Impact of e-commerce on SMEs in India
Small and Medium Enterprises (SMEs) are said to be the backbone of India’s economy and I cannot imagine a more interesting time for these enterprises. The future is full of possibilities for SMEs and it is up for grabs by the virtue of opportunities afforded by the e-commerce boom in India. Online marketplaces have been hailed by many as a catalyst for growth and this report, Impact of e-commerce on SMEs in India, examines the profound influence of e-commerce on SMEs in effecting efficiency gains and in changing the way they interact in the global market. However, the existing digital divide which inhibits adoption of e-commerce by SMEs calls for a concerted effort by various players in the ecosystem including the industry associations as well as regulatory bodies.

The analyses and point of view presented in the report have been validated through discussions conducted by KPMG with sector experts and industry associations.

I take this opportunity to thank the Snapdeal team for making this endeavour possible by bringing in important insights and industry perspective.

I hope you find this report helpful.
Small and medium enterprises (SMEs) are the engine of economic development that create jobs and reduce poverty by empowering the bottom of the pyramid. Sustained and healthy growth of this sector is essential, since it is difficult to imagine rising overall living standards and social peace without such development.

The growing internet base, with more than 343 million internet users has a direct correlation to the growth of commerce in the country. The Indian entrepreneurs have started setting up their shops online even before a physical set up. We are witnessing a new trend with many SMEs taking the e-commerce route to establish themselves in the Indian market and are using internet not only as a marketing tool but also as a tool to enable them to understand if a unique product has high demand in the market. Indian SMEs are looking at e-commerce as an innovative tool to build fresh business models.

The onus lies on the online marketplaces to enable these SMEs to showcase their products across the country, giving them access to a wider audience and helping them grow their business. For sustainable business and economic growth, all the e-commerce players should collaborate and reduce business barriers for these SMEs to enable e-commerce adoption.
Table of contents
Executive summary

- The e-commerce sector in India is projected to cross USD80 billion by 2020 and USD300 billion by 2030 and is already changing the way small and medium businesses operate in India.¹

- The SME sector accounted for more than 17 per cent of the GDP in 2014 while contributing to 45 per cent of the nation’s industrial output and 40 per cent of the total exports.² The SMEs in India add over 1.3 million jobs per year.³

- By adopting e-commerce, SMEs shall achieve significant advantages such as increased revenues and margins, improved market reach, access to new markets, cost savings in marketing and communication spend, customer acquisition and improved customer experience.

- SMEs that use the internet extensively tend to export approximately twice as much by export value when compared to SMEs using the internet sparingly.⁴

- Although SMEs in India may or may not have online presence, 43 per cent of them participate in online sales in India.⁵

- The Indian regulators, industry bodies and e-commerce players recognise the challenges faced by SMEs and are doing their bit in enabling thousands of SME sellers to explore a new channel for marketing, sales and customer service.

- The Indian government’s initiatives such as ‘Make in India’, ‘Digital India’ and ‘Skill India’ are all aimed at facilitating growth of SMEs in the country, and enable them to tap into the potential of e-commerce.

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**Source:** KPMG in India analysis, Goldman Sachs 2015, industry discussions conducted by KPMG in India, 2015

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¹ India internet – Unlocking the potential of a billion digital users, Goldman Sachs, 04 May 2015

² SMEs employ close to 40% of India’s workforce but contribute only 17% to GDP, Economic Times

³ The Indian SME Survey, 2014-15, Firstbiz-Greyhound Knowledge Group Initiative

⁴ The great transformer: The impact of the internet on economic growth and prosperity, McKinsey Global Institute

⁵ India’s SMEs: missing an online trick, Financial Times
01  e-commerce in India to cross USD80 billion by 2020
The e-commerce sector in India is expected to be a USD80 billion sector by 2020. Increasing internet penetration, growing adoption of smartphones and increased market awareness shall further accelerate the growth of e-commerce in India. In the year 2014, India had around 281 million internet users, and the number is expected to increase to 640 million by 2019.

India is projected to outpace the United States to become the second largest internet user base by 2016. The number of mobile internet users is also on the rise with 173 million users in 2014. This number is projected to grow by more than 2.5 times to touch 457 million in 2019. Availability of affordable smartphones and dropping data tariffs have fuelled the ‘second screen’ phenomenon with 70 per cent users accessing internet from their mobile phones.

The growth of the Indian e-commerce sector is pivoted on a number of drivers but real and tangible challenges exist which must be addressed for this sector to boost the Indian economy as intended. The key challenges faced by the sector include patchy internet connectivity due to underdeveloped infrastructure, a general lack of awareness about the benefits that e-commerce offers and a lack of trust among organisations considering to go online.

