

GLOBAL INSIGHTS

**A framework for assessing the
digital maturity of micro, small, and
medium enterprises:
Lessons from India**

ACCION

OCTOBER 2020

In the COVID-19 era, digital transformation is essential for business resilience



THE
OPPORTUNITY



THE
CHALLENGE

42%

Percentage of micro and
small enterprises at risk of
failure in next 6 months

+40%

Potential increase in
revenue resulting from
going digital



The value of measuring customer digital maturity

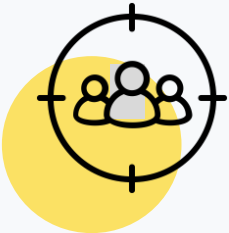
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Segmenting MSMEs based on digital maturity can ensure products are **appropriate** and **increase adoption**.

Business Case

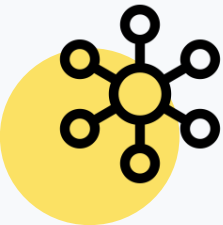
Product Innovation and Optimization

Customer Experience and Impact



Market sizing

More accurately estimate total addressable market for a digital product or service



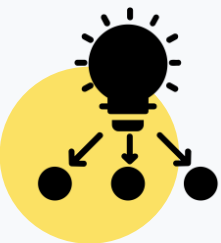
Digital channels strategy

Support the customer journey toward new channels through a segmented approach to channel development



Improve customer experience

Develop customer journeys that remove friction points and improve overall experience



Resource allocation

Direct marketing and sales resources towards MSMEs that have the highest propensity to digitize



Design products

Identify key design elements that expand digital adoption based on digital maturity level



Measure impact

Measure improvements in digital maturity over time



The MSME Digital Maturity Assessment

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A framework for assessing the digital maturity of MSMEs

The Digital Maturity Assessment looks at four key drivers of digital maturity, encompassing 7 endogenous (“capabilities”) and 7 exogenous (“enablers”) parameters.

DIGITAL READINESS

- 1 Overall comfort and trust in digital
- 2 Digital for personal use
- 3 Digital for business / financial use

FINANCIAL AND BUSINESS READINESS

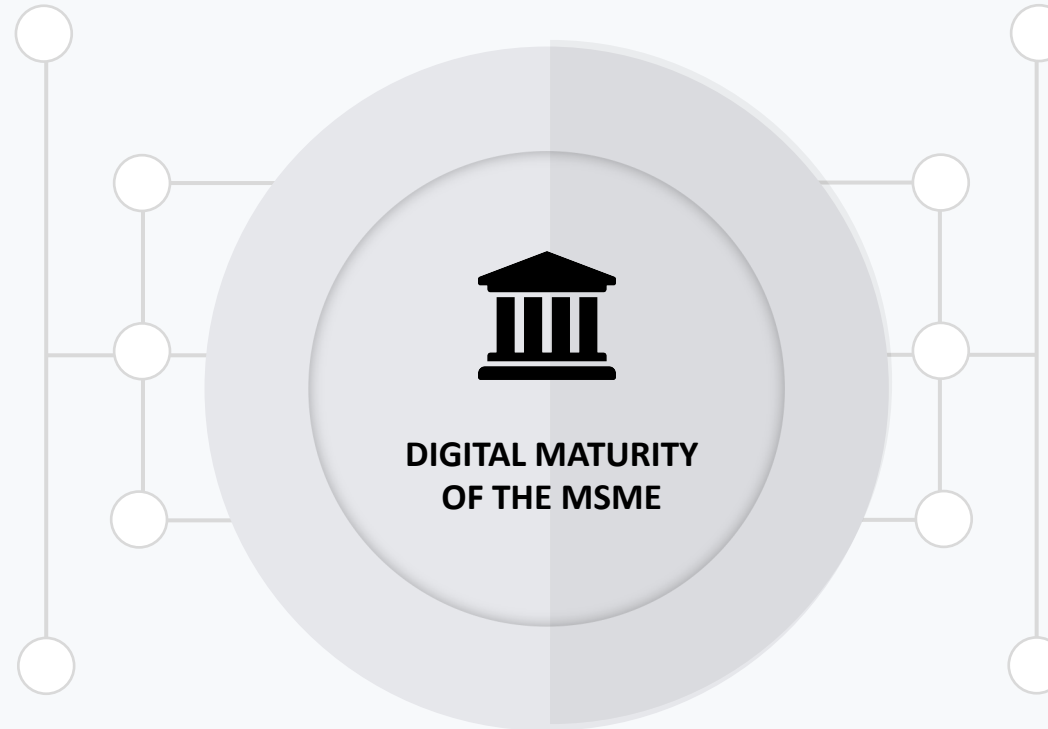
- 1 Level of trust with financial services provider
- 2 Complexity of digital transaction
- 3 Transaction independence
- 4 Business record keeping and marketing

MICRO ENABLERS

- 1 Type of device
- 2 Device ownership
- 3 Level of digitization of business partners
- 4 Customer demand for digital

MACRO ENABLERS

- 1 Country digital readiness
- 2 Cost of data
- 3 Access to internet



MSME Digital Maturity Framework

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MACRO ENABLERS



- 1 Country digital readiness
- 2 Cost of data
- 3 Mobile connectivity



	NASCENT	EXPERIMENTING	EMERGING	ENABLED
DIGITAL READINESS	Low confidence / trust in digital tools	Some confidence / trust in digital tools for certain purposes	High level of confidence with digital tools for certain purposes	High level of confidence with digital tools and willingness to try new solutions
	Not currently using; may have plans to use in the future	Current usage includes social media only	Current usage includes social media and other simple apps	Demonstrated ability to use a variety of digital tools confidently
	No current use but may be willing to use in the future	May be using simple digital tools with confidence; use is ad hoc	Uses some complex digital tools	Confidence in use of multiple tools for different business purposes
FINANCIAL AND BUSINESS READINESS	Low			High
	None; all transactions happen face-to-face	Simple information transactions only (push notifications enabled)	Complex informational transactions (push/pull) and simple financial transactions	Complex informational transactions (push/pull) and complex financial transactions
	Human touch required for all types of transactions	Willingness to engage in an assisted model	Assisted for complex transactions, self-service for simple transactions	Self-service for all transactions
	Mental accounting, no digital marketing	Paper-based recordkeeping, no digital marketing	Mix of paper-based and some digital recordkeeping; marketing through Facebook, WhatsApp	Fully digital record keeping; marketing through Facebook, WhatsApp
MICRO ENABLERS	Feature phone	Feature phone or basic smartphone	Smartphone and one or more additional devices (laptop, etc.)	
	Shared		Personal	
	Low	Low/Medium	Medium	High
	Low	Low/Medium	Medium	High
MACRO ENABLERS	Low	Medium		High
	Low			High
	Low	Medium		High

MSME CAPABILITIES

ENABLERS



Overview of MSME sector in India

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MSMEs are the growth engine of the Indian economy, yet access to credit remains a challenge for most.



