



THE APPLICATION OF E-COMMERCE IN INDIAN MSME SECTOR

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Abstract

Entrepreneur states that "Advertising in newspapers turns out to be expensive but if we have a website, we can just put the URL of the website in the newspaper – which saves a lot of space/money. Interested parties can log on to the net and find information about our business. Thus it should be on the agenda of every entrepreneur to have a website". E-Commerce (EC) has changed and is still changing the way business is conducted around the world. The commercialization of the Internet has driven Electronic Commerce to become one of the most promising channels for inter-organizational business processes. E-commerce evolved in various means of relationship within the business processes. It can be in the form of e-advertising, e-payment system, e-marketing, e-customer support service and e-order and delivery. E-Commerce is providing useful resource for growth of microfinance and MSME's. In India, many small and medium enterprises are investing more and more in the Internet business. In order to survive in today's challenging environment, it is imperative that MSMEs be competitive and resilient. This article presents on micro, small and medium enterprises in India in order to find an impact of electronic commerce on their business processes. A business process can be decomposed into several sub-processes, which have their own attributes, but also contribute to achieving the goal of the super-process.

Keywords: E-Commerce, E-Government, MSME's, Web Presence.

INTRODUCTION

In India e-Commerce is a rapidly growing market; domestic as well as international players are looking to tap the opportunity in the sector. In the present world of globalization, Micro, Small and Medium Enterprises (MSMEs) are key actors in almost every production system. The term 'E-commerce' has come out of the term 'e-mail' which means doing online business with the help of computer, e-mail, fax, and telephone lines. E-commerce is changing all business functional areas and their important tasks, ranging from advertising to paying bills. Electronic commerce has attracted significant attention in the last few years. "Electronic commerce, commonly known as e-commerce or e-comm, is the buying and selling of products or services over electronic systems such as the Internet and other computer networks". Electronic commerce draws on such technologies as electronic funds transfer, supply chain management, Internet marketing, online transaction processing, electronic data interchange (EDI), inventory management systems, and automated data collection systems. Modern electronic commerce typically uses the World Wide Web at least at one point in the transaction's life cycle, although it may use a wider range of technologies, such as e-mail, mobile devices and telephones as well."

The Micro, Small and Medium Enterprises in India find an impact of electronic commerce on their business processes. A business process can be decomposed into several sub-processes, which have their own attributes, but also contribute to achieving the goal of the super-process. These sub-processes are including: management, supporting and operational processes. So, The main focus of e-commerce usage in MSMEs, especially different e-commerce applications such as: electronic advertising, payment system, marketing, customer support service and order and delivery, and also, to explore in what extent the usage of e-commerce change, if any, performance of business processes in Indian SMEs. Many organizations are becoming ever more focused on their business processes. A **Business process** can be defined as "a set of related tasks performed to achieve a defined business outcome".

The **Management process** is a human-made system consisting of the people, authority, organization, policies, and procedures whose objective is to plan and control the operations of the organization. **Operational processes**, which constitute the core business and create the primary value stream. Typical operational processes are Purchasing, Manufacturing, Advertising and Marketing, and Sales. **Supporting processes**, which support the core processes. Examples include Accounting, Recruitment, Call center, Technical support. MSMEs continue to play an important role in increasing employment and incomes and thus contribute to poverty reduction on a sustainable basis. In an increasingly competitive and globalized world, MSEs need to compete more effectively in order to further boost domestic economic activity and contribute toward increasing export earnings. There are tens of millions of small enterprises, including micro-enterprises, in developing

