

Your SME business wouldn't be where it is today without hard work, leadership, and talent! Yet, it feels like an uphill battle to take your business to the next level. The competition gets tougher, the business gets more complex, and the demands on your time are staggering. You want to grow, but you're not sure which actions will yield the best results. And with the ending of the process patent era which allowed Indian SMEs to flourish, it is becoming a battle to survive and grow.

SMEs play a vital role in the growth of the Indian economy by contributing 45% of the industrial output and 40% of exports, and by employing 60 million people, creating 1.3 million jobs every year and producing more than 8000 quality products for the Indian and international markets. The contribution of SME's to the GDP in 2011 was 17%, which is expected to increase to 22% by 2012. There are approximately 30 million MSME units in India and 12 million persons are expected to join the workforce in the next 3 years. Thus, by promoting SMEs, the rural areas of India will be developed.

The existence and growth of SMEs is a salient component of the industrial structure in India. According to the CII (Confederation of Indian Industries), there are around 80,000 small-scale units engaged in the areas of pharmaceutical formulations and bulk drugs.

Yet in the Indian pharma scenario, MNCs are becoming stronger again. Already 15 of the 20 largest pharmaceutical companies in the world have a presence in India. Almost every MNC has been investing in Indian opportunities, which include contract manufacturing, licensing agreements, joint development of products, and contract research. MNCs have taken the inorganic route to gain a critical mass in India to drive growth. Acquisitions, licensing arrangements with generic companies, and other inorganic growth options are being explored to gain access to large generic product portfolios and boost growth.

Pharma SMEs have invested much money over a period of time in their assets, plants, and people. Often they find themselves at crossroads in dealing with the intense competition against older established players.

Growth barriers typical to SME's

Growth can be regarded as the second most important goal of a firm, the most important one being firm survival, i.e. continuity of the

business. The goal of survival underpins all other goals. Growth is the most appropriate indicator of the performance of surviving small firms. It is essential to stress that SMEs are usually more vulnerable in times of crisis for many reasons. They can't downsize as they are already small; they are less diversified in their economic activities and they are heavily dependent on credit.

To a great extent, survival of these units would depend on how well and quickly these companies are able to adapt to the changing business scenario. This can be credited chiefly to strong vision and entrepreneurial spirit of the management coupled with managerial expertise. SMEs with a lower turnover are more vulnerable because of their smaller customer base. On the other hand, larger SMEs need to manage products with declining sales volumes.

If you answer yes to any 2 or more questions, it's time to reflect on your SME strategy...

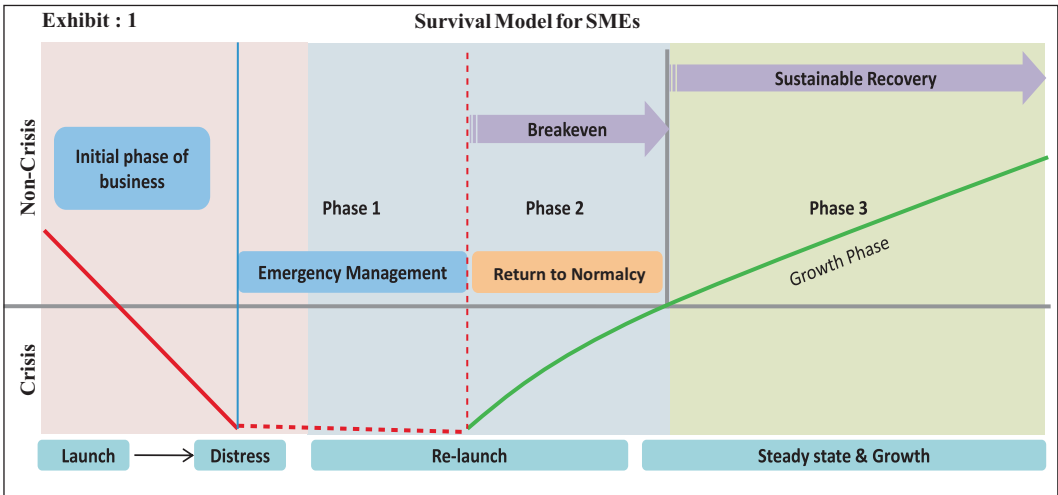
- Are you struggling with the bottom-line?
- Is your organization unable to cope with changing circumstances?
- Do you face a funding crunch for marketing & product development?
- Are your existing processes and systems flexible enough for crisis management?
- Are you searching for methods to survive in the era of global competition?
- Is the cash flow & delayed collection cycle troubling you?
- Is talent attraction & retention a major challenge
- Are you facing intricacies in analyzing strategic initiatives for your organization?

•Pharma SMEs face challenges on many fronts: Economic fluctuations that strongly affect the growth probability of SMEs. Moreover, difficulties in obtaining finance and the cost of money further stifle growth initiatives

•Problems in attracting talented workforce coupled with weak managerial and marketing skills are another obstacle

•Lack of team work amongst the SMEs results in their operating in isolation. The desired state would be that they collaborate to compete against larger, more established players.

•Inadequacy of basic infrastructure like transport, telecommunication, and electricity has made the integration of rural SMEs with



urban industries difficult, thereby affecting the growth path.

Some SME organizations remain as loss-making entities due to a perpetual financial crunch. Along with this they also suffer from many operational issues such as unfocused product basket, sales-driven short-term tactical promotional spend, inadequate sales management, and unstandardized business processes. In order to become a profitable venture comparable to industry benchmarks, these companies quickly need to manage existing business and come to normalcy within a short span by arresting losses through emergency management.

