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Need for Digitalization and Servitization of MSMEs in India

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ABSTRACT

Purpose - The recent change in the economic environment has caused harsh consequences to various micro, small and medium enterprises (MSMEs) in India. With most customers either hesitant to travel to these businesses or cannot reach the markets due to government regulations, these businesses have seen their revenues plummet to the lowest, and most have been shaving off savings to survive. These changes in the environment have asked these MSMEs to adjust and formulate newer strategies. This article highlights strategies that can be or should be used by the enterprises.

Methodology – Approach used in this article was case-study method. Seeking information and ideas which portray the problem and the solution distinctly, through secondary data including news articles, reports and publications were utilized.

Analysis – One of the strategies discussed in this paper is the conversion of businesses to services, and the tangibility of the existing business offerings is reduced. The reduction in tangibility is defined as Servitization, which helps the business gradually adjust to the service economy as well as build a long-term market share. This article focuses on suggesting & explaining business process and how to apply the solution which can be used by the enterprises for the problem at hand after examining various issues faced by them.

Keywords: Digitalization, Servitization, India, Economy, MSME, Lockdown, New Business.

I. INTRODUCTION

Indian economy is projected to be the fastest-growing economy of the world in 2021-2022 as per the new report by The Organisation for Economic Co-operation and Development (OECD). The report projected the Indian economy to grow at 12.6 percent, the highest among the G20 countries in the financial year 2021-22.^[2]

Micro, Small, and medium enterprises are an essential part of the Indian Economy. MSMEs have been constantly an integral part of the annual GDP, with 30.27% of All India GDP (2018-

¹ Author is a student at Bharati Vidyapeeth University, India.

² OECD (2021), OECD Economic Outlook, Interim Report March 2021, OECD Publishing, Paris, <https://doi.org/10.1787/34bfd999-en>

19). The contribution of Manufacturing MSMEs in the country's total Manufacturing GVO (Gross Value of Output) at current prices has also remained constant at around 33%, that is one-third during the period from 2014-15 to 2018-19. ^[3] MSME's importance in the Indian economy has led the government to increase its focus on these businesses in recent times. With the Atmanirbhar Bharat Abhiyaan led by Finance Minister Nirmala Sitharaman, the finance ministry announced economic reforms to boost the businesses in India with a significant focus on the Micro, Small, and Medium Enterprises sector with the goal to revive the economy on May 12th, 2020. With these reforms came the redefining of the MSME sector by the Ministry of Micro, Small and Medium Enterprises ^[4]:

- Micro enterprises where the investment in Plant and Machinery or Equipment does not exceed one crore rupees and turnover does not exceed five crore rupees,
- Small enterprises where the investment in Plant and Machinery or Equipment does not exceed ten crore rupees and turnover does not exceed fifty crore rupees,
- Medium enterprises where the investment in Plant and Machinery or Equipment does not exceed fifty crore rupees and turnover does not exceed two hundred and fifty crores' rupees.

On March 24th, during Prime Minister Modi's national address, he announced the national lockdown amid the rise in COVID-19 cases at the time. Before the announcement, there had been 536 confirmed cases across India and ten reported deaths, according to Indian Council for Medical Research (ICMR). ^[5] The lockdown was planned to last 21 days, but a complete nationwide lockdown lasted until when Unlock 1 was announced by the government with a set of guidelines for unlocking for the general public on March 31st, which came into effect from June 1st ^[6].

This unprecedented turn of events made life difficult for the MSMEs in India. The announcement of countrywide lockdown dragged MSME owners, employers, and external stakeholders in unexpected times, where nobody had the experience to handle this type of situation. Extended lockdown had a negative impact on the supply of finished goods, procurement of raw material, availability of employees to work in production and supply

³ Ministry of Micro, Small and Medium Enterprises, 2020. Annual Report 2020-21. Ministry of Micro, Small and Medium Enterprises, p.27.

⁴ Gazette of India, 2020. Ministry of micro, small and medium enterprises notification. [online] Available at: www.msme.gov.in/sites/default/files/MSME_gazette_of_india_0.pdf

⁵ Business Today, 2020. Coronavirus in India: 21-day lockdown begins; key highlights of PM Modi's speech. [online]. Available at: <http://www.businesstoday.in/current/economy-politics/coronavirus-in-india-21-day-lockdown-begins-key-highlights-of-pm-modi-speech/story/399154.html>

⁶ Khan, T., 2021. Unlock 1.0: What will open and when; know about the three phases of lockdown upliftment. English Jagran, [online] Available at: <https://english.jagran.com/india/religious-places-hotels-restaurants-and-malls-to-open-from-june-8-as-centre-issues-phase-wise-guidelines-for-lockdown5-10012421>

processes, and domestic and international demand. ^[7]

With cities sealed all over India and no movement across state borders, the production activities and supply chains were at a standstill. Nationwide lockdown halts most production activities; thus, the production became zero except for certain essential goods. The shortage of inputs has also driven severe contractions in production. This latent shortage of input may be due to the logistical barriers or a chain reaction of production standstill.

