



*cutting through complexity™*

## MSME - Procurement

Management Consulting Practice

October 31, 2012



# Significance in the Indian Economy

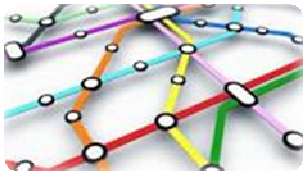
MSMEs play a pivotal role in the overall Industrial Development in India

**Key Characteristics of the MSMEs in India enable significant economic contribution**

Operational Flexibility



Location wise Mobility



Capacity to develop Indigenous Technology



Key Characteristics

Industrial Significance



**Contribution to National income**  
•40% of national exports  
•45% of Manufacturing Output



**Employment Generation**  
•Employment to 60 million people through 28.5 million enterprises



**Equality**  
•Check on Economic Concentration in hands of few



**Sound Entrepreneurial Base**  
•Development and nurturing of talents, skills, etc.

**95% of Industrial units in India being MSMEs, they are an integral part of the overall Indian Economy**

## Challenges Faced

MSMEs in India are fraught with number of challenges that hinder their competitiveness in both National and International markets

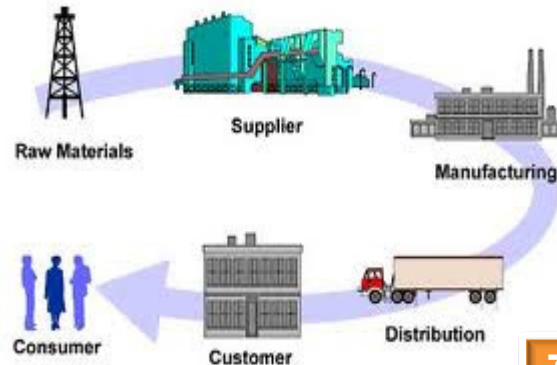
- Lack of availability of adequate and timely credit
- High cost of credit
- Collateral requirements
- Limited access to equity capital
- Problems in supply to government departments and agencies**
- Procurement of raw materials at a competitive cost**
- Problems of storage, designing, packaging and product display
- Lack of access to global markets
- Inadequate infrastructure facilities, including power, water, roads, etc.
- Low technology levels and lack of access to modern technology
- Lack of skilled manpower for manufacturing, services, marketing, etc.
- Multiplicity of labour laws and complicated procedures associated with their compliance
- Absence of suitable mechanism to enable quick revival of viable sick enterprises
- Issues relating to taxation, both direct and indirect, and procedures thereof



## Government Support

Several steps are being taken in order to facilitate the MSMEs in Procurement of raw materials and Marketing of finished products

### Raw material Procurement by MSMEs



### Procurement from MSMEs



#### Challenges Faced

- Sharp fluctuations in market prices, non-availability of small quantities of materials at reasonable prices and lack of timely availability of such materials

#### Challenges Faced

- Problems in supply to Government Departments/Agencies
- Raw material procurement right cost
- Problems of storage, display and designing/packaging for MSEs products
- Access to international markets

#### Steps Taken

- NSIC and other State Corporations have helped bridge the gap
- Development of a workable system for distribution of raw material in consultation with MSME Associations and State agencies engaged in such activities

#### Steps Taken

- **Public Procurement Policy** for government purchases from MSMEs
- Marketing Development Assistance scheme
- Exhibitions/fairs, vendor development programmes, buyer-seller meets
- National Manufacturing Competitiveness Programme: Marketing Support/Assistance/Marketing Assistance and Technology Upgradation Scheme & Design Clinic Scheme for design expertise to MSMEs Manufacturing

## Public Procurement Policy

The Policy is expected to enhance MSME competitiveness through increased participation and share of government supplies

