



# *The Role of E-Commerce to Reduce Costs- Impact on Small & Medium-Sized Companies in India.*

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## **ABSTRACT**

The main purpose of this research is to study the evaluation of electronic commerce (e-commerce) in reducing operational cost in an organization. There are many different types of e-commerce applications that may influence the organizational performances; in this research, they are categorized into five different categories: electronic advertising, electronic payment system, electronic marketing, electronic customer support service and electronic order and delivery.

E-Commerce provides new channels for the global marketing of tangible goods and presents opportunities to create new businesses providing information and other knowledge-based intangible products. According to literature review, most common types of organizational performance measures that are used in recent empirical researches are included: Financial or accounting performance, operational performance and market-based performance. For analyzing the data derived from questionnaire structural equation modeling (goodness of fit tests and path analysis). The survey method was considered to be the most suitable research method for this investigation. On the whole, this paper illuminates significant relationships between applications of electronic commerce and operational and market based performance.

Key words: ***E-commerce, MSME's, digitalization, B2B***

## INTRODUCTION

E-Commerce is the process of conducting business electronically among various entities in order to satisfy an organizational or individual objective. A key ingredient of E-Commerce, sometimes referred to as electronic trading, is the advertisement and procurement of goods and services over the Internet. The success and volume of E-Commerce on the web has been widely reported. With success in establishing an environment in which E-Commerce can grow and flourish, every computer can become a window open to every business, large and small, around the globe.

The Micro Small and Medium Enterprises (MSMEs) sector is a key contributor to the socioeconomic development of the country. India comprises ~6.3 crore MSMEs and the number of registered MSMEs increased 18.5% to reach 25.13 lakh (2.5 million) units in 2020 from 21.21 lakh (2.1 million) units in 2019. The MSMEs sector contributes ~29% towards the Indian GDP through its domestic and international trade. The Indian government envisions to double the country's economy to US\$ 5 trillion in five years and to achieve this goal, it aims to enhance MSME's share in exports and its contribution to the GDP. In addition, in FY22, the government increased (by 2x) MSMEs budget to Rs. 15,700 crore (US\$ 2.14 billion) vis-à-vis Rs. 7,572 crore (US\$ 1.03 billion) in FY21.

The electronic medium we call the Internet has the potential to reduce actual transaction time, processing time and operational cost dramatically, while at the same time making information available globally. Internet-based E-Commerce has been embraced as a means of reducing operational cost and as a high potential means of generating revenue. The ubiquity of the web and the availability of browsers across different platforms provide a common base upon which E-Commerce applications can be built, especially in the

enterprise. This common platform has reduced the significance of issues pertaining to software distribution and software installation, thus encouraging the expansion of E-Commerce via Intranets, Extranets and the Internet. E-Commerce contributes to economic efficiency in five important ways. However, this study is focused on the role of E-Commerce in reducing operational cost in an organization. On the flipside, transactions arriving in high quantity can overwhelm the personnel and distributors. In an E-Commerce business, the operational cost is the same across the board, whether one order or thousands come in.

### **Research Objective:**

The main objective of the research is to investigate into the role of e-commerce in reducing operational cost in an organization and the specific objectives are:

1. To examine the role of E-commerce in reducing operational cost in an organization.
2. To identify other benefits accruable from E-commerce
3. To identify the limitations of E-commerce

### **Significance of the study**

- The outcome of this study will educate business managers and the general public on the role of E-commerce in reducing the operational cost of business organizations.
- This research will be a contribution to the body of literature in the area of the effect of personality trait on student's academic performance, thereby constituting the empirical literature for future research in the subject area.

### **Role of SMEs in growth of Indian Economy**

SMEs contribute immensely to the economy of the country. They can be termed as the backbone of the economy. Their contribution to the service sector is also significant. The number of SMEs in India right now comprises of around 6,000 micro-clusters and 1,157 industrial clusters. Their contribution towards the GDP stands at 17 % and their contribution towards Industrial output and Exports stands at 45% and 40% respectively. Considering these stats, the importance of SMEs in the growth of the economy cannot be denied in any manner. There are close to 48 million SMEs in India if the total of two above-mentioned clusters is considered and these SMEs around 40% of the country's workforce.

This growth can be further stimulated by exploiting the growing internet penetration in India. The SME sector has also started embracing the technology available to them and is now eager to tap into their potential as internet sellers where they can reach more of shoppers and consumers across the country.

## **Potential Benefits to SMEs**

### **1. Increase in revenues**

E-commerce helps SMEs carry on their business activities transcending geographical barriers, thereby increasing the customer base, sales, and revenue. It has been perceived that due to the increased speed to market and a global customer base, an SME can boost its revenues by 51 %. Another benefit of e-commerce is that there is a prompt feedback channel through which any complaint or mistake can be made good immediately. The referral system on the internet also helps the business to tap into more potential customers.

