B2B Digital Services Landscape in India
Impact on MSMEs
January 2019
### Executive Summary

1. MSME’s in India account for ~38% of GDP in 2018 to the tune of USD 1.1 Tn

2. B2B digital services in India are a ~ USD 5.6 Bn industry consisting of Digital Marketplaces & Listing platforms, On Cloud Enterprise Application (SaaS) and Digital Ancillary services

3. B2B digital services are growing at a strong pace of ~39% CAGR driven by rise of 7000 + digital start-ups in India

4. The digital start ups offer MSME focussed services such as software ‘modules’, one stop solutions, vertical enterprise application, ‘pay as you use’ facility and lifetime licenses

5. The MSME penetration of digital services is in the range of 6% to 10% and assessed direct revenue impact of digital services on MSMEs is to the tune of USD ~18 Bn in 2018 growing at ~30% CAGR

6. Manufacturing setups; specifically auto ancillary, Textile, pharma and chemical, food manufacturing and jewellery; have been the earlier adopter of digital services among MSME’s

7. Although service sector in MSME has seen high digital engagement and has moved quickly towards spending on digital advertising and setting up own website

8. Challenges lie in creating low cost digital talent pool accessible to MSMEs, changing mindset to increase digital adoption and building overall awareness of digital impact on business efficiency
Executive Summary

MSMEs have opportunity to gather increasing value from the digital services offered

Along with increasing the reach to a wider/ new customer base, horizontal marketplaces are also supporting through:
• Business Intelligence and Dashboard
• Fast payment settlements
• Support in inventory management
• Marketing and CRM solutions
• ERP solutions for stock management

The BPEM players are focusing on providing:
• Inventory Management Solutions
• Technology based Utilization monitoring & expansion strategies
• Cash Generation Analytics

Fintech is transforming the way businesses operate today by offering:
• Technology driven credit assessments that enable quick loan disbursals
• Easy loan application process
• Collections & Settlements dashboarding
• Anti-Fraud technology

The other services are enabling players to:
• Optimize fleet loads and reduce delivery times
• Pay as per use for Single suite SaaS products covering a wide range of services (e.g. ERP, CRM)
B2B models in digital services in India have seen a steady growth as enterprises have gradually increased their adoption over the years. Way forward for the services lie in deeper penetration into the MSME segment that constitute more than 90% of total enterprises in India, make a significant contribution to the country’s GDP and also generate large scale employment across the nation.

Hence the study was conducted to assess the maturity of digital services in India and their impact on the MSME segment so far- also encompassing the opportunity size, key challenges and future growth trends. With this objective in mind, the report covers following key aspects:

2. MSME overview- with focus on current digital adoption
3. Understanding of impact of digital engagement on MSMEs
4. Challenges for increasing adoption and
5. Future adoption trends
MSME Overview

Non-Agricultural MSMEs in India (in Mn)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Manufacturing Sector (invests in plant &amp; machinery)</th>
<th>Services Sector (invests in equipment)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro Enterprise</td>
<td>&lt; INR 25 L</td>
<td>&lt; INR 10 L</td>
</tr>
<tr>
<td>Small Enterprise</td>
<td>INR 25 L-5 Cr</td>
<td>INR 10 L-2 Cr</td>
</tr>
<tr>
<td>Medium Enterprise</td>
<td>INR 5 Cr-10 Cr</td>
<td>INR 2 Cr-5 Cr</td>
</tr>
</tbody>
</table>

Key Highlights

- The 63.4 Mn non agricultural MSMEs in 2015-16 forms the backbone of the Indian economy employing around 110 Mn people
- Split by Size
  - 63 Mn are micro, 0.3 Mn are small and 0.005 Mn are medium
- Share of employment:
  - Manufacturing (32%),
  - Trade (35%) and
  - Services (33%)
- Manufacturing MSME contributed ~8% to GDP that amounts to ~ USD 230 Billion in 2018
- Unorganized small retail including food & grocery contributed ~ USD 700 Bn to GDP in 2018
- Other Services contributed ~20% to GDP amounting to ~ USD 570 Billion
- After GST, starting business became easier, MSME market expansion improved and logistical overhead lowered
- Out of the total ~15 lakh companies filing GST as of 2018, ~20% are SMEs indicating the importance of this segment

Source: Ministry of Micro Small, Medium Enterprises data and Economic Survey
# B2B Digital Services - An Introduction

## What are B2B Digital Services?

B2B Digital Services are services delivered via the internet that enable efficiency and innovation in business processes or higher business visibility for the enterprises.

### Digital Marketplaces & Listing Platforms
- Online Wholesale
- Online Listing & Discovery

### B2B Digital Services
- BPEM
  - Health Tech
- Food Tech
- Hotel Tech

### Business Enabling Services
- Digital Ancillary
  - E-Logistics
  - Digital Payments
  - Digital Advertising
  - Digital Lending

### SaaS
- Enterprise Resource Planning
- Customer Relationship Management
- Other SaaS solutions

### Not considered for our study further
- Online Ticketing
- B2C e-Tailing
- Auto Classifieds (used cars)
B2B Digital Market- Overview

B2B Digital Services Market Size 2018
Revenue Figures in US$

B2B Digital Services
$ 5.6 Billion
(~39%)

Digital Marketplaces & Listing Platforms
$ 1.9 Bn
(~38%)

- B2C e-tailing
  $ 0.7 Bn
  (~40%)
- Listing Platforms
  $ 0.2 Bn
  (~29%)
- BPEM
  $ 0.5 Bn
  (~43%)
- Online Wholesale
  $ 0.3 Bn
  (~33%)
- Online Ticketing
  $ 0.1 Bn
  (~21%)

Business Enabling Services
$ 3.7 Bn
(~39%)

- Digital Advertising
  $ 1.5 Bn
  (~30%)
- Digital Payments
  $ 0.9 Bn
  (~57%)
- E-Logistics
  $ 0.2 Bn
  (~50%)
- Digital Lending
  $ 0.1 Bn
  (~70%)
- Others
  $ 0.2 Bn
  (~15%)

- ERP
  $ 0.2 Bn
  (~25%)

- Others
  $ 0.3 Bn
  (~10%)

- CRM
  $ 0.4 Bn
  (~35%)

Source: RedSeer Analysis; Primary & Desk Research
### Agenda

#### B2B Digital Services

**Overview**

- Digital Marketplace and Listing Platforms
- Business Enabling Services
  - Digital Ancillary Services
  - SaaS

#### MSME

**Overview**

- Impact of B2B Digital Services on MSME
B2B digital services in India are a market of USD 5.6 Bn and is set to grow by ~39% in the next 5 years

**B2B Digital Service market in India**

<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>2023F</td>
</tr>
<tr>
<td><img src="image" alt="Bar Chart" /></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Market sub-segment</th>
<th>Description</th>
</tr>
</thead>
</table>
| **Digital
digital marketplace and Listing** | • E-tailing and listing platforms which provide businesses an alternative sales channel |
| **Business Enabling Services** | • Includes an array of digital solutions ranging from payments, lending, logistics and digital advertising  
  • Remotely available enterprise solutions for managing business operations on pay per use basis |

- Digital services in B2B are rising with growing number of startups entering the domain- in 2017, share of B2B in the overall startup base was 40%
- Share of funding that the B2B focused startups are gathering is seeing good growth (>30% in 2017)- a significant portion of the funding is going into advanced tech such as hybrids of big data analytics and human assisted AI
- Further Government initiatives such as the Digital India Campaign, Start Up India, Make in India are contributing to the rise of ecommerce and creating a sustained environment for growth

Source: Redseer Analysis
B2B Digital services had an impact of at least USD 18 Bn in 2018 on the revenue of MSMEs enabled by digital marketplaces.

**B2B Digital Service Impact on MSMEs**

**USD Bn, % CAGR**

<table>
<thead>
<tr>
<th>Revenue Impact on MSMEs due to adoption of digital services (USD Bn)</th>
<th>Revenue Impact Assessment basis</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2023 (E)</strong></td>
<td>The following sectors have been considered for the calculation of impact by marketplaces:</td>
</tr>
<tr>
<td>68</td>
<td>➢ Online Wholesale</td>
</tr>
<tr>
<td></td>
<td>➢ B2C e-commerce</td>
</tr>
<tr>
<td></td>
<td>➢ BPEM</td>
</tr>
<tr>
<td><strong>2018</strong></td>
<td>Only the revenue from MSMEs have been considered and the commissions of the players have been subtracted from the overall GMV to estimate the revenue impact on MSMEs</td>
</tr>
</tbody>
</table>

**Other Impacts**

- MSMEs have realized non-economic benefits in terms of rise in process accuracy, support in business decision.
- Digital ancillary services that enable Ease of business processes - such as digital lending, e-logistics - is yet to see widespread MSME adoption.
- MSMEs assess that they have low to medium impact on cost reduction due to digital services but they have not been able to quantify the % benefit.

