



Role of E-Commerce in MSME Growth

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ABSTRACT

Micro, small and medium-sized enterprises (MSMEs) have a potential impact on achieving many of the sustainable development goals much greater than their size. This review aimed to study the role and impact of e-commerce in MSME and how much it is contributing to the Indian economy. And what are the challenges faced by the MSME in e-commerce. The review provides a comprehensive and systematic summary of evidence and provides future research directions.

Keywords: MSME, E-Commerce, Commercial sector, Neo Growth

INTRODUCTION

The Micro, Small and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. It contributes significantly in the economic and social development of the country by fostering entrepreneurship and generating large employment opportunities at comparatively lower capital cost, next only to agriculture. MSMEs are complementary to large industries as ancillary units and this sector contributes significantly in the inclusive industrial development of the country. The MSMEs are widening their domain across sectors of the economy, producing diverse range of products and services to meet demands of domestic as well as global markets.

Mandate of the Ministry of MSME

The Micro, Small and Medium Enterprises Development (MSMED) Act was notified in 2006 to address different issues affecting MSMEs, inter alia, the coverage and

investment ceiling of the sector. The MSMED Act seeks to facilitate the development of these enterprises as also enhance their competitiveness.

Definition of Micro, Small and 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 as below:

- (i) A micro enterprise, where the investment in plant and machinery or equipment does not exceed one crore rupees and turnover does not exceed five crore rupees;
- (ii) A small enterprise, where the investment in plant and machinery or equipment does not exceed ten crore rupees and turnover does not exceed fifty crore rupees; and
- (iii) A medium enterprise, where the investment in plant and machinery or equipment does not exceed fifty crore rupees and turnover does not exceed two hundred and fifty crore rupees.

Objectives of the Study

- The objectives of this study are to briefly highlight on the functional scenario of micro, small and medium enterprises in e-commerce.
- To focus on the huge growth potential and opportunities available for development of this sector.
- To identify some important issues, challenges and constraints confronted by these enterprises and to offer suggestions to overcome the same.

METHODOLOGY

The data are collected mostly from secondary sources by way of access to various Government policies/programs including published Annual Reports, Journals, Books and available official websites.

MSME OVERVIEW

In business terms, MSME stands for Micro, Small, and Medium Enterprises. MSMED (Micro, Small, and Medium Enterprises Development Act) was enacted by the government of India in 2006. Basically, this act defines MSMEs as businesses that process, manufacture, and preserve stuff.

Every sector in the Indian economy benefits from MSMEs, no matter the industry. However, the Internet has enabled MSMEs to grow by reaching a new audience online. The Internet used to be a weakness for Indian MSMEs. As the defect turned into a strength, e-commerce has ultimately been a game changer for Indian SMEs

Role of MSMEs in the Indian Economy

As mentioned earlier, MSMEs are the backbone of the Indian economy. They provide employment to more than 12 crore Indians across the country. MSMEs are widely regarded as a source of economic growth and a way of achieving more equitable development. They are recognized for having the highest rate of economic growth. MSMEs have propelled India to new heights due to their low investment requirements, flexibility in operations, and ability to develop suitable native technology.

E-Commerce

The term e-commerce refers to electronic commerce. It facilitates online product trading through its business model. People worldwide can connect via e-commerce as long as they have an internet connection.

It's estimated that 4 billion people will have access to the Internet by 2022. Amazon and Alibaba are good examples of e-commerce. Business-to-consumer (B2C) is the most common form of E-commerce, which connects businesses with customers. There's also business-to-business (B2B), which connects businesses. In light of your knowledge of MSMEs and E-commerce, we can now focus on E-commerce's role in MSME growth.

Role of E-commerce in MSME Growth

SMEs make up 29 percent of India's GDP through domestic and international trade, and they play a crucial role in the country's economic development. Moreover, the Indian government wants MSME exports and GDP contributions to reach \$5 trillion in five years

96 percent of MSMEs expect profits to increase in 2023, as they are being more confident about their growth, profitability, and other growth indicators.

