Enabling MSME Ecommerce in the Philippines

Dr. Kati Suominen
Founder and CEO, Nextrade Group
Philippines Digital Trade Dialogue
17 June 2021
ETRADE ALLIANCE GOALS, WORKSTREAMS AND PARTNERS

Main objectives...

1. Increase number of MSMEs selling online, including on marketplaces
2. Increase MSMEs' sales volumes online

...attained by breaking main constraints in key areas (~25 projects per year)

- New constituencies in ecommerce development
- 1. Policy and enabling environment
- 2. MSME skills development for ecommerce
- 3. Logistics and last-mile delivery
- 4. Access to finance
- 5. Inclusive trade

MSMEs’ digital transformation

https://www.allianceforetradedevelopment.org
Alliance partners’ 360 ecommerce capabilities span the ecommerce sale cycle (also free resources readily available online)
Why are we excited about MSME ecommerce?
Firms that take remote orders and were deemed “essential” fared better in Covid-19

Firms’ projected revenue growth in 2020

<table>
<thead>
<tr>
<th>Category</th>
<th>Revenue Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-essential and not taking remote orders</td>
<td>Decrease more than 10%</td>
</tr>
<tr>
<td>Essential but not taking remote orders</td>
<td>0%, no decrease or growth</td>
</tr>
<tr>
<td>Essential and taking remote orders</td>
<td>Increase 5% - 20%</td>
</tr>
</tbody>
</table>

Source: Visa with Nextrade Group
Online exporters also did better in Covid-19

Firms' projected revenue growth in 2020

- Non-exporter and do not sell on marketplaces
- Export but do not sell on marketplaces
- Export and sell on marketplaces

Source: Visa with Nextrade Group
Small Philippine firms are still mostly social sellers, but also starting to use marketplaces

How firms sell online, by firm size

Platforms used to sell online

We do not use any of these

Facebook
Instagram
Shopee
YouTube
Lazada
Our own website
Google My Business
Our own online store
WhatsApp
Twitter
We use Shopify capabilities
WeChat
Tokopedia
Freelancer.com
Upwork
Etsy
B2Bpricenow
Tradekey
Bukalapak
Fiverr
Aliexpress

Philippine MSMEs benefit significantly from ecommerce in new customers, revenues, exports

Gains from using ecommerce, by type of seller

- New domestic customers
- New international customers especially in Southeast Asia
- Increased revenue
- New international customers in other regions
- Improved cash flow
- Exports to other new markets
- Exports to Southeast Asia
- Become more profitable
- Improved interactions with our vendors
- Contracted new services like logistics and IT services
- Found good Southeast Asian suppliers
- Found good global suppliers
- Found good domestic suppliers
- Increased hiring
- Diversified into new products and services
- Streamlined our workflows and operations
- Cut operating costs
- Cut time managing payments and invoices

Online seller MSMEs are likelier to export

...and export to multiple markets

Number of foreign markets sold to, by type of seller, 2021

What are we solving for today?
Top challenges faced by micro and small Philippine firms selling online in Southeast Asian and Global markets

- Receive payments
- Maintain our online store
- Quality of logistics services
- Do digital marketing
- Total delivery costs
- Issues with interoperability of payment systems
- Quality of postal services
- Manage our stores on a marketplace
- Access to working capital to fulfill orders
- Get a quality internet connection
- Make payments
- Manage customer interactions and after-sale
- Maintain our social media presence
- Last-mile delivery in more rural regions
- Urban last-mile delivery

Top challenges faced by midsize and large Philippine firms selling online in Southeast Asian and Global markets

Larger firms face similar challenges

- Do digital marketing
- Make payments
- Maintain our online store
- Receive payments
- Access to working capital to fulfill orders
- Quality of logistics services
- Total delivery costs
- Maintain our social media presence
- Quality of postal services
- Issues with interoperability of payment systems
- Manage customer interactions and after-sale
- Last-mile delivery in more rural regions
- Get a quality internet connection
- Manage our stores on a marketplace
- Urban last-mile delivery

