

Impact of digital platforms on microenterprises

India country findings



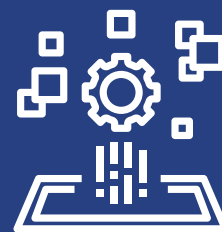
Table of contents



List of abbreviations	3
The impact of digital platforms on the livelihoods of microenterprises in India	4
Country context	5
Methodology	6
Factors that drive the ability to become platformed	10
On-platform experience	12
Platform impact on income and expenses	14
Platforms and usage of digital financial services	16
Recommendations	19



The impact of digital platforms on the livelihoods of microenterprises in India



The study sought to understand the status of microenterprises that participate in digital platforms, the impact of exclusion from these platforms, and the support the platforms need to fill this gap and help microenterprises make their business more resilient.

The broad scope of our study was:



Assess the business of microenterprises participating in digital platforms, and their requirements to navigate through difficulties in conducting business, including impact on revenues, costs, finance, business models, products, and customers.



Understand the impact on microenterprises excluded from digital platforms in conducting business, including the impact on business registration, finance, and consumers.



Understand how women and women-owned microenterprises are impacted by participating in digital platforms (or excluded from them), in conducting business optimally, challenges in soft skills, technical knowledge, business training, and access to finance.



Understand the challenges of microenterprises (with a dedicated focus on women-owned microenterprises) to access finance, possible workarounds to finance their business, and the potential impact of further/deepened access to finance.



Understand the government support that microenterprises have availed (and can avail) to build their business.



Understand the supply-side perspective that includes digitized retail and service platforms, digitized transport and logistics platforms, and financial institutions on the needs and requirements of microenterprises and gaps in serving them.

Country context



In this study, we defined a microenterprise as a small business with fewer than two employees that operates in retail trade and social selling. India currently has 9 million microentrepreneurs.

India's **63.3 million** micro, small, and medium enterprises (MSMEs) contribute to 33% of the country's GDP and 40% of exports and employ more than 110 million people. Despite their significance, they face many challenges, such as a lack of access to affordable credit and market linkages. MSMEs in India have been growing at a significant CAGR of 11.5% as of 2022. Yet, their overall credit gap is estimated at **USD 310 billion**, out of a total debt demand of USD 870 billion.

Here is a snapshot of the country:



Population:

India's total population was estimated to be around 1,417 million in 2023.



Per-capita GNI:

India's gross national income (GNI) per capita was USD 2,390 in 2022.



Proportion of the female population

India's female population is 48% of the total population as of 2023.



Mobile phone penetration:

The penetration rate of mobile phones in India was about 76.6% in the financial year 2022.



Smartphone penetration:

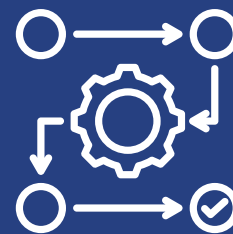
The smartphone penetration rate in India reached nearly 71% in 2023.



Udyam registration:

India has more than 40 million MSMEs registered on the Udyam or Udyam Assist platforms. Out of the total MSMEs registered on Udyam, 96.9% are microenterprises.