The sudden declaration of lockdown triggered the movement of thousands of migrant laborers to their respective villages who would have been stuck in cities with no food, savings, shelter, and jobs. Many stuck in cities are desperate to go back to their villages. The firms tackled the shortage of labour since many preferred staying in their villages with their families. The environment of uncertainty had sparked fear of going back to work among workers. For MSMEs, change in the work process through the shift to work from home is not possible because of the nature of production processes that require the physical presence of labour. Hence, the businesses are forced to pay salaries to their workers in times of almost no labour utilization and liquidity shortfalls. The wage pressure is putting labour-intensive MSMEs under an extraordinary burden, and many are laying off their employees. According to the ILO, about 400 million people working within the informal economy in India were said to be in danger of poverty because of the unknown duration and severe economic impact of the coronavirus. ^[8]

With people staying at home, there is a halt in revenue of the MSME sector as well, who do not have enough liquidity to incur their working costs. The consumers are forced to remain at home which has caused a requirement stagnation within the economy. Consumer behaviour in times of pandemic is risk averse. The consumption is mainly limited to essential goods with no expenditure on nonessential goods and services. The salary cuts and lay off lead to consumers left with less income which can severely impact the demand. Furthermore, the negative impacts of lockdown provide a shock to the manufacturing sector will also have a ripple effect on investment, employment, and income, all of which can sharply decelerate demand. ^[9]

These issues call for urgency of modernization in this industry. The MSME sector started its

⁷ Tripathi, A., 2020. Covid-19 affect on Micro, Small and Medium Enterprises (MSMEs). Times of India, [online] Available at: <https://timesofindia.indiatimes.com/blogs/agyeya/covid-19-affect-on-micro-small-and-medium-enterprises-msmes>

⁸ International Labour Organization, 2021. ILO Monitor: COVID-19 and the world of work. Second edition. [online] International Labour Organization, p.6. Available at: https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/briefingnote/wcms_740877.pdf

⁹ Singh, Anukarsh, What About India's MSME Sector: COVID-19 Pandemic and Indian MSME Sector Outlook (June 12, 2020). Available at SSRN: <https://ssrn.com/abstract=3696778>

modernization processes, but most of business have lagged behind on the standard digital adoption curve.

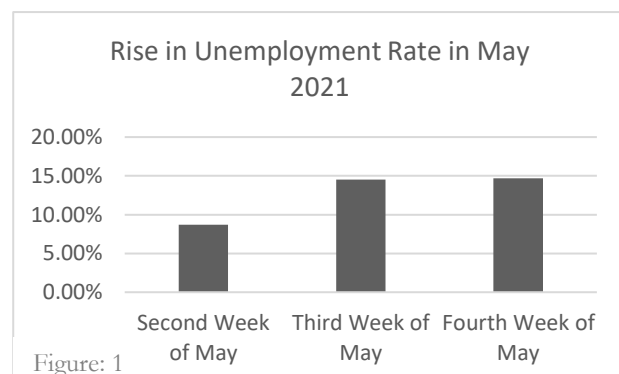
(A) Methodology

The approach used in this article is case-study method. The case study allows for the investigation of a real issue, utilising various data sources within a specific setting. While this notion of need for digitalisation and servitization is labelled in the literature, it is frequently used interchangeably. We advise that the notion be clarified by providing a summary of existing theories to avoid misconceptions. The author carried out a thorough study of the existing literature seeking information and ideas which portray the problem and the solution distinctly, through secondary data including news articles, reports and publications which were utilized. As a result, the paper's final recommendations focus on making a speedy transition to digitalization and servitization.

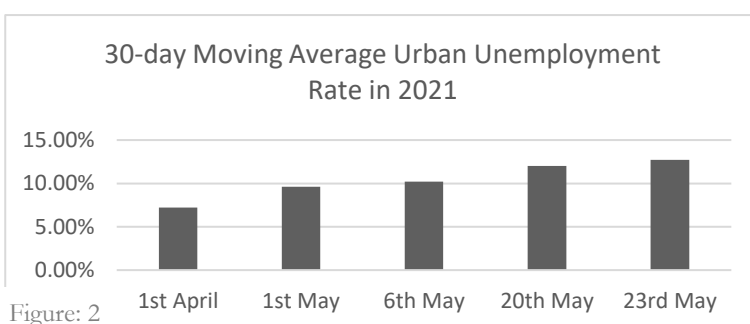
II. FINDINGS

(A) Rise in Unemployment in India

The unemployment rate in 2021 has reached double digits again recently. The last time the unemployment rate reached double-digits was during the strict and problematic nationwide lockdown in during April and May 2020. There is no similar nationwide lockdown in 2021 but the local restriction is



causing several mobility problems to business and people in general. The latest double-digit unemployment rate demonstrates that even local governmental restrictions are having an



impact on the economy. We can see a steady rise in unemployment in the nation in the month of May 2021. The unemployment rate on 23rd May was 14.70%. Between April 2021 and May 2021 there has been a sharp decrease of 1%

of employment rate which translates to fall in employment of approximately 10 million people. This would be far higher than the 7.35 million job losses observed in April 2021. Since January 2021, employment has been declining. Between January and April of 2021, it had also dropped

by around 10 million people. The final monthly statistic for may would be in double-digits indicating substantial loss of employment in the nation.¹⁰

(B) Sales

MSMEs worldwide have encountered considerable hurdles to their revenue-generating activities in a climate of continuous economic instability and declining customer demand. In total, 55 percent of MSMEs surveyed by the OECD, Facebook, and the World Bank in the world between October 23 and October 31, 2020, reported fewer sales in the previous 30 days compared to the same 30-

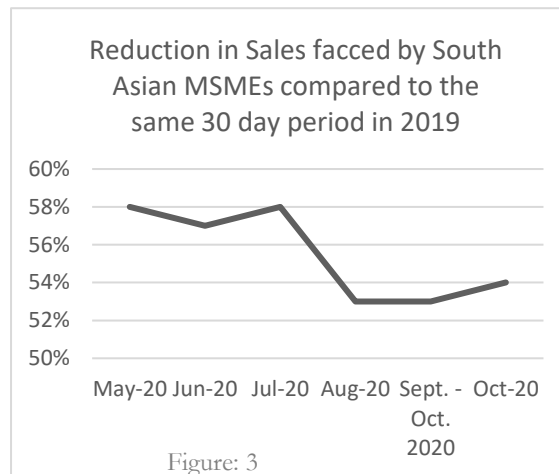


Figure: 3

day period in 2019. This also showed a 7-point decline from a survey conducted between May 28 and May 31, 2020, when 62 percent of tested businesses reported lower year-over-year sales performance.

