



Performance of E-Commerce Integrated MSMEs vis-à-vis Non-Integrated Firms: Insights from Survey of 2000 MSMEs across India

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India's enterprise landscape is dominated by MSMEs, contributing significantly to GDP and employment

Number of enterprises

- There are 6.3 crore (63.3 million) unincorporated non-agriculture MSMEs
- As of date, about 2.4 crore (24.1 million) firms are Udyam registered and 1.5 crore (15.4 million) firms registered on Udyam Assist Platform

Contribution to the economy

- Share of MSME in India's Gross Domestic Product (GDP) was about 30% in 2021-22
- Accounted for 45% share in total exports (2022-23)
- Udyam Registered MSMEs provide employment to about 16 crore (160 million) people

Significant productivity gaps exist between MSMEs and large firms globally

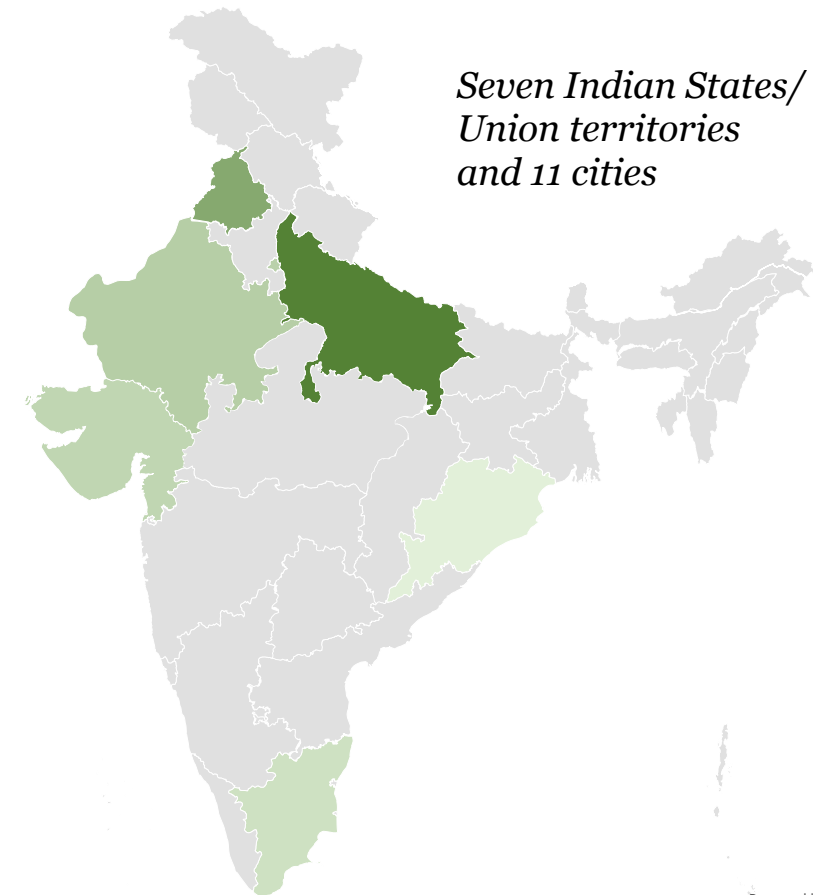
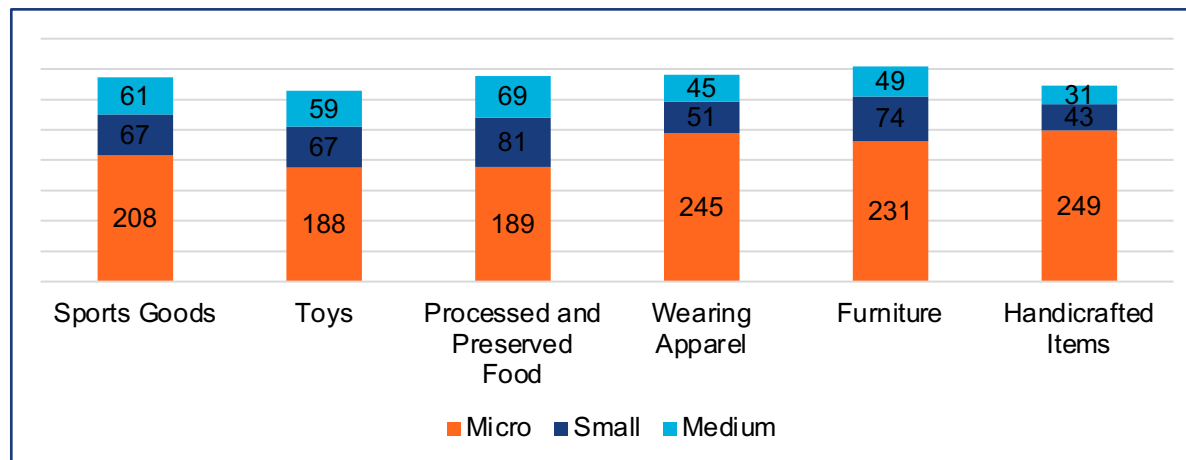
- Productivity of MSMEs is only a fraction of that of large firms
 - *The issue is more prominent in emerging market economies often due to large size of the informal sector and skill gap*
 - *Productivity gaps by firm size have widened over the last 10 years in many OECD countries*
- Digital technologies such as e-commerce platforms have the potential to boost productivity of MSMEs and enable the sector's growth
 - *Creates opportunities to scale up and enhance productivity, improve access to information and enable broadening of skillset*
- Evidence on the impact of e-commerce on MSMEs in India is limited
 - *ICRIER conducted a survey of 2007 MSMEs in 2022-23*

