



SME Resilience

Making ecommerce work for Kenyan SMEs



Viffa Consult

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Introduction



The onset of COVID 19 in 2020 and subsequent restriction of movement has had a negative impact on SME operations in Kenya. We conducted several studies over the course of 2020 to gauge the effect of COVID 19 as well as draw out resilience mechanism deployed by SMEs.

One thing that we found unique with SMEs is the central role chama groups and table banking play as a resilience platform which provided finance during lean periods, mentorship as well as channel of accessing information be it market information, new trends etc.

A major shift that can be observed is the push by entrepreneurship support organizations (ESOs) for SMEs to adopt ecommerce as a resilience channel of accessing customers as has been the case with other sectors such as retail, fast food among others.

The report takes the form of a feasibility to determine how best SMEs can adopt ecommerce into their operations. The methodology follows the following approach

1. Assessment of state of ecommerce in Kenya
2. Cross section analysis of SMEs
3. Recommendations



Global e-commerce Outlook

The percentage of consumers who made at least one purchase online in the previous 12 months grew to 93% of internet users in the U.S., 97% in the UK, and 92% in China (Statista 2018).

The market of developed countries is in its maturity phase, and the competition among eCommerce players is extremely high and cost-intensive. Marketplaces like Amazon and AliExpress are flourishing, while many stand-alone retailers struggle to find their USP as brand and store loyalty are decreasing and cart abandonment rate in the industry is at 75%. Increasing brand engagement can be achieved through community building (e.g., ASOS Marketplace), loyalty programs, and a seamless mobile and desktop user experience (Statista 2018)



State of Ecommerce in Kenya

General Outlook

- Revenue in the eCommerce market is projected to reach US\$1,509m in 2021.
- Revenue is expected to show an annual growth rate (CAGR 2021-2025) of 11.62%, resulting in a projected market volume of US\$2,342m by 2025.
- The market's largest segment is Electronics & Media with a projected market volume of US\$583m in 2021.
- User penetration will be 34.6% in 2021 and is expected to hit 53.6% by 2025.
- The average revenue per user (ARPU) is expected to amount to US\$79.27.

Driver of e-commerce in Kenya

Nexus between Mobile connectivity and access to internet



More than 4 million people were connected to the mobile internet between 2014 and 2017, increasing adoption from 16% to 24%.

The growth was due to performance on two enablers: infrastructure and affordability. The former was driven by improved network coverage, with 3G increasing from 67% in 2014 to 85% in 2017, and 4G reaching more than a third of the population (GSMA Mobile Economy 2019)

Online payments trend

Debit and credit cards such as Mastercard and Visa have a low penetration in the Kenyan market, most popular domestic methods of payments for e-commerce are:



Kenyans performed 425.3 million mobile commerce transactions between July and September 2019. The operations imply that KES 1.6 trillion was spent to purchase goods and services online in the quarter (Communication Authority)

Although online payment infrastructure is in place, with several payment gateways providing solutions for e-commerce players to accept payments online, cash should not be underestimated, companies selling online often accept cash on delivery as payment option.

SME topography

The following section dissects SMEs in a way that enables in depth understanding hence gauge their technology adoption readiness. The information is based on KNBS MSME report 2016.



SME Sub sector distribution

Top SME sub sectors contributing to MSMEs gross value are manufacturing, wholesale-retail, transport, storage and education services.



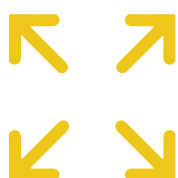
SME Marketing Trend

A large proportion of MSMEs do not market/advertise their goods or services at all and instead depend on the quality of products and clientele satisfaction as their marketing tool. Age Education level and IT adoption by SMEs



Unique behavior

In 2016 a total of 88,750 businesses changed their business activities either within the same or to completely new sectors reason being search for more profitable activities, stiff competition as a result of lack of innovativeness among others.



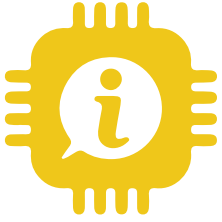
Size Distribution

92.2 per cent of MSME are Micro establishments employing between 1 to 9 employees. This asserts that most MSMEs are operated by own account workers with few or no employees engaged. These are often the in the retail trade.



Education Level

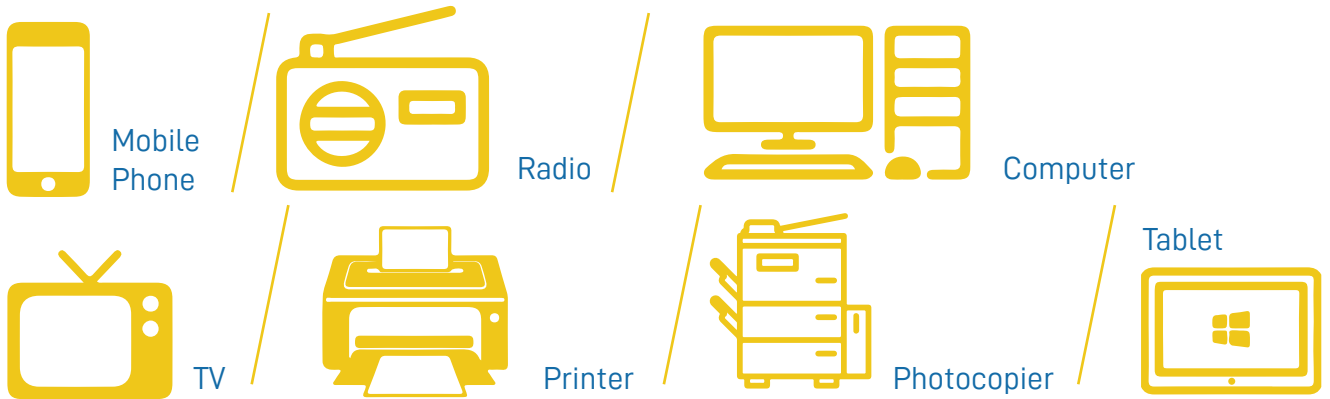
One third of business owners/operators (30.3 per cent) had attained secondary (O'level) education and 23.3 per cent of business owners had attained CPE/KCPE certificate only. Further, 9.8 per cent of business owners/operators had university degree.



