



India Small and Medium Enterprises (SMEs) Study

COVID-19 prompts SMEs to embrace e-commerce during the Festive Season

December 2020

Introduction

Small and Medium Enterprises (SMEs) are a highly vibrant, fast-growing segment, and play a vital role in the growth of the Indian economy, contributing 45% towards industrial output, 30% towards the services sector, and 48% to national exports.¹ Considered as the backbone of the Indian economy, the SME sector currently contributes 30% to India's GDP², and employs close to 110 million people in the country, second only to agriculture.

With the COVID-19 pandemic and subsequent lockdowns to control the spread of the virus, and like many other businesses, SMEs across India have been heavily impacted. However, a new survey commissioned by FedEx Express in India shows that SMEs have been actively adopting new technology and finding new ways of working to combat the challenges they faced.

The survey sought to understand the impact of COVID-19 on SMEs, and to identify the trends in e-commerce and digital adoption since the start of COVID-19 pandemic.

The survey revealed insights on festive demand, the adoption of e-commerce, digital solutions, social media, and views on the future of their business operations.



Key findings shared by SMEs interviewed for the survey include:

- Shift in consumer preference towards e-commerce since the pandemic.
- Smaller businesses recorded a faster rise in digital payment transactions, and adoption of digital wallets than medium-sized businesses.
- Desire to increase investments in digital technologies such as cloud computing.
- Focused approach towards social media for business growth and customer engagement.

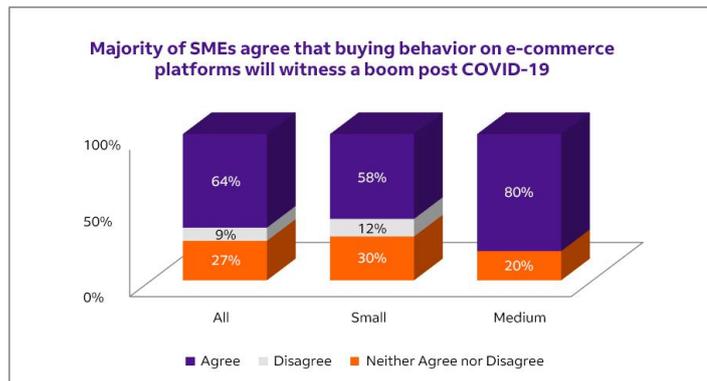
¹ <https://msme.gov.in/sites/default/files/MSMEINSIDER-JAN-2019-ENGLISH.pdf>

²<https://pib.gov.in/PressReleaselframePage.aspx?PRID=16526>

SMEs report growth in e-commerce sales since the pandemic started

The COVID-19 pandemic severely impacted businesses across the world, including small and medium sized enterprises. Although many businesses across India are now open, but as high numbers of infections continue to be reported, people remain hesitant about stepping out of their homes, unless it's for essential activities. With social distancing practices, and restrictions in movement, the pandemic forced an evolution in the shopping behavior of consumers who are now comfortable buying even their everyday essentials online.

According to a report by Unicommerce³, India's e-commerce industry witnessed a 31% growth in order volume between July and September 2020, as compared to the same period last year. This sentiment was echoed in the FedEx SME survey, with **30%** of small and **40%** of medium businesses stated that they have a witnessed significant improvement in e-commerce sales since the pandemic.



After months of lockdown to help control the spread of the virus, businesses have reopened, but there are continued restrictions on the number of people who can assemble or customers that can be in a store at one time. This further makes online shopping as a more convenient option for customers, and one where they can control their own environment.

The change in consumer attitude, and growing acceptance of e-commerce as a channel to purchase a large range of goods, led **80%** of medium and **58%** of small businesses to state that they believe buying behavior on e-commerce platforms will witness a boom following the pandemic.



As e-commerce purchases continue to grow, trading or selling online makes this a highly lucrative opportunity for SMEs in the near future. Anticipating this continuing move towards online behavior, **35%** of small and **54%** of medium businesses surveyed said that they were optimistic about e-commerce increasing their profitability following the COVID-19 pandemic.