Number of MSMEs operating in India



Percentage of Indian MSME credit requirements that are unmet



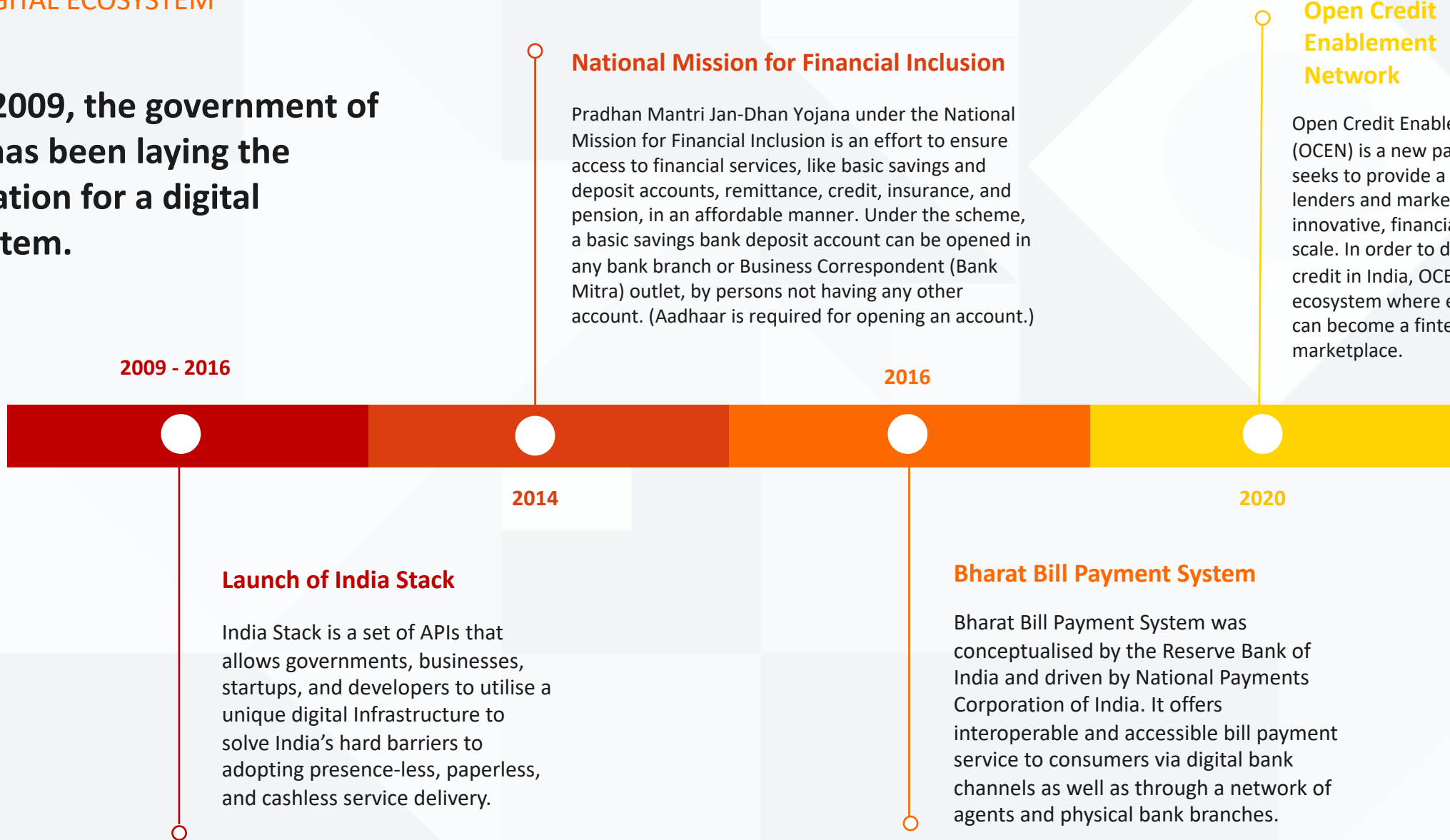
Percentage of Indian GDP that comes from MSME sector




Individuals employed by MSMEs in India



Since 2009, the government of India has been laying the foundation for a digital ecosystem.