According to MSME Business Confidence Study by Neo Growth, an MSME-focused digital lender, MSMEs are capitalizing on new credit options to build and scale their businesses easily, unimpeded by traditional methods of credit underwriting.

"It is heartening that MSMEs are confident about their growth, profitability, and other business indicators. We believe that the strong digital ecosystem in India will be a catalyst for MSME lending in the coming year. MSMEs are capitalizing on new credit options to build and scale their businesses easily, unimpeded by traditional methods of credit underwriting. 2023 will be a crucial year for MSMEs, which will play a pivotal role as India moves a step closer to realizing its vision of a \$5-trillion economy," said Arun Nayyar, Managing Director, and CEO, Neo Growth.

MSMEs in Chennai were most confident about profitability in 2023 with 80 percent expecting an over 30 percent increase in profits. In contrast, the profit expectations of MSME owners in Mumbai and Pune were more conservative.

84 percent of MSMEs in non-metros largely bucketed under 'others' in the study said they planned to opt for business loans in 2023. The accelerated demand for credit from smaller cities signaled MSMEs' business recovery, as they require funds for their working capital needs, growth, and expansion.

The manufacturing and services industry segments anticipated higher credit demand with over 80 percent of

women MSME owners expected to opt for a business loan in 2023. Given the expectations of strong consumer demand, the repo rate increased by 225 basis points since early 2022 was unlikely to impact the MSME credit demand in 2023.

60 percent of MSME owners said they planned to step up technology or digital investments in 2023. The willingness for digital adoption was clearly evident with 38 percent of MSMEs saying they would focus on online selling, 23 percent planning to build a social media presence, and 24 percent of MSMEs desiring to digitize their accounts and payments to track cash flows in 2023. 61 percent of MSME owners said they intended to expand their workforce in 2023 with higher hiring expected in the services and manufacturing industry segments. Three out of four Chennai-based MSMEs planned to hire more employees in 2023, the highest in the country.

Lastly, 71 percent of MSME owners hoped to include Sustainable Business Practices in 2023. The topmost sustainable business practice favored by MSMEs was to eliminate plastic usage. Sustainable business practices include initiatives around energy conservation/renewable energy, tree plantation, reducing carbon emissions, reducing plastic and paper usage, and controlling/reducing air/ water pollution.

E-commerce and MSMEs: What Does the Government Have to Say?

Several measures have been taken by the Indian authorities to accelerate the growth of e-commerce in the country, including Skills India and Make-Up India. The government is also encouraging MSMEs to make use of e-commerce platforms to promote their product.

MSMEs and Their Usage of E-commerce for Operational Efficiency

The Micro, Small, and Medium Enterprises (MSMEs) sector contributes significantly to India's GDP and employs millions of people nationwide. The Covid pandemic caused MSMEs to see the value of digitizing and to step up their efforts to do so. Despite this, MSMEs are not entirely content because it is still unclear why digitalization has become so important to the future.

Role of e-commerce in the Industry

MSMEs are converting to digital ways to sell online as a result of the difficulties posed by traditional techniques. And during the previous five years, overall sales have increased dramatically. E-commerce is a route that

allows the smallest MSMEs to increase their client base to a global level without expanding geographically, and it may help MSMEs achieve economic stability, growth, and security.

Online sales by the MSMEs evaluated by ICRIER, a government-based research body, will represent 27 percent of all sales in 2020–21. This percentage has climbed from 19 percent in 2019–20 and 12 percent in 2018–19. The increase in digital commerce can be ascribed to internet shoppers' altered purchasing patterns during the pandemic. Additionally, the government has actively pursued legislation in recent years to assist MSMEs in going digital.