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1. ‘India Internet – Unlocking the potential of a billion digital users’, Goldman Sachs, 04 May 2015
2. #shootingforthestars, FICCI-KPMG in India report on Media and Entertainment, 2015
3. India to have second largest online user-base after China by 2016, Business Standard, eMarketer, November 2014
MSME/SMEs fuelling the growth of the Indian economy
SMEs: Backbone of the Indian economy

MSMEs/SMEs in India contribute around 17 per cent to the country’s GDP. They also make a significant contribution to India’s exports and industrial output at 40 per cent and 45 per cent respectively. While the definition of SMEs varies from country to country, in India, SMEs are those establishments that have limited investments in fixed assets and relatively low operational costs.*

The country’s SME sector currently comprises of 1,157 industrial clusters and 6,000 micro-enterprise clusters. It is characterised as highly fragmented and unorganised and is dispersed across vast geographies.

Currently, there are approximately 48 million SMEs operating in India and the sector employs around 40 per cent of the country’s labour. A large portion of the employment generated by SMEs is in the manufacturing and services sectors which are growing at impressive rates of 18 per cent and 34 per cent year-on-year, respectively. SMEs contribution of 17 per cent to India’s GDP is much lower when compared to the corresponding figure in other major economies but it is projected to touch 22 per cent by 2020. In addition, the number of new entrants in the SMEs sector is growing at an average of 23 per cent in manufacturing and 31 per cent in the services sector.*

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* For detailed definition of MSMEs and SMEs refer to the figure below

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1. SMEs employ close to 40% of India’s workforce but contribute only 17% to GDP, Economic Times
3. The Indian SME Survey, Firstbiz-Greyhound, 2014-15
6. The new wave Indian MSME, KPMG and CII, 2014
The achievements stated above have been made possible, mainly, due to the increasing internet penetration in India wherein the SME community has begun exploring its options as online sellers who have access to consumers and shoppers across the country. Globally, cross-border e-commerce is a major revenue opportunity which many SMEs are eager to explore. The Government of India is also taking initiatives to increase competitiveness of SMEs in the international market.

Internet offers tangible benefits to SMEs

The internet has emerged as a game changer for businesses across the world, during the last decade. SMEs in India have traditionally been dependent upon domestic trade but with access to internet technologies they have started to explore the opportunity to trade globally. Although, SMEs in India may or may not have own online presence (such as a website), 43 per cent of SMEs participate in online sales in India. Web-enabled SMEs, in general, make higher profits, have enhanced customer reach and improved employment opportunities. As per a survey, around 56 per cent of SMEs believe that the use of internet technologies is critical for business growth while 22 per cent are completely ignorant about the potential of internet for their business. It was observed that high-web SMEs amongst SMEs in India grew at 19 per cent (historical three year sales growth), when compared with low-web SMEs who registered a lower growth figure of 13 per cent. A similar pattern was observed across other countries wherein the SMEs using a wide range of internet tools to operate, registered higher growth rates compared to SMEs having only a website or social networking site or no web site at all. Further, SMEs who use the internet extensively have also been shown to export approximately two times more by export value when compared to SMEs who use the internet sparingly.

Source:  
1. The Status of e-commerce Among Indian MSMEs, SMEStreet Survey, 2015  
2. The Internet Economy in the G-20, BCG Analysis  
3. The great transformer: The impact of the internet on economic growth and prosperity, McKinsey Global Institute

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**2.9 billion internet users worldwide**

**348 million internet users in India in 2015**

**52 million new internet users shall log into the digital world by mid-2015**

**50 million of the 100 million online shoppers in India shall belong to tier I and tier II cities in 2016**

**27% of SMEs using the internet are engaging in e-commerce**

**69% of SMEs report an increase in customers due to the internet**

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3. The Status of e-commerce Among Indian MSMEs, SMEStreet Survey, 2015  
5. The Internet Economy in the G-20, BCG Analysis  
Adoption of e-commerce among SMEs in India vis-a-vis other countries

SMEs have begun to recognise the potential of e-commerce and understand that its adoption could play a major role in enabling growth for their business, both in domestic and international markets. When Indian SMEs are compared to those from other emerging countries such as China, Brazil and Indonesia, it is found that on an average 100 per cent of the high-web SMEs have a website, use the internet for online advertising and transact using e-commerce. This is also at par with SMEs in developed countries such as the U.S. and the U.K., wherein the high-web SMEs showcase a similar pattern. However, when compared with the SMEs in India who are considered low-web, only 5 per cent of them have a website, while approximately 50 per cent in the same category own a website in the developed economies of the U.S. (46 per cent) and the U.K. (53 per cent).

Yet another important observation is that, while 100 per cent of India’s high-web SMEs have e-commerce presence, 75 per cent of the low-web SMEs also adopted e-commerce. A similar trend can be observed when drawing comparisons with other developing countries as can be seen in the figure. This implies that even SMEs with limited online presence, at least in the developing markets, are beginning to realise the potential of e-commerce or having online presence. As the e-commerce ecosystem develops and cross border trade improves, the online export market shall also expand for SMEs that leverage internet technology for growth and sustenance.

