



# Connected Small Business

*Unlocking India's digital potential*

*Google*

2015

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# Highlights

Digitally engaged small to medium businesses (SMB) can reap huge digital dividends. Moving from offline to advanced digital engagement could see revenue growth up to 27 percentage points higher for individual SMBs. However, two thirds of Indian SMBs are currently missing out.

India is a country with 1.25 billion people and huge economic potential. Its latest five year plan includes objectives to lift GDP growth to 8% a year and create 50 million new non-agricultural jobs.<sup>1</sup> It also highlights the important role of small and medium-sized businesses (SMB) sector, exports and internet connectivity to achieving these objectives (Planning Commission, 2013).

India's SMB sector represents more than 8% of GDP and 22% of India's work force, employing more than 106 million people.<sup>2</sup> This report, based on a fresh national survey of 500 businesses, analyses the digital engagement of these firms – broadband and internet connectivity, development of websites and e-commerce capabilities, and use of other tools such as cloud and data analytics. It finds that higher levels of digital engagement can improve their business performance and help India achieve its national economic objectives to lift prosperity, employment and exports.

Specifically, compared to offline SMBs, Indian SMBs with higher digital engagement:

- Are **more successful businesses**, experiencing revenue growth up to 27 percentage points higher in the previous year;
- Are **job creators**, up to 84% more likely to increase employment;
- Are **exporters**, up to 65% more likely to access international markets;
- Are **innovators**, up to 4.5 times more likely to offer new products or implement major changes in the way they do business;
- Have **more satisfied employees**, being up to 6 times more likely to have higher levels of employee job satisfaction; and
- Have increased employee **collaboration**, up to nine times more likely to have frequent collaboration between employees.

This report also shows that most Indian SMBs are not taking advantage of the benefits of cloud and mobile technologies, both a key feature in advanced digital engagement. These technologies are critical success factors for SMBs in the digital economy; they can streamline internal operations, deliver significant efficiency dividends and improve customer interactions.

For Indian SMBs with minimal levels of digital engagement, there are a number of easy actions that could be taken to increase market reach and improve overall business performance, such as connecting to the internet and communicating with customers online. While some businesses view digital technologies as peripheral, this report shows that increasing digital engagement can tangibly increase the efficiency of business operations, provide access to more customers and increase sales.

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1. Includes Micro, Small and Medium Enterprises, further breakdowns for SMBs excluding micro enterprises and SSI are not available at the time of this report.  
2. Ministry of Micro, Small and Medium Enterprises (2014)

Few industries in India will be insulated from digital disruption, as new technologies are changing markets, lifting consumer expectations and shifting the competitive landscape across the Indian economy. Indian SMBs must consider digital technologies as a critical competitive advantage if they are to successfully navigate digital disruption in the future. Below are just some examples of how Indian SMBs are embracing and responding to digital disruption.

**A number of Indian SMBs are using digital technology to grow, innovate and expand their product offerings**

- **SpoonJoy**, a food delivery business, is using cloud and mobile technologies to expand online and enter new geographies. SpoonJoy estimates that it would take six to eight weeks to enter a new geography using digital technology, compared to four to five months without.
- **EMCO Ltd**, a manufacturer in the electricity industry, uses cloud-based technology for its internal data transfer and document management processes. EMCO Ltd believes that the use of digital technology has resulted in additional business growth of around 30%.
- **Pinkingo**, a logistics company, is using integrated digital technologies to enhance business performance and efficiency. Pickingo estimates that real-time delivery allocations enabled by cloud tools has increased its orders by around 15%.
- **Freshdesk**, a cloud customer support platform provider, is helping Indian SMBs to become more efficient in managing their customer relationships, significantly reducing related cost and response time for its clients.



# India's economic agenda

India is a country with huge economic potential. It has a large market with 1.25 billion people, many of whom are likely to move up the income ladder in the next 20–25 years on the back of strong Indian GDP growth (Deloitte, 2014). An important component of India's economy is its young population, which represents a key source of both demand and labour in the Indian workforce. This market segment tends to be more aware of technological advancements and how such developments are relevant to their lifestyle, which is likely to force businesses to further innovate the products and services they offer and deliver. Innovation will also be necessary for the development of rural India, where incomes have been rising faster than in urban areas.

India has embarked on the path of liberalisation since 1991, implementing a number of reforms in order to open the economy to greater competition and wider opportunities. The economy has grown at an average annual rate of around 6.5% to 7% over the subsequent two decades, and over the period between 1990 and 2013, India had the second highest growth rate amongst all of the leading emerging economies (Deloitte, 2014). The Indian economy currently ranks as the third largest in the world when measured in purchasing power parity terms (OECD, 2012).

India's economic development agenda, as laid out by the current government, largely focuses on economic revival and inclusive growth. More than 20% of India's population lives below the poverty line<sup>3</sup>, and close to 70% of the population lives in rural areas and are dependent on agriculture for sustenance<sup>4</sup>. India needs to bridge the gap between urban and rural economic development in order to reduce poverty levels in its population. Indeed, reduction of economic inequality and poverty has been objectives in a number of India's national five year plans (Shaikh, 2010). The specific objectives for the 2012-13 to 2016-17 five year plan include (Planning Commission, 2013):

- Real GDP growth rate of 8% per year
- Generate 50 million new work opportunities in the non-agricultural sector.

The plan also includes other aspirations:

- MSMBs must be a central focus of India's manufacturing strategy
- India needs to be a major player in world trade by 2020, driven by sustained, accelerated growth of exports.

The plan also highlights that there is 'tremendous scope for further expansion in telecommunications, and the associated increase in internet connectivity is clearly a productivity enhancing development.'

**Competitiveness:** Catching the next wave in India, a report by Deloitte Touche Tohmatsu Limited, identifies a number of sectors that will be key long-term growth drivers for India's economy for the next 25 to 30 years. One of these sectors is the information and communication technology (ICT) sector, an industry that is rapidly growing in importance as it expands to support growth across the Indian economy.

The ICT sector in India is forecast to grow at an average annual rate of 7% between 2014 and 2040, driven by increases in both domestic and overseas demand<sup>5</sup>. One example of a potential source of future growth in the Indian ICT sector is if the offshoring of IT services becomes more commonplace in Europe. Aside from traditional software exports, Indian IT firms could also stand to benefit if this trend were to increase European investments in global in-house centres in India.

As the Indian economy continues to grow in the future, expenditure on ICT is likely to increase across both consumers and businesses. This will result in greater penetration of computing technology, smartphones and other devices, and the internet across both urban and rural areas. It will be important for the Indian economy to tap into the huge potential associated with the ICT sector and technological developments in order to assist in achieving its 'big picture' objectives in relation to growth, employment and poverty.

