

“A STUDY ON DIGITALIZATION AND ITS INFLUENCE ON SMALL AND MEDIUM ENTERPRISES IN INDIA”

Dr. Vinod N Sambrani

Professor and Research Guide
Kousali Institute of Management Studies
(KIMS)

Karnatak University Dharwad,
Email: vinodsambrani@gmail.com

Jayadatta S

Assistant Professor,
KLE's IMSR, BVB Campus,
Vidyanagar, Hubli
Research Scholar Kousali Institute of
Management Studies (KIMS)
Karnatak University Dharwad,
Email: jayadattaster@gmail.com

Abstract:

The present study intends to discuss and analyze the influence and impact of digitalization on small and medium enterprises in India. The study reveals that there is a significant rise in growth rate for SME's and digitalization has a major role to play in that. Digital marketing in common parlance is the utilization of various electronic media by the marketers to successfully promote their products and services into the market. Thus the major objective of digital marketing is all about attracting the customers and also allowing them to interact with the brand through various digital media. Digitalization automates the product as well as process which as a result enhance quality and production in enterprises. Due to less 'access to finance' despite having a high potential for future growth. Digitalization certainly improves the performances of SME's and also helps in reducing financial obstacles by providing alternative financial options to SME's. Also increasing access to alternative finance has generally resulted in significant rise in SME's operating performance, productivity as well as profitability. In line with this the research paper finds that there is certainly a high impact of digitalization on small and medium enterprises.

Keywords: Digitalization, SME's, production, internet, digital media

Introduction:

Today digitalization has become a buzz word in business world. To transform as quickly as possible companies face loads of pressure, however it is critical for one to understand that each business transforms at different pace with different results. For optimizing operational processes technological transformation should be centered on enhancing customer experience and also augmenting the business models. Thus in order to do this successful business transformation should generally be driven by management. For majority of SME's this is quite easier as the team size is quite small and owners are also generally managers. Also digitalization of a business does not imply creation of new business, but focuses on remodelling the existing business generally to take advantage of existing assets in new ways. Backbone of Indian economy is formed by small and medium enterprises making large contributions to important economic indicators as well as necessary household incomes. The annual report of 2016-17 published by Ministry of Micro, Small and Medium enterprises reports that India is home to 56 million SME's. Further the report also states that SME's contributed around 39.5 percent of India's GDP and also 39 percent of the manufacturing unit underlining their strategic importance to Indian economy. Equally important to this SME's today have employed around 117 million people that are around 14 percent of India's working age population. For both developed and developing nations Information technology (IT) and IT enabled services (ITES) have a huge impact on manufacturing and services sector. Due to ITES development, several non-tradable services have become tradable nowadays. For past few decades among the emerging nations, India's contribution to IT and ITES is quite exceptional. Economic growth of a country is generally promoted by rapid development in IT and ITES. It can also be opined that digitalization has a direct benefit on the performance of the services and small and medium enterprises (SME) sector in India.

Digital marketing thus is a broad term that which refers to various promotional techniques deployed to reach customers via various digital technologies. Digital marketing necessarily embodies an extensive selection of product, service and brand marketing tactics that which mainly uses internet as a core and potential medium in addition to mobile and other traditional TV and radio. Today Photo camera giant Canon iMage gateway helps consumers share their digital photos with their friends online, L'Oreal's brand Lancôme uses email newsletters and pitches to get in touch with customers and also tries to strengthen customer brand loyalty aspect. Magazine publishers can also activate and drive their customers into internet with e-mail pitches and SMS messages to improve re-subscription rate.

Review of Literature:

Digital society of today is accessed by knowledge which is divided into two binary strings, 0s and 1s that codifies the data, which allows people to control, create and share data in ways that ought to be revolutionary.

Witten and David (2003) defines Digitalization as the process of taking traditional library materials that which are in the form of books and papers which helps in converting them to electronic form where they can necessary be stored as well as manipulated by a computer

Reinartz and Kumar (2003) through their studies found that number of mailing efforts by the company is positively linked with company's overall profitability over time. Primary advantage of social media marketing however is reducing costs and enhancing the reach. Besides the cost of social media platform is typically lower than marketing platforms such as face to face sales with the help of middlemen or distributors.

