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# WB BUSINESS CLIMATE INDEX INDIA 2021

SMEs' assessment of the business  
situation in India



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## EDITORIAL

2021 was another turbulent year. Companies in India again faced new challenges and had to contend with constraints, which are also reflected in our business climate index.

At the same time, however, opportunities and potential have developed that allow a positive view of the future, especially with regard to the year 2022 and beyond. Many companies are taking advantage of the initial lessons learned about the pandemic and adapting their business model to the "new normal" rather than suffering from ongoing obstacles. The initial uncertainty and inexperience gradually gives way to a phase of change.

In the current survey, we have expanded our set of questions to identify the issues that have particularly hindered business development over the past 12 months, while also asking about the issues that companies will prioritize in their long-term India strategy.

This is the fourth time we have conducted the WB India Business Climate Index. The original cause is still relevant today:

With our survey we want to gain a neutral and realistic impression from the point of view of the local medium-sized companies. Because we still experience that surveys in connection with India are often characterized by 'self-promotion', customer acquisition or other non-transparent influences.

As every year, we rely on the assessment of our 500+ customers, who are themselves gaining more and more India experience and are thus able to assess their own business development, the economic influences and also future priorities.

Our results have been made available to the public unfiltered, neutrally and free of charge since the first survey in 2017.



Mike D. Batra & Dr. Johannes Wamser

Founder & Managing Director of Dr. Wamser + Batra GmbH





## EXECUTIVE SUMMARY

46% of the SMEs surveyed rate their current business situation in India as *good*, 43% as *satisfactory*. Only 10% of the respondents rate their situation as *poor*.

This is a pleasing result, as the mood has improved significantly compared to last year. In 2021, only 18% of respondents rated their economic situation as *good* and 39% as *satisfactory*.

This positive assessment is also reflected in the business climate, the average of the balances of the business situation and expectations for the coming year. With a value of +53, the business climate has risen to a high since our first survey in 2017.

A similarly positive picture emerges from the assessment of sales development. 70% of respondents report sales growth, with sales increasing slightly at 40% of companies, and even significantly at 30%. 12% of the companies surveyed report that sales have remained the same, while 17% rate sales as declining.

At the same time, 18% of companies fell significantly short of sales expectations and only 6% missed their sales by more than half. The declining figures and unmet expectations are due to the still ongoing effects of Covid19. There is no company among the mid-sized respondents that has not been affected by the pandemic or its accompanying consequences.

Further reasons for the lack of sales and obstacles to growth in general are examined in more detail in the evaluation of the study. Likewise, the most important topics of the long-term India strategy of the medium-sized companies.

The results of our study are positive, despite the ongoing effects of the pandemic and especially in comparison to last year, and above all show that medium-sized companies from the DACH region are still committed to the Indian market and are aware of the potential it offers them.

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# INTRODUCTION

## LOCKDOWN AND PANDEMIC LEAD TO ECONOMIC COLLAPSE

In 2021, one issue continues to dominate the Indian economy: Covid-19. In the spring of 2021, India was hit by an enormous wave of infection that caused around 400,000 new infections and 4,000 deaths every day. The only possible consequence was a renewed, strict lockdown. Although companies were already prepared for the exceptional situation at this point, having experienced a long lockdown in 2020, the consequences of the second hard lockdown are still being felt today.

The economy was completely scaled back. Companies were only able to operate on a limited basis, production facilities had to close, resulting in a lack of revenue. At the same time, the situation affected supply chains (again): Raw material prices, material costs and transportation costs exploded.

Difficult entry conditions from Europe and unfeasible on-site customer visits in India not only led to a collapse in customer loyalty, but above all made customer acquisition more difficult. The circumstances also affected trade and business relations and links between European headquarters and Indian presences. As recently as June, the International Monetary Fund (IMF) expected the Indian economy to grow by only 9.5% as a result of the pandemic, which was actually 3% less than in April. This would place India among the growth losers, along with other Asian countries.<sup>1</sup>

In the fall, the IMF's forecast for the Asian region remains at the same low level, whereas the global economy will continue to recover from the crisis.<sup>2</sup> However, local companies are more positive about the coming year, as our survey results show.

