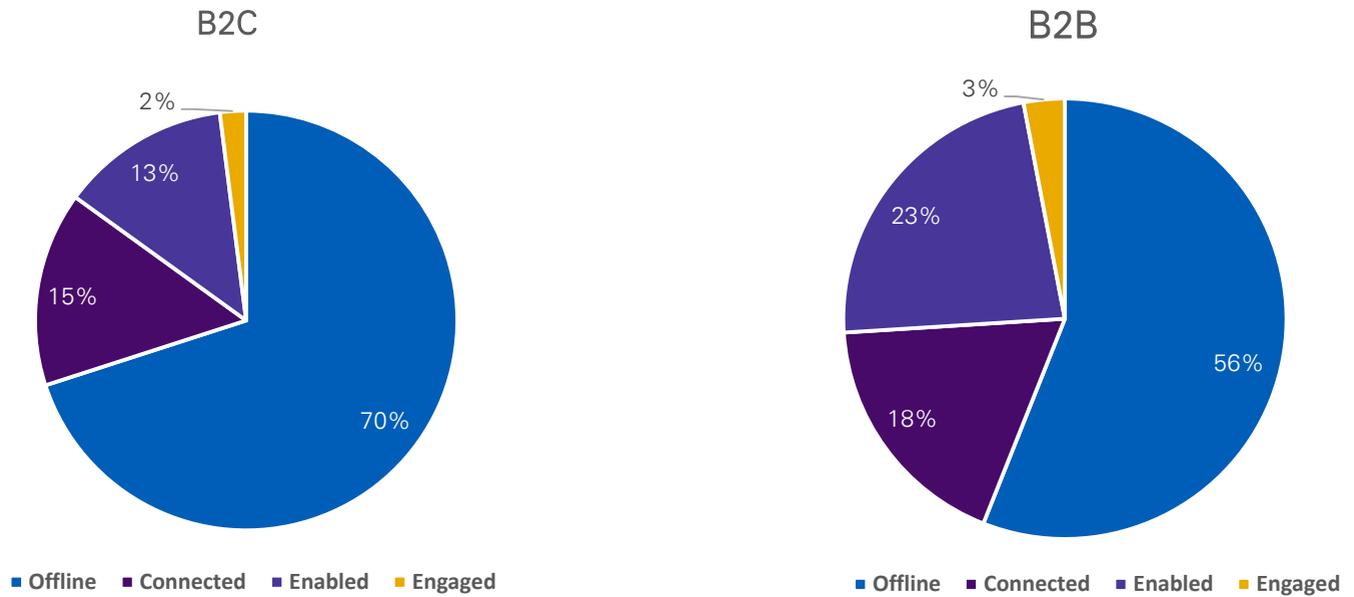
Digital engagement pyramid



Our analysis based on ITOPSTTM Business 2016 database shows that Indian SMBs have very low digital uptake. Specifically, we found that:

- A staggering 68 per cent of Indian SMBs are Offline. These SMBs have no digital presence and continue to operate with traditional methods and legacy tools
- Indian SMBs who engage with digital technologies, are still not using the full potential of digital tools. We found that only 2 per cent of Indian SMBs were in the Engaged tier. Approximately 30 per cent of Indian SMBs are in Connected and Enabled tiers implying that they do not actively sell or promote their business online
- Digital engagement levels do not vary considerably with type of customer catered to i.e. B2C and B2B businesses. We observed a similar percentage of B2C and B2B SMBs in the Engaged tier. However, we did find a higher share of B2C SMBs Offline

Digital engagement by 'Type of customers'



Source: Analysis of ITOPSTM Business 2016/ITOPSTM Business 2015 and primary data collected by Kantar IMRB

In addition, we evaluated number and type of digital applications used by Indian SMBs. We found that the usage pattern, though low overall, evolves with movement up the digital pyramid. Our findings suggest that:

- Offline SMBs uses only the elementary, standalone software such as office tools and accounting and billing software
- Connected and Enabled tier further indulge in backend operations software such as ERP, network and security
- SMBs in the Engaged tier have the highest usage in terms of average number of software tools deployed. They are also able to synchronize backend operations software with customer centric software such as CRM and database management tools

The next section discusses the impact of digital engagement on Indian SMBs in terms of revenue and profit growth, market reach and employment. It shares analysis of data collected through a telephonic primary survey conducted by Kantar IMRB in November 2016. The sample of the study was 504 SMBs selected from the ITOPSTM 2016 panel. The ITOPSTM study is conducted by Kantar IMRB on an annual basis. The respondents for this survey were selected to ensure a statistically significant representation across tiers of the digital pyramid. Further, the sample had a fair representation across regions, verticals, and scale of operation.

