

AFRICA SME FINANCE FORUM NAIROBI

**15-16 MAY
2018**



PROCEEDINGS

SMEs and E-commerce: Lessons Learned and Opportunities for Digital Financial Services for SMEs

Moderator: Joseck Luminzu Mudiri, Senior Operations Officer, International Finance Corporation (IFC)

Panelist 1: Juan Seco, Chief Operating Officer (COO), JumiaPay

Panelist 2: Peter Ndiangui, General Manager, OLX

Panelist 3: Neil Schwartzman, Chief Executive Officer (CEO) of E-Commerce, EcoNet

Panelist 4: Milie Boyle, General Manager, Sokowatch

Executive Summary

E-commerce is defined as any activity around an online transaction, including products and services. E-commerce has made tremendous progress and has helped SMEs to achieve wider market access. SME education in e-commerce is key because of the importance of understanding market needs and establishing efficient online platforms.

Although Africa has great potential for developing e-commerce, barriers such as lack of business data and financing methods still pose difficulties for its future development. However, very soon, the success of businesses will hinge on bridging the gap between consumers and e-commerce platforms. Moreover, innovation will become the key driver for e-commerce development.

The Impact of E-commerce on SME Growth

- E-commerce is an efficient platform for SMEs to connect to customers and brand their products. It enables SMEs to refocus on their product advantages and adjust their services accordingly. The platform is also useful for coaching SMEs and facilitating online marketing.
- There has been a rapid evolution in e-commerce services available to SMEs. Initially, SMEs entering the e-commerce space were faced with challenges such as low website access, payment management difficulties, and barriers in selling their products. However, SMEs now find it much easier to enter the e-commerce industry because many sorts of tools and platforms are now available to them, including companies that help with building websites, managing payments and getting products to customers. For example, SMEs can complete an application with a third-party seller to have their online payments processed.

Key Factors for E-commerce Development

- The ability to work with consumers is significant for the development of e-commerce. For example, in Africa, people are accustomed to using cash to pay for their purchases, a custom that is contrary to e-commerce in western countries. Thus, SMEs will need to be able to demonstrate a high level of trust for consumers to be willing to shop online.
- The education of SMEs is key to their future development. The first step is to teach them how to research and understand the needs of the market, and how to access transaction platforms. For young people starting their e-commerce businesses, it is important to cast their net as wide as possible and capture all the opportunities to reach out to customers. E-commerce companies trying to enter the African market have learned the importance of education and communication.

E-Commerce in Africa: Opportunities and Challenges

- In Africa, e-commerce has changed many of the business paradigms. However, the logistics and language aspects are still far from making it a satisfactory customer experience. The challenge that SMEs are now facing is how to secure local financial support. One of the key solutions is to educate SMEs on how to fulfill an online product according to specifications. Thereafter, financing can be provided to grow their inventory.
- For Africa, the speed and adoption of e-commerce will probably surpass many other fast-growing countries, such as China and India. Africa's total population's access to mobile devices is growing at a rapid rate of 34 percent. For example, the total online population of Nigeria is more than the population of France. Therefore, e-commerce in African countries will probably take different paths compared with India and China.
- Although access to infrastructure and payments logistics are already in place, competence is still lacking. For example, the reputations of some e-commerce businesses have suffered because of poor customer service delivery. This is significant because even a single bad experience can be devastating for a SME's future development.
- Although the popularity of smart phones has reached high levels in some markets, only few consumers in Africa know how to use their phones to make online transactions. The older generations may find it odd to use mobile devices to purchase goods. In this context, some e-commerce platforms enter new markets without understanding consumers.
- The ability to bridge the gap between consumers and e-commerce is very important. For example, Safaricom has one of the best models in Kenya. Its success derives from its long-term dedication to investment in education and cultivating its online platform.
- Players need to begin to bridge the ecommerce platforms for financing.
- Many SMEs do not understand the immediacy of service delivery that is required when selling online.
- Some e-commerce platforms are built without an adequate understanding of SMEs and/or their customers.
- Cash/payment agencies can facilitate e-commerce.
- One of direct challenges to e-commerce in Africa is how to more effectively use networks to reach to a larger consumer base. For example, a company in the marketplace in Senegal owned an app and a website, but unfortunately had only 500 people visiting the site. However, after moving into a United States Satellite Broadcasting (USSB) channel, website traffic increased and more than 100,000 people visited its platform. Moreover, many e-commerce businesses try to utilize non-traditional channels, such as WhatsApp and Facebook, to reach more people.
- It is difficult for sellers to fulfill all their objectives on the lending market. Normally, lenders will lend a ticket to a seller, which means that the financial support does not necessarily cover the entire range of sellers.

Future Opportunities for E-commerce Growth

- The real opportunity in the e-commerce market is in the business-to-business (B2B) transaction model. Due to the wide availability of merchants and shops, the true value of e-commerce exists in an efficient network with retailers. By working with the right models, businesses would be able to extend their reach to broader consumer groups.
- Enormous opportunities exist in using automatic channels to facilitate e-commerce. Indeed, e-commerce can also contribute in redefining how retail is done. For example, EcoCash, a dominant mobile mini platform in Zimbabwe, has a network of physical agents that process cash payments and mobile credits. The efficient automatic channels enable buyers and sellers to meet and communicate more directly.
- Time and data are the two major constraints for e-commerce SMEs in accessing capital. Due to the lack of personnel and the risk of starting new business branches, sellers are not normally willing to spend time applying for loans. Moreover, because of the lack of reliable data, traditional lenders may find some SMEs unqualified to borrow.
- Another example of how innovation is the key driver for e-commerce is an online platform in Zimbabwe. It organizes pick-up, drop-off and cash collection points, making transactions easier for customers.
- Escrow services can make communications between sellers and buyers more assuring.
- The cost of retail infrastructure and improvement of education are drivers of future e-commerce development. Expensive retail infrastructure will necessarily force more and more buyers onto the internet. Moreover, as people become more educated, people's ability to use e-commerce platforms will certainly grow.