3. World Bank (2011), based on consumption. % of population below US\$1.25 a day (PPP)

4. World Bank (2013) % of total population living in rural areas

5. Oxford Economics (2014), Global Industry Databan

### The role of SMBs

Small and medium-sized businesses (SMBs) play an important role in India's economy. Within India, SMBs are defined based on different levels of capital investment in equipment, plant and machinery depending on the industry that the business operates in. Businesses with capital investment lower than threshold values (see Appendix A) designated by the Ministry of Micro, Small and Medium Enterprises (MSME) within the *manufacturing sector* and the *service sector* are defined as SMBs.<sup>6</sup> These could include, for example, a small manufacturing firm supporting local agriculture or transport, or a small business providing consulting services in an urban area.

According to this definition, Indian SMBs contribute to nearly 8% of the country's GDP (Ministry of Micro, Small and Medium Enterprises, 2013). In 2013, the SMB sector in India employed more than 106 million people, around 22% of India's labour force (Ministry of Micro, Small and Medium Enterprises, 2014). Clearly, India's small and medium-sized businesses are a significant component of the economy and can play an important role in ensuring India's future prosperity.

SMBs in India can be significant drivers of regional development. SMBs can be operated by entrepreneurs without sophisticated machinery or modern infrastructure. This allows SMBs to be established in rural and semi-urban areas, which may be unattractive to larger enterprises due to the relatively underdeveloped local infrastructure. This helps to utilise local resources and skills, reducing unemployment and narrowing the disparity between urban and regional development (Prakash, 1991).

The digital economy is a natural and integral part of SMB development. As Indian consumers become more tech-savvy, the expectations they place on business transactions are also rapidly evolving. Today's Indian market demands intimacy and synchronisation across various channels – involving the provision of a seamless, personalised experience to customers who are time, place and context aware (Deloitte, 2014). Customers want to be able to connect via mobile, web, call centres, kiosks, and emerging technologies and they expect the experience to pick up where their last interaction left off.

These are important market forces that Indian SMBs must grapple with to stay competitive and expand into the global market.

India's economic development has a significant emphasis on growth in jobs and production coming from services. This stands in contrast to the traditional model of manufacturing-led growth that has occurred across a number of undeveloped economies in Asia, such as China, Taiwan and now Vietnam and Bangladesh (Gittins, 2014). Given the critical importance of technology in enabling growth and innovation in the services industry, the potential gains for using digital technology to lift economic development domestically in India could be significant. A previous Deloitte report found that overcoming technology barriers and advancing technological development in the economy would be a significant contributor to addressing the nation's long-term challenges and pushing the economy to grow in the future (Deloitte, 2014).

The Indian government recognises digital development as an economic priority, and has launched several large-scale campaigns to improve digital engagement in India. The Digital India program is centred on three key areas:

- Digital Infrastructure as a Utility to Every Citizen, which aims to provide a unique, lifelong digital identity to every citizen, and also views high-speed internet as a core utility
- Governance and services on demand, where all government services are available on mobile and online channels
- Digital Empowerment of Citizens, where all citizens have access to a public cloud-based storage system where all documents and transactions can be stored and accessed.

By focusing on these areas, the Digital India program aims to lead a 'digital revolution' across the country, expanding internet access across rural areas and making government services available online. The government has committed US\$18 billion to the program (Toness & Pradhan, 2014). Industry leaders across India have also pledged more than US\$70 billion to back the government's initiative (Toness & Pradhan, 2015).

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6. For details on the thresholds for each sector, please refer to the SMB definitions in Appendix A



# India's digital landscape

India is at the forefront of digital disruption. As of 2015, India has some 960 million mobile subscriptions (Telecom Regulatory Authority of India, 2015) and over 243 million internet users (Internet Live Stats, 2015), ranking second and third in the world respectively. The rise in digital technology engagement among consumers is having a significant impact on the Indian economy. It has been estimated that on average more than a third of digitally influenced shoppers would buy online and pickup in-store given the opportunity, and that an average of INR 600 billion of in-store retail purchases are influenced by digital technologies (Deloitte, 2015).

The implications of digital engagement for SMBs are significant. As more industries' core products and services are replaced or enhanced by digital offerings, the commitment to connectivity and digital content, asset and business management become strategic imperatives. To understand the digital engagement landscape among Indian SMBs we have calibrated a digital engagement ladder that considers the availability and sophistication in how small businesses use nine different digital technologies.

Our digital engagement ladder focuses on the usage and sophistication of Indian SMBs with various technologies, including social media, online marketing, e-commerce and cloud tools. The report broadly categorises Indian SMBs into four groups shown in Figure 1.1.

Figure 1.1: Digital engagement levels





Our results show that overall digital engagement among Indian SMBs is low. A significant number of Indian SMBs are not fully engaged with digital technologies, with over a third operating solely offline (Figure 1.2); i.e. not using broadband, digital devices, or having an online presence. These businesses continue to use traditional tools to do business and communicate with their customers. A further 31% of Indian SMBs only have basic digital engagement.

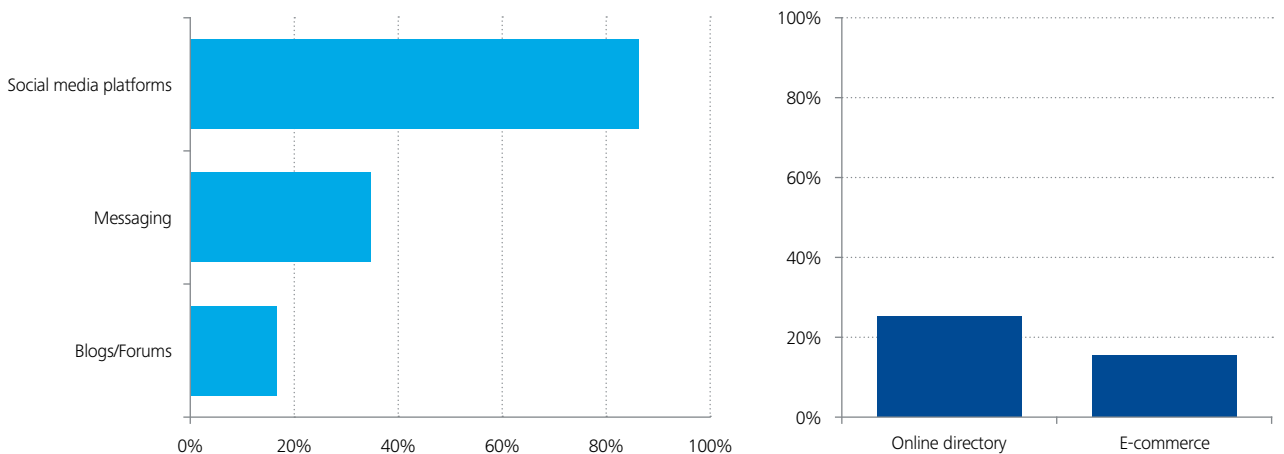
**Figure 1.2: Digital engagement ladder**



Source: Deloitte Access Economics, Stancombe Research and Planning

These results suggest that the majority of Indian SMBs are not taking full advantage of digital technologies. In particular, we find that while Indian SMBs are highly active on social media, they are less avid users of e-commerce and online advertising. Figure 1.3 shows that over 80% of respondents are using some form of social media platform to promote their business and almost 40% use mobile messaging platforms. In comparison, only around a quarter of respondents had e-commerce capabilities or listed their business on online directories services such as Google maps or Yelp.