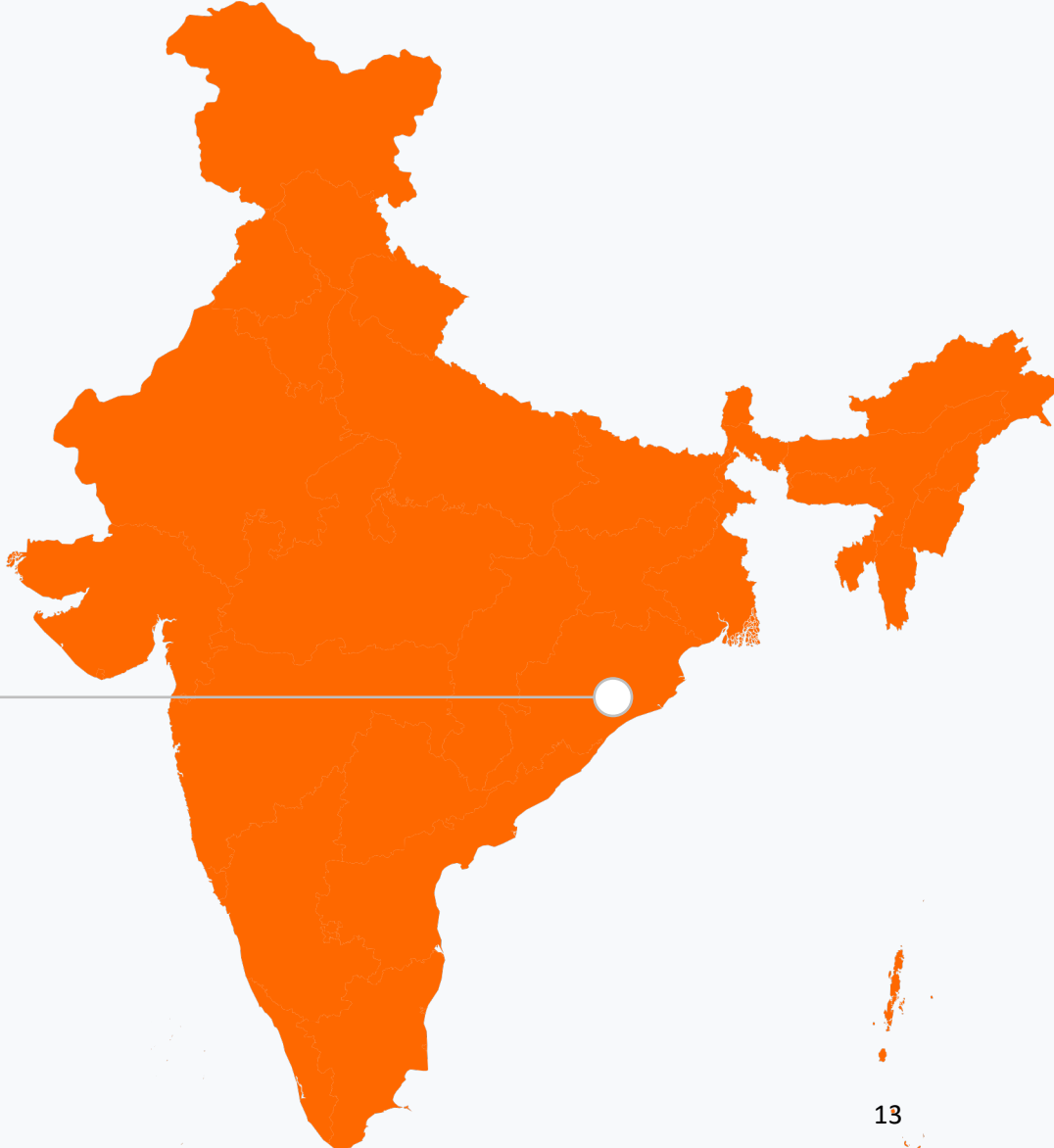


**Results from
Annapurna
Finance Ltd.**

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Institution Overview: Annapurna Finance Ltd.

 2009 Year Established	 NBFC Structure	 1.9M Number of customers
 718 Number of branches	 10 Operating states	 14,000 MSMEs
Digital products in development	 Just-in-time finance (low-ticket emergency loan for group lending customers)	 MSME loan (end-to-end digital loan for formalized MSMEs)



Study Design

Given the remote nature of this survey, Annapurna Finance Ltd.'s customers without registered phone numbers were excluded from the initial sampling, reducing the population size by 23%. The sample population is diversified across age, geography, income level, and business activity.

RESOURCES AND TIMELINE



Timeline

4 weeks
June 29 – July 29,
2020



Staff Needed

6 trained call center agents
4 quality control resources
1 call center supervisor
1 data analyst



Tools Used

Phone, customer
interview guide,
scoring guide, Excel

SAMPLING METHODOLOGY



Geographical representation

Interviews conducted from 26 branches disbursed across the geographies Annapurna operates (Assam, Bihar, Chhattisgarh, Jharkhand, Madhya Pradesh, Maharashtra, Odisha, Rajasthan and West Bengal).



Sample

300 participants
by random
selection

Gender*
Men: 232
Women: 63



Quality control

82% of the calls were monitored and 44% of them heard (live and recordings)

Key Findings and Insights



There is a gender gap in digital access and usage

In our sample, women had lower levels of digital maturity on average. Women were also nearly half as likely as men to own a smartphone and more likely to value human touch when completing transactions.



Habits lead to confidence and self-efficacy

Among digital users, customers who used technology frequently (as measured as multiple times per day) were twice as confident in their ability to do the things they needed to do online. These customers also indicated they would be willing to try out new digital tools in the future.



Widespread misinformation online creates adoption challenges

Customers overall had high distrust in information shared and found online. This was especially common among frequent digital users.



Use of digital for marketing and business management is uncommon

Even among highly digitally mature customers, use of digital technology for business management and marketing was rare; however, more digitally mature customers were more likely to keep physical records of sales and transactions.

