

Impact of E-Commerce on MSMEs in India

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INTRODUCTION

For the last two and half decades, the information technology and internet changed the world entirely into new dimension. It helped all the organizations, businesses and individuals to do their work in more efficient and profitable way. Due to availability of good network (3g/4g) data packs, smartphones implied more number of internet users. The numbers of internet users were increasing high day by day.

E-commerce stands for “electronic commerce and refers trading in goods and services through electronic medium i.e. internet or phone”. It conducts business with latest and advanced information technology such as electronic data-interchange (EDI). All the primary and support activities i.e. Inbound logistics, operations, outbound logistics, marketing & sales, service, firm infrastructure, human resource, technology, procurement of the firms were redesigned in the path of e-commerce to do more business with high quality products and services and to expand their business to global in more convenient and simple way through the help of electronic mails, phones and internet.

E-commerce can be categorized into following segments:

1. **Consumer to Consumer (C2C)**: consumer to consumer or customer to customer, is a business model facilitates the transaction of products or services between customers.
2. **Business to Consumer (B2C)**: business to consumer is business or transactions conducted directly between a company and consumers who are the end users of its products and services.
3. **Business to Business (B2B)**: business to business is a type of transaction that exists between businesses, such as one involving a manufacturer and wholesaler, or a wholesaler and a retailer.

E-commerce market growing fast at good amount for every year. Lot of new products and services are added to the current portfolio. New offers, new schemes, new cash benefits etc. are implemented for every quarter of the fiscal year. This made huge business and expansion of the market to urban and rural areas. The turnover of the businesses those who use e-commerce increased to tremendous amount and profits are good when compared to previous year statistics. The

e-commerce growth has led to an increase in marketable transactions a multiple times as compared to the pre-commerce period in the India. The gap of communication between client/ customer and firm has reduced so much due to the availability of advanced communication technologies and products.

The digital commerce market in the country is expected to cross \$50 billion in value by the end of 2018 from the current level of \$38.5 billion, on the back of a growing internet population and increased online shoppers, says a recent study.

The increasing mobile and internet penetration, m-commerce sales, advanced shipping and payment options, exciting discounts, and the push into new international markets by e-businesses are the major drivers of this unprecedented growth, it said.

Banks and other players in the e-commerce ecosystem are providing a secured online platform to pay effortlessly via payment gateways. However, it pointed out that the Indian e-commerce sector is heavily dependent on the cash on delivery (cod) mode of payment as it is the most preferred choice for Indian consumers due to lack of trust in online transactions, limited adoption of credit and debit cards, and security concerns, among others.

“More than 50% of online transactions are done on cash on delivery method and it is available across 600 cities and towns of India,” the joint study pointed out. On the increase in preference of mobile transactions, the study said one out of three customers currently makes transactions through mobiles in tier-1 and tier-2 cities.

In 2017, 82% of shopping queries were made through mobile devices, compared to 76% in 2016, added the study, indicating the increasing mobile transactions. The survey highlights that 28 per cent of regular shoppers are in 18–25 age group, 42% in 26–35, 28% in 36–45 and 2% in the age group of 45–60. While 65% of online shoppers are male, 35% are female.

The products that were highest sold in 2017 included mobile phones, apparel, food items and jewellery, among others, it said. As per the study, there would be more than a seven to ten fold increase in revenue generated through e-commerce as compared to last year with all branded apparel, accessories, jewellery, gifts and footwear available at cheaper rates and delivered at the doorstep.

Definitions of Micro, Small & Medium Enterprises In accordance with the provision of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small and Medium Enterprises (MSME) are classified in two classes:

1. **Manufacturing Enterprises:** He enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule

to the industries (Development and regulation) Act, 1951) or employing plant and machinery in the process of value addition to the final product having a distinct name or character or use. The Manufacturing Enterprise are defined in terms of investment in Plant & Machinery.

2. **Service Enterprises:** The enterprises engaged in providing or rendering of services and are defined in terms of investment in equipment.

The limit for investment in plant and machinery/ equipment for manufacturing/ service enterprises, as notified, vide S.O. 1642(E) dtd.29-09-2006 are as under

Table 1

Manufacturing Sector	
Enterprises	Investment in plant & machinery
Micro Enterprises	Does not exceed twenty five lakh rupees
Small Enterprises	More than twenty five lakh rupees but does not exceed five crore rupees
Medium Enterprises	More than five crore rupees but does not exceed ten crore rupees
Service Sector	
Enterprises	Investment in equipment's
Micro Enterprises	Does not exceed ten lakh rupees:
Small Enterprises	More than ten lakh rupees but does not exceed two crore rupees
Medium Enterprises	More than two crore rupees but does not exceed five core rupees

THE PRODUCT GROUP MATRIX

There are about twenty-one major industry groups in the small scale sector. They are Food Products, Chemical & Chemical Products, Basic Metal Industries, Metal Products, Electrical Machinery & Parts, Rubber & Plastic Products, Machinery & Parts Except Electrical goods, Hosiery & Garments-Wood Products, Non-metallic Mineral Products, Paper Products & Printing, Transport Equipment & Parts, Leather & Leather Products, Miscellaneous Manufacturing Industries, Other Services & Products, Beverages, Tobacco & Tobacco Products, Repair Services, Cotton Textiles, Wool, Silk, Synthetic Fiber Textiles, Jute, Hemp, Mesta Textiles and Other Services.