After all, despite all the difficulties and obstacles, India still accounts for more than 7% of global gross domestic product (GDP) in 2021 and ranks third behind China and the USA.<sup>3</sup> The export and import figures also show an upswing. In the first half of 2021, trade between Germany and India increased significantly. Imports from India rose by 25.4% to 5.3 billion euros, while exports to India increased by 23.5% to 5.8 million euros.<sup>4</sup>

## ASSESSMENT OF THE GERMAN-SPEAKING SMES

With our WB Business Climate Index India 2021, we have determined how the past months have actually affected companies and what difficulties they have had to deal with.

With our study on the business situation in India, we surveyed German-speaking SMEs and asked them for their personal assessment. In addition to assessing the current and future business situation and the sales development of the individual companies, we were able to identify the issues that had the greatest impact on the companies' business development in the last 12 months.

We interviewed decision-makers from German-speaking SMEs headquartered primarily in Germany, Austria and Switzerland in the fall/winter of 2021. The companies we surveyed are all active in India - albeit with different corporate forms. Most of them (61%) have their own local subsidiaries. The remaining companies are represented by agents or sales representatives (16%), are in a joint venture (9%), have a branch or liaison office (3% each) or are represented in some other form. A small proportion works in direct sales or is purchasing from Germany (also 3%).

# METHOD AND QUESTIONS OF THE WB BUSINESS CLIMATE INDEX INDIA 2021

In order to determine the business situation in India, we asked the decision-makers of medium-sized companies from German-speaking countries represented in India for their personal assessment in the fall/winter of 2021.

We collected the data for the business climate index using an online questionnaire. As in previous years, the business climate index of the ifo Institute (Leibniz Institute for Economic Research at the University of Munich) served as a guide. The focus was on the following two core questions:

1. How would you rate your **current business situation** in India?
2. How do you assess your **future business situation** in India?

In addition, we asked about the sales development and the challenges over the last 12 months. We were also interested in the topics that are the focus of the long-term India strategy.

Sales development over the last 12 months:

1. **Sales development:** Significant growth / Slight growth / Unchanged / Slight decline / Significant decline
2. **Sales development** in percent
3. **Sales targets:** Sales targets largely achieved (at least 80%) / Earnings significantly below expectations / Sales missed by more than 50%

## Economic Environment:

To what extent have the following aspects **affected your business activities in India**? Not at all / Slightly / Medium / Strongly

- |  |                               |
|--|-------------------------------|
| 1. Covid19 regulations                       | 6. Sales organization         |
| 2. Market & Competition                      | 7. Corruption                 |
| 3. Supply Chain & Sourcing                   | 8. Staff & skills shortage    |
| 4. Business Partners & Networks              | 9. Decreasing demand          |
| 5. Control of the Indian company from Europe | 10. Mentality & intercultural |

## Strategy:

How will the following issues **affect your long-term India strategy**? Not at all / Slightly / Medium / Strongly

- |  |   |
|--|---|
| 1. Change in supply chains                             | 6. Expansion of local production activity |
| 2. Crisis and risk management                          | 7. Economy measures                       |
| 3. New business models                                 | 8. No further production activity         |
| 4. Optimization of the Indian organizational structure | 9. India exit                             |
| 5. Expansion to a global manufacturing location        |   |

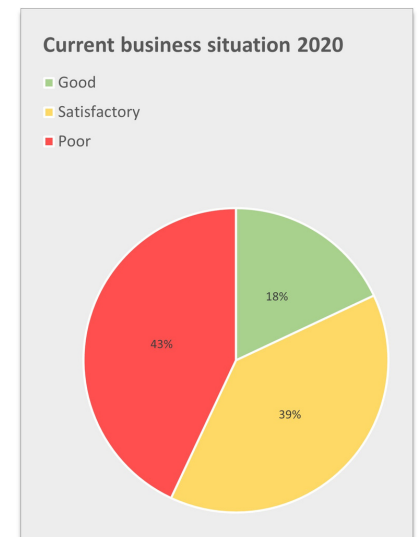
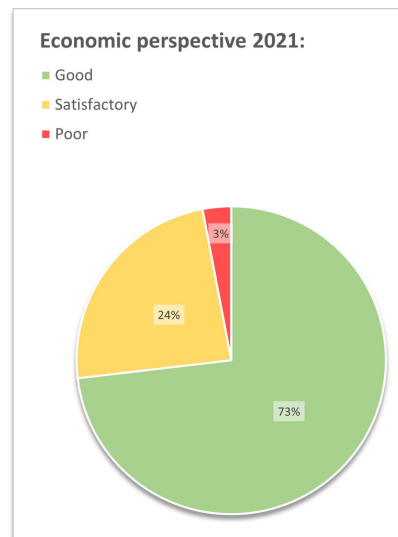
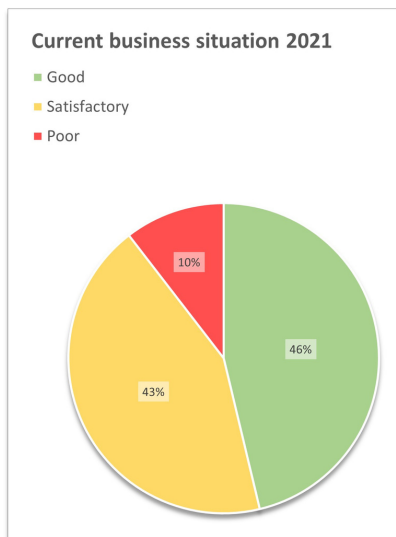
We have summarized the results of the survey in this Business Climate Index. This enables us to provide an independent and neutral, but realistic assessment of the economic mood of companies in India.