Purposive sampling technique followed

All Udyam registered enterprises - equal distribution of integrated and non-integrated firm

Type	Overall	E-commerce Integration	
		Yes	No
Micro	1310	615	695
Small	383	259	124
Medium	314	131	183
Total	2007	1005	1002

Six product categories with equal distribution across sample



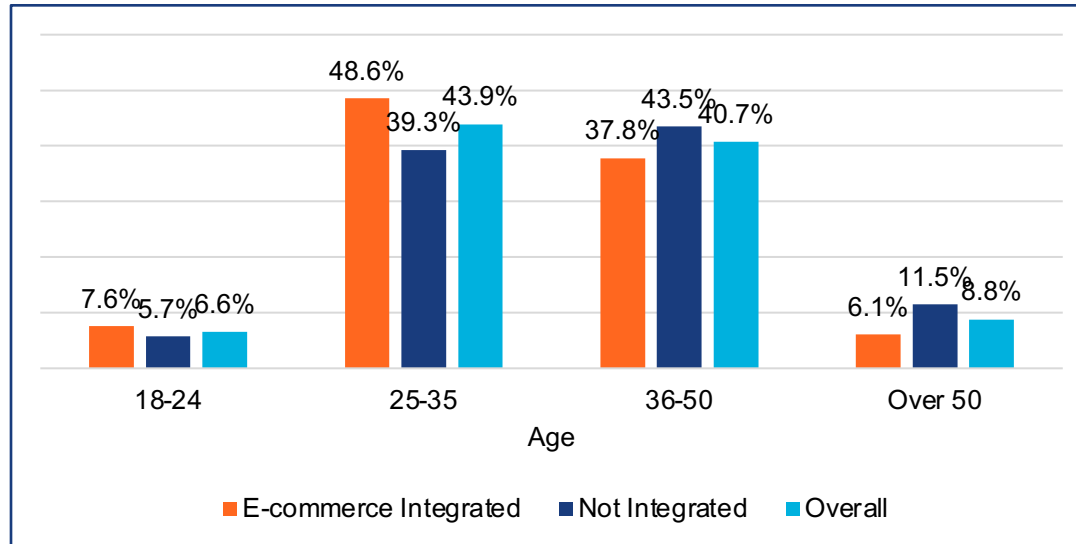
Key questions

- What are the key characteristics of integrated and non-integrated MSMEs?
 - *Age of the enterprise, owner, their turnover, profit margin and employment structure*
 - *Characteristics of exporting units*
- How are key performance indicators impacted as firms integrate with platforms and whether new growth avenues emerge?
 - *In terms of turnover, profit margins, new business practices and access to finance*
- What are the constraining and enabling factors that impact a firm's decision to join a platform and what are the prospects?

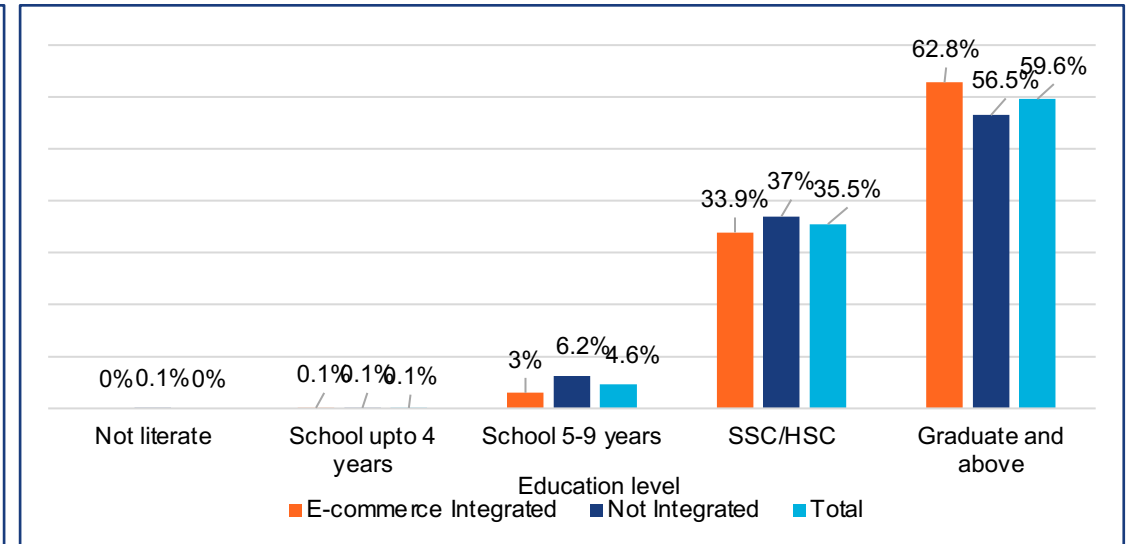
Characteristics of Firms Integrated with Platforms

Integrated firms are owned by younger and more educated individuals

Distribution of enterprises by age of owner: About 55% of the integrated firms were owned by individuals below 35 years age



Distribution of enterprises by education of owner: Around 63% of integrated enterprises were owned by graduates and above, compared to 56.5% of non-integrated firms