IndiaMart alone contributes to ~40% of this revenue by value.

Source: Redseer Analysis
Agenda

B2B Digital Services

Overview

Digital Marketplaces & Listing Platforms

Business Enabling Services

Digital Ancillary Services

SaaS

MSME

Overview

Impact of B2B Digital Services on MSME
The digital market places & listing platforms is estimated to rise to USD 9.4 Bn in 2023 growing at ~38% CAGR

Digital Marketplaces & Listing Platforms

<table>
<thead>
<tr>
<th>Year</th>
<th>Digital Marketplaces &amp; Listing Platforms: Market Size and Growth Rate (USD Bn)</th>
<th>Platforms: Functional Models</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>1.9 38% 9.4 (2023F)</td>
<td><strong>Sell Side</strong></td>
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<td></td>
<td></td>
<td><strong>Buy Side</strong></td>
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<tr>
<td></td>
<td></td>
<td>MSMEs</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Brands</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Consumers</td>
</tr>
</tbody>
</table>

- Digital marketplaces have sustainably grown in last few years by creating an ecosystem of credibility and transparency among buyers and sellers that enables transacting in a safe digital environment
- The Listing platforms charge a fixed fee from businesses to make portfolios for companies and also take care of the digital marketing for them
- The marketplaces (excluding inventory models) allow MSMEs, Brands and well as consumers meet their purchase/procurement needs from small businesses and pay a commission for the same

Source: Redseer Analysis
This growth is being led by innovations that ensure platforms offer more personalised buyer experience and wider business support to sellers

Digital Marketplaces & Listing Platforms

USD Bn

Digital Marketplaces & Listing Platforms: Market Size split by Key Sub segments (USD Bn)

- Digital platforms continue to witness a strong growth as they increasingly enable wider reach, flexible payment options and customized solutions to sellers
- BPEM have brought in innovation in the digital space where along with the listing feature, they provide SaaS based solutions to support the business operations like inventory management and record management for the enterprise
- B2C e-tailing is the biggest segment in terms of size impacting the 100 Mn consumer base being served by sellers from all categories
- Online wholesale as a category is expected to evolve as Listing platforms are now enabling transactions on their platforms

Source: Redseer Analysis
The segment has evolved from enabling seller discovery to enabling transaction to offering add on business operations support to seller

Digital Marketplaces & Listing Platforms

**Definition:**
- **Discovery:** Enables customers to search for relevant services on their platform
- **Marketplace:** Provides customers with ordering products and services on the platform and also make payment transactions
- **Business enablement:** Provides support (inventory management, sales forecasting, etc.) to its retailers, in addition to services provided by a marketplace model

*Note:* The list of players is indicative and not exhaustive

*Source: Redseer Analysis*
The growth of digital platforms can be attributed to emerging operational and technology innovations that offer faster, cheaper service to ever rising net savvy customer.

### Growth of Digital Marketplaces & Listing Platforms

**Descriptive**

<table>
<thead>
<tr>
<th></th>
<th><strong>Digital Platforms - Overall</strong></th>
<th><strong>Online Wholesale</strong></th>
<th><strong>Listing Platforms</strong></th>
<th><strong>BPEM</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Faster Order Fulfilment</strong></td>
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<tr>
<td></td>
<td><strong>With the platforms having relations with 3PL players, overall fulfilment time has reduced, increasing efficiency for businesses</strong></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td><strong>New Buyers with online habit</strong></td>
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<tr>
<td></td>
<td><strong>The new age consumers are online savvy thus making it easier for business to reach to them through online channels</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Direct Selling to Customers</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td><strong>Online channels enable reaching out to the customers directly thus increasing margins for businesses</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Increase in Visibility</strong></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>The new age consumers are online savvy thus making it easier for business to reach to them through online channels</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Support in Business Management</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Dashboarding makes it easier for firms to track their business activities on a daily basis</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Redseer Consulting
Online wholesale market in India is of USD 0.3 Bn – enabling marketplace for at least 4.5 million businesses pan India

### Online Wholesale Market Size

<table>
<thead>
<tr>
<th>Year</th>
<th>USD Bn</th>
<th>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>0.3</td>
<td></td>
</tr>
<tr>
<td>2023F</td>
<td>1.2</td>
<td>33%</td>
</tr>
</tbody>
</table>

#### Online Wholesale: Key Players

- industrybuying
- POWER2SME
- moglix
- 5F
- mjunction
- mSupply
- BIZONGO
- BazarA2Z

- Unlike the B2C e-commerce market in India, the B2B market is not dominated by horizontals but has many vertical companies which are already leaders in their area of operation (like Industrial safety, packaging etc.)

- Most of the players work on a commission model where the rates are between 2-12% depending on the size of the deal and complexity of the process (commissions may be higher if procurement is being done by multiple suppliers)

Source: Redseer Analysis
IndustryBuying - focused on building a profitable SME e-commerce model has been doubling its revenue in past few years

Case Study - IndustryBuying

Operating Model

Founded: 2013

Sector: Online Wholesale

Platform Traffic: 2 Mn monthly visits

Value Proposition: An online platform where businesses can fulfill all their buying needs with a large variety of products available through sellers across industrial and retail categories and spread across geographies

Offerings:
- Connecting brands to sellers to meet their procurement needs giving more visibility to sellers
- Telephone assistance for buyers to make more informed decisions
- Loan assistance for SME sellers through lending partners

SME Focus: 250K + SME customers who are selling and buying on the platform

Revenue Model: Commissions charged from seller in the range of 2-10% based on transaction value & volume

Source: Redseer Analysis
Listing platforms market in India is of USD 0.2 Bn and is set to grow by ~29% to become a USD 0.9 Bn market by 2023

**Listing Platforms Market Size**

USD Bn

<table>
<thead>
<tr>
<th>Listing Platforms: Market Size and Growth Rate (USD Bn)</th>
<th>Listing Platforms: Key Players</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018: 0.2 Bn</td>
<td>tradeindia.com</td>
</tr>
<tr>
<td>2023F: 0.9 Bn</td>
<td>Justdial</td>
</tr>
<tr>
<td>29% CAGR 2018-23</td>
<td>OLX</td>
</tr>
<tr>
<td></td>
<td>Quikr</td>
</tr>
<tr>
<td></td>
<td>Sulekha</td>
</tr>
</tbody>
</table>

- The listing platforms are the first point of digital engagement enabling businesses added visibility and access to a bigger customer base
- The primary revenue model for the platforms is based on charging fixed annual fees for building the company's profile along with digital marketing activities done on the client's behalf
- The other popular revenue model is through advertisements where listings are primarily free but the website/application supports a lot of ads
- Indiamart a leading player having 25% of the market has been one of the oldest listing firms enabling B2B businesses to have their first digital impression

Source: Redseer Analysis
Business process enabling marketplaces (BPEM) in India are growing at strong pace – as they enable offerings more specific to MSMEs context of use

### BPEM Market Size

**USD Bn**

<table>
<thead>
<tr>
<th>Year</th>
<th>Food Tech</th>
<th>Hotel Tech</th>
<th>Health Tech</th>
<th>Others</th>
<th>CAGR 2018-23</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>17%</td>
<td>14%</td>
<td>35%</td>
<td>35%</td>
<td>43%</td>
</tr>
<tr>
<td>2023F</td>
<td>9%</td>
<td>11%</td>
<td>20%</td>
<td>61%</td>
<td>25%</td>
</tr>
</tbody>
</table>

### BPEM: Market Size and Growth Rate (USD Bn)

- The BPEM market in India comprises of hotel tech, food tech and health tech.
- The hotel tech industry currently forms the largest sub-segment and growing at over 30% with small hotels now actively listing on OTAs and partnering with aggregators.
- The food tech industry, currently small is expected to have the highest growth rate given the demand arising from the tier 2+ cities in India.
- IndiaMart is one of the largest BPEM player providing integrated CRM services along with their offerings.