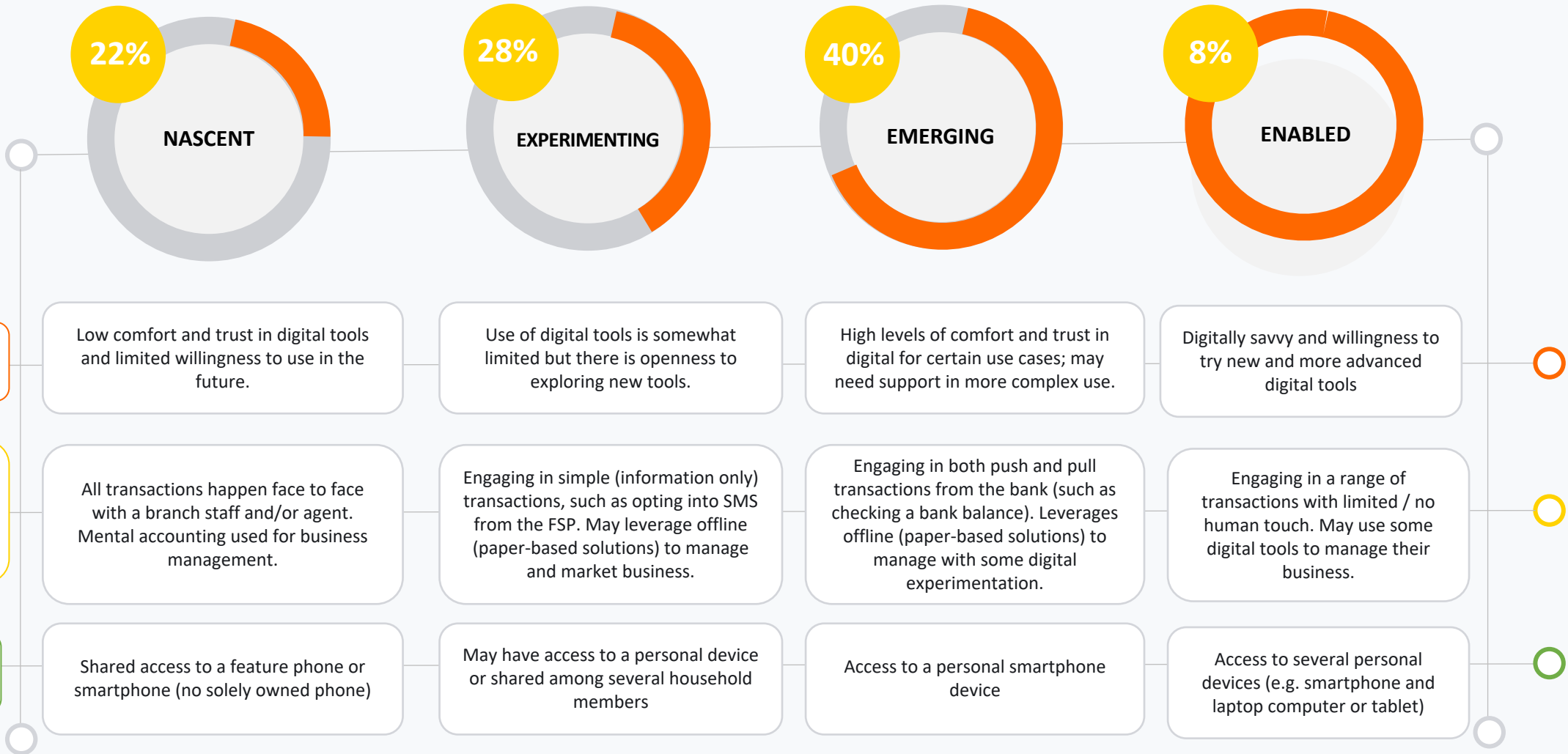


MSME-supplier relationships are instructive

More digitally mature customers were more likely to pay their suppliers and business partners digitally.

SEGMENTATION

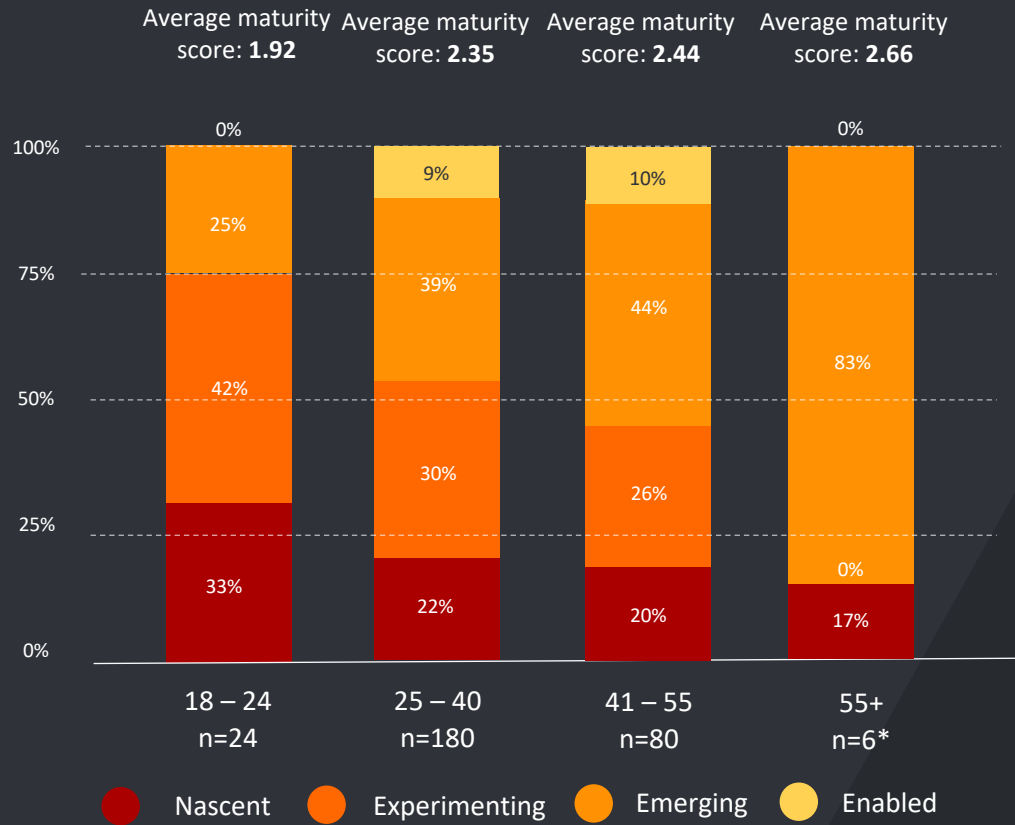
A majority (~70%) of Annapurna's customers fell within the middle to upper range of the digital maturity spectrum.



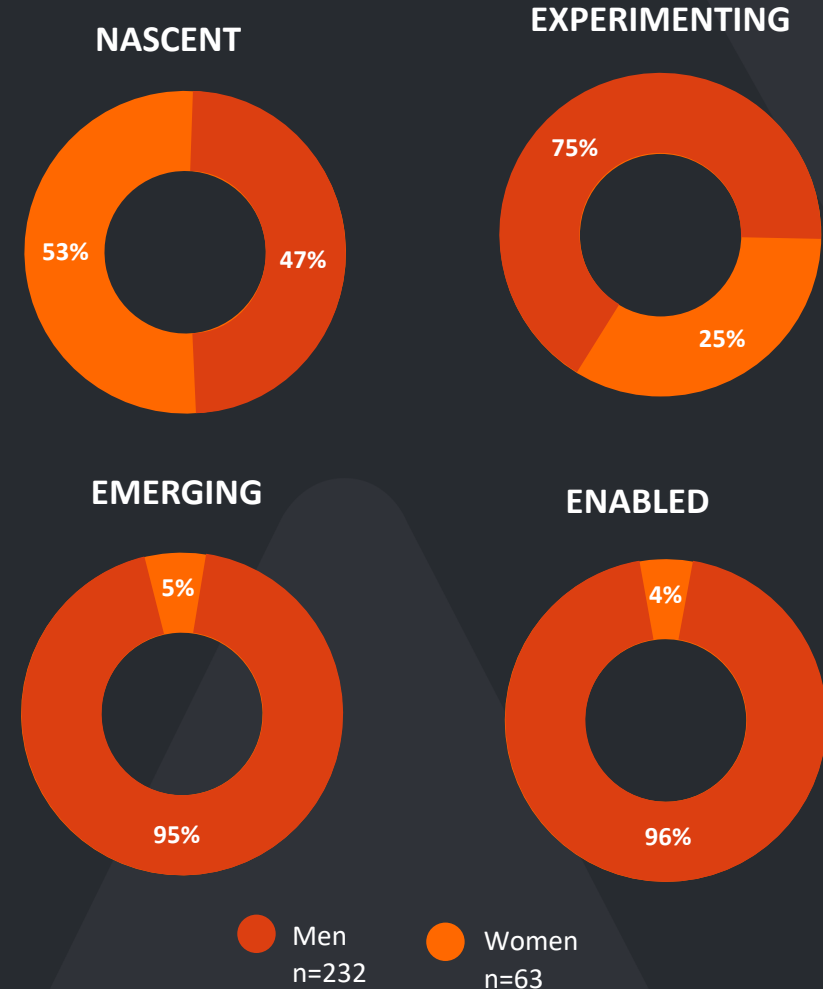
DEMOGRAPHICS

Clients in the median age groups showed the highest levels of digital maturity on average. Women are overrepresented in the lower maturity segments.