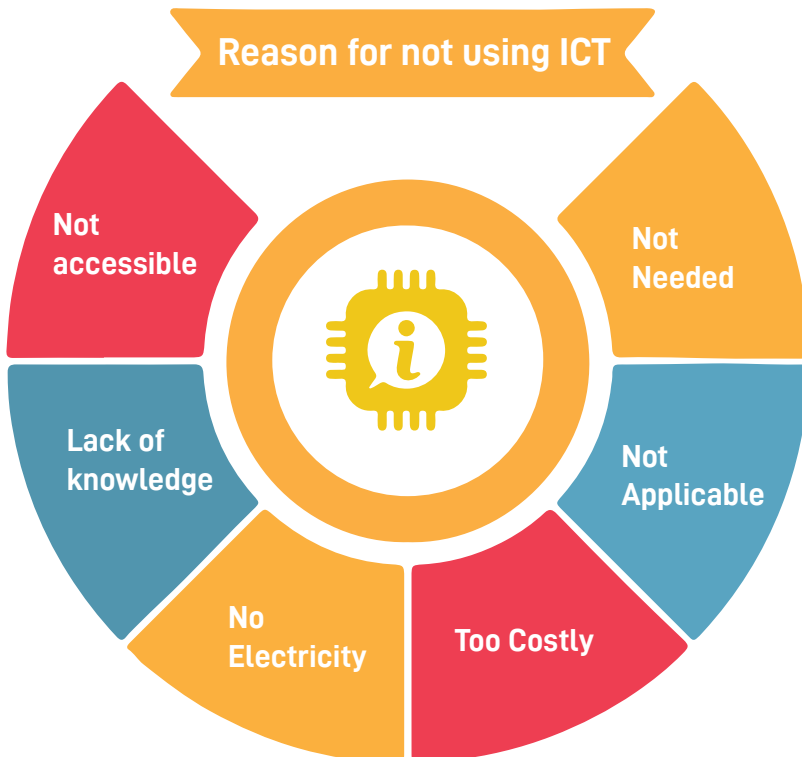
SME ICT Adoption

Type of ICT Equipment used

MSMEs reported to be having a mobile phone (40.7 per cent), 15.0 per cent reported having a radio while 10.5 per cent of the respondents reported not having any ICT gadget. Availability of the fax machine, tablets/phablets, digital / video cameras was reported by less than 5 per cent

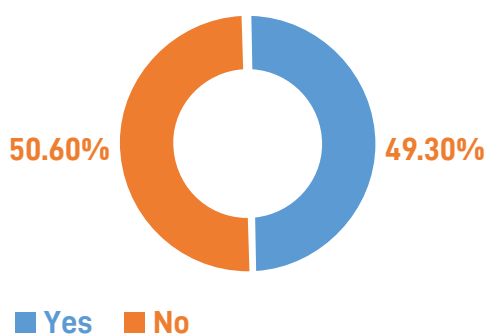


Source: KNBS MSME Report 2016

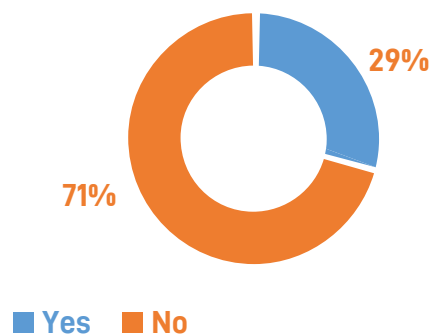


Mobile Money and Paybill use

Use of Mobile Money platform by SME



Use of Paybill/Till Number by SMEs in Business



SME Social Media Usage

(Viffa Tech Adoption 2020)



1. Facebook



2. Instagram



3. Twitter



4. WhatsApp

Recommendations

The recommendations shared are based on analysis of the opportunity presented by ecommerce and state of SME demography and technology readiness. The following are a few recommendations for adoption of ecommerce by SMEs facilitated by interested SME support organization

1. Focus must be on SME sub sector with highest contributing to socio economic development such as manufacturing, wholesale-retail, transport, storage and education services.
2. SMEs especially in manufacturing must be aggregated to use one unified platform linked to a national offtaker borrowing from the aggregation model deployed in the tea sector. This will help address the challenge of economies of scale to invest in a full ecommerce platform as well as inability to meet bulk demand needed by corporate clients as well as export market such as EAC, Africa (AFCFTA).

3. With a unified national ecommerce platform targeting local market; the following issues must be addressed; partnership with financial institutions to facilitate working capital to SME manufactures as well as Asset finance to address product quality and efficiency, partnering with logistics company with national reach and insurance mechanism among others

4. Integration of National ecommerce platform to both regional (East Africa Community EAC) and Africa Continental Free Trade Area (AFCTFA). This will enable greater market reach of SME products. Matters of quality standards, payment facilitation, taxes, trade and non-trade barriers among others must be harmonized

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