While traditional SMEs have focussed on their core operations without experimenting with new and advanced technologies, e-commerce has helped technology enabled SMEs to challenge the status quo and grow significantly over the last few years. While 98 per cent of technology enabled SMEs in India participate in the country’s share of export revenues, only 11 per cent of the traditional SMEs export goods and services.

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Notes:

10. The Internet Economy in the G20: The $4.2 Trillion Growth Opportunity, BCG Analysis
11. Commerce 3.0 for Development, eBay
One of the primary reasons for the difference in contribution to export by online vis-a-vis offline SMEs is that e-commerce transcends geographic boundaries and levels the playing field by enabling visibility and trade across buyers and sellers who are located in distant geographies. Further, online transactions supported/enabled by reputed e-commerce organisations also allay any fears rooted in perceived trust deficit. With features such as rating systems, feedback mechanisms, blacklisting, payment options and tools, security and trust certificates, the online ecosystem builds enough trust in the market, almost immediately as compared to the years of effort required in the offline market.

### Impact of e-commerce in China: Drawing parallels

Over the last few years, China has witnessed an unprecedented growth in its e-commerce market and currently stands as the largest e-commerce market in the world. At the same time, SMEs have been playing a key role in the Chinese economic development. The number of private sector SMEs in China grew from one million in 1990s to 400 million in 2012, out of which five million were exporters. Today, SMEs account for 90 per cent of all firms in China and contribute 60 per cent to the GDP, 75 per cent to urban employment, and 75 per cent to the industrial value addition of the country.

E-commerce has offered significant opportunities to SMEs, specifically for exporters, to enter distant markets and to communicate globally with consumers, distributors and suppliers. SMEs engaging in e-commerce have witnessed increased income, with their business income growing 1.35 times than that of enterprises not engaging in e-commerce. The largest marketplace in China has a seller base of approximately seven million, and has assisted aspiring entrepreneurs with little seed capital to tap into the national as well as global market.

China acts as a good example, and holds useful lessons for the Indian e-commerce sector. By connecting small businesses, including local artisans, to a national and global marketplace, e-commerce can help cultivate a new class of entrepreneurs and create jobs for tens of millions of Indians.

### In India 98 per cent of technology enabled SMEs participate in the export economy in India

<table>
<thead>
<tr>
<th>Country</th>
<th>Technology enabled</th>
<th>Traditional</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>98%</td>
<td>11%</td>
</tr>
<tr>
<td>Thailand</td>
<td>100%</td>
<td>75%</td>
</tr>
<tr>
<td>Jordan</td>
<td>100%</td>
<td>25%</td>
</tr>
<tr>
<td>South Africa</td>
<td>100%</td>
<td>19%</td>
</tr>
<tr>
<td>Chile</td>
<td>100%</td>
<td>18%</td>
</tr>
<tr>
<td>France</td>
<td>98%</td>
<td>15%</td>
</tr>
<tr>
<td>Peru</td>
<td>100%</td>
<td>15%</td>
</tr>
<tr>
<td>Ukraine</td>
<td>100%</td>
<td>11%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>100%</td>
<td>10%</td>
</tr>
<tr>
<td>USA</td>
<td>98%</td>
<td>2%</td>
</tr>
</tbody>
</table>

Impact of e-commerce too real to ignore
e-commerce: An agile engine for growth of SMEs in India

We have witnessed a remarkable transformation in the way Indians shop and in the modus operandi trading by SMEs. Despite significant contribution to the Indian economy, SMEs are faced with a number of challenges including competitive pressures, locally, nationally and internationally. In this highly competitive market, in order to keep their position intact and their businesses sustainable, SMEs need to improve access to new customer segments and reach customers in all corners of the world. This is where e-commerce comes in to improve their competitiveness and provides businesses a platform to achieve on a truly global scale. Eighty-five per cent of the SMEs who adopted e-commerce believe that it is a cost effective medium to grow sales.

Key factors for e-commerce adoption among SMEs

<table>
<thead>
<tr>
<th>Factor</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost effective medium to grow sales</td>
<td>85%</td>
</tr>
<tr>
<td>Cost effective for business expansion</td>
<td>32%</td>
</tr>
<tr>
<td>Geographic reach-national and international</td>
<td>26%</td>
</tr>
<tr>
<td>Cost effective for business profitability</td>
<td>19%</td>
</tr>
</tbody>
</table>

Source: SMEStreet survey - The Status of e-commerce among Indian MSMEs (MSME Insights), 2014

Around 77 per cent of the SMEs who have adopted e-commerce were listed on online marketplaces. It has been found that SMEs who actively adopt the internet for business activities boast 51 per cent higher revenues, which results in 49 per cent more profit and a 7 per cent broader customer-base than their offline-only counterparts. Despite this, only 27 per cent of online SMEs use e-commerce.

SMEs who adopt the internet for business activity report

- 51% Higher revenues
- 49% More profits
- 7% Broad customer support
- 27% of online SMEs use e-commerce

which results in... but only...