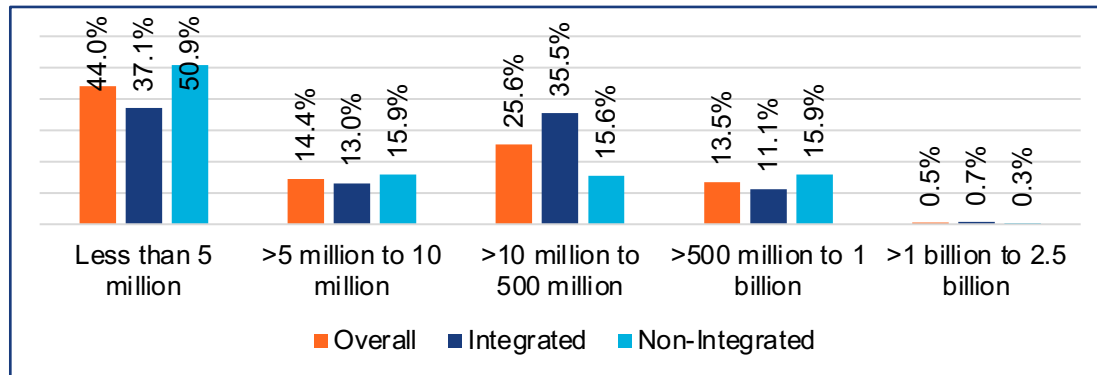


Women-owned MSMEs are not far behind male-owned MSMEs in integrating with e-commerce platforms

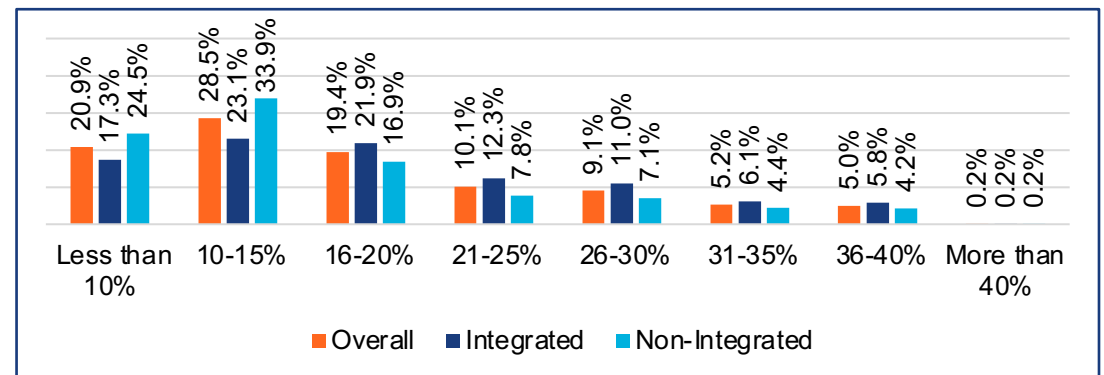
- Among women-owned enterprises, 45.1 per cent were integrated with e-commerce platforms
- Among male-owned enterprises, 50.3 per cent were integrated with e-commerce platforms

Integrated firms report higher turnovers, profitability and a higher share of permanent employees

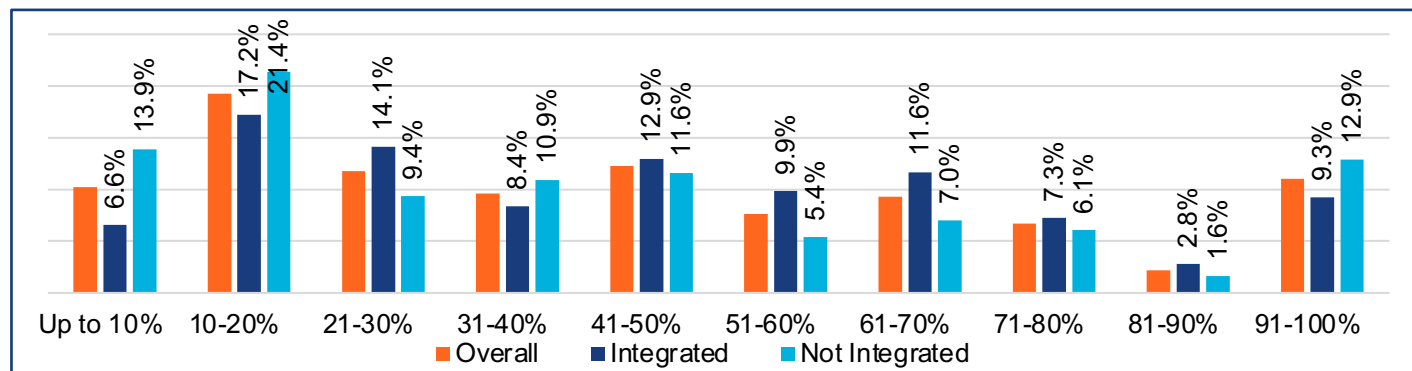
Distribution of enterprises by turnover: A relatively higher percentage of integrated firms had turnover more than INR10 million



Distribution of enterprises by profit margin: A relatively higher percentage of integrated firms had profit margin of more than 15%

