

E-COMMERCE EMBRACEMENT BY MICRO, SMALL AND MEDIUM ENTERPRISES - EXPEDITING THE ECONOMIC DEVELOPMENT

Priyanka Sinha* and Saumya Singh*

***Abstract:** Micro, Small and Medium enterprises (MSMEs) are considered to be the backbone of any developing economy. India too, cannot ignore the importance of MSMEs for its development and growth. This sector has been identified as a thrust area by the Government of India. The launch of the flagship schemes e.g. Make in India can be successful only if the MSME contributes upfront. Digitalisation is one of the important change Indian MSMEs will have to imply. Making presence in virtual marketplace will provide them a platform to mark their presence beyond the geographical and regional barriers and to compete globally. E-commerce helps MSMEs in reducing their traditional expenses which ultimately may boost their revenues and contributes not only to their profit but to Indian GDP.*

This paper discusses about the impact of e-commerce for Indian MSME sector, and critically analyse the barriers in its adoption.

***Keyword:** E-commerce, Micro, small and medium enterprises (MSME), Indian economy, Digitalisation*

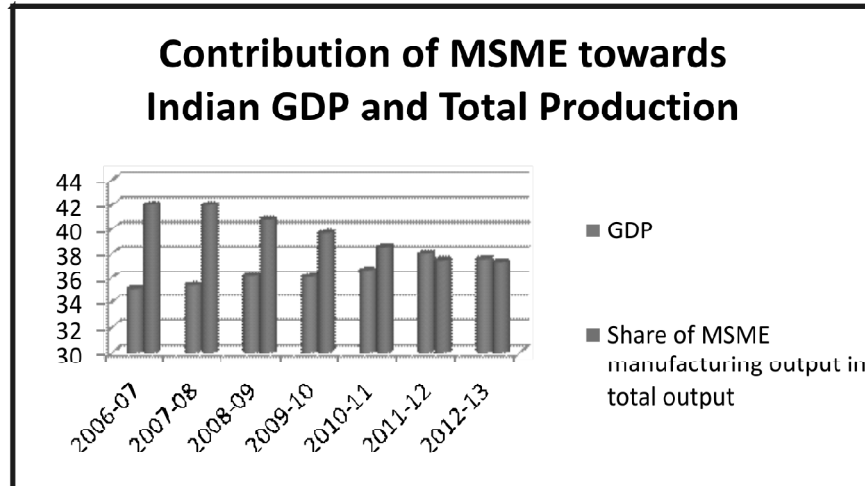
INTRODUCTION

Micro, small and medium enterprises (MSME) has been defined differently across the globe but in India as per MSME act (2006) MSME's are those establishments that have limited investment in fixed assets and operation costs. An establishment varies from micro, small & medium enterprise on the basis of its investment in fixed assets i.e. Plant and machinery or equipments. In manufacturing sector an enterprise with investment less than 25 lakhs is a micro enterprises (Less than 10 lakhs for service enterprises) 25 lakhs to 5 crores (10 Lakhs to 2 crores for service sector) is a small enterprise and above 5 crores and upto 10 crores is a medium enterprise (2 crores to 5 crores for service sector).

Micro, small and Medium Enterprises (MSME) play a vital role in the growth of Indian economy by contributing 45 % of the industrial output, 40% of exports and one

* Department of Management Studies, Indian School of Mines, Dhanbad, India, E-mail: sinha.priyanka09@gmail.com; saumya.ism@gmail.com

Figure: 1 Contribution of MSME towards Indian GDP and total production]



Source: Annual Report 2014-15 Government of India

million jobs every year and producing more than 8,000 quality products for the Indian and International markets (Shanbaug,2015).

ELECTRONIC COMMERCE

Electronic commerce means sale or purchase of goods or services conducted over network of computers, Mobile phones or Televisions by methods specially designed for this purpose. The goods available for sale in electronic market range from daily grocery to heavy diamonds. Almost all the items that we can think of in today's life are now available on electronic market. Similarly from flight, train or hotel bookings to movie tickets electronic media is dominating consumer's choice. The transactions over internet can be divided into two types, i.e. Business to business electronic commerce (B2B) and Business to consumer electronic commerce (B2C). As per a WTO report global B2B transactions comprises 90% of total electronic commerce.

There are two models of E-commerce business namely market place model and inventory based model.

Market Place model: It works as a facilitator of E-commerce by providing platforms for large number of buyers and sellers to transact with one another and commission from the sellers is earned in lieu of their services. A large number of sellers advertise their products and services using these platforms and buyers get an opportunity to compare different sellers on the basis of prices quoted and customer reviews.

