

Policy Brief

Unlocking the Full Potential of Digital Merchants: Lessons from the second round of the COVID-19 Digital Merchants Survey¹

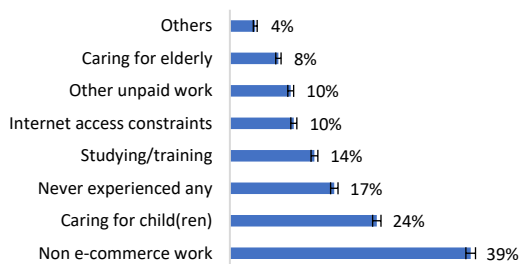
When workers' livelihoods were adversely affected by the pandemic-induced economic downturn, many had sought additional sources of income in e-commerce, which serves as an inclusive landscape for entrepreneurs from various backgrounds. E-commerce has helped to provide a relatively stable source of income for these merchants. However, not all of them are thriving. Digital merchants face three main challenges. First, they are constrained by time, often because of other responsibilities such as childcare. This is relevant as E-commerce merchants who allocate more time are associated with higher sales figures. Second, merchants are unable to obtain necessary capital to support their business, because of limited access to finance constrained by high cost of borrowing as well as lack of financial literacy and awareness. Lastly, merchants lack sufficient business knowledge and digital skills that could have improved their business performance. To better support merchants, merchants could benefit from improved access to affordable and high-quality childcare, higher digital and financial literacy, and targeted training programs to improve their business knowledge and skills.

E-commerce has been proven to be a relatively stable source of income for many. While 86% of representative businesses in Indonesia reported a decrease in Y-o-Y sales during the 1st year of pandemic, only 16% of Shopee's merchants experienced the same. However, some e-commerce merchants face challenges which prevent them from growing their businesses or even make them inactive over time.

Majority of merchants face constraints to spend more time in e-commerce

Merchants' sales are positively correlated with their time allocation in e-commerce—the more time they spend, the larger sales they tend to have. However, 83% of merchants are not able to allocate more time to e-commerce because of other activities, mainly non-e-commerce paid work (39%) and childcare responsibilities (24%; Figure 1).

Figure 1. Limitation to time allocated to e-commerce is largely related to non-e-commerce paid work, followed by childcare responsibilities.



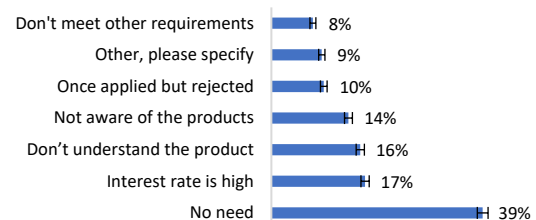
Non-e-commerce paid work might be a substitute for e-commerce, as both are income generating activities. Merchants might take up non-e-commerce paid work by choice or by necessity/duty. However, childcare

responsibilities reduce participation in labor markets, especially for women. While 24% of merchants reported that they face time constraints in e-commerce due to childcare responsibilities, this issue disproportionately and significantly affects female (35%) more than male (10%) merchants. Ultimately, childcare issue pushed 15% of merchants to turn down business opportunities. More affordable and better access to childcare support would help to lift this constraint.²

Many e-commerce merchants need loans to fund their business

Funding is a major challenge in e-commerce. Around 23% of merchants would like to have less expensive access to finance, including loans. Digital loans are the most popular source of lending, surpassing loans from commercial banks. Around 2 out of 5 merchants had taken a loan from a digital platform in the past. Despite the popularity of digital loans, high cost as well as lack of financial literacy and awareness are often cited as constraints limiting its potential in helping online businesses (Figure 2).

Figure 2: Cost of loans, lack of understanding and awareness of digital loan products are barriers for merchants to take digital loans.



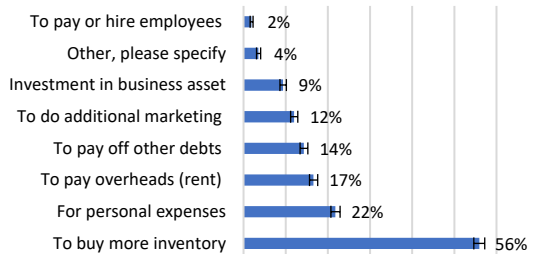
Loans are primarily used for business purposes, such as purchasing inventory (56%) or paying rents (17%; Figure

¹ This brief is based on survey data from 17,479 respondents collected in one of Indonesia's largest e-commerce platforms, Shopee, between February 24th and March 8th, 2022.

² See Halim, Johnson and Perova (2017, 2019 and 2021)

3). However, around 22% use the loan for personal expenses, which do not directly support their e-commerce business.

Figure 3. Despite its primary use to fund operations, a substantial share of e-commerce merchants use digital loans for personal purposes.



Thriving merchants are able to adapt to the dynamic e-commerce landscape

To face an ever-changing competition in e-commerce, merchants need to stay on top of the latest business knowledge and digital skills. Indeed, merchants who had prepared their skills prior to starting e-commerce business tend to record higher annual sales. Yet, the type of skills important for sales performance depend on how long they have been in business. Thus, different business strategies are needed at different stages of the business. For example, newer merchants seem to gain greater sales from setting prices strategically (perhaps to gain market share) while merchants who have stayed longer gained more from improving customer services (to keep customers' loyalties). Yet, while most merchants had work experience prior to joining e-commerce, a third of merchants did not have any prior work experience, training, or any other skill-upgrading activities.

Policy priority areas to support digital merchants

First, to address time constraints due to childcare issues, especially among female merchants, policies should be directed to support access to affordable and high-quality childcare.³ Improvement in childcare services across the population would provide more flexibility and options for merchants who wish to spend more time in e-commerce, especially for women.

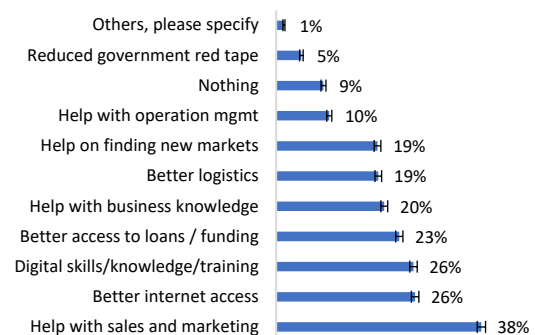
Second, digital and financial literacy need to be improved, with the ultimate goal of better inclusion. Merchants need to be able to understand available financial products, including its associated benefits, costs, and terms, to harness potential benefits while minimizing the risks, for example, of overborrowing or borrowing from unlicensed digital lenders in the market. Policies should be aimed to

increase the financial literacy, financial product knowledge and financial management skills of digital merchants. By boosting financial literacy across the population, a larger share of people would be able to access the needed financial resources that could benefit their business, while also avoiding using loans for non-business and non-productive expenses that could lead to business failure.

Third, lack of business knowledge and digital skills needed for e-commerce means that targeted programs on skill improvements are necessary, especially when not all merchants have adequate preparation before selling online. More advanced sellers could benefit from courses/programs which help them export their products abroad. As there is no one-size fits all solution, programs could be directed to increase merchants' ability to adapt to the dynamic landscape of e-commerce and identify new strategies to thrive in competitive markets, rather than prescribing specific key skills as success factors.

In fact, merchants are identifying types of assistance that are congruous with the earlier observed challenges (Figure 4).

Figure 4: Help with sales and marketing are the most popular types of assistance expected by merchants to help them improve their online sales performance, followed by better internet access and digital skills and knowledge, and better access to loans and fundings.



³ ibid