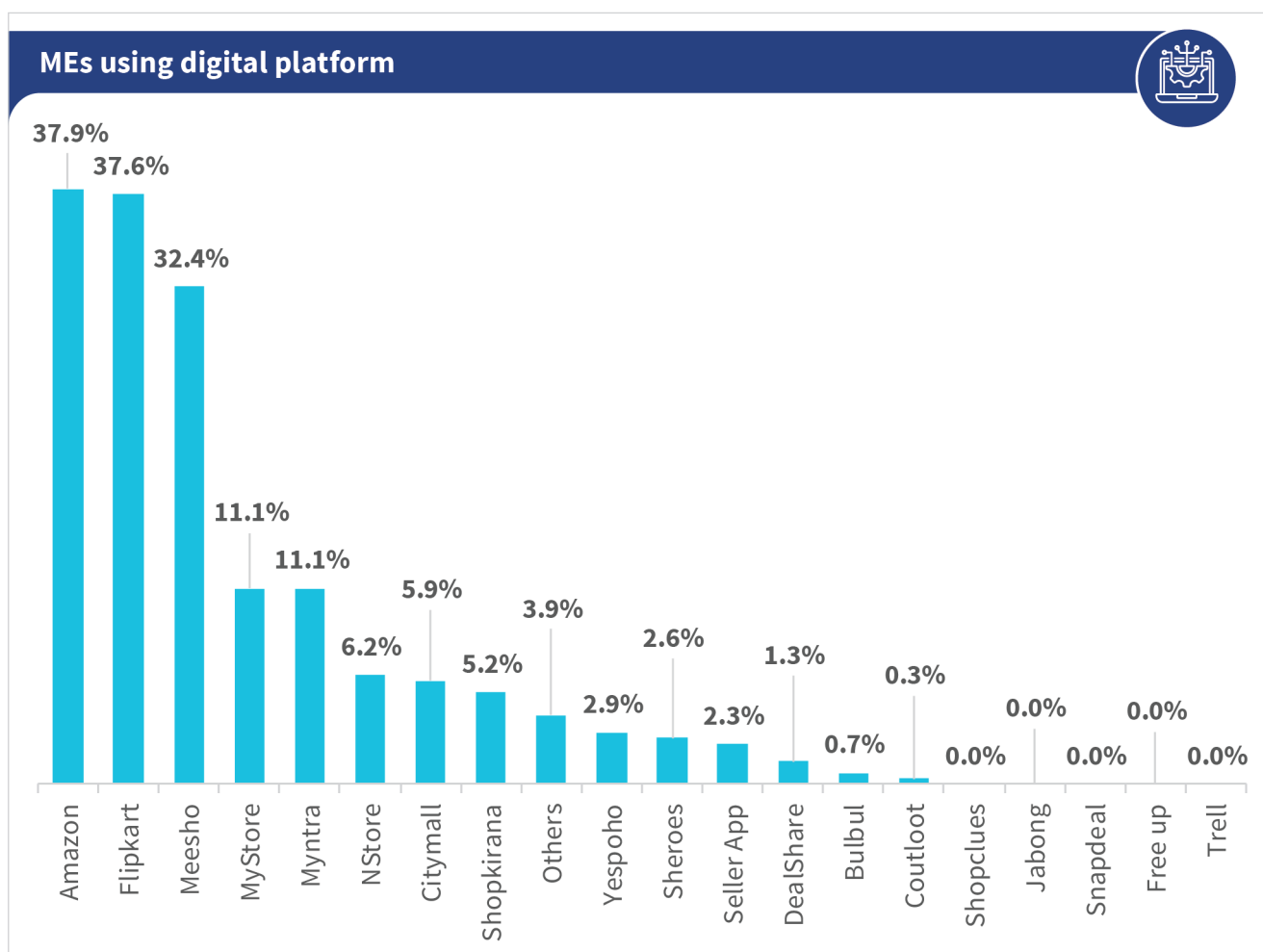
Methodology



Platform type or platform industry

The sample size for the research included 460 microenterprises, consisting of 306 platformed and 154 unplatformed businesses. The insights provided are based on this sample size.

The big players, such as Amazon, Flipkart, and Meesho, have high penetration among the microenterprises.



- Among the microentrepreneurs interviewed, 37.9% are registered on Amazon. The question allowed for multiple selections, and many microenterprises were registered on several platforms.
- The bigger and better-known platforms, such as Amazon and Flipkart, make up the highest share of platforms adopted by microenterprises. Social selling platforms, such as Meesho, are popular as well.
- 59.8% of the respondents were on only one platform, 18.6% were on two or three platforms, and only 0.03% were on more than three platforms.

Sample size

Gender-wise distribution:

Gender	Platformed	Unplatformed	Total
Male 	154 (50.3%)	79 (51.3%)	233
Female 	152 (49.7%)	75 (48.7%)	227
Total	306	154	460

Sector-wise distribution:

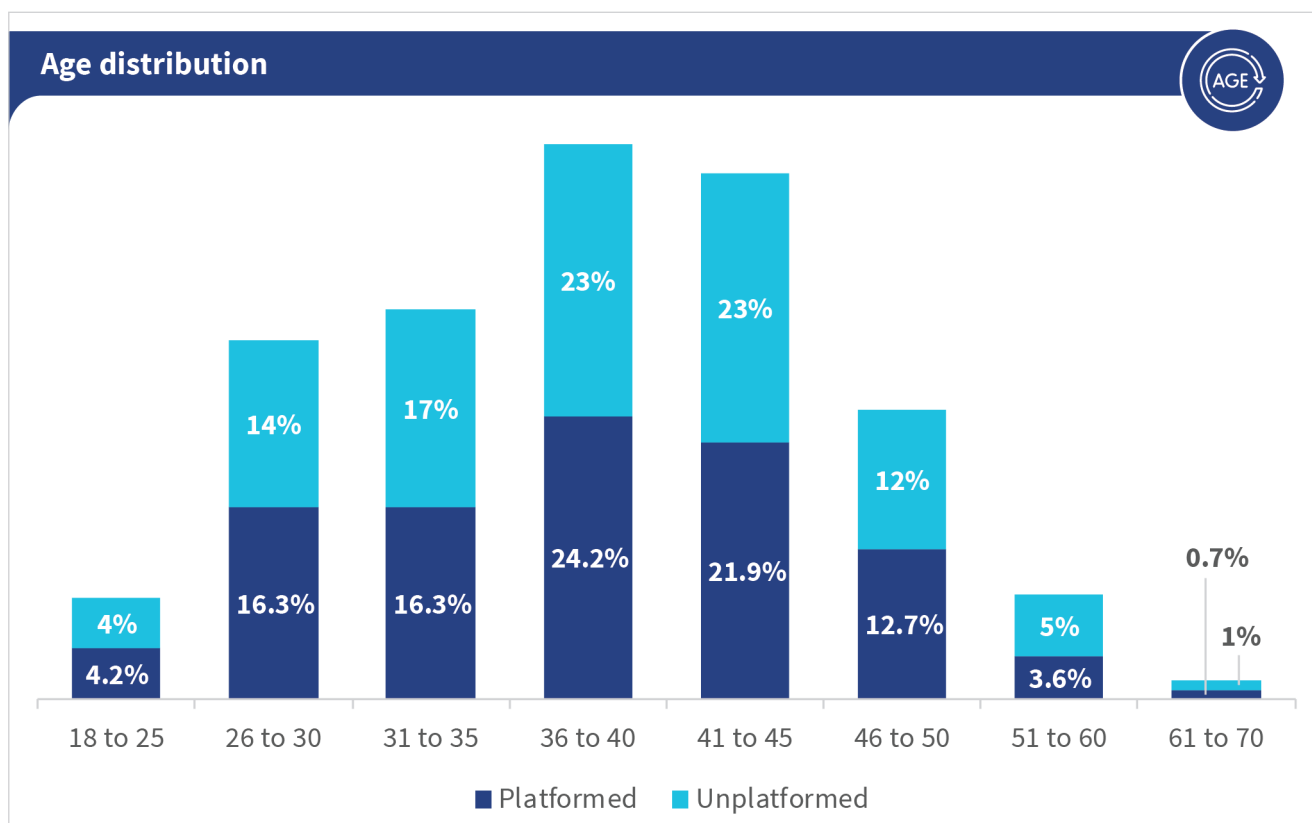
Sectors	Platformed	Unplatformed	Total
Retail trade 	225 (73.5%)	113 (73.4%)	338
Social selling 	81 (26.5%)	41 (26.6%)	122
Total	306	154	460