1. SMEStreet survey - The Status of e-commerce among Indian MSMEs (MSME Insights), 2014
2. Unleashing the potential, internet’s role in the performance of India’s small and medium enterprises, FICCI and Nathan Associates
3. Industry discussions conducted by KPMG in India, May 2015
Increase in revenues
Offline SMEs are limited by their geographical reach and more often than not, make incremental efforts in expanding the consumer base which is acquired over a long period of time. e-commerce aids SME businesses in conducting transactions at a global level by offering a platform that can be accessed across geographies thereby increasing the volume of sales handled and the revenue generated. The improved speed to market, global consumer base and flexibility to conduct business can potentially boost the SME revenues to the tune of 51 per cent along with e-commerce specific advantages such as online referral systems for acquiring even more customers, insight-based personalisation to improve customer acquisition, service and feedback channels to ensure all lessons learnt are immediately incorporated to improve future sales experience\textsuperscript{4}.

Lower marketing and distribution spend
Since competition in the e-commerce space has increased significantly, e-commerce players are spending heavily on both digital and traditional media for improving site traffic, acquiring customers, building customer relationships, and ultimately for improving sales. SMEs could reduce expenses on call centres, trade shows and even offline advertising thereby optimising the overall marketing and sales spend to the tune of 60 to 80 per cent reduction in spend\textsuperscript{5}. Additionally, e-commerce adoption reduces the costs associated with traditional marketing as well as any incremental cost required for opening additional stores at multiple locations.

Increase in profit margins
Adoption of e-commerce enables SMEs to take advantage of third party trading platforms (e-commerce marketplaces) with limited or no investment in developing and hosting online storefronts and in managing infrastructure/operations for packaging, logistics, warehousing, etc. This may boost the profit margins (up to 49 per cent) by reducing overhead costs and upfront capital investment. Reduction in costs allows for a more competitive pricing strategy, which, in turn, can positively impact sales volumes. Increase in transaction volumes further adds to overall profit values. e-commerce platforms allow SMEs to engage directly with consumers without the need for any middle man or agent which further results in reduced transaction costs.

Improved geographic reach and accessibility
The internet transcends all geographic boundaries and provides an opportunity for SMEs to connect with several buyers and sellers across geographies. This enables them to enter international markets at a fraction of the cost and gives them the opportunity to directly compete with global giants within their industry, thereby contributing to the government’s ‘Make in India’ campaign. Snapdeal has over 100,000 SMBs doing business on its platform currently, thousands of these sell goods worth more than USD250,000 annually\textsuperscript{6}. As geographical boundaries disappear in the virtual marketplace, SMEs are selling 24x7 across the world without any time zone restrictions, and with limited investments.

Potential benefits of e-commerce to Indian SMEs

- **Increase in revenues**: up to 51% higher revenues
- **Lower marketing and distribution spend**: 60-80% spend reduction
- **Increase in profit margins**: up to 49% more profit
- **Improved geographic reach and accessibility**: up to 7% broader customer base

\textsuperscript{4} SMEStreet survey - The Status of e-commerce Among Indian MSMEs, 2015
\textsuperscript{5} Industry discussion conducted by KPMG in India, May 2015
\textsuperscript{6} Future of e-commerce: Uncovering Innovation, ASSOCHAM, 2015
Shorter time to market
The window of demand for a particular product category can be very short, and if companies fail to respond to the demand in the given time, they could miss out on the opportunity. The ability to introduce a product into the market before a competitor does, could be a key success factor and there are few sectors in which this is more conceivable than in e-commerce. Adopting e-commerce enables faster communications between SME sellers and buyers and helps to avoid potential chaos in the supply chain. They can streamline communications, eliminate redundant processes, and improve order management capabilities, thereby increasing the market relevance and product visibility.

Improved customer experience
Intense competition in the e-commerce environment nudges and at the same time encourages the SMEs to operate within the paradigm of ‘customer first’ business philosophies. The e-commerce companies support these SMEs in their quest to offer better customer experience across the customer life cycle by helping them institute customer-focussed processes enabled by tools and technologies. Quicker response to customer inquiries, interactive order taking processes and better after-sales service to customers are just few of the improvements which over a period of time lock-in a loyal consumer base and eventually turn them into strong brand advocates.

At SMEStreet, we are committed to understanding the issues and opportunities of the MSME sector and in this regard, we conducted a survey on the topic of ‘How Indian MSMEs are consuming e-commerce’. The data of this survey showed us that the biggest driver for e-commerce among MSMEs is the fact that entrepreneurs from smaller organisations want to evaluate maximum possible options for their buying or sourcing needs. Secondly, from the seller’s perspective, MSMEs want to reach out to newer markets in a cost effective manner.

Faiz Askari
Editor and CEO
SMEStreet
Ignore e-commerce at your own risk

e-commerce in India is gaining traction at an accelerated pace. SMEs who are offline may realise, albeit a tad bit late, that adopting e-commerce could cause more good than the perceived harm. Technology and innovation bring positive change which can drastically improve the way small and mid-sized businesses operate and not doing so may increase the effort to stay in the game.