### BPEM: Key Players

- **Hotel Tech**: OYO, Treebo Hotels, MakeMyTrip
- **Food Tech**: Swiggy, Zomato, Uber Eats
- **Health Tech**: Practo, Portea Health, Live Health

Source: Redseer Analysis
Case Study- IndiaMart

Operating Model

- Founded: 1999
- Sector: BPEM
- Platform Traffic: 1 Mn daily buyer enquiries
- Value Proposition:
  - The most trusted listing platform where businesses can showcase their products to a large audience with digital marketing support to help in overall marketing of brands
- Offerings:
  - Buyers have a large bouquet of trusted sellers to choose for fulfilling their procurement needs and the platform
  - Sellers are offered enhanced business visibility and increased credibility for their brands along with lead management solutions for better customer handling
- SME Focus: 90% SME customers who are selling and buying on the platform
- Revenue Model: Listing fee is charged to the seller

Source: Redseer Analysis
The company currently has 59.8 Mn buyers & has been growing even rapidly by offering more and more customer centric solutions

**Case Study- IndiaMart**

### Evolution

1. **1996**
   - Started as a fertilizer trader
   - Jumped into website business

2. **1999-2010**
   - Registered IndiaMart InterMesh ltd. as a company
   - Started website to help SME’s by giving information on exports
   - Website design for corporations to generate cash

3. **2010-2017**
   - Launched mobile website and app
   - Pay per Lead model is adopted
   - Launched Price Discovery Service
   - Implemented mobile ERP
   - Company shifts focus towards marketplace

4. **2018**
   - Launched Lead Management System
   - Launched payment protection & facilitation services
   - Services like BI and dashboarding were put in place to support the suppliers
   - Enabled sales representatives with mobile technologies to increase efficiencies in the processes

5. **Future plans**
   - Increasing the paying customer base by another 50,000 (was doubled in the last 15 months)
   - Increase buyer fulfillment rate which currently is 40%
   - As the company scales, plans to develop vertical categories to have additional growth focus
   - Creating a stronger base of brands as customers for enabling SMEs to do more business through the platform

Source: Secondary Research
Oyo Rooms- A budget hotel chain transforming the mid segment hotel sector in India expects to have 200,000 hotel rooms inventory by FY19

Case Study- Oyo Rooms

Operating Model

Founded 2013

Value Proposition

Bringing a consistent hotel experience for customers at an affordable price point and in the process increasing occupancy for hotels across the country

Offerings

• Makeover of hotels to standardize as per Oyo’s standards set for a good customer experience and loans are offered if required for this purpose
• Running the operations of a hotel through software as well as trained staff if required
• Performance management for hotels through their OAM application

SME Focus

8500+ small sized partner hotels associated with the platform

Revenue Model

Gross take rate of ~24% of the booking value

Source: Redseer Analysis
Practo - Established reach in 35+ cities and facilitates 45 M + appointments on its platform annually

Case Study- Practo

Operating Model

Founded

2008

Sector

Health Tech (BPEM)

Traffic

25 Mn customers used the platform

Value Proposition

A doctor discovery portal to enable users book appointments and get their healthcare queries answered in real time by doctors and the backend operations being facilitated by clinic management solutions for doctors and clinics

Offerings

- Marketplace solution for customers to contact doctors and clinics and book appointments
- SaaS based Clinic management solutions for optimization of bookings
- Patient Record management for managing medical history for customized diagnosis

SME Focus

More than 9K clinics have adopted the solution

Revenue Model

SaaS based solutions have a monthly subscription fee between ₹999-1499

Source: Redseer Analysis
Agenda

B2B Digital Services

Overview

Digital Marketplace and Listing Platforms

Business Enabling Services

Digital Ancillary Services

SaaS

MSME

Overview

Impact of B2B Digital Services on MSME
The digital ancillary services constitute those offered to enhance ease and innovation in business support activities are seeing strong growth

**B2B Digital Services Market**

USD Bn

<table>
<thead>
<tr>
<th>Digital Ancillary Services: Market Size and Growth Rate (USD Bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
</tr>
<tr>
<td>2023F</td>
</tr>
</tbody>
</table>

Digital Ancillary Services: Functional Models

- **Financial Institutions**
- **Lending**
  - Businesses

- **Businesses/ Merchants**
- **Payments**
  - Consumers

- **Businesses**
- **E-Logistics**
  - Fleet

- **Businesses**
- **Digital Advertising**
  - Consumers

- Digital Lending platforms charge a small commission from businesses for making it easy for them to get credit instantly with least amount of documentation and hence trying to remove one of the major barriers of growth of industries
- Digital payments are enabling the smallest of merchants to accept payments from all customer groups with almost nil commissions for transactions
- E-Logistics companies form contracts at fixed rates (irrespective of the changing market rate) or charge commissions from the companies based on the trucks hired by them
- Industries like recruitment, online real estate and tax, account & legal tech have also been included

Source: Redseer Analysis
Digital ancillary services are expected to be a USD 9.2 Bn segment by 2023- but are yet to build penetration into MSME segment

Digital Ancillary Services
USD Bn

Digital Ancillary Services: Market Size split by Key Sub segments (USD Bn)

- Digital Advertising includes digital marketing and consumer targeting services which are aimed at gathering customer attention towards the offerings
- Payments and Logistics have been the most impactful business enablers helping businesses solve the ground level problems of transparency as well as managing operations better
- Digital Lending has supported the cause of MSMEs who cannot scale due to unavailability of credit
- The other services like tax, accounting, legal and recruitment help businesses ease the periodic operations

Source: Redseer Analysis
The growth of digital ancillary services is promising given the ease of business that they enable through use of advanced data analytics technologies

### Growth of Digital Ancillary Services

#### Descriptive

<table>
<thead>
<tr>
<th>Category focus on MSME</th>
<th>Growth Enabler</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Digital Payments</strong></td>
<td><strong>Ease of Payments</strong></td>
</tr>
<tr>
<td>High</td>
<td>Digital payments have enabled easy and transparent transactions for businesses also helping them with lessening defaults from customers</td>
</tr>
<tr>
<td><strong>Digital Lending</strong></td>
<td><strong>Instant easy credit</strong></td>
</tr>
<tr>
<td>High</td>
<td>Digital lending platforms have started providing hassle free instant loans to businesses enabling small businesses to scale</td>
</tr>
<tr>
<td><strong>E-Logistics</strong></td>
<td><strong>Greater Category Fill Rate</strong></td>
</tr>
<tr>
<td>Medium</td>
<td>E-Logistics firms are helping businesses to improve their CFR by better optimization of vehicles and faster deliveries</td>
</tr>
<tr>
<td><strong>Digital Advertising</strong></td>
<td><strong>Mass Reach out to customers</strong></td>
</tr>
<tr>
<td>Medium</td>
<td>Digital advertising allows businesses to target the increasing internet users and show relevant content</td>
</tr>
</tbody>
</table>

Source: Redseer Analysis
Mswipe- An Independent merchant acquirer and POS network provider claims to have a network of 0.25 Mn terminals across India with a large SME base

Case Study- Mswipe

Operating Model

- Innovative payments solutions with high focus on interoperability in order to accept new age payment methods easily and reduction of transaction settlement time making it easier for the merchant

- Portable, compact wireless terminals helping sellers to carry the machines anywhere
- Electronic Charge slips that can be stored digitally meaning no printing required
- Notifications for merchants to get easy online and mobile accessibility to card transaction details

- 80% of the customer base is SMEs typically having 1-30 employees

- One time sale of machine
- Machine on Lease with monthly rental option

Source: Redseer Analysis
Digital advertising industry in India being led by Google and Facebook with ~80% market share

Digital Advertising Market Size
USD Bn

Digital Advertising: Market Size and Growth Rate (USD Bn)

- 30%
- 5.7
- 1.5
- 2018
- 2023F

Digital Advertising: Key Players

**Major Players**
- Google
- Facebook

**Enabling Agencies**
- Pinslorm
- Ogilvy
- GOZOOP
- DDB Mudrachung
- Blogworks
- Phonetics

- Digital advertising is set to become increasingly popular across industries with the rise of internet penetration
- Google and Facebook are the leading players in the market that account for nearly 80% of this market
- There are more than 2 million SMB pages on Facebook with more than 2.4 Bn interactions between businesses and customers indicating the reach that social media marketing has for small businesses
- Apart from digital agencies, the B2B listing services have partnered with Google to build packages including listings and digital marketing for small businesses to have a better visibility over the internet