# RESULTS

## SMES ASSESSES THE ECONOMIC SITUATION IN INDIA

46% of the companies surveyed rate their current business situation in India as *good*, 43% as *satisfactory*. Only 10% of the respondents rate their situation as *poor*.

Compared with last year, when 43% of respondents rated their economic situation as *poor*, the situation has not only eased, but improved significantly. The *good* and *poor* ratings have swapped positions, and the neutral range is similarly weighted.



As far as the economic outlook is concerned, the positive trend is confirmed. 73% of the companies are convinced that the economic situation will be good in the next 12 months. 24% rate their future business situation as *satisfactory* and only 3% assess the development negatively.

The assessments of SMEs thus confirm general expectations. Even though the pandemic is not yet over and will continue to have a negative impact, companies are better able to cope with sudden restrictions and have had the chance to modify processes and prepare for possible further challenges over the past months.

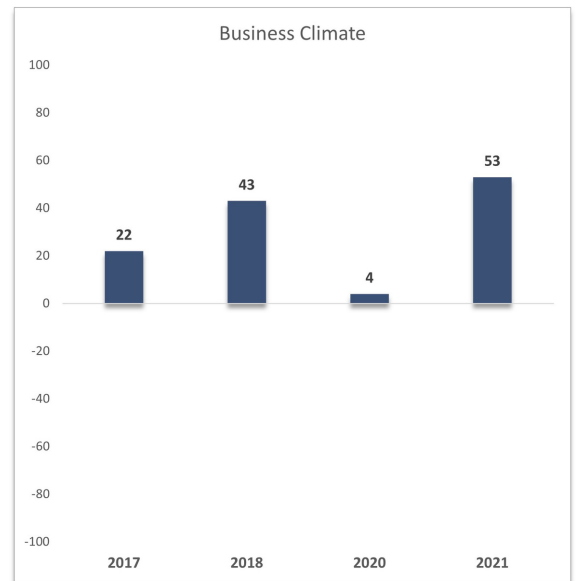
The Covid19 pandemic has forced companies to look at their own business model, supply chains and crisis management. Our study shows that change is the focus of most companies and is impacting the strategy. For details, see the *Economic Environment* (page 11) and *Strategy* (page 13) sections.



## BUSINESS CLIMATE INDIA 2021

Based on the ifo method<sup>5</sup> for determining the business climate, the values from our study give a score of plus 53 (on a scale of -100 to +100) for the business climate in India. This is an all-time high compared with previous years. The result confirms the positive mood that is spreading after the downturns of recent months.