**Figure 1.3: Social media use and e-commerce, % of respondents**

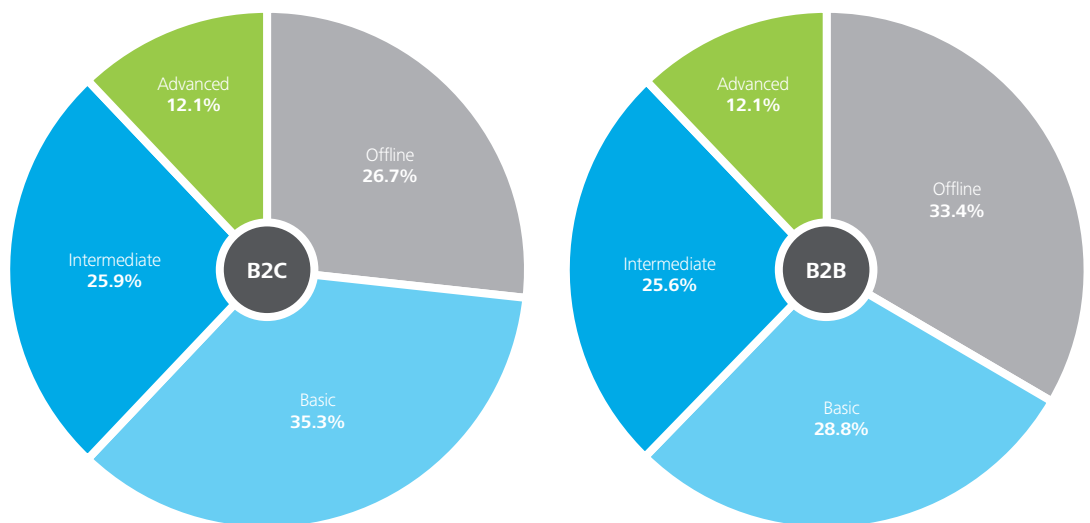


Source: Deloitte Access Economics, Stancombe Research and Planning

This report recognises that the level of sophistication with digital tools could differ across SMB types in India. For instance, there could be significant differences between marketing to a business and marketing to a consumer from a digital tool perspective, and thus as a result business could be deploying different technologies to cope with their corresponding customer's demand. Based on share of revenue across customer groups<sup>7</sup>, we estimate that more than 30% of our sample group operate under a Business-To-Consumers (B2C) model with the rest under a Business-To-Business (B2B) model. Further investigation of the digital engagement ladder distribution between these business types revealed minor differences at the offline and basic level (Figure 1.4).

Finally, this report notes that the business dividend of digital engagement could also differ between business types. For example, the use of cloud technologies could substantially reduce acquisition costs for sales. This could be extremely valuable for B2C businesses, which tend to have much higher sales volume. For B2B businesses, the advantage of cloud may be attributed to its ability to manage relationships and allowing sales representatives to have on-the-go interaction with clients.

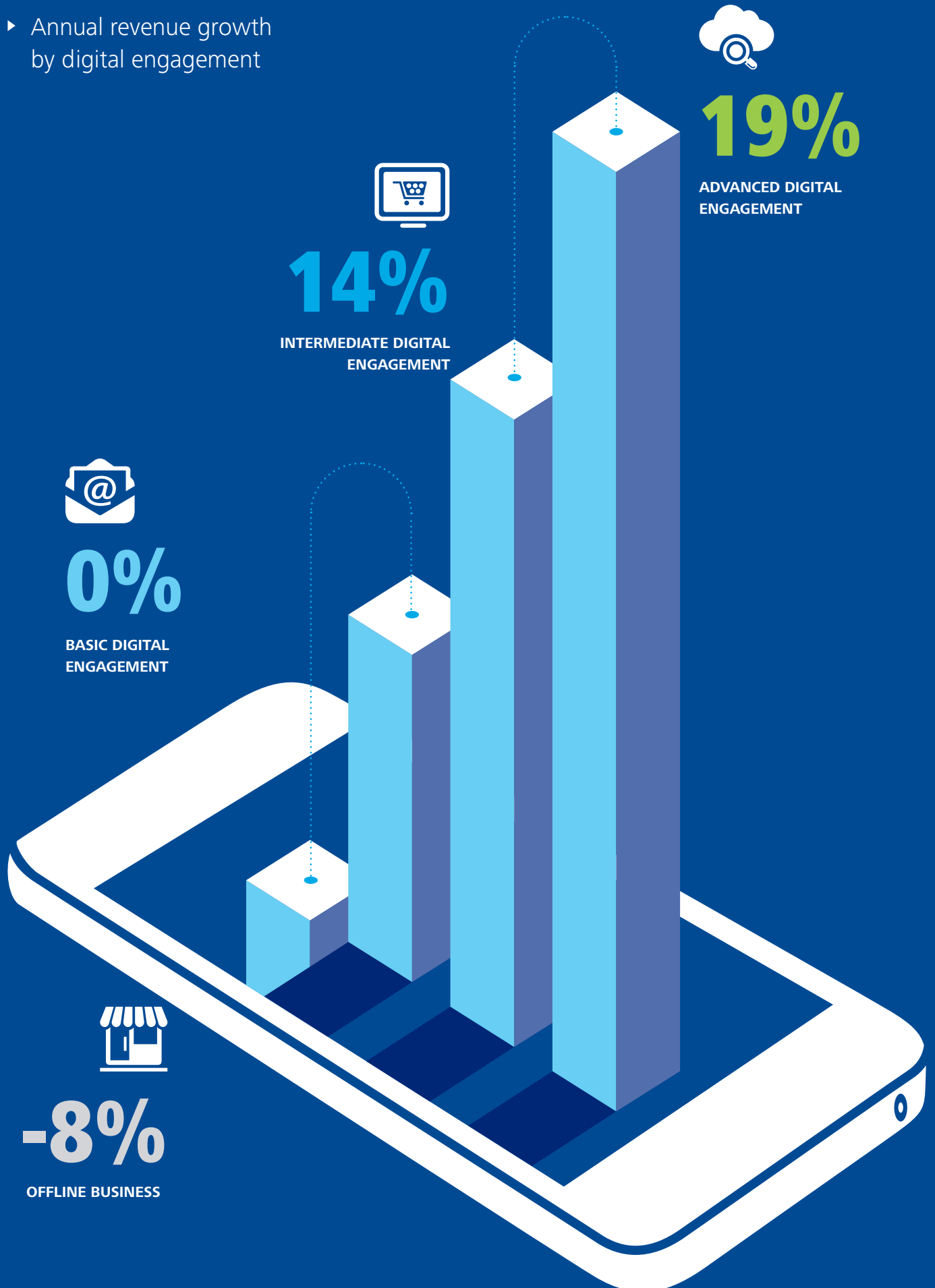
**Figure 1.4: Digital engagement breakdown between B2B and B2C**



Source: Deloitte Access Economics, Stancombe Research and Planning

7. Businesses that derive more than 50% of their revenue from consumers are considered to operate a business-to-consumer model

▶ Annual revenue growth by digital engagement



**14%**

INTERMEDIATE DIGITAL  
ENGAGEMENT



**0%**

BASIC DIGITAL  
ENGAGEMENT



**19%**

ADVANCED DIGITAL  
ENGAGEMENT



**-8%**

OFFLINE BUSINESS



# Increased revenue growth

Small businesses with a advanced level of digital engagement experience annual revenue growth that is 27 percentage points higher than a base group of offline businesses.