Source: Redseer Analysis
South Seas Distilleries, a 24 year old company has adopted Digital advertising just 3 months back and has already started seeing benefits

Case Study
Digital Advertising - South Seas Distilleries

- Using search engine optimization (SEO) at present, in partnership with Google since September 2018
- Also spending on SEO activities through Indiamart where the search results are altered to show the companies name on top on any distillery search result

- Rate of customer enquiries has increased to 20% M-o-M
- Last month added 2 new clients

- The company is planning on starting with more Digital Marketing techniques like Email Advertising and Social Media Marketing

- The company is a supplier for the top F&B players in the country

Source: Redseer Analysis
Agenda

B2B Digital Services
- Overview
- Digital Marketplace and Listing Platforms

Business Enabling Services
- Digital Ancillary Services
- SaaS

MSME
- Overview
- Impact of B2B Digital Services on MSME
Enterprise Applications that enable business operation on-premise requiring heavy investments are being replaced by On cloud applications

Enterprise Application Market

- **SaaS models are designed for businesses to pay as per their needs unlike on premise models where the whole solution had to be bought, thus converting a Capex model to an Opex model**
- **Alliance partners for SaaS companies are responsible for distribution of the solutions and earn a fee from the customer for training people on the product and also get a small margin from the SaaS companies**
- **Businesses directly pay the SaaS companies based on the number of logins being used and this payment is made on a periodic basis (monthly/annually) based on the requirement of the firm**

---

Source: Redseer Analysis
Indian B2B digital Services in SaaS is ~USD 0.9 Bn in 2018 which is growing at a ~1.5 X the global industry

Global B2B Enterprise Application Market

USD Bn

SaaS: Market Size and Growth Rate (2018 to 2023)

- The global cloud market is about ~30% of the overall enterprise market of which SaaS solutions is currently a small part but is seeing increasing adoption as users become at ease with the concept of cloud and their concerns on data security get addressed.
- SaaS application have multi-faceted benefits- including ease of usage, reduced legacy system and operational costs, reduced training and setup time, reduced burden of upgrading and maintenance.
- Indian SaaS story began in 2010-11; as many SaaS startups emerged in India that could offer world class products due to talent availability that too at a significant cost advantage. With lack of maturity of Indian market; the startups built strong presence in foreign markets.

Source: Redseer Analysis, Secondary Sources
Indian SaaS based services market is being fuelled by expected strong growth of CRM as customer experience becomes of utmost importance even for SMEs

B2B SaaS market split; India vs Rest of World

USD Bn

<table>
<thead>
<tr>
<th>SaaS Global Market Size 2018-23 (USD Bn)</th>
<th>SaaS India Market Size 2018-23 (USD Bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>57</td>
<td>2.8</td>
</tr>
<tr>
<td>Others, 34 – 38%</td>
<td>Others, 17 – 21%</td>
</tr>
<tr>
<td>ERP, 20 – 24%</td>
<td>ERP, 19 – 23%</td>
</tr>
<tr>
<td>CRM, 40 – 44%</td>
<td>CRM, 59 – 63%</td>
</tr>
<tr>
<td>Others, 22 – 26%</td>
<td>Others, 17 – 21%</td>
</tr>
<tr>
<td>ERP, 15 – 19%</td>
<td>ERP, 19 – 23%</td>
</tr>
<tr>
<td>CRM, 57 – 61%</td>
<td>CRM, 59 – 63%</td>
</tr>
</tbody>
</table>

2018

2023F

2018

2023F

- CRM solutions in SaaS have acted as a leveller of playing field for large enterprises and MSMEs by greatly reducing usage cost. The new solutions also offer ease of understanding and usage to the customers thus making their acceptance higher across industries
- The Indian cloud ERP market is comparatively less mature than other markets but expected to grow due to increasing demand from SME’s. The increased competition and globalization have become the key drivers for SME’s to deploy ERP on cloud to minimize infrastructure cost.

Note: Others include the likes of CCC, BI, BPM and other SaaS solutions

Source: Redseer Analysis, Secondary Sources
SaaS application in India is growing with strong initial adoption by tech based start-ups and on the back of rising number of Indian players

### SaaS Adoption

**Descriptive**

<table>
<thead>
<tr>
<th>Who’s adopting SaaS in India</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tech based Start-ups (e.g. Flipkart, Amazon) that have scaled to multi-billion USD valuation</td>
</tr>
<tr>
<td>Indian Conglomerates &amp; IT service based industries</td>
</tr>
<tr>
<td>Manufacturing MSMEs</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Why SaaS is being adopted</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Zero/ Low Maintenance Cost</td>
</tr>
<tr>
<td>2 Faster Deployment</td>
</tr>
<tr>
<td>3 Agile, Secure, Scalable</td>
</tr>
<tr>
<td>4 Rise of vertical SaaS</td>
</tr>
</tbody>
</table>

- The SaaS companies have been in the Indian market for over 10 years now but the traction in the segment has been seen 2015 onwards when large Indian conglomerates started adopting cloud based SaaS solutions
- With non-premise cloud solutions, the maintenance cost has reduced by more than 15% making it more feasible for SMEs to adopt SaaS based solutions
- The features of agility, security and scalability are the major selling points for emerging businesses as they are looking out for solutions that not only solve the current problems but also have the flexibility to adapt with the changing business

Source: Redseer Analysis, Secondary Sources
On cloud CRM service in India are set to become a USD 1.7 Bn market by 2023 – supported by rise of India market focused start-ups in the space

**CRM Market Size**

USD Bn

<table>
<thead>
<tr>
<th></th>
<th>CRM: Market Size and Growth Rate (2018 to 2023)</th>
<th>CRM: Key Players</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.4</td>
<td>35%</td>
<td>1.7</td>
</tr>
<tr>
<td>2018</td>
<td>2023F</td>
<td></td>
</tr>
</tbody>
</table>

- With the competitive start-up industry still growing, CRM is becoming an important tool for companies to reach out to as well as retain their customer base as ‘subscription’ economy grows that will require players to offer personalized CX
- The CRM software space has the presence of all major international players like Salesforce, Microsoft and Oracle and is highly competitive with a long list of players
- Dedicated small players in this space are seeing tremendous growth as small businesses have increased adoption because of better management of leads and clear understanding of customer feedback making customer retention easier

Source: Redseer Analysis
Zoho has created a strong model of cost effective and comprehensive product range for SMEs on the back of internally trained low cost talent pool

Case Study- Zoho

Operating Model

Founded: 1996

Value Proposition:

Zoho offers a **pocket friendly** solution with **all encompassing** functionalities which are **at par** with solutions offered by bigger enterprises and strong focus on **customer support**

Offerings:

- Zoho One Suite - A package with multiple modules (software) making it easier to have one vendor for optimisation of all processes in a company
- Zoho has more than 30 separate modules enabling businesses to choose a particular one based on the needs of the organisation

**Revenue Model**

- **8000+ MSME customers from India form 5%-10% of the global customer base**
- **Fixed annual/monthly fee**

Source: Redseer Analysis
On cloud ERP service in India are set to become a $ ~600 Mn market by 2023 – as firms of all sizes begin seeking more modern business applications with intuitive user Experience

**ERP Market Size**

USD Bn

<table>
<thead>
<tr>
<th>Year</th>
<th>Market Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>0.2</td>
</tr>
<tr>
<td>2023F</td>
<td>0.6</td>
</tr>
</tbody>
</table>

**ERP: Market Size and Growth Rate (2018 to 2023)**

25% growth rate

**ERP: Key Players**

- Oracle
- SAP
- Microsoft Dynamics AX
- ePromis
- EPICOR
- AICPA
- SYSPRO
- Deltek
- BatchMaster
- Efficient Change
- ECOUNT ERP