A survey of indices of industrial production (IIP) maintained for these major industry groups reveals what the sunrise industries are and on what segments the sun has set. SSI units produce an amazing variety and type of products. Over 7500 products are known to be manufactured in this sector. Even in a particular product, there would exit a wide range of qualities or specifications catering to different market segments, particularly in consumer/ household products. Small Scale sector has emerged as a major supplier of mass consumption items like leather and leather goods, plastic and rubber goods, ready-made garments, hosiery goods, sheet metal goods, stationery items-soap and detergents, domestic utensils, toothpaste and toothpowder, safety matches, preserved foods and vegetables, wooden and steel furniture, paints and varnishes etc.,

Among the sophisticated items mention may also be made of Television sets, calculators, microwave components, plastic film capacitors, carbon film registers, electro medical equipment, electronic teaching aids, digital measuring equipment, air-conditioning equipment, optical lenses, drugs and pharmaceuticals, electric motors, pesticide formulators, photographic sensitized paper, razor blades, Collapsible tubes, etc.

MSMEs AND E-COMMERCE MSME SECTOR IN INDIA

As per the latest data available from the Ministry of Micro, Small and Medium Enterprises (MSME), the number of MSMEs in India consist of 51 million units which provide employment to around 117 million people. MSMEs manufacture more than 6,000 products, account for 45% of the total manufacturing output and contribute 40% of total exports from the country. Studies show that MSMEs that use E-commerce platforms are around five times more likely to export than those in the traditional economy.

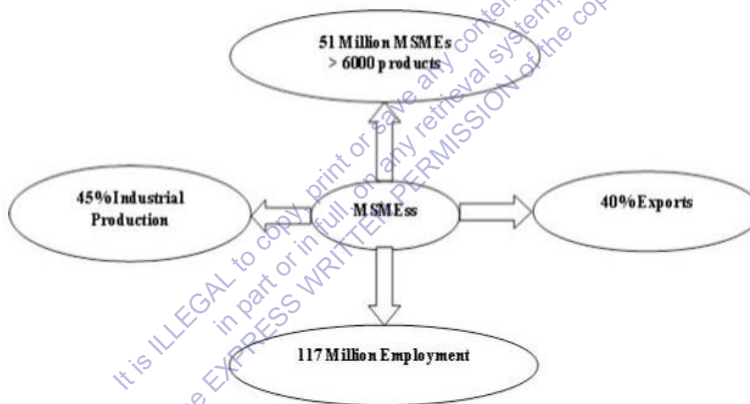


Fig. 1

Micro, Small and Medium Enterprises (MSMEs) in India (2015–16)

E-COMMERCE INDUSTRY IN INDIA

The E-commerce business in India has seen exponential growth over the last decade. This growth is due to many contributory factors, including rapid adoption of technology by Indian consumers, large increases in the number of internet users, new enabling technologies, innovative business models and alternative payment options offered by E-commerce companies. Moreover, the high growth in E-commerce continues unabated, with the sector expecting to witness a steep increase in revenues in the coming years.

E-COMMERCE STATISTICS OF MSMEs

1. 27 percent of the Indian MSMEs which are online today use E-commerce
2. MSMEs can enter into the E-commerce space with small investment of about 100 US\$
3. MSMEs using E-commerce record up to 60 to percent reduction in marketing and distribution costs
4. MSMEs having adopted E-commerce have reported 27% higher revenue growth than their offline counterparts
5. USD100 billion is the projected E-commerce market size in2020
6. E-commerce development in India
7. The E-commerce business is expected to form the largest part of Indian economy with a value of approximately USD 100 billion by 2020. E-commerce is facilitating MSMEs to scale up their operations by providing a means of financing, technology and training. Evolution of technology led innovations such as digital payments, hyper-local logistics, mass customer engagements and digital advertisements have enabled the E-commerce industry to grow speedily.
8. Within the E-commerce industry, the Gross Merchandise Value (GMV) is an important metric for valuations, especially during the early stages of growth. The majority of B2C E-commerce companies report low profitability even in developed economies and the situation in India is no different. While the GMV is rising, the companies have to suffer an overall loss as the Ecommerce companies establish themselves. The GMV for B2C segment in India was approximately USD 16 billion in2015.

