

Covid 19: What is Unique of SMEs Today?

ISED Discussion Paper



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ISED Small Enterprise Observatory
Jointly with
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Preface

Covid-19, the Pandemic, has set a new tradition of continuous disruption in the economies of the world. Unlike the usual business cycles, such disruption is marked by its poor predictability. The experience of containment of the Pandemic, across the world, remains rather mixed. There is a significant 'confidence crisis' that cuts across all sections of the society. This, obviously, has implications for consumer and producer confidence that help economies to come back to a "new normal".

Under the India MSME Communication Programme(IMCP), the Observatory, in co operation with the various Knowledge Centres of the Institute, makes a rigorous analysis of the latest currents in the MSME constituency, leading to a unique 'Development Report'. This study is a spill-over of this exercise of Development Reporting on micro, small and medium enterprises (MSMEs) at the ISED.

While the team of the Observatory did a meticulous job under the guidance and support of the Project Leaders, individual members of the Team, including the editors and the Associates, have made their special contribution in specific thematic areas. While this title is significant in the present context of the Indian economy , and of the MSME developments in specific, I hope it will contribute to wider discussions in the subject area.

As this title come out as a joint output of the Observatory and the ISED Centre for Enterprise Development, the Institute wishes to thank, without fail, the pains and efforts of the authors, and all who have supported it through inputs and suggestions. ISED has taken best efforts to ensure the quality and reliability of this paper. However, for the findings and views, the authors alone are responsible.



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Abstract

Covid-19, the Pandemic, has set a new tradition of continuous disruption in the economies of the world. Unlike the usual business cycles, such disruption is marked by its poor predictability. The experience of containment of the Pandemic, across the world, remains rather mixed. There is a significant 'confidence crisis' that cuts across all section of the society. This, obviously, has implications for consumer and producer confidence that help economies to come back to a "new normal".

Key Words: India, SME, Covid 19

1.0. Introduction

Covid-19, the Pandemic, has set a new tradition of continuous disruption in the economies of the world. Unlike the usual business cycles, such disruption is marked by its poor predictability. Since the outbreak of the Pandemic during early 2020, and the introduction of Covid 19 vaccine in May 2021, the experience of containment of the Pandemic, across the world, remains rather mixed. While mass vaccination itself is the way out, the actual experience remains far from the global need. This, obviously, has implications for public confidence on economies to come back to a "new normal". This is a significant confidence crisis that cuts across all section of the society, and therefore, continues to have a negative impact on lives and livelihoods, and economic life in general.

2.0. Industry & Enterprise: Evolving Scene

Covid-19, obviously, is the central point around which the global economy and its transition are defined today. There have been extensive debates on the pace of the global economy today, and the turn it will take in the near future. One year later since the out-break of covid-19, SMEs stand in an even more precarious position. The situation is worse in the case of young firms and start-ups, the self-employed, as well as women-led or minority owned businesses (OECD, 2021). In order to counter the impact of the crisis, emergency liquidity support remains essential, but at the same time, it is not sustainable over the longer term, and may have potential negative effects. Governments, around the world will have to address three challenges; first,

to continue support measures in order to avoid liquidity crisis; second, to ensure that the gradual phase out of this emergency support does not create solvency crisis for SMEs; and thirdly, to introduce effective policies that foster economic recovery

The Mckensy Report (2021) circumscribes the problem around some focal areas:

2.1. Consumer Confidence

The days of the Pandemic are globally considered as a transitory stage. As consumer confidence returns, there will be a tendency towards "revenge shopping". As demand increases, it has been noted that this is the experience of all previous economic downturns. A major difference under Covid-19 is that services have been particularly hard-hit due to the peculiar nature of the pandemic that bars personal mobility.

Though on-line retail trade has contributed to a disruption in business transactions, the digital effect is largely limited to the middle classes and the upper class. For the poor, their purchasing power has been drastically reduced.

2.2. Mobility & Travel

A significant development during the second phase of the pandemic has been regarding mobility and travel. Leisure travel is often considered as discretionary; business travel is less so. History shows that after a recession, business travel takes longer than leisure travel to bounce back. Experience of the financial crisis of 2008-09 is indicative. It is likely that regional and domestic business travel will likely to be rebound first. If it happens so, it

will be a boon to local tourism industry. According to the World Travel & Tourism Council (WTTC), in 2019, India generated about 5.6 per cent of total exports revenue from the travel and tourism sector. The sector plays a significant role as an economic multiplier in creating jobs at a rapid rate. The travel sector is MSME-heavy, having participants from the most prominent cities to the small towns and villages. India generated about 5.6 per cent of total exports revenue. The sector employs nearly 40 million people and SEIS has immensely helped India's tourism exports on several fronts.

2.3. Role of Innovative Entrepreneurs

There are many categories of entrepreneurs, as the literature in the subject area suggests. However, unlike in the past, the more recent phase of history demands a greater role of the category of 'innovative entrepreneurs'. Innovative entrepreneurs are those who manage to transform innovative ideas into high-demand, marketable products/services or both, through either a product or process intervention. In the modern era of accelerated growth of technology, innovation is often associated with a greater infusion of technology. Therefore, innovation is often described in terms of greater technology infusion, and more so, digital technology. Hence comes the usage like, "high technology entrepreneurship".

There has been a tremendous growth of digitization across various sectors of the economy, and in most processes of day to day life. Everything from on-line customer service to remote working, supply chain re-invention, use of artificial intelligence and machine learning, are expected to improve operations. The health-care sector also has changed substantially. Tele-medicine and bio-pharma have come up in a big way.

A disruption in the economy creates an operational space for entrepreneurs as well. This has significantly happened in countries like the USA. The key question, however, relates to the distributive effect of such new opportunities. But, at the other end, consider the devastating effect. In the USA, for example, of the total small businesses only 25.3% were open in December 2020, than in the beginning of the year. By April, the figure was almost half. Studies show that US small business revenues fell more than 30% between January and December 2020.

2.4. Going Digital: the Golden Rule

The greater acceleration in the use of technology and digitization, along with new forms of working, are remarkable developments under the pandemic; this is going to be sustained. The Covid19 crisis has created an imperative for companies to retrospect and re-configure their operations. Unless such changes happen, productivity is likely to be at stake. Such change and adaptation of new technology under pressure is unique to this pandemic, because as in 2021, technology is a major third force to be reckoned with.

2.5. Major changes in Consumer Industry

The Pandemic has led to a new kind of shopping culture. It is expected that, in developing markets such as Brazil and India, but it is likely to catalyze and accelerate digital shopping, though from a lower base.

2.6. Supply chain relevance and shift

While the key word of the 'Third Industrial Revolution' has been 'just-in-time' production, the new one is 'just-in-time-plus'. The "plus" stands for just in case, which means a more sophisticated

Global Model of Production is dead?

While the key word of the 'Third Industrial Revolution' has been 'just-in-time' production, the new one is 'just-in-time-plus'. The "plus" stands for "just in case", which means a more sophisticated element of risk management. The Pandemic reveals the deep vulnerabilities in the supply chains of many companies. It has proved that, when a single country or a single factory is affected, there will be lack of critical components, having chain effects on industry as a whole. Another evolving trend is the narrowing cost differences among the developed and many developing countries. This would imply that, the old theories of industrial location become redundant.