This shows that the sales for MSMEs took a huge toll due to economic regression caused by the pandemic but recovered slightly after slight normalization from the situation. But this also shows that the recent restrictions faced by the businesses in India recently would cause a similar problem to MSMEs again.^[11]

(C) Change in Consumer Buying Behaviour

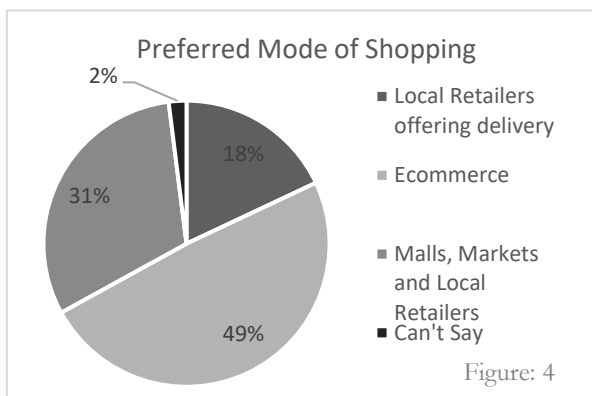
The consumer buying behaviour has been drastically changing throughout the course of the pandemic in 2020 and 2021. According to a global YouGov study conducted in December 2020 of 18,000 consumers, the pandemic has already shifted buying habits of Indians far more than other countries.^[12] Few major behaviour changes indicated through this survey were - During the pandemic, grocery shopping has become a planned event for most people. In general, 90 percent of Indians in the poll agreed to be involved in organised grocery shopping. Few people claimed they would buy products on the spur of the moment or when they needed to buy groceries. Consumption of fruits and vegetables, as well as dairy items, has increased in

¹⁰ Vyas, M., 2021. 15 million jobs lost in May 2021. [online] Unemploymentinindia.cmie.com. Available at: <https://unemploymentinindia.cmie.com/kommon/bin/sr.php?kall=wtabnav&tab=4080>

¹¹ Oecd.org. 2021. The Future of Business Survey - OECD. [online] Available at: <https://www.oecd.org/sdd/business-stats/the-future-of-business-survey.htm>

¹² Singh, B., 2021. Two-thirds of urban Indians plan to use online shopping and delivery services in the future. [online] YouGov: What the world thinks. Available at: <https://in.yougov.com/en-hi/news/2021/04/13/two-thirds-urban-indians-plan-use-online-shopping-/>

India, compared to the junk and unhealthy options available. Also, three out of every five consumers (60%) stated they want to support local businesses and buy more local items once the pandemic has passed in all 17 markets the survey was conducted in. In emerging markets like Indonesia, Mexico, and India, where family stores dominated, support for local businesses was considerably higher, and they were able to keep operating even when supermarkets struggled.



Indians have once again been locked indoors as authorities across the country implement mobility restrictions to combat the second COVID wave. The long periods of confinement during 2020 and again in 2021 has made e-commerce one of the most preferred modes of shopping in India. A survey conducted by LocalCircles which

received received 1,30,000 responses from 42,000 consumers across 358 districts of India revealed that despite the opening of local markets, retail stores and malls over the past few months, consumers who used ecommerce services during the past year preferred continuing to use them. Over the last 12 months, e-commerce websites and apps have become the preferred form of buying for 49% of all respondents, while 18% prefer having things delivered home from their local retailers. ^[13]

(D) Changes in Workplace Environment

Pandemic has brought changes leading to the normal workplace to be turned into a 'work from home' workplace environment. It has caused a series of rethinking and learning for every employee to get used to the new patterns. The January 2021 TimesJobs survey called 'How do corporates envisage year 2021?' has shown the future of various businesses towards the new normal. According to the TimesJobs survey, 42% of the HR managers from the 1,376 HR managers who participated in this survey believe that their companies will continue to use remote working because of the medical pandemic. Almost 40% of respondents said they would use a hybrid structure, working from home on alternate days and at the office on other days. The remaining 18 % indicated they would remove the work from policies completely. About

¹³ Permohamad, A., 2021. E-commerce is fast becoming the default option for shopping in India. The Economics Times, [online] Available at: <https://economictimes.indiatimes.com/tech/technology/e-commerce-is-fast-becoming-the-default-option-for-shopping-in-india/articleshow/81502440.cms?from=mdr%20/%20https://news.abplive.com/business/after-covid-49-indians-preferred-shopping-online-than-visiting-malls-or-stores-survey-1448559>

half of respondents who said they would be working from home in 2021 claimed they would continue to do so for the next year. Up to 23% of respondents claimed they want to use the work from home environment over the next five years.

