



Building trust in Indian MSMEs on Online Business Platforms

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Highlight

The technological revolution witnessed in the past decades has led to changes in every aspect of human life. Technology has also impacted the way businesses now function, paving the way for online business platforms which has transformed the manner in which people and organizations trade and transact. The rise of the e-commerce industry, and subsequently M-commerce, has had a positive impact on organizations across the globe, boosting both their turnover and profitability.

As understood through recent data on the industry, the e-commerce revolution is now spreading in the Asia Pacific. India, with a growing internet base of more than 121 million users, is one of the economies at the forefront of this wave. However, despite having made significant strides in both the Business-to-Consumer (B2C) and Business-to-Business (B2B) segments, the industry has been unable to attract sufficient participation from the MSME segment. This is in contrast to the neighboring Chinese economy, where higher MSME involvement in creating online business models has enabled the country to register impressive growth rates. Apart from disparities with respect to available infrastructure and cost efficiency of products in the case of China, a major constraint for Indian MSME units in establishing a stronghold in the international arena is the lack of credibility or trust, which stems from buyer uncertainty due to lack of credible sources of information about the business in question. This information would pertain to not only the actual existence of such MSME units but also their capability and capacity to manufacture or develop products of requisite quality and supply them in a cost effective and efficient manner through a reliable supply chain network. In a nutshell, global buyers are unable to trust small Indian businesses and thus hesitate in transacting with them.

Onicra believes that a framework be developed which provides a certification process, through a trusted third party, for small businesses and helps them gain recognition and credibility in both the domestic and international market. Presently, the efforts in this direction have been restricted to merely providing the buyer with basic information about the existence of the supplier, his business contacts, and other details like location of facilities etc. However, to further build the trust of international customers in these MSME units, a more informative certification process should be put in place which enables the buyer to visualize the entire transaction including the supply chain and logistical arrangements while simultaneously providing assurance regarding the safety of their payments. This would not only help make MSME businesses more trustworthy but also encourage small business units to come forward and embrace the e-commerce platform to grow their business.

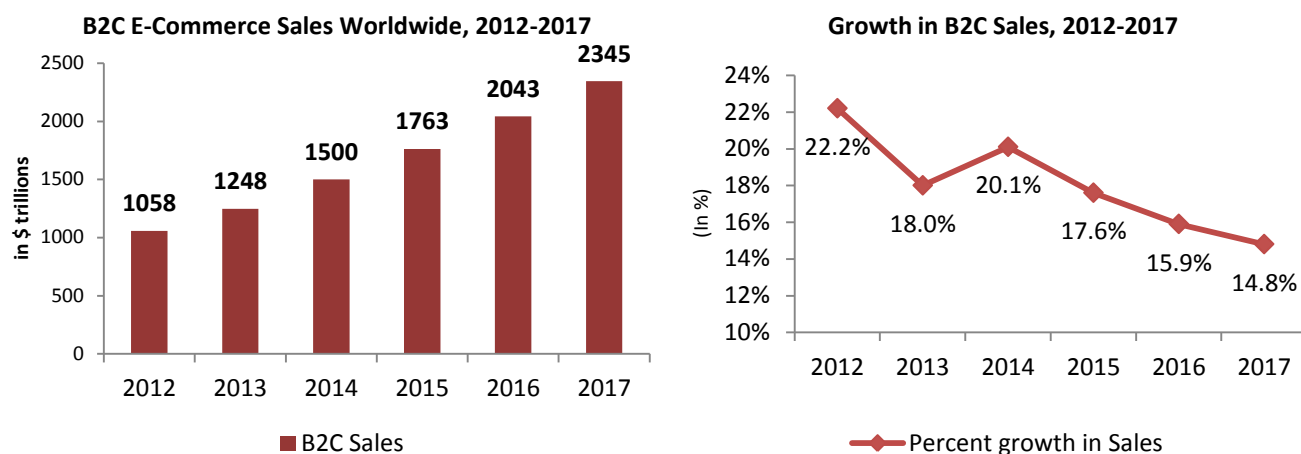
Background

Emergence of New Digital Scenario for businesses

The advent of technology has acted as a major catalyst to the development and growth of trade and business throughout the globe. The popularity and widespread reach of the internet has resulted in an evolution of business models through creation of online trading platforms.

The increased prominence of e-commerce and its transition from merely being a buzzword to becoming a dominant feature of global trade, both in the B2B (Business to Business) and B2C (Business to Consumer) formats, is highlighted in the growth rate achieved globally in online transactions over the past decade, which has consistently been around 15-20%.

The growth has traditionally stemmed from markets in the United States (US) and the United Kingdom (UK), although there has been a change in the demand trend with both consumers and businesses in the Asia Pacific becoming increasingly tech-savvy. A look at the estimated growth within the B2C segment across various regions highlights the increasing digitization of business processes and transactions in the Asian Markets.