Small and medium-sized businesses represent a sizeable share of the Indian economy. Growth in Indian small businesses can therefore potentially have a significant effect on overall economic growth. Understanding how these businesses can effectively adopt and use digital technologies to improve business performance can facilitate future growth in the Indian economy, which represents an ongoing focus in India's national economic agenda.

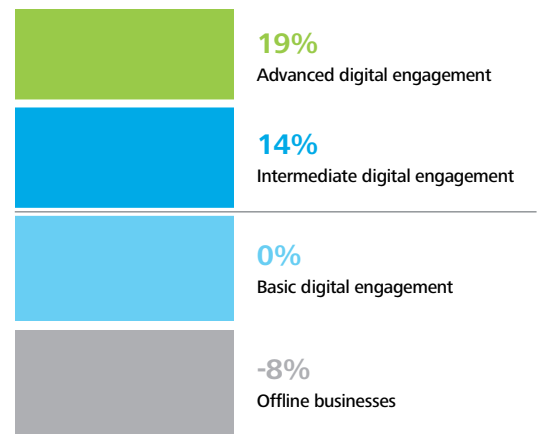
Engaging in digital technology can provide significant opportunities for Indian small businesses to grow with respect to revenue and profitability. In particular, digital engagement through building a company website or implementing an e-commerce strategy can increase sales by allowing an Indian SMB to access new customers, both within India and in overseas markets.

An expanding revenue base through digital channels has the additional benefit of diversifying customers and business risk across different locations. Revenue diversification is particularly important for small businesses, which often have less stable sources of revenue compared to larger companies.

In order to determine the relationship between revenue and digital engagement, Deloitte Access Economics has performed an econometric analysis of revenue growth against levels of digital engagement for Indian SMBs (Appendix A).

Our results suggest that on average, small business who are offline are shrinking by an average of 8% a year, whereas businesses with a basic level of digital engagement experience annual revenue growth that is 8 percentage points higher than a base group of offline businesses, largely staying unchanged.

Figure1.5: Annual revenue growth by digital engagement



Source: Deloitte Access Economics, Stancombe Research and Planning

In comparison, Indian SMBs with intermediate digital engagement can expect much higher growth opportunities, on average, they have a revenue growth rate that is 14 percentage points higher than basic digitally engaged businesses, while those with advanced digital engagement average an additional 5 percentage points of revenue growth on top of this.

These results show that businesses that are not digitally engaged are at risk, while those with only basic digital engagement are trading water. To stay competitive and grow, businesses must have at least intermediate levels of digital sophistication.

In addition to the potential for increased sales through access to new markets, digital strategies can also offer Indian SMBs more effective and efficient ways of connecting and transacting with existing customers, which can also facilitate business growth.



# Benefits of cloud technology

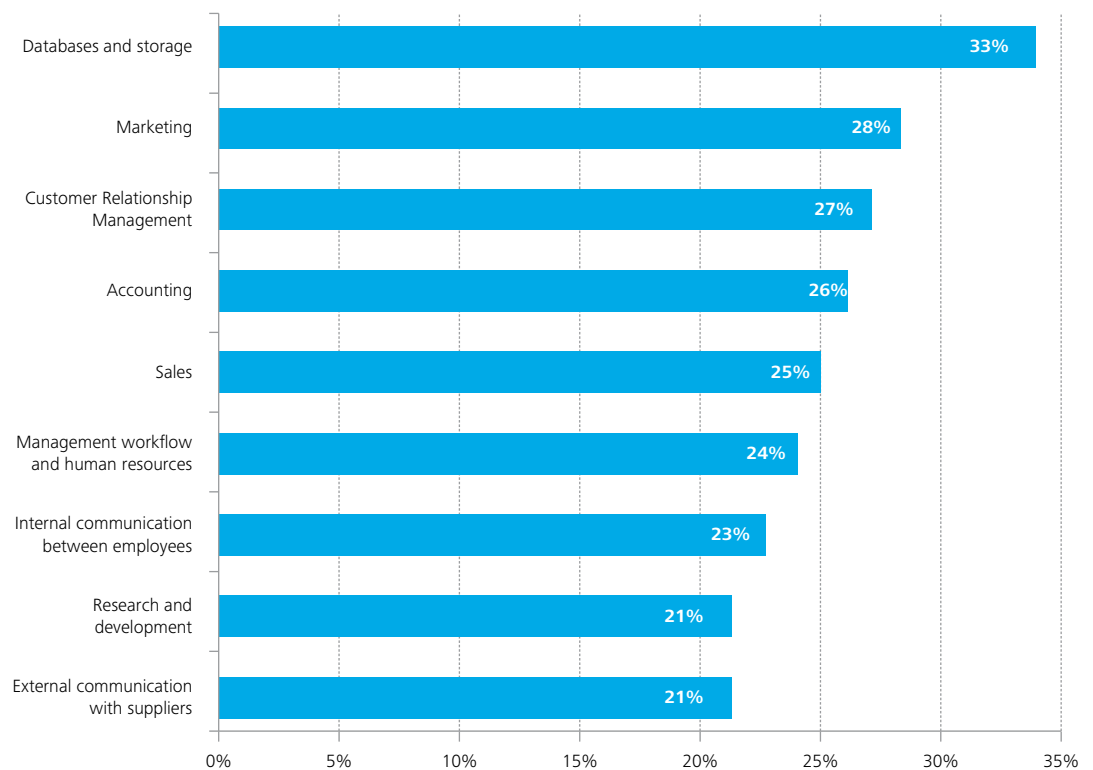
There is significant potential to use cloud technologies to improve Indian SMBs' offshoring capabilities. India claimed over 50% of the global market for offshore technology and business services in 2008 (McKinsey & Company, 2009). The digital India and 'make in India' initiative seeks to reaffirm India's dominance in the global offshoring market. Cloud based digital tools could be a key to achieve this goal.

At the business-to-business level, companies are taking an 'outside-in' approach and opening up their technology systems and data to suppliers and other partners using cloud tools. Cloud technologies are allowing retailers to collaborate with financial services providers and logistics companies to offer a seamless retail, payment and delivery experience. The result is much lower transaction costs and significantly higher operating efficiency.

On the customer side, business and governmental organisations are cutting costs and improving convenience through cloud based applications. These applications can streamline the sales process and improve customer interaction through convenience gains.