US institute of Museum and Library Services (IMLS) (2004) 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.

According to Pearce Moses (2005) Digitalization is the process of transforming analog material into various binary electronic (digital) form, especially for storage as well as use in a computer. Digitalization converts materials from analog formats that which can be read by people to a digital format that which can be read only by machines. Various devices like cameras, scanners, number of other such devices can be used to digitalize knowledge contents. Technologies also allow digitalization almost all types of materials, including paper documents, photographs, rare documents, sound recordings and other motion pictures.

Giese and Gotey (2009) through their studies found out that customer information satisfaction (CIS) for digital marketing as such can be conceptualized as a sum of effective response of varying intensity that which follows consumption and is also stimulated by focal aspects of sales activities, information systems (websites) , customer support, digital product services , after sales service and company culture.

According to Chaffey (2011) opined through their studies that social media marketing necessarily involves encouraging customer communications on company's own website or through its social presence. In digital marketing companies social media marketing is one such important technique in digital marketing as companies can necessarily use social media form to distribute their messages to their target audience without paying for the publishers or distributor that which is characteristic for traditional marketing

Waghmare (2012) necessarily pointed out that many countries in Asia are taking advantage of e-commerce through opening up, which is

by far essential for promoting competition and also diffusion of internet technologies.

Manish and Zia (2012) have found out that currently shoppers in metropolitan India are being driven by e-commerce. These consumers as such are booking travels; buying consumer electronics in metropolitan India already make those purchases online at least once in a month.

Dave Chaffey (2013) defines e-marketing as application of digital technologies, online channels (web, e-mail, databases, plus mobile/wireless and digital TV) much to contribute to marketing activities aimed at achieving profit acquisition and customer retention

Roberts and Kraynak (2015) opined that all types of social media provide an opportunity to present company itself or its products to dynamic communities and individuals who may show interest

According to Gurau (2016) Online marketing environment as such raises a series of opportunities and also such challenges for social media marketing practitioners.

SME's and Economic Growth:

In the economic and social development of India Small and Medium Enterprises (SME's) do play a vital role. According to Ministry of Micro, Small and Medium Enterprises MSME sector contributes about 8% of GDP. The contribution of MSME to the economy ranges from individual output, employment as well as generation of export income. MSME's as per Micro, Small and Medium enterprises development (MSMED) Act, 2006 have been segmented into two major categories namely, manufacturing enterprises (having maximum investment of upto 10 crores) and Service enterprises (having maximum investment upto 5 crore). SME sector plays a crucial role in providing large scale employment opportunities at a comparatively lower capital cost when compared with larger industries.

Major need for digitalization:

Making full and optimum use of ICT facilities for accessing worldwide resources and also making them beneficial for society at the same time is the basic idea of digitalization. Going digital as such is the need of the hour, to remain environmentally safe and healthy is also on priority. In digitizing their material various organizations are involved because they remain influenced by the enduring value of such viable resources for learning. Reputations of the institutions are also raised by digitalization as global users can know the institutional collection and also utilize these resources from distant locations. Some of the major reasons to digitize are to enhance access and improve preservation. Also by digitizing their collection, institutions can well make their information accessible that was previously only available to a select group of users. Besides digitization can also help preserve materials making high quality digital images that which are available electronically and may also reduce wear and tear on brittle and other such fragile documents.

Digitization as seen in SME sector:

Gartner defines digitization as "the use of digital technologies to transform a business model and also provide new revenue and value producing opportunities; besides it is also the process of moving to a digital business". India as of now is in the midst of a digital revolution. Growing smartphone usage, expanding internet access and also rising digital media consumption will have sound and profound impact on the future of Indian economy over the next few years or so from now. This has been aided by much affordable devices and network access cost. Internet today has changed the way Indian economy functions by shifting trends from the way urban populace accesses information on how farmers grow and sell their crops. Besides digitization has also

brought a paradigm shift to the much traditional ways of manufacturing, handling, transporting as well as storing things.

