

## Effects of E-Commerce on MSMES

*Jagkiran Kaur*

*Assistant Professor in Commerce, GHG Khalsa College Gurusar Sadhar*

*E-Mail: Renu21051986@gmail.com*

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### *Abstract*

*The technological innovation is a concept related with the technological change. It is a dynamic network of agents interacting in a specific area under a particular institutional infrastructure and involved in the generation, diffusion, and utilization of technology. It includes developments like entrepreneurial activities, knowledge management, market formation, resource mobilization etc. various developments under digital India, e-commerce, technology up gradation have an positive impact on consumers. Up to 100% FDI is permitted under the automatic route in data processing, software development and computer consultancy services, software supply services, business and management consultancy services, market research services, technical testing and analysis services.*

*Key words: technology, e-commerce, development, innovation, services*

### **Introduction**

Micro, Small and Medium enterprises (MSMEs) are one of the most vital sectors of any economy in general and India in particular in ensuring equitable, inclusive and employment friendly economic growth. MSMES have been playing a momentous role in overall economy.

Classification of MSMEs based on investment plans

Manufacturing Enterprises	Investment In Plant And Machinary
Micro	UptoRs 25 Lakhs
Small	More Than 25 Lakhs And Upto 5 Crores
Medium	More Than 5 Crores And Upto 10 Crores
Service Enterprises	
Enterprises	Investment In Equipments
Micro	Upto 10 Lakhs
Small	More Than 10 Lakhs And Upto 2 Crores
Medium	More Than 2 Crores And Upto 5 Crores

### **E - Commerce**

E-Commerce involves the transactions of buying & selling or exchange of products and services electronically. It is the use of web to transact the business. Electronic commerce

include online retail sales, supplier purchases, online bill etc. It is utilizing various technologies such as E-data interchange (EDI), EFTs, credit cards and e-mail.

#### *Models of e-commerce*

**1. B2B** -Business to business transactions are involved in this type of business model. There are some models of **B2B** prevailing in Society:-

**E-DISTRIBUTOR:** - These are suppliers of products and services to individual business.

Acc to MRO, the no. of distributors whose e-commerce revenue comprises between 5 and 10% of total revenue has increased by 50% over last year.

Examples: Wesco International, VWR International, Peterson Cos, WW Grainger, MSC Industrial Direct Co., Interline Brands, HD Supply, Takkt America, Newport Corp, Production Tool Supply.

**2. B2C Models:** - Involves transactions between Business Organizations.

B2C Models are:

1. Portal-E-news, e-mail, Instant Messaging, Calendars, Shopping, Music

Downloads, Video streaming, Study.com e.g. Banker'sadda, Yahoo.com, ADL.com, MSN.com, Exportal.com, Quiken.com.

2. E-tailer: - These are online retail stores that sell variety of products on their websites. examples: - Wall Mart, Barnes & Noble, JCPenny, e-bay.com, Yepme, Amazon.com.

Content provider: - News Paper, Music Publishers, Book Publishers.

**3. C2B (Consumer to business)**

Examples: -

Google ad words / Absence Tradedouble Commission Junction	Advertising services through search engines and websites
Micro stock - jotoliaShullerslock I Stock Photo	Stock Photos, Vectors, Flash Animations
H3 Jobbster Jobseekers, Sarkari Naukri.com	Job Hiring Services

#### **Digital India**

It includes high speed internet,digital and financial space ,Infrastructure as Utility to Every Citizen,cyber and security laws etc.it provides governance services like real time ,financial transactions,support system and development,streamlines various departments. It also have interest in digital empowerment of citizens by providing universal digital literacy,participative governance,transparency of government sites with e-governance.Digital India aims to provide the much needed thrust to the **nine pillars** of growth areas, namely

1. Broadband Highways,
2. Universal Access to Mobile Connectivity,
3. Public Internet Access Programme,

4. e-Governance: Reforming Government through Technology,
5. e-Kranti - Electronic Delivery of Services,
6. Information for All,
7. Electronics Manufacturing,
8. IT for Jobs
9. Early Harvest Programmes.

### Objectives and Methodology

The objectives are:

- To explore the extent of e-commerce implementation in MSMEs
- To know the growth of MSMEs sector
- To know the problems faced by the sector

### Methodology

It was decided to use a survey research method because the aim is to obtain wide coverage. After a thorough review of the literature, trends and analysis have been extracted to know about growth of MSMEs and their future problems. The literature study includes various reports on e-commerce and survey conducted recently have been considered to know the real picture behind problems

### Results and Discussions

Table no 1 : Growth of MSMEs sector

YEAR	TOTAL MSMES (in lakhs)	FIXED INVESTMENT(in crores)	PRODUCTIONS (in crores)
2004-05	105.21	154349	282270
2005-06	118.59	178699	314850
2007-08	272.79	558190	464547
2008-09	285.16	621753	529796
2009-10	298.08	693835	790759
2012-13	311.52	773487	982919
2014-15	410.50	874002	1095758
<b>CAGR</b>	<b>17%</b>	<b>25%</b>	<b>18%</b>

Source: Ministry of MSMEs annual report ,2015

Above table highlights the growth performance of MSMEs sector .it is clear that total number of MSMEs have increased at the CAGR of 17 %.the fixed investment in this sector have also raised in a considerable manner. The value of production of MSMEs has grown at the compound rate of 18 %during 10 years.