Swechha – A social enterprise adopting digital to help underprivileged women monetize their cooking skills

Swechha, started by Vimlendu Jha in 2000, finds its genesis in the “We for Yamuna” campaign, a collective response to the growing apathy towards one of the most polluted rivers in the world. Since then, the organisation has spread across multiple spheres of focus. One of them, Million Kitchen, enables users to order healthy, affordable and home cooked meals online for doorstep delivery.

Million Kitchen, is a social enterprise in collaboration with the women chefs of slums of Delhi that aims to provide fresh, healthy and economical lunchboxes. It empowers the underprivileged women by providing an opportunity to earn a healthy income through their cooking skills. The Million Kitchen application operates on the principle of “hyperlocal homemade food on cloud”, hence making digital a critical component of the business strategy.

In July 2015, the enterprise had around 20 independent sellers who were part of the app. The enterprise was servicing about 150 orders a day. The application listed around 200 dishes with prices ranging from INR 40 to INR 220.

The enterprise uses a range of digital technologies for its day to day business operations. The first is the application where the menu is uploaded and updated for customer reference. The food can be ordered through the application but has to be ordered atleast one-and-half hours prior to the delivery time. Finally, all company information is maintained on cloud. According to the founder, cloud technologies allows start-ups to concentrate on their core business without worrying about supporting digital requirements such as analytics or platform management.

Source: Delhi-based Million Kitchen delivers home cooked meals at doorstep and empowers women, YourStory (<https://yourstory.com>), July 2015



Impact of digital adoption

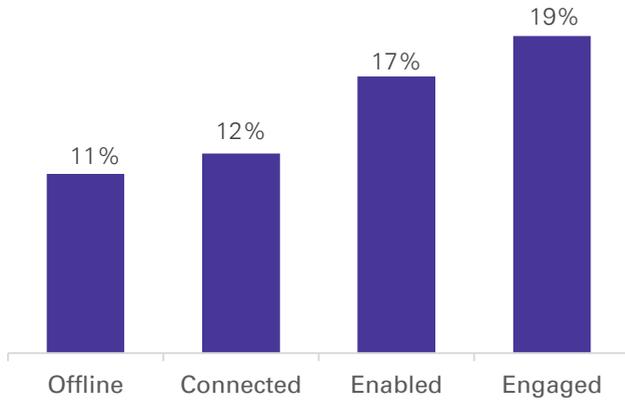


Digital SMBs grow revenues and profits up to twice as fast as Offline counterparts



3.1 Revenue & profit impact

Year on Year revenue growth



Source: Analysis of ITOPTS™ Business 2016/ ITOPTS™ Business 2015 and primary data collected by Kantar IMRB

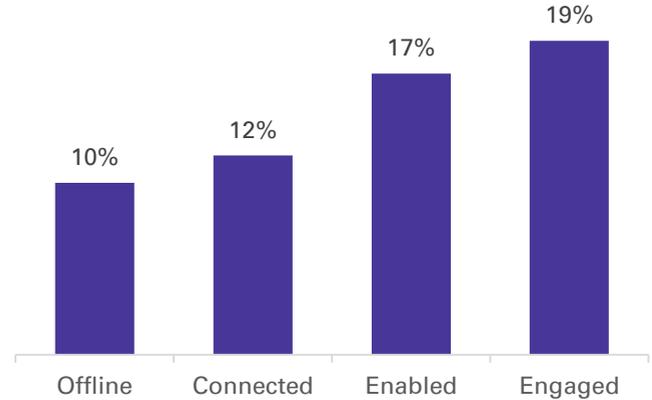
Our analysis indicates that engagement with digital technologies can help Indian SMBs grow revenues significantly faster. Digital technologies such as websites, social media and e-commerce give SMBs greater market reach and the ability to engage with customers better. Revenue growth acceleration is therefore driven by an increase in customer base and orders for B2B and B2C businesses respectively.

