

Role of E-Commerce in the Growth of Small and Medium Enterprises

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Abstract

Small and medium enterprises (SMEs) are the backbone of the Indian economy, but they have traditionally been limited by small local markets, weak bargaining power, high marketing cost and difficulty in reaching institutional buyers. E-commerce, which allows buying, selling, promotion and payment through electronic networks, has the potential to remove many of these limits. This paper examines the role of e-commerce in the growth of SMEs, with special reference to India, on the basis of secondary data. Data were collected from the Ministry of Micro, Small and Medium Enterprises, parliamentary replies, the Government e-Marketplace (GeM), and published research articles and books. Three comparison tables are used: the contribution of MSMEs to gross value added and exports in different years, the growth of the Government e-Marketplace in terms of transaction value, orders and average order size, and a comparison of traditional offline business and e-commerce on key growth indicators as reported by earlier studies. The analysis shows that MSMEs contribute about 30 per cent of the country's gross value added and more than 43 per cent of exports, that the share of exports has weakened since 2019-20, and that digital procurement platforms such as GeM have expanded very rapidly, with about half of the order value going to micro and small enterprises. Earlier studies confirm that e-commerce improves market reach, marketing effectiveness and operational efficiency of SMEs, but adoption depends on technological readiness, owner's attitude, skills and external support. The paper concludes that e-commerce is a strong enabler of SME growth, provided that digital skills, trust, logistics and affordable finance are developed alongside.

Keywords: E-Commerce, Small and Medium Enterprises, MSME, Digital Marketplace, Government e-Marketplace, Market Reach, Technology Adoption

Introduction

E-commerce means the buying and selling of goods and services, and the transfer of money and data connected with these activities, through electronic networks, mainly the internet. Laudon and Traver describe it as commercial transactions that are enabled digitally between organisations and individuals, and they classify it into business-to-consumer, business-to-business and consumer-to-consumer models (Laudon and Traver 8). Chaffey adds that e-commerce is only one part of e-business, which covers the use of digital technology for all business processes such as procurement, production planning and customer relationship management (Chaffey 12).

The growth of e-commerce has been supported by the spread of the internet and smartphones, secure online payment, improvements in courier and warehousing services, and the arrival of marketplaces that provide ready customers, logistics and payment facilities to sellers. Porter argued that the internet is an enabling technology which makes it easier to reach buyers and suppliers, but that the benefit to a firm still depends on its strategy and not on technology alone (Porter 64). This

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observation is important for small firms, because simply opening an online shop does not guarantee growth.

In India the micro, small and medium enterprise sector is classified on the basis of investment in plant and machinery and annual turnover under the MSMED Act, as revised in 2020. The sector includes manufacturing units, service providers, traders, artisans and a very large number of home-based and informal units. MSMEs generate employment for a large number of persons, support rural industrialisation, and contribute to production and exports. The share of MSME gross value added in the national gross domestic product was about 30 per cent in 2019-20, and the share of MSME-related products in total exports was close to 50 per cent in that year (Ministry of MSME, Rajya Sabha Reply 3; Ministry of MSME, Annual Report 18). The registration of enterprises on the Udyam portal since July 2020 has brought many informal units into the formal data system and has made it easier for them to receive credit and government support.

In spite of this importance, SMEs face well-known problems. These include limited access to formal credit, small and fragmented markets, low bargaining power with large buyers, dependence on middlemen, inadequate marketing capability and a low level of technology use. Kshetri, in a study of barriers to e-commerce in developing countries, noted that economic, socio-political, cognitive and infrastructural barriers together limit the participation of small firms in online business (Kshetri 445). The challenge for policy and for the owner-manager is to use digital channels to reduce these constraints.

E-commerce can influence SME growth through several channels. The first is market expansion, because an online store or marketplace listing allows a small firm to reach customers beyond its locality, and even beyond the country. Brynjolfsson, Hu and Smith showed that online sellers can offer a far wider variety of products than physical stores, so that niche products find buyers who were earlier out of reach (Brynjolfsson et al. 1585). The second channel is cost reduction, since digital marketing, electronic payment and online order processing reduce the cost per transaction. The third is better information, because online platforms give data on customer preference, price and competitor behaviour. The fourth is access to institutional demand, for example through public procurement portals which bring thousands of small suppliers in front of government buyers (PIB 2). Ramanathan, Ramanathan and Hsiao found that e-commerce use among Taiwanese SMEs produced benefits in both marketing and operations, such as wider customer reach and lower cost (Ramanathan et al. 938).