Based on our experiences with helping SME's survive and grow, Interlink has developed a Survival model which could be the starting point for change. First, emergency management is essential to ensure that the business survives by increasing the efficiency of operations and the competency of the corporate structure, by pruning the product mix by hiving off old or non-moving products, and by instituting systems and policies. Secondly, it is vital to assist the business in returning to its normal stage by increasing the focus on marketing and customer base. Finally, the focus has to be on growth by launching new products, focusing on prescriptions, improving secondary sales and collections, achieving a critical mass of sales productivity, and market expansion.

Emergency Management: The process of emergency management involves correcting the existing business situation with minimal loss of business and without disturbing the current operations. The steps in this phase should focus on business priority and approach for the organization, product pruning and availability, resource allocation, field force

management, and finding avenues like selling non-movable products at minimal margins to generate quick cash to assist finance management.

Return to Normalcy: This involves medium-term goals such as organization building, strategic product promotion, and brand building in order to break even. People development should also be focused through training as it will build confidence in field force to detail to doctors, improve in-clinic performance, and generate more prescriptions. Periodic new product launches in the respective therapy area will give momentum to the business.

Growth: The growth phase will include finding new avenues of growth in the long run. This can be done based on the organization's capability to grow and strategic business aspirations.

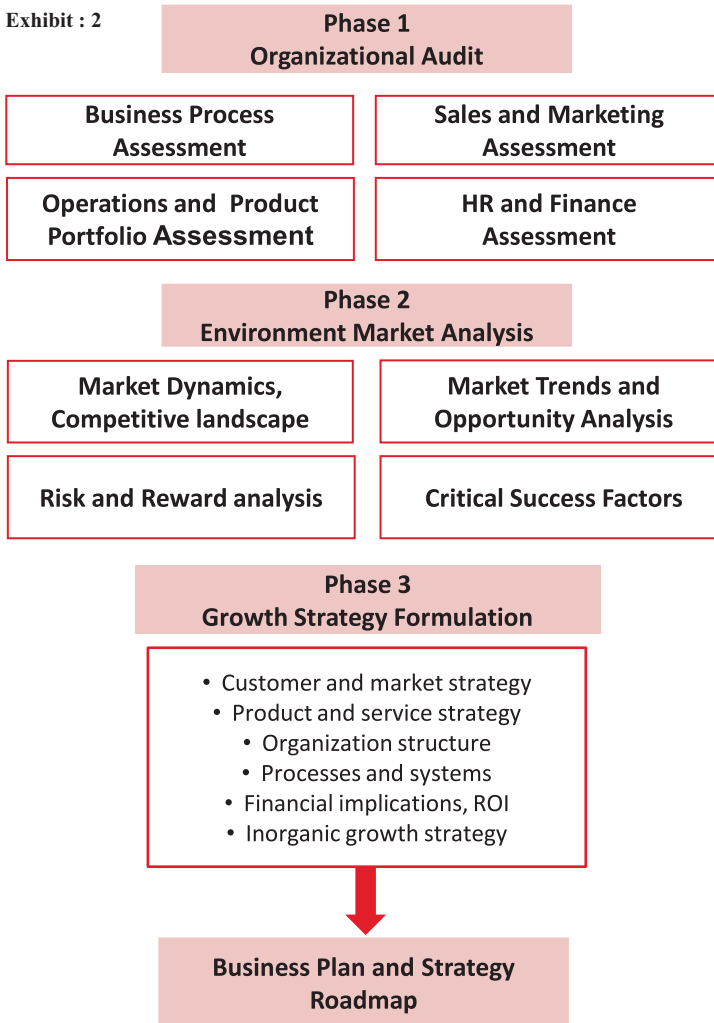
Growth strategies for pharma SMEs

Interlink has developed a Growth Model for SME's which have survived and are considering options to accelerate growth. This model helps organizations clarify their strategic vision & direction to the organization and enables them to set aspirational goals that leverage the organization's competencies to fuel growth and provide substantial long-term business value. Exhibit 3 showcases Interlink's growth model in 3 phases.

1. Organizational Audit: An in-depth analysis of each function and the entire organization provides an objective diagnostic tool to define current status and challenges in a specific context.

2. Environment Market Analysis (EMA): A deep insight-driven EMA to understand market dynamics, competitive dynamics, customer behavior, and distribution channels helps

Exhibit : 2




crystallize organizational priorities for growth and investment.

3. Growth strategy formulation: Depending on segments and therapies as well as organizational priorities, strategic growth options, both organic and inorganic, are worked out for the organization.

Conclusion

The world is speaking of the India story. Why can't the SME's of today become the MNC's of tomorrow? Though major challenges for competitiveness such as institutional credit,

stricter quality norms, protecting & promoting brand image, and earning brand equity need to be looked after to promote and foster the growth of Pharma SMEs, the vision and spirit of entrepreneurs and market opportunity, together with leadership and strategic thinking, will help drive SME growth.

To empower the SME sector to take its equitable place as the growth engine of the Indian economy, it is essential for pharma SMEs to optimally utilize their resources – both human and technical-to achieve success. 

Ms. Ruth D'Souza, an Executive Director of Interlink Marketing Consultancy, is a management consultant, motivational speaker and writer. She has spearheaded number of strategy consulting and competency development interventions at many NCs and MNCs to improve business performance and business health of client organizations.