Our study found that:

- Digitally Engaged SMBs have nearly twice the revenue growth trajectory as compared to the Offline SMBs. Further, around 77 per cent of the firms in the Engaged tier attributed a substantial proportion of revenue growth realization in the past twelve months to digital connect. The Connected and Enabled tier SMBs also realize revenue growth 1 per cent and 6 per cent higher than the Offline tier SMB segment respectively
- Indian SMBs in the digitally Engaged tier are 4 times more likely to see an above average rate of growth of revenue as compared to Offline SMBs. This also holds true for Connected and Enabled SMBs who are 1.05 and 2.1 times more likely to grow revenues faster than Offline SMB
- In the B2B segment, SMBs in Connected or higher tiers (digital SMBs) reported a 20 per cent increase in customer base over the last twelve months as compared to 10 per cent for Offline SMBs. Growth in customer base peaked for the Engaged Tier at 26 per cent, as opposed to 16 per cent and 17 per cent increase for Connected and Enabled Tier respectively
- In the B2C segment, similar analysis found 20 per cent growth in the number of orders for digital SMBs as compared to 11 per cent for Offline SMBs. Growth for the Engaged tier was highest at 26 per cent as compared to 18 per cent for Enabled and 16 per cent for Connected segment

Findings listed above have important implications for Offline and Connected SMBs. Given slower revenue and customer/ order growth, they run the risk of fall in market share and dated knowledge of market trends, customer preferences. To thrive sustainably in the market, Indian SMBs must therefore target at least an Enabled level of adoption.

Year on Year profit growth



Source: Analysis of ITOPTS™ Business 2016/ ITOPTS™ Business 2015 and primary data collected by Kantar IMRB

As with revenue growth, we also found that Indian SMBs who engage with digital technologies grow profits faster. Our analysis shows the following:

- Digitally Engaged SMB grew profits by 19 per cent YoY as compared to 10 per cent for an Offline SMB
- Acceleration in profit impact was also found to be wide-based. The analysis shows that digitally Engaged SMBs are 4 times more likely to experience above average profit growth as compared to the Offline SMBs. Connected and Enabled SMBs were also found to be 1.5 times and 2 times more likely to grow profits faster respectively

These results show that digital SMBs are not only able to achieve greater scale, but are further able to support the growth with efficient operations through digital technologies. The gains are majorly driven by:

- Greater economies of scale:** As digital SMBs increase revenues and scale customer base, they are able to capture greater efficiencies through wider distribution of fixed costs and therefore improved profitability
- Process upgrade:** We found that as Indian SMBs increase digital engagement, they are also more likely to upgrade legacy systems. We found that 73 per cent of digitally Enabled SMBs improved internal processes e.g. use digital tools to reduce lead time. Digitally Engaged SMBs executed the most number of process upgrades with 19 per cent of the firms working on three or more activities, compared to just 5 per cent of SMBs in the Connected tier
- More information, easier communication:** The internet also makes it easier to access research by industry specialists, gather case studies and gain knowledge of competitors and the market. Further easier communication internally and with partners helps improves collaboration. This can have wide ranging impact on SMBs including more streamlined processes, greater innovation.

Zesty Bites : Engaging with digital to grow its business in North India

Zesty Bites, launched in 2004 by Veena Singla, is a bakery based in Chandigarh serving international-style baked treats and desserts. Increased digital adoption over the last few years has helped the bakery grow its business 25 per cent - extending its customer reach to six more cities across Punjab and Haryana.

Back from a long stay in Australia, Veena Singla started Zesty Bites after seeing the dearth of good bakeries with international offerings in the city of Chandigarh. Her principal challenge in those initial years, was to promote her brand and to gain new customers both in the region and beyond. The founder was concerned that the business was expanding only through word of mouth and was restricted to Chandigarh, Mohali and Panchkula.

