

E-Commerce: an engine for SME and Economic Growth

Many countries in the Caribbean have historically been slow to develop, implement and adopt technological solutions to operating issues. Since the onset of the COVID-19 pandemic, however, consumers have transitioned more rapidly to digital solutions, becoming more reliant on e-commerce for a significant portion of their purchases, from essential goods to gifts.

Some local "brick-and-mortar" businesses, small and large have moved their operations or parts of it online. That ability to adapt to the changing environment was the fundamental difference between the businesses that survived and, in some cases, thrived and those that struggled to keep their doors open. For many businesses, online meant selling or taking orders via Facebook or Instagram, interacting with customers using messenger services like WhatsApp, payment on delivery, advertising online and other combinations to ensure their businesses' survival. But these creative and resourceful means are not necessarily e-commerce in the truest sense, since they lack electronic payment for the goods and services which has been a lifeline for thousands of businesses globally. However, with many SMEs' appetites open for technological change, now is the time to make the full transition.

“While the rise of e-commerce during the first year of Covid-19 in 2020 is easily explained, the fact that growth persisted in 2021 is evidence of a real behavioral shift to shopping online,” says Brian Nowak, an equity analyst covering the U.S. internet industry. The extended lockdowns demonstrated how vital e-commerce has become to businesses. COVID-19 propelled its adoption globally, seemingly overnight, as found in a McKinsey study that concluded 10 years of e-commerce adoption was compressed into just three

months. It also found that the adoption occurred in cultures where in-person, cash-reliant shopping was the norm and preference. With a credit card penetration rate of just under 20% as at 2017 and an unbanked population of roughly 21%, there is still heavy reliance on cash payments in Trinidad and Tobago.

The impact of this rapid global adoption and transition to e-commerce is significant. E-commerce sales surged in the United States, growing 50% to \$870Bn from the onset of the pandemic to the end of 2021. While this was not unexpected in the US where cashless commerce thrived pre-pandemic, other countries also saw exponential growth in e-commerce revenue and sales. Australia, China, Canada, Singapore, the United Kingdom and others saw exponential growth. “China’s experience shows that developing countries can harness digital technology and e-commerce to create jobs and improve people’s lives,” said Victoria Kwakwa, World Bank Vice President for East Asia and the Pacific. Her comment followed a report produced by the Bank and the Alibaba Group looking at the development benefits of ecommerce.

Globally, e-commerce sales grew to US\$27 Trillion fuelled in most part by the pandemic. A recent report this year by Morgan Stanley also showed promising figures for global e-commerce growth over the next five years. It forecasts the market in the USA could increase from US\$3.3 trillion in 2022 to US\$5.4 trillion in 2026. While there is little to no disaggregation of the data to reflect small and medium enterprises (SMEs), the global anecdotal evidence suggests the transition to e-commerce during the pandemic built resilience, improved sales, increased profit margins, and accelerated their recovery from the pandemic’s harsh realities. The outlook is promising for those companies willing to make the leap into the e-commerce space or for those that already have.

In both developed and developing countries, SMEs make up the majority of businesses and employ the majority of workers in both the manufacturing and services sectors, according to a study done by the World Trade Organisation examining e-commerce in developing countries. An Inter-American Development Bank and Central Bank of Trinidad and Tobago study estimated there were approximately 18000 MSMEs operating in Trinidad and Tobago, employing 200,000 workers and contributing 28% to GDP. MSMEs role in developing economies is critical because they promote social inclusion by employing people at all skill levels and improve the quality of life for women and their households.

When making the switch from traditional brick and mortar to e-commerce, SMEs have two main options; online marketplaces or e-commerce websites. An online marketplace is an e-commerce site that connects sellers with buyers. It's often known as an electronic marketplace and all transactions are managed by the website owner. An e-commerce website is one that allows people to buy and sell physical goods, services, and digital products over the internet rather than at a brick-and-mortar location.

ECONOMIC BENEFITS FOR SMEs

There are a number of proven economic benefits for SMEs including e-commerce into their business model.

1 - Controlling business costs: SMEs do not enjoy the same level of capital as large corporations, therefore managing costs is critical for their success and survival. Whether running a standalone online store or moving business to an e-marketplace, the costs involved are significantly less than

traditional brick and mortar operations. An online store requires much less capital outlay.

2 - Increased Revenue: A comprehensive report published in India at the end of August found that e-commerce adoption boosted SMEs revenue by almost 200%, compared to those who chose to sell offline. Numerous studies conducted by international agencies like the World Economic Forum, the World Bank, and others show SMEs that transitioned to e-commerce enjoyed increased revenue. Unlike brick-and-mortar stores, e-stores are always open.

3 - Effective Marketing - Ecommerce allows businesses to collect customer information through web analytics which can be utilised to improve operations, manage inventory, and target customers more effectively.

4 - External market access: One key advantage of ecommerce is the ability to reach customers outside of their country's borders. This promotes exports and ultimately the ability to earn foreign exchange.

When SMEs succeed, the economy benefits. It is estimated that Trinidad and Tobago citizens spend upwards of US\$500m on purchases in the United States via e-commerce annually. That is a significant amount of revenue migrating from T&T that could otherwise benefit SMEs and contribute to economic growth. There needs to be an enabling environment to support SMEs transition to e-commerce. Public policy must accelerate and promote the creation of a holistic e-commerce ecosystem that benefits all businesses. If done well, this will certainly lead to growth in the SME sector, but also overall economic growth and diversification. Recently, majority state owned communications solutions provider TSTT launched its online marketplace Parlour, which seeks to help local MSMEs reap the benefits of operating in an online space. One such benefit is an enabling environment that nurtures better quality products, improved customer

service and innovation that all come from increased competition. E-commerce platforms like Parlour are critical in providing an opportunity for MSMEs to take their businesses online, and for those that do take the leap the benefits are far-reaching.

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