- The ERP market in India is currently the most penetrated among large traditional industries and is set to grow at over 25% with players bringing in innovative, low cost solutions
- This market is currently highly competitive, but the major players- Oracle, SAP and Microsoft are dominating this market
- Traditional players have a one time cost starting at $2000 along with implementation and annual maintenance cost which is ~25% of the one time cost making it Capex heavy and not very feasible among very small players
- SME dedicated players have emerged in the areas of CRM, SCM as well as ERP/accounting offering low cost Opex based solutions costing between $15-20 per employee per month on average making them popular among small industries

Source: Redseer Analysis
Tally is synonymous with ‘going digital’ for small and medium businesses in India

Case Study-Tally

Operating Model

<table>
<thead>
<tr>
<th>Founded</th>
<th>1998</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sector</td>
<td>SaaS-ERP</td>
</tr>
<tr>
<td>Customer Base</td>
<td>~1.2 Mn Licenses</td>
</tr>
</tbody>
</table>

An innovative and simple software solution which allows SMBs to manage their finances internally with locally sourced talent. They focus on versatile product updating that aligns with changes in IT infrastructure, OSes and tax laws

- One time payment to purchase a life time software with limited time licence i.e. 1 year
- No AMC charges as all the issues are resolved remotely over cloud
- One stop solution for accounting, inventory management, tax management, payroll and compliance- offered with multilingual capabilities

~1 Mn MSME customers contributing to 90% of the customer base

Revenue Model

Fixed annual license fee based on single or multiple user package

Source: Redseer Analysis
Agenda

**B2B Digital Services**
- Overview
- Digital Marketplace and Listing Platforms
- Business Enabling Services
  - Digital Ancillary Services
  - SaaS

**MSME**
- Overview
- Impact of B2B Digital Services on MSME
MSMEs in manufacturing and services have varying level of digital adoption; Trade that constitutes ~35% is at medium digital adoption

MSME Digital Adoption Overview
Number of MSME, 2016 (Units in %)

<table>
<thead>
<tr>
<th>MSME (Manufacturing) in India split by sub-sectors and their Digital Adoption</th>
<th>Digital Adoption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other manufacturing</td>
<td>6% Medium</td>
</tr>
<tr>
<td>Wood, Furniture &amp; Paper</td>
<td>11% Low</td>
</tr>
<tr>
<td>Metal &amp; machinery (including Auto &amp; Auto-parts)</td>
<td>11% High</td>
</tr>
<tr>
<td>Food &amp; Beverages</td>
<td>13% Medium</td>
</tr>
<tr>
<td>Tobacco Products</td>
<td>17% Low</td>
</tr>
<tr>
<td>Textile &amp; Apparels</td>
<td>42% High</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>MSME (Trade &amp; Other Services) in India split by sub-sectors and their Digital Adoption</th>
<th>Digital Adoption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other services (including Health &amp; Social)</td>
<td>14% Medium</td>
</tr>
<tr>
<td>Professional (including IT, ITeS)</td>
<td>7% High</td>
</tr>
<tr>
<td>Education</td>
<td>8% Low</td>
</tr>
<tr>
<td>Transport &amp; Logistics</td>
<td>9% Low</td>
</tr>
<tr>
<td>Food &amp; Accomodation</td>
<td>10% Medium</td>
</tr>
<tr>
<td>Trade</td>
<td>52% Medium</td>
</tr>
</tbody>
</table>

- The MSME industry in 2016 contributed to 31.6% of the Gross Value Added
- Services (including Trade) constitute almost 70% of the total MSMEs in India
- Among services, Trade is 52% that includes wholesale and retail enterprises
- Textile and apparels are by far the largest among manufacturing units and are the 2nd largest employer in the category

Source: Redseer Analysis, Ministry of Micro, Small & Medium Enterprises Reports
The digital penetration among MSMEs is fuelled by the listing and e-tailing websites where manufacturers and retailers are able to showcase their products to a wider customer base.

**MSME Digital Penetration**

Percentage of total MSMEs

<table>
<thead>
<tr>
<th>MSME Sector Wise Digital Penetration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Digital Marketplaces &amp; Listing Platforms</td>
</tr>
<tr>
<td>Digital Ancillary Services</td>
</tr>
<tr>
<td>SaaS Solutions</td>
</tr>
</tbody>
</table>

- Includes online wholesale and B2C e-commerce along with the listing platforms
- Includes services like payments, lending, e-logistics as well as BPEMs
- Subset of Enterprise Application which is present on cloud

- Listing and e-tailing platforms has seen the highest adoption among MSMEs because of the emergence of the online medium as a strong sales channel. IndiaMart, a leading player cater to more than 4.5 Mn MSMEs
- Other digital services which includes platforms like Hotel tech, food tech as well as payments are seeing high adoption among MSMEs especially in the urban areas
- The awareness of SaaS solutions are limited to big enterprises and hence the adoption currently is limited among MSMEs hence only 0.3 Mn are using full SaaS solutions (not including BPEM)

Source: Redseer Analysis
Exports in India have been growing in the range of 8-10% in the past 3 years and is largely impacted by sectors like gems and jewellery

**MSME Sector – Export Contribution**

USD Bn

- The MSME sector accounts for ~40% of the countries’ overall exports and thus is a major focus area for export promotion
- The Ministry of Micro, Small and Medium Enterprises is planning to set up an export promotion cell especially for the textiles, coir and leather industries in order to boost their current contribution to the country’s exports
- The MSME industry’s contribution to export is expected to grow significantly with emergence of more and more digital platforms enabling them to connect to the global internet based economy
The government of India has come up with multiple digital initiatives that support in easy financing, technology upgradation and product promotion

**MSME focused Digital Initiatives**

### Descriptive

<table>
<thead>
<tr>
<th>Initiative</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Credit and finance Scheme</strong></td>
<td>The government's scheme allots ~INR 1 Cr for SMEs as bank credit without the hassles of collaterals / third party guarantees for plant, machinery, as well as IT operations for technology. 4 lakh + applications have already been received encouraging the government to doubling of credit guarantee to MSME’s</td>
</tr>
<tr>
<td><strong>Export Exhibitions scheme</strong></td>
<td>Products of MSME exporters are displayed in international exhibitions and the expenditure is reimbursed by the Government Traffic in these exhibitions nearly doubled in a single year post the launch of this scheme</td>
</tr>
<tr>
<td><strong>Digital MSME Scheme</strong></td>
<td>ICT Initiative which supports SMEs to adopt cloud computing which is a cost effective alternative to in house IT infrastructure encouraging to optimise their processes and bring a large part of their value chain including procurement and selling online</td>
</tr>
<tr>
<td><strong>Credit assessment policy</strong></td>
<td>The main objective of the scheme is to provide a trusted third-party opinion on the capabilities and credit worthiness of the MSMEs creating awareness about their strengths and weakness of their existing operations.</td>
</tr>
<tr>
<td><strong>Packaging training Scheme</strong></td>
<td>To acquaint MSE exporters with latest packaging standards and techniques training programs on packaging trained by Indian Institute of packaging, specially for SME exporters</td>
</tr>
<tr>
<td><strong>MSE Cluster Development Program</strong></td>
<td>The Ministry of MSME has adopted cluster development approach for enhancing productivity and competitiveness as well as capacity building of MSEs</td>
</tr>
</tbody>
</table>

Source: Redseer Analysis, Ministry of MSME
Agenda

B2B Digital Services

Overview

Digital Marketplace and Listing Platforms

Business Enabling Services

Digital Ancillary Services

SaaS

MSME

Overview

Impact of B2B Digital Services on MSME
MSMEs from multiple sectors were studied for depth of digital presence and impact of digital services.

Digital Engagement Framework

Descriptive

**Identified Sectors**

- Manufacturing: Auto, Ancillary, Textiles
- Retail: Mobiles, Apparel, FMCG
- Services: Professional Services, IT & e-Commerce

**Establishing Digital Engagement (N=300)**

- Low Engagement: Internet Usage, Business Email Usage
- Medium Engagement: Internet Listing, Software Adoption, E-commerce Presence
- High Engagement: Digital Advertising, Selling through websites

**Assessed for Adoption of Digital Platforms and Business Enabling Services**

- Revenue Impact
- Benefit Analysis
- Cost Impact
- Adoption Trends
- Key Challenges
- Future Digital Adoption

The above sectors were identified on the following basis:

- Auto and Textiles were chosen due to their sizeable contribution to the number of MSMEs in India.
- Mobiles, apparel, and FMCG are the top selling e-tailing categories.
- PS and IT are the most digitally advanced service segments.