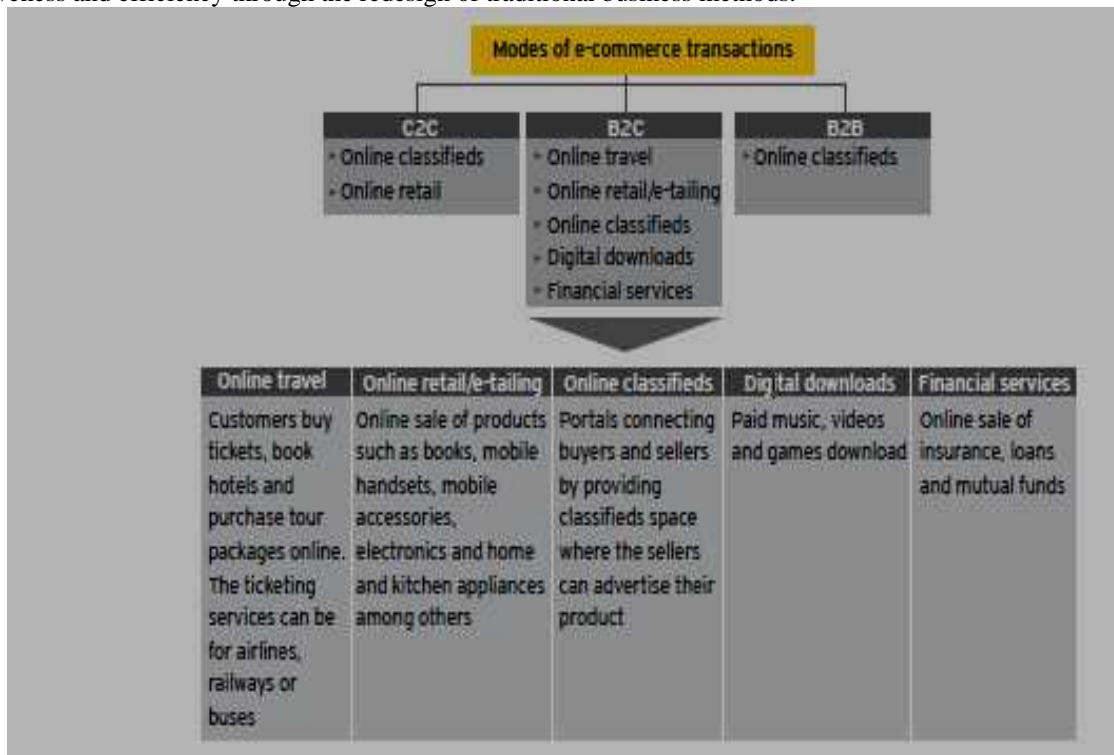


countries (DCs). More than 90% of all firms in DCs are micro- and small enterprises (MSEs), and these typically contribute 80-90% of all employment. They are also significant in wealth creation, making up perhaps around a quarter of gross domestic product and often contributing to exports as well. E-commerce in recent times has been growing rapidly across the world. E-commerce means sale or purchase of goods and services conducted over network of computers or TV channels by methods specifically designed for the purpose. Even though goods and services are ordered electronically, payments or delivery of goods and services need not be conducted online shoes and books etc. to services such as airline tickets or making hotel bookings etc. Indian e-commerce industry is in nascent stage and is nowhere in the league of big global players. Major domestic e-commerce companies are Flipkart, Snapdeal, Fashionandyou, Myntra, fruit, Deals and you, Homeshop etc.

MODES OF E-COMMERCE

In India, a number of e-market places with infomediary model have emerged such as Indiamart.com, Tradeindia.com, and Fibre2fashion.com that act as B2B directories which provide information on products but actual transactions are enabled offline. Such e-marketplaces operate primarily on advertising and subscription based revenue to provide services such as electronic catalogue and hosting services, buyer and seller postings, and information on latest industry trends, new technologies, trade fairs, facilitate in disposing excess inventory, used machinery.

E-Commerce transactions can be segmented into three broad categories or modes, based on participants involved in the transaction. E-commerce transaction can be between businesses, households, individuals, governments and other public or private organizations. There are numerous types of e-commerce transactions that occur online ranging from sale of clothes. E-commerce involves the sale or purchase of goods and services by businesses, business to business (B2B), individuals business to consumer (B2C), governments business to government (B2G) or other organizations, and is conducted over computer networks. It builds on traditional commerce by adding the flexibility and speed offered by electronic communications which can facilitate efforts to enhance operations that lead to substantial cost savings, as well as increased competitiveness and efficiency through the redesign of traditional business methods.