Inventory based Model: It does not act as facilitator of E-commerce but are directly involved in E-commerce. They are the owners of goods and services who have their own market place for transaction purpose.

STATUS OF E-COMMERCE IN INDIA

Indian E-commerce has witnessed an unprecedented growth. From merely \$3.8 billion in 2009, it went up to \$ 17 billion in 2014 and to \$ 23 billion in 2015 and is expected to touch \$ 38 billion, a 67 % jump over the last year in 2016 (The Hindu, January 2,2016). In Asia, China and India have emerged as the fastest growing E-commerce market. However growth of E-commerce is dependent on various factors and the most important among them is internet penetration.

If we discuss about Internet penetration, India is not even among the top 50 countries of the world. Meagre 18% of total Indian population is exposed to internet, however in number of Internet users India holds second position in the world in the no. of Internet users (KPMG report, 2015). This indicates a very significant fact that if government initiates initiatives like digital India to increase internet penetration in the country, India will become the largest potential market for E-commerce in the world.

It is also an interesting fact that while Internet in India took more than a decade to move from 10 million to 100 million and 3 years from 100 to 200 million, it took only a year to move from 300 to 400 million users (IAMAI report 2015). Indicating clearly that Internet is main stream in India and the large internet users' base is definitely good news for the overall growth of the digital industry.

E-COMMERCE AND MSME

MSME's have started understanding the potential of E-commerce and have started adopting it to achieve growth for their business. It is an interesting fact that 100% of high web SMEs in india have E-commerce presence and 75 % of low web SMEs also have adopted E-commerce (SME Street Survey). Importance of E-commerce in SMEs and to the country can be well observed from the fact that 98 % of technology enables SME's contribute to Indian export while among the tradition SME's only 11% of them have a share (KPMG, 2015).

As per survey SME's who have actively adopted the internet for business purposes have witnessed 51 % more revenue, which results in 49 % more profit, and 7 % broader customer base than their offline counterparts (KPMG,2015).

E-commerce facilitates the growth of offline SME's by providing the platform at global level. It also provides greater market accessibility, wide consumer base and flexibility to conduct business e.g. online referral system and services for targeting customers and feedback to ameliorate the sales experience. with the help of business models like those offered by Godaddy, a SME can establish its online presence at an investment as low as INR 99 which will include a customized domain name, 24/7 support and a professional e-mail ID. This low entry barrier have encouraged various new entrepreneurs to try their hands in the field of E-commerce. As per the data approximately 63 % of E-commerce ventures have been started by new entrepreneurs. Other benefits of E-commerce are listed below

(i) Reduction in Distribution and marketing expenses

E-commerce emphasizes on reducing the expenses incurred due to customer helpline, arranging trade fares and offline advertising. E-commerce focuses mainly on digital and traditional media for customer acquisition, customer relationships and sales experiences. It also prevents SMEs against the cost which may have been incurred on account of opening of various stores on various locations. Thus the E-commerce not only drastically reduces the traditional expenditure but also provides the greater market access to customers at minimal cost.

(ii) Increase in profit margin

SMEs presents an advantageous position to SMEs by providing them the third party services (E-commerce market places) where the cost and management of maintain the online store infrastructure packaging and warehousing is transferred and thereby boosting the profit margin drastically. The reduction in the overhead costs, capital expenditures enables the SMNES for devising the strategies for better competitive pricing to enhance the pre and post sales experience.

(iii) Increased Geographic reach and accessibility

E-commerce provides a common platform for buyers and sellers across the globe which in turn facilitates the SMEs to enter the world market at minimal cost and compete globally. E-commerce reduces the barriers of timing restrictions and investments by presenting a virtual market place and enabling 24*7 accesses.

(iv) Lesser marketing time

E-commerce facilitates the channel management by better coordination between the suppliers and buyers and thereby becomes the guiding factor in devising a new and specialized customer centric product which may alternatively have been grabbed out by a competitor for not delivering in a stipulated time. It necessitates in ameliorating the management, reducing the redundancies and smoothening the communication for better visibility and relevance of the product.