Table no 2: Contribution of MSMEs in GDP in India

Year	Total industrial production (in crores)	Gross domestic product(GDP) (%)
2004-05	39.12	5.77
2005-06	38.89	5.91
2007-08	38.74	5.79
2008-09	38.62	5.84
2009-10	38.56	5.83
2012-13	45.62	7.2
2014-15	45.24	8

Source: Ministry of MSMEs annual report ,2015

Above table represents the contribution of MSME in total industrial production and gross domestic product which has increased from 5.77 percent to 8 which justifies the need for continuous efforts to sustain the progress of MSMEs sector.

The tribune News as on 13<sup>th</sup> april,2017 on technology elusive at most MSME units,a study of MSMES conducted by the Chamber of Commercial and Industrial undertakings (CICU) has found that only 27% units have websites ,9% use advanced software for R&D and product development.The industry in the district lags behind in terms of adopting latest technology and marketing tools.There had a sample size of around 200 units into the MSME sector including firms in different spheres such as those manufacturing bicycle parts ,textile ,automotive components ,sewing machines and hand tools with technology elusive .the following findings are:

Table no.3

73 percent units	continue to operate using traditional printed directories such as Trade india,india mart
20 percent of the units	still don't have computers and continue to maintain records in books instead of using computers
46 percent units	continue to rely on traditional marketing methods instead of using computers or mobiles

Source: Tribune dated 13<sup>th</sup> April,2017

It is also cleared that MSME sector has also consistently attained a higher growth rate as compared to the overall industrial sector in each year. Another important point here is that the sharp decline in the growth rate of industrial sector in the year 2008-09, which may be due to the impact of global economic crises. The development of MSMEs has been viewed as a powerful instrument for accelerated industrial growth, productive employment opportunities and export earnings in any economy in general and India, in particular.

This sector is contributing to the manufacturing output, employment and exports in Indian economy since long time. This sector accounts for about 45 per cent of the manufacturing output and 40 per cent of the total exports of the country. The sector is estimated to employ about 60 million persons in over 26 million events throughout the country. MSMEs are

labour-oriented and labour intensive with relatively high labour-investment ratio. A given amount of capital invested in this sector of industries is likely to provide more employment, at least in short run, than the same amount invested in a large industry. It has been estimated that a lakh rupees of investment in fixed assets in the small scale sector generates employment for four persons. It will not be wrong to say that small scale sector in India creates largest employment opportunities for the Indian populace, next only to agriculture. Similarly, MSMEs play a major role in present export performance of India because about 45-50 per cent of the Indian exports are being contributed by this sector

### **Opportunities and Constraints:**

Globalization may be defined as the process of integrating various economies of the world without creating any hindrances in the free flow of goods and services, technology, capital and even labour or human capital. Therefore, it signifies internationalization plus liberalization,

Through which the world has become a small global village.

### **Opportunities:**

Exposure to foreign markets: Globalization has opened up the economy and integrated it with the world economy. The MSMEs enjoy the benefits of selling their products and services to the world market rather than being confined into domestic market. The free economy ushers in accessibility to bigger markets, greater linkages for SMEs with larger companies and marketing outfits, improved manufacturing techniques and processes.

Flow of foreign investment and technology: The MSMEs in India suffer from outdated technology and sub-optimal scale of operation. Many foreign companies have tied up with Indian MSMEs and helped them to use better technology, managerial skill etc. Thus, a proper collaboration between the small and large companies can help small firms to develop technology base through Research & Development activities, contribution from the technological institutes, universities, etc.

Emerging areas of business: MSMEs have been able to identify many uncommon but highly promising business areas like outsourcing, medical transcription, clinical research trials, sub-contracting, ancillarization and many new technologies like biotechnology, nanotechnology, etc. which are attractive for the new generation MSME entrepreneurs.

Less Govt. Intervention: As the economy is mainly market driven; there is less Govt. intervention, red tapes, less control on import and export etc. The MSMEs would be allowed to work in a free environment.

Employment generation: Being labour-intensive in nature, the MSMEs make significant contribution in employment generation and expanding industrial network in rural areas. This sector nurtures the traditional skills and knowledge based small and cottage industries. The workers inherit and transfer skills from generation to generation. The handicrafts and other products produced by this sector have good demand in market.