The survey also highlighted the decision of 85% HR professionals to hold appraisals of their companies' employees in 2021. Only a small percentage of survey respondents said their company would carry out appraisals ranging from 30% to 35 percent. The decision to hold appraisals is parallel to the previous assumption of employees left with comparatively less disposable income to spend in the economy and with the MSMEs in the country leading to further problems. ^[14]

III. ANALYSIS

(A) Need for Digitalization

COVID-19 has created a challenging environment for MSMEs and facilitates survival for the fittest and those that are agile and adaptable. Organisations that are low on cash reserves, have limited resources, do not have a contingency plan in the event of a crisis face the impact of the problem. For most businesses, digitisation is the only way forward as it brings adaptability and elasticity to the operations, helps increase their presence in the market while increasing the market size and blurring geographical boundaries. It is already established that embracing digital is crucial to surviving this pandemic.

Digital transformation could benefit MSMEs to achieve some of their essential long-term plans.

1. Reaching Customers

If one has a physical shop, the business is limited by the geographical area that the business can service. With an e-commerce website, the geographical boundaries are dissolved, and the business can offer its products and services across the country. Additionally, the rise of shopping on mobile devices has solved every limitation of geography for businesses. People have access to the products even if they are in the same city, state, country, or overseas; An online store can reach customers worldwide. Digitalisation is essential for a business struggling due to consumers not reaching their business in person. With people staying at home, most purchases are made online. As per the study by Shopify, 84% of consumers have shopped

¹⁴ Timesjobs.com. 2021. Work from home to be new normal in 2021 too, HR managers keen on hiring AI, Data Science and Business Analyst roles: TimesJobs survey. [online] Available at: <https://content.timesjobs.com/work-from-home-to-be-new-normal-in-2021-too-hr-managers-keen-on-hiring-ai-data-science-and-business-analyst-roles-timesjobs-survey/articleshow/80148799.cms>

online since the pandemic, compared to 65% who have shopped in-store. ^[15]

2. Branding

Branding is the process of incorporating elements such as a logo, design, mission statement, and a consistent theme in all marketing communications to create a positive perception of the company and make it stand out in the minds of consumers. Businesses that use an efficient branding process will stand out from the competition and develop a loyal customer base, resulting in a longer customer relationship.

Digital Marketing is a very effective tool for all types of businesses who look to build a brand around their business. The sole reason for the high effectiveness of digital marketing with branding is the amount of attention the internet holds and how important it is in shaping consumer behaviour. The use of the internet has risen in recent times, providing an excellent opportunity for businesses to brand digitally. With so much competition, small businesses face the daunting challenge of cutting through all the clutter to connect with the audience, for which Digital Marketing is the best and the most cost-efficient way to accomplish branding as a task. For instance, Bewakoof.com started as an online affordable merch store in 2012 by co-founders Prabhikiran Singh and Sidharth Muno. With an idea of opening an online business for T-shirt printing with unique designs to target youth and/or college students, they created a brand that captured value in the market. Using various digital strategies, they built Bewakoof.com to estimated annual revenue of \$15.1 million. T-shirt printing is a widespread practice but creating a massive brand out of an average market practice was possible through practical branding efforts through the internet. ^[16]

3. Real-time insights

The process of preparing and measuring data as soon as it reaches the database is referred to as real-time analytics. In other words, users gain insights or can make decisions as soon as the data reach their system. Businesses can respond quickly with real-time analytics. They can seize opportunities or avoid problems before they occur.

A quicker reaction towards decision making is only possible when the data required for the decision is provided instantly. Equipment malfunctions, market transitions, or consumer shifts are all examples of business changes that can occur at any moment. Real-time analytics enable

¹⁵ Shopify. 2021. Future of Commerce 2021, p.5 [online] Available at: <https://www.shopify.com/future-of-commerce/2021>

¹⁶ Tyagi, G., 2020. D2C brand Bewakoof crosses Rs 200 Cr revenue in FY20. [online] Entrackr. Available at: <https://entrackr.com/2020/11/d2c-brand-bewakoof-crosses-rs-200-cr-revenue-in-fy20/>

businesses to understand these developments as they occur, allowing them to respond rapidly in a crisis. Real-time analytics also shows when and why consumers behave the way they do, as well as helps in optimizing their satisfaction.

Businesses can test their actions and plans as they happen in real-time. For example, A/B testing can have real-time results presented immediately. Some of the vital data collected by every small online business are Email marketing reports, Sales receipts, Social media analytics, and Website analytics.

4. Targeted marketing

With vast data available on customers and their behaviour on various platforms, it is easier for the business to choose and then target their desired target market. Marketing the products and services online gives the business the power to focus on audiences supported demography. This allows the business to concentrate its efforts on the audience that it simply genuinely wants to supply the products or services.

Reaching a specific customer group is made more accessible online through demographic targeting, which gives the business the ability to target specific customers it thinks are likely to purchase the product or its services. The target market for a company is often defined by age, gender, parental status, or household income.

According to the Cisco India SMB Digital Maturity Study 2020, digitalisation of MSMEs could add anywhere between \$158-216 billion to India's GDP by 2024.^[17] It is crucial for the economy to help Micro, Small and Medium Businesses overcome their challenges in the adoption of digitalization. The goal should be to strengthen over three lakh MSMEs through digital adoption, improve business skills and financial inclusion, thus strengthening their competitiveness of them through digital acceptance.