Open technology architectures offered by cloud tools make it relatively simple to share data or capabilities with others. This includes embracing open technology standards where possible. **Figure 1.6** shows that similar to e-commerce, less than a third of SMBs in India are using cloud tools to store data, market their business, or manage relationships with their customers. This represents a significant opportunity for SMBs in India to capture the digital dividend from cloud technologies.

**Figure 1.6: Cloud usage for Indian SMBs, % of respondents**



Source: Deloitte Access Economics, Stancombe Research and Planning

### Pickingo – using cloud and mobile to succeed

Pickingo, launched in December 2014, is a on demand logistics business based in Gurgaon, in the National Capital Region of India. The company has grown rapidly in the past few months; it now employs more than 300 people and delivers over 2000 packages per day, catering mainly to business-to-business customers.

Technology is at the heart of Pickingo. From the use of Amazon Web Services (AWS) to Google Apps for Business, Pickingo is fully digitised and on the cloud. "It's all digital. All of our orders are received via integrated API and mobile apps; these are then directly pushed to delivery drivers" according to CEO Rahul Gill. The integration of digital technologies has had an immense impact on the operations of the company. Mr Gill says that on time delivery rate for a traditional logistics company is less than 70%, whereas for Pickingo it is consistently over 85%. The company's integrated system on the cloud allows it to eliminate bottlenecks in the information flow (i.e. from the client to dispatch then to delivery drivers) and significantly improve the efficiency of its operations.

"Information asymmetry costs money in our business. Without real time information, there will be errors in delivery, delays in cash cycles and additional time to rectify those mistakes," says Mr Gill. The company's extensive usage of cloud tools and mobile apps has not only minimised these leakages, it has also allowed the company to allocate resources more effectively. The ability to track drivers and tasks in real time has eliminated the need for fixed daily routes, allowing the company to be flexible and respond to changes in orders in real time. Mr Gill believes that the company is "doing 15% more deliveries on average, even at a relatively early stage of data collection, because of enhanced efficiency in allocating deliveries."

Pickingo is also taking full advantage of the high levels of mobile penetration among its customers. "We are a hyperlocal business; hyperlocal demand is driven only by mobile based applications, which allow access to locations" says Mr Gill. By offering mobile-based applications for real time local deliveries, the company is able to offer faster and cheaper service to local customers compared to traditional delivery options, creating a unique competitive advantage in the hyperlocal delivery space.



# More employment opportunities

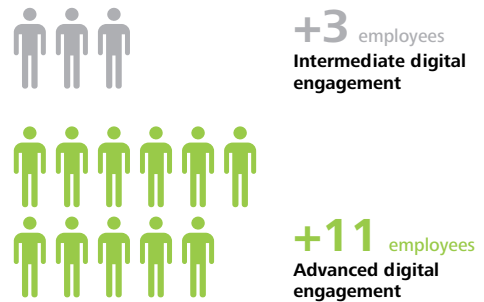
Small and medium-sized businesses provide significant employment opportunities in the Indian economy. Small businesses can be an important driver of overall jobs growth particularly at the local level, and Indian SMBs therefore play a vital role in grassroots economic development within the country.

As greater levels of digital engagement can result in increased customers and sales for Indian small businesses, the adoption of digital technologies and strategies can generate increased employment in the Indian economy. Additional jobs in technology, communications or related areas could also be created as SMBs finding innovative ways to utilise digital technologies in their business activities require new technical skills.

To assess the relationship between jobs and digital engagement, Deloitte Access Economics has conducted an econometric analysis of employment changes in the past 12 months against digital engagement levels (Appendix A). The results from this analysis show that relative to the baseline group of offline businesses, Indian SMBs with intermediate and advanced levels of digital engagement were around 80% more likely to increase their employment over a 12-month period.

Businesses with an intermediate level of digital engagement also employed three more workers on average compared to the baseline group of offline businesses, while those with an advanced level of digital engagement employed 11 more workers than offline businesses. This suggests that increased levels of digital engagement amongst Indian SMBs could be one way of generating more employment across the Indian economy.

**Figure 1.7: Increase in average number of employees by digital engagement**



Source: Deloitte Access Economics, Stancombe Research and Planning

### **SpoonJoy – A small business using technology to enter new geographies**

SpoonJoy, launched in 2014, is a small business that operates in the food delivery industry in India. The company currently has kitchens across a number of locations in Bangalore, and produces 2,000 to 3,000 meals per day – primarily catering for office workers around the city at lunchtime.

The use of digital technologies is a significant component of SpoonJoy's overall business strategy. The company does not have an offline store, interacting with customers only via its website and mobile app. According to Manish Jethani, the Founder of SpoonJoy, "we do not own or use offline infrastructure such as call centres, which can be very expensive and not scalable. The use of technology enables SpoonJoy to be 100% accessible online or via mobile app, allowing us to increase efficiency and provide a more affordable and convenient service to customers."

SpoonJoy uses a number of different types of technology in its business operations. All of the company's information is hosted on a cloud, utilising multiple servers across different applications. This allows the business to combine multiple food delivery orders from several locations in one drop-off, compared to other more traditional business models where individual orders are delivered one by one. Because of this, Mr Jethani believes that "SpoonJoy's delivery costs can be up to one-third lower than offline businesses who are not using digital technology in such a manner." SpoonJoy also utilises location-based mobile data to track the delivery of its orders.

The high levels of digital engagement and investment in digital technology at SpoonJoy have been facilitated by the top levels of management, with half of the management team coming from technology-related backgrounds. Digital technology is also enabling the business to expand into other locations, with the company planning to open in Gurgaon shortly. Mr Jethani states "it is easier to enter multiple geographies through online expansion because we don't need to set up new physical infrastructure. Without digital technology, you need more people on the ground which can take a lot more time." He estimates that it would take SpoonJoy 6-8 weeks to enter a new geography using digital technology, compared to 4-5 months without.





# Improved export potential

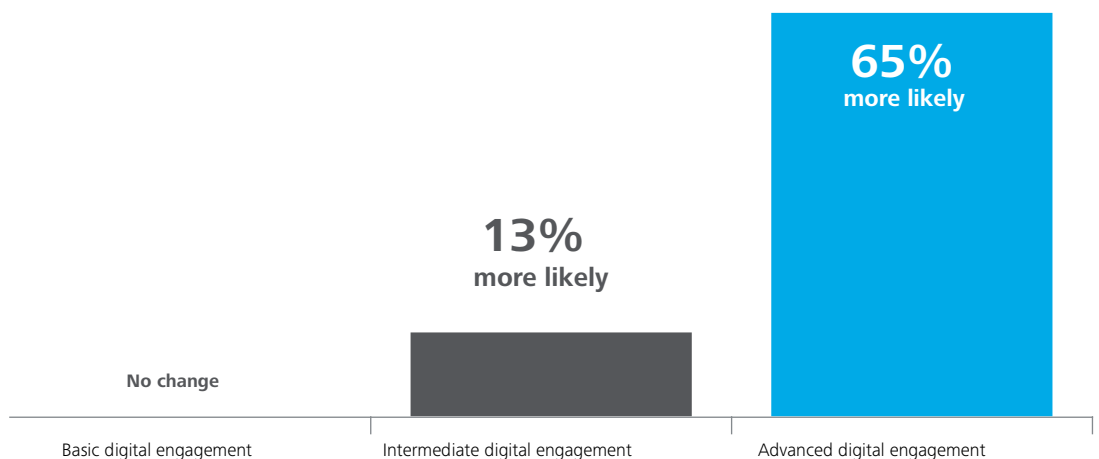
Increased digital engagement can allow small and medium-sized businesses in India to expand their revenue base by increasing access to national and global markets, as discussed previously. This diversification benefits the broader Indian economy by increasing the total amount of goods and services exported from India.