### **2. Low Marketing and Distribution Cost**

There is a very sharp rise in competition these days. Businesses try to draw in as many customers as possible to beat their rivals. To do this, they spend heavily on traditional and digital media. By adopting e-commerce methods, the SMEs can reduce their marketing costs drastically by cutting down on expenses of trade shows, enormous offline advertisements and call centers, thereby optimizing their spending. These savings can reduce their expenditures up to 60-80 %. Moreover, adoption of e-commerce methods reduces the traditional marketing cost and the cost of opening a store in multiple places also.

### **3. Increase in Profit Margin**

SMEs can take advantage of a third-party trading platform with a very little or no investment by implementing e-commerce methods. They can host and develop their online storefront and also manage logistics, packaging and, warehousing. The reduction in overhead costs of these activities can potentially increase the profits of SMEs by 49%. When costs are reduced, the same resources can be used to develop a better and more competitive pricing strategy which will have a constructive impact on the profit margins. Adoption of e-commerce also cuts out the middle-man between the SMEs and the consumers, thereby cutting down cost further and increasing profits.

### **4. Better Accessibility and Geographical Reach**

The internet is not restricted by any geographical limitations. The seller can connect to several buyers across different geographical areas. In the virtual marketplace, geographical boundaries disappear and business can go on 24×7 without any time zone restrictions.

### **5. Faster Approach to Market**

A key factor in increasing business is to come up with the product in the market before your competitor does. Time is the essence where the window of demand for any specific product is very short. E-commerce provides the ability to SMEs to approach the market faster by avoiding possible chaos in the supply chain. The redundant processes can be eliminated, and the process of communication can be streamlined to reach the customer as quickly as possible.

## 6. Better Experience for the Customers

In today's competitive business world, the principle "the customer is the king", holds the center stage. E-commerce helps the SMEs to provide a better experience to the customers. Optimized after-sale services, quick responses to the inquiries of the consumer, and an interactive and informative process of transactions creates a strong and loyal customer base which help the SMEs in the long run as these loyal customers themselves act as strong brand advocates.

### Key Recent Developments Supporting MSMEs

- ❖ In April 2021, Amazon announced the 'Spotlight North East' programme (US\$ 25 million) to bring together and provide online support to 50,000 artisans, weavers and small businesses from all eight states in the Northeast by 2025; and boost exports of key commodities such as tea, spices and honey.
- ❖ In April 2021, ICICI Bank launched 'Merchant Stack', a comprehensive digital banking services that is specially curated for retail merchants. These value-added services enable users—such as merchants, grocers, supermarkets, large retail store chains, online businesses and large e-commerce firms—to meet their banking requirements and further serve their customers amid the pandemic. In addition, users can avail these contactless services on InstaBIZ, the bank's mobile banking application.
- ❖ In April 2021, Vedanta Limited, a leading producer of metals and oil & gas, launched the '*Vedanta Saathi*' programme, which offers services including channel financing in partnership with a host of banks, NBFCs and fintech firms; soon to be launched e-commerce solutions (such as transparent pricing and live pricing options, direct buy access to a diverse product portfolio with no bar on quantity and easy delivery tracking & micro-logistics); avenues for technical upskilling; opportunities for MSMEs to set up downstream/ancillary manufacturing units near Vedanta's plants; and a dedicated web portal for MSMEs to interact with Vedanta's quality, product application, engineering and innovation teams.
- ❖ In February 2021, Walmart's *Vridhhi* programme was extended to Uttar Pradesh, with launch of an e-institute to facilitate small businesses in granting access to skills and competencies across online and offline platforms such as Flipkart's marketplace and Walmart's global supply chain, resp. This new e-institute will benefit 50,000 MSMEs across the country to expand domestically and globally.
- ❖ In February 2021, Mastercard and Razorpay joined forces to help small Indian businesses and entrepreneurs embrace digital payments. This partnership will integrate Razorpay's payment processing capabilities with Mastercard's digital banking platforms and card services.
- ❖ In February 2021, Bank of Maharashtra collaborated with *Vayana* Network, a supply chain financing (SCF) platform, to provide financial assistance to MSMEs. Through this partnership, the bank will provide short-term credit to address the budget needs of legitimate corporate dealers/vendors through its *Mahabank* Channel Financing and *Vayana* Network scheme.

## Growth of E-Commerce in India

In the year 2014, the number of internet users in India stood at around 280 million and it was speculated that the number would rise to almost around 640 million by the year 2019. An increase of almost 70 million Internet users in a year is a big thing. The rise of mobile internet users is also expected to touch some astonishing numbers at 457 million by the year 2019. Compare this with the projected growth of e-commerce in India by the year 2022, it is expected to touch USD 90 billion. We are turning into an internet loving nation!