The adoption of e-commerce by SMEs is explained by the technology-organisation-environment framework, which says that adoption depends on the characteristics of the technology, the organisation's size, skills and resources, and the environment, including competition, customers and government policy (Tornatzky and Fleischer 153). Iacovou, Benbasat and Dexter found that small organisations adopt electronic systems largely under external pressure from trading partners and often lack the readiness to gain full benefit (Iacovou et al. 470). Thus, growth through e-commerce is not automatic; it depends on readiness and support.

Objectives

1. To understand the importance of MSMEs in the Indian economy.

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2. To examine the growth of e-commerce-based procurement platforms accessible to small enterprises.
3. To compare traditional offline business and e-commerce in terms of growth-related indicators.
4. To suggest measures for increasing the benefits of e-commerce for small and medium enterprises.

Review of Literature

The studies reviewed are grouped as follows: adoption of e-commerce by SMEs, benefits and performance effects, and Indian evidence.

Iacovou, Benbasat and Dexter reported that perceived benefits, organisational readiness and external pressure explain the adoption of electronic data interchange by small firms (Iacovou et al. 470). Grandon and Pearson, studying small and medium businesses in the United States, found that perceived usefulness, organisational readiness, external pressure and ease of use were related to the adoption of electronic commerce, and that managers valued its strategic importance (Grandon and Pearson 204). Molla and Licker developed a model for developing countries, in which perceived organisational e-readiness and perceived external e-readiness, covering government support, infrastructure and trading partners, shape adoption (Molla and Licker 885). Wymer and Regan listed factors such as owner's attitude, size, competition and technical knowledge in their study of small and medium business adoption (Wymer and Regan 445). Ghobakhloo, Arias-Aranda and Benitez-Amado confirmed that internal and external factors influence adoption in SMEs and that the owner-manager's innovativeness and information technology knowledge are significant (Ghobakhloo et al. 1250). Tan and co-authors, in their study of Malaysian SMEs, pointed to management support and readiness as important (Tan et al. 232), while Rahayu and Day found that relative advantage and competitive pressure encouraged adoption among Indonesian SMEs (Rahayu and Day 146). Kurnia and colleagues reported similar technology, organisation and environment effects in the Malaysian grocery retail sector (Kurnia et al. 1912).

Zhu and Kraemer examined the retail industry in several countries and found that the value derived from e-business depends on firm capability, particularly technology competence and the extent of use (Zhu and Kraemer 78). Zhu, Kraemer and Xu showed that technology readiness, firm size and competitive pressure influence how deeply firms assimilate e-business (Zhu et al. 1568). Chong and Pervan found that the extent of deployment of e-commerce in SMEs was related to perceived benefits and organisational factors (Chong and Pervan 15). Gibbs, Kraemer and Dedrick compared countries and concluded that policy, infrastructure and payment systems shape the diffusion of e-commerce (Gibbs et al. 12). Ainin and co-authors found that the use of social media by SMEs improved cost, marketing and customer relationship outcomes (Ainin et al. 580).

Chatterjee and Kar studied the use of social media marketing by Indian SMEs and reported that perceived benefits, ease of use and compatibility with business processes influenced use, and that such use improved marketing and customer related performance (Chatterjee and Kar 6). Official data show that the MSME sector contributes significantly to gross value added and exports, and that

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government procurement through GeM has opened a large digital market to micro and small sellers (Ministry of MSME, Annual Report 18; PIB 2).

The literature indicates that e-commerce is beneficial for SMEs, but that benefits are conditional on readiness. Fewer studies compare, with aggregate data, the contribution of MSMEs with the growth of digital platforms available to them. This paper uses available secondary data to bring out this link.

