



## "IMPACT OF DIGITALIZATION ON SMALL AND MEDIUM ENTERPRISES IN INDIA"

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### ABSTRACT

This study discusses the impact of digitalization on small and medium enterprise in India. The study revealed that there is a significant rise in growth rate for SMEs. This was majorly due to digitalization. Digitalization automates the product and process as a result of which both quality and production increases. Despite having a high potential for future growth, India's SMEs segment has suffered due to less 'access to finance'. Digitalization improves the performances of SMEs and helps in reducing financial obstacles by providing alternative financing options to SME. Increasing access to alternative finance has resulted in the significant rise in SMEs operating performance, profitability and productivity. This paper finds that there is a high impact of digitalization on small and medium enterprises.

### KEYWORDS

Digitalization, SME, Internet etc.

### Introduction

Digitalization has become the buzz word in today's business world. Companies face pressures to transform as quickly as possible, however one must understand that each business transforms at different pace with different results. Technological transformation should be centered on optimizing operational processes, enhancing customer experience and augment business models. Successful business transformation should be driven by the management. For a SME, this is easier as the team size is small and owners are also generally the managers. Digitalization of a business does not imply creation of a new business, but remodeling the existing business to take advantage of existing assets in new ways. Small and Medium Enterprises 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 SMEs contributed 37.5 per cent of India's GDP and 37 per cent of the manufacturing output underlining their strategic importance to the Indian economy. Equally important, SMEs employed 117 million people that is 14 per cent of India's working age population. Information Technology (IT) and IT enabled services (ITES) have a huge impact on manufacturing and services sector for both developed and developing nations. Due to ITES development, several non-tradable services become tradable nowadays. For the past few decades among the emerging nations, India's contribution to IT and ITES is exceptional. Rapid development in IT and ITES promotes the economic growth of a country. Digitalization has a direct benefit on the performance of the services and Small and Medium Enterprises (SME) sector of India.

### Review of Literature

In, today's digital society, all knowledge is divided into two binary strings, 0s and 1s that codified the data, which allow people to create, control, and share data in ways that to be revolutionary.

According to **Pearce-Moses (2005)** —Digitalization is the process of transforming analog material into binary electronic (digital) form, especially for storage and use in a computer. Digitalization converts materials from analog formats that can be read by people to a digital format that can be read only by machines. The devices like scanner, cameras, and a number of other devices can be used to digitize knowledge contents. These technologies allow the digitalization of almost all types of materials, including paper documents, rare documents, photographs, sound recordings, and motion pictures.

**Witten and David (2003)** define Digitalization as, the process of taking traditional library materials that are in form of books and

papers and converting them to the electronic form where they can be stored and manipulated by a computer

**The US Institute of Museum and Library Services (IMLS)** defines digitalization as —the process of converting, creating, and maintaining books, art works, historical documents, photos, journal, etc. in electronic representation so they can be viewed via computers and other devices.

### SMEs & Economic Growth

Small and Medium Enterprises (SMEs) play a pivotal role in the economic and social development of India. According to Ministry Of Micro, Small & Medium Enterprises the MSME sector contributes about 8% of GDP. Its contribution to the economy ranges from industrial output, employment, and generation of export income. As per Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 MSMEs have been segmented into two categories viz. Manufacturing Enterprise (having maximum investment up to `10 crore) and Service Enterprise (having maximum investment up to `5 crore). The SME sector plays a crucial role in providing large scale employment opportunities at comparatively lower capital cost than large industries.

### Need For Digitalization

The basic idea of digitalization is to make full use of ICT facilities for accessing worldwide resources and beneficial for society at the same time. As going digital is the need of the hour, to remain environment healthy and safe. Various organizations are involved in digitizing their material because they remain influenced of the enduring value of such resources for learning. Digitalization also raises the reputation of the institutions as global users can know the institutional collection and utilize these resources from distant locations. The main reasons to digitize are to enhance access and improve preservation. By digitizing their collection, institutions can make information accessible that was previously only available to a select group of users. Digitalization can also help preserve materials making high-quality digital images available electronically and may reduce wear and tear on brittle and fragile documents

### Digitalization in SME sector

Gartner defines digitalization as "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" India is in the midst of a digital revolution. Expanding internet access, growing smartphone usage, and rising digital media consumption will have a profound impact on the future of Indian economy over the next few years. This has been aided by affordable devices and network access cost. Shifting trends from the way urban populace accesses information

to how farmers grow and sell their crops, internet has changed the way Indian economy functions. Digitalization has brought a paradigm shift to the traditional ways of manufacturing, handling, storing and transporting things