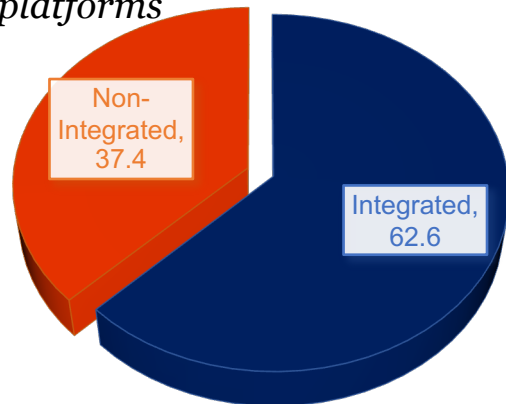


Distribution of enterprises by share of permanent employees: A relatively higher percentage of integrated firms had more than 50% permanent employees

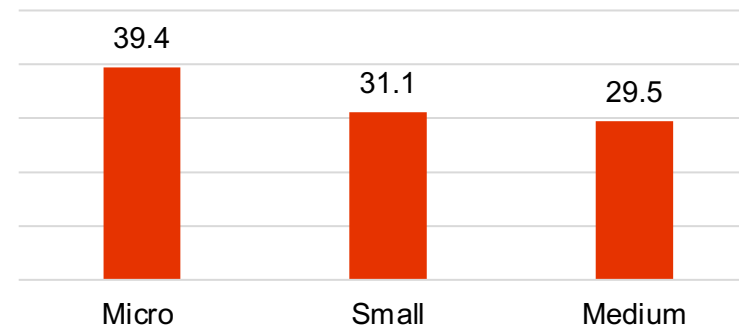


A majority of export-oriented firms report being integrated with e-commerce platforms suggesting a positive relationship between firms' export orientation and digitalisation

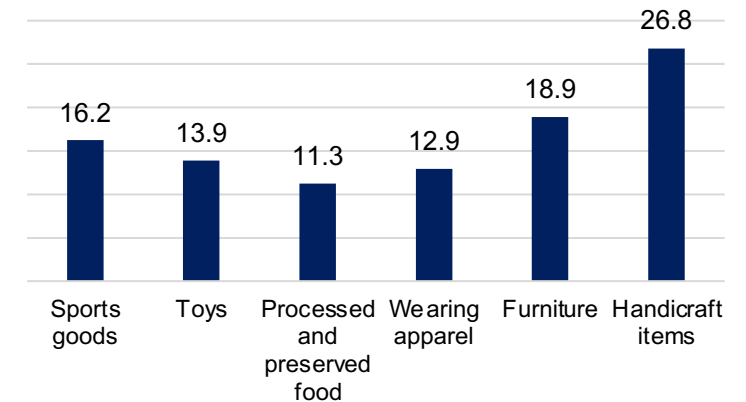
Out of the total surveyed enterprises, 302 (15%) were exporting and a majority are integrated on e-commerce platforms



Compared to the average, a relatively larger share of small and medium enterprises amongst exporting units



Firms in handicraft sector dominate the export-oriented units, while processed and preserved food sector has least share

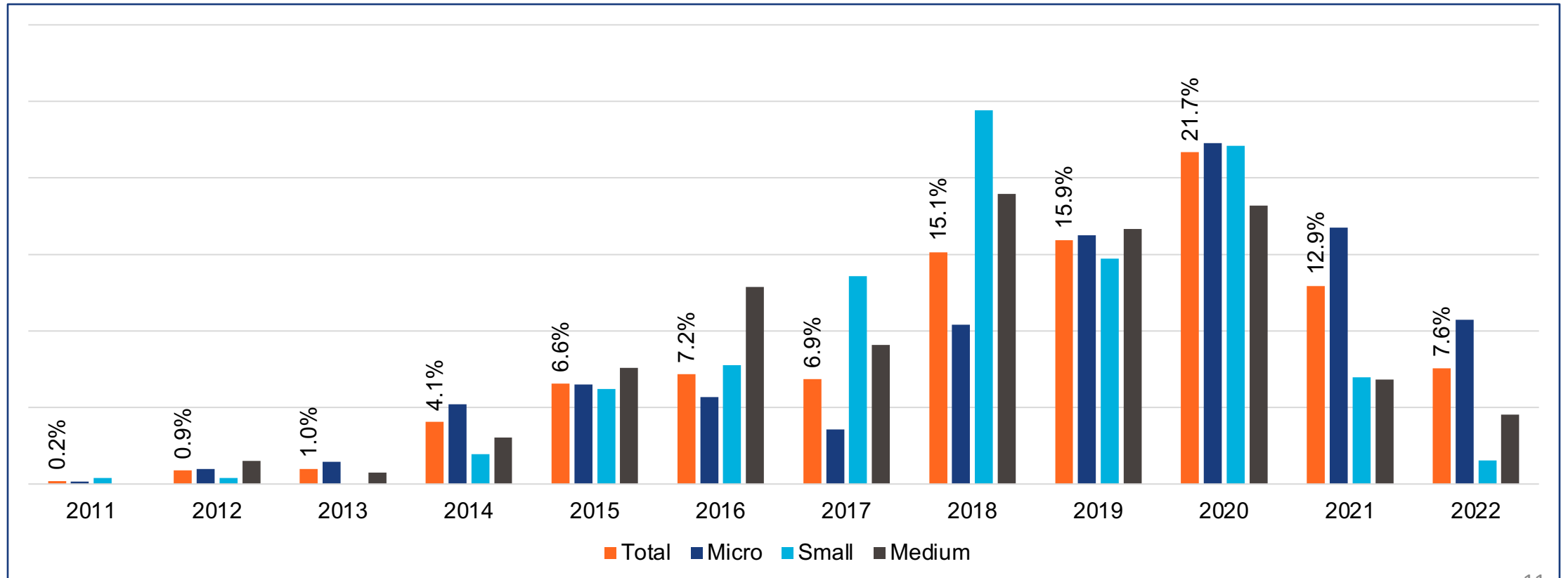


- *Export oriented units are largely older and more experienced enterprises - about 80% have been in business since 10 plus years*
- *These are more also more productive firms*
- *Nearly 37% started exporting after integrating on e-commerce platforms*