Location type:

Urban	Platformed	Unplatformed	Total
Male 	77 (50.7%)	37 (52.1%)	114
Female 	75 (49.3%)	34 (47.9%)	109
Total	152	71	223

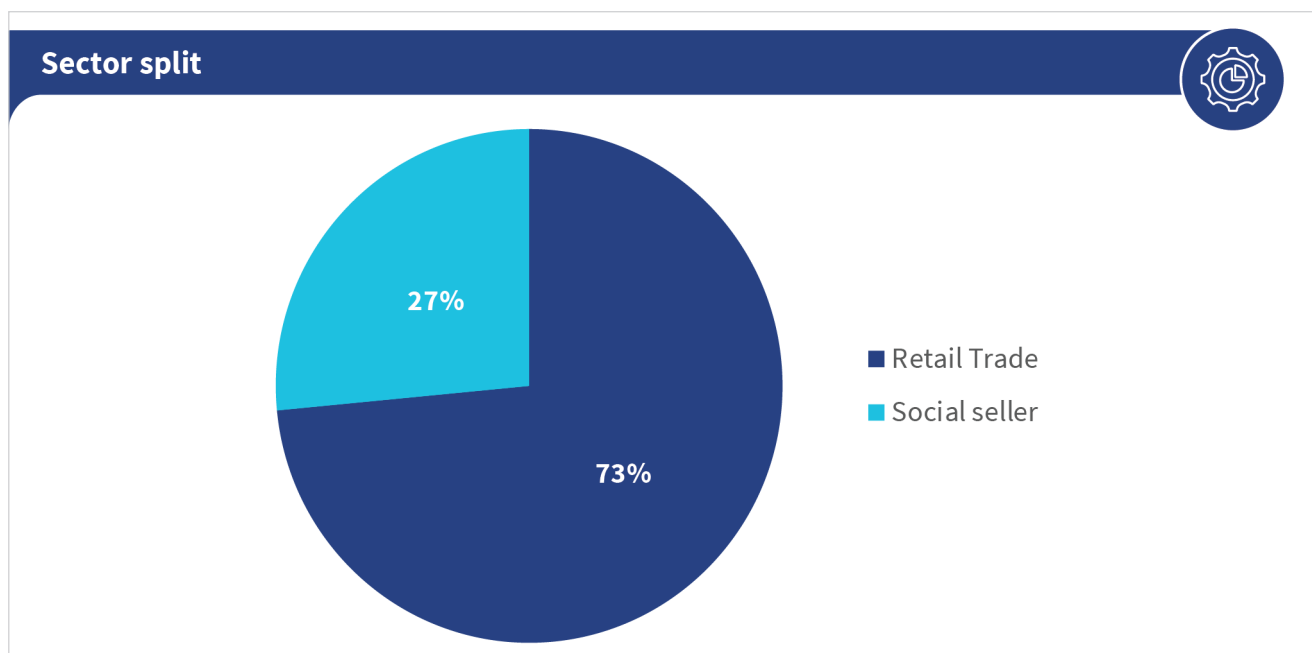
Rural and peri-urban	Platformed	Unplatformed	Total
Male 	77 (50%)	42 (51.2%)	119
Female 	77 (50%)	41 (49.8%)	118
Total	154	83	237