(B) Market Trends for Online Commerce

While the eCommerce industry was already on the rise before the pandemic, the expansion was accelerated by unprecedented customer demand. Online shopping, according to Statista, is one of the most common online activities on the planet. Further, Revenue is expected to rise at a 9.58 percent annual pace (CAGR 2021-2025), resulting in a market volume of US\$79,458 million by 2025.^[18] eCommerce has become more consumer-centric as a result of

¹⁷ Cisco. 2021. Cisco 2020 APAC SMB Digital Maturity Study. [online] Available at: http://www.cisco.com/c/en_in/solutions/small-business/digitalmaturity-2020.html

¹⁸ Statista. 2021. eCommerce - India | Statista Market Forecast. [online] Available at: <https://www.statista.com/outlook/dmo/ecommerce/india>

technological advancements. Brands are constantly tweaking their marketing strategies to make them more focused, personalized, interactive, and accurate. E-commerce will continue to expand, improve, and become more consumer-centric in the coming years, from taking advantage of new opportunities in niches previously untapped by entrepreneurs to increased overall sales.

1. Omnichannel Strategies

Consumer purchasing habits are constantly changing, and today's consumer needs more than just satisfaction, this year, consumers have prioritized protection and convenience over other factors. Deloitte State of the buyer Tracker showed that 73% of Indian respondents are willing to spend extra money on convenience. As a result, e-retailers are pursuing a broader strategy that includes ease, product availability, and awareness. As a result, through data-driven insights, brands specialize in omnichannel presence to ensure a seamless and personalized shopping experience for everyone at every touchpoint.

Brands are growing their efforts and moving to customer-centric business models, creating customized and personalized experiences rather than channel-centric ones, as convenience and knowledge become the primary drivers of e-commerce growth. As a result, customer-centric business models are gaining ground in terms of customer retention, loyalty, and acquisition.

2. Integrated Payment Solutions

Payments are critical for any business and providing streamlined payment solutions improves profits dramatically because customers prefer seamless payments with a range of options. Customers are becoming more technologically savvy these days, with the pandemic facilitating a major increase in the adoption of digital payments. Besides this, the National Payments Corporation of India (NPCI) urges people to steer clear of using cash for transactions ^[19], and consumers who are not very tech-savvy or who are first-time users have also followed to use digital payment methods.

Customers can pay for products and services using various options available online or offline, due to the evolution of Alternate Delivery Solutions in the banking sector. Alternative Delivery Channel (ADC) refers to the channels that serve as intermediaries between the bank and the customer, allowing the customer to make banking transactions. Smartphones provide convenient solutions for online purchases, encouraging consumers to use online banking

¹⁹ Npci.org.in. Cashless Payments Made Easy By NPCI And Its Products. [online] Available at: <https://www.npci.org.in/what-we-do/rupay/articles/cashless-payments-made-easy-by-npci-and-its-products>

services.^[20] The customers can conduct banking transactions from their home, office, or any other location using these channels. For small financial-based companies, the high demand for alternative distribution channels can be seen as an opportunity. Alternate delivery channels currently include Internet Banking, Mobile Banking, UPI –Unified Payment Interface, E-Wallet facilities, ATM Card, Debit Card, and Credit Card.

Innovation in any alternate delivery channel would be high in demand and beneficial for both the business and the banking sector.

3. Social Commerce

The term "social commerce" refers to e-commerce transactions in which buyers and sellers communicate with one another through social media platforms prior to making a purchase. In traditional e-commerce, customers search for goods on a digital webpage, while in social commerce, customers complete their purchases by engaging on different social media sites. Young buyers are buying goods given to them by social media endorsements and constantly monitoring trends on social media sites to stay updated on brands and products, and due to which social commerce is becoming the tool for Indian manufacturers.

According to a Bain & Company report, social commerce in India (in terms of gross merchandise value) was estimated at ~ US\$ 2 billion in 2020 and is projected to succeed in US\$ 16-20 billion by 2025 and US\$ 60-70 billion by 2030. The share of social commerce in India's e-commerce market (US\$ 38 billion in 2020) is predicted to extend from the prevailing 1-2% to 4-5% of the projected US\$ 140 billion markets by 2025.^[21]

Capable MSMEs use social commerce to grow in India and around the world, focusing on new market opportunities. For instance, in 2020, Ms. Ritu Bhansali, founder of Everything Mom Made in Jaipur, launched her skincare brand on Instagram, gaining 2,300 followers in just five months. Besides supplying bulk orders for weddings and catering to several organisations, the corporate ships ~80 individual packages monthly.^[22]

Furthermore, one of the most important advantages of social media is that it allows businesses to interact with their customers. Social networking sites provide a variety of innovative

²⁰ Allbankinginfo.com. 2021. 5 Major Alternative Delivery Channels in Banking Sector. [online] Available at: <https://www.allbankinginfo.com/2020/10/alternative-delivery-channels-in-banking-sector.html>

²¹ Sheth, A., Sridharan, R., Reddy, L., Sadhwani, K. and Thakur, S., 2020. The Future of Commerce in India. [online] Bain.com. Available at: https://www.bain.com/globalassets/noindex/2020/bain_report_unlocking_the_future_of_commerce_in_india.pdf

²² Dey, A., 2021. Social commerce emerging as a new model for small and medium businesses to transact. [online] The Financial Express. Available at: <https://www.financialexpress.com/industry/sme/social-commerce-emerging-as-a-new-model-for-small-and-medium-businesses-to-transact/2163005/>

resources for interacting with your audience. Businesses can get a good response from their audience and communicate with them by making proper use of these resources. Photo sharing, polling, and stories, for example, assist sellers in gaining useful insights into customer desires to enhance product sales and plan business strategies.

4. Hyperlocal delivery

Consumer behaviour has shifted dramatically as a result of Covid-19. Since local businesses are trying to satisfy consumers in their communities, there has been a rise in demand for hyperlocal delivery, especially for essential products, as physical retail has almost come to a halt in recent months.

