

India's Big Plans

With demand driving expansion, small businesses in India look toward technology for answers.

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Wander down Sudder Street in Kolkata, India, and you may come to the offices of Kuka Travels. With only 11 employees, the travel agency is not exactly a towering presence in India's robust economy on its own—but it's not on its own. Rather, it's one of the millions of small and medium-sized businesses (SMBs) in India that are reaching out and using a precious commodity: technology.

"When we started out eight years ago, all we had was dial-up," says Manish Chowbey, the company's director and founder. "Now, we're on the latest broadband technology—and it's lightning fast."

Collectively, small businesses in India employ significantly more people than the country's larger enterprises. While the same can be said of many countries, small organizations in India must often conduct their businesses with more significant technology challenges to overcome.

Access Markets International (AMI) Partners, Inc. (AMI-Partners) estimates that in 2004 there were approximately 6.2 million SMBs in the United States and 7.4 million in India. The difference in these numbers may not seem significant; the bigger difference between the two countries is in terms of technology uptake.

AMI-Partners estimates that in the United States, 93% of small businesses had PCs, 81% had Internet access, and 39% had local-area networks (LANs), whereas in India, 18% of small businesses had PCs, 10% had Internet access, and a little more than 2% had LANs.

However, experts predict that India's technology uptake figures—and its total number of SMBs—will grow significantly over the coming years.

According to AMI-Partners, SMBs in India spent \$12.4 billion on IT and telecommunications-related products and services in 2004. Further, the company expects that this type of spending will increase at a compound annual growth rate of 15% until at least 2009. When you break this growth rate into two distinct categories—IT and telecommunications—the increase in IT spending will be especially rapid, occurring at an annual rate of 28% until 2009, according to AMI-Partners forecasts.

The challenge is that much of the growth in spending—and therefore most of the resulting economic and social benefit—is limited to the six largest metropolitan areas: Chennai, Bangalore, Delhi, Hyderabad, Mumbai, and Kolkata (formerly Calcutta), where Kuka Travels is based. Together, these cities accounted for 80% of the small business IT spending in India in 2004, according to AMI-Partners.

The localized concentration of spending illustrates one of the country's primary challenges. A few areas are still struggling with the most basic infrastructure issues—securing good roads, reliable power, and telephone/broadband service—while others are at a more advanced stage along the IT adoption continuum, changing their focus from buying basic PCs to investing in scaleable IT solutions.



"You can't fully leverage supply-chain software if your roads are broken and the trucks aren't running," says New York-based Deepinder Sahni, a senior vice president at AMI-Partners. "What's the point of supply-chain software if you can't get from point A to point B?"

It's easy to distinguish those organizations that have technology from those that still need it by assessing their relative optimism about future business prospects. ***According to a 2004 AMI-Partners report, 67% of Indian medium sized businesses with PCs planned to hire new employees; furthermore, approximately 78% of SMBs expected an increase in revenue in the coming year.***

Further Growth Predicted

"Look at what is happening on a macro level," Sahni says. "One thing is the outsourcing trend. India's IT industry is coming of age. [Indian companies] have honed their skills by catering to foreign markets. Now they are turning their attention inward. Also, India is one of the key growth markets for [major technology] players like HP, IBM, and Cisco Systems. [These companies] are encouraging the technology uptake there with their own programs."

Increased income levels among the country's middle class have also driven higher demand for IT products and services. "Salaries are growing, and these people are demanding state-of-the-art consumer non-durables and durables," says Sahni. "If you want to buy a TV today, you have a choice of all the major brands. That wasn't the case five years ago. So the entire supply chain that takes TVs from factory to consumer has to up the ante in terms of how well they want to do business. That is the transformation taking place in the largest cities, and it's spreading into smaller cities now."

Of the many improvements that Indian SMBs stand to achieve from their technology investments, the following are perhaps most significant:

- Better cash-flow management, which can help SMBs identify who and when to bill and pay
- Easier tracking of costs, billable time, and vendor expenses and time
- Increased sales to existing customers as a result of effective data mining

Challenges Await

Only 20% of all Indian small businesses that own PCs currently have access to some form of high-speed Internet connection, according to AMI-Partners. This is in sharp contrast to their counterparts in China and South Korea, on the other hand, which respectively enjoy 52% and 93% broadband penetration among small businesses with PCs.

Additionally, much of India's broadband—including the service that Kuka Travels's Chowbey calls "lightning fast"—is based on ISDN technology, which doesn't meet the definition of high-speed network connectivity in most parts of the world.

"In today's global economy, the exorbitant cost of broadband access makes Indian SMBs less competitive to their global counterparts and limits their efficiency and productivity," according to a recent AMI-Partners report. "Indian SMBs are desperate for affordable bandwidth. The government must work with the industry and make this imminently possible. This, in turn, could significantly contribute to the economy and further accelerate growth for the domestic IT industry."

While power generation is not a problem in most regions of India, the number of telephone lines often is. The average number of people using a single telephone line in a small Indian business is 4.7, which is considerably higher than in some other geographic regions, according to AMI-Partners research.

In addition, it's often difficult to convince Indian SMB owners and managers of the return on investment that expensive new technologies can generate—especially since labor costs in India are relatively low.

"Even if they have the money, [many companies] don't go for new technology because they don't see much benefit," says Jayashree Dubey, an assistant faculty member at Entrepreneurship Development Institute of India (EDI India). "But that will definitely change."

A not-for-profit institution, EDI India was formed in 1983 and is sponsored by the Industrial Development Bank of India, the Industrial Finance Corporation of India (now called IFCI Ltd.), the Industrial Credit and Investment Corporation of India (now called ICICI Bank), and the State Bank of India.

Government Efforts

Local, regional, and national governments are helping small enterprises in India by offering tax breaks and other incentives to adopt technology, and by changing prevailing banking laws in order to encourage the formation of smaller businesses.

"Many of those who are in business believe that government should only take care of law and order and health and education," says Dubey. However, she says that a kind of evolution will foster the modernization of small businesses in India.

Additionally, Small Industries Development Bank of India has reportedly signed a \$100 million loan agreement with the World Bank to encourage and help finance the formation of new small businesses.

"A lot of our students are from families where their fathers and uncles started a business," Dubey explains. "In many cases, the ones who started the businesses years ago are not very good in technology and management practices. But the coming generation will have better technical and professional qualifications."

The students in EDI India are primarily interested in starting or continuing businesses in areas such as textiles and ready-made garments, food and food processing, plastics manufacturing, auto parts, nanotechnology, handicrafts, medicines, metal and steel, hotels and restaurants, or construction.

Development Efforts

India's national budget for the 2005-2006 fiscal year identifies more than 100 types of small businesses for development, according to AMI-Partners, with a focus on knowledge-based industries such as pharmaceuticals, biotechnology, and IT. Government programs will target these specific sectors for infrastructure development and workforce-training programs.

Another organization taking an active role in the development of small businesses in India is the United Nations Industrial Development Organization (UNIDO), an agency that helps developing countries—and countries in transition—fight poverty by, among other programs, supporting the growth of small businesses.

In India, UNIDO conducts technology demonstrations and pilot projects intended to foster growth by showing small businesses what they can achieve through the effective use of technology.

"In one sector which was supposed to disappear totally, the toy sector, we now have 30% export growth," says Vladimir Kozharnovich, program manager for UNIDO's industrial promotion and technology branch. "In machine tools, we have 50% export growth. We consider technology to be the engine of economic development, while investment is the fuel."

On Sudder Street in Kolkata, Manish Chowbey agrees. "The stage is set," he says. "We are doing well, and we are hoping to do great in the near future."