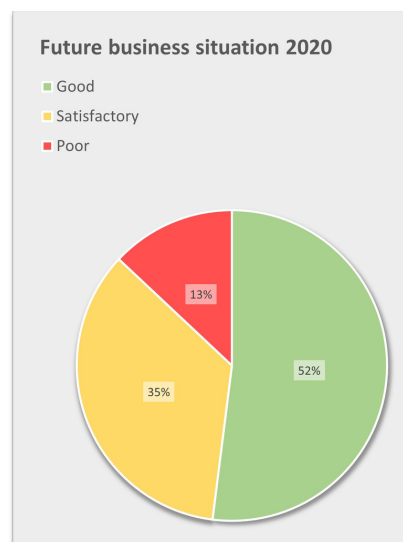
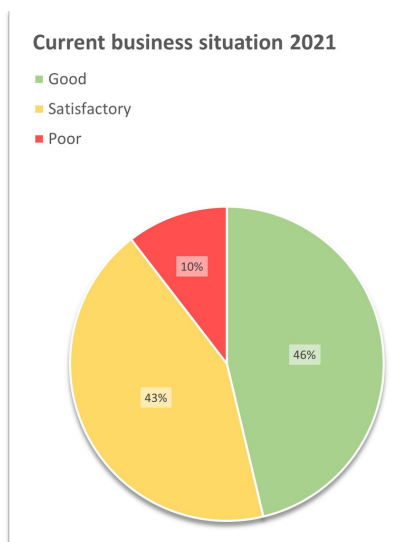
In none of the years since our first survey in 2017 have SMEs been so positive about the year ahead.



## LAST YEAR'S EXPECTATIONS ACHIEVED

Last year, we also asked about expectations for the coming 12 months. If we compare the values with the current assessment of the business situation, i.e. the development that actually occurred, we see that these have largely been met. Although they are slightly less *good* at 46% instead of the expected 52%, the negative assessment is slightly better at only 10% instead of 13%. 43% of SMEs rate the current business situation in India as *satisfactory*. Considering the circumstances at the beginning of the year and the associated difficulties such as a lack of raw materials and materials, difficult transport options and lockdowns lasting weeks, the assessment is satisfactory.

In the fall of 2020, many were hopeful that the situation would calm down after the first wave of Covid19 and that the economy would pick up again. And although the pandemic hit India hard in the spring of 2021 in particular, forcing the economy into lockdown, the positive outlook for 2021 could be confirmed.



## SALES DEVELOPMENT OVER THE LAST 12 MONTHS

Asked about sales or sales development, the picture is positive. 70% of respondents report sales growth - with 40% of companies reporting a *slight increase* in sales and 30% reporting a *significant increase*.

12% of respondents see neither growth nor decline and report a neutral result. Just one in six companies has to report a decline in sales. Of these, 10% have classified the decline as *slight*, while 7% have recorded a sharp drop. Accordingly, the average sales development can be assessed as positive.

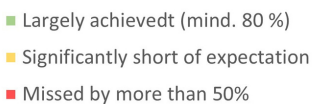
Looking at the feedback from the companies that negatively assess their sales performance, commonalities can be identified: Impact due to the Covid19 pandemic.

Sales development 2021



Production or activity restrictions, project delays, shortages of raw materials and materials, shortages of personnel and skilled workers, and a lack of opportunities for on-site visits have an enormous impact on business and thus also on sales. In this context, it is interesting to note the repeatedly mentioned effects on the willingness of Indian business partners to make decisions, as they have become more cautious due to the uncertain situation. The general uncertainty and also spending freezes in many companies have led to a decline in sales.

Sales targets 2021



Our study shows that the sales targets of the companies surveyed were also largely achieved in 76% of cases.

18% of respondents fell significantly short of expectations, and 6% even missed their sales targets by more than 50%. The figures confirm the assessment of sales development within the last 12 months.

Here, too, the affected companies, which were unable to achieve their sales targets, report the difficulties already mentioned. In addition, the sales slumps are attributed to strong local competition and Chinese competition, problems and delays in the course of supply chains and, in particular, dependence on individual suppliers who have themselves been hit hard by the pandemic.

## BUSINESS ENVIRONMENT: BARRIERS AND DIFFICULTIES

As already mentioned in connection with the sales losses, the pandemic and the associated restrictions and effects on the company's own business and employees, but also on business partners and the entire supply chain, are the obstacle of the past year.

Respondents were asked to name their top issues that have had the greatest impact on the company over the past 12 months, negatively affecting business and revenue performance.

Three issues proved to be particularly challenging:

### Covid19 regulations

For almost two years, the pandemic has dominated international economic development. Recovery phases and hopeful upswings are repeatedly interrupted by new waves of infection. India was hit particularly hard in the spring of 2021, and it is therefore not surprising that this issue has had the greatest impact on economic development in India over the past year from the perspective of the participating companies. 79% of respondents rate the impact of the pandemic or Covid19 regulations as *strong* and *medium*.