India's e-commerce industry has seen significant growth as a result of the country's widespread use of cell phones, the internet, and online experiences. Customers' realization that online shopping is the safest way to acquire anything delivered right to their door has fueled the sector's expansion even further. To support this expansion, it's also necessary to comprehend the specific e-procurement needs of MSMEs and provide easy access to the market. Creating a commercial store with thousands of items from top categories including business laptops, networking equipment, industrial adhesives, tools and equipment, and safety and security across top brands is one such efficient approach.

There is also a chance to start programs like 'Bill to Ship to' to address MSMEs' other industrial demands. Company PAN. It is now easier to do business thanks to features like multi-user accounts, approvals, expenditure analytics, secure and dependable delivery, etc. that let customers claim GST credit on their billing address. In addition to removing geographical obstacles and offering a sizable client base, large-scale e-commerce firms are empowering small businesses by giving them the chance to interact directly with producers and suppliers, which lowers the cost of procurement. The small company owners are greatly assisted in scaling up their operations at a far lower level of investment because of the greater access to suppliers, which also helps to raise their cost structure.

MSMEs currently account for the second-largest source of employment in India. Additionally, there are more options now that e-commerce has become more widespread. E-commerce has increased MSMEs' total employment rates in India.

Online B2B Marketplace

In recent years, MSMEs' e-procurement demands have increased. In order to serve as a one-stop shop for small company owners, online B2B wholesale marketplaces must offer GST-enabled, technology-led solutions for all types of enterprises in India's most distant pin codes at wholesale costs. These platforms must not only offer direct access to the supplier but also access to value-added services that will help businesses cut down on paperwork, increase compliance with procurement requirements, and decrease mistakes.

Players are now more needed than ever to deliver greater insights and forecast whether or not various suppliers' items will meet a buyer's wants. Organizations need to take advantage of the chance to assist B2B companies in meeting the needs of thousands of business clients in order to increase their income.

Future perspective of MSME For most MSMEs in India, e-commerce has been an opportunity rather than a hindrance. And in the upcoming years, this tendency is predicted to accelerate. How you can follow the trend, and what will you need to expand, are the main questions.

The best method to stand out from the competition and keep consumers is to have an online store. By creating a strong brand for themselves, key companies need to differentiate themselves from the growing number of emergent e-commerce enterprises.

In India, the MSME sector has the potential to develop more quickly because of e-commerce's ability to cut costs and provide businesses unprecedented access to a global market. MSMEs may harness the enormous power of the internet and realize its full potential thanks to government efforts like Skill India, Digital India, and Startup India, as well as private initiatives like MSME Accelerate.

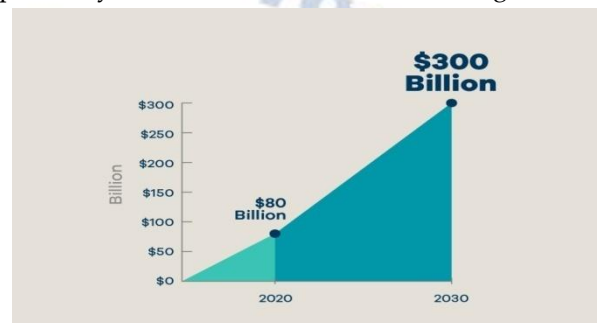
Fashion and Grocery sectors will drive growth

India's domestic e-commerce market is expected to reach US\$ 99 billion (approximately INR 7 lakh Crores) by 2024, increasing at a compound annual growth rate (CAGR) of 27% during 2019-2024, and will reach INR 13,97,800 Crore (US\$ 200 billion) by 2027. The grocery and fashion/apparel sectors are poised to drive this growth, triggered by expanding internet and smart phone usage.

E-Commerce to boom by 2030

The \$850 billion Indian retail market is the fourth largest in the world and the Indian e-Commerce sector is projected to grow to US\$ 300 billion by 2030.

