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Challenges and Opportunities of Small Businesses in India after Pandemic

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Abstract :

India is one of the fastest growing economies in the world. India is witnessing steadily accelerated and stable economic growth in the last half-decade. This growth has been driven by strong socio-economic policies of the government, an influx in the domestic and foreign capital and rise in disposable income and consumption among many other positive attributes. One other major factor that is behind the backbone of India's economy is Small and Medium Enterprises (SME) sector. The small businesses are playing major role in the Indian Economy. After pandemic these sector facing many challenges which need to be recovered in effective manner. This paper focuses on the challenges and opportunities of small business in India after pandemic.

Keywords : *economy, SME, MSME, pandemic*

Introduction :

The current Coronavirus pandemic is an once-in-a-lifetime crisis for most businesses. We are in the early days of what is likely to be a prolonged and irregular shutdown, one that will be lifted only gradually over period few months. Currently, the production and transportation of all goods has been put on hold, except essential goods and commodities. Big factories and offices are shut down, and so are hotels, restaurants, gyms and most shops. Without any disagreement, SMEs are one of the key drivers behind this growth story. This sector, encompassing of manufacturing, infrastructure, service industry, food processing, packaging, chemicals, and IT, has emerged as the most lively and dynamic engine of growth of Indian economy over the past few decades.

SME Statistics :

- **Number of SMEs in India:** The number of SMEs in India are estimated to be at 42.50 million, registered & unregistered together. A overwhelming 95% of the total industrial units in the country.
- **SME & Employment opportunity:** SMEs employs about 106 million, 40% of India's workforce. This is the 2nd largest after agricultural sector.
- **Products:** produces more than 6000 products.
- **GDP Contribution:** Currently about 6.11% of the manufacturing GDP and 24.63% of Service sector GDP.
- **SME Output:** 45% of the total manufacturing output of India.
- **SME Exports:** 40% of the total exports of India.
- **Bank Lending:** SMEs has 16% of bank lending.
- **Fixed Assets:** Current fixed assets of SMEs are INR 1,471,912.94 crore.
- **SME Growth Rate:** SMEs has maintained an average growth rate of over 10%.

Role of SME & MSME in Indian Economy

In every economy, small businesses are a million little vital parts of a lavish car which help the engine keep running but all that someone can see from the outside are the four tyres (i.e big corporations) that give the car speed. It is confirmed that 65-75% of the innovation in India comes from the industry of small business. These SME plays a key role in the Indian Economy and Indian people. These small businesses play in our economy and facing many problems that are.

1. Industrial units

In an economy as enormous as India, 95% of the industrial units in the country entail of small business and 40% of total industrial output is contributed by these small industries. Again, small businesses has around 45% of the total exports from India.

2. Labour-oriented

Small business offers immense opportunities in the rural and semi-urban areas. The burdon of the unemployment faced by the Indian economy is lifted by these small businesses. It is one of the most significant roles of SMEs. Like any other economy having a large labour force, the Indian government also inspire the operations of small businesses to utilise the labour by drafting policies and founding low loan interest rates.

3. Human resource

After agriculture, small businesses are the 2nd largest employment provider in the Indian economy. In comparison to big corporations, small businesses produce the most number of employment opportunities per unit of capital invested. Therefore, they are the second largest creators of employment in human resource.

4. Utilisation of local resources

The consciousness of needs and demands of the local community make the small businesses emerge in rural and semi-urban areas. Small business is community-based and generally focused on limited areas.

This gives the opportunity to the businesses to exploit the local resources like raw material, local talent, labour and demographic opportunities. The use and the mobilisation of the local resources help elevate the economic condition of that particular area.

5. Flexible and Adaptable

New business opportunity is taken at right time. The strength to adapt and grow in the face of upcoming changes gives an control to the small businesses. Also, being the manufacturer and distributor, small businesses grow a sense of personal touch with the area of business and their customers. Limited in size and finance, there is limited or no government intervention.

Any business whether small, medium or large has its own opportunities and challenges. Every coin has two sides and every line has a lineage.

The MSME and Pandemic

The situation is particularly terrible for small businesses with limited or negligible cash reserves. While Union Minister for MSMEs Nitin Gadkari has announced the possibility of a Rs10,000 crore 'Fund of Funds' for MSMEs with high credit rating, it may help only those who are operating businesses professionally. As the lockdown continues, most small businesses will be fighting for their survival. The danger is even greater for millions of

organised and unorganised workforce that they employ; which will soon be approached with layoffs and job losses.

The SME sector employs over 110 million Indians and contributes nearly 30% to India's GDP. The proposed Rs10,000 crore Fund of Funds can convincingly pay salaries of only 5% of the total employees, if we consider Rs 20,000 average monthly salary. This clearly indicates that the small businesses still need to work hard to come out the storm on their own and those who will wait for government help are tend to die sooner.