Segment breakdown by age (n=295)



Segment breakdown by gender (n=295)



DRIVERS OF DIGITAL ENGAGEMENT

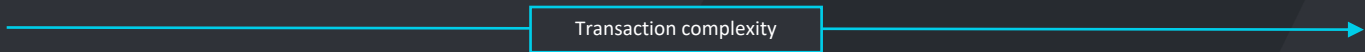
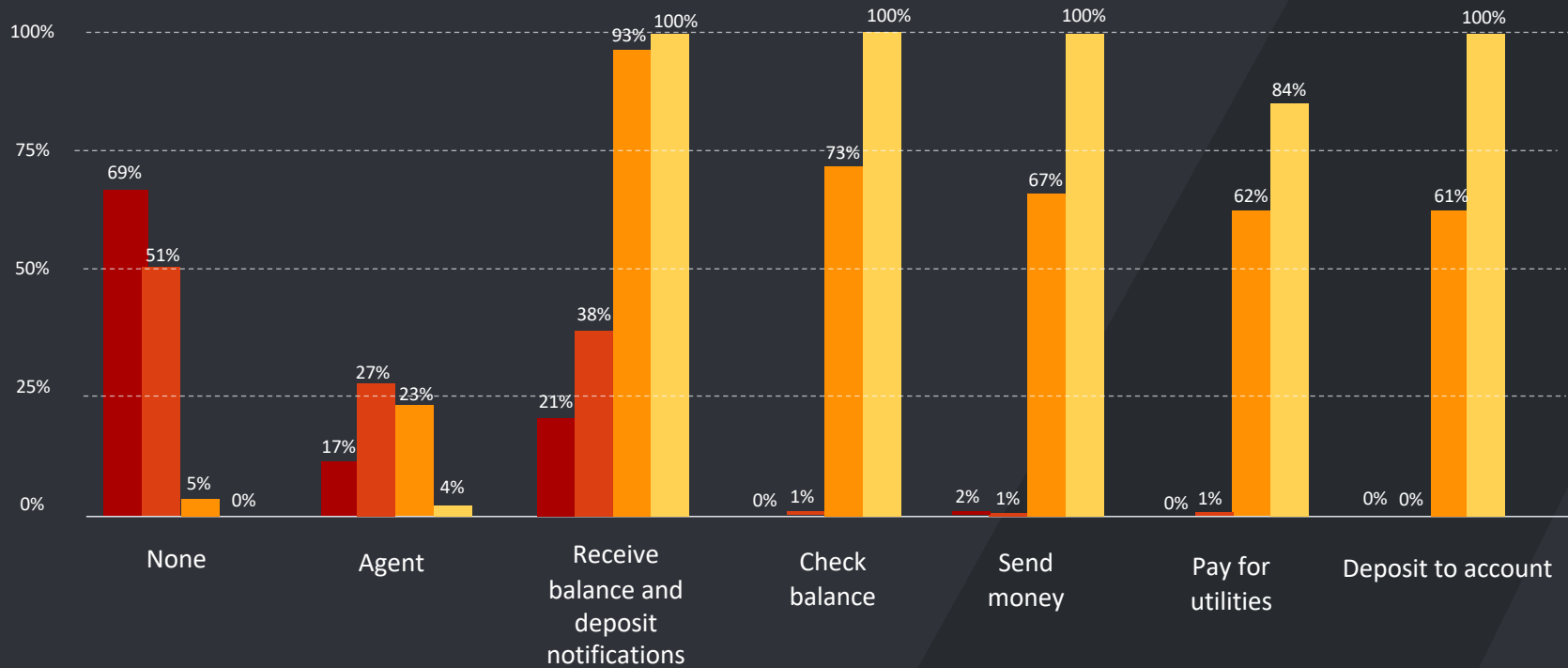


TRANSACTION TYPE



Examining transaction types by segment can indicate where less digitally mature segments need more assistance.

Type of transactions completed, by segment (n=295)



There is a large (21 - 37 percentage point) drop off between push transactions (initiated by the FSP) and simple pull transactions (initiated by the customer) among less digitally mature segments.



Emerging and enabled segments exhibit similar transaction behaviors for simple transactions but start to differ for pull and more complex transactions.



Even at higher levels of digital maturity, some customers may still prefer to use an agent vs. a self-service channel