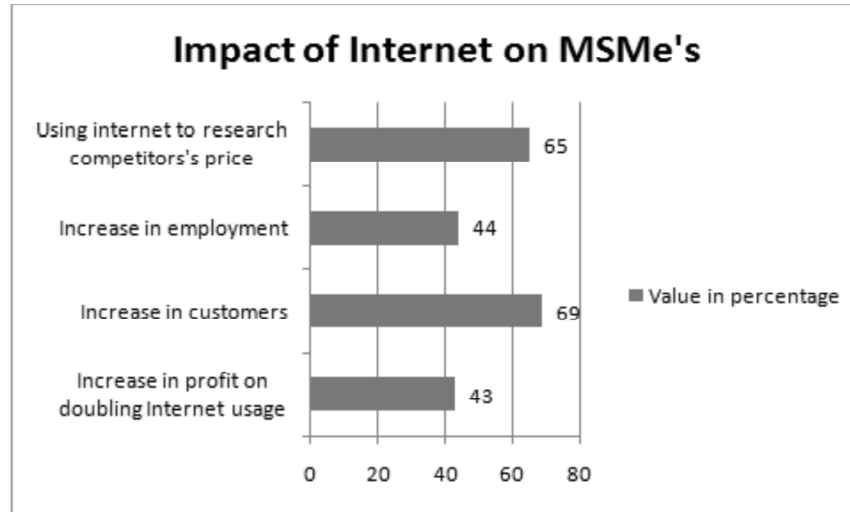
(v) Enhanced customer experience

E-commerce encourages the SMEs in devising the strategies, tools and technologies and processes as per demand and delivering it in the given time to better the sales experience. A quick remedy of customer enquires enhance sales experience and helps SMEs in suitably developing a loyal customer base through a better customer relationship management.

CHALLENGES FACED BY INDIAN MSME IN E-COMMERCE ADOPTION

Despite the high potential of E-commerce, Indian SMEs' have a very slow adoption rate. There are several adoption barriers that prevent India in going digital.

Figure 2: A summary of impact of internet on SME's



Source: FICCI, "Economic Impact analysis" (2013)

(i) Poor supply chain Infrastructure

Approximately 60% of Indian resides in village and rural area of the country. Due to lack of proper infrastructure, i.e. roadways and courier facilities E-commerce could not reach to such far flung places. More over due to lack of trust and financial insecurity among consumers, Indian E-commerce has to rely on cash on delivery payment option, which may not be a cup of tea for small enterprises.

(ii) Low Internet penetration rate and internet literacy in the country:

Although India has the second largest number of Internet users in the world,, Internet penetration rate in the country is very low. That is only 11% of the total population of the country is aware and uses internet(KPMG,2015). A large population of the country still remains offline. This fact discourages MSMEs from taking extra burden of change and transition.

(iii) Perceived Technology cost

It is a preconceived notion among Indian that installation and implementation of any new technology require a huge cost not only in terms of money but also latent in terms of employees unwillingness to change and adopt. Also technology requires periodic maintenance that further adds to the cost. However going digital is no more a costly affair and therefore a transparency of price need to be maintained clearly.

(iv) Lack of Awareness

A large number of MSME in India are family business where there is no difference in administration and management. The owners are either uneducated or don't have professional business knowledge. They either lack awareness about potential benefits of E-commerce or the E-commerce ecosystem or think it to be very complex to adopt. Therefore it is utmost important to educate sme's owners about E-commerce ecosystem

CONCLUSION

E-commerce is a business reality that can no longer be ignored. SME's in consumer centric sectors like tourism and retail may not be able to survive in near future if they are not present in virtual marketplace. Indian MSME's are still to understand the importance of E-commerce in their performance. Simultaneously it is also important for government to provide proper infrastructure for growth and development of E-commerce in the country. Awareness campaigns and suitable financial incentives to MSMEs will help MSMEs to overcome their preconceived notion and to accept the technology with full enthusiasm.

References

- Amit Shanbaug (March 10, 2015), "Growth Drivers for TOM";The Times of India, Mumbai.
- Annual report 2014-15 government of India available at http://msme.gov.in/WriteReadData/DocumentFile/MSME%20ANNUAL%20REPORT%202014-15_English.pdf
- Ficci, economic Impact analysis (July 2013), "Unleashhing the Potential-Internet role in the performance of india's small and medium enterprises" . Available at www.ficci.com/spdocument/20349/Nathan-India_18-July-2013.pdf
- IAMAI Report,(November 17,2015), Available at <http://www.iamai.in/media/details/4486>
- KPMG Report (2015), "Impact of e-commerce on SME's in India available at https://www.kpmg.com/.../Snapdeal-Report_-Impact-of-e-Commerce-on-In...
- SME street Survey, 2015''The Status of e-commerce among Indian MSME's
- The Hindu, January (2,2016),"E-commerce Industry will cross \$ 38b by 2016:ASSOCHAM", availablke at <http://www.assocham.org/upload/news/1451737411.pdf>