To take one example, in the food industry employs 7.3 million people and as restaurants and commercial kitchens stay shut, they will find it unable to pay their staff. Worse, they may struggle to even keep them employed. In such times, protecting and conserving the well-being of micro and small businesses ought to be a national economic priority.

What Small Businesses Must Do?

The small business owners must start with accepting the facts and come out of the malicious cycle of over thinking and little action. There is no point in inspection the COVID affected score 10 times in a day.

They must check account of their finances and figure out how much runway you have; they can easily learn about scenario preparation techniques via online videos. By doing many simple exercises, a business owner will be able to improve their cash in hand. Our second recommendation is for business owners to retain their teams close to them, the way they are keeping their families. This disaster has made everyone vulnerable and their core employees are also looking up to the owners. Good businessmen will also be able to identify their faithful employees from transactional ones, and they must make their long term employee decisions accordingly. While business owners may have to take some hard steps and defer some perks, bonuses and pay-outs, they must take all steps with grace, transparency and open communications with all those affected. The team members will know the situation provided the owners involve them in the process. Those who are supportive must be rewarded when the clouds settle down. Thirdly, the services sector industries and particularly those engaged in knowledge-based services have an advantage in allowing their employees to work from home. They must quickly change their internal processes to facilitate sustained operations from employees working from their homes. Admittedly it is not a simple exercise, particularly for those owners who have never looked deep inside their business models. They are advised to look at how their peers are handling remote working in their own sector. If required, they can seek help of experts and consultants to rapidly pivot or change their business model before it is too late. Fourthly, this is the most critical time for business owners to talk to their customers and build healthier relations with them. Furthermore, business owners must be open to help their customers in any way they can.

Fifth, business owners must devote their free time in learning and training. Their teams will copy their mind-set and their actions so keep themselves busy; but before that the owners need to be busy learning new things. The businesses should think about new products, make new strategies and work on new business models. You may check books of accounts and find trends in your data. Most importantly, business owners must not hesitate in asking for help from fellow entrepreneurs and experts, as collective wisdom is always effective. There are plenty of webinars and trainings available online and many domain or business experts are spreading free support, business owners must take advantage of these.

Problems of by Small Businesses

1. Finance

The insufficiency of funds to funnel in the operations of a small business proves to be a major interference to the development of the small business. Small businesses lack the solvency needed in the capital market. Small businesses have a deprived creditworthiness.

The banks and industrial investors want a collateral security, due to most of the small businesses being functioned in the rural and semi-urban area, these businesses lack the collateral security to get finance for their business.

2. Raw material

For the production purposes, the businesses want raw materials. To get some output, they need to offer some input. The quality of the raw material totally depends upon the quality of input. But due to a snug budget, these businesses are unable to get a good quality raw material for their production.

Negotiating power is non-existent because of the small quantity of purchase. Another issue linked here is the shortage of storage facility, because of the lack of storage facility the production needs to be quick and the sale good. This puts a heavy straining on these small businesses to sell their stock as quickly as possible.

3. Managerial skills

The operations of small businesses are carried out by a restricted number of employees. This means that a single person typically manages the operations. The pressure on this manager is huge to satisfy the demands of production. Also, the manager might lack managerial skills prerequisite to operate a unit.

4. Skilled labour

Due to a shortage of funds, small businesses are powerless to hire the proper candidate for the job. Moreover, they are not in a position to give high wages to the employees. This results in the drop in productivity per employee and rate of labour is high. This results in the major obstruction in the operations of productions.

5. Marketing

Marketing is one of the vital links to sell whatever the business plan to or has produced. Without marketing these businesses will not be able to attain their goal of sales they planned. Direct marketing is not possible due to the absence of necessary infrastructure.

The scarcity of finance does not let the business hire a good middleman. These middlemen exploit these businesses by compensating low prices and delaying payments.

Hope of Best

Like all disasters, pandemics, and natural disasters, the Coronavirus pandemic will eventually come down – give or take a some weeks or months from now. The innovative business models will evolve and lot of innovations will help society in unique ways. Consumer behaviour is changed and those who will pick these trends will flourish in times to come. The morning after the crisis will open up a novel ways of new opportunities and challenges for the businesses.

Conclusion :

Small businesses already plays a vital role in India's economy. The small business can come forward and manage the economic growth and employment ration by taking effective steps.

Once the pandemic scare ends and the restrictions will lift, the nation will depends on its small business community to forefront the economic recovery. There will be businesses who will not survive – those with defective business models and depleted capital are at high risk. The agile and flexible entrepreneurs will be ready to address the consumer demand, restart their operations and start growing their employee strength. Our country needs those businesses the most adaptive and ready to take challenges. The others will wait for magic and will keep blaming virus, policies, government fund, competition etc rather than taking remedial actions – such businesses will go to be diminished.

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