

# UNDERSTANDING THE IMPACT OF e-COMMERCE ON MSME IN INDIA: A REVIEW PAPER

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## 1. ABSTRACT:

MSMEs are the economic development engine that oversees job creation and aids in poverty reduction by endowing the bottom of the pyramid. This sector requires healthy and sustainable growth, as it is tough to envisage overall living standards and social peace without such progress. Medium and large enterprises have slowly but steadily adopted digital practices over the years to improve their sales and cater to customer needs; however, following COVID-19, many MSMEs have also begun to adopt such practices for the sake of growth and cashless transactions.

The internet base in India has been exponentially growing over the years, with close to 343 million internet users having a direct relationship to the growth of commerce in the country. Many SMEs have begun the transition from traditional to digital by opening their stores online before opening physical locations. MSMEs are opting for the e-commerce route to create themselves in the market, and they are using the internet not only as a marketing tool, but also to determine whether a unique product has high market demand. Indian This sector is also looking to e-commerce as an alternative tool for developing new business models. customers, thereby assisting the business is growing. The responsibility is on accessible marketplaces to enable these MSMEs to showcase their products across the country, giving them greater access to customers and, as a result, assisting the business to grow.

This paper was written after referring to and reviewing numerous research articles, research publications, reports published by consulting firms, and newspaper articles to better understand the adoption of digital and e-commerce practices by MSME. Following extensive research, it is clear that if MSMEs are to achieve long-term business and economic growth, all e-commerce players must team up to reduce business barriers to e-commerce adoption.

**Keywords:** Adoption, e-commerce, Empowering, Internet, Million, MSME.

## 2. MSMEs AND e-COMMERCE:

### 2.1 INSIGHT INTO MICRO, SMALL AND MEDIUM ENTERPRISES (MSME):

MSME is India's second-largest job creator after agriculture, and it also serves as a breeding ground for entrepreneurs and innovators in the business ecosystem. According to various articles published in print media, there are approximately 63 million MSMEs that employ approximately 110 million workers. The growth of the micro sector has touched figures close to 25.13 lakh units in 2020, compared to 21.21 lakh units in 2019, representing an 18.5 percent increase year on year. The Small sector has 2.95 lakhs units in 2020, up from 2.41 lakhs in 2019, and the Medium sector has increased marginally from 9k to 11k units in the same period. The sector accounts for a growth rate of nearly 6.11 percent of India's manufacturing GDP, 24.63 percent of GDP from service-related activities, and 33.4 percent of manufacturing output. As this sector is less structured than that of large corporations. Despite the fact that the sector is unorganized in comparison to large corporations, government policies are now pushing this sector to build a resilient ecosystem. The Ministry of MSME has been working hard to promote various initiatives to help this sector grow. One such initiative is "Atma Nirbhar Bharat," which translates to "Self-reliant India," and it focuses on encouraging entrepreneurship and product indigenization to make India a global market powerhouse. In collaboration with concerned ministries, state governments, and other stakeholders, the ministry has been promoting this concept in industries such as coir, khadi, and manufacturing, among others, by providing necessary support to existing enterprises and assisting in the realization of new enterprises.

### 2.2 CLASSIFICATION OF MSME:

This enterprise structure has been further subdivided into Micro, Medium, and Small enterprises based on annual investment and revenue generation. The table below summarizes the investment and turnover caps for the manufacturing and service sectors prior to and after the implementation of "ABA," which is classified as follows:

Table 1: Classification of Micro Small and Medium Enterprises (MSME's)

Classification	Micro	Small	Medium
Manufacturing Enterprises and Enterprises rendering Services	Investment in Plant and Machinery or Equipment: Not more than Rs.1 crore and Annual Turnover ; not more than Rs. 5 crore	Investment in Plant and Machinery or Equipment: Not more than Rs.10 crore and Annual Turnover ; not more than Rs. 50 crore	Investment in Plant and Machinery or Equipment: Not more than Rs.50 crore and Annual Turnover ; not more than Rs. 250 crore

Source: <https://msme.gov.in/know-about-msme>

As shown in table 1, entrepreneurs have consistently requested that the investment limit be raised in order to account for inflation, and the government has done so through its scheme. Previously, entrepreneurs would run their businesses at a lower level or incorporate multiple businesses in order to distribute the turnover in such a way that they remained within the threshold limits and thus received the benefits. According to Sipahi E, et al., the new classification is advantageous to MSMEs because there are enterprises that leverage a small capital to generate large revenues (2020).

Prior to the Covid-19 pandemic, MSMEs reported an average growth rate of 13% in comparison to the overall Industrial sector growth, employing approximately 114 million people. In addition, the sector contributed roughly 30% of the Gross Domestic Product (GDP). The only disadvantage of this industry is that it employs low-wage workers.