- Not having an online presence or presenting a poorly designed website can put the business at a serious disadvantage especially in consumer centric sectors such as retail, export and tourism.
- Ignoring technology or adopting solutions which are not an appropriate fit can leave the business crippled and without the competitive edge it needs to survive in the market today.
- An increasing number of SMEs today lack an organised central database of customers and sales records. This makes it difficult to carry out marketing and communication related activities while a significant portion of the target segment remains unaddressed.

e-commerce is no longer a passing trend but a business reality that can no longer be ignored or contained. With the online consumer demand already at an all-time high, the market expects a fulfilling environment which is seamlessly on autopilot. While e-commerce is only the bottom stair to this pyramid, SMEs who remain oblivious or determined to ignore the online transaction market may have to compete with organisations who have capabilities far beyond theirs.

SMEs still wary of going online – Understanding the adoption challenges

The Indian SME sector is on an ambitious growth curve. Recent years have seen a progressive change in the mind-set of SME business owners towards the adoption of e-commerce. Despite its high potential, a large number of Indian SMEs are still not ready to move away from the traditional business model(s). The slow growth of e-commerce adoption in SMEs has been attributed to several adoption barriers which have been listed down in the subsequent section below.

“e-commerce provides vital commercial linkages for SMEs from marketing, sales and procurement standpoint. This increased access to suppliers and customers can help SMEs scale up their businesses at much lower levels of investments in fixed assets and human capital, thus dramatically altering their cost structures. However, SMEs would need to quickly make significant changes to their business models to suitably take advantage of the opportunities presented by e-commerce.

Anand Ramanathan
Director
BPS-S&O-Strategy
KPMG in India
Technological cost transparency

A long held belief within the SME community is that e-commerce is prohibitively expensive to implement and operationalise. The belief is based on the perception that technology adoption, traditionally, has been a capital intensive affair and that the technology partners seldom clearly elucidate the Total Cost of Ownership (TCO). This gives way to apprehensions around the high cost of technology maintenance and a related concern that the initial investment may have to be written-off if upgrading to newer technologies is considered. The notion, however, is far from reality since SME businesses today can start leveraging digital platforms and online marketplaces for as low as INR3,000\(^8\). There are also other models available wherein an online presence can be established with an investment of INR99 which includes a customised domain name, professional email address and 24x7 support\(^9\). There is, however, a need to ensure that SMEs understand a transparent and effective cost structure with a clear picture on TCO and ROI when considering the adoption of e-commerce.

Lack of awareness

A large number of SMEs in India are unaware of the potential benefits of e-commerce primarily due to lack of exposure to IT products and services and the e-commerce ecosystem as a whole. Several other ancillary factors such as language barriers, preconceived notions about technological complexities, etc. also inhibit adoption. The important reason for lack of awareness, however, is the lack of a concerted, nationwide SME engagement programme which spells out the meaning and relevance of e-commerce along with its benefits and impact stories. China, for example, spreads awareness among its SMEs by using cluster education programmes. Each SME cluster forms a microcosm of its regional business (automobile manufacturing, textiles, agriculture, etc.) and the SME community is invited to set up their businesses, leverage common resources and share success stories about their experience in e-commerce and the benefits derived from it.

Inadequate financing

SMEs in India face a significant financial gap where current issues such as unavailability of desired loan collaterals, high interest cost and lack of a systematic credit rating facility has caused a rift between the organised lending sector and the SME community. This in turn has caused SMEs to obtain unorganised capital which is unsustainable and plagues the ecosystem with lending practices which harm them in the long run.

Approximately 41 per cent of SMEs in India do not have access to bank loans or other products offered by financial institutions with a financing gap of more than INR2.93 trillion in the SME sector.\(^{10}\)

Training and support

Any new technology in the market needs to prove its worth before it is widely adopted by the target community and e-commerce has been no exception. Although web-based selling has proved itself in terms of an economic benefit in the market, there are reservations held by business owners regarding the benefits which can be visibly felt and the means to track and attribute it. While measures to increase awareness around e-commerce and its usage can help, the community also needs continued training programmes and support to help change its current myopic view of technology which in all probability leads to skewed expectations of instant gratification.

Despite the roadblocks that the SME e-commerce ecosystem is faced with, there is a deliberate and widespread support that the SME community has received in India recently. The future of e-commerce adoption among SMEs is no longer speculative and with the spotlight turned on, the ecosystem is changing to pivot the SME community’s role in India.