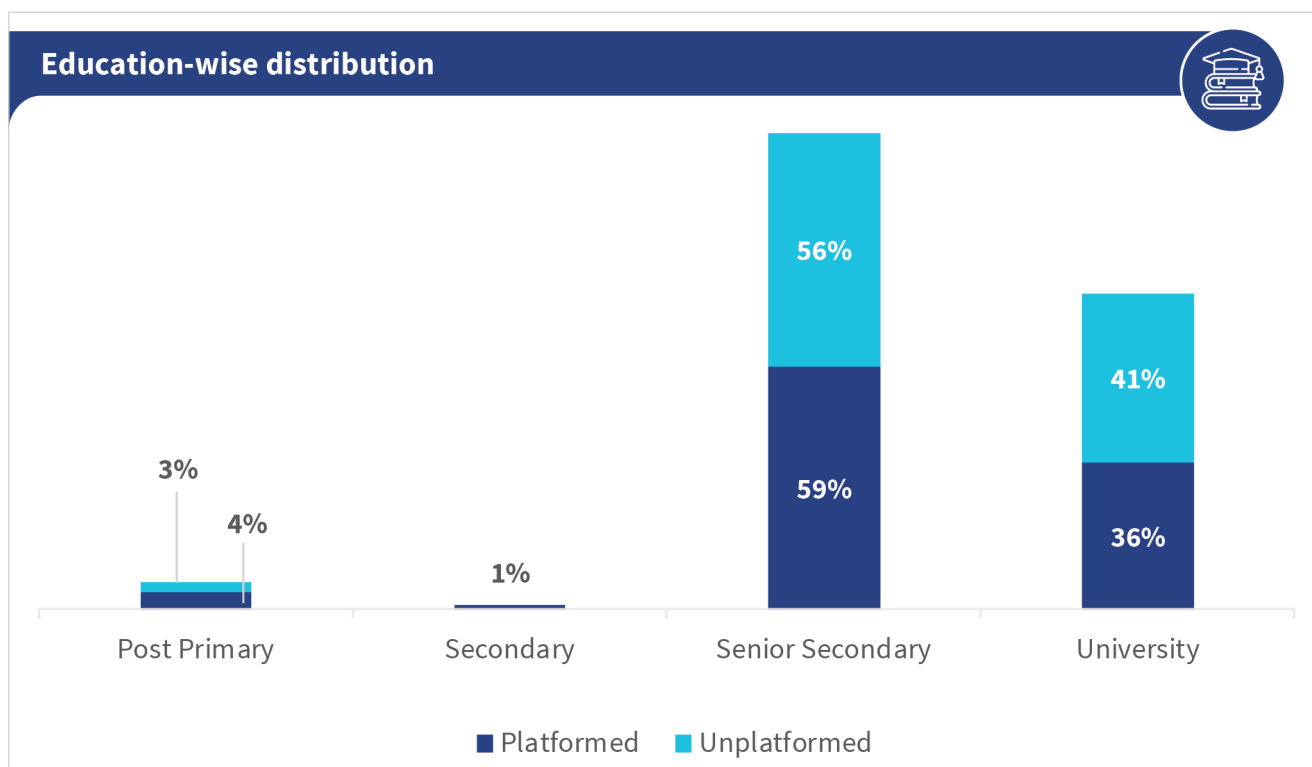
Age-wise distribution:



- ▶ A majority of the respondents (46%) belong to the 36-45 age bracket.
- ▶ Individuals under 40 ran 61% of the platformed microenterprises, while the figure was 58% for the unplatformed microenterprises. This implies that platformed microenterprises are generally younger than their unplatformed counterparts.

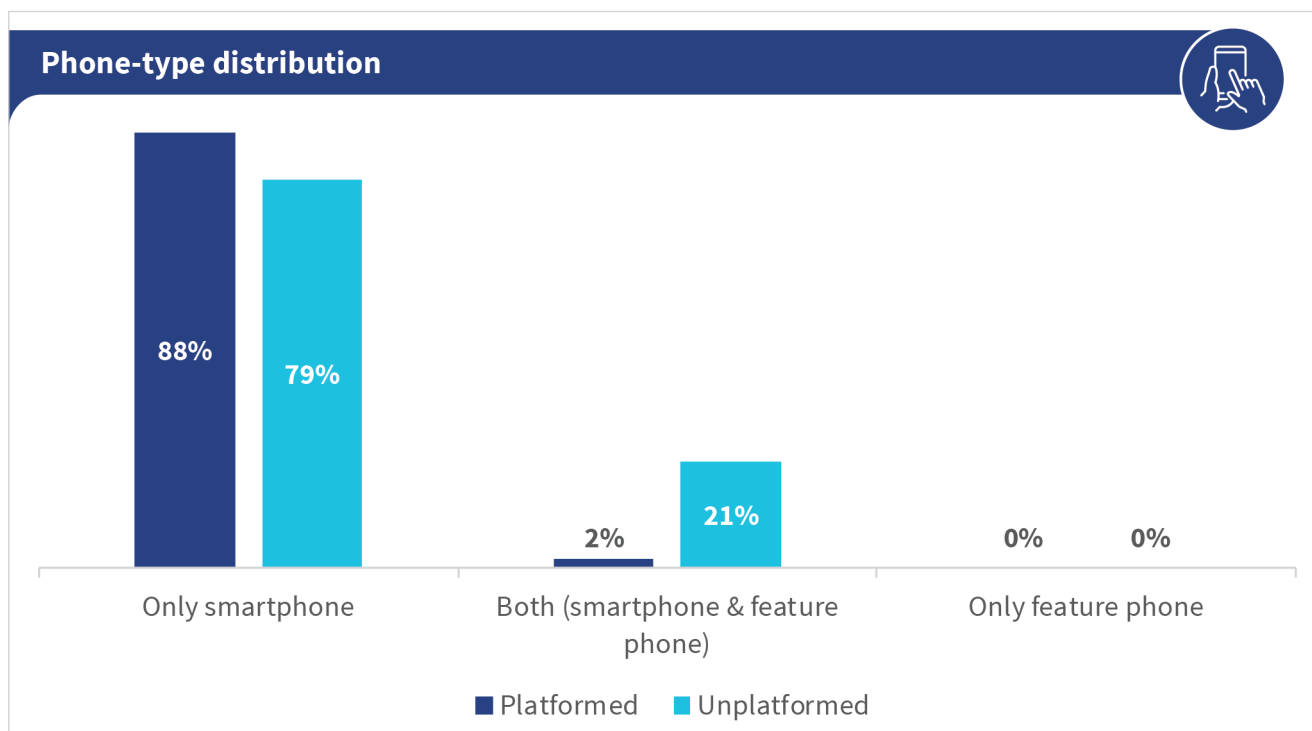
Sector-wise distribution among platformed microenterprises