In 2013, Veena steered the bakery towards greater digital adoption. Over time, she realized a simple trend: customers tend to search online for bakeries. Within a short span of 6 months, she launched her website and started indulging in online advertisements. Soon enough the bakery witnessed huge growth in its business. She further said, that the internet helped boost her business, it not only helped her receive orders from far off places such as Amritsar, Jalandar and Bhatinda in Punjab and Panipat, Karnal and Ambala in Haryana, but it also helped her realise 25 per cent increase in business.

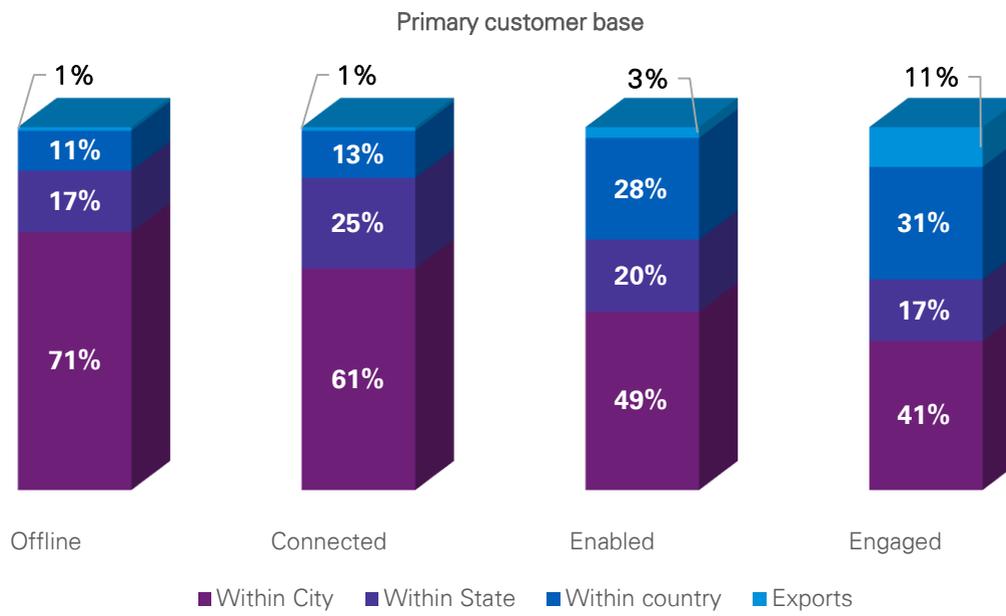
The online presence and effective marketing helped her grow customer base and build a bigger business. She hasn't looked back since and today, Zesty Bites is listed on all kinds of online platforms, from food based websites to B2B classified services.

Source: SMEs embrace the internet to expand business, Vijay C Roy, Business Standard, December 2014



51 per cent of digitally Enabled SMBs cater to customers beyond city boundaries as compared to 29 per cent of Offline SMBs

3.2 Market reach



Source: Analysis of ITOPS™ Business 2016/ITOPS™ Business 2015 and primary data collected by Kantar IMRB

Digital engagement can help SMBs grow beyond local boundaries to state, national and even international markets. Improved reach helps SMBs de-risk revenues by reducing dependence on individual markets.

Our analysis shows that 71 per cent of Offline SMBs operate 'Within the city' as compared to only 51 per cent of digitally Enabled SMBs. The share of SMB population operating nationally rises with increase in digital engagement as 11 per cent of Offline, 13 per cent of Connected, 28 per cent of Enabled and 31 per cent of Engaged sold to customers across India.

In addition, with the rapidly improving local and international digital ecosystem, digitally enabled SMBs find themselves in an advantageous position to access global markets. We found that 11 per cent of Engaged SMBs used digital technologies to export as compared to only 1 to 2 per cent in lower tiers. Greater digital engagement could therefore be a major driver for increasing exports by Indian SMBs.

Advantages of greater market reach go beyond selling to a more diverse national and international customer base. Digital SMBs also gain access to information e.g. market trends, new customer offerings and best practices fueling improved capability and greater innovation.

Harshil Jewellers : Adopting digital to access global markets

Harshil Jewellers, established in the late 1980s, is a leading manufacturer and trader of precious and semi-precious gemstones. Digital adoption in the last several years has helped them access 40 countries and establish a profitable export business across major developed countries of the world.