Research Methodology

The study is descriptive and analytical and uses only secondary data. Data on the share of MSME gross value added in gross domestic product and the share of MSME-related products in total exports were obtained from replies of the Ministry of MSME in Parliament and from the Annual Report of the Ministry. Data on the Government e-Marketplace were taken from the official explainer of the Press Information Bureau and from data released by the Ministry of Commerce and Industry for 2022-23 and 2023-24. The theoretical background was taken from the journal articles and books listed in the references. Percentage change, difference over the base year and derived average order value (total value divided by number of orders) were calculated for comparison. All figures are rounded. Since official figures are sometimes revised, the latest values should be checked on the websites of the concerned ministries before the data are used again.

The limitations of the study are as follows. GeM is a government procurement platform and represents business-to-government e-commerce, so it does not cover consumer marketplaces and the sellers' own websites. Data for some years are not available in the sources used and are therefore left blank. The comparison of offline and online business is based on earlier studies from different countries and is qualitative; it indicates direction and not exact magnitude.

Data Analysis and Discussion

Table 1 compares the share of MSMEs in the gross value added of the country and in total exports in the years for which official figures are available. The base year for comparison is 2019-20, the last year before the pandemic.

Table 1: Comparison of MSME Share in Gross Value Added and in Exports (2019-20 to 2023-24)

Financial Year	MSME Share in GVA of India (%)	Difference from 2019-20 (percentage points)	MSME-related Products' Share in Total Exports (%)	Difference from 2019-20 (percentage points)
2019-20	30.5	-	49.77	-
2020-21	27.2	-3.3	49.35	-0.42
2021-22	29.1	-1.4	45.03	-4.74
2022-23	-	-	43.59	-6.18
2023-24	31.1	0.6	45.73	-4.04

Source: Ministry of MSME replies in Parliament and Annual Report 2023-24; differences calculated by the author. A dash means the figure is not given in the sources used.

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Table 1 shows two different trends. The contribution of MSMEs to gross value added fell sharply to 27.2 per cent in 2020-21, which was the pandemic year, but it recovered to 29.1 per cent in 2021-22 and reached 31.1 per cent in 2023-24, higher than the pre-pandemic level (Ministry of MSME, Rajya Sabha Reply 3; Ministry of MSME, Lok Sabha Reply 4). This recovery is consistent with the view that digital channels and online payment helped small firms to continue business when physical markets were closed. The share of MSME-related products in total exports, however, declined from 49.77 per cent in 2019-20 to 43.59 per cent in 2022-23, and the recovery to 45.73 per cent in 2023-24 is still about four percentage points below the earlier level (Ministry of MSME, Annual Report 22). The fall in export share indicates that many small firms are not yet able to compete in global markets, partly because of limited marketing capability, compliance burden and logistics cost. These are the very areas where cross-border e-commerce and export-oriented marketplaces can give support, as the studies of Gibbs et al. and Zhu et al. suggest (Gibbs et al. 12; Zhu et al. 1568). The data, however, do not show a direct causal effect of e-commerce on exports.

Growth of the Government e-Marketplace

The Government e-Marketplace is an online platform for public procurement of goods and services, and it is one of the largest examples of an e-commerce platform in India that is open to small sellers. Table 2 compares its performance in 2022-23 and 2023-24. In 2021-22 the platform had already crossed one lakh crore rupees of gross merchandise value, and the number of sellers had grown nearly three times in that year (PIB 2).

Table 2: Comparison of Growth of Government e-Marketplace (GeM), 2022-23 and 2023-

24

Indicator	2022-23	2023-24	Change (%)
Gross merchandise value (₹ lakh crore)	2.01	4	99
Number of orders (lakh)	50.36	62.26	23.6
Average order value (₹ lakh, derived)	3.99	6.42	60.9
Daily average GMV (₹ crore)	504	914*	81.3

Source: Ministry of Commerce and Industry data on GeM and PIB explainer; average order value and change calculated by the author. *Daily average for 2023-24 is up to 12 February 2024.*

The gross merchandise value of GeM doubled in a single year, while the number of orders rose by less than a quarter. This means that the average order became larger, from about ₹3.99 lakh to about ₹6.42 lakh, as the platform moved from small purchases of goods to bigger orders and to services (Ministry of Commerce and Industry 1). The important point for SMEs is the share of micro and small enterprises: they received about 49.37 per cent of the total order value in 2023-24, which was about ₹1.97 lakh crore (Ministry of Commerce and Industry 1). A digital platform with transparent bidding, standard payment terms and direct access to government buyers has therefore opened a large market for small firms that earlier depended on middlemen or on personal contacts. This supports the view that external facilitation and a trustworthy platform reduce the readiness gap

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of small enterprises (Molla and Licker 885; Iacovou et al. 470). A limitation is that GeM is a business-to-government platform and the data cannot represent online sales to consumers.