Business to Business (B2B)

B2B is e-commerce between businesses such as between a manufacturer and a wholesaler or between a wholesaler and a retailer. The most common users of B2B online classifieds are Micro, Small and Medium Enterprises (MSMEs) these small businesses lack the requisite financial resources and, therefore, find it difficult to market their products and services to potential clients through traditional media such as newspapers, banners and television. Trade through online B2B portals



increases the visibility of MSMEs in the marketplace and helps them overcome barriers of time, communication and geography. B2B engages complex procurement, manufacturing, planning collaboration, payment terms, and round-the-clock performance agreements. In one sense, B2B is shared commerce. Companies create a long-term alliance and lessen the cost of doing business.

Business to Consumer (B2C)

The B2C market in India generates the bulk of revenues across the consumer-facing modes of e-Commerce for purchase or sale of goods and services is known as B2C. Although B2C e-commerce receives a lot of attention, B2B transactions far exceed B2C transactions. According to IDC, global B2C transactions are estimated to have reached US\$ 1.2 trillion at the end of 2012, ten times less than B2B transactions. B2C e-Commerce entails business selling to general public/ e-catalogues that make use of shopping place. There are several variants in B2C model that operate in e-commerce arena.. Furthermore, though online travel has typically held a major share of the B2C market, online retail is also growing rapidly and is expected to significantly increase its share.

Consumer-to-Consumer (C2C)

India's C2C market, though currently small, is set to grow with the entry of several players. These entrants are attracting VC investment. The C2C segment shows rapid growth in coming years their online portals are also garnering significant traffic. Participants in an online market place can buy and sell goods to each other. Because one party is selling, and thus acting as a business, this treats C2C transactions as part of B2C electronic commerce.

B2B and B2C have distinctive characteristics

B2C, the connection mechanism is Web browser of a business interacting with a Web server application of another business and the business is placing orders; whereas B2B, it is online procurement and order fulfillment.

- B2C, the control mechanism is unidirectional; whereas B2B, control ranges from one-sided control to peer-to-peer setups. Among the advantages of B2B are suppliers using the purchaser's website to respond online to bids and sell excess inventory.
- B2B also allows business firms to form electronic alliances with distributors, suppliers, resellers, and other partners.
- On the other hand, most of the B2B Web exchanges have yet to make money. The question of antitrust violations resulting from alliance types of business also arises.

The focus on differences between B2B and B2C SMEs, the SME business community is a diverse group. An individual approach to advice and support is required, that recognizes differences between SMEs such as size, industry sector, existing ICT infrastructure, regional variations (e.g. urban vs. rural location), and enterprise culture which indicate that SMEs often require business planning and strategic/management advice in order to deploy B2B e-commerce effectively through their business and value chains. A means of addressing the disparity between expectations and experiences of e-commerce would be through policy makers and funding and advisory bodies. MSMEs and large businesses have benefited from the adoption of e-commerce into the following ways: lower transaction costs; reduction in advertising and promotion costs; rapid communication between buyers and sellers; ability to reach new customers; shortening the traditional supply chains, including minimizing transport obstacles and reducing delivery costs; and eliminating physical limitation of time and space.

However, 100% strategic investment over a period of 3 - 4 years in a phased manner, by which time these companies would build scale and can compete with large corporations, can be considered. Another domestic entity citing a number of benefits, has suggested to allow 100% FDI under automatic route in the sector, subject to certain conditions like no offline retail trading activity by B2C e-commerce company, 40% sourcing from SME/MSME and other local business and no sale of food/agriculture produce/ processed food on B2C e-commerce platforms.

MODELS OF E-COMMERCE

Electronic commerce is the future new driver for economic growth and also in all aspects of economic life and presents a series of critical issues. It includes the collection of numerous elements of technologies, ecommerce infrastructure, some of the business operation and policy etc. All these elements need to work together as smooth as possible to find the maximum benefits to customers. From the business point of view, there are two models of e-commerce:

1. "Market Place
2. Inventory Based



Market Place

The “Market Place” provides a platform for business transactions between buyers and sellers to take place and in return for the services provided, earns commission from sellers of goods/services. Market Place is which works like exchange for buyers and sellers. Ownership of the inventory in this model vests with the number of enterprises which advertise their products on the website and are ultimate sellers of goods or services. The “Market Place”, thus, works as a facilitator of e-commerce which allows large number of manufacturers/traders especially MSMEs to advertise their products on the Market Place and benefit from increased.