Source: Redseer Analysis
Overall digital engagement for the studied sectors in MSME is medium- implying high maturity to avail online benefits but low tendency to use paid digital services.

**MSME digital engagement - Overall**

Primary Research, N=300

---

**Digital Engagement Journey for MSMEs**

- **Have an e-mail Id**: 83%
- **Use Software**: 72%
- **Free Listing on platforms**: 70%
- **Selling through own websites**: 55%
- **Selling on e-commerce websites**: 41%
- **Paid for Digital Marketing**: 41%

---

**Note**: For the parameter, selling on e-commerce, we haven't included the responses of the services sector as the question is not relevant for the nature of business.

Source: Redseer Analysis
Retail sector has high penetration of free listings and hence do not feel much need for selling through their own websites

Digital Engagement - Retail
Primary Research, N=100

Digital Engagement for MSMEs - By Sector

- Free Listing on platforms: 73%
- Have an e-mail Id: 70%
- Use Software: 60%
- Selling on e-commerce websites: 57%
- Paid for Digital Marketing: 40%
- Selling through own websites: 29%

Adoption of Software

- Type of Software
  - Others: 18%
  - ERP: 7%
  - Accounting: 75%
  - Miracle: 2%
  - Tally: 8%

Source: Redseer Analysis
The retail sector has been a fast adopter of the digital platforms and is seeing an average revenue increase of ~10% but cost impact has not been assessed significantly.

### Impact of Digital Adoption on the Retail Sector

#### Descriptive

- **Retailers have 10-15% of their business coming from online sources**
- **Majority of the retailers feel their annual spend on IT has not changed over time where as 14% of the retailers agree that their IT spend has increased by 10-12%**
- **On average retailers reported an increase in revenue by ~10% Y-o-Y after their digitalization**
- **Very few retailers have reported reduction in manpower cost post digitalization**

---

**In the retail sector the reach outs were done in the following MSME Industries: Apparels, FMCG and Mobile/ Electronics**

---

### Profile

- The revenue from paid listings are higher due to increased visibility in local and global market
- Only 14% of retailers are paying for the platform services and the fee ranges from ~INR 3000 to 60,000 annually
- 86% of retailer are available on listing platforms but are not availing the paid services offered by these platforms

---

### MSMEs on Platforms

- Retailers believe software have not caused any evident decrease on company’s cost
- Accounting software has majorly helped in increasing the accuracy, which in turn decreased the time taken and increased efficiency
- Among the FMCG retailers, distributors are instructing retailers to adopt ERP software for hustle free operations which has increased awareness among them

---

**Source: Redseer Analysis**
Apart from revenue benefit, Retailers have felt a noticeable benefit on enablement of better decision making

Impact of Digital Adoption on the Retail Sector

Primary Research

<table>
<thead>
<tr>
<th>Digital Platform Usage</th>
<th>BES Software Deployed</th>
<th>Customer Quotes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Adoption</strong></td>
<td><strong>Impact</strong></td>
<td><strong>Benefits</strong></td>
</tr>
<tr>
<td>2-5 years</td>
<td>~10%</td>
<td>4.6</td>
</tr>
<tr>
<td>Average Number of years since adoption of platforms</td>
<td>Average Increase in Annual Revenue</td>
<td>Access to wider customer base</td>
</tr>
</tbody>
</table>
| 3-6 Years | Average Number of years since adoption of software | 4.4 | "After listing online, I am getting customers from multiple cities and my business is not limited to the local market."
| Average Decrease in Annual Costs | Better Decision Making | - Retailer (FMCG) |

Note: *Benefits is captured as consumer’s experience post digitalization through a 1 to 5 Likert scale rating

Source: Redseer Analysis
A retailer who is planning to move his complete business model online due to the increasing benefits by selling online marketplaces.

**Company Profile**

Protekt is **mobiles & electronics retailer** who has a store in Mumbai and also sells through online channels.

- Turnover: INR 30 Lakhs
- Number of Employees: 5

**Software Usage**

- Since the last 7 years, **Tally** is being used for accounting for which a **one time fee on INR 15 K** was paid.
- The software has helped the retailer **manage the billing & financials** better.

**Platform Usage**

- The retailer is **selling through online marketplaces** like Udaan since the last 1 year.
- About **20% of the revenues come through online channels** and a **30% increase in revenue** has been noticed by selling online.

**Challenges & Future Plans**

- The retailer is not looking for any other software as he has hired 10th class graduates to handle accounting software and doesn’t intend to spend more on manpower training.
- Since there has been a tremendous increase in revenue, the retailer is planning to have **larger share of his business online in the next 5 years**.
- Retailers sell to businesses and end customers (Online & offline).
- **Indiamart, Udaan, Trade India** and **Moglix** are retailers’ choice.
M Oswal Marketing, an office supplies wholesaler saw ~10% Y-o-Y revenue growth in 2017-18 by adoption of digital platforms.

Company Profile

M Oswal Marketing is an office supply wholesaler based out of Pune

- Turnover: INR 1 Cr
- Number of Employees: 5

Software Usage

- Since the last 2 years, AP a local software is being used for accounting for which a one time fee on INR 20 K was paid
- The software has specifically helped the retailer better after GST implementation

Platform Usage

- The retailer is listed on 3 online listing platforms since the last 7 years
- A 10% increase in revenue YoY has been noticed since being listed on the platforms

Challenges & Future Plans

- The retailer prefers local software rather than branded, as they provide better support and are economical
- Post GST costs have increased, additional manpower had to be employed
- The firm wants to upgrade its technology but the cost of software is the major barrier for further adoption
Manufacturing sector sees a high software usage but are yet to increase selling on e-commerce websites

Digital Engagement- Manufacturing

Primary Research, N=100

### Digital Engagement for MSMEs- By Sector

<table>
<thead>
<tr>
<th>Activity</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Use Software</td>
<td>82%</td>
</tr>
<tr>
<td>Have an e-mail Id</td>
<td>78%</td>
</tr>
<tr>
<td>Free Listing on platforms</td>
<td>65%</td>
</tr>
<tr>
<td>Selling through own websites</td>
<td>45%</td>
</tr>
<tr>
<td>Paid for Digital Marketing</td>
<td>37%</td>
</tr>
<tr>
<td>Selling on e-commerce websites</td>
<td>25%</td>
</tr>
</tbody>
</table>

### Adoption of Software

<table>
<thead>
<tr>
<th>Type of Software</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>ERP</td>
<td>2%</td>
</tr>
<tr>
<td>Accounting</td>
<td>98%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Type of Accounting Software</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Others</td>
<td>10%</td>
</tr>
<tr>
<td>Zoho</td>
<td>7%</td>
</tr>
<tr>
<td>Tally</td>
<td>83%</td>
</tr>
</tbody>
</table>

Source: Redseer Analysis
The manufacturing sector has seen an average of ~12% increase in revenue due to listing platforms and are also taking paid value add services on these platforms.

**Impact of Digital Adoption on the Manufacturing Sector**

**Descriptive**

<table>
<thead>
<tr>
<th>Profile</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Manufacturers have 8% of the business coming from online sources where as 92% business is offline</td>
</tr>
<tr>
<td>• Significant number of manufacturers have seen an average of 10-15% Y-o-Y increase in revenue from digitalization</td>
</tr>
<tr>
<td>• Digitalization has not reduce and cost for the manufacturers</td>
</tr>
<tr>
<td>• MSME manufacturers have not changed their IT spend since past year</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>MSMEs on Platforms</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Manufacturers spend ~INR 25,000 on platforms to gain higher leads</td>
</tr>
<tr>
<td>• Manufacturers have seen increase in queries after getting listed on platform and have 10+% revenue coming in from these leads conversions</td>
</tr>
<tr>
<td>• Most manufacturers reached are paying platforms for value added services they offer to get better business opportunity</td>
</tr>
<tr>
<td>• Also, many manufacturers are on more than one listing platforms</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>MSMEs on Software usage</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Most Manufacturers are using Tally for their accounting needs and others are using varied ERP software</td>
</tr>
<tr>
<td>• MSME manufacturers are spending ~INR 25K on ERP and Accounting software</td>
</tr>
<tr>
<td>• There is a 3-5% decrease in manufacturers costs after using ERP and other software</td>
</tr>
</tbody>
</table>