Performance of Integrated Firms

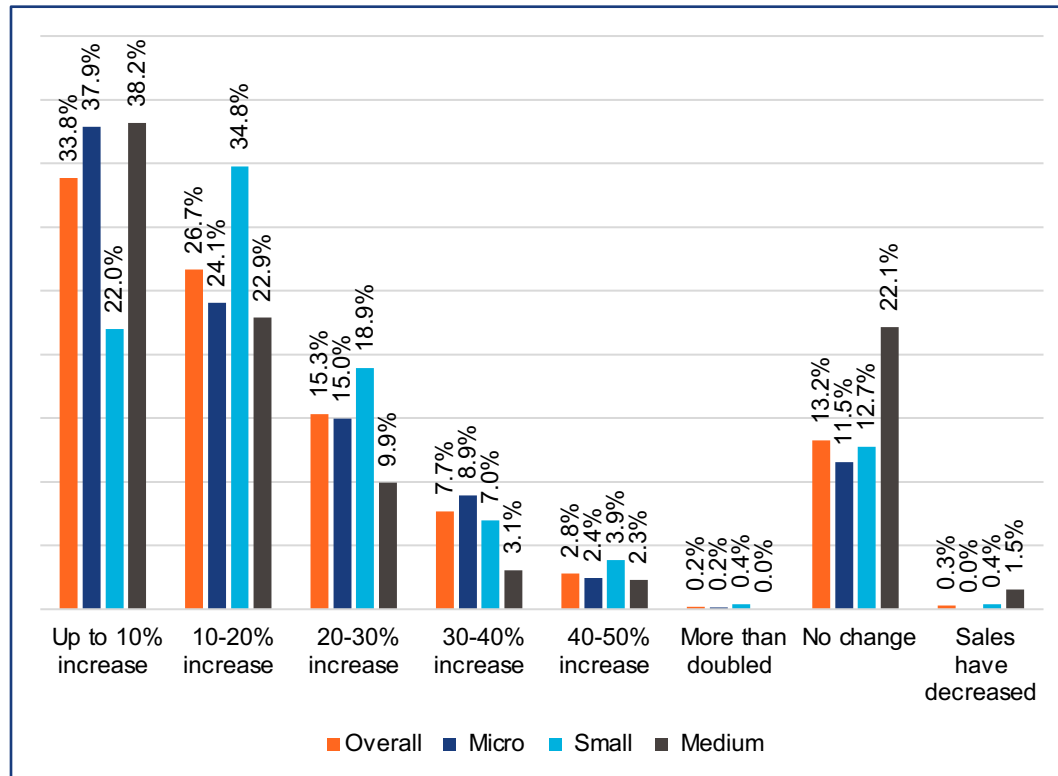
The use of e-commerce platforms for sales has accelerated in recent years

Distribution of firms by their year of joining e-commerce platform: Overall, most of the firms joined in the year 2020, however, the process of integration of small and medium enterprises began a bit earlier than micro enterprises