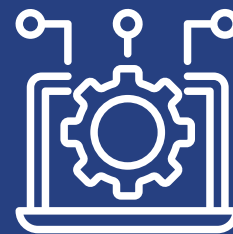
59% of platformed and 56% of unplatformed microenterprises have completed their Senior Secondary Certificate (SSC) examinations.

70% of women and 30% of men have passed SSC.



Crucially, mobile ownership is higher for unplatformed microenterprises (100%) than for platformed ones (90%).

Factors that drive the ability to become platformed



Several factors under three broad categories collectively influence a microenterprise's ability and likelihood to adopt and use digital platforms for its business operations. These factors are classified as:

Demographic



Age: Individuals under 40 ran 61% of the platformed microenterprises, compared to 58% of the unplatformed microenterprises. This implies that platformed microenterprises are generally younger than their unplatformed counterparts.



Gender: Men (84.8%) are generally more aware of digital platforms and likely to use them than women (62.7%), which indicates a gender gap in digital platform adoption and usage.



Education: 59% of platformed and 56% of unplatformed participants have passed SSC or HSC (Secondary School Certificate or Higher Secondary Certificate).



Location: Urban microenterprise owners are more likely to learn about platforms through social media (48.7%), while owners of rural or peri-urban microenterprises rely more on their research (55.2%).

Structural

01

Smartphone ownership: All platformed and unplatformed participants own either a smartphone or both a smartphone and a feature phone.



02

Internet access: 97% of platformed microenterprises are comfortable using the Internet for at least basic tasks.



03

Digital literacy: 31% of platformed microenterprises are very comfortable using the Internet, compared to 19.5% of unplatformed microenterprises.



04

Platform awareness: 80% of unplatformed microenterprises are aware of digital platforms dedicated to helping businesses find customers and sell to them. The main barriers are perceived high commissions, complexity, unfavorable policies, and concerns about customer reach, which indicates a need for simpler, more cost-effective digital solutions.



Behavioral

- 1. Research habits:** Microenterprises rely primarily on their own research to find out about digital platforms, with 49.3% of platformed microenterprises doing so, compared to 52.6% of unplatformed microenterprises.
- 2. Peer influence:** Friends and family are the second-most common source of platform awareness for 41.2% of platformed microenterprises and 49.1% of unplatformed microenterprises.
- 3. Social media usage:** Social media plays a significant role in platform awareness, especially for urban microenterprises (48.7%).
- 4. Willingness to learn:** A high percentage of microenterprises (MEs), both those currently using digital platforms and those considering joining them, expressed a strong need to learn about these platforms before engaging with them. Over 83% of MEs already on platforms indicated this need, highlighting its importance even for businesses with some platform experience. These enterprises, along with potential new platform users, also sought support with the onboarding process and understanding of commission structures. This suggests that comprehensive platform education and onboarding assistance are crucial for both new and existing platform users among MEs.
- 5. Confidence in usage:** Men (75.4% platformed; 65% unplatformed) are more confident in the use of digital platforms than women (65.8% platformed; 42.9% unplatformed). Urban microenterprises (76.3% platformed) show higher confidence than rural or peri-urban ones (64.9% platformed).



On-platform experience



Onboarding mechanisms

1. Self-registration:

- 55% of urban and 58% of rural microenterprises sign up independently on digital platforms.
- 58% of rural or peri-urban and 55% of urban microenterprises signed up without assistance.
- More men (66.2%) signed up independently than women (46.7%).

2. Peer support:

- Friends and peers play a crucial role in the sign-up process.
- 31% of rural or peri-urban microenterprises received support from friends or peers during sign-up. More female-led (26%) microenterprises took this support than male-led ones (23%).

3. Agent assistance:

- 5% of the male-led microenterprises and 14% of the female-led microenterprises rely on agent support for account creation or guidance.
- 18% of urban microenterprises had their accounts created by agents, compared to only 1% in rural areas.

4. Platform selection criteria:

- For retail sellers, access to cheaper stock (68.4%) and ease of price comparison (61.3%) are the top reasons for choosing a platform.
- Social sellers value ease of onboarding (60.5%), robust marketing tools (56.8%), and effective customer support (58%).