### Key initiatives by e-commerce companies to boost MSMEs sales

- ❖ **‘SAMARTH’ by Flipkart:** In July 2019, Flipkart, a local platform, developed/introduced *Samarth* programme to promote Indian artisans, weavers and state handloom industries. Through this initiative, the company aims to provide MSMEs an easy access to the online business marketplace and support in terms of business management, storage and account management. With Samarth, Flipkart intends to empower millions of small businessmen, leading to rural India's development.
- ❖ **‘MSME Accelerate’ by Amazon:** The company launched this initiative in June 2020 to help MSMEs recover from the aftermath of the pandemic. Through this programme, businesses can avail offers and bulk discounts to continue/run their businesses smoothly.
- ❖ **Collateral-free loans by Paytm:** The company launched an initiative to offer unsecured loans of up to 5 lakh (US\$ 6,729), at low interest rates, to MSMEs. Under this initiative, Paytm, in partnership with banks and NBFCs, digitised the entire loan process, from application to disbursement, without additional document requirements.
- ❖ **‘Atmanirbhar Section’ by Shopclues:** As part of this initiative, Shopclues launched an online ‘Vocal for Local’ market platform, which includes locally produced products in various categories such as fashion, footwear, jewellery, groceries and others. The company works with thousands of local merchants and promotes local products on the marketplace.

### Why the usefulness and significance of e-commerce shouldn't be ignored?



1. Not having a virtual presence, or for that matter even having a poorly and haphazardly designed website can hamper the growth of the business. Especially in business sectors that are more customer-centric like export, tourism, and retail, not

having an online platform to showcase and exhibit your products can be disadvantageous for the business.

2. When the world is turning more and more towards technology, ignoring it can be harmful. Opting for ways which are not fit according to the ways of the ever changing society can cripple the business and without the competitive edge, survival may become difficult.
3. Presently, many SMEs lack an organized central database to keep track of customers and database. This causes some difficulties in carrying out marketing and communication activities efficiently. E-commerce presents the solution for this problem.

With the emergence of a global economy, e-commerce is becoming a strong catalyst to expand business activities and build an active customer base. It is not very surprising to see the revolutionary way in which e-commerce has helped the business industry. The integration of information and communication has totally changed the relationship between the organizations, the consumers and those who act as mediators between the organizations and the consumers. The use of information technology has not only enabled greater consumer participation but has also helped in mass communication along with reduced costs.

But before going into the details of the impact that e-commerce has on SMEs, let us analyze the opportunities, challenges, barriers and drivers of e-business.

<b>Opportunities</b>	<b>Challenges</b>
Saving of Costs	Lack of awareness among SMEs
Better information about the needs of the customers and the market overall	Economic return of e-commerce
Multiple Channel approach and increased turnovers due to online buying and selling	High concentration of retailers leading to very high levels of competition

<b>Enablers</b>	<b>Barriers</b>
Changing lifestyle of people with more inclination towards technology.	Security and trust issues.
New and unique private labels for the business.	Lack of interest among many retailers to carry on their business on an online platform.
Improving technology which increases the efficiency of the supply chain.	Lack of information technology skills among retailers.

### **Statement of the problem**

Electronic commerce is a popular topic in business management, mass media and in informatics circles as well. Perhaps its impact is most visible in the areas of financial services and retailing. Many E-Commerce initiatives have risen in a short period of time. Those initiatives include innovative smart cards to facilitate E-Commerce, remote payments and electronic checking, online trading of stocks, bonds and related financial instruments, online banking, and online retailing. However, its effect on the reduction of operational cost of organization has been examined in a number of ways comparatively to brick and mortar organizations for instance the money received for every transaction will pay for the item; it will also contribute to the salesperson salary, credit card fees, lease on storefront, electricity, telephone, heating/cooling, taxes, displays, repairs and maintenance to the building. However, the money received for an E-Commerce transaction pays for the item, web hosting, shopping cart software, distribution and little else. The cost overall of maintaining a virtual store is far less than that of a brick and mortar store.

### **Conclusion**

India's e-commerce sector is projected to reach \$90 billion by 2022 and \$300 billion by 2030. For MSMEs, e-commerce is rightly synonymous with economic stability, growth and security; and is a channel that allows even the smallest MSMEs to showcase their products in any part of the world without having to shell out on expansion or changing locations. These platforms have empowered small businesses by removing barriers, providing a large customer base and consequently, ensuring increased revenues. For growth and development of MSMEs, e-commerce marketplaces are perhaps the best catalysts for directing their transformation at minimal costs, investment and innovation. A collaborative effort between the government, the private sector, industry groups, training organisations and SMEs is the most efficient way to support MSMEs.

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