A family business since five generations, Harshil Jewellers has built specialisation in certified premium grade gemstones and customized jewelry for clients over these years. The firm is presently run by the founder Parimal Zaveri along with his sons Harshil Zaveri and Vismay Zaveri, with the help of 20 staff members plus a group of gem cutters and jewelry craftsmen.

From offering diamonds to a city to offering coloured gemstones to the world, the owner Parimal Zaveri has a precious story to tell.

The organisation was driven towards digital technologies in 2007 when they realized their customers could be searching for these products online. They launched their website StarRuby.in, with detailed product catalogs and shipping information. By the end of 2008, they actively started engaging in digital marketing and online marketplaces to generate quality leads in real time. This digital presence and marketing made it easier for customers from over 40 countries looking for reasonable priced jewelry online to find them, resulting in higher sales than their offline counterparts. Digital adoption also gave the Zaveri an opportunity to reduce costs by directly connecting to suppliers and customers.

The online presence helped Harshil Jewellers grow its export business base and build a new high return channel. They are determined to leverage the increasing connectivity through the digital ecosystem across the globe for the growth of their business.

Source: StarRuby (https://www.starruby.in/store/about_us), online property of Harshil Jewellers, January 2017



Digital SMBs generate more employment - Engaged SMBs employ 5 times more employees compared to those Offline

3.3 Employment

With a large and fast growing working age population, it is critical for India to absorb them into its workforce. From 1991 to 2013 however, the economy had less than 50 per cent absorption of approximately 300 million new labour market entrants^[17]. In addition, the twelfth Five Year Plan states a focus to shift the locus of employment from agriculture to more productive and quality employment in manufacturing and services sectors.

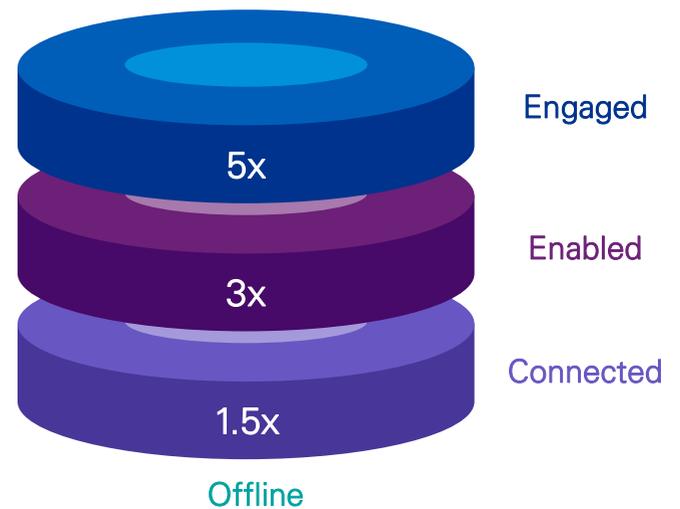
Indian SMBs have always played an important role in creating employment opportunities. In 2015, MSMEs employed approximately 14 per cent of India's working age population of 860 million^[18]. Over the past 5 years, MSMEs have also had a healthy employment growth rate of 5 per cent CAGR^[19]. This trend highlights the importance of SMBs to absorb 280 million people expected to join the job market by 2050^[20].

According to our analysis, Connected SMBs employ 1.5 times more people as compared to those Offline. The upward trend continues further with Enabled and Engaged levels of digital pyramid employing three times and five times more people respectively.

Adoption of digital technology by SMBs expands employment in many ways. As discussed in the previous section, digital engagement leads to increased business scale through greater revenue growth and market reach. This directly increases demand for personnel by digital SMBs. Similarly due to the digital technology adoption, SMBs generate requirement for skills across the spectrum of IT, telecom and online channel management. Government and private sector initiatives such as 'Digital India' are helping develop these skills in the Indian workforce.^[21] Together these could be important drivers to increase productivity and quality of employment in the India.

The future of India holds a healthy promise from digitisation of Indian SMBs. India still has a dominant rural population, high dependence on service sector and significant unprivileged population. SMBs with digital capabilities can play a pivotal role in tackling these regional imbalances of income and wealth distribution.