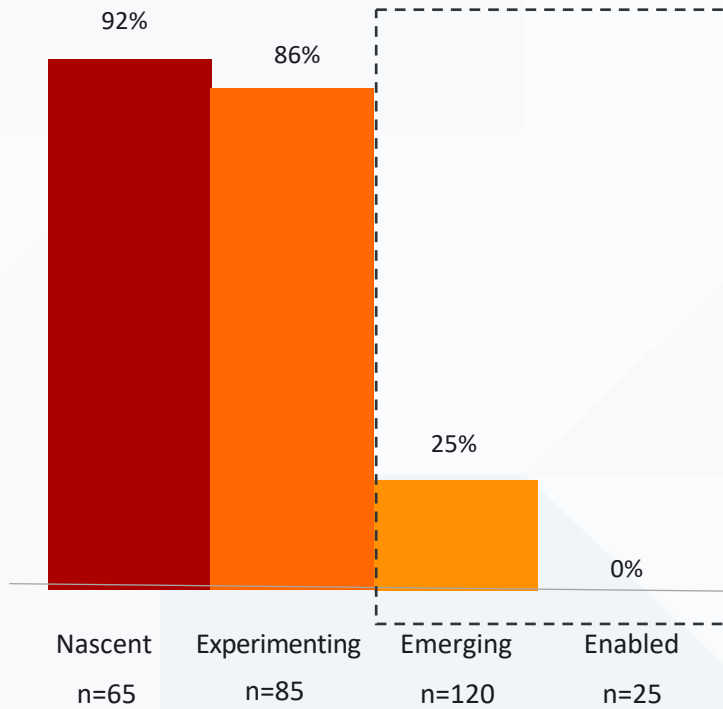
TRANSACTION INDEPENDENCE



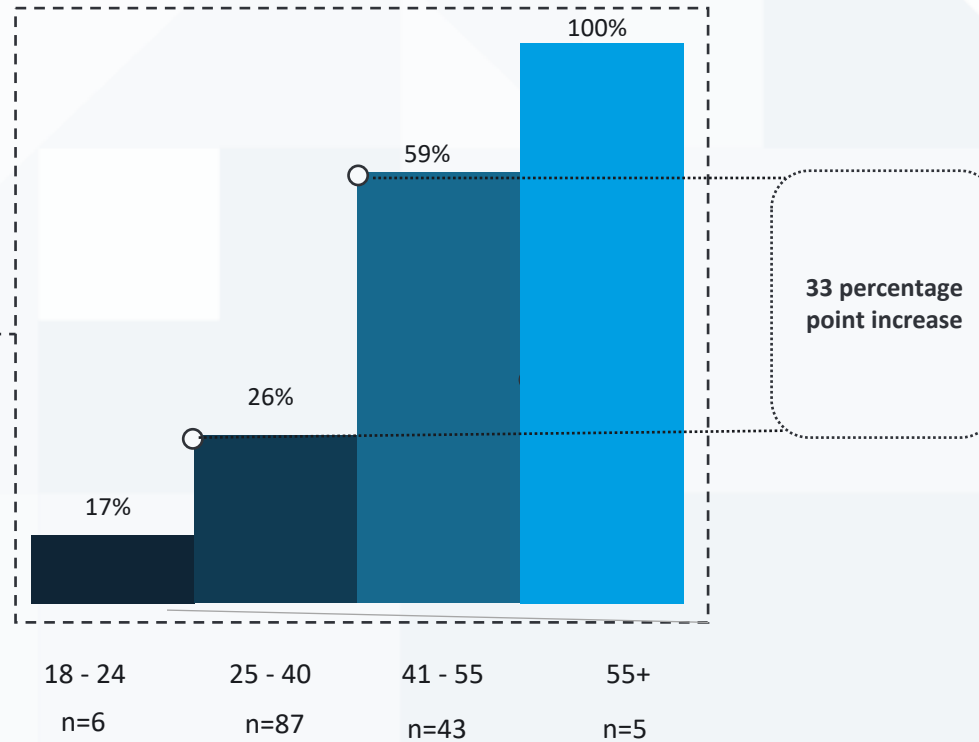
In later stages of digital maturity, human interaction is less important in completing transactions; however, sentiment varies by age. Women are also more likely to value human interaction when completing transactions.

Q: It is important that I can interact and receive help from a person when completing transactions (% agree / strongly agree)

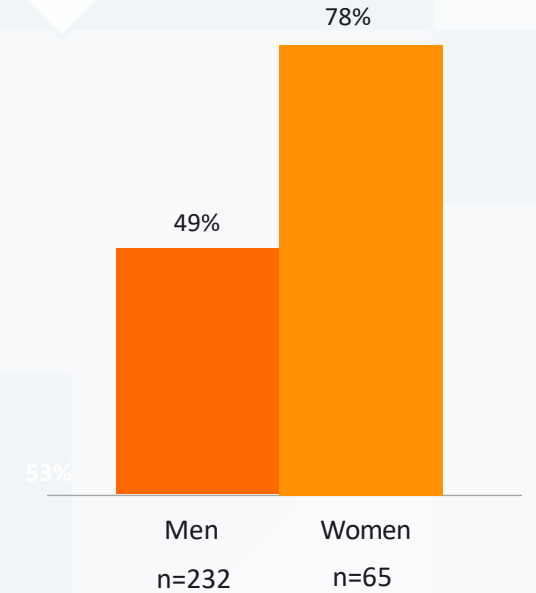
By segment (n=295)



Among emerging and enabled, by age (n=145)



By gender (n=295)

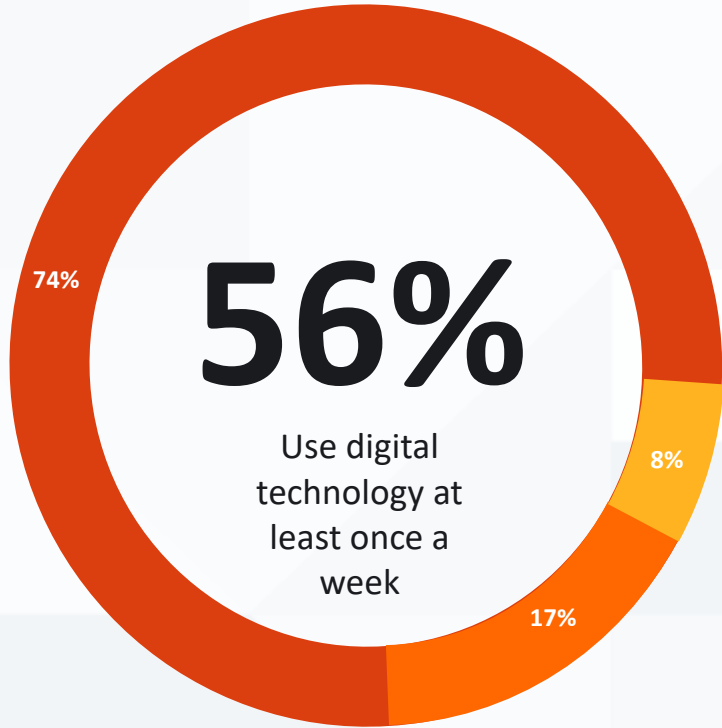


CONFIDENCE AND TRUST



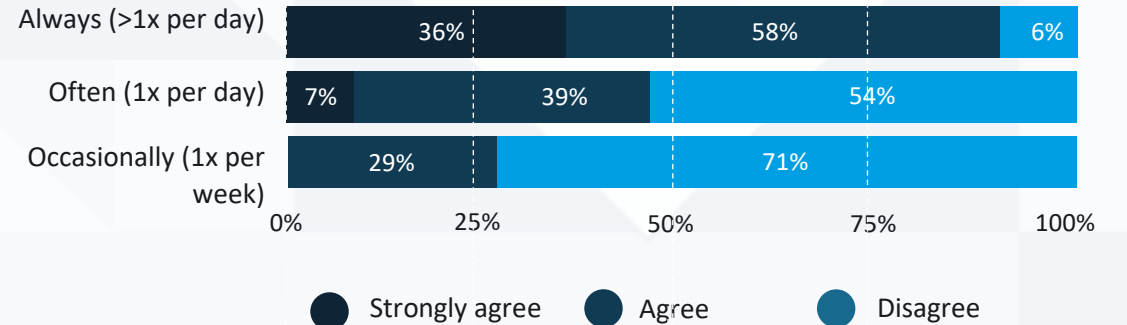
Customers who use digital technology more frequently were more confident in their usage but had higher levels of distrust in information found online.*