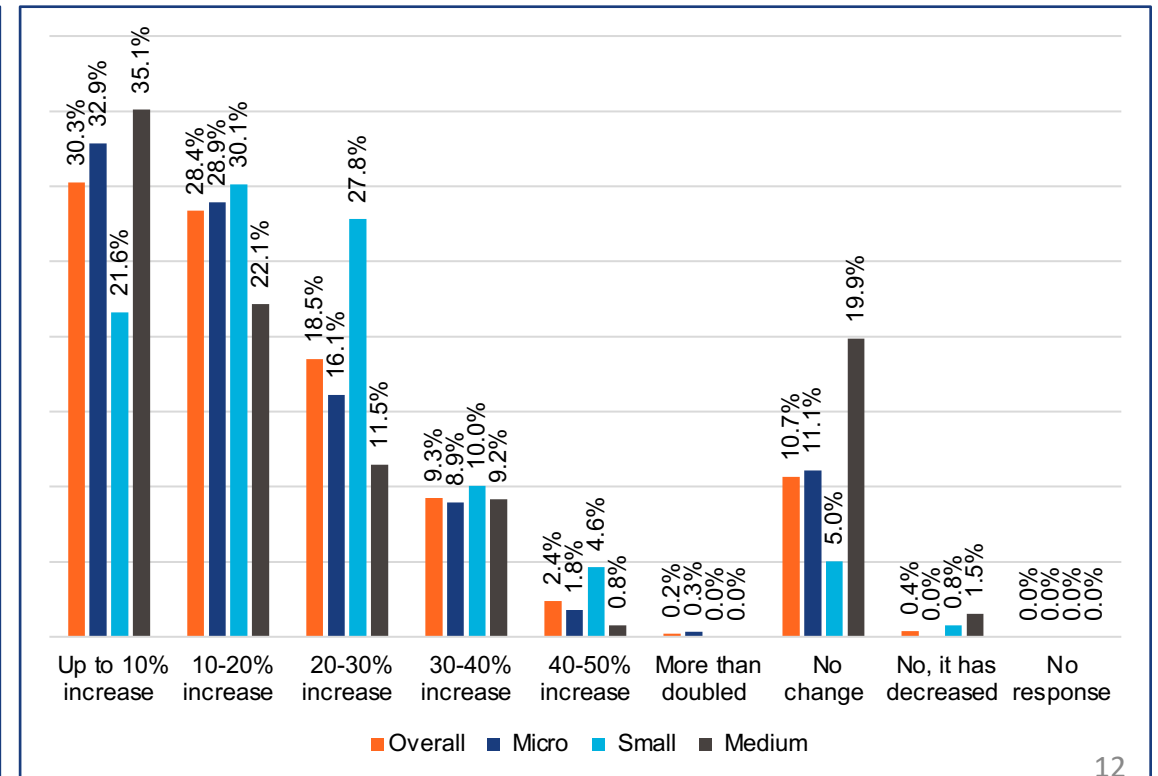


Integrated firms report an improvement in sales and profit margins on joining e-commerce platforms

Distribution of MSMEs by the range of reported increase of total sales after integration: *Small-sized enterprises appear to have done better in terms of sales*

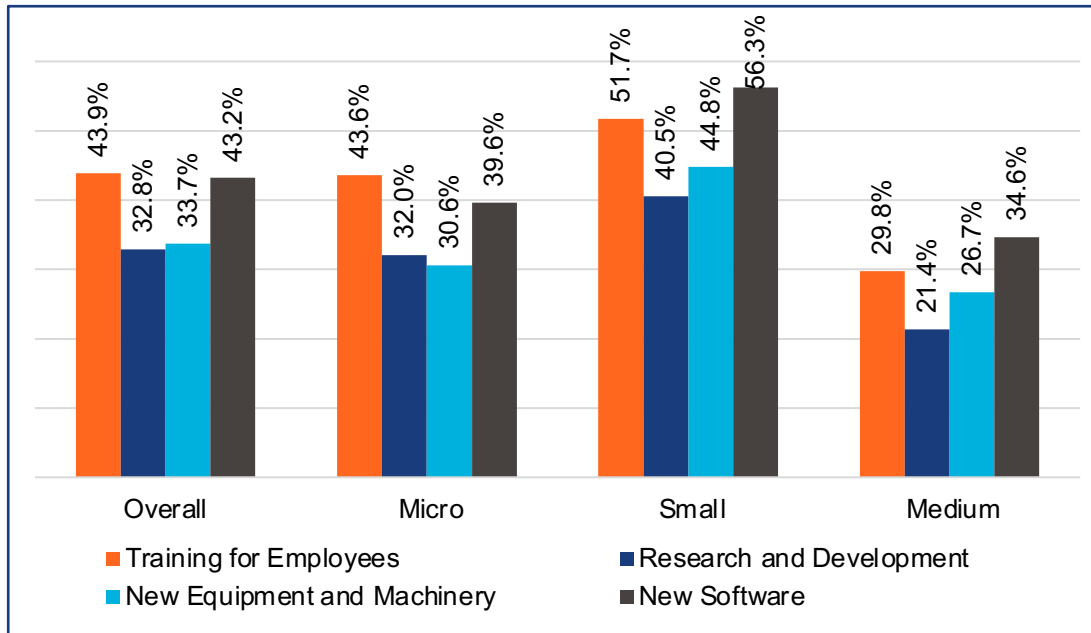


Distribution of MSMEs by the range of reported increase in profit margins after integration: *Small-size firms appear to have performed better compared to micro- and medium-sized enterprises*