According to Shadowfax Technologies co-founder and COO Praharsh Chandra, during the initial phase of the lockdown, "Shadowfox saw the chance within the adversity and worked towards offering new solutions for our offline retail chains for his or her online delivery needs: for instance; same-day delivery, D2C delivery thanks to which we've seen significant growth within the last 8 to 10 months. we've grown about 3X within the volume of business since pre-COVID levels."^[23]

The fact that several retail brands are introducing hyperlocal delivery services reflects the hyperlocal delivery market's ability to expand and become mainstream. Flipkart launched its hyperlocal service Flipkart Quick in time for the festive season to deliver goods. Flipkart has also teamed up with Spencer's to provide hyperlocal distribution of essentials. ^{[24][25]}

With more people using distribution systems to shop, hyperlocal delivery will become a normal way of life. People are less likely to engage with the physical world outside of their homes as a result of health and safety regulations. With work from home becoming more of a way of life, more people will take advantage of the ease of home delivery. Consumers' willingness to pay for convenience may support the use of appropriate technology to bring the hyperlocal delivery in highlight. Fast consumer and neighbourhood shops adoption of technology, the convenience of buying and selling at the touch of a button, fast transportation, and easy availability of delivery partners are just a few of the main factors that will drive hyperlocal

²³ Kannoth, S., 2021. We see ourselves growing 10x in the next five years: Shadowfax COO | Logistics. [online] Itln.in. Available at: <https://www.itln.in/we-see-ourselves-growing-10x-in-the-next-five-years-shadowfax-coo-logistics>

²⁴ Abrar, P., 2020. Flipkart partners with Spencers for hyperlocal delivery of essential goods. Business Standard, [online] Available at: http://www.business-standard.com/article/companies/flipkart-partners-with-spencers-for-hyperlocal-delivery-of-essential-goods-120040901626_1.html

²⁵ Bhalla, T. and Nandy, M., 2020. <https://www.livemint.com/industry/retail/hyperlocal-biz-takes-centre-stage-11601946983901.html>. LiveMint, [online] Available at: <https://www.livemint.com/industry/retail/hyperlocal-biz-takes-centre-stage-11601946983901.html>

delivery's rise in India post-Covid.

5. 'Make in India'

The 'Aatmanirbhar Bharat' initiative is boosting the online commerce industry by encouraging domestic producers to move from in-store sales to online deliveries. With increased customer recognition and brand encouragement, 2020 saw a rise in preference towards 'Made in India' products.

Speaking on his monthly radio programme 'Mann Ki Baat' on December 27th, the Prime Minister said, "the people of India have taken many steps forward and are getting 'vocal for local'. Our manufacturers are also thinking about making top-quality products. This will boost the efforts towards Aatmanirbhar Bharat". [26]

Consumers are now making a conscious effort to help local companies, and marketers will capitalize on this trend by using positive phrases like "Vocal for Local," "Made in India," and "Locally Sourced" to promote their products online. As per a report by Shopify consumers' intentions lean toward supporting independent businesses, also 50% Of consumers worldwide look for independently-owned businesses to support and 65% of consumers say they support small businesses. [27]

(C) SERVITIZATION

1. What is Servitization?

Just manufacturing a product for commercial purposes is not enough to gain popularity, sales, and loyal customers anymore. The service industry has gained much momentum over the manufacturing industry in the last ten years. The service industry's growth has led to changes in the overall working of the business environment and turned it towards a customer-centric approach. This approach used by the service industry puts the needs and requirements of the consumers first and tries to fulfil them with utmost desire. Consumers have felt the increase in satisfaction and convenience provided to them by the modern business, which makes the consumer want to spend more to gain more convenience, and it helps the businesses capture more value in the minds of the customer.

The race of producing better goods has evolved into providing more services, satisfaction, ease to the customer over the relatively homogenous quality products produced by the

²⁶ South Asia Monitor. 2020. Modi wants India to make world-class products Read more at: <https://www.southasiamonitor.org/india/modi-wants-india-make-world-class-products>. [online] Available at: <https://southasiamonitor.org/india/modi-wants-india-make-world-class-products>

²⁷ Shopify. 2021. Future of Commerce 2021, p.16 [online] Available at: <https://www.shopify.com/future-of-commerce/2021>

manufacturing industry. Consumer goods now need to provide added services to fight for their captured market.

“According to Vandermerwe and Rada’s opening statement, the Servitization of business is a trend in which “More and more corporations throughout the world are adding value to their core corporate offerings through services.”” Servitization can be designed as both a systematic long-term strategy and a long-lasting business characteristic (trend).^[28]

2. Servitization Business Model

It is the process of implementing services to create additional value to the business offerings for the target audience, for the business to gain a competitive advantage. In simple terms, it is the process of implementing services to the business to create additional value from the business offerings. A business can be servitized by implementing services in any of the following ways into their business:

- A core product with extended service offerings,
- A core product improved through additional services
- A core product’s performance improved through a service.

Implementation of servitization can provide a VRIO resource, which is defined by J Barney as a resource that is valuable, rare, inimitable, and organizationally exploited. A resource that fulfils the VRIO assessment of resources provides the business a sustained competitive advantage which means the resources which provide the advantage are difficult to imitate by the competitors and provide a long-term advantage over them.

3. Steps for Servitization

○ Selecting Products offering

The first step towards Servitization would be identifying and choosing the products to servitize in a business. Every product or service can be servitized due to technology advancements but choosing the right product or service which has the most potential for growth by Servitization is key. As per the BCG Matrix, any star and cash cow products should be chosen to increase their value even more in the market and killing the market of competitive products.