Drivers of churn



Commission structure: High commissions are a significant source of dissatisfaction, with 87.5% of microenterprises citing this as a concern.



Return policies: Unfavorable return policies are a major issue, particularly for female-led microenterprises (85% reported dissatisfaction).



Platform complexity: Some microenterprises find platforms too complicated to use effectively.



Technical issues: Recurring technical glitches can frustrate users and drive churn.



Inventory requirements: Mandatory inventory requirements can be a barrier for some microenterprises.



Payment policies: Stringent payment policies may cause reluctance to continue using the platform.



Lack of new customer acquisition: Some microenterprises report that platforms do not help them reach new customers as expected.

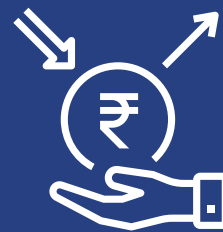


Understanding of terms and conditions: While most microenterprises report understanding terms and conditions, those who intend to reduce platform usage show lower comprehension levels.



Economic dependence: High economic dependence on a single platform can be a risk factor for churn if issues arise on that platform.

Platform impact on income and expenses



Impact by gender and location

1. Gender differences:

- Men, on average, have higher business expenses than women in both platformed and unplatformed categories.
- This suggests potential differences in the scale or nature of businesses operated by different genders.



2. Rural vs urban disparities:

- Platformed microenterprises in rural or peri-urban areas incur the highest monthly business expenses (INR 38,289), followed by urban platformed microenterprises (INR 27,713).
- Unplatformed microenterprises also show higher expenses in rural areas (INR 32,410) than in urban areas (INR 30,239).
- Both platformed (INR 70,281) and unplatformed (INR 64,398) microenterprises report higher income in rural or peri-urban areas than in urban areas.

3. Profit margins:

- Rural microenterprises reported higher profits than those in urban regions.
- Platformed and unplatformed microenterprises showed similar profit levels, with average margins of INR 30,069 and INR 30,899, respectively.

4. Income predictability:

- Urban business owners are more confident (63.2% very confident) about their income in the next 30 days compared to their rural or peri-urban counterparts (40.9% very confident).



Effect of usage frequency and platform tenure

1. Platform engagement and income confidence:

- ▶ 66.9% of microenterprise owners who increased their platform usage are very confident about their business income in the next 30 days.
- ▶ This suggests a positive correlation between increased platform usage and income confidence.

2. Income attribution to platforms:

- ▶ Frequent platform users attributed 49% of their business income to platform use, compared to 18% for infrequent users.
- ▶ This indicates that more active platform engagement may lead to higher income generation for the microenterprises.

3. Spending patterns:

- ▶ Frequent platform users attributed 38% of their business spending to on-platform purchases, which suggests a deeper integration of platforms into their business operations.

4. Platform tenure impact:

- ▶ 53.3% of microenterprises reported increased platform usage since they signed up, which indicates that longer tenure on platforms may lead to more extensive use and potentially more benefits.

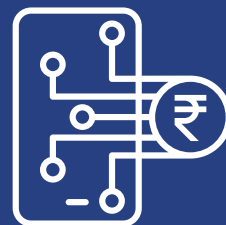
5. Future expectations:

- ▶ 57.5% of microenterprises expect to use platforms more in the future, which suggests perceived long-term value in platform engagement.

These highlight the significant impact of digital platforms on a microenterprise's income and expenses, with variations based on gender, location, and platform engagement. More active and long-term use of platforms generally correlates with higher income and greater business confidence, though the effects differ between rural and urban areas.



Platforms and usage of digital financial services



Digital payments

1. Adoption of digital wallets:

- Both platformed and unplatformed microenterprises use digital wallets widely.
- 54.2% of platformed microenterprises use digital wallets for business transactions.
- 83.8% of unplatformed microenterprises also use digital wallets, which indicates a high penetration of digital financial services.

2. Cash usage:

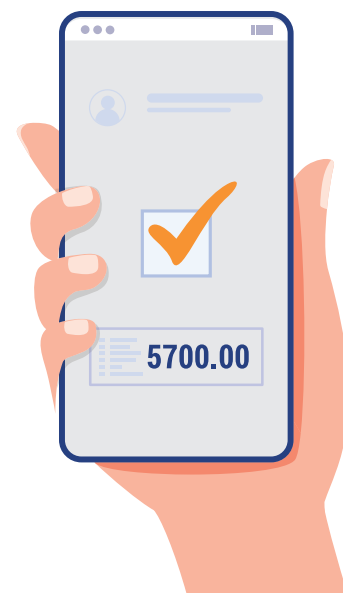
- Unplatformed microenterprises still rely more on cash (94.2%) for business transactions than platformed microenterprises.

3. UPI and bank transfers:

- 29.7% of platformed microenterprises use UPI for business payments.
- Bank transfers are less common, used by only 2% of platformed microenterprises.

4. Digital adaptation:

- While platformed microenterprises show a high level of digital engagement, their unplatformed counterparts are not far behind. Even unplatformed microenterprises show digital engagement, as they use digital wallets and check prices online.