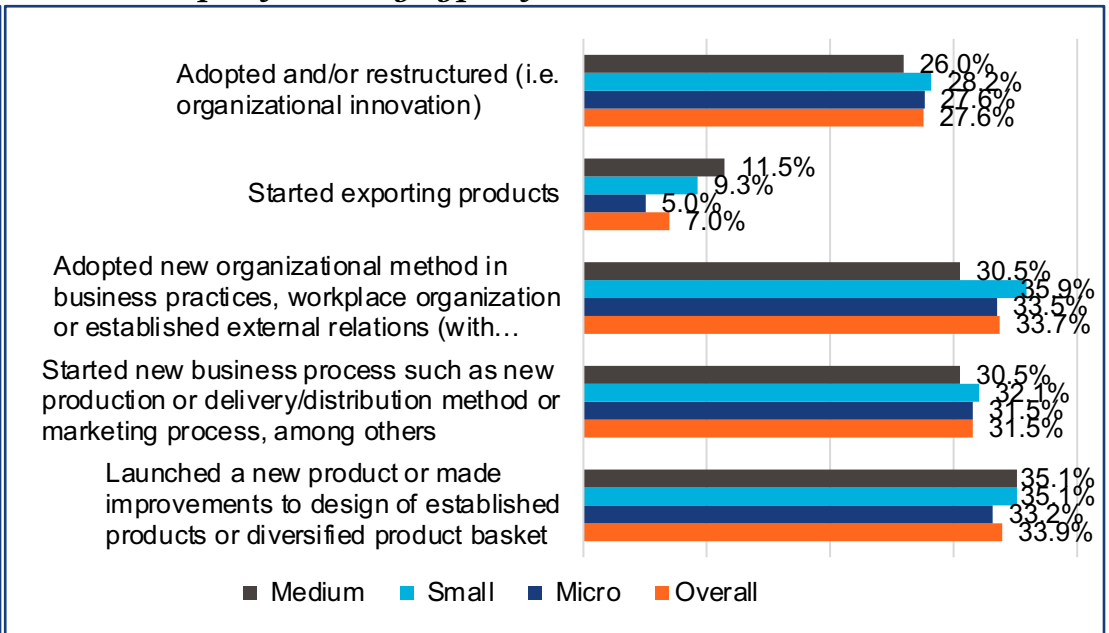


Integration with platforms also appears to foster investment and innovation

Percentage of MSMEs that reported an increase in investments after joining e-commerce platforms (by type of investment)



Percentage of MSMEs that have undertaken innovations and made changes in business model after integrating with e-commerce platforms by type of innovation

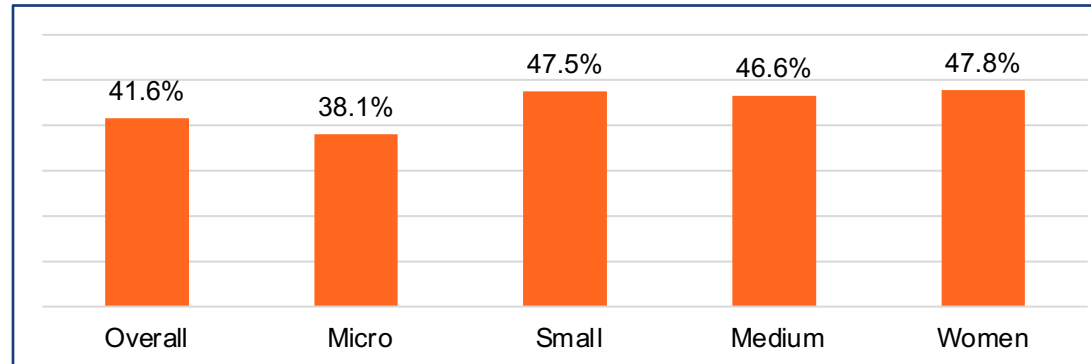


- Nearly 65 per cent of the surveyed enterprises reported having made some new investments and Innovation and investments were relatively higher in small-size enterprises
- A relatively larger share of medium firms started exporting products after integrating with e-commerce platforms

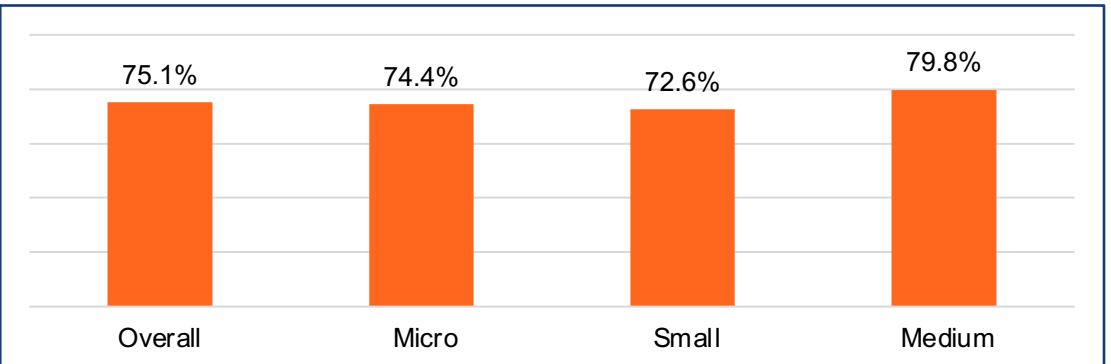
As MSMEs enhance their digital footprint through integration with e-commerce platforms, they are able to improve access to finance

- Difficulties in accessing finance is an intractable problem for MSMEs, both in India as well as globally
 - *Own capital is the primary source of finance for MSMEs, bank loans are a distant second*
 - *Use of own capital is also higher amongst micro firms and non-integrated firms*

*Percentage of integrated MSMEs reporting whether access to loan has improved since joining e-commerce platforms: **Small enterprises and women-owned firms performed relatively better***