E-COMMERCE SIZE (\$ BILLIONS) IN INDIA

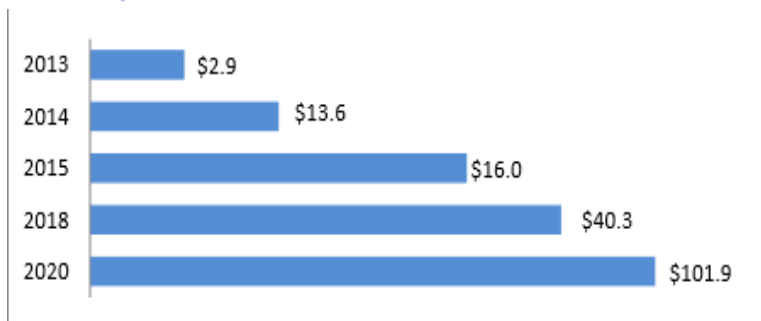


Fig. 2

As per another report, the value of E-commerce sector (GMV) in Indian rupees was as under: The size of the E-commerce industry was estimated to be Rs. 2,110 billion by 2016 as per Digital Commerce Report 2015 (IAMAI and IMRB). The industry was worth Rs. 351 billion in 2011 and grew at a CAGR of 37% to touch Rs. 1,257 billion in 2015.

SIZE OF E-COMMERCE SECTOR (2011-2016)

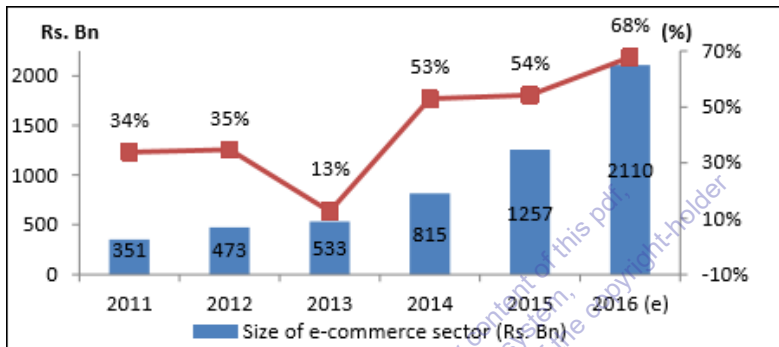


Fig. 3

Online Shoppers as %age of total internet users

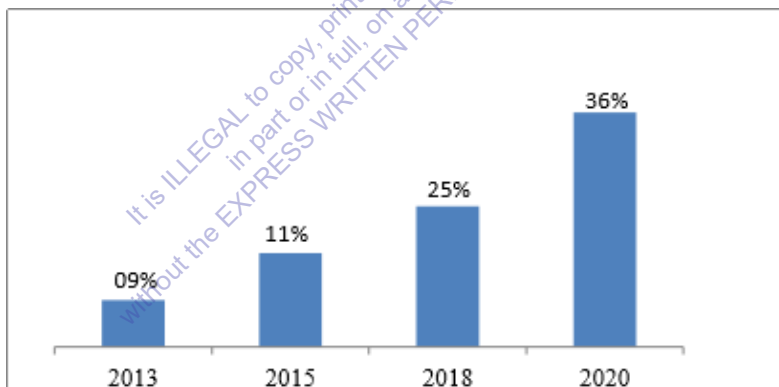


Fig. 4

MSMEs in India have been generally operating in a traditional manner and have been dependent on domestic trading activities. But, with growing rate of internet penetration, MSMEs are also gradually changing their operations to avail the opportunities to trade through E-commerce. A large number of MSMEs is now involved in online transactions. These MSMEs look towards an enhanced customer base and increased profits by using E-commerce technology. MSMEs believe that use of E-commerce will boost their business growth.

CONTRIBUTION OF MSMEs AND E-COMMERCE TO THE DEVELOPMENT OF THE COUNTRY

The E-commerce sector in India is projected to reach USD100 billion by 2020 and USD300 billion by 2030 and is already changing the way MSMEs operate in India. By adopting E-commerce, MSMEs shall achieve significant advantages such as increased revenues and margins, improved market reach, access to new markets, cost savings in marketing and communication, customer acquisition and improved customer experience. Although MSMEs in India may or may not have an online presence, 43 per cent participate in online sales in India.

The Indian regulators, industry bodies and E-commerce players recognize the challenges faced by MSMEs and are doing their bit to enable thousands of MSME sellers to explore a new channel for marketing, sales and customer service.

CHALLENGES FACED BY E-COMMERCE COMPANIES

E-commerce companies, especially MSMEs in India, have been facing certain problems which are adversely affecting their growth. Based on feedback received from various stakeholders in the E-commerce industry, one of the major challenges reported is the lack of trust about Ecommerce vendors and the issue of disputes resolution. These concerns include counterfeiting, inadequate governance measures and inadequate data security.

SUGGESTIONS

1. Government should make bankers to pass on the schemes to MSMEs without hassles and timelimits.
2. More relaxations should be offered to Indian Startups.
3. Reduce burden of tax & paperwork.
4. Create trust among people to motivate them to purchase online.

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