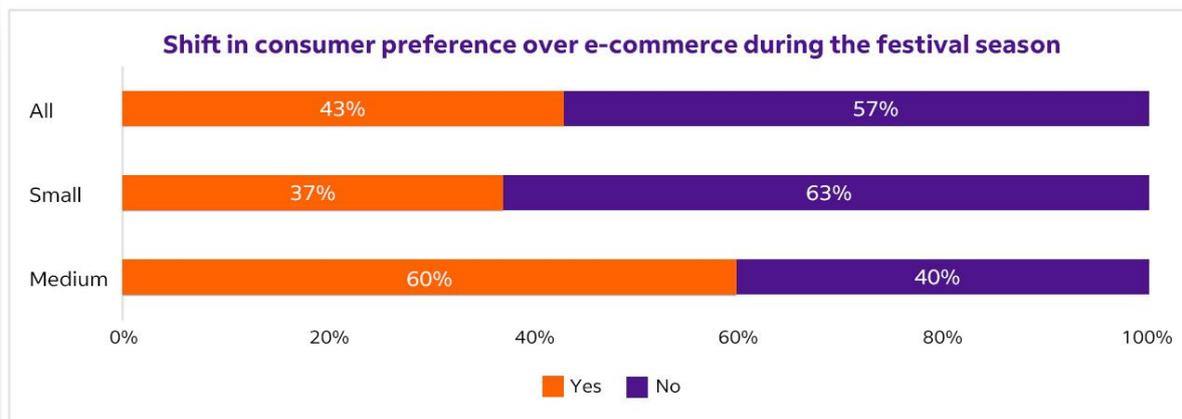
When asked about their preferred channels for online sales, B2B-focused SMEs, especially smaller businesses, had a clear preference for online government marketplaces, finding them more secure and trustworthy, and a better fit to their business. Based on their feedback, **23%** of small, and **13%** medium businesses sell their products on channels such as the Government e-Market Place. Comparatively, only **12%** of small businesses sell through mainstream online consumer portals.

³ https://www.business-standard.com/article/companies/e-commerce-industry-sees-order-volume-growth-of-31-during-july-sept-2020-120101401159_1.html

Growing preference for e-commerce among consumers during the festive season

With the India festive season running into the new calendar year, the high demand it brings will primarily be driven by e-commerce. Businesses recognize the opportunity ahead of them, with **60%** of medium-sized businesses surveyed optimistic of a shift in consumer preference towards e-commerce during this festive season.

With the current COVID landscape, many people will send gifts this year, rather than travel for or during the festivities. Family and friends are choosing to buy and ship gifts directly through e-commerce platforms, even within the country, if it means that they skip public, and sometimes crowded shopping areas. This sentiment is underscored in the survey, with **43%** of SMEs believing that there will be a shift in consumer preference towards e-commerce compared to brick and mortar during the ongoing festive season.

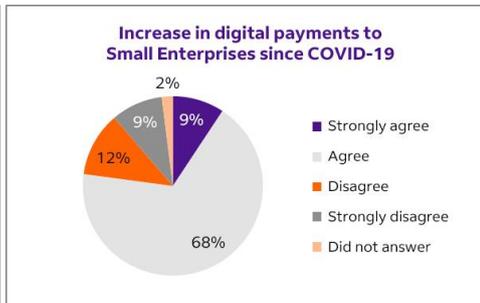
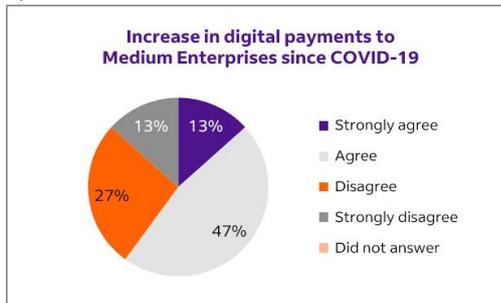


With e-commerce demand expected to be at an all-time high during the 2020 holiday season as COVID-19 sends more shoppers online, **34%** SMEs believe that festive demand will increase as compared to the pre-festive, pandemic driven phase. According to a report by RedSeer⁴, festive sales in India are expected to almost double in 2020, reaching \$7 billion in gross merchandise value compared to \$3.8 billion in the same period last year.