This is already changing the way small and medium businesses operate in India. What's more promising is the growth in the number of internet users in India. Currently ranked at number 2, worldwide, with the highest internet users ~ 560 million, this number is expected to rise to 1 billion by 2025. This predicted growth of internet users provides an amazing opportunity for Indian MSMEs to become digital-ready.



Country	Internet Users (2020 Q1)	Internet penetration
China	854,000,000	59%
India	560,000,000	41%
United States	313,322,868	95%
Indonesia	171,260,000	62%
Brazil	149,057,635	70%

<https://www.visualcapitalist.com/countries-with-most-internet>

Other advantages of adopting an e-Commerce approach by small and medium-sized enterprises are that it levels the playing field with the big businesses, by providing location and time independence, ease of communication, and the ability to achieve competitive advantages for their business.

Decreased costs, and increased sales; the e-Commerce way!

The MSMEs that are selling online are of the view that e-Commerce has significantly reduced costs of marketing and has improved business prospects. Web-enabled SMEs have higher profits, have a wider customer reach, and improved employment opportunities. SMEs' using e-Commerce recorded a 60%- 80% decrease in marketing and distribution costs.

69% of SMEs reported an increase in the number of customers due to the accessibility to the internet.

As per a survey conducted by KPMG India, 56% of SMEs believed that the use of the internet is critical for business growth while 22% are completely ignorant about the potential of being available on the internet platform for their business.

Despite the Covid shock, MSMEs that integrated with e-commerce platforms experienced an increase in sales, turnover, and profits.(TOI) JOURNAL

A Small Industries Development Bank of India (SIDBI) study found that 67% MSMEs surveyed reported temporary closure for up to a three-month period during COVID in the financial year 2020-21. Moreover, over 50% of the respondent MSMEs experienced a decline of more than 25% in their revenues during 2020-21. Around 66% units had reported a decline in profitability on account of stable fixed costs and a decline in revenue. A study of 388 MSME firms, mainly from North and Central India, reported losses **ICRIER: Indian Council of Research on International Economic Relations (ICRIER).** Conducted a survey of 1537 MSMEs in the manufacturing sector between June-August 2021, right after the peak of the second wave of Covid-19. A significant departure from the previous survey-based studies was that it covered only those MSMEs that are integrated with e-commerce platforms. Six sectors and 28 clusters were covered across 10 states in India. The intention was to investigate the impact of e-commerce on MSMEs in India – specifically to understand whether e-commerce and digitalization has been instrumental in improving the business prospects for manufacturing sector MSMEs in India. Especially as digital transformation of all sections of the economy is seen as an important driver for growth in the 'Amrit Kaal'.

Challenges Faced By the Industry

MSMEs nowadays face a variety of difficulties that keep the industry from reaching its full potential. These difficulties include a lack of trained labor, outdated technology, poor market access, difficulty obtaining raw materials, excessive financing costs, supply chain bottlenecks, a low level of consumer spending desire, and many others. Beyond this, the start of the pandemic has also harmed the industry.

While the government has been striving to revive the industry, MSMEs must embrace digital solutions to overcome some of these obstacles and hasten the pandemic's recovery.

To improve operational efficiency and hasten their growth, small firms must turn to digital solutions like e-commerce and e-procurement. MSMEs may benefit from e-commerce by embracing it. These benefits include greater revenues and margins, expanded market reach, access to new markets, reduced marketing expenses, easier client acquisition, and improved customer experiences.

Conclusion

In conclusion, e-commerce plays an important role in MSMEs' growth. Small businesses can sell their products anywhere in the world using e-commerce, and they don't have to expand or move, so they can show off their products without spending a fortune on expansion.

They can also display their products anywhere in the world without having to move or expand. The platforms have helped small businesses by removing barriers, increasing sales, and providing a substantial consumer base.

E-commerce platforms drive MSMEs' growth and development at low costs, low investments, and high levels of innovation. This is a collaborative effort between the government, the commercial sector, industry associations, and training facilities.

Conflict of interest statement

Authors declare that they do not have any conflict of interest.

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