Frequency of use among digital users (n=167)

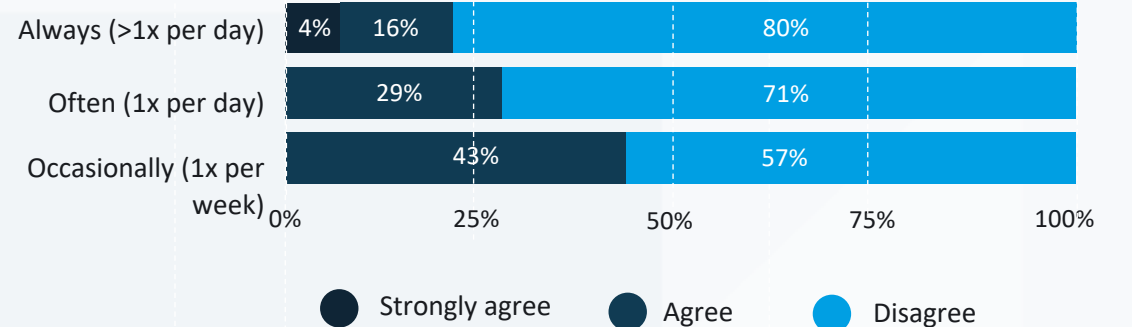


- Always (>1x per day)
- Often (1x per day)
- Occasionally (1x per week)

"I am confident in using digital technology to do the things I need to do online" (n=167)



"I feel confident that the information I find online is correct" (n=167)



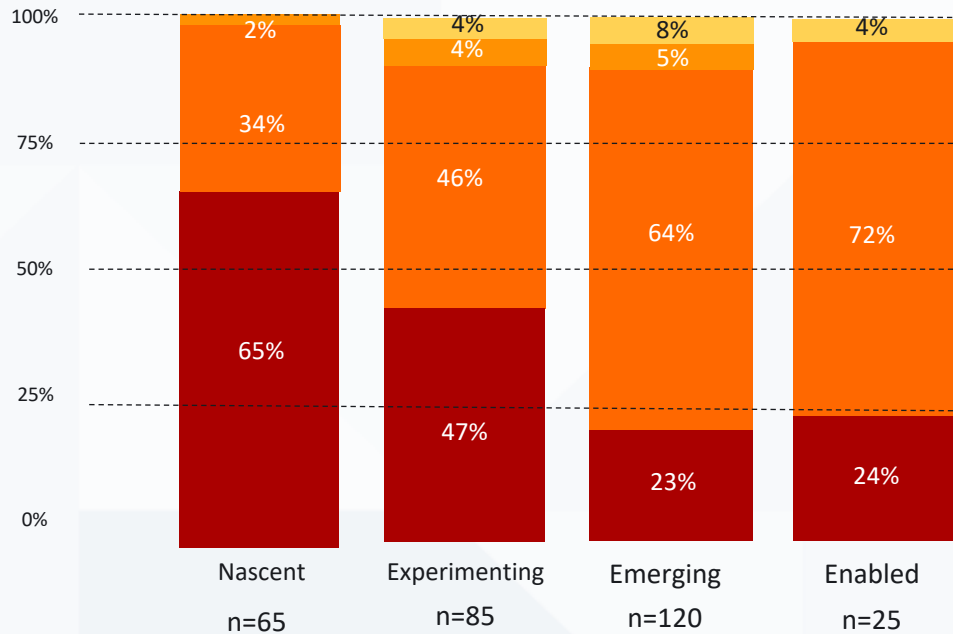
*"Information found online" refers to general information shared on the web, not necessarily through a trusted FSP channel, such as SMS or an application.

USE OF DIGITAL FOR BUSINESS MANAGEMENT AND MARKETING

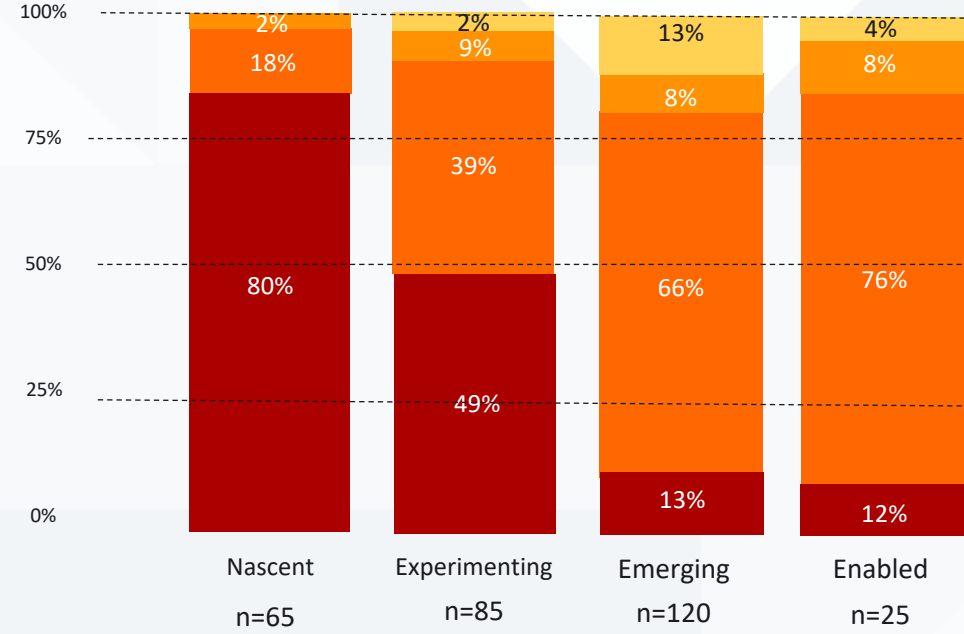


Use of digital tools for business management and marketing is uncommon across all segments, even at higher levels of digital maturity. Only **3%** and **6%** of respondents stated that they were using digital tools for business management and marketing respectively. More digitally mature segments were more likely to keep a physical record their sales and transactions (76-77%) compared to less digitally mature segments (35-58%).

Use of digital technology for business management (n=295)



Use of digital technology for marketing and promotion (n=295)



- No record of sales and txs.
- Physical record of sales and txs.
- Combo physical and digital records of sales and txs.
- All digital record of sales and txs.