Plant closures have led to the collapse of the company's own distribution business and have had a corresponding impact on other companies. This is a chain reaction that cannot be stopped and has also led to fluctuation - especially in the manufacturing industry.

Specialized sectors such as the medical or pharmaceutical industry experienced not only a drop in demand, but a kind of standstill (e.g. due to hospitals not performing surgeries but instead having to focus on covid patients) or interventions by the Indian state (e.g. export ban on medical goods).

Travel restrictions and the lack of face-to-face meetings were most frequently cited as impacting customer loyalty and making it difficult to attract new customers. The shift to all-digital communication is a challenge in dealing with customers and one's own team: customer accessibility, team leadership, online training and digital support are new barriers that companies must learn to deal with.

### Supply Chain & Sourcing

The challenges of the pandemic have had such an impact on supply chains that 70% of respondents rank this as a *strong* or *medium* obstacle over the past 12 months.

This assessment confirms that supply chain transformation is essential. Material supply problems at suppliers and increased demand have led not only to supply bottlenecks, but also to significantly increased raw material or material and transport costs.

Changes in import and export regulations and low sea freight and container availability have had a negative impact on the overall freight market situation.

The closure of production facilities as a result of the pandemic has affected not only individual companies but the entire supply chain and is still causing delivery delays.

## Market & Competition

At 64% (*strong & medium*), participants rate the issues around "Market & Competition" as the third strongest obstacle for companies in India. Yet it is not an unknown challenge. In recent years, our surveys on the business climate in India have repeatedly shown that the company's own competitiveness in India is capable of development. Asian 'low-cost competition' continues to be an issue that companies have to deal with.<sup>6</sup>

However, companies are not only recognizing the increasing competition by looking at the neighboring countries. Local competition is playing an ever greater role and the increased demands of the market are also having an impact on the business of medium-sized companies.

Another issue, although relevant as a challenge for only 31% of respondents, is staffing. As already mentioned, staff turnover has increased. At the same time, a poaching mentality is making itself felt and, in the same wake, salary demands (e.g. in the IT sector) have risen sharply, making it increasingly difficult to find new personnel.

It is therefore clear that the pandemic in India has left its mark on all economically relevant sectors. On the other hand, the positive feedback from respondents, who report that they have come through the past 12 months very well and are optimistic about the future despite all the difficulties, indicates a positive mood for the coming year.





## FOCUS OF THE LONG-TERM INDIA STRATEGY

Looking to the future, we wanted to learn more about the India strategy of the companies surveyed and asked the participants about the issues that are central to their long-term India strategy.

Here, the results are not as clear-cut as when we asked about the obstacles faced in the past 12 months. Which in turn shows that while there are some general tendencies, the topics are weighted very differently in the companies.

There are clear trends in the topic of exiting India, which is *not at all* or only *slightly* in the focus of the strategy for 96%, as well as the possibility of ending production activities, which is not or only *slightly* relevant for 82%. Savings measures are in the focus of only 21% (*strong & medium*) of respondents.

The expansion of local production activities is in the focus of 44% (*strong & medium*), whereas only 37% (*strong & medium*) intend to expand the Indian site into a global manufacturing location.

Optimization plays an important role in the future India strategy. For example, 63% (*strong & medium*) want to optimize the Indian organizational structure. The opportunities for visits and direct exchange between the parent company and the presence in India are important here. If restrictions continue to be announced here, the optimization project will experience a renewed slump. (Note: as of December 1, 2021, entry regulations including quarantine requirements for travelers from the EU have been published, which will again make it more difficult to visit the site.)<sup>7</sup>

According to our survey, three topics are in the midfield - more than half of the respondents expect the topics to have a low or medium impact on their company:

### Crisis and risk management

81% of respondents see the issue in the *medium* (42%) or *low* (39%) range.

In the course of the pandemic, all companies had to deal with their own crisis and risk management. In very few cases were there emergency plans in place that could have prevented an exceptional situation at the beginning of the pandemic. However, it became apparent that those companies that placed a high priority on crisis management were able to reorganize their operations at short notice, implement hygiene and safety measures, send their employees to home offices without much effort, and thus prevent a business collapse.

Risks came to light that no one had thought of before, or even risks that no one was aware of.

### New business models

78% of respondents see the issue in the *medium* (45%) or *low* (33%) range.