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8. Internet has Transformed SMEs, Now it’s Time to Grow Beyond, SME Street, March 2015
9. GoDaddy and Microsoft Brings Unbeatable Offer for Indian SMEs, SME Street, February 2015
10. India’s 1st online financing platform for SME sector launched, The SME Times, November 2014

Mehul Gupta
Associate Vice President
Internet and Mobile Association of India (IAMAI)
04 The e-commerce ecosystem steps up to support SMEs
The ecosystem has launched several initiatives to boost e-commerce adoption

The importance of the SME sector has been recognised by the Indian Government, industry associations and e-commerce players alike. Its growth and e-commerce enablement have been adopted as key themes across policy reforms, industry initiatives and e-commerce partnerships.

<table>
<thead>
<tr>
<th>#</th>
<th>Initiative</th>
<th>Awareness</th>
<th>Technology</th>
<th>Financing</th>
<th>Training</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Initiatives by industry bodies</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>An industry association representing digital businesses in India organised an event titled ‘Free for SMEs’, in collaboration with one of India’s leading B2B marketplaces.</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>A non-government, not-for-profit, industry-led and industry-managed organisation, playing a proactive role in India’s development process collaborated with a global online marketplace and signed a MoU to foster greater economic engagement between Chinese and Indian SMEs.</td>
<td>✓</td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>3</td>
<td>Federation of Indian Exports (FIEO) Organisation entered into an MoU with leading e-commerce ecosystem players to promote export opportunities among SMEs.</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Initiatives by e-commerce players</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>An e-commerce player launched a capital assistance programme which offers low cost financing options to sellers transacting on its platform.</td>
<td></td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>A leading marketplace player has tied up with Federation of Indian Micro and Small and Medium Enterprises (FISME) and National Centre for Design and Product Development (NCDPD) to guide SMEs on brand building and product marketing.</td>
<td>✓</td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>6</td>
<td>E-commerce players are partnering with various institutes, such as National Institute of Electronics and Information Technology (NIELIT) and National Institute for Entrepreneurship and Small Business Development (NIESBUD) to support skill development within SMEs, consequently contributing to Government’s ‘Skill India’ initiative.</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td><strong>Government initiatives</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>The ‘Technology Centre Framework’ initiative aimed at facilitating access to various transformative technologies such as cloud-based platforms for SMEs.</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>8</td>
<td>The ‘Digital India’ initiative targets to drive internet accessibility across the country. The successful implementation of this programme is expected to boost India’s GDP by 20-30 per cent by 2025.</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td>✓</td>
</tr>
</tbody>
</table>
e-commerce players focus on SME growth

Initiatives launched by leading e-commerce players are helping SMEs across key Indian states connect to a larger, global audience while improving sales and sector awareness:

**Himachal Pradesh**
Development of a special e-commerce zone in Dharamshala to promote traditional handicrafts produced in the state by bringing local artisans on the marketplace, conducting workshops to educate them to online selling processes, and setting-up a special pick-up facility to transport their products across the country.

**Uttar Pradesh**
Collaboration with weavers from Varanasi in order to link SMEs with their large customer base online.

**Rajasthan**
Tie up with the Government of Rajasthan Small Industries Corporation (RAJSICO), government of Rajasthan, for online promotion and selling of traditional handicrafts, through an exclusive store.

**Maharashtra**
Association with a not-for-profit organisation for an online handicraft e-commerce portal to source and offer products created by local craftsmen and artisans from Dharavi.

**Karnataka**
Partnership with the government of Karnataka to develop a seller platform where SMEs can connect and sell their products.

**Tamil Nadu**
Partnered with the Tamil Nadu Handicrafts Development Corporation to give exposure to rural artisans and enable online sales.

**North-East**
Association with the North Eastern Handicrafts and the Handloom Development Corporation (NEHHDC), for selling traditional handicrafts on an exclusive e-commerce website.

**Odisha**
Collaboration between the Odisha State Co-operative Handicraft Corporation Ltd and a leading handicraft corporation in the state to sell its products online.

**Madhya Pradesh**
Tie up with the non-profit Digital Empowerment Foundation to monetise sales across verticals including textiles, handicrafts, weaving, etc.

**Puducherry**
Collaboration with Puducherry State Co-op Handloom and Handicrafts Federation to assist local artisans with technical and operational insights to enhance SME reach.
Testimonials: The online marketplace impact

Connecting with consumers: 7 years to 2 days
“When we started doing business with one of the leading online marketplaces in India, we had 50 units to sell. Now we have over 4000 products and 18 different categories to cater to. In offline markets, creating a brand presence is very tough which is why we chose an online model to directly connect to our customers. We are thankful since the technology provided by the marketplace allows us to run 18 disparate businesses from a single laptop.”
Category: Multiple

Business scales from 300 to 1000 orders a day
“After joining hands with one of the leading online marketplaces in India, in July 2014, the growth has been remarkable. Initially I had listed about 500 products which gave me about 400 orders a day but now I have listed more than 1000 products online which gives me almost 800 to 900 orders a day. With services enabling sellers to stock inventory at fulfilment centre that make shipment possible within two hours, the sales have definitely improved. The team takes care of all back office operations such as packaging, quality checks, etc. giving me time to focus on the product itself.”
Category: Home furnishings