- N/A; No response
- Not currently using any digital tools for marketing & no future plans for use
- Not currently using any digital tools for marketing but would like to in the future
- Currently using digital tools for marketing and promotion



Recommendations

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MOVING FROM INSIGHT TO STRATEGY

Annapurna Finance Ltd. can leverage trusted relationships with customers to support their digital maturity journey.

Insight



Gender plays important role in digital maturity



Habit formation is key to building confidence, which can lead to self-efficacy



Widespread misinformation online is common



Use of digital for marketing and business management is uncommon



MSME-supplier relationships are instructive

Strategy implication

▶ In order to bridge the gender gap and promote usage, proper trainings and confidence-building activities are necessary to build the financial capability of women clients, as well as their trust in the products themselves.

▶ Annapurna should consider embedding digital engagement methodology (i.e. gamification, nudges, training & capacity building) within digital products to support consistent use.

▶ Annapurna should find ways to build trust in digital channels (through secure messaging and authentication) and provide resources that help customers discern what information online is truthful.

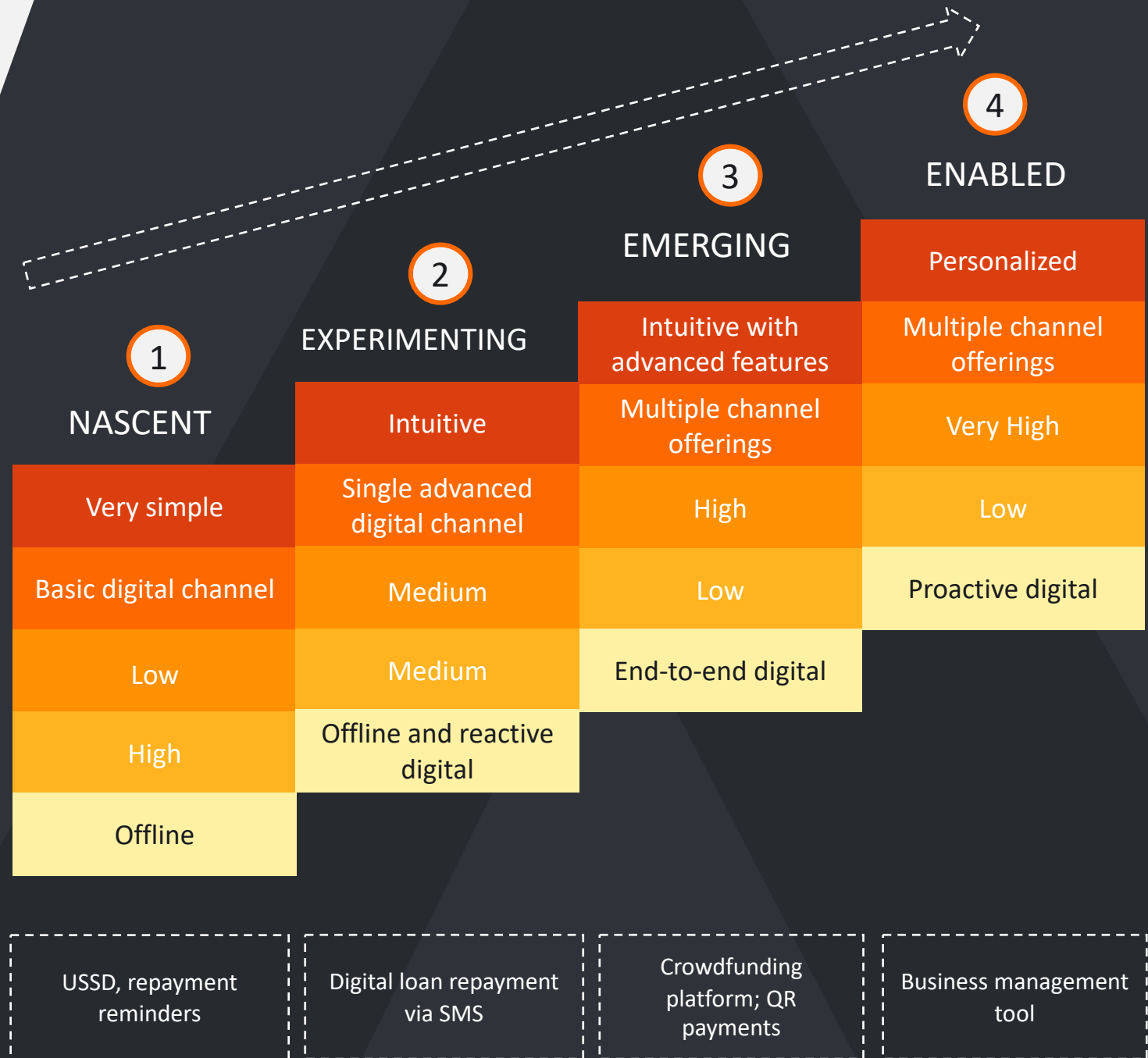
▶ Initiatives focused on business management and marketing may not resonate with customers. Initiatives that digitize processes that customers are already familiar with (e.g. repaying their loan) may lead to greater adoption in the short-term.

▶ Mapping the digital ecosystem between merchants and their suppliers can identify potential sectors that have a higher propensity to digitize.

DIGITAL DESIGN PRINCIPLES

FSPs can support customers' digital maturity by designing appropriate products for each maturity level

- Simplicity and ease of use
- Reachability
- Digital literacy level
- Support level
- Support function



LEVERAGING THE INSIGHTS

Gaining a deeper understanding of customers' digital maturity through the Digital Maturity Assessment will help advance Annapurna Finance Ltd.'s goals moving forward.

HARMONIZE



Prior to Accion's TA, very basic customer segmentation existed. Through the Digital Maturity Assessment, Annapurna Finance Ltd. is now adopting the classification to better serve their customer base. Moreover, AFPL now has a unified language to empathize with and to strategize for their MSME customers.

INSIGHTS



The assessment enabled Annapurna to classify and understand the extent of digital divide within the customer base. Before, the assessment was deployed, the overwhelming sense within Annapurna was that the extent of digitization amongst MSME customers was limited. However, the survey confirmed that nearly half of the customers surveyed (and 70% of those with formal businesses) fall within the Emerging and Enabled segments.

CONFIRMATION



Prior to the Digital Maturity Assessment, Annapurna was looking to digitally grow the unsecured income proof customer base but was cautious about whether the MSMEs had the digital data to obtain credit digitally. However, the survey confirmed that 75% of the target customers are able to provide documents and data digitally. Hence, Annapurna has chosen to pursue a strategy to serve MSME customers through a digital loan product.

Thank you.

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