Source: Emarketer.com

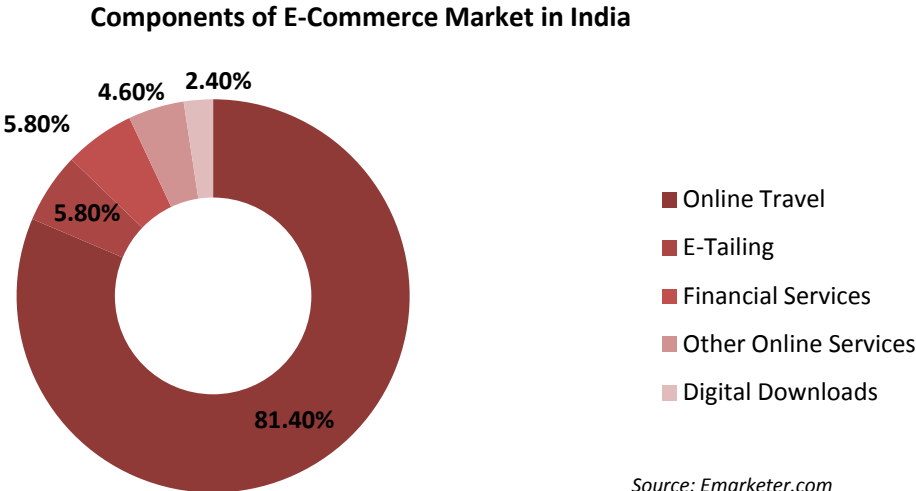
| <i>B2C E-Commerce Sales Worldwide by Region, 2012-2017</i> | | | | | | <i>In \$ Trillion</i> |
|--|-------------|-------------|-------------|-------------|-------------|-----------------------|
| <i>Region</i> | <i>2012</i> | <i>2013</i> | <i>2014</i> | <i>2015</i> | <i>2016</i> | <i>2017</i> |
| <i>Asia Pacific</i> | 301.2 | 383.9 | 525.2 | 681.2 | 855.7 | 1052.9 |
| <i>North America</i> | 379.8 | 431.0 | 482.6 | 538.3 | 597.9 | 660.4 |
| <i>Western Europe</i> | 276.8 | 308.9 | 342.0 | 374.5 | 404.0 | 432.6 |
| <i>Central & Eastern Europe</i> | 41.5 | 49.5 | 58.0 | 64.4 | 68.9 | 73.1 |
| <i>Latin America</i> | 37.6 | 48.1 | 57.7 | 64.9 | 70.6 | 74.6 |
| <i>Middle East & Africa</i> | 20.6 | 27.0 | 33.8 | 39.6 | 45.5 | 51.4 |

Source: Emarketer.com

Opportunities for Indian business and the current scenario of the e-commerce industry

The e-commerce market in India has witnessed growth at breakneck speed primarily in the B2C segment. Factors such as the Indian public becoming more aware and embracing the idea of shopping online coupled with anticipated growth in internet accessibility form the backbone for the Indian e-commerce landscape. Online travel has been the major contributor in this division with all of Tier I, II and III cities comprising a significant share of the overall revenue.

Moreover, the sector has been constantly attracting huge investment especially from private equity and venture capital firms which has allowed start ups within the industry to constantly innovate and develop strategic business models. Further, the government decision to disallow FDI in e-commerce is expected to help Indian e-commerce firms to grow and capitalize on the potential which exists in the domestic market.



However, a closer look at the numbers reveals the untapped nature of the e-commerce potential existing in the country, especially when it comes to the Micro, Small and Medium Enterprises (MSME) segment. Although e-commerce has taken centre stage in India, MSMEs in the country have not become as used to this medium to the extent their Chinese counterparts have.

Despite various studies and surveys indicating that web enabled business recorded around 50% higher revenues and profitability than their offline only counterparts, only 5% of Indian SMEs have been found to have a web presence. Of those businesses only around 50% use the internet to advertise while only 27% use it for e-commerce.

| B2C E-Commerce Sales Growth Worldwide by Country, 2012-2017 | | | | | | % Change |
|--|-------------|-------------|-------------|-------------|-------------|-----------------|
| Country | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
| China | 93.7 | 78.5 | 63.8 | 43.3 | 34.4 | 29.4 |
| India | 35.9 | 34.9 | 31.5 | 30.3 | 24.5 | 20.0 |
| Indonesia | 85.0 | 71.3 | 45.1 | 37.2 | 26.0 | 22.0 |
| Mexico | 55.8 | 41.9 | 20.0 | 14.5 | 10.0 | 5.0 |
| Brazil | 21.8 | 16.5 | 19.1 | 8.5 | 6.9 | 6.0 |
| Russia | 34.4 | 19.4 | 17.1 | 10.8 | 6.9 | 5.2 |
| Italy | 17.0 | 16.8 | 15.3 | 13.5 | 12.0 | 10.6 |
| Sweden | 18.4 | 16.2 | 13.3 | 10.3 | 9.0 | 8.4 |
| US | 14.2 | 13.4 | 11.8 | 11.4 | 10.9 | 10.4 |
| UK | 13.7 | 13.7 | 12.2 | 10.2 | 8.2 | 7.3 |
| France | 32.3 | 10.3 | 10.0 | 9.8 | 7.6 | 7.1 |
| Germany | 25.6 | 5.7 | 7.4 | 6.9 | 6.5 | 6.1 |
| Japan | 12.3 | -10.2 | 7.1 | 6.7 | 5.6 | 5.0 |
| South Korea | 12.7 | 9.6 | 7.4 | 4.8 | 4.3 | 3.6 |
| Netherlands | 12.7 | 11.4 | 9.4 | 8.4 | 6.3 | 5.3 |
| WORLDWIDE | 22.2 | 18.0 | 20.1 | 17.6 | 15.9 | 14.8 |