Average number employees per enterprise



Source: Analysis of ITOPS™ Business 2016/ ITOPS™ Business 2015 and primary data collected by Kantar IMRB

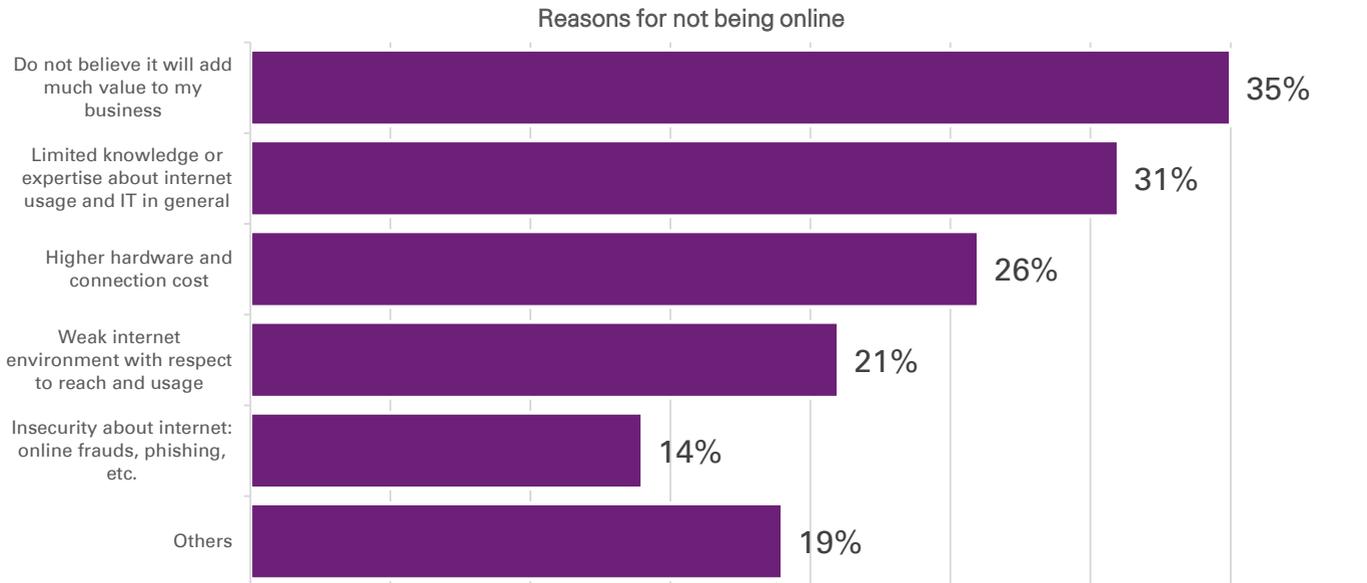
17. India to dominate working-age population growth in Asia Pacific by 2050, Indian Express, April 2016
 18. Asia Pacific Human Development Report, Shaping the future: How changing demographic scan power human development, United Nations Development Programme, August 2016 and Annual MSME Report 2015-2016, Ministry of MSME, Government of India, March 2016
 19. MSME Annual Report, Ministry of Micro, Small and Medium Enterprises, Government of India, 2015-16
 20. India to dominate working-age population growth in Asia Pacific by 2050, Indian Express, April 2016 and Annual MSME Report 2015-2016, Ministry of MSME, Government of India, March 2016
 21. CMAI Homepage: <http://www.cmai.asia/digitalindia/>

Way forward



4.1 Barriers to digital uptake

While many advantages of digital technologies have been explored in depth, their uptake by Indian SMBs remains very low. Therefore, it becomes imperative for us to study reasons for such low adoption. Analysis of data collected from our primary survey indicates that major reasons for low adoption are as follows:



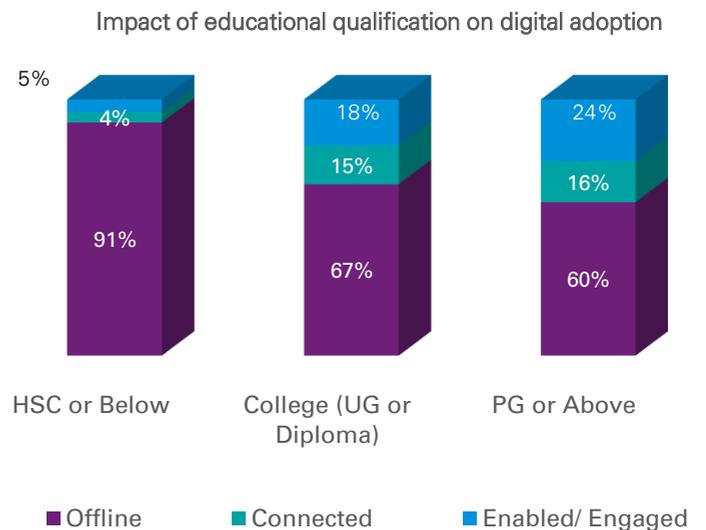
Source: Analysis of ITOPS™ Business 2016/ ITOPS™ Business 2015 and primary data collected by Kantar IMRB

- Lack of awareness:** Nearly 35 per cent of Offline Indian SMBs 'Do not believe digital technologies can add much value to their business.' This inertia usually develops due to limited awareness about the benefits of digital technologies
- Availability of digital skills:** Lack of knowledge or expertise ranks second with 31 per cent of Offline respondents citing it as a major concern. This highlights the limitations of lack of skilled labour in the market and polarization of skilled workforce in few regions
- Infrastructure:** Around 26 per cent of respondents also stated high hardware and connection costs to be a major reason for low adoption. Further 21 per cent reported weak internet environment in their area of operation, which may contribute directly to high cost of connectivity

The lack of exposure to digital technologies could be a major reason for such perceptions. Given that 94 per cent of Indian SMBs are run and owned by a proprietor, we used the level of education of the proprietors as a proxy for digital exposure.

Our analysis shows that:

- Approximately 24 per cent of Indian SMB with proprietors holding a postgraduate degree or above operate at Enabled or Engaged tiers. This is in contrast to, only 5 per cent for enterprises with proprietor having an educational qualification of Higher Secondary or below
- As the education level rises however, the adoption still remains low as 60 per cent of SMBs with postgraduate or above proprietors stay Offline



Source: Analysis of ITOPS™ Business 2016/ ITOPS™ Business 2015 and primary data collected by Kantar IMRB

4.2 Initiatives to help digitise SMBs

The government has launched several initiatives to increase awareness levels, enhance digital skills and improve connectivity in India. Government's actions have been complemented by the private sector. Below, we list some important initiatives being undertaken by the government and private sector.

Awareness initiatives:

- The government has made major strides to bring governance and utility services online. Attempts such as online filing of patent application to Intellectual Property of India, online registration forms for SMBs, integrated online solution for vehicle registration, helpline services for commercial tax are all steps in this direction^[22]
- The 'SME India Council', an initiative by Facebook has been set along with 12 small business owners from different geographies and varied business objectives to share concerns, new ideas, and feedback so as to customize offerings towards the sector^[23]
- Internet Saathi, an initiative led by Google was started in 2015 and has now reached around 4,000 villages with 1,900 trained 'saathis'. Under this initiative, Google conducts various outreach and educational programmes to help women get online. Google is adding up to 500 additional 'saathis' per week. More than 100,000 women have been trained so far^[24]

Skill development:

- Under the Digital India programme, the government plans to train 1 crore students for IT jobs over a span of 5 years^[25]
- Intel India launched Digital Skills for India programme where the company, along with the Indian Government, hopes to 'impact' nearly five million people in the country by the end of 2015. The programme included the launch of a mobile application to enable digital skills training, programme to impart training at village level and an 'Innovate For India Challenge'^[26]
- 'Android Skilling' programme launched by Google in July 2016 with an aim to train two million Android application developers and create a skilled workforce accessible to SMBs^[27]

Infrastructure development:

- Several initiatives, such as fiscal incentives to set up Information Technology Investment Regions (ITIRs) and Special Economic Zones (SEZ), have been introduced to help boost production of ICT devices in the country. Localising production would bring costs down, hence, boosting utilization^[28]

- As part of the 'Digital India' initiative, the government aims to provide broadband access to all 2.5 lakh gram panchayats, bring mobile connectivity to all villages by 2018, and expand public internet access through 1.35 to 1.5 lakh Common Services Centers^[29]
- 'Reliance Jio' plans to bring internet to the masses. With an initial investment of INR 150,000 crore and further investment plans of INR 100,000 crore in the next four years, the company intends on eradicating the 'internet poverty' in the nation. Currently, the company has 2.82 lakh base stations covering 18,000 cities and 2 lakh villages^[30]