A decade old offline business grows 8x with one of the leading online marketplaces in India
“One of my main concerns with conducting business online was that I was unsure of the payment terms and delivery schedule. But after partnering with with the online marketplace we have noticed that not only have our sales grown by more than eight times, all our payments and delivery schedules are ahead of time.”
Category: Apparel

300 per cent Quarter on Quarter (Q-o-Q) growth
“Growth is always measured by sales figures and I am highly motivated when I see a 300 per cent quarter-on-quarter growth in my sales number after partnering with an e-commerce organisation who has been a pioneer in the online marketplace model in India. I am very confident that they will help me build the future I envision and help transform my local commodity into an international brand”
Category: Kids clothing

Turning casual businesses into serious business ventures
“This was a business idea inspired by my four year old. I have seen the number of orders grow from five to six a day to 70 orders in a few hours after partnering with one of the leading online marketplaces in India. Within a span of two short years, my business has seen an astronomical growth of over 2000 per cent and it now operates on a 24X7 basis and caters to a national consumer base.”
Category: Toys and games
SMEs innovate to stay ahead of the curve

Small businesses across the country are experimenting with innovative business models to grow or survive in the e-commerce era. Retail businesses that face competition from e-tailers are also adopting online routes.

SM E shuts down offline operations and moves to e-commerce

Take the case of an SME apparel retailer, who moved his business online to overcome slow growth and high operating costs. The Mumbai based company focusing mainly on sarees, started selling online in 2013. The company almost doubled its revenues from 2013 to 2014 because of online sales. By the end of 2014, the company decided to close all of their stand-alone stores and focus only on online growth. The company currently sells through multiple online websites.

Source: Retailers shut brick-and-mortar stores, go online to offset slow growth, Livemint, 2014

Small retail stores expand their geographic reach

A Gurgaon based start-up (mobile app based services) focusing on hyperlocal delivery of groceries, ensures delivery of groceries within two hours. Instead of an inventory based model which would include high fixed costs of maintaining warehouses, high inventory and logistics cost, they work with an asset-light model, where they partner with local stores to create customer centres that are relatively organised to satisfy household needs. The partner stores that supply the company with inventory pay a commission on sales. This player is also helping small retail stores expand their catchment area by piggybacking on the company’s logistics services.

Source: Retailers shut brick-and-mortar stores, go online to offset slow growth, Livemint, 2014

Although it has often been debated that FDI in B2C retail or e-commerce would cause Indian mom and pop stores to shut down, study of developed markets where e-commerce has been in existence for more than quarter of a decade, suggests otherwise. As per KPMG in India’s analysis, India’s e-commerce presence is miniscule when compared to the offline expanse of the kirana stores. This coupled with issues of last mile connectivity, high payment costs, diminished profits, limited skilled manpower and regulatory barriers keep the competition at bay. However, the mom and pop stores offer a value proposition which is very different from that offered by the e-commerce players. The kirana stores are hyper-local in nature and tend to focus their attention on the loose and unbranded products which can be customised as per the consumer’s requirement as opposed to online e-tailing which focuses on the sale of standardised products to an organised market. The kirana stores also depend of catchment areas of a few kilometres, the dominance of which can never be challenged by organised retail.

Women in low-income countries like India often seek additional means of income to support themselves and their family and look for opportunities for self-fulfilment and independence in decision-making. However, traditionally Indian women have faced multiple challenges such as lack of finance and education, family ties, and low risk-bearing ability, while starting their own ventures. 54 per cent of women entrepreneurs do not have enough knowledge of what the start-up life entails, 63 per cent have self-funded or bootstrapped their venture, and 42 per cent feel that starting-up a business is difficult. Low entry barriers provisioned by the e-commerce industry such as low set up costs, audience reach, work-life balance and better margins when compared to offline sales, are helping women gain financial independence, and are also attracting them from sectors like farming, textiles, and construction. Due to this, 20 per cent of the online seller base today constitutes of women entrepreneurs.

Source: How women entrepreneurs are gaining big from the online retail revolution, Economic Times, 2015; What you don’t know about women entrepreneurs in India, YourStory, June 2014; KPMG in India analysis, 2015
The interim Budget 2014 came in with a number of announcements that were indicative of the positive intent of policymakers to promote digital and e-commerce adoption. The 'Technology Centre Framework' was one such initiative that was aimed at facilitating access to various transformative technologies such as cloud-based platforms for SMEs. The B2C marketplace - MSMEShopping.com was launched in 2014 and it is estimated that the platform would have over 3,000 to 5,000 suppliers on board by the end of 2015\(^1\). SMEcorner.com is another initiative that offers a financing platform that will make borrowing easier for SMEs.

Various other initiatives including the 'Digital India, have been introduced to drive internet accessibility across the country. The successful execution of this programme is expected to boost India’s GDP by 20-30 per cent by end of 2025\(^2\). Internet and technology adoption are being perceived as a catalysts for growth among the country’s MSME sector and the economy as a whole. The Indian government’s announcement on expansion of scope of the ‘Make in India’ programme by adding five more sectors including SMEs shall aid the growth of the sector in 2015.