Source: Emarketer.com

This factor has enabled the Chinese e-commerce sector to bloom considerably over the years and it is projected to hold a significant share of the global e-commerce industry going forward. Comparatively, the e-commerce industry in India, though expected to follow a positive growth trend, is expected to offer lower expansion rates (refer table above) vis-à-vis the Chinese industry which to a large extent is attributable to the inactiveness of the Indian SMEs in adopting online business models.

The above points, however, do indicate the huge potential which exists for growth amongst the MSME division to increase the scale of business, both domestically and internationally, by creating an online presence and embracing the e-commerce space.

Lack of trust constraining Indian MSMEs in capitalizing on new online platforms to boost business

The modest success enjoyed by Indian businesses despite the significant potential which exists in the e-commerce arena is attributable to multiple factors which restrict the efficiency of such online business platforms.

Apart from the constraints that businesses face with respect to available IT infrastructure, an area which is gradually being addressed by businesses and policymakers, a major reason for limited MSME's joining the e-commerce bandwagon is being attributed to lack of trust in the *clicks only model* emanating from concerns about safety of online payments, assurance of the quality of the product, credentials of the business or supplier as well as the efficiency of the supply chain or logistical services.

These issues persist in both the B2B and B2C segment and hamper the potential and motivation of businesses, especially the MSMEs, to expand their business both in the domestic and international markets.

The relative success of the cash-on-delivery model in the B2C segment in India is an example of the concerns held by consumers when it comes to doing their purchases online. The concerns not only exist on part of the customers but also businesses, especially in the online retail division, on account of high return rates and frauds. Issues like these recently led **FLIPKART**, which is one of the major names in online retail in India, to announce its decision to not fulfill orders of more than INR 10,000 in certain areas of Uttar Pradesh.

In the context of the B2B segment, the growth story of Indian MSMEs is curtailed by the lack of credibility of their products, especially amongst overseas buyers. These developments have come in the face of poor buyer experiences as well as apprehensions about the capacity and capability of small or first time entrepreneurs to fulfill trade commitments, especially when there is no previously known business history of the unit. Even businesses with an established online presence but limited track record of performance or product quality, struggle to generate buyer interest in the absence of suitable evidence regarding their credibility from a trusted third party.



Analysis

Providing third party certifications to small businesses to enhance their online credentials

The disparity in projected growth of online businesses in India and China and in the MSME participation rate within the e-commerce industry in these countries brings the focus on the inability of Indian businesses to attract buyers, especially international customers who are unfamiliar with the domestic environment. Following the Chinese example, there appears to be a need for Indian businesses, especially those looking to expand their interests through online business platforms, to provide more credible information on an online platform to build buyer confidence. This information can be made more credible through a certification provided by a trusted third party, which would then act as a mark of trust to the buyer, not only in terms of establishing the credentials of the business to be traded with and erasing doubts about their physical existence, but also providing a sense of security to the buyer with regard to areas such as logistics and supply chain management offered by the seller, the safety of online payment mechanisms, information about international licensing arrangements etc.

Such efforts, though having been initiated in India, have been exercised with a limited scope, mainly restraining the certification towards establishing credence about the physical existence of the business entity. Onicra believes that a more broad based vendor certification system be implemented which provides information to the buyer from a trusted source which describes the entire supply chain mechanism involved in the transaction. Additionally, such a framework may also cover areas like product licensing mainly with an eye on its applicability for export to various global markets.

For e.g. – A buyer in the US, wishing to buy a jar of pickles from an Indian manufacturer, would like to be assured about not only the compliance towards food safety standards (provided by a body like FSSAI), but also the delivery mechanism to be used by the supplier for which a logistics provider can provide a certification to the supplier/manufacturer. Similarly, approvals required from the buyer's home agencies, if any, may also be listed on the online interface thus providing the buyer the complete knowledge and awareness to make the transaction.

Onicra believes that introduction of such mechanism can significantly enhance the attractiveness of Indian businesses to global customers, thus providing them access to untapped markets and new consumer bases for their products. It would also add the necessary impetus towards the government's efforts for promotion of MSME units and helping them establish themselves on a global platform.

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