○ Identifying Target Market

Identifying a target market helps in providing a basic understanding of customers’ needs

²⁸ Alvizos, E. and Angelis, J., 2010. What is Servitization anyway?. In: POMS 21st Annual Conference. [online] Vancouver, p.6. Available at: <https://www.pomsmeetings.org/confpapers/015/015-0293.pdf>

by grouping customers with similar consumer behaviour together and then selecting the group as the target market. This helps the business in improving their understanding of how, why, and what influences customer buying behaviour, which can be used to change or build business offerings accordingly.

Since in this process of Servitization the business already knows about their core target audience and identification of target market would not be achieved, instead, the business needs to decide if they want to cater to a different audience in the future and if they want to broaden their criteria in the long term.

The newly finalized target market should be well thought on with respect to the business offerings and need to analyse to collect information about the consumer buying behaviour and interaction with the offerings.

○ **Analysing Products**

Implementation of Servitization of business offerings can be through three ways as previously discussed. A core product with extended service offerings, a core product improved through additional services and a core product's performance improved through a service.

The business must identify which problem their ideal service would fulfil for their customers. There are two ways to identify the potential services to implement.

i. Identifying Services that directly enhance the value of the final offering for the target customer

Some services directly affect the overall value of the product offering for the customers. These services would attract the buyers towards the business from the competitive businesses. This can be categorized in product development for the business. For instance, warranties are provided by almost all the business for their products which act as additional value to the product.

ii. Identifying services that decrease the barriers for customers to use the business offering

There are services that help customers with the convenience to acquire the offerings and/or help the customers in usage of the products. For instance, most businesses have home delivery options that help customers acquire products by bypassing geographical boundaries. Business can even provide services which help the product to be used for more than the initially targeted usage.

These are the two main motives of any business to increase their customer base which itself was the motive to choose Servitization as a business model. This helps in identifying all potential value gaps and barriers for customer's buying & usage behaviour.

- **Ranking Identified Services**

The identified services can be ranked on the basis of the potential impact on the business they might provide after implementation. The list of all the services might provide a fresher perspective on the importance of each gap and barrier that is required to act upon.

- **Selection**

Selection of the final service to implement to the business is a key step in this process. Correctly selecting the service to place vital resources of the business into is key as every small business has limited resources to make use of. Small businesses cannot invest in several plans at once due to financial constricts and need to evaluate & select the best option for their businesses.

- **Tangibility Test**

Tangibility test refers to checking the tangibility of the products of the business after implementation of the selected service. This step helps the business understand the potential impact of the service on the product and how much of the product offering is still tangible. The main aim of this complete process is to convert the products into intangible services.

- **Implementation**

Implementation is the final step of the process but utilizes the most time of the business. Implementing the service into the business can be a tiresome process and requires utmost care since small businesses do not have much unemployed resources for testing and failing processes. The business needs to form a detailed and thorough plan to introduce its customers to their new offerings and inform them about the same.

4. Why Servitization for MSMEs

The Servitization Business model is aligned with the long-term strategies of the business and is driven by motives of financial stability, competitive advantage, and marketing strategies. In the current business environment, MSMEs are struggling with all three motives of servitization. With supply, demand, and financial problems only businesses to survive would be the ones with strong future strategies in place to gain a competitive advantage over other MSMEs in the nation. Following are the relevant benefits of this business model which fulfil the needs of the MSMEs in this changing business environment.

i. Revenue-generation

The most important aspect of servitization is that it allows manufacturers to create completely new businesses. Through insights and data collected regarding customer experience, Servitization can uncover and exploit various gaps in the delivery and usage of the products by the customer. There can be many ways to create convenience for the customer while he/she uses the product. After identifying these gaps, businesses can create business offerings to solve these gaps through innovative services. They can provide connected services or service standalone to create more value than the competitor. This eventually leads to several businesses alongside the star product offering.

With its customer centricity, the combination of product and service or the service alone is less sensitive in terms of price elasticity, which later turns into higher profitability (Baines et al., 2009; Wise & Baumgartner, 1999).^[29]

Mitsubishi Hitachi Power Systems, the maker of thermal power generation systems working with TCS to develop an artificial intelligence-based system which will use AI to adjust how various parts of coal-fired thermal power plants cooperate, helping to create the optimal temperatures for different kinds of coal to burn. It is designed to identify the most efficient use of coal, regardless of the kind or quality. It will be compatible with control systems not made by Mitsubishi Hitachi Power Systems, helping them sell this system as a product itself. This demonstrates the value of Mitsubishi combining its expertise in power plants with AI based systems to improve revenue generation using a service.^[30]

ii. Scalability

All business has a need to be scalable to hold onto and build market share. For small businesses, scalability is key for survival as they have limited resources and the biggest growth opportunities. Many small businesses fold directly because they fail to see what they need or where the market can take them, having too much focus on the current market can also be fatal. Having invested in Servitization early as a small business can be key to build a scalable business model which can provide several sources of revenue apart from the product, which therefore provides stability financially and high growth in market share due to customer attractiveness.

²⁹ Axelsson, J. and Gunnarsson, D., 2019. Servitization and its Effects on the Business Model. Department of Management and Engineering Master's thesis. Linköping University, p. 28

³⁰ Nikkei Asia. 2016. Tata, Japanese partners to use AI at coal-fired power plants. [online] Available at: <https://asia.nikkei.com/Business/Tata-Japanese-partners-to-use-AI-at-coal-fired-power-plants>

iii. Financial stability

Businesses using the Servitization model can offer services that complement the pre-existing product offering. Through this, any business can create recurring revenue streams.

