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IEEMA Annual Convention 2018

'Go Global'



71st Annual General Meeting

15th September 2018, Mumbai

Call for Delegates

Special Features on Cable Industry

"Instrument transformers remain to be one of the most misunderstood items in an electrical system"

-Mr. G.V. Akre, Chairman, TECH-IT 2018



TECH-IT 2018 Fourth International Conference on Instrument Transformers

13-14 December 2018, New Delhi (NCR)



The dynamic SME sector in India

The SME sector in India is a highly vibrant and dynamic sector. SMEs play a significant role in the nation's development through high contribution in domestic production, providing large employment opportunities, helping in industrialisation of rural and backward areas.

SMEs	
<p>Constitute ~95% of Industrial Units</p>	<p>Employ ~40% of India's workforce</p>
<p>Contribute ~38% to India's GDP</p>	<p>Contribute ~46% of India's exports</p>
<p>Constitute ~16% of bank lending</p>	<p>Contribute ~37% of mfg. output</p>

What financial problems do SMEs face?

- SMEs generally face financial problems such as:
- inadequate finance from banks
- inadequate knowledge of finance sector & funding sources
- limited global reach to execute growth plans

- Inadequate knowledge of strategic options such as Joint Ventures, Strategic Collaborations, Mergers & Acquisitions, etc.

How does an SME achieve growth?

Owners of SMEs are ambitious and have the willingness and desire to grow the business manifold. Growth for an SME could be in terms of gaining access/control of:

- newer markets or geographies,
- newer products or verticals,
- newer technologies,
- additional facilities,
- additional customers, etc.

In spite of having robust growth plans, SME founders typically ask a question. How do I go about adding newer markets, products, technologies, facilities, customers, etc.? Do I do it myself through internal resources (organic growth) or do I have other options available that I can explore (inorganic growth)? Let us explore the advantages and disadvantages of organic vs inorganic growth.

Organic Growth Vs. Inorganic Growth

Organic growth vs inorganic growth strategies have its own advantages & disadvantages, as tabulated below (illustrative):

Organic Growth	Inorganic Growth
Advantages: Complete control over growth; sole & quick decision-making; complete knowledge of operations & processes	Advantages: Immediate expansion of business and market presence; fast growth; pooling of resources; synergy value; expertise addition

Disadvantages: Limited resources; intense competition; slow to medium growth rate

Disadvantages: could lead to conflicts between parties; risk of managing different organisation cultures

This leads us to a question as to what strategic options do SMEs have to grow the business and what is the purpose of each strategic option.

What strategic options do SMEs have and what is the purpose of each strategic option?

There are various strategic options available such as Joint Ventures, Strategic Collaborations, Mergers, Acquisitions, etc. The purpose and key features of each of these strategic options are elaborated below:

Joint Ventures	<p>Meaning: A Joint Venture is pooling of resources of two parties to achieve a common objective</p> <p>Purpose: Technical collaboration; explore new markets; develop new products</p> <p>Key Features: Pre-defined objectives; defined roles & responsibilities of both parties; could happen in existing entity or new entity; typically has a 50:50 structure</p>
Strategic Collaborations	<p>Meaning: A strategic collaboration is a collaboration between 2 parties to explore mutual synergies</p> <p>Purpose: Fight competition by combining respective strengths; gain synergy benefits by joining hands;</p> <p>Key Features: Agreed financial & operating commitments; end-objective defined upfront; different shareholding structures depending on the purpose</p>
Acquisitions	<p>Meaning: An Acquisition is an inorganic growth strategy adopted by entities to acquire capabilities that it does not possess</p> <p>Purpose: Acquire new capabilities; add new customers; kill competition; acquire intellectual properties</p> <p>Key Features: Acquire 100% upfront or phased acquisition; transition period for existing owners; acquisition could be of shares or assets or business</p>

Mergers

Meaning: A Merger is the integration/consolidation of two entities into one entity

Purpose: create diversified group or conglomerate; merge complementary businesses; value creation; economies of scale; increase market share

Key Features: Various types of mergers such as horizontal mergers, vertical mergers, conglomerate mergers, etc.; integration of operations of both entities that are merged; neither of the previous entities exist independently

Which option should I choose for my SME?

An SME can pursue any of these strategic options depending on the requirement. There is no one-size-fits-all strategy while pursuing growth plans. Each entity evaluates the strategic options by deliberating on the pros and cons of each option. Though each option has its unique features, an SME can evaluate these options to check as to which option suits it best.

A strategic alliance/collaboration/M&A option also involves an important decision to be made by the founder of an SME whether he wants to own 100% of a smaller enterprise or own a lesser stake in a larger enterprise, eg. would someone like to own 100% of an INR 25 crore entity or 50% of an INR 250 crore entity. This is a crucial decision that a founder needs to make, and which is a very difficult decision for a founder.

Over the years, there have been several instances of SMEs opting for strategic growth options. We have witnessed transactions where an Indian electrical & electronic products manufacturing SME acquired a European company; an Indian contract manufacturer of electrical products inducting a strategic investor for business growth; an Indian SME manufacturing switchgears being acquired by a diversified group.

What is the way forward for SMEs in India?

SMEs have been somewhat averse to explore these strategic avenues or sometimes have inadequate knowledge of such strategic options. Evaluating these strategic options from the right perspective could provide solutions to problems being faced by the SMEs. A strategic option gets fructified only when it is a win-win situation for both.

Every SME needs to open up in today's fast changing global order and evaluate these strategic alliance/collaboration/M&A options from their perspective. These strategic options could mean a radical shift in the mindset of the founders of SMEs. Pursuing these strategic options could lead to a better future for the concerned SME and could be a win-win situation for the founder of the SME. ■

*Mr. Harsh Vardhan Bhandari
and Mr. Sagar Kanetkar
Acquisory Consulting LLP*