MSMEs Go Digital
Leveraging Technology to Sustain During the Covid-19 Crisis
Executive Summary
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Leveraging Technology to Sustain during the Covid-19 Crisis

Authors: Tanu M. Goyal, Prateek Kukreja & Mansi Kedia

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**Key Findings**

- MSMEs are increasingly embracing digital technologies, with online sales accounting for 27 per cent of the total sales of surveyed MSMEs in 2020-21, as compared to 12 per cent in 2018-19

- The MSMEs integrated with e-commerce platforms have experienced an increase in sales, turnover, and profits, and increased hiring

- While e-commerce has improved employment opportunities in MSMEs in India, women participation in them remains significantly low

**Recommendations**

- E-commerce policies across ministries need to be streamlined

- E-commerce platforms need to create financially feasible marketing models that ensures that MSMEs can maximise benefits of a platform, as larger enterprises and brands do

- MSMEs need skills development and training, which requires public-private partnership and MSMEs willingness to participate in them

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**A dynamic and digitalised MSME sector holds the key to India’s inclusive growth agenda**

- Micro, Small and Medium Enterprises (MSMEs) are a major contributor to India’s rapid development. They account for 30 per cent of the Gross Domestic Product (GDP), nearly 50 per cent of exports, and employs more than 110 million people, making it the largest source of employment in the country, after agriculture.

- The Covid-19 pandemic has been one of the many shocks that have significantly disrupted the MSME sector. Nearly 95 percent of MSMEs were negatively impacted due to the national lockdown imposed in March 2020. It came on top of two other shocks—demonetisation in November 2016 and introduction of General Sales Tax in July 2017—disproportionately hitting the MSMEs.

- Amidst the turbulence, digitalisation—use of digital technologies to change a business model and provide new revenue and value-producing opportunities—has been key to the survival and growth of the MSMEs. For example, in 2020-21, nearly 64 per cent MSMEs sold their products through online channels, and many of them registered higher sales than the previous years.

- The digitalisation of MSMEs is taking place in the backdrop of an accelerating digital connectivity in India. It is on track to have the largest number of broadband users in the world, highest broadband data consumption per user, highest adoption rate of latest Internet protocol (ver. 6), unprecedented growth in online payment transactions, third most unicorns after the US and China and several public digital platforms that are the envy of the developing world.

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**About the Survey**

A field survey 1,537 of MSMEs (manufacturing units) was conducted under this study between June-August 2021, covering 10 Indian states. Six sectors were covered, namely - sports goods, toys, furniture, handicraft, textile, and processed & preserved food. Field survey was substantiated by key informant interviews covering e-commerce platforms, government officials, industry associations & academicians, among others. Due to the unorganised nature of the manufacturing sector in India, a cluster-based approach was adopted to select the target respondents. Only those enterprises were covered that were selling on e-commerce platforms. It must be noted, given that the survey was conducted after the peak of the second Covid-wave in India, and thus, the responses may include a slight bias.
MSMEs are going digital in a big way, but this is just the beginning

✦ During the last two years, there has been a surge in the share of online sales of MSMEs. In 2020-21, online sales accounted for 27 per cent of the total sales of MSMEs, as compared to 19 per cent in 2019-20 and barely 12 per cent in 2018-19.

✦ E-commerce platforms have enabled MSMEs to operate in a hybrid model using both online and offline channels. Only four out of the 1,537 enterprises surveyed were selling 100 percent of their products online. The rest were using both offline and online models of sales.

✦ With digitalization gaining pace, customer service has become a priority for most MSMEs. In order to promote products on these platforms, one of the most preferred tools being used by the MSMEs is offering prompt customer service, accurate product description, etc.

✦ MSMEs are choosing platforms over their own e-store. Only 12 per cent of the total MSMEs surveyed have their own e-store and a majority of them is dependent on the platforms for selling online. Out of those that have dual presence, going forward, a majority (53 per cent) would like to completely sell through third party platforms while some would like to sell through both (27 per cent).

MSMEs integrated with e-commerce platforms are doing well

✦ Integration with e-commerce has resulted in improved business prospects. Despite the Covid shock, MSMEs that integrated with e-commerce platforms experienced an increase in sales, turnover, and profits.

✦ About 80 per cent of all firms surveyed reported an increase in the volume of sales and turnover after integrating with e-commerce platforms, while close to 70 per cent reported an increase in profits. The shares of positively affected respondents were highest in the case of the smallest-sized (micro) enterprises.

✦ Selling through e-commerce platforms in the midst of a pandemic helped MSMEs to improve sales, provided better market linkages and enabled scaling up. About 70 per cent of the firms that integrated with e-commerce platforms during Covid experienced an increase in the volume of sales, 65 per cent experienced an increase in turnover and 54 per cent reported an increase profits.

✦ Other reported benefits of integrating with e-commerce platform include ease of transactions, convenience, and higher profit margins. The integration with e-commerce also enabled the MSMEs to access micro-finance through Fintech companies, especially when the access to formal finance for small business is ridden with complexities.

✦ While e-commerce has certainly improved overall employment levels in MSMEs in India, women are yet to fully tap the opportunity, as female employment has remained lower in e-commerce based MSMEs.

✦ With greater integration with E-Commerce, the scale of production of MSMEs has increased (perhaps due to a rise in demand), which has led to an expansion of manufacturing workforce - nearly 34 per cent of the respondents reported an increase in manufacturing workers.

✦ Pandemic served as an opportunity for e-commerce-based MSMEs as reflected by an increase in employment post-Covid, across all states and sectors - These MSMEs saw nearly 8 per cent increase in overall employment post-covid

✦ A majority of firms surveyed reported that the workers do need some specialised skills when working for an e-Commerce based MSME, as compared to a non-e-Commerce based.
Digital ecosystem appears to be keeping pace with the needs of MSMEs

- A majority of the MSMEs are satisfied with the available digital infrastructure. More than 90 per cent enterprises used an internet connection supported through fixed line broadband, Wi-Fi or mobile networks. The quality of the connection varies by enterprises, but most of them reportedly it as good and very good.

- Interestingly, all the survey respondents were using digital payment methods, while a majority (55 per cent) of the payments for sales on e-commerce platforms are received in cash.

- The share of cash payment is higher for medium enterprises while micro enterprises have relatively higher share of digital payments.

- Ease of transaction and better safety and security are perceived by MSMEs as some of the benefits of digital payment methods.

It is evident that MSMEs that have integrated with e-commerce platforms are doing well, but it is not known if they are doing better than the non-integrated firms and whether the former’s gains are coming at the expense of the latter. These important issues will be covered in the next year report.

While digital infrastructure is improving, MSMEs face myriad of “analog” challenges

- Targeting the right customer seems to be the biggest challenge, followed by customer retention, dealing with competition, timely feedback and lack of digital marketing skills, among others.

- E-commerce policies across ministries need to be streamlined. There is a need to address policy-patchwork. E-commerce policies need to consider the unique characteristics of certain MSMEs, such as the handicraft industries, while defining seller’s responsibilities and liabilities.

- E-commerce platforms need to create financially feasible marketing models that ensures that MSMEs can maximise benefits of a platform, as larger enterprises and brands do. About 79 per cent of the respondents find it challenging to target the right customer and 60 per cent struggle with advertising.

- The MSMEs need skills development and training. While there are ongoing initiatives, this requires collaborative efforts by the private sector and the state and local government and MSMEs own willingness to participate in these.

- Finally, it is necessary to evaluate whether the observed positive impact is a long-term structural shift or a temporary adjustment to the shock the Covid-infused in the selling patterns of India’s MSMEs, for a robust assessment and future policy formulation.

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