In addition to the direct impact on increasing a small business's customer base, using digital technology to engage with customers can assist with bridging some of the gaps or difficulties that these businesses may experience in expanding overseas. SMBs can often lack the skills to enter international markets due to limited knowledge about foreign languages, cultures and business environments. Increased digital engagement can be one way of addressing these issues.

Econometric analysis by Deloitte Access Economics suggests that on average, Indian SMBs can expect to unlock export dividends beyond basic digital engagement. Businesses with an intermediate level of digital engagement are 13% more likely to export goods and services to international markets. Those with advanced digital engagement are 65% more likely to have export sales.

Small businesses with intermediate or advanced online capabilities derive an average of 3 to 4 percentage points more revenue from overseas customers and international sources compared to offline SMBs. Given that increased export sales by tapping into overseas demand is often associated with small businesses expanding into new markets, the use of digital technology to facilitate Indian SMBs improving their export potential could be an enabler for increased economic growth more broadly in the future.

Figure 1.8: Likelihood of exporting compared to offline businesses



Source: Deloitte Access Economics, Stancombe Research and Planning

### **EMCO Ltd – A traditional business using digital tools to grow**

EMCO Ltd (EMCO), incorporated in 1964, is a leading products and solutions provider for power generation, transmission, distribution utilities and industry in India and abroad. With a presence in over 60 countries worldwide, EMCO needs digital tools to maintain constant and on-the-go interaction within its organisation, and with its customers and suppliers.

Digital tools play a pivotal role in EMCO's internal operations. Using cloud based solutions such as Google Apps, the business can now rapidly access and transfer its large and confidential databases with ease. This was an enormous efficiency gain compared to the USB and DVD methods it was using just a few years ago. According to the Head of IT at EMCO, Bhagwat Patil, "the ability to allow multiple users to share or edit documents simultaneously has made our work extremely efficient, as compared to our old practice of editing and compiling documents multiple times. Technology-enabled document transfer and data sharing has been especially important in enabling EMCO's international expansion."

Beyond just internal operations, today's customer demands and expectations are evolving rapidly. Much of the digital change at EMCO has been driven by the need to meet customer expectations, which have increased significantly over recent years with respect to cost, quality and service. Mr Patil states that "in order to address these expectations, we must have the latest digital technology in place – without it, we would not be able to survive in the market". For example, the use of new digital technologies has allowed EMCO to have information available at their fingertips even in remote areas; which has enabled more effective interactions with customers around the world.

The implementation of digital technologies has enabled EMCO to grow significantly. Mr Patil believes that "without adopting these new technologies, we may not be in business right now – the use of digital technology has resulted in additional growth in our business of around 20-30%". This has been facilitated by strong support from EMCO's management team for implementing new technology. In the future, EMCO is open to further developing their technological capabilities, for example by engaging in e-commerce such as online marketplaces and e-billing. This would allow the company to further expand its international presence and could create new opportunities both domestically and overseas.



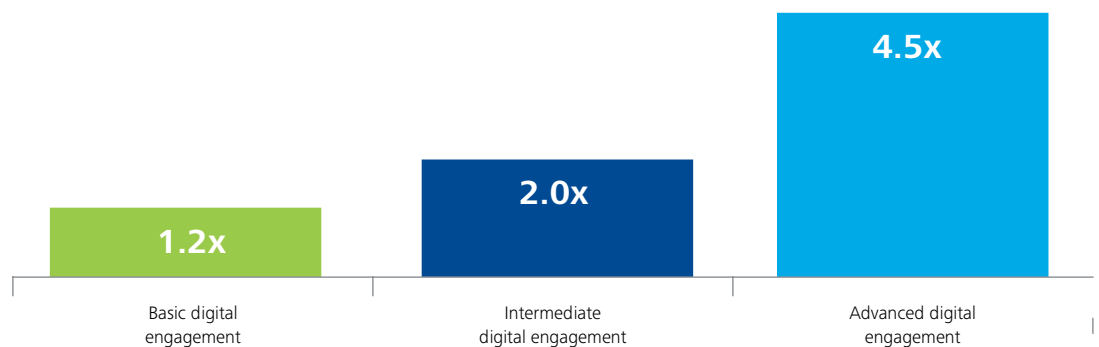
# More innovative

Technology can provide significant innovation opportunities for small and medium-sized businesses. Innovation is the process of developing and implementing new or improved products, services, processes, business models or organisational practices. Indian SMBs that seize the opportunity to innovate are likely to grow, those that do not will remain behind. The growth opportunities associated with small business innovation are likely to be important in facilitating broader economic growth and poverty reduction across India in future years.

Given the rapidly evolving nature of technological developments, having a business strategy for increasing digital engagement can contribute to innovative developments on both an incremental and transformational scale. Indicators of digital engagement, such as the use of social media or the developments of e-commerce capabilities, are also means through which Indian SMBs can improve various elements of their business and product offerings. This in turn can substantially increase the small business's competitiveness and future growth prospects.

In this research, we measure innovation as the propensity that a business is likely to implement incremental and transformational change in their business model, their product offerings, and the way they interact with their customers and suppliers. Our econometric modelling indicates that Indian SMBs with a basic level of digital engagement are on average 1.2 times more likely to be innovative than offline businesses, i.e. to experience transformational change in their business model. Small businesses with an intermediate or advanced level of digital engagement are two and four and a half times more likely to be innovative compared to offline businesses respectively.

Figure 1.9: Increase in likelihood of innovation compared to offline businesses



Source: Deloitte Access Economics, Stancombe Research and Planning

### Freshdesk - innovation using cloud technologies

Freshdesk provides a comprehensive customer support software solution to businesses of all sizes. Launched in 2010, its flagship platform enables businesses to interact with customers across email, chat, phone or social media platforms like Twitter and Facebook, and manage all these interactions seamlessly from a single place. Freshdesk has seen significant growth in the last five years; it now has more than 59 million end users, 400 employees and a global presence with offices in Chennai, San Francisco, London and Sydney. It is a prime example of how digital technologies enable fast growing companies in India to expand on a global scale.

Traditionally, businesses have always been used to having customers reach out to them over email or phone. The support process often involves reading through large amount of emails from over a dozen different mailboxes, manually categorizing them, and responding to them directly or forwarding them to another representative. "It's a nightmare, no one can see who's doing what and track what's going on. The digital platform we offer to our customers is able to integrate all their communication channels into a robust ticket management system that simplifies things by automatically assigning queries to agents", said Krishnenjit Roy, Director of IT Operations at Freshdesk. Using Freshdesk's innovative cloud platform, one customer was able to reduce their response time by over 40%; from 2-3 days to just under a few hours, increasing their customer satisfaction significantly.