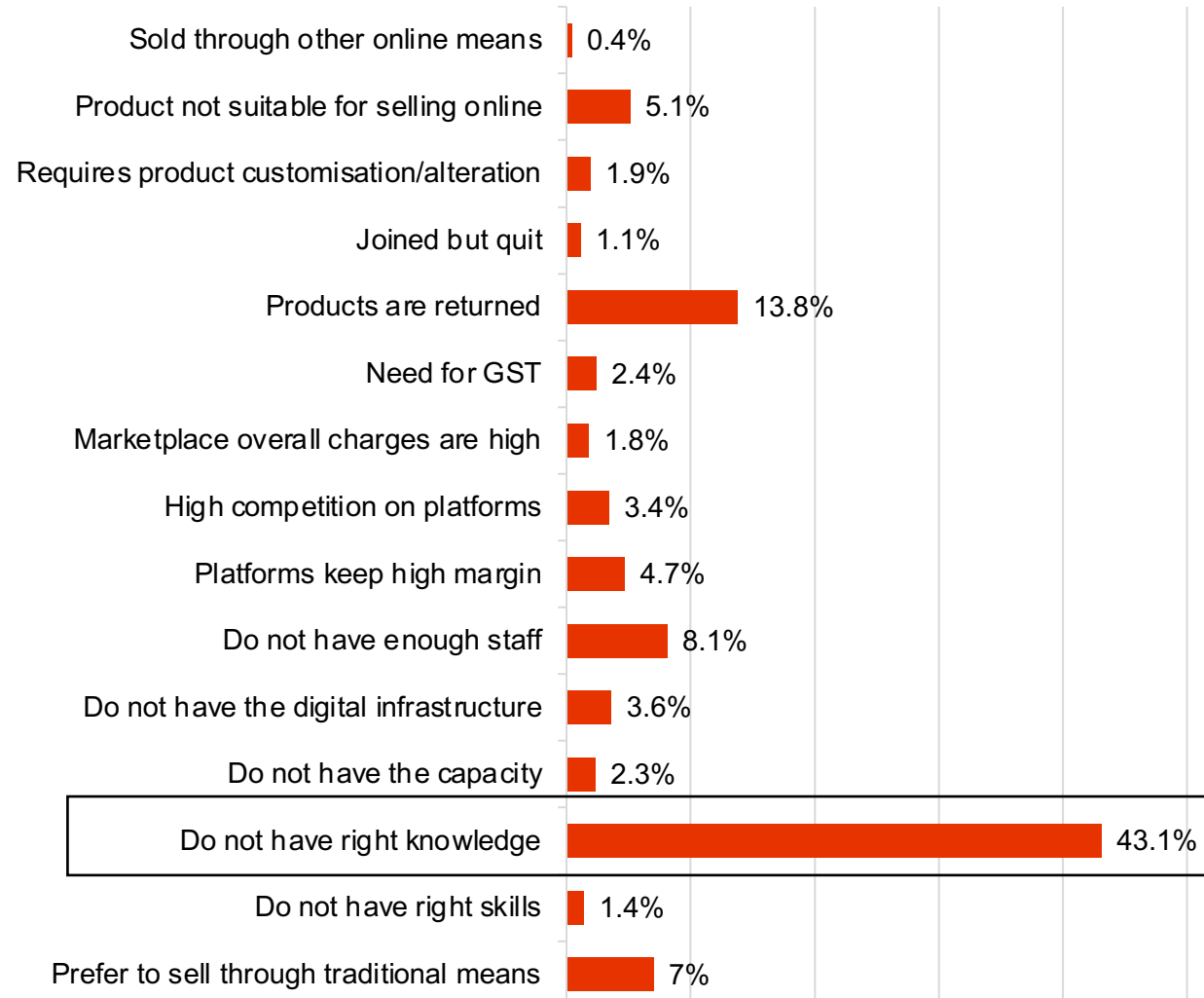
Percentage of non-integrated MSMEs reporting whether their ability to raise external finance would have improved on joining e-commerce platforms



About 12% of integrated enterprises indicated that they had been able to access collateral-free loans from fintech companies or non-banking financial corporations by linking their earnings on e-commerce platforms to their NBFC loan account

Constraints and Prospects

Lack of knowledge about how to effectively utilize digital technologies and e-commerce platforms are amongst primary reasons for non-integration



- Only 11 firms reported to have previously joined e-commerce platforms and left
- Of all non-integrated MSMEs, over one-fifth reported interest in joining e-commerce platforms in future
 - *Willingness to join was greatest among micro-enterprises, with 30% indicating a desire to do so*
- Those already integrated wish to enhance their e-commerce footprint
 - *Nearly 70% of the integrated enterprises expressed their desire to increase their e-commerce sales*

Summary: As economies rapidly digitalise, MSMEs will need to embrace digital solutions to compete and survive

To begin with, more productive firms have joined the platforms

- *Given that the integrated firms are better off on average than non-integrated firms, one must be mindful that inequalities may rise*

E-commerce platforms can serve as a promising driver of business growth for MSMEs

- *Integrated firms report improvement in key performance indicators (total sales and profit margins); investment in employees, machinery and equipment (including software); innovation (in products and business processes) and access to finance*
- *Benefits are different across micro, small and medium enterprises*

E-commerce platforms are going beyond providing access to markets

- *Access to finance is a notable benefit, especially through integrated solutions and opportunity to available collateral free loans (physical versus information collateral)*

But, there is a knowledge gap hindering e-commerce integration

- *A majority of firms do not join the platform because they do not have the right knowledge, the gap is higher amongst micro enterprises*

Policy Recommendations

- How can we adopt a differentiated approach while designing e-commerce policy?
 - *MSMEs are a heterogenous group, micro start with low base, medium have greater export potential and small benefiting more*
- How do we bridge technology-adoption gap?
 - *Micro enterprises need more support on e-commerce adoption*
- How can we build more integrated solutions?
 - *For instance, improving access to finance through such platforms to by ensuring robust information sharing mechanisms*
- What is the role of private sector?
 - *Lack of knowledge goes beyond technology to use of platforms*
- What should be the crucial elements of our e-commerce policy?
 - *Emphasis on consumers or business or vulnerable sectors: there is a need to strike balance*

Thank you