⁴ <https://redseer.com/newsletters/indias-ecommerces-festivaloffirsts-set-to-brighten-the-last-quarter-of-2020/>

Rising demand for e-commerce propels digital adoption among SMEs

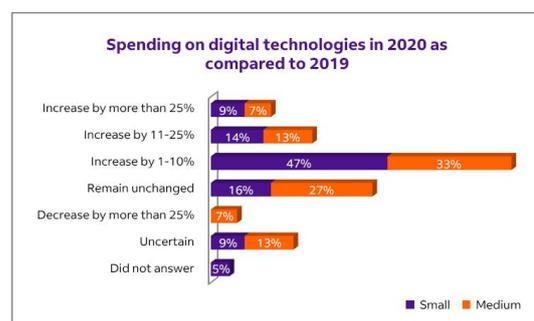
COVID-19 has been a catalyst for SMEs to prioritize their digitalization journey, and embrace digital payments, which has been one of the most preferred modes of payment since the pandemic, as it is contactless, convenient, and widely accepted among businesses. The survey respondents too are embracing this transformation with **76%** of small and **60%** of medium businesses stating that they witnessed an increase in digital payments made to them, since the pandemic.



At a time when social distancing, and travel restrictions in COVID-19 hotspots is

disrupting the work environment, SMEs are expecting digital transactions to be the prominent mode of payment in the coming years. As per the survey, **40%** of small and **34%** of the medium businesses believe that a large number of their customers would opt for digital payments in the future. Interestingly, digital wallets have been adopted by more small businesses than medium, with **28%** small businesses adopting this mode during the pandemic as opposed to **7%** medium businesses.

While technological advancements have been reshaping businesses over the last decade, COVID-19 has accelerated the need to harness digital technologies to sustain business growth. According to the survey, **84%** of surveyed SMEs said they had adopted internet banking during the pandemic. Additionally, **70%** of small and **53%** of medium businesses indicated that their spending on digital technologies will increase in the near future. Medium businesses surveyed were more likely than small businesses to adopt cloud computing and other collaboration tools over the next two years.