Freshdesk is also using digital technologies to grow for marketing and business development. "Google Analytics is at the core of our product development and marketing", said Mr. Roy. The company uses the data analytics tool to analyse on-site traffic, track entry points and conversion rates, and identify what best interests their users or prospective customers. Mr. Roy says, "These insights help us to understand our customers, refine our product over time, deliver targeted content that prospects will find useful, and optimize our marketing efforts".

With their headquarters in San Francisco and offices in Chennai, London and Sydney, Freshdesk is largely dependent on cloud-based tools to ensure smooth internal communication between employees. The team uses Google's suite of apps for the workplace to handle many of their basic collaboration needs from email and calendaring to documents. Employees exchange ideas and share information via Hangouts and Google+ communities while using Drive to store and collaborate on most of their content. Google's cloud platform has allowed the global team of over 450 employees to be supported by an IT team of just two people.

Freshdesk also caters to customers in over 120 countries worldwide. Mr. Roy stated, "Being a cloud-based service provider has been instrumental in our success overseas. The ability to deliver services globally over the cloud has given us an enormous advantage over traditional businesses that need to physically invest in infrastructure. Our infrastructure costs have been lowered by almost 75%". The company went from getting less than 2 million database requests to 242 million in just two years. The flexibility and accessibility offered by cloud tools have enabled Freshdesk to quickly scale its presence globally based on demand, at a fraction of the cost, contributing to its global success.

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# India's **economic objectives** for the 2012-13 to 2016-17 five-year plan

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**8%**

Real GDP growth rate per year



**50million**

new work opportunities in the non-farm sector



**MSMBs**

a central focus of India's manufacturing strategy



India needs to be a major player in world trade by 2020, driven by sustained, accelerated growth of exports.

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# Higher employee satisfaction and collaboration

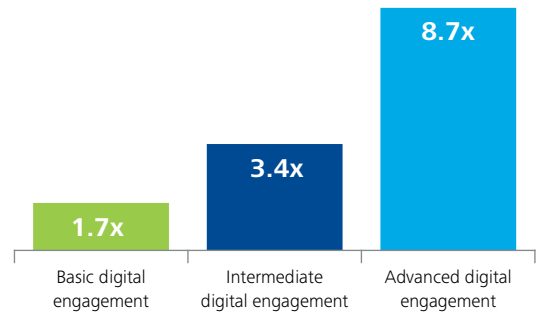
Digital engagement can have further benefits for employees of small and medium-sized businesses. Companies that have relatively high levels of digital technology-use are more likely to have higher levels of employee engagement and job satisfaction, compared to businesses that only have offline operations.

A commonly cited benefit associated with the adoption of digital technologies in the workplace (such as smart devices, tele and video-conferencing, social media, and electronic document management systems) is that these technologies lead to cost reductions and increased efficiency for the business. But these initiatives also have the added benefit of increasing flexibility for employees and facilitating greater collaboration opportunities – both of which can improve the workplace environment for employees in Indian SMBs.

Econometric analysis conducted by Deloitte Access Economics suggests that Indian SMBs, with at least intermediate or advanced digital capabilities, can unlock significant dividend for employees. In particular, businesses that are intermediate or advanced in their digital engagement are nearly three and six times more likely to improve employee satisfaction respectively compared to basic and offline businesses.

Small businesses that are digitally engaged also tend to have significantly higher levels of collaboration between employees. A collaborative organisation can unlock the potential, capacity, and knowledge of its employees, to generate value, innovation and improve productivity in its workplace. A previous Deloitte report found that a collaborative workforce could be up to 15% more productive than a workforce centred on individual work (Deloitte, 2014).

**Figure 1.10: Likelihood of frequent collaboration compared to offline businesses**



Source: Deloitte Access Economics, Stancombe Research and Planning

Employees working at an Indian SMB with a basic level of online connectivity are on average 1.7 times more likely to engage in frequent collaboration (i.e. multiple times a day) compared to offline businesses. SMBs with intermediate and advanced levels of digital engagement reported that they were respectively 3.4 and 8.7 times more likely to collaborate frequently.



# Benefits of mobile technology

In recent years there has been a dramatic transformation in the mobile industry. The mobile has become the dominant form of telecommunications technology; smartphones and tablets have driven a trend towards convergence; mobile technology has become critical in business strategies; and changing communications and media has been one of the dominant influences on society.

India is at the forefront of this transformation. As of December 2014, there are over 173 million mobile internet users in India, one of the largest mobile user bases in the world. This user base is poised to grow at a rapid pace, reaching 213 million by June 2015 – which represents a 23% increase over six months (IAMA, 2014).

The growing adoption of mobile devices introduces a new revenue channel for all Indian businesses. The need to adopt mobile technologies is being driven by people, consumers or employees. It is changing the way that businesses interact with their customers as well as their suppliers. It is not isolated to being a new platform for sales – it is also a method for engaging consumers,

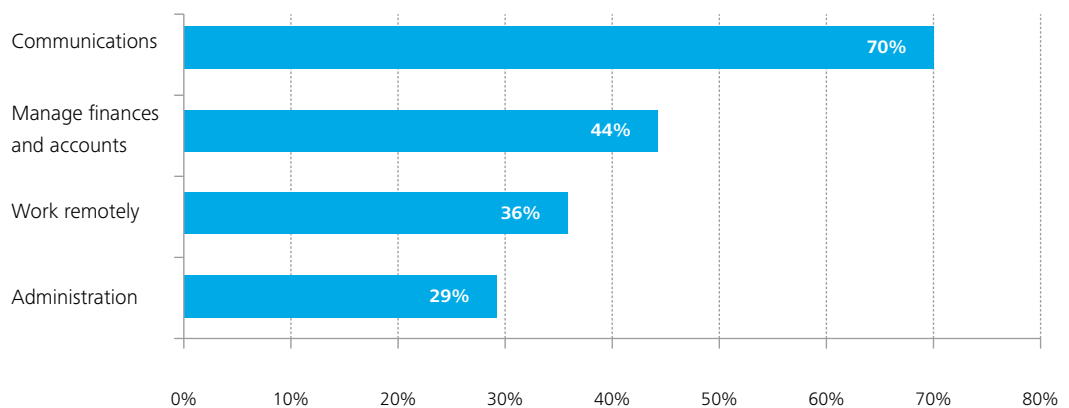
marketing and after-sale service.

Operations within businesses are also changing as a result of mobile technologies. Employees are demanding to be more connected through bring-your-own-device policies, which could build employee engagement and loyalty. Machine-to-machine technologies have the potential to transform capital use. Mobility is allowing for better use of downtime, with employees, customers and suppliers that can connect from anywhere, anytime.

The results from our national survey show that mobile adoption among Indian SMBs is focused around communication and less sophistication in mobile enabled work. Figure 1.11 shows that just over a third of Indian SMBs have the capability to allow employees to work remotely.