Source: Redseer Analysis
Also they are the earliest adopter of the accounting software and have been active on the listing platforms for significant number of years

Impact of Digital Adoption on the Manufacturing Sector

Descriptive

<table>
<thead>
<tr>
<th>Adoption</th>
<th>Digital Platform Usage</th>
<th>BES Software Deployed</th>
<th>Customer Quotes</th>
</tr>
</thead>
<tbody>
<tr>
<td>3-5 years</td>
<td>Average Number of years since adoption of platforms</td>
<td>8-11 years</td>
<td>Average Number of years since adoption of software</td>
</tr>
<tr>
<td>Impact</td>
<td>10-15%</td>
<td>Average Increase in Annual Revenue</td>
<td>Moderate Average Decrease in Annual Costs</td>
</tr>
<tr>
<td>Benefits*</td>
<td>5</td>
<td>Access to wider customer base</td>
<td>4.5 Better Decision Making</td>
</tr>
</tbody>
</table>

“Since I bought the software, business has increased as processes are simplified”
- Manufacturer, Textile

“We pay a considerable amount of money for listings but see a good response from customers”
- Manufacturer, Auto Ancillary

“I get 7+ leads every week after I took the premium package for ₹ 25000 on a listing platform”
- Manufacturer, Textile

Note: *Benefits is captured as consumer’s experience post digitalization through a 1 to 5 Likert scale rating

Source: Redseer Analysis
A traditional manufacturing company which is seeing increasing benefits from digital adoption

Company Profile

Asadeep Furnishing Private Limited is a Delhi based Textile Manufacturer supplying to a major brand in India

- Turnover: INR 20 Cr
- Number of Employees: 30

Software Usage

- Tally is used for accounting since the last 11 years for which a one time fee of INR 20K and annual fee of INR 2K is paid
- It has led to reduction of one accountant along with the increased accuracy

Platform Usage

- The company is listed on 2 popular listing platforms since the last 2 years for which INR 50K is paid annually
- 10% of the business leads are through online channels and this in turn has increased the revenues by 5-10%

Challenges & Future Plans

- The firm is planning to make a new website to expand their business through the online medium
- Currently they have one accountant looking after the accounting software as the budget is limited
- There are plans to move to an ERP solution as the business gets bigger but training the accountant shall be an additional cost that needs to be planned
An Automotive Spare Part Manufacturer supplying to Tier 1 suppliers across the country is facing increasing competition even on the online platform.

Company Profile

Sai Krupa Engineering is a Rajkot based Automotive Spare Part Manufacturer supplying to Tier 1 suppliers as well as Export customers

- Turnover: INR 1.5 Cr
- Number of Employees: 5

Software Usage

- Miracle is used for accounting since the last 5 years for which an annual fee of INR 20K is paid
- It has led to increase in the accuracy of the books and increased efficiency of the team

Platform Usage

- The company is listed on IndiaMart since the last 13 years for which INR 120K is paid annually
- The company feels that the ROI is not growing very rapidly but still sees the need to be present online

Challenges & Future Plans

- The firm gets an average 30% business from the leads generated through IndiaMart
- Due to aggressive marketing by IndiaMart, the firm is seeing some of their suppliers directly being listed on the platform which is threatening them but still their customer base is increasing month on month
- The company is planning to not just use the listing service but also be a complete online seller over the next few years
Services sector has the highest engagement with businesses using their websites to connect to leads and are paying for digital marketing activities

Digital Engagement - Services
Primary Research, N=100

Digital Engagement for MSMEs - By Sector

- Have an e-mail Id: 93%
- Selling through own websites: 85%
- Use Software: 68%
- Free Listing on platforms: 67%
- Paid for Digital Marketing: 43%
- Selling on e-commerce websites: 3%

Adoption of Software

- Type of Software
  - Content Management & Collaboration: 88%
  - Accounting: 62%
  - Others: 8%
  - Sage: 8%
  - Slack: 8%
  - Tally: 8%

Source: Redseer Analysis
The services sector has high digital adoption and is garnering up to 30% of their revenue from online leads

Service Sector

Descriptive

In service sector the reach outs were done in the following MSME Industries:
Professional Services and IT Services

Profile

- Companies in service sector are spending the most on IT solutions (non hardware) by adopting digital services for various functions
- Most of the companies earlier with ~90% business coming from offline leads, now have more than 30% of their business coming from online leads
- Service sector has not seen a decrease in cost by adoption of digital services but has seen a reduction in time and effort

MSMEs on Platforms

- Most MSME companies in service sector are on one or more platforms
- Companies are spending an average of ~INR 40K annually on value added services offered by platforms and to create a robust website to bring in more business
- Service companies are now investing to have an inhouse IT and Digital Marketing team to keep on improving the experience of current and potential customers

MSMEs on Software usage

- A significant # companies are availing paid services for better and secure digital services like web domain, business email, ERP, CRM, and digital marketing
- Service companies have seen a hike in revenue, customer base, and expanded business boundaries
- For ERP solution, Tally is the most preferred software where as for CRM solutions companies are opting for Zoho and other customized software

Source: Redseer Analysis
Reduction in time and effort for customer engagement and enterprise management is the key reason for high investment on digital services by this sector

Service Sector

Descriptive

**Digital Platform Usage**

<table>
<thead>
<tr>
<th>Adoption</th>
<th>Average Number of years since adoption of platforms</th>
</tr>
</thead>
<tbody>
<tr>
<td>3-6 years</td>
<td></td>
</tr>
</tbody>
</table>

**BES Software Deployed**

<table>
<thead>
<tr>
<th>BES Software Deployed</th>
<th>Average Number of years since adoption of software</th>
</tr>
</thead>
<tbody>
<tr>
<td>3-5 Years</td>
<td></td>
</tr>
</tbody>
</table>

**Customer Quotes**

- "I have to employee an additional team to handle leads coming from platforms"  
  -Service Sector (Corporate Law Firm)

- "Impact on revenue can`t be said but all processes have become faster and organized by using software"  
  -Service Sector (Consulting Firm)

- "Paid services on platforms provide better leads which directly impacts business if response time is less than an hour"  
  -Service Sector (IT Solution)

Note: *Benefits is captured as consumer’s experience post digitalization through a 1 to 5 Likert scale rating

Source: Redseer Analysis
**Company Profile**

Softechnocon Smart Power Solution Private Limited is a software company based in Bangalore

- Turnover: < INR 1 Cr
- Number of Employees: 17

**Software Usage**

- **Tally** is used for accounting since the last **2 years** for which a **one time fee of INR 15K** was paid.
- It has helped the firm to make the processes faster and increase the efficiency of the accounting team.

**Platform Usage**

- The company is **listed on 1 listing platform** since the last **3 years** for which INR 20 K is paid annually.
- **5% of the business leads** for the company are coming from the website and the listing platform.

**Challenges & Future Plans**

- As the business expands, the company feels the need for a CRM solution to handle leads more efficiently.
- Also, the hiring is expected to increase because of which other payroll / HR based solutions may be required in the near future.
An IT firm looking forward to adoption of more Digital services to overcome the increasing manpower costs

DRC Systems India Private Limited is a software company based in Gujarat

- **Turnover:** INR 7 Cr
- **Number of Employees:** 200+

**Company Profile**

**Software Usage**

- SAP ERP 9 is used for accounting since the last 4 years for which an annual fee of INR 100K is paid

**Platform Usage**

- The company is listed on 2 listing platform since the last 8 years for which INR 24K is paid annually
- 10% of the business leads for the company are coming from the website and the listing platform
- The company has also seen 10% increase in revenue

**Challenges & Future Plans**

- As the business is growing, the manpower costs are increasing hence they see the need for adoption of more software
- Post GST, processes got updated and thus training costs have increased
- SaaS is cheap but on-premise services are too expensive hence the next set of technology adoption planned is for SaaS based products
Exporters have seen higher adoption of digital services but the benefits realized have not been aligned with expectations