Initiatives by the Indian government are supported by efforts of leading e-commerce players in India. Innovative features like ‘scan and sell’ enable SMEs to scan and add their product to the online marketplace in less than five minutes\(^3\). Another large e-commerce player is working towards promoting weavers from various parts of India with the help of National Institute of Fashion Technology (NIFT) by providing a platform for SMEs in the textile segment.

Complementing the launch of its own e-commerce portal by the National Small Industries Corporation (NSIC), the Indian government has taken several steps in the last few years to boost SME participation in e-commerce. These include:

**Digital India:** The initiative is an umbrella programme launched to improve internet accessibility across India and make the growth story more inclusive. The successful implementation of this programme is expected to boost India’s GDP by 20-30 per cent by the end of 2025\(^2\), providing further impetus to the digitisation of the SME sector in India.

**Make in India:** Realising the need to indigenise manufacturing, cut imports and boost product and services exports, the Indian government launched the ‘Make in India’ campaign which aims to support, among others, the SME community in India. The Indian SMEs, equipped already with ICT and other digital policy announcements, hope to leverage these initiatives to create an online presence for themselves, localise sourcing and cater to a larger and more global audience.

**Skill India:** In parallel with the ‘Make in India’ campaign, the government also announced a supplementary initiative called ‘Skill India’ to boost manpower training and skills with a special focus on the SME sector in India. The Government is expected to launch a federal programme to impart skill-based training to SMEs including the use of technology and conducting online business.
All aboard – full throttle
### All aboard - full throttle

The way ahead for the e-commerce ecosystem: Enabling a brighter future for Indian SMEs

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Focus area</th>
<th>Industry associations</th>
<th>e-commerce players</th>
<th>Regulatory bodies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bridge the information gap</td>
<td>Value awareness</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Cluster-based resource sharing</td>
<td>Value awareness</td>
<td>✓</td>
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<tr>
<td>Collaborating with NBFC’s</td>
<td>Financing</td>
<td></td>
<td>✓</td>
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<tr>
<td>Collaborating with technology providers</td>
<td>Technology support</td>
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<tr>
<td>Shared infrastructure</td>
<td>Technology support</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>Transparent payment structure</td>
<td>Business practice</td>
<td>✓</td>
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<tr>
<td>Think long-term</td>
<td>Business practice</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>Stronger enforcement of government policies and initiatives</td>
<td>Regulatory environment</td>
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</tbody>
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The future of India’s internet and e-commerce story seems encouraging. Pioneering initiatives by the government, proactive support from existing players in the market and improved awareness among SMEs is helping to increase the adoption of e-commerce by them. In a country as diverse and geographically vast as India, a collaborative effort between all ecosystem players is imperative for the successful and seamless integration of SMEs as an important component - a move that can benefit existing players, SMEs and the Indian economy.

### Conclusion

With the collaborative and proactive participation of e-commerce players and sustained support and focus from the government as well as associated bodies, SMEs shall smoothly integrate into the ecosystem and realise envisaged benefits. In a country that is increasingly going online, assuaging fears of obsolescence will depend on equal opportunity creation across the board for SMEs even in the most remote locations and by enabling them to tackle the challenges of adoption.
The Indian economy presents a significant opportunity for SMEs to achieve double digit business growth over the next decade. The policy reforms, infrastructure and defence spends, significant higher FDI numbers, ‘Make in India’ initiative and many more catalysts shall provide growth opportunities to small and medium businesses in India. In order to seize these opportunities, India’s SME businesses have to transform and adopt the emerging trends in technology. This requires a careful understanding by SME promoters and their key management teams of what these technology trends are and how they can add value to their business model, operations and to all the stakeholders of the business, whether internal or external. With new advances in technology and various procurement and deployment options, investments in technology shall
further become more affordable, justifying its ROI and business case. In addition to human resources, technology shall be one of the key differentiators for successful growth, valuation and sustainability of SME businesses.

It is essential to evaluate e-commerce as a strategic channel for brand communication and for developing unique customer experiences. SMEs have to consider this and look beyond to understand that e-commerce is more than a mere retail channel. Promoters should invest time in understanding the power and potential of these platforms and the possibilities of using them as game changers. In an environment where customer needs and preferences are changing rapidly, communicating value proposition and differentiation is becoming a critical success factor for business sustainability. Digital marketing spends for top global corporations are expected to be 30 to 40 per cent of their annual spends on advertisements over the next two to five years emphasising the need for such a distinct channel to communicate with stakeholders and deliver differentiated interactions and experiences.

It is therefore essential to overcome inhibitions and perceptions and get hands on understanding of the strategic aspects of technology and the platforms that can shape the future of your business.
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For further information, visit www.snapdeal.com
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