Impact on digitalization on SME's increases revenue:

An organization having only physical presence limit's reach. Upgrading to digital technology and also having an online presence can certainly provide a significant opportunity for SME's to grow and also increase their top line. By allowing SME's to access new customers in local and overseas markets engagement through a company website or even shifting to an e-commerce platform can increase sales. Digitalization also allows flexibility of time, geographical location and also delivery measures to conduct business. A study conducted by Snapdeal titled as "Impact of e-commerce on SME's in India" states that an enterprise can potentially improve its revenue and profit by about 51% today as the growth of SME's is driven by e-commerce. Besides the study also states that 46% of the SME's have witnessed a quite significant growth by adopting an online sales channel. Diversified customers also help divide business risk across various locations. The fast paced growth of e-commerce industry has provided unmatched opportunities for the entire SME community.

Accessibility to widen customer base:

Increased digital engagements do allow SME's to explore and enhance new markets, thus enabling them to compete with bigger giants in the industry. Also e-commerce has provided cost-effective and efficient solutions for many companies in larger cities and other rural areas alike to connect and also trade with customers across the globe. Due to limited language barriers, unfamiliarity with cultural differences and narrow business outlook SME's can often lack the skills to enter international markets.

Operational efficiencies:

Access to various e-commerce platforms do allow SME's to generally decrease overall expenditure by optimizing operational and certain other marketing costs like that of trade shows, call centres and individual product advertising. A study conducted by Snapdeal found out that SME's can certainly optimize marketing spend by around 60% to 80% of the overall total cost.

Inefficient regulatory framework:

Fear of data security is raised by poor infrastructure. Data security is defined as the protection of data from certain unauthorized sources and access i.e., destruction, modification or disclosure to others without permission. The biggest security issues generally arise from malware and cyber-attacks.

Challenges on the road to transformation:

SME's in India certainly face multiple struggles on account of accessing and also using latest technological advancements. Some of the major challenges are shown as under:

Lack of knowledge of inherent technological capabilities:

Companies' developments are generally constrained by insufficient managerial skills and also access to specialized talent. More productive and long surviving firms are those who are better managed ones. Traditional SME's which have been able to build strong business relations through various offline means are not inclined to spend money and time on digital platforms.

Poor infrastructure and insufficient funds:

As per the 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. Today SME's in India are facing significant challenges of poor infrastructure and also adequate finance.

Ignoring digitalization could generally be a bad decision:

Today offline SME's 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 very much important to survive in today's fast growing local and other global competitive market. Businesses with ignorant approach towards online presence or sluggishness to adopt certain digital channels may certainly have to face significant challenges to survive in present data driven ecosystem.

Government challenges:

All businesses do aim to be more efficient and responsive by having better control over finances, access to accurate data and also acquiring new customers. These changes have come through some strong governance, better communication, efficient co-ordination and cumulative vision of the organization.

Major advantages and benefits of digital marketing to customers:

With rapid technological development and changes, digital marketing off late has changed customers buying behaviour. It has certainly brought in various advantages as well as benefits to customers which are as follows:

1. Stay updated with products as well as services:

Digital marketing technologies certainly allow consumers to stay connected with company information updated. Nowadays lot of consumers can access internet at any place and at anytime and companies are also continuously updating information about their products and services. Digital marketing certainly has the upmost potential to transform the way organizations reach and engage with its customers.

2. Greater engagement:

With Digital marketing avenues consumers can engage with company's various activities. Consumers can also visit company's website, read various information about products or services and also make purchases online and provide feedback. According to Vimeo 93% of online experiences start with search engine. Before consumers can even know what product or service they need, they are going to look into their search engines to look for pertinent answers to their questions and also to learn more about their challenges.

3. Clear and Precise information about various products and services:

With the help of digital marketing, consumers can certainly get information about various products and services. There is a possibility of chance of misinterpretation of the information obtained from sales person in a retail store. However, internet provides comprehensive and pertinent product information which customers can always rely on and make a effective purchase decision

4. 24/7 Shopping experience:

Since internet is widely available all throughout the day, there is no time restriction for customers who want to buy the products online. Also by creating relevant and engaging content that's optimized for search engines, companies can improve their visibility online and also reach customers when it matters most.