Indian SMBs could gain substantial benefits from having mobile capabilities for their employees, including increased employee satisfaction, higher retention rates, and increased collaboration between workers. Our results show that employees in mobile-enabled businesses are 16% more likely to collaborate frequently and 19% more likely to have a higher job satisfaction.

**Figure 1.11: Mobile capabilities for employees, % of respondents**



Source: Deloitte Access Economics, Stancombe Research and Planning

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# Appendix A

## Data

### Sample specification

The sample comprised owners or managers of small to medium-sized businesses; our definition strictly follows the official definition in accordance with the provision of the Micro, Small & Medium Enterprises Development (MSMED) Act, 2006. The sampling method is designed to be representative: quota provisions were given to industry sectors as well as business sizes. To avoid selection bias in using online panels, 250 of the 500 total responses were conducted using telephone interviews.

### SMB definitions

In accordance with the provision of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 the micro, small and medium enterprises (MSME) are classified in two classes:

- **Manufacturing enterprises:** The enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the industries (Development and regulation) Act, 1951) or employing plant and machinery in the process of value addition to the final product having a distinct name or character or use. The Manufacturing enterprise is defined in terms of investment in Plant & Machinery
- **Service enterprises:** The enterprises engaged in providing or rendering of services and defined in terms of investment in equipment.

The following classifications are based on investment in plant and machinery/equipment for manufacturing/service enterprises provided by the Ministry of Micro, Small & Medium Enterprises. Note that in this report, we did not investigate the impact of digital technologies on micro businesses.

### Collection

A mixed methodological approach was used to capture as broad a range of business respondents as possible, within the confines of practicality. This comprised:

- A telephone, interviewer-led survey component
- An online, self-complete survey component

The telephone survey was conducted nationally across India, with the sample spread across the different states in line with population density. A random sampling approach was used, targeting small businesses within pre-determined cell locations within each city. Up to six attempts were made to contact and recruit the selected business owner or manager to limit non-response bias. Interviewers conducted the survey by telephone, using computer-aided survey software.

The online survey used an online research panel to draw sample and administer the questionnaire. With more than 115,000 active members, the panel comprised individuals who had opted to participate in surveys. The online survey was able to reach a broad demographic and geographic sample. Younger age groups (15-34 years) are over-represented on Indian panels, making this an effective way to reach this particular segment of the business owner/manager population, though making it unsuitable as a sole data collection methodology. Males are also over-represented on Indian online panels. A random sample of panel members were invited by email to take part in the survey, and were screened to identify people who matched the sample specifications. Upon completion of the survey, a small monetary reward was credited to panellists' accounts, which they can later redeem as a gift voucher.

**Table 1.1: Indian SMB classifications, investment in plant and machinery/equipment**

Organisation	Manufacturing Sector	Service Sector
<b>Small Enterprises</b>	More than twenty five lakh rupees but does not exceed five crore rupees	More than ten lakh rupees but does not exceed two crore rupees
<b>Medium Enterprises</b>	More than five crore rupees but does not exceed ten crore rupees	More than two crore rupees but does not exceed five crore rupees

# Appendix B

## Modelling framework

### Causality

It is important to note the general issue of causality. It is possible that higher levels of revenue growth drives more digital engagement if strongly performing businesses had more time or resources to undertake digital take-up. Equally, given the ways in which engagement helps growth – through employment, exports and innovation (as described below) and based on the evidence of our case studies, the most common story is one of digitising businesses reaping benefits.

### Interpretation

The reported results are the marginal impacts after controlling for other business characteristics, including size, location and industry, which means that individual experiences with rising digital engagement are likely to vary.

### Econometrics

Econometric modelling is used to identify the relationships between SME digital engagement and business performance.

The econometric model estimates the impact of digital engagement on revenue growth, employment, innovation, and export activities. Digital engagement levels are measured by technology availability and sophistication in the use of digital technologies among Indian SMBs.

Our modelling approach is primarily driven by the underlying characteristics of the data. While some variables, including innovation and employment can be categorical in nature (i.e. respondent identified one of four possible options), others such as revenue growth and export activities can be continuous integer variables. In this research, we applied a combination of linear and multinomial logistic regression framework to measure the statistical relationship between the variables.

In addition to digital engagement, other explanatory variables include:

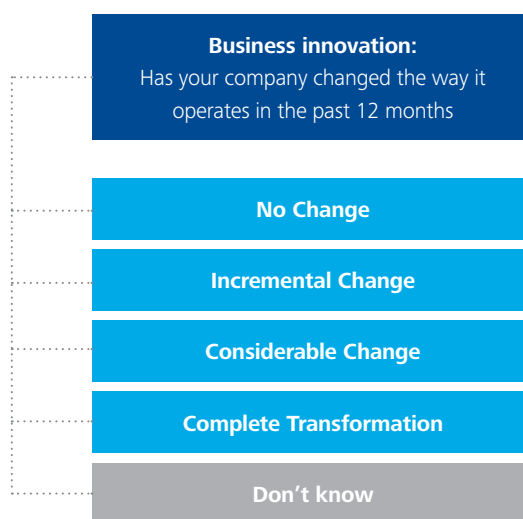
- Size of the business
- Current employment levels
- Industry
- Location.

### Linear regression framework

Simply ordinary least squared (OLS) regression models are applied on continuous variables, including nominal revenue growth and growth in the number of employees.

### Multinomial logistic regression framework

Multinomial logistic regression (MNL) is a nonlinear model designed to cater for categorical dependent variables. For example, outcomes of innovation can be categorised below.



Note that normalisation of one alternative is required for identification of coefficients in MNL. In this research, we have chosen 'no change' as a general rule of thumb for selecting base alternatives. The MNL model setup is as follows:

$$\text{Alternatives: } \Pr(Y=j|x_i)=P_j = \frac{\exp(x_i' \beta_j)}{1 + \sum_{i=1}^{j-1} \exp(x_i' \beta_i)}$$
$$\text{Base alternative: } \Pr(Y=0|x_i)=P_0 = \frac{1}{1 + \sum_{i=1}^{j-1} \exp(x_i' \beta_i)}$$

Where  $\beta_j$  represents the coefficient of the variable  $x_i$ ,  $P_j$  is the probability of the outcome  $j$ .

We are aware that MNL naturally assumes the 'independence of irrelevant alternative (IIA)' condition; this implies that the alternatives exhibit proportional substitution. In a more practical sense, this means that the odds ratio between alternatives is irrelevant to the availability and characteristics of other alternatives.

In our case, IIA is unlikely to hold (except for those that said 'don't know'); this is because the alternatives are ordinal in nature, and defined in such a way that they are mutually exclusive. Therefore, we would expect a disproportional substitution into closest substitutes (i.e. if 'complete transformation' was removed, the majority of respondents would choose the next closest option which is 'considerable change'). We formally test the existence for such property using the Hausman test.

The Hausman test checks if the coefficients of the restricted model are significantly different from the full model. Our results reveal no significant deviation from the original estimates.

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