### Salient Features of the Public Procurement Policy

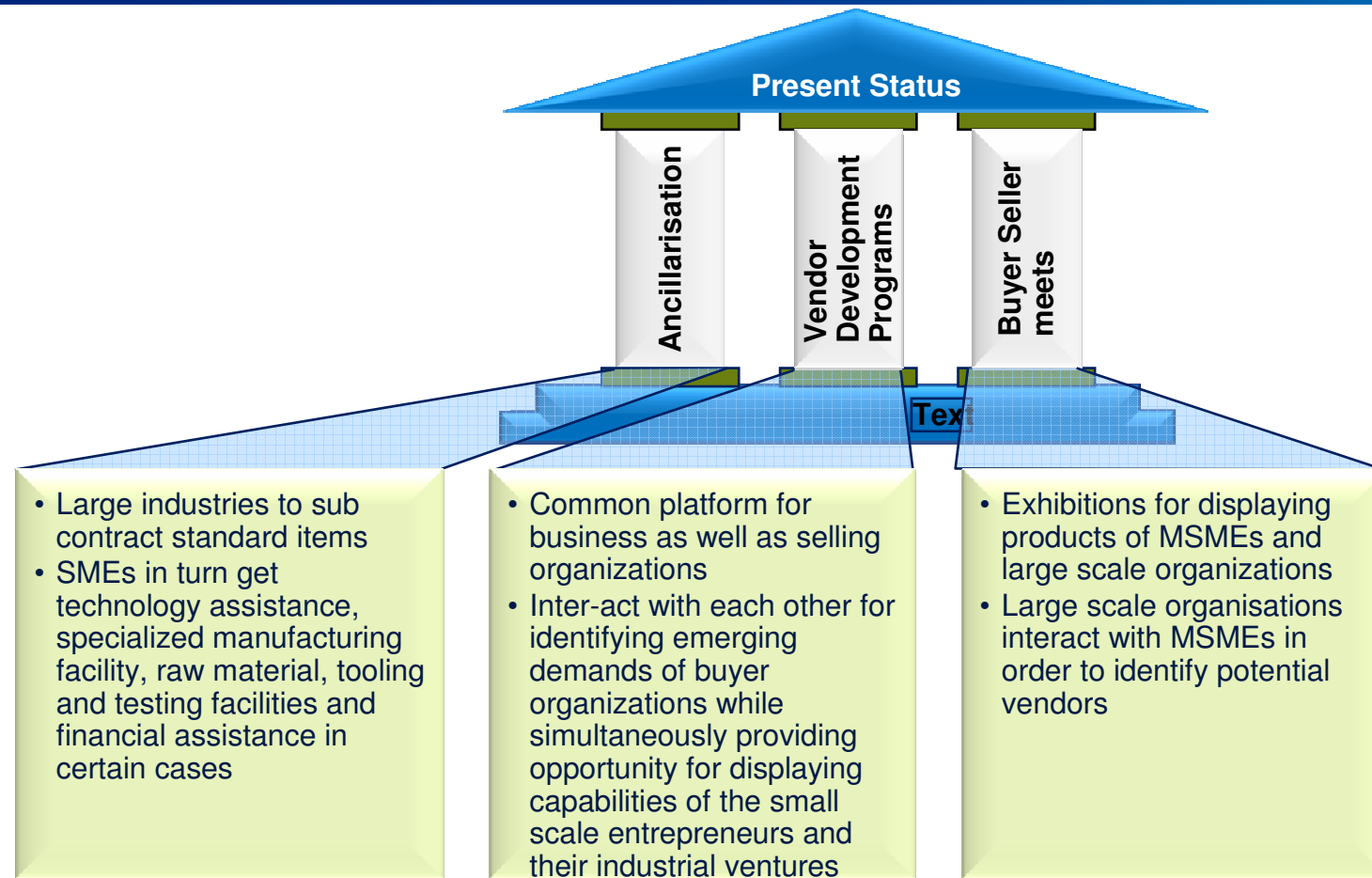
- Procurement goal of **min 20% of total annual purchases** of products or services produced or rendered by MSEs for every Central Ministry/Department/PSU
- Sub-target of 4%** for procurement from MSEs owned by SC/ST entrepreneurs
- Overall target of 20% proposed to be made **mandatory at the end of 3 years**
- Organisation of **special Vendor Development Programmes, Buyer-Seller Meets etc**
- Reporting of goals** set with respect to MSME procurement and achievement made in Annual Reports
- MSEs participating in a tender quoting price within the band of L1+15% may also **be allowed to supply at L1 price** where L1 price is from someone other than an MSE
- Continued procurement of 358 items** from MSEs, reserved for exclusive purchase
- Defence armament imports not to be included** in computing the 20% goal for Ministry of Defence
- Review Committee and Grievance cell** to be set up

### Key Advantages



## Private Participation

There exists a need for gradual inclusion of private sector in the procurement policy for the MSME sector



### Other proposed initiatives:

- SEBI: Conditional market access through IPO for SMEs that have not met the continuous "three out of the past five years" of profitability criterion
- Larger MSME procurement by large companies
- Banks to have specialised MSME branches starting with Dena, OBC, Corporation Bank and Indian Bank

### Need for ICT Exposure

- Huge opportunity exists for MSMEs to widen their market access by optimising their web presence and technology capabilities