Inventory Based

Inventory based e-commerce competes directly with MSMEs as the ownership of goods and services and market place vests with the same entity. This model does not work as a facilitator of e-commerce, being delineated there from, but is engaged in e-commerce directly. Indian e-commerce B2C is growing in an eco- system with Indian owned/led companies offering open marketplace models which provide a technology platform to help MSME reach across India and even globally. These marketplaces do not compete with MSME or retailers and allow everyone to trade. On the other hand, allowing the entry of inventory based large foreign e-tailers may shrink Indian entrepreneurship and the MSME sector.

E-COMMERCE FACILITATORS

A wide range of facilitating organisations can offer different types of e -Commerce support which range from business advice to web development or market access. Different facilitators can play different roles depending on eCommerce requirements. In developing countries, MSEs facilitate organisations into several categories which are as follows:

- **Sector-Based Agents/Brokers & Resellers**
These offer web-based marketing activities are tending to be commission-based which are able to accept and place orders and they are skilled at information brokering, logistics and supply chain management and they may also offer Internet transactions and electronic banking.
- **e-Commerce Trading Hubs or Portals**
These are also commission-based but offer solely web-based marketing activities. They are able to accept and place orders, and will be more likely to offer Internet transactions and electronic banking.
- **Industry Organisations & Business Associations**
These are usually membership-based requiring payment of subscriptions. They probably will not have detailed expertise in e-Commerce, but can often provide market coordination and information brokering services.
- **Fair Trade Organisations**
They provide market outlets based on fair trade principles. Most offer web-based services and marketing, and some offer a full transaction-based e-Commerce service.
- **NGOs/Business Support Organisations (including Tele centres)**
They are not likely to have specific expertise in e-Commerce, but may be able to offer advice and assistance. They are providers of advice, training and some marketing assistance.
- **ISPs/IT Consultants**
They can offer access to networks, web development services and possibly e-Commerce advice and strategy planning.
- **Policies, legal and regulatory frameworks**
In general Consumers and Businesses, and SMEs, in particular, need to ensure an appropriate level of consumer confidence and trust in their activities. E-commerce involves a range of policy and legal issues that need to be put in place in order for it to be developed effectively. A number of the issues highlighted in this paper could easily be overcome by taking simple steps to provide clear guidelines. Important among the legal issues that need to be in place are laws on electronic signatures and authentication, electronic contracting, consumer protection, privacy and data protection, computer/ cybercrime, taxation and custom duties, and intellectual property rights.
- **E-payment solutions**
Countries need to encourage e-payment solutions as a key priority policy action in order to facilitate the growth of e-commerce through the development of a robust electronic financial transaction policy framework that integrates e-commerce legal issues into the regulations of the banking system.
- **E-government**
E-governance was more associated with the narrow concept of e-government which referred to services dealing with government and/or public sector only. E-governance is referred to a broader concept involving both public and



private sector. It refers to “how managers and supervisors utilize IT and Internet to execute their functions of supervising, planning, organizing, coordinating, and staffing effectively”. In other words, e-governance refers to an innovative use of ICT to govern both public and private sector in order to attain efficiency and instigate growth.

Expanding online government services helps boost the development of e-commerce and SMEs familiarity with, and uptake of, it. Some of the e-government services related to businesses, such as business registration, taxation, information provision of legislative or local government information, and government procurement and consultation activities, could motivate increased adoption of ICT use in business.

E-COMMERCE SUITABILITY FOR SMALL ENTERPRISES

Small Enterprises play a vibrant and vital role in the Indian economy as well. They contribute significantly to the national production, employment, equity, and export. In fact, it is due to such excellent role, as ‘Small is Beautiful’ because of the significance of small enterprises worldwide. Worldwide Small Enterprises are turning to the use of modern technology to compete with their big brothers – medium and large-size enterprises. According to Yankalovick Partners Inc., 90 per cent of the small enterprises in US are using wired technology in their operations. Numerous e-commerce success stories abound in other countries as well. For example, 70 per cent of the Small and Medium Enterprises in Ireland have accessibility to the Net. Similarly, Spain and Italy, with their sound internet business culture, have promoted their small sector to a remarkable level. In Asia, Singapore is pioneer in e-plus technology and expanding its solution services beyond the local 92,000 Small and Medium Enterprises to others in the region. It’s noteworthy that more than four-fifths (81 per cent) of Singapore enterprises are linked to Internet. In India too, internet based business is set in and is in offing.