For 13% of the participating companies, new business models are irrelevant. Looking at these companies more closely, it is clear that they are established companies that primarily want to maintain their market share and strengthen their growth. All but one of the companies can report positive sales.

The development of the past months, on the other hand, has shown many other companies that even business models and products that are firmly established in the market are not untouchable. Following the slumps in sales and revenue, the respondents are now entering a phase of change: the development of new and additional business areas or even conversion in the direction of new products (e.g., e-mobility) is becoming increasingly relevant.

Digitalization also plays an important role here (e.g., expansion of automation, cobots).

In addition to new business models, companies are focusing on local presence. (New) founding of a subsidiary or other company forms, establishment of local- service structures or even finding an optimal representative to represent the company in the sense of the parent company.

Finding the right partner (joint venture, distribution, etc.) also enables new business models and perspectives. At the same time, it is especially important in this area not to disregard risk management.

## Change in supply chains

55% of the respondents see the topic in the *medium* (30%) or *low* (25%) range.

In fact, for 24% of respondents, supply chain change will have a major impact on their long-term India strategy.

We dedicated our September issue of the WB India Journal to this topic.<sup>8</sup> From our practice, we know that the Supply Chain Due Diligence Act 2022 in particular will keep all companies busy. Because even though the law, which will come into force at the beginning of 2023, will initially only affect companies with more than 3,000 employees, smaller companies with (international) supply chains will also have to deal with it.

Especially if companies already covered by the law appear in one's own supply chain. So it's a good opportunity not only to address the issue and potential risks now, but also an opportunity to screen your own suppliers and partners.<sup>9</sup>

The change in supply chains will have a long-term impact on India as a manufacturing location. The focus of the companies surveyed is not only on building and optimizing the existing supply chain, but also on expanding the local manufacturing strategy, sourcing in India, and building the local network and partnerships.

The manufacturing strategy will continue to depend on the availability of (sustainable) raw materials and logistics costs, but the trend towards sourcing with a local for local strategy is already evident.

The issue of human resources is also reflected in the long-term India strategy. The acquisition of new employees and a focus on employer branding, with the help of marketing strategies of the HR department, the attractiveness as an employer is strengthened.

Well-trained employees are particularly relevant. In particular, respondents want to coach their management and sales staff to achieve continuous growth with a strong local team.

At the same time, sales and the various sales channels (e.g., distributor network) are to be expanded.

# CONSLUSION

In India, as at other locations around the world, in addition to all the above-mentioned topics of the long-term India strategy, the focus is on one thing: securing market share and generating growth.

The basis for this is a stable business. Optimization of individual areas or the entire business model, procurement strategy and supply chains.

At the same time, only profitable companies can afford to invest in new, innovative ideas and thus develop the business further. It is therefore essential that the entire company or an entire process is always in focus in order to grow sustainably in the long term and, above all, to be prepared for possible disruptive factors.

After all, a supply chain optimized for price, for example, may save costs, but may harbor entirely different problems. Here in particular, a comprehensive analysis is necessary to better assess risks. For example, in addition to the economic factors, it should be checked in advance whether the cooperation also meets the company's own requirements and values at all levels. After all, risks and violations that are not visible at first can quickly become a problem for the company. If a supplier violates human rights or pursues interests that give the competition an advantage, the company's own business can suffer enormous damage.

The risk affinity and willingness to deal with risk prevention and crisis management has increased as a result of the pandemic.

At the same time, the past few months have led to a change in thinking.

Changes in business models, a trend toward more digitization and innovation, and the expansion of local manufacturing and value creation are opening up new opportunities for local SMEs from the DACH region. After all, the potential in India is far from exhausted. It is only important to perceive the developments of the Indian market and to adapt one's own business model accordingly in an agile manner.

There is a particular need for support in business development and optimization of corporate strategy. In addition, in sales and the associated training of personnel - not only in India, but also in the parent company, so that communication can be improved and thus a transparent, well-functioning cooperation can be established.

We are convinced that the coming months will be characterized by change. With an adaptation to the 'new' market, an optimization of corporate structures, a solid crisis and risk management with preventive measures and the right partners at your side, your Indian business will grow sustainably.

*Do you have questions, comments or would you like to discuss your project with us?*

*Feel free to send us a message [info@wamser-batra.de](mailto:info@wamser-batra.de) or just give us a call:*

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*We look forward to exchanging ideas with you!*

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