Credit access

1. Borrowing patterns:

- 39.5% of platformed microenterprises have borrowed money, with a lower incidence in urban areas (20.4%) than rural ones (58.4%).
- 55.2% of unplatformed microenterprises have borrowed money, with 75.9% in rural areas versus 31% in urban areas.

2. Sources of credit:

- ▶ Platformed microenterprises have access to more diverse credit sources than unplatformed microenterprises.
- ▶ 65% of platformed microenterprises agree or strongly agree that they can access credit conveniently.
- ▶ 71.4% of unplatformed microenterprises feel they can access credit conveniently.

3. Purpose of borrowing:

- ▶ 56.2% of platformed microenterprises borrow for business purposes, compared to 36.5% of unplatformed microenterprises.
- ▶ This suggests an alignment of platform use with business investment and growth.

4. Gender disparity:

- ▶ A significant gender gap in credit usage exists in both platformed and unplatformed groups, with men being more active borrowers.

5. Credit satisfaction:

- ▶ Both platformed and unplatformed microenterprises report high satisfaction with their credit limits and terms.
- ▶ Platformed microenterprises show slightly higher satisfaction, which indicates better decision-making on credit and more favorable conditions for financial planning.

On-platform credit and churn

1. Buy now, pay later (BNPL):

- ▶ 79.3% of microenterprises that accessed credit on platforms used BNPL options.
- ▶ This suggests a preference for immediate access to goods with deferred payment options.

2. Advances based on earnings:

- ▶ 51.7% of microenterprises accessed advances based on their earnings history through platforms.
- ▶ This was more common among urban microenterprises (86.4%) than rural or peri-urban microenterprises (40%).

3. Impact on platform usage:

- ▶ Access to credit does not appear to be a primary driver for increased platform use.
- ▶ Only 7.4% of microenterprises cited credit availability from the platform as a reason for expecting to use the platform more often.

4. Credit and business resilience:

- ▶ Platformed microenterprises exhibit a greater tendency toward borrowing for business purposes to contribute potentially to improved business resilience.
- ▶ However, microenterprises rely more on informal lending and other formal channels than credit through digital platforms. They rely extensively on supplier credit.

5. Willingness to switch lenders:

- ▶ 69.9% of platformed microenterprises are willing to change their lender if they can get better loan terms, compared to 62.7% of unplatformed microenterprises.
- ▶ This flexibility could reduce churn as microenterprises can find better credit options without leaving the platform ecosystem.

6. Credit quality and income:

- ▶ Higher credit quality satisfaction does not necessarily correlate with higher income, especially for unplatformed users.
- ▶ Factors beyond credit access affect business success and platform engagement. These include the ability of microenterprises to reach customers, manage their inventory, and diversify their product and customer base.

In conclusion, credit access alone is not a primary factor in platform retention. However, it contributes to overall business resilience and growth, which may indirectly influence long-term platform engagement.



Recommendations



Improve access and usability

1. Enhance onboarding processes:

- Simplify registration and onboarding procedures, especially for less digitally literate microenterprises; provide step-by-step guides, video tutorials, and initial hand-holding support
- Develop user-friendly interfaces and multilingual support to cater to diverse linguistic backgrounds in India

2. Offer training and support:

- Implement comprehensive training programs that focus on digital literacy, platform navigation, and best practices for using digital tools for business growth



- Create mentorship and peer support networks to enable experienced platform users to assist new users, with a focus on supporting female and rural entrepreneurs

3. Provide localized support:

- Establish local support centers or partnerships with local organizations to provide in-person assistance for microenterprises that struggle with digital platforms
- Develop mobile app features that work offline or with low bandwidth to support users in areas with poor Internet connectivity

Address gender disparities

1. Targeted training for women:

- Design training programs specifically for female entrepreneurs to cover aspects, such as digital finance, e-commerce strategies, and the use of social media for business
- Promote success stories of female entrepreneurs who use digital platforms to inspire and motivate more women to adopt these technologies

2. Support networks and mentorship:

- ▶ Create women-centric support networks and mentorship programs by pairing novice female entrepreneurs with experienced counterparts
- ▶ Facilitate community-building activities and online forums where female entrepreneurs can share experiences, challenges, and solutions

3. Incentives and subsidies:

- ▶ Provide financial incentives or subsidies to female entrepreneurs to purchase smartphones or upgrade internet services
- ▶ Offer discounted or free access to digital platforms for a limited period to encourage initial adoption among women

Enhance financial services

1. Expand credit options:

- ▶ Develop diverse credit products tailored to the needs of microenterprises, such as micro-loans, working capital loans, and flexible repayment plans
- ▶ Partner with financial institutions to offer competitive interest rates and favorable terms for microenterprises that access credit through digital platforms



2. Improve awareness of credit and access to it:

- ▶ Conduct awareness campaigns on the availability and benefits of digital financial services, including credit options, for both platformed and unplatformed microenterprises
- ▶ Simplify the application process for credit and ensure transparent communication on terms and conditions

3. Strengthen BNPL and advance payment options:

- ▶ Enhance buy now, pay later (BNPL) options and advance payments based on earnings history to ensure microenterprises can understand and access them easily
- ▶ Provide clear information on the benefits and risks associated with these credit options to help microenterprises make informed decisions