In fact, initial signs are already visible in the market place while Delhi, housewives log on to cyberspace to place an order for vegetables, ‘paans’ are made available in Mumbai, farmers in Madhya Pradesh log on to the Net to update themselves on the wholesale prices of vegetables and commodities in the region before deciding on the price for the day. The adoption of e-commerce in small enterprises has reached to global presence and is offering stiff competition to their big brothers. It is noticed that web-based big companies eventually have forced numerous small companies to go online for their business operations.

The scope for adoption of e-commerce is likely to be enlarged with cable, telephones and TVs making inroads in rural areas in the country. ‘Sankhya Vahini’ a massive project commissioned by the Government of India is likely to focus on activities such as tele-agriculture and tele-medicine in rural areas. Thus, there exists good scope for e-commerce to be adopted in small enterprises in the country. Globally e-commerce sales are growing more than 19 per cent a year. Compared to large enterprises, SMEs have a low share of the global e-commerce market, however, they are increasingly adapting to the growing technological revolution and benefiting from the global online market.

BENEFITS OF E-COMMERCE TO MICRO SMALL AND MEDIUM SIZE ENTERPRISES (MSMES)

E commerce builds on traditional commerce by adding the flexibility and speed offered by electronic communications which can facilitate efforts to enhance operations that lead to substantial cost savings, as well as increased competitiveness and efficiency through the redesign of traditional business methods. Indian companies intending to join the e-commerce business must consider the short term and long term benefits that the companies will get. Both SMEs and large businesses have benefited from the adoption of e-commerce are considered as follows:

- **Web Presence**

Web presence is an own website makes a company visible across geographical boundaries for a company as an entry to the virtual market place which offers tremendous advantages to companies of any size and sector. Web sites can help a company by providing timely and other relevant information to customers about the products and services that are offered. One of the important benefits that a company gets out of a web presence is image enhancement, larger influence of the brand and expansion of overseas market as well as national market.

- **Supply Chain**

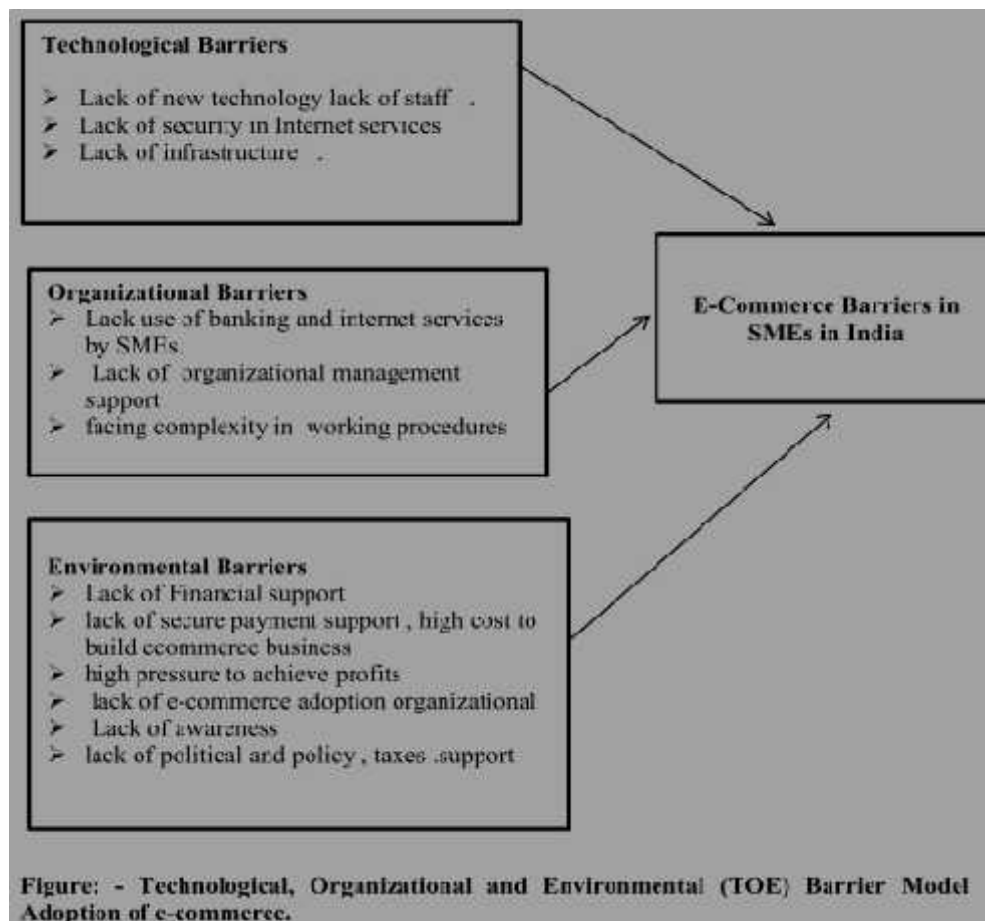
A proper supply chain can help in reducing costs while ensuring the customers to get right quality of product at the right place and at the right time and at the least cost where it helps the companies in refining their supply chain to a large extent. Channel partners work together in an environment of trust and results are seen through reduction in costs, proper maintenance of stocks in the inventory and cycle time reduction. Refinement of supply chain can also be possible over traditional route but e-commerce provides far too many benefits over the traditional route.