This sector has suffered a severe burn in terms of growth and contribution to GDP since COVID-19. As previously stated, the country was under lockdown from March to June 2020, which had a severe impact on micro, small, and medium-sized businesses, as owners were unable to earn money, pay their loans, pay salaries, and so on, resulting in either shutdown or downsizing of the workforce, causing even more pain to employees. Employees, for their part, had to bear the brunt of going with a reduced or no salary for months, as well as being unable to find another job. All of this has had a significant impact, not only on the business side but also on the psychological side for both the owners and the workers in this sector.

The preceding case compelled the government to instruct banks to grant a twelve-month moratorium on loan repayments, which came as a relief to many during such trying times. The MSME sector witnessed a sharp decline during the COVID-19 pandemic because of its size, scope of operation, and limited financial resources. The pandemic hit this sector very hard, destroying many businesses because they lacked the capacity to deal with such unexpected situations, resulting in the supply-chain breakdown, which had a direct impact on production, consumption, and product and service utilization.

### 2.3 INSIGHT INTO E-COMMERCE USAGE BY MSME IN INDIA:

Following the preceding case, the government was forced to instruct banks to grant a twelve-month moratorium on loan repayments, which came as a welcome relief to many during these trying times. The MSME sector was the most exposed sector during the COVID-19 pandemic due to its size, scale of operation, and limited financial resources. The pandemic hit like a tsunami, destroying many businesses due to their inability to deal with such unexpected situations, resulting in the supply-chain breakdown, which had a direct impact on production, consumption, and product and service utilization. MSME adoption of e-commerce will result in significant returns such as amplified revenues and margins, improved market reach, access to new markets, cost investments in marketing and communication spend, customer acquisition, and improved customer satisfaction. It has been reported that MSMEs that have extensively used the internet export approximately twice as much as MSMEs that use the internet sparingly. Although it has been reported that a significant number of MSMEs do not have an online presence, 43 percent of the population in India currently participates in online sales. The Indian regulatory and industry bodies, as well as e-commerce players, recognize the challenges that MSMEs face and are assisting thousands of such business sellers in exploring new channels for marketing, sales, and customer service.

According to reports, MSMEs are expected to contribute approximately 25-30% of the country's GDP by 2021, and thus adopting e-commerce will result in a 60-80% reduction in marketing and distribution costs. The data available shows that 27 percent of Indian MSMEs are already online via e-commerce, and this movement is expected to accelerate in the near future. The increasing use of smartphones, as well as increased internet penetration and market awareness, has accelerated the growth of e-commerce in India. India is expected to surpass the United States as the world's second-largest internet user. Current records indicate that there are nearly 457 million smartphone users in India (in 2020) as compared to 173 million users in the year 2014. The availability of cheap smartphones and a reduction in telecom data tariffs have contributed to the phenomenon in which 70% of users are seen accessing the internet via their smartphones. The current Indian government has also initiated initiatives such as "Make in India," "Digital India," and "Skill India" over its two terms in power, all of which are primarily aimed at expediting the growth of MSMEs in the country and thus enabling them to tap into the potential of e-commerce.

## 2.4 ADOPTION OF E-COMMERCE AMONG INDIAN MSMEs IN INDIA:

The COVID-19 pandemic which impacted business severely has prepared MSMEs to recognize the true potential of digitization and e-commerce. During this period, enterprises failed to produce, market the finished goods, or sell their products to customers in 2020, resulting in significant revenue loss, employee job losses, and economic failures. This prompted MSMEs to quickly adopt digital techniques and e-commerce so that they could exit the current situation and re-enter the market with a bang. The sector has eventually begun to recognize the potential of e-commerce and recognizes that its adoption could play an important role in enabling growth for their businesses in both domestic and international markets.

Comparing Indian MSMEs with other emerging countries such as Brazil, China, and Indonesia, it is discovered that on average, 100% of these countries' MSMEs have adopted to promote their products and services via their own web site, use the internet for online advertising, and transact using e-commerce. The same scene can be seen in developed countries such as the United States and Europe, where MSMEs follow a similar pattern of operation. In contrast, Indian MSMEs are considered low-web users, with only 5% having a website, compared to approximately 50% of MSMEs in developed countries. This clearly demonstrates the lack of business involvement in adopting digital platforms and using e-commerce, as well as the lack of infrastructure to promote its development.

Furthermore, while all of India's high-end enterprises have an e-commerce presence, 75% of low-end businesses are working towards embracing e-commerce. This implies that, in developing countries, even MSMEs with a limited online presence have begun to identify the potential of e-commerce or having an online presence. According to reports, as e-commerce ecosystems mature and cross-border trade improves, the online export market for MSMEs that rely on internet technology for growth and sustenance will increase.