Subscription revenue models can be used with ongoing services to the customers. These services can be both complementary to the product and standalone services. A subscription revenue model makes income predictable and secure. A business can easily forecast revenue trends over time for better financial stability.

Wise & Baumgartner (1999) suggest that the financial drivers for Servitization derive from profit margins and income stability. The authors also state that the magnitude of increased revenues with regards to services, in some sectors, is twice as great as revenues abstracted from new product sales. ^[31]

iv. Product Improvement

Businesses can capture more value from a product offering through embedded services involved while using the product. By providing additional features to the customer a business can improve customer experience and customer loyalty with added costs. For instance, Rolls Royce's jet engines include smart technologies and connectivity that enable them to advise airlines on optimal flight speeds and other operating metrics that produce the lowest fuel costs.

As for marketing drivers and marketing opportunities, Baines et al. (2009) state that new service offerings in combination with products generally increase product sales. Furthermore, Oliva & Kallenberg (2003) state that this is considered vastly truer in business to business (B2B) and manufacturing markets, where the demand for services is rising. Baines et al. (2009) indicate that services, in comparison to products, support customer loyalty, where customers become more of a subordinate to their supplier. Baines et al. (2009) and Mathieu (2001) declare that this type of relationship creates opportunities for upsell – although it comes with the cost of supplying more tailored service and product combinations, and in some cases creating systems for customer management. ^[32]

5. Increasing customer loyalty

Customer loyalty is when a customer chooses one business's products and services consistently over the competitor in the market. When a customer is loyal to a business due to the motivators

³¹ Axelsson, J. and Gunnarsson, D., 2019. Servitization and its Effects on the Business Model. Department of Management and Engineering Master's thesis. Linköping University, 28

³² Axelsson, J. and Gunnarsson, D., 2019. Servitization and its Effects on the Business Model. Department of Management and Engineering Master's thesis. Linköping University, p. 28

provided by the business, they are less likely to be affected by price and market practices of other businesses. The customer rather pays more to retain the value and ensure that they receive the same quality services and products.

6. Competitive Advantage

Services are a very strong business differentiator. If services are well-developed, they no longer stay a cost but create value and become the key differentiator. By providing a unique customer experience and a strong portfolio of services for customer experiences, a business creates high customer loyalty. The customers now would be willing to pay more for services than for a product and price will not affect their buying decisions, and the business will win the race for market share through services alone. The customer receives high value with the associated product and builds a relationship based on trust, knowledge, and support with the business. The stronger and more developed the relationships are, the more difficult it is for the competitors to replicate that relationship.

Oliva & Kallenberg (2003), supported by Baines et al. (2009), mention that services also enhance the differentiation of offerings within manufacturing, thus creating a potential for greater competitive advantages and opportunities. Oliva & Kallenberg (2003) also state that the potential competitive advantage is derived from the services' increasing level of inimitability. Baines et al. (2009) suggest that the progressive commoditization of product markets is becoming a problem for hardware manufacturing companies as differentiation achieved by the innovation of products and technology as well as price-based strategies become harder to maintain ^[33]

7. Making a virtue of necessity

One way to develop a competitive advantage in the market with Servitization is to develop the market for making helping the customer in every possible way a requirement for the market. To do so the business needs to develop services for its customer, to help them throughout their customer journey and making them a unique value capturing offering in the market. Long-term, the business would be able to capture more customer share and would be able to transform this act of virtue into a competitive advantage in the market.

Rolls-Royce's "Total Care" project improves their customers' operations. The TotalCare business model helps its customers to reduce waste and optimise resource efficiency and enables the maximum flying potential of their customers' engines. Its decision to change to a

³³ Axelsson, J. and Gunnarsson, D., 2019. Servitization and its Effects on the Business Model. Department of Management and Engineering Master's thesis. Linköping University, p. 28

service-based model was driven by customer demand and a recognition that the company was missing out on lucrative aftermarket sales, which were being scooped up by third parties.^[34]

IV. CONCLUSION

Micro, Small and Medium enterprises in India are struggling to gain business. The lockdown in early 2020 started turmoil for businesses and caused supply, demand, and financial stability issues for the businesses. Businesses with the knowledge of the market and long-term plans to improve on their current situations can survive the problems faced. Businesses need to be agile to compete and need to develop new business strategies according to the market customer trends.

The suggestions in the paper indicate that all the MSMEs need to focus on a quick transition towards digitalization of their business to meet their requirements and goals. The customers due to the pandemic are cautious and are engaging in buying behaviour mostly through the medium of the internet. Transitioning to digital mediums every business can interact with & meet new customers and create a unique image to stand out in the targeted marketing (branding). There are a lot of benefits to turn to the internet of business after the big changes caused by the pandemic worldwide. Another suggestion to improve the current situation of the business and influence the long-term planning of mice, small, and medium-sized enterprises was the Servitization model. The service sector is the leading sector in every developing and developed economy. The growth opportunities through developing services have been more than creating newer products. The customers in the modern economy have grown to expect a level of services along with their physical products and adapting to this thought would be beneficial for every business which is facing trouble currently. The Servitization business model shows positive results in businesses through growing revenues, creating competitive advantage, and creating a loyal customer base for the business.

Digitalization and Servitization of MSMEs would be afflential for both the business and the economy of the nation. The decrease of business interactions and transactions can be nullified through these business strategies.

³⁴ Rolls-royce.com. n.d. TotalCare®. [online] Available at: <https://www.rolls-royce.com/media/our-stories/discover/2017/totalcare.aspx> [Accessed 16 May 2021]

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