### Exports Sector

**Descriptive**

<table>
<thead>
<tr>
<th>Adoption</th>
<th>Impact</th>
<th>Benefits*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-5 years</td>
<td>Average Number of years since adoption of platforms</td>
<td>4.2</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Key Findings</th>
<th>Customer Quotes</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Exporters receive higher business through their company websites as it reflects genuine supplier</td>
<td>“~5% lead are from ExportersIndia and the conversion is really low”&lt;br&gt;-Exporter (Textile)</td>
</tr>
<tr>
<td>▪ Digital trade is much more simplified as compared to traditional methods</td>
<td>“I get better business from my website as I am running it on ~20 countries domain for better business”&lt;br&gt;-Exporter (Coir)</td>
</tr>
<tr>
<td>▪ Since exports has become a highly competitive market, ERP and CRM adoption has become important to convert leads</td>
<td>“Response time for queries are really low so I have a dedicated team to handle leads and a CRM software”&lt;br&gt;-Exporter (Leather)</td>
</tr>
<tr>
<td>▪ Exporters have seen a rapid growth in business through cross border mobile e-commerce, specially from SEA region</td>
<td></td>
</tr>
</tbody>
</table>

**Note:** *Benefits is captured as consumer’s experience post digitalization through a 1 to 5 Likert scale rating*

Source: Redseer Analysis
MSMEs continue to struggle with mindset shift, low awareness and dearth of talent to take the technology leap

### Challenges faced by MSMEs in digital adoption

#### Descriptive

<table>
<thead>
<tr>
<th>Key Challenges</th>
<th>Key Findings</th>
<th>Customer Quotes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Talent crunch</td>
<td>Small businesses find it difficult to get resources who know how to operate the software</td>
<td>“I am facing problem hiring someone who can work on SAP ERP”  - Manufacturer</td>
</tr>
<tr>
<td>Mindset</td>
<td>Since the businesses are small and non-complex, they do not feel the need to buy software</td>
<td>“I do not know of any schemes to encourage IT adoption for us by the government”  - Apparel Retailer</td>
</tr>
<tr>
<td>Low awareness</td>
<td>Firms are not aware of the government policies for software adoption targeted at MSMEs and of the solutions in the market</td>
<td>“I want to automate the whole process but I can not find a software within my budget”  - FMCG Retailer</td>
</tr>
<tr>
<td>Software not meeting requirements</td>
<td>Basic software do not support the businesses once complexity increases</td>
<td></td>
</tr>
<tr>
<td>Cost</td>
<td>Small businesses feel that the costs of software do not make them viable for them</td>
<td></td>
</tr>
</tbody>
</table>

Note: Chart is indicative based on number of mentions

Source: Redseer Analysis
However, MSME businesses intend to increase their IT spends in the next few years with plans of adopting more software and investing in digital marketing activities.

**Future Adoption Trends**

**Descriptive**

**Future Adoption Plans**
- Add-on enterprise software
- Digital marketing
- **Higher on priority list**
  - Own Website
  - Digital Platform

**Key Findings**
- Now that accounting software are the most commonly used ones among MSMEs, some of them are looking to adopt full service ERP and CRM solutions.
- With listing platforms showing positive growth in leads, businesses are planning to increase their digital marketing channels and budget.
- Websites as well as online selling platforms being effective customer acquisition mediums are of interests to businesses in the near future.

**Customer Quotes**
- "Will include ERP and Digital Marketing in our budget once we are a 50 employees company"
  - Manufacturer
- "I paid ₹4 Lac to get on the preferred list of a platform for better leads"
  - Service Sector
- "I get better and genuine leads from my own website and thus am planning to spend more on it"
  - Manufacturer

Note: Chart is indicative based on number of mentions.

Source: Redseer Analysis


Conclusion

**Challenges**

- **Awareness of digital solutions**: MSMEs are not aware of the range of solutions available in the market.

- **Lack of Trained Labour**: MSMEs find it very difficult to find trained labour within their budgets in order to expand their tech presence.

- **Low reach of small players**: Small businesses are predominantly offline with apprehensions of high costs of digital solutions.

- **Ground level payments & logistics challenges**: Offline businesses are still facing the issues of delayed payments and untimely deliveries impacting their businesses.

**Opportunities**

- The government is partnering with MNCs to increase adoption of software and also companies are increasing their reach-outs to MSMEs.

- The value proposition for most new age digital platforms is to offer an easy to use platform in various languages thus eliminating the need of comprehensive trainings.

- Companies are increasing their marketing budgets to reach out to the tier 2 + cities where the opportunity is largely untapped currently and explaining the cost benefit equation to them.

- Players are trying to work on payment security through escrow accounts, early payment settlements which is directly benefiting SMEs. Logistics players are coming up with better tracking mechanisms improving delivery time.

*Note: USD 1 = ₹65*

Source: Redseer Analysis
Methodology

Introduction to Research

Research was conducted across three areas — Market Landscaping, Digital Engagement and Impact Assessment for understanding the Digital Services Market in India and the impact on MSMEs.

The research was conducted in two phases- Secondary included analysis of databases available in public domain. Information sought was cross-referenced and aligned for soundness.

Primary was conducted by interviewing industry experts that helped us validate key trends and market estimations. Also, consumer survey and In depth interviews with MSMEs were conducted.

In order to maintain confidentiality, results and analysis of the survey and expert interviews are presented at level of overall scenario analysis and representation only.

Methodology of Research

The objective of the Customer survey was to understand their current digital engagement by knowing their online usage patterns.

This survey having 300 respondents was conducted among three important MSME sectors namely Manufacturing, Retail and Professional Services and major hubs of these industries were identified. Respondents spoken to had been using internet so questions revolved around the usage of internet/other digital services for business.

The IDIs were conducted in order to understand the impact that they had on their business after using digital solutions.

The interviews comprised of 70 MSME owners across Manufacturing, Retail and Professional Services who have been using either a software or are present on an online listing/selling platform.
## Glossary

<table>
<thead>
<tr>
<th>SaaS Verticals</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>ERP</td>
<td>Enterprise Resource Planning solutions include ERP, SCM, Accounting &amp; Finance solutions</td>
</tr>
<tr>
<td>CRM</td>
<td>Customer Relationship Management includes Retention, Loyalty and Sales solutions</td>
</tr>
<tr>
<td>CCC</td>
<td>Content, Communication &amp; Collaboration includes internal solutions for internal data sharing</td>
</tr>
<tr>
<td>PPM</td>
<td>Project Portfolio Management includes employee and project management solutions</td>
</tr>
<tr>
<td>BI</td>
<td>Business Intelligence includes dashboarding and analytics solutions</td>
</tr>
<tr>
<td>BPM</td>
<td>Business Process Management includes solutions to discover, model, analyze, measure, improve, optimize, and automate business processes</td>
</tr>
<tr>
<td>SaaS</td>
<td>Software as a Service or Cloud Application Service</td>
</tr>
<tr>
<td>PaaS</td>
<td>Platform as a Service or Cloud Application Infrastructure Service</td>
</tr>
<tr>
<td>BPEM</td>
<td>Applications that combine the benefit of marketplace and SaaS enterprise applications</td>
</tr>
</tbody>
</table>

Note: USD 1 = ₹65

Source: Redseer Analysis
About IAMAI
The Internet and Mobile Association of India [IAMAI] is a young and vibrant association with ambitions of representing the entire gamut of digital businesses in India. It was established in 2004 by the leading online publishers, but in the last 14 years has come to effectively address the challenges facing the digital and online industry including online publishing, mobile advertising, online advertising, e-commerce, mobile content and services, mobile & digital payments, and emerging sectors such as fin-tech, edu-tech and health-tech, among others. Fourteen years after its establishment, the association is still the only professional industry body representing the digital and mobile content industry in India. The association is registered under the Societies Act and is a recognized charity in Maharashtra. With a membership of over 300 Indian and MNC companies, and with offices in Delhi, Mumbai, Bengaluru and Kolkata, the association is well placed to work towards charting a growth path for the digital industry in India.

Contact:
Nilotpal Chakravarti nilotpal@iamai.in

About RedSeer
We have emerged as the largest consumer facing consulting firm in India and #1 in the Indian e-commerce market. Driven through original and innovation research methodologies.
• >70% of the funds invested in India track portfolio performances/new investment efficacy through us
• >90% of GMV in Indian market rely on us for performance evaluation programs
• We have advised on more than $23Bn of investment decisions through our commercial due diligence
• We have the largest repository on knowledge in the sector along with best in class team of consultants
• Redseer powered the Flipkart & Walmart deal
• We have conducted 2000 + engagements across consumer facing business: Internet, Healthcare, Automotive, Education, Retail/ CPG
• And we are Industry thought leaders in internet, healthcare and Retail/ CPG