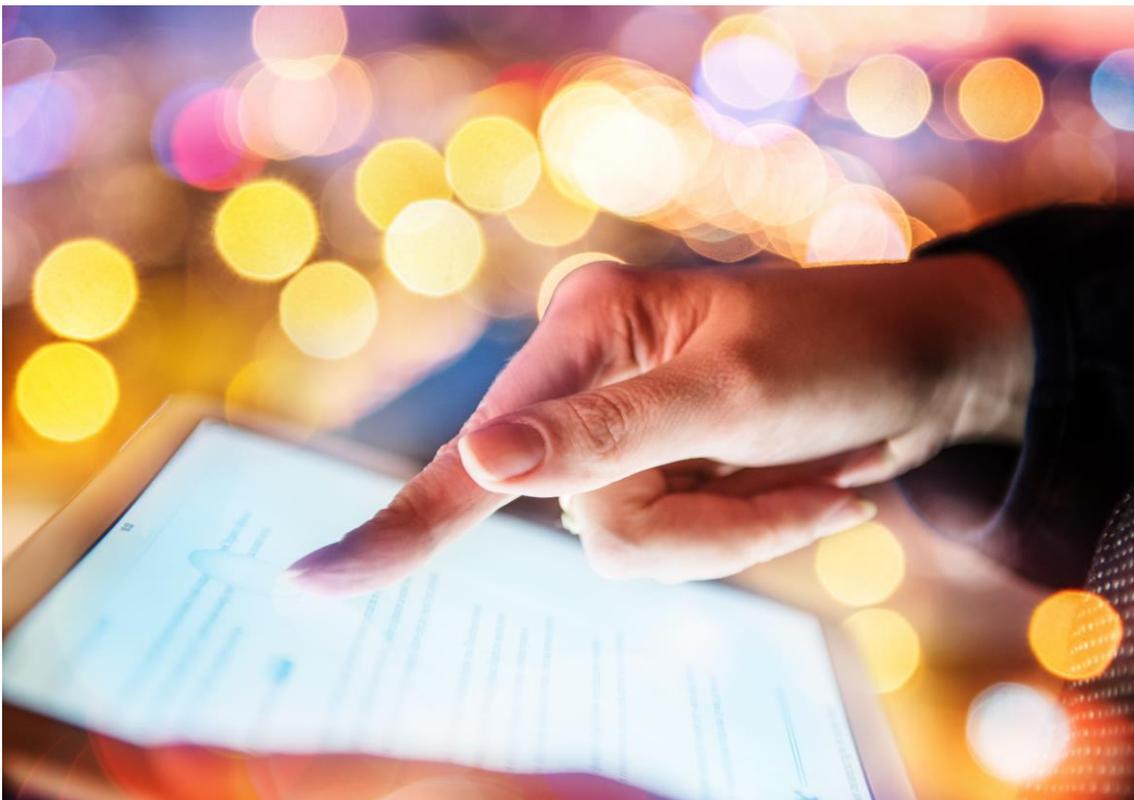


Social media consumption has grown since the pandemic with the average user spending over 4 hours per day since the lockdown, compared to the 1.5 hours spent on social media per day in February 2020⁵, making it a promising avenue for businesses to engage with their customers. Since the pandemic, **44%** of small businesses stated that they have been using social media platforms to engage with their customers.

As SMEs focus more on e-commerce, and have fewer physical contacts with customers, they would require the support of logistics carriers to prepare and deliver the best possible customer experience. According to the survey, **41%** of SMEs believe that their customers would pay more for a faster delivery service, which makes the choice of the right logistics service provider, with the ability to support festive business growth a priority for businesses today.

⁵ <https://vidooly.com/blog/wp-content/uploads/2020/04/Vidooly-Report-COVID-19-impact-on-video-consumption-trends.pdf>

Research Methodology



This survey was commissioned by FedEx Express (FedEx) in India, a subsidiary of FedEx Corp. (NYSE: FDX) and one of the world's largest express transportation company.

Dun & Bradstreet India carried out in-depth interviews with the senior executives of 120 small and medium businesses across 18 Indian cities, and analyzed the information, to identify the trends and challenges they saw in catering to both domestic and international markets during the COVID-19 pandemic, between September – November 2020.

Through the survey, responses were collected from 89 of small (74% of the total) and 31 of medium (26% of the total) businesses. Businesses with revenue up to INR 500 million were considered as small. The revenue for medium businesses were considered in the range of INR 501 million and INR 2,500 million. Around 9% of the small and medium businesses surveyed sold their products in the global marketplace only, 26% sold in the domestic market only, and 65% of SMEs sold their products both in the global and domestic marketplaces.

About FedEx Express

FedEx Express is one of the world's largest express transportation companies, providing fast and reliable delivery to more than 220 countries and territories. FedEx Express uses a global air-and-ground network to speed delivery of time-sensitive shipments, by a definite time and date with a money-back guarantee⁶.

^[6] Subject to relevant terms and condition



Corporate Overview

FedEx Corp. (NYSE: FDX) provides customers and businesses worldwide with a broad portfolio of transportation, e-commerce and business services. With annual revenue of \$75 billion, the company offers integrated business solutions through operating companies competing collectively, operating collaboratively and innovating digitally under the respected ISO 9001. Consistently ranked among the world's most admired and trusted employers, FedEx inspires its nearly 600,000 team members to remain focused on safety, the highest ethical and professional standards and the needs of their customers and communities. To learn more about how FedEx connects people and possibilities around the world, please visit about.fedex.com.