



Business Model of Service Delivery and MSME

Analysis of select cases in India

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Executive Summary

This report analyzes the business model of a selected list of those business development service (BDS) providers in India, which focused on delivering non-financial business development services to the MSMEs in India. The objective of this report is to identify the key operating principles for the BDS providers in creating self-sustainable and scalable business models focused on the needs of the MSMEs.

The general mindset among the BDS providers is that serving the MSMEs is not a viable proposition. First, MSMEs do not have the ability and willingness to pay for the business development services. Second, all the MSMEs can be serviced by providing the standardized offerings irrespective of context. Third, the government should function as a bridge to connect the BDS providers with the MSMEs considering the significant time and capital investments needed for creating market awareness. Fourth, MSMEs is a fragmented market which can only be served either by the government or by the informal service providers.

The general mindset of the MSMEs looking for market solutions to their business needs is that availing the business development services is not cost-effective and lacks desired outcomes. First, BDS providers lack the understanding of the specific needs faced by the MSMEs. Secondly, BDS providers can't provide cost-effective solutions to the specific needs of the MSMEs. Thirdly, there is a lack of reliable data-sets regarding the details of BDS providers, which can provide the specific solutions to the particular needs of the MSMEs. Fourthly, the BDS providers do not provide value for money solutions and lack reliability and transparency.

Despite these extreme and prevalent mindsets, there have been BDS providers, which have succeeded in identifying the needs of the MSMEs, in building trust based relationships with the MSMEs and in creating a business model having a huge socio-economic outcome for the MSMEs. The majority of these business models being studied are self-sustainable and scalable. Though, many of these business models are not fully replicable but these do bring forth the common key operating principles, which can act as a baseline for other BDS providers to become successful and sustainable while targeting the MSMEs.

The term business model represents a description of the value a company offers to one or several segments of customers and the architecture of the firm and its network of partners for creating, marketing and delivering this value and relationship capital, in order to generate profitable and sustainable revenues streams¹.

¹Osterwalder, A., & Pigneur, Y. (2002). *An e-Business Model Ontology for Modeling e-Business*. 15th Bled Electronic Commerce Conference, Bled, Slovenia

Regarding scope, this study focused on understanding the business models of nine BDS providers targeting the different need segments of the MSMEs. These BDS providers were identified on the basis of the information available in the public domain as well as on the basis of the first-hand experience and field level knowledge of the project partners.

The majority of these BDS providers focused on creating a platform (technology or non-technology) for aggregating the MSMEs and providing them with access to the global market as buyers and sellers. Two of the BDS providers being studied, focused on aggregating the small BDS providers (individuals or organizations) to enable a single point of contact to the MSMEs for getting solutions to their different needs. One of the BDS providers being studied focused on aggregating the needs of the MSMEs to leverage the collective bargaining power for getting the best possible solution from the BDS providers. Another BDS provider studied here focused on enhancing the competitiveness of the MSMEs by offering productivity and quality improvement solutions across the value chain. This reflects that market access; productivity and quality improvements are few of the critical needs of the MSMEs being targeted by the BDS providers.

In terms of geographies, the majority of these BDS providers being studied focused on scaling up their operations across India. In terms of offerings, the BDS providers adopted a mixed approach. While, 50% of the BDS providers focused on a niche area like textile, bus travel industry, franchising industry etc., remaining 50% focused on broad based industries and clientele. This reflects that focus on niche offerings / clientele as well as broad base offerings, both approaches can be sustainable and successful depending upon the need specific design and implementation of business model.

In terms of learnings and outcomes, the detailed study of nine BDS providers has identified a set of common key operating principles, which have played an important role in the success of the business model of these BDS providers focusing on the MSMEs in India. **First**, the BDS providers need to focus on making time and money investments on market building and awareness. The MSMEs is a price and value sensitive market, which requires building trust and transparency. **Second**, the BDS providers need to focus on creating a collaborative ecosystem. This implies that there is a need to build relationship with the different stakeholders like government bodies, industry associations, and technology companies etc. to create last mile connectivity and reach with the MSMEs. **Third**, the BDS providers need to focus on delivering need based end to end solutions. This implies that there is a need to understand the local context and design the solution accordingly for the MSMEs rather than prescribing the standardized offerings irrespective of the specific need and context of the MSMEs. **Fourth**, the BDS providers need to focus on scaling up their business model to ensure sustainability and to enhance the socio-economic impact on the MSMEs. This implies that BDS providers should maintain focus on MSMEs rather than trying to shift priority and focus towards large scale enterprises. The mission and vision of the BDS provider should be having a strong orientation and focus towards the MSMEs. The lack of this orientation leads to the diversion and failure of the BDS providers. **Fifth**, the BDS providers need to focus on technology and innovation. This implies the importance of leveraging the innovative use of technology for offering cost-effective solutions to the MSMEs.