### Case Study- Google India








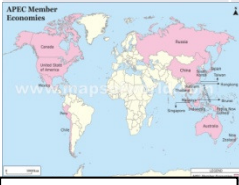
- Launched a Premier SME Partner programme wherein These partners will offer end to end marketing solutions like search engine marketing, localised marketing solutions across Google properties, like AdWords
- Launched 'India Get Your Business Online' programme offering free websites and hosting for small businesses



***International Best  
Practices***

## International Examples

# Select initiatives and steps taken by governments and bodies across the globe for assisting MSME Procurement

Countries/ Regions	Practices for Driving MSME's	Countries/ Regions	Practices for Driving MSME's
 USA	<ul style="list-style-type: none"> <li>• <b>Statutory minimum procurement of 23%</b> of prime procurement contracts of federal agencies from Small Businesses</li> </ul>	 United Kingdom	<ul style="list-style-type: none"> <li>• Constitution of Special Contracts Arrangement requiring authorities to give special consideration to suppliers employing severely disabled people</li> </ul>
 Malaysia	<ul style="list-style-type: none"> <li>• <b>Vendor Development Program (VDP)</b></li> <li>• <b>30%</b> of government procurement reserved for MSME's involved in Vendor Development Program</li> <li>• New batches of SMEs introduced to VDP as established SME' move out</li> </ul>	 South Africa	<ul style="list-style-type: none"> <li>• 2000 Preferential procurement Policy Framework: Preferential point system in awarding public contracts, to promote advancement of people discriminated on the basis of race, gender or disability</li> </ul>
 Brazil	<ul style="list-style-type: none"> <li>• Law in force setting <b>criteria</b> meant to <b>increase participation</b> of smaller businesses in <b>public procurement</b></li> </ul>	 Europe	<ul style="list-style-type: none"> <li>• Reduced administrative burden and costs related to tendering to reduce impact on SMEs</li> <li>• Transparent and easier procurement system to enable more participation of SMEs</li> <li>• Increased usage of IT systems to simplify the process of procurement</li> </ul>
 Canada	<ul style="list-style-type: none"> <li>• Qualified aboriginals (native/ original Canadians ) made primary recipients of specific procurement contracts</li> </ul>	 APEC	<ul style="list-style-type: none"> <li>• Statutory government procurement policy , open and fair to enable participation</li> <li>• Export Promotion Assistance provided to SMEs in form of grants, information and consultancy</li> <li>• Policy for including SMEs in supply chain of MNCs</li> </ul>



*Select Case Studies*

## Case Studies

MSMEs that have ensured that their business offerings are in sync with the cultural, political, economic and environmental dynamics have been successful in taking their businesses to the next level



Nature of Business	Issues	Steps taken and its benefits
<p><b>Indian Domestic Mobile Handset Company</b></p>	<ul style="list-style-type: none"> <li>• Low market share of 0.5% in the year 2008</li> <li>• Need for effective distribution and right advertising along with a superior product positioned at the right price</li> </ul>	<ul style="list-style-type: none"> <li>• More products in rural markets</li> <li>• Brand building through sports and films</li> <li>• PE funding in 2010 and thus expansion into International markets</li> <li>• Third largest domestic handset company in India at present</li> </ul>
 <p><b>Started as Small Glue Manufacturer</b></p>	<ul style="list-style-type: none"> <li>• Started off as an MSME</li> <li>• Aimed to market products to the masses and taking business to the next level</li> </ul>	<ul style="list-style-type: none"> <li>• With successful product strategies, marketing efforts and operational efficiencies, the brand has today created a strong foothold in the market</li> <li>• Fevicol brand and sub brands consistently command over 70% of the market share</li> </ul>
 <p><b>Kanpur based Detergent brand</b></p>	<ul style="list-style-type: none"> <li>• Local market concentrated in Kanpur and parts of UP</li> <li>• Low advertising and promotional activities</li> </ul>	<ul style="list-style-type: none"> <li>• Select and forced concentration in UP later expanding to other states</li> <li>• Participation in all media from exhibitions, melas to print &amp; tv commercials to reach masses of all income groups</li> <li>• 2<sup>nd</sup> largest selling detergent in the country</li> </ul>
 <p><b>Small Trichy based dates selling company</b></p>	<ul style="list-style-type: none"> <li>• Mere 60 tonnes of dates imports from Oman for selling in Indian markets</li> <li>• Concentrated in the Tamil Nadu market</li> </ul>	<ul style="list-style-type: none"> <li>• Smart marketing and brand building, Quality, Hygiene as differentiators, introduced India's first Date syrup , advertised on TV etc.</li> <li>• Imports more than 8000 tonnes of dates from Iraq, Iran, Muscat, Tunisia, etc.</li> <li>• More than 80% of the market share in India</li> </ul>

# Thank You

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