## 2.5 e- COMMERCE: ENGINE FOR GROWTH OF MSMEs IN INDIA:

Trading and operations in MSMEs have undergone a phenomenal makeover over the past few years. Despite its significant contribution to economic growth, the sector faces numerous challenges which include competitive pressures from both domestic and international players. As an effect, in order to maintain their market position, MSMEs must expand their access to new customer segments and reach out to customers across the globe. This is where, e-commerce comes into the picture, which definitely will improve competitiveness and will give businesses a platform to achieve on a truly global scale.

### 3. BENEFITS OF E-COMMERCE TO INDIAN MSMEs:

Amongst the various potential benefits, the following are the most important when it comes to the adoption of e-commerce in MSMEs:

a. **Revenue Increase:** Offline MSMEs are frequently constrained by their geographical reach and must make incremental efforts to expand a consumer base that has been built up over time. e-commerce helps MSMEs conduct global trades by providing a Launchpad that can be accessed from any place in the world, increasing the volume of sales handled and income earned. The improved speed to market, global consumer base, and business tractability can potentially increase MSMEs revenue by fifty percent along with e-commerce-specific benefits like online referral systems for acquiring many more customers, insight-based personalization to improve customer attainment, service, and feedback channels to ensure all lessons learned are immediately incorporated to improve future performance.

b. **Increase in profit margins:** e-commerce allows MSMEs to use third-party trading platforms with little or no outlay in developing and hosting online services, as well as managing infrastructure for packaging, logistics, and warehousing, among other things. Reducing overhead costs and initial capital investment may certainly increase profit margins. Cost discount enables a more viable pricing strategy, which can increase sales numbers, transaction sizes, and overall profit values. e-commerce platforms allow MSMEs to link directly with consumers without the use of a broker or agent, resulting in lower transaction costs.

c. **Lower marketing and distribution spend:** Since the competition from e-commerce has increased significantly, businesses have been spending profoundly on both digital and traditional media to improve site traffic, gain customer base, build good customer relationships, and ultimately improve sales volume. MSMEs could help cut costs in call centers, trade shows, and even offline advertising, plummeting overall marketing and sales spending by a considerable percent. Increased e-commerce adoption lowers the costs of traditional marketing as well as any additional costs associated with opening additional stores in multiple locations.

d. **Improved geographic reach and accessibility:** Over the last few years, the use of the internet has crossed all geographical boundaries, allowing MSMEs to connect with multiple buyers and sellers across geographies, allowing them to enter international markets at a fraction of the cost by allowing them to compete directly with global players in their industry, thereby contributing to the government's initiative of "Make in India" campaign. MSMEs are selling around the world 24/7 and 365 days, with no time zone restrictions and minimal assets, as geographical boundaries vanish in the virtual marketplace.

e. **Shorter time to market:** Demand for a product can be very short, and if businesses do not respond to the demand within the specified time frame, they may miss out on good prospects. The ability to launch a product before a competitor can be critical to success and few industries are more susceptible to this than e-commerce. The adoption of e-commerce facilitates faster messages

between MSMEs, sellers, and buyers, as well as aids in the prevention of potential supply chain chaos by streamlining communication, eliminating redundancy, and improving orders, thereby increasing market relevance and product visibility.

**f. Improved Customer Experience:** As a result of competition in the e-commerce environment, MSMEs are fortified to operate within the paradigm of customer-first business philosophies. e-commerce companies support such MSMEs in their efforts to provide a better customer experience throughout the customer life cycle by assisting them in the implementation of customer-centric processes enabled by tools and technologies. Faster responses to customer inquiries, interactive order-taking processes, and improved after-sales service are just a few of the improvements that, over time, lock in a loyal consumer base and eventually turn them into strong brand order-taking.

#### 4. CONCLUSION:

A variety of factors are driving the growth of the Indian e-commerce sector, but there are real and tangible challenges that must be addressed if this sector is to benefit the Indian economy as intended. The accomplishment is primarily due to increased internet penetration in India, where the MSME community has begun to discover its options as online sellers with access to consumers and shoppers across the country. Cross-border e-commerce is a substantial revenue opportunity that many MSMEs are eager to pursue on a global scale. The sector's major challenges, however, include mediocre internet connectivity due to underdeveloped infrastructure, lack of awareness about the benefits of e-commerce, and a dearth of trust among businesses considering going online.

When Indian MSMEs are compared to those from other emerging countries such as Brazil, China, and Indonesia, it is discovered that on average, 100 percent of high-web MSMEs have a website, use the internet for online purposes such as advertising, and transact using e-commerce. This is also comparable to MSMEs in developed countries like the United States and Europe, where high-web businesses follow a similar pattern. However, when compared to MSMEs in India that are considered low-web, only 5% have websites, whereas approximately 50% of the same category in developed countries contribute close to 50%, indicating a significant difference in e-commerce penetration.

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