Table 3 compares conventional offline business and e-commerce on seven indicators that are related to the growth of a small firm. The ratings (Low, Medium, High) are comparative and are drawn from the direction of findings in the cited studies. They are not measured values.

Table 3: Comparison of Traditional Offline Business and E-Commerce on SME Growth Indicators

Indicator	Traditional Offline Business	E-Commerce (Own Website / Marketplace)	Supporting Author (Page)
Market reach	Low (local)	High (national and global)	Brynjolfsson et al. 1585; Ramanathan et al. 938
Product variety offered	Low (limited shelf space)	High	Brynjolfsson et al. 1585
Marketing and customer communication cost	High per customer	Low to Medium	Ainin et al. 580
Operating cost per transaction	Medium to High	Low (but commission payable to marketplace)	Ramanathan et al. 938
Access to institutional buyers	Low	High through procurement portals	PIB 2
Skill and technology requirement	Low	Medium to High	Molla and Licker 885; Tan et al. 232
Risk of platform dependence and cyber threat	Low	Medium to High	Kshetri 447

Source: Compiled by the author from the studies cited in the last column.

The comparison shows that e-commerce is superior to traditional business in market reach, variety, access to institutional buyers and cost per transaction, but it requires higher technological skills and exposes the firm to risks such as commission pressure, dependence on a few platforms and cyber threats. Ramanathan et al. found that the benefits to SMEs appear in both marketing and operations, while the gain depends on how well the firm integrates e-commerce with its internal processes (Ramanathan et al. 938). Zhu and Kraemer likewise noted that e-business value is greater for firms with stronger technology competence (Zhu and Kraemer 78). Therefore, small firms should treat e-commerce as a strategic capability and not only as a sales channel (Porter 64).

Major Findings

The study offers the following findings. First, MSMEs contribute roughly 30 per cent of the country's gross value added, and their share recovered to 31.1 per cent in 2023-24 after falling to 27.2 per cent in the pandemic year. Second, the share of MSME-related products in exports fell from 49.77

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per cent in 2019-20 to 45.73 per cent in 2023-24, which shows that small firms still need support to compete in wider markets. Third, the Government e-Marketplace doubled its gross merchandise value between 2022-23 and 2023-24, and micro and small enterprises received almost half of the total order value, so a trusted digital platform can create real demand for small sellers. Fourth, the comparison of offline and online business shows clear advantages of e-commerce in reach, variety and cost, together with higher requirements of skills and some risks. Fifth, earlier studies agree that adoption of e-commerce by SMEs depends on readiness, owner's attitude, competitive pressure and external support.

Suggestions

Government and industry bodies should continue to expand digital training programmes for small entrepreneurs, with emphasis on online marketing, digital catalogues, pricing, packaging and customer service. Marketplaces should keep their commission and payment terms transparent and should provide easy onboarding in regional languages. Banks and financial technology companies can use transaction data from online sales to provide working capital and invoice-based finance to SMEs, which will reduce the credit barrier. Logistics support, especially for small towns and rural areas, should be strengthened to reduce delivery cost and delay. SMEs should avoid dependence on a single platform and should combine marketplace sales with their own website and social media channels. Finally, further research should collect primary data from SME owners to measure the effect of e-commerce on sales, profit and employment.

Conclusion

Small and medium enterprises are important for employment, production and exports in India, but their growth has long been restricted by limited markets, weak marketing and difficult access to buyers and finance. The analysis in this paper shows that e-commerce can address these limits. The recovery of MSME value added after the pandemic, the rapid growth of the Government e-Marketplace and the large share of micro and small enterprises in its order value all point to the potential of digital markets. At the same time, the decline in the export share of MSME products and the conditions identified in earlier research show that benefits are not automatic. Technology skills, trust, logistics, finance and supportive policy are necessary for small firms to benefit fully. If these conditions are met, e-commerce can become a powerful and inclusive engine for the growth of small and medium enterprises and, through them, of the national economy.

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