### Impact of digitalization

#### Increase in revenues

Having only physical presence limits an organization's market reach. Upgrading digital technology and having an online presence can provide significant opportunities for SMEs to grow and increase their top line. Engagement through a company website or shifting to an e-commerce platform can increase sales by allowing SMEs to access new customers in local and overseas markets. It also allows flexibilities of time, geographical location and delivery to conduct business. A study by Snapdeal titled "Impact of e-commerce on SMEs in India", states that an enterprise can potentially improve its revenues by about 51%, thus, today, the growth of SMEs is driven by eCommerce. The study also states that 46% of the SMEs have witnessed a significant growth by adopting an online sales channel. Diversified customers also help divide business risk across different locations. The fast-paced growth of e-commerce industry has provided unmatched opportunities for the SME community.

#### Accessibility to wider customer base

Increased digital engagements allow SMEs to explore new markets, enabling them to compete with the bigger giants in the industry. E-commerce has provided cost-effective solutions for the companies in large cities and rural areas alike to connect and trade with customers around the world. SMEs can often lack the skills to enter international markets due to limited knowledge, language barriers, unfamiliarity with cultural differences and narrow business outlook.

#### Operational efficiencies

Access to e-commerce platforms allow SMEs to decrease overall expenditure by optimizing operational and marketing costs like call centers, trade shows, and individual product advertising. The study by Snapdeal found that SMEs can optimize marketing spend by 60% to 80% of the total cost.

#### Enriched customer engagement

Data Analytics and Business Intelligence have provided opportunities for the SMEs to make better decisions by providing a deeper understanding of the customers. Use of customer intelligence and insights to predict their needs, design new products that meet their requirements and delivering the right products at the right time at a cost-effective price has equipped SMEs with next generation customer engagement capabilities. The high cost of software and technologies have restrained these companies from developing such capabilities in the past. However, with the advent of cloud-based solutions and freemium model where basic software is provided for free, but functionality, virtual goods or proprietary functions may be charged; enable the SMEs to develop capabilities and enrich customer experience

#### Ignoring digitalization could be a bad decision

Offline SMEs are fast recognizing missed growth opportunities due to lack of online presence. Adoption of digital technology tools and integration of one's sales platform on a digital channel is important to survive in today's fast-growing local and global competitive market. Businesses with an ignorant approach towards online presence or sluggishness to adopt digital channels may have to face significant challenges to survive in the present data-driven ecosystem.

#### Challenges on the road to transformation

SMEs in India face multiple struggles on account of accessing and using the latest technological advancements. Some of them are as under:-

**Lack of knowledge about tech-enabled services:** A large number of SMEs are still unaware of the benefits offered by tech-enabled services like e-commerce and social networking

platforms. Low knowledge about upcoming technologies and skepticism prevents an enterprise from engaging in digital initiatives.

#### Poor infrastructure and insufficient funds

As per report by the International Finance Corporation (IFC), the total financing demand gap is massive at `2.93 trillion in 2016 in India's SME sector. SMEs in India are facing significant challenges of poor infrastructure and inadequate finance.

#### Inefficient Regulatory Framework

Poor infrastructure raises the fear of data security. Data security is defined as the protection of data from unauthorized access, i.e., modification, destruction, or disclosure to others without permission. The biggest security issues arise from malware and cyber-attacks.

#### Lack of knowledge of inherent technological capabilities

Companies' development are constrained by insufficient managerial skills and access to specialized talent. Better-managed firms tend to be larger, are likely to survive longer and be more productive. Traditional SMEs which have been able to build strong business relations through offline means are not inclined to spend money and time on digital platforms.

#### Governance challenges

All businesses aim to be more efficient & responsive by having a better control over finances, access to accurate data and acquiring new customers. These changes come through strong governance, better communication, efficient coordination and cumulative vision of the organization.

#### Conclusion

Digitalization of Indian business is majorly driven by the rapidly advancing digitalization of consumers. This has led to increased data traffic and accelerated establishment of new tech-based startups to take advantage of the growth opportunities. The Small & Medium Enterprises sector plays a pivotal role in development of the economy by employing almost 80 million people, contributing about 45% of the total manufacturing output and 40% of exports of the country. However, in a rapidly digitalizing economy, these industries fail to keep pace. Online shoppers in India are growing at compounded annual growth rate (CAGR) of 18% and will reach 220 million by the year 2020. Unfortunately, out of the 51 million SMEs in India, less than 5-6% have an online presence. It can be concluded that digitalization has significant positive impact on small and medium enterprises in India.

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