5. Easy comparison of products with others:

Since majority of the companies are trying to promote their products and services using digital marketing, it is by far becoming greatest advantage for the customer in terms that customers can make comparison among products or services by different suppliers in terms of cost and time friendly way. Customers also don't need to visit a number of different retail outlets in order to gain insights and knowledge about various products or services. Over half of all the

mobile users are accessing the web from their mobile device. Digital marketing thus can help companies to reach people on mobile devices, tablets and other desktop computers.

6. Apparent Pricing:

Companies show prices of products and services through digital marketing channel and this certainly makes prices very clear and quite transparent for the customers. Companies also regularly change the price or even give special offers on their products or services and customers are always get the advantage by getting informed instantly by just looking at any one means of digital marketing. Business is not just limited to a specific location and companies can use digital marketing to reach their target audiences across the globe. This also allows small businesses to find new audiences for their products and services and also price accordingly.

7. Digital marketing enables instant purchase:

In traditional marketing, customers first watch advertisements and then find relevant physical stores to purchase their needed products or services. However, with digital marketing customers can purchase their products or services instantly. By optimizing the site content for search engines, companies can work to reach more buyers online. Also using relevant keywords that which can help describe product or service offering can certainly help companies bring more targeted traffic to your site, which also increases conversions over time.

Digitalization of SMEs: What every small manufacturer should learn from the auto industry:

Throughout industrial history, at the core of any thriving economy manufacturing sector is on the flourishing side. In India manufacturing industry has also gone through various phases of development over a period of time and also promises to be one of the one of the high growth sectors in the coming years. Innovative solutions in the fields of software and automation are increasingly finding acceptance among manufacturers, process industries and machine builders (OEMs). With our world becoming more connected, the Internet of Things (IoT) will lead to collaborative ways for machines and people to interact. Amongst this, the Digitalization of the manufacturing industry is also a topic of global interest. The integration and interplay of product lifecycle management (PLM), factory automation and digitalization which forms the basis of Industry 4.0 will be the key to the sustainable progress of the manufacturing sector, equated as the future of manufacturing (FOM). Industry 4.0 will result in new ways of creating value and novel business models. It will transform the design, manufacture, operation and service of products and production systems. Connectivity and interaction among parts, machines, and humans will make production systems as much as 30 percent faster and 25 percent more efficient and elevate customization to new levels. Digitalization will majorly impact and redefine the 'productivity' criteria and measure owing to digital real-time supply chain, digital product definition and digitally crafted and run production lines. Through Digitalization, SMEs can enhance efficiency, reduce cost of production, minimize manufacturing defects, and shorten production time. With this, they can not only meet international quality standards but also strengthen their position as competent suppliers for the global market. As the world is moving towards industry 4.0, India will also have to move with it if 'Make in India' has to succeed. This will mean that we have to adopt and adapt new technologies in our manufacturing right through our supply chains. Digitalization must be a top management priority on two levels: On the one hand, companies need to align what they offer to reflect Industry 4.0 and add digital solutions and services to their portfolio. On the other hand, they must undergo transformation and gear their internal processes to meet the

requirements for digitalization. Indian manufacturers have the unique opportunity to blend the availability of advanced manufacturing technologies with low cost of labour to create extraordinary competitive advantage. The need of the hour is for SMEs to take the lead in adopting new technologies and make it an integral part of their business strategies. Those that are successful in understanding the power of digitalization and harnessing it across their businesses will lead this new wave of growth.

Conclusion:

Digitalization of Indian businesses is driven majorly by rapidly advancing digitalization of consumers. This certainly has also led to increased data traffic and accelerated establishment of new tech based startups to take advantage of growth opportunities. In development of the economy Small and medium enterprises sector plays a pivotal role in development of economy by employing almost 80 million people, contributing about 45% of total manufacturing output and also 40% of exports of the country. Company can use any devices such as smartphones, tablets, laptops, televisions, game consoles, digital billboards and hoardings, media such as social media, SEO (Search engine optimization), video content, email pitches and lot more to promote itself and also its products and services. Digital marketing in near future may succeed more if it considers users needs as a top priority. Just like the proverb goes "Rome was not built in a day" so as digital marketing results which won't also come without any major attempt, without any trial and error. Thus the watchwords 'test, learn and evolve' should certainly be at the heart of all major digital marketing initiatives. Companies should also create innovative customer experiences and specific strategies for media to identify the best path for driving up the digital marketing performance. However, in a rapid digitalizing economy the industries fail to keep pace. Online shoppers in India are growing at a compounded annual growth rate (CAGR) of 18% and it is estimated that it will reach to 220 million by the year 2020 or so. Unfortunately, today out of 51 million SME's in India, less than 5-6% has online presence. It can however also be conducted that digitalization as such has significant positive impact on small and medium enterprises in India.

References:

1. Chaffey, D. (2002). "Achieving marketing objectives through use of electronic communications technology."
2. Chaffey, D. (2011). *E-business & e-commerce management*. Pearson Education. Chaffey, D., & Smith, P. (2008). *Emarketing Excellence: planning and optimizing your digital marketing*. Routledge.
3. Fournier, Susan. (1998). Consumers and Their Brands: Developing Relationship Theory in Consumer Research. *Journal of Consumer Research* 24 (4): 343-73.
4. G. T. Waghmare, (2012). E-commerce; A Business Review and Future Prospects in Indian Business. *Internet Marketing in India. Indian Streams Research Journal*, vol. 2, no. IV, (pp. 1-4)
5. Gangeshwer, D. K. (2013). E-Commerce or Internet Marketing: A Business Review from Indian Context", *International Journal of u-and e-Service, Science and Technology* Vol.6, No.6, pp.187-194
6. Giese, J. L. and J. A. Gote (2000) .Defining Consumer Satisfaction,. *Academy of Marketing Science Review [Online]* (01)
7. Gurau, C. (2008). Integrated online marketing communication: implementation and management, *Journal of Communication Management*, vol. 12 no. 2, pp. 169-184
8. Hoge, S, Cecil C. (1993). *The Electronic Marketing Manual* ABA Journal, 22, 175-185.

9. Krishnamurthy, S. (2006). Introducing E-MARKPLAN: A practical methodology to plan e-marketing activities. *Business Horizons*. 49(1), 49, 51, 60.
10. M. S. Khan and S. S. Mahapatra, (2009). Service quality evaluation in internet banking: an empirical study in India. *Int. J. Indian Culture and Business Management*, vol. 2, no. 1, (2009), pp. 30-46.
11. Mangles, C. a. (2003). Relationship marketing in online business-to-business Markets: a pilot investigation of small UK manufacturing firms. *European Journal of Marketing*, Vol. 37 No. 5/6, pp. 753-773.
12. Merisavo, M. and R. Mika. (2004). The Impact of Email Marketing on Brand Loyalty. *Journal of Product and Brand Management*13 (6): 498-505.
13. Prahalad, C.K. and Ramaswamy V. (2005). *The Future of Competition : Co-Creating Unique Value with Customers*. Boston, Massachusetts : Harvard Business School Press
14. Arms, W.Y (2000) Economic models for open access publishing. Retrieved November 11, 2013 from [http:// www. cs. cornell. edu / wya / papers / iMP - 2000. html](http://www.cs.cornell.edu/wya/papers/iMP-2000.html) Ashman, A (2003) Digitalization. In J Feather & P Sturges (Eds) *International encyclopedia of Information Science* (2nd ed, p 138) London: Routledge Taylor and Francis group
15. Bhatt R.K (2011) *Libraries in India: Collection to connectivity-New Delhi: Ane Books*
16. DeGracia J.P (2009) the digitization decision: Factors to consider when converting material to digital format. *Library student Journal*. Retrieved November,10, 2013
17. Wamda (2013) How digitization spurs economic growth and job creation around the world. Retrieved November 13, 2013 from <http://www.wamda.com/2013/06/how-digitization-spurs-economic-growth-and-job-creation-around-the-world-report>
18. <https://economictimes.indiatimes.com/small-biz/sme-sector/digitalization-of-smes-what-every-small-manufacturer-should-learn-from-the-auto-industry/articleshow/64135601.cms>