Reduce churn and improve retention

1. Optimize commission structures:

- Reevaluate commission structures to ensure they are competitive and fair to reduce the financial burden on microenterprises and encourage sustained platform use
- Implement tiered commission rates that decrease as microenterprises achieve higher sales volumes to incentivize increased platform activity

2. Enhance platform features:

- Continuously improve platform features based on user feedback to address technical glitches, simplify navigation, and enhance customer support
- Introduce more robust marketing tools and promotional activities to help microenterprises attract and retain customers

3. Clear communication and transparency:

- Maintain clear and transparent communication about policies, including return policies, payment terms, and inventory requirements
- Regularly update microenterprises on changes to platform policies and provide easy access to support for any queries or issues

4. Promote economic independence:

- Encourage microenterprises to diversify their customer base across multiple platforms to reduce economic dependence on a single platform
- Provide training on multichannel marketing strategies and tools to help microenterprises manage and optimize their presence on various digital platforms

Promote policy interventions and collaborative efforts

1. Encourage government support and incentives:

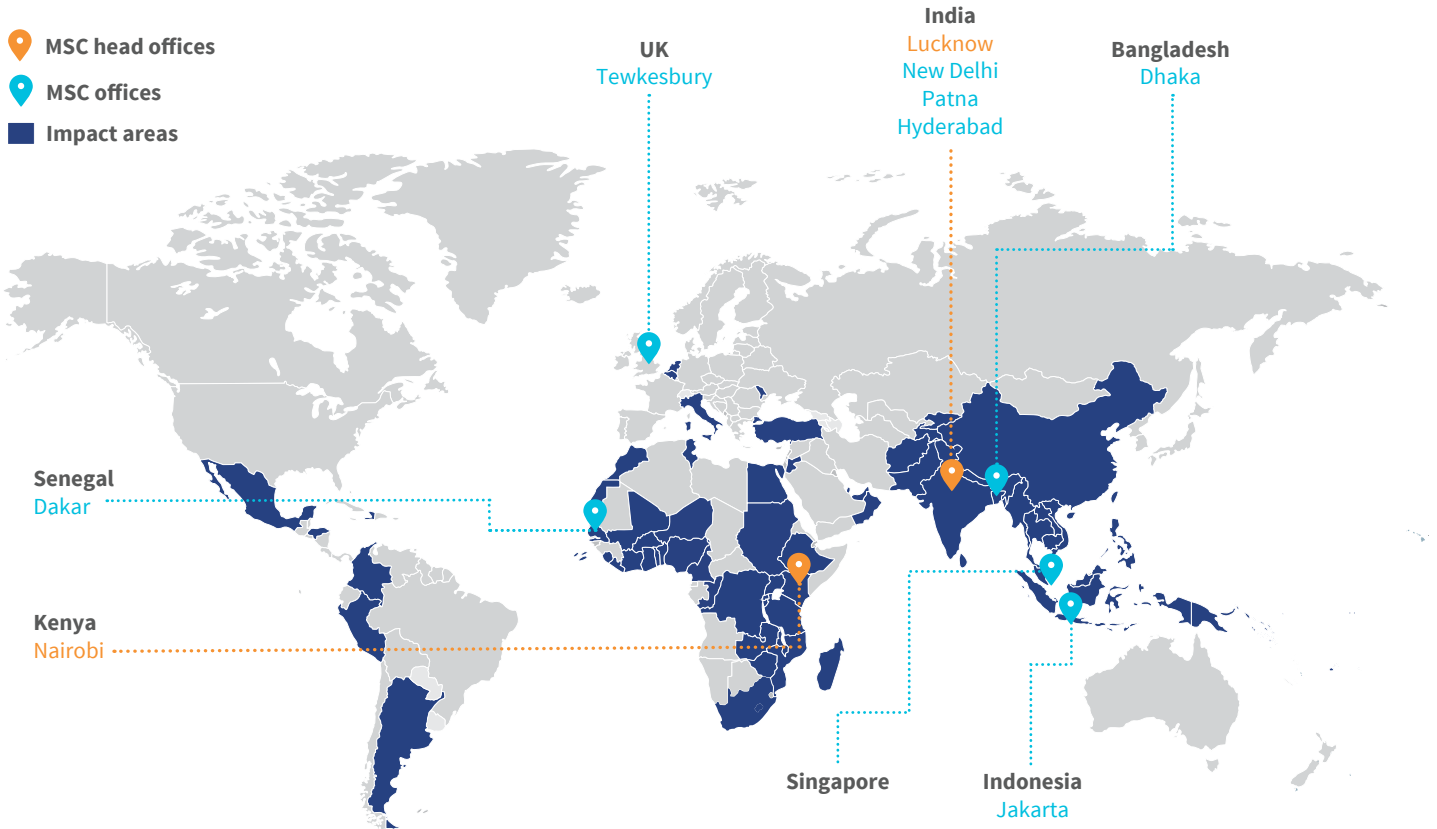
- Encourage public-private partnerships to create ecosystem-wide support for microenterprises, including training, financial services, and market access



📍 MSC head offices

📍 MSC offices

■ Impact areas



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