- **Enhanced Customer Service**
E-commerce provides lot of opportunities to enhance customer service for example a bank customer who has an online access to his account is spared the burden of visiting the bank branch and carrying out transactions in the traditional way which saves a lot of time and results in improved customer service and satisfaction.
- **Competitive Pricing**
E-commerce offers the benefit of online ordering of goods and payment options. Buyers and sellers come together in electronic market place and it is a win-win situation for both at competitive pricing and sellers do not have to build brick and mortar stores which results in direct reduction of costs of the products and the companies pass on to this benefit to their customers. MSME segment players can make online bidding or quoting prices of products in an electronic marketplace constraint of bidding in the traditional way to overcome the result in increase in business for many organizations.
- **Internal Business Processes**
Internal Business Processes can be linked with the E-commerce of an enterprise where the Companies can link the e-commerce initiative with their enterprise resource planning, supply chain management and customer relationship management initiatives through a seamless integration of business processes and providing great value to the end customers if taken properly will also help companies to stay ahead of the competition.

E-COMMERCE BARRIERS IN SMES IN INDIA

The pace of e-commerce diffusion into small businesses has been attributed to various barriers that are faced by the organizations many Governments have attempted to dismantle some of the barriers faced by SMEs in adopting and using e-commerce Overcoming these barriers is a major challenge for policy makers and SMEs alike lack of resources and knowledge, skills levels of employees, security concerns and e-readiness of the small businesses. The barriers are categorized in to following:





CONCLUSION

In India, electronic commerce have created new cost effective means for both small and medium enterprises in order to enhance their customer relations, provide product information to customers, tracking incoming and outgoing goods delivery and share information with competitors, customers and suppliers which has examined in different ways of using e-commerce at some specific sectors where MSMEs are using the internet to sell their wares directly to customers through online transactions. Many entrepreneurs in developing countries and certainly many owners and managers of MSMEs have a real possibility to benefit from ICTs in their day to day business activities has resulted gain in enhanced productivity, be it in the area of B2B, B2C or B2G e-commerce. And governments need to ensure that users benefit not only from being connected to the internet but also from any technological evolutions which can increase the speed of data flows and which can help reduce costs to consumers. MSMEs tap into vital market information on which their businesses depend. Others still are involved with the development or the dissemination of mobile services such as mobile banking, credit and insurance services. The government and the private sector have vital roles to play not only in allowing e-commerce to take place but to ensure that it grows and benefits not only SMEs but also consumers. Much of the support to e-commerce depends on having or providing the right infrastructure, regulations and the policy mix allowing e-commerce to thrive. As a result, Use of the electronic commerce in Indian SMEs can have a positive impact on the business processes in three main sections: marketing, advertising and customer support services.

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