Better performance by the MSMEs: Before globalization, the MSME sector was a highly protected sector. Suddenly, after globalization they discovered that many of such protective

measures were withdrawn and they had to fight for their existence. This competitiveness in domestic and global market might bring out superior performance.

**Better Customer Satisfaction:** As the domestic market gets competitive, small and medium firms try to satisfy the consumers in every possible way. They try to produce products as per the needs and preferences of the consumers and satisfy the customers in the best possible way.

**Short and long term capital :** In a liberalized economy, banks would try to find out new avenues of giving credits to increase their profitability. Thus, supply of funds may be easier. Development in money market would initiate development in capital market.

**Export contribution :** The products produced by MSME sector (like sports goods, readymade garments, woolen garments and knitwear, plastic products, processed food and leather products, handicrafts, etc.) have an excellent foreign market.

#### **Constraints:**

**Financing MSMEs:** Financing has always been a major problem for the small and medium industries in India. The MSMEs mostly depend on internal sources of finance (personal savings, loan from relatives, and loan from local money lenders) than that of institutional financing by banks and other financial institutions. The Scheduled banks do not consider the MSMEs as preferred area of investment.

**Extreme competition:** The MSMEs face ruthless competition from the large domestic firms and multinationals armed with improved technology, managerial ability, skilled workers, marketing skills, better product quality, and wide range of products. The small firms find it difficult to maintain their existence as the cases of merger and acquisition are continuously increasing.

**Poor Technology Base:** There exists considerable heterogeneity among the MSMEs in India. A small percentage of firms operate with sophisticated technology base whereas majority of firms use outdated technology. The small and medium scale enterprises have suffered with many problems which are like difficulties in obtaining credit, identifying appropriate technology, investment promotion and instability to offer liberal credit terms in the sale of their products. Thus, MSMEs are facing multi-dimensional problems. However, this sector in India has been confronted with an increasingly competitive environment due to: (i) liberalization of the investment regime in the 1990s, favouring foreign direct investment at the international level, particularly in socialistic and developing countries; (ii) the formation of the World Trade Organization (WTO) in 1995, forcing its member-countries (including India) to drastically scale down quantitative and non-quantitative restrictions on imports, and (iii) domestic economic reforms

#### **Government Schemes for MSMEs:**

There are various schemes run by the Indian Government to boost the SME's in the country to help them become more innovative, efficient and competitive. The enactment of the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 was a landmark initiative taken by the Government of India to enable the SMEs' competitive strength, address the issues and challenges and reap the benefits of the global market. SME policy initiatives at the national and state level are aimed at strengthening the role of SMEs at the

base as well as at the higher level. The Ministry of Micro, Small and Medium Enterprises (MSME) is implementing the

promotional schemes for the development of micro, small and medium enterprises.

- Scheme of Surveys, Studies and Policy Research.
- Entrepreneurship Development Institution Scheme.
- Scheme of Fund for Regeneration of Traditional Industries (SFURTI).
- Rajiv Gandhi Udyami MitraYojana(RGUMY).
- Marketing Assistance Scheme (Implemented through NSIC).
- Performance and Credit Rating Scheme (Implemented through NSIC).
- Prime Minister's Employment Generation Programme (PMEGP) (Implemented through KVIC). Product Development, Design Intervention and Packaging (PRODIP) (Implemented through KVIC).
- Khadi Karigar Janashree BimaYojana for Khadi Artisans (Implemented through KVIC).
- Interest Subsidy Eligibility Certification (ISEC).

### **Conclusion and Suggestions:**

It is ironic that even though India is considered an IT superpower, MSMEs have been tardy in adopting technology and hardware for maximizing its business, manufacturing and marketing purpose. Various suggestions For MSMEs are :

1. Establishment of Software Technology Parks of India (STPIs).
2. Special Economy Zones (SEZ) Policy.
3. National e-Governance Plan (NeGP).
4. National Cyber Security Policy 2013.
5. The setting up of IT services, BPM, software product companies, shared service centres.
6. Fast-growing sectors within the BPM domain – knowledge services, data analytics, legal services, Business Process as a Service (BPaaS), cloud-based services.
7. IT Services and fast-growing sectors within it such as solutions and services around SMAC, IS outsourcing, IT consulting, software testing.
8. Engineering and R&D within which the fastest growing sectors are – telecom & semiconductors.
9. Department of Electronics & Information Technology, Ministry of Communications & Information Technology, Government of India
10. Indian Software Product Industry Round Table
11. Other Service Providers Association of India
12. Data Security Council of India

13. Electronic manufacturing
14. National manufacturing policy
15. e-kranti electronic delivery of services
16. technology for financial inclusion

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