4.3 Implications for India's economy

As discussed in all the previous sections of this report, the overall outlook for Indian SMBs is strongly positive. To quantify the Indian SMB growth picture by 2020, a good starting point would be to look at how the industry has evolved. As of 2007, MSMEs accounted for 35 per cent of India's GDP with internet penetration at about 4 per cent. The internet penetration numbers have hit almost seven times that number by 2016 and are expected to grow more than 10 times by 2020^[31].

In addition, there is a strong push by the government and private sector to digitise Indian SMBs. Government initiatives are bringing governance services online, and building broadband and mobile highways throughout India. Further, skill development and awareness investments by both private and public stakeholders, is boosting digital adoption across the country.

Given significant digital dividends, statistical modelling suggests that as internet penetration is expected to rise to 50 to 60 per cent^[32] by 2020, MSME contribution to the GDP could reach 46 to 48 per cent^[33]. These numbers signify the huge impact digital could have on the SMB as well as the India's growth story.

22. india.gov.in, National Portal of India, December, 2016

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Appendix



APPENDIX - A

MSME definition

MSMEs are defined on the basis of investment in Plant & Machinery and equipment under the MSMED Act, 2006

Manufacturing

Micro



less than INR 25 lakhs

Small



INR 25 lakhs to INR 5 crore

Medium



INR 5 crore to INR 10 crore

Services

Micro



less than INR 10 lakhs

Small



INR 10 lakhs to INR 2 crore

Medium



INR 2 crore to INR 5 crore

APPENDIX - B



Primary data

Syndicated research study

ITOPSTTM, a syndicated research study, is one of the largest and one of the oldest business research on technology products and services conducted in the region. ITOPSTTM Business module was initiated in 1996 to understand technology adoption amongst Indian businesses. ITOPSTTM Business 2016 covered a total sample of about 10,000 SMBs across 35 urban locations of India to provide a Pan urban- India perspective of businesses and their adoption of technology solutions.



Primary survey

Sample specification

The sample comprised of decision makers of small to medium sized businesses (1-499 employees). The sampling method was designed to be representative. Quotas were defined for city-tiers and type of internet usage (non-user, basic user, advanced user, etc.). Interviews were conducted across 35 cities. 5 per cent of back checks were done in order to ensure authenticity of data.

Collection

Once the quotas were defined, the respondents within quotas were identified from the database using purposive sampling. The interviews were conducted telephonically (CATI method: Computer Assisted Telephonic Interview) using structured questionnaire finalized in discussion with client. The interviews were conducted in English as well as there were provisions for 10 regional languages depending on the city of the interview. The interviews are conducted by trained freelance interviewers associated with IMRB. Up to five attempts were made to contact and recruit the selected respondent to limit the bias of no-response. Total 504 interviews were conducted from 18-11-2016 to 01-12-2016. Average duration of the interview was 15-20 minutes. The findings are at 95 per cent confidence intervals with an error rate of 4.3 per cent.



Modelling framework

Causality

It is important to appreciate the conceptual structure of causality. It may be possible that the higher levels of digital engagement may result due to higher revenue growth as strongly performing businesses might have the bandwidth and resources to establish a digital footprint. Equally, based on the evidence from diverse case studies and ways digital engagement can impact the business metrics such as employment, exports and efficiency, the most common story is one of digitally engaged businesses reaping benefits.

Interpretation

The results reported are all marginal impacts after controlling for other business characteristics such as size of enterprise, geographic location of the establishment and the industry of operation. This means that individual experiences with movement up the digital engagement ladder might vary.

Analysis

In our analysis, we used a combination of linear and logistic regression models to identify the relationships between the MSME digital engagement levels and business performance. The modelling approach was primarily based on the characteristics of the primary survey data.

The digital engagement levels were measured based on the current market state in terms of availability and MSME usage across business needs such as marketing, backend operations and internet commerce. The models estimated the impact of MSME digital engagement on key metrics such as revenue growth, profit growth, market reach, employment and innovation.

Acknowledgement

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Printed in India

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