“Top-3 capabilities my company needs to start or expand our online sales”

- Better quality products and services
- Knowledge about how to do ecommerce
- Digital marketing capabilities
- Access to high-quality internet
- Trust mark or identity for online buyers to trust us
- Working capital to fulfill orders
- Ability to accept payments from customers
- Higher quality logistics
- Presence on regional marketplaces like Lazada and Shopee
- Financing for digital transformation and ecommerce capabilities
- Better warehousing
- Training and technology for cybersecurity
- Compliance with digital regulations like data privacy rules
- Ability to manage domestic fulfillment
- Ability to comply with foreign market access regulations
- Customer data analytics capabilities
- Presence on global marketplaces like eBay, Etsy, Jumia, Amazon
- Cheaper logistics
- Better access to talent
- Ability to manage international fulfillment

Our question: how to enable more firms to grow into online sellers →

1. Improve enabling environment for ecommerce
2. Accelerate firms’ digital transformation

LEVEL 5 - Global marketplace seller; digital enterprise
Firms that sell on Amazon, Etsy, eBay, Upwork, etc.; integrate all channels (stores, marketplaces, social media); extensive digital transformation

LEVEL 4 - Local marketplace seller
Firms that sell on Lazada, Shopee, etc.; building more sophisticated online capabilities

LEVEL 3 - Online seller
Firms that have online stores with digital payment capabilities

LEVEL 2 - Social seller
Firms that market on Facebook, Instagram; interact with customer using WhatsApp, mobile payments, cash

LEVEL 1 - Digitized but offline seller
Firms that may have websites but do not use social media or have online stores

<10% of firms

~20%

~20%

~50%

Source: Nextrade Group.
Where is the Philippines on these two axes?
Philippines is on the way adopting policies conducive to MSME ecommerce: Alliance’s 2020-21 Ecommerce Policy Index

Source: Suominen, Vambell, Furtek (2021)
### How Philippines maps on the Index

<table>
<thead>
<tr>
<th>Category</th>
<th>Philippines</th>
<th>Indonesia</th>
<th>Southeast Asia</th>
<th>South Asia</th>
<th>Latin America</th>
<th>Sub-Saharan Africa</th>
<th>Advanced</th>
<th>Singapore</th>
</tr>
</thead>
<tbody>
<tr>
<td>Digital Infrastructure</td>
<td>Top 50%</td>
<td>Bottom 25%</td>
<td>Top 25%</td>
<td>Bottom 50%</td>
<td>Top 25%</td>
<td>Bottom 50%</td>
<td>Top 50%</td>
<td>Bottom 25%</td>
</tr>
<tr>
<td>Digital regulations on online transactions</td>
<td>Top 25%</td>
<td>Bottom 50%</td>
<td>Top 25%</td>
<td>Bottom 50%</td>
<td>Top 25%</td>
<td>Bottom 50%</td>
<td>Top 50%</td>
<td>Bottom 25%</td>
</tr>
<tr>
<td>Digital regulations on online behaviors</td>
<td>Top 25%</td>
<td>Bottom 50%</td>
<td>Top 25%</td>
<td>Bottom 50%</td>
<td>Top 25%</td>
<td>Bottom 50%</td>
<td>Top 50%</td>
<td>Bottom 25%</td>
</tr>
<tr>
<td>Payment regulations</td>
<td>Top 25%</td>
<td>Bottom 50%</td>
<td>Top 25%</td>
<td>Bottom 50%</td>
<td>Top 25%</td>
<td>Bottom 50%</td>
<td>Top 50%</td>
<td>Bottom 25%</td>
</tr>
<tr>
<td>Cybersecurity readiness</td>
<td>Top 50%</td>
<td>Bottom 25%</td>
<td>Top 25%</td>
<td>Bottom 50%</td>
<td>Top 25%</td>
<td>Bottom 50%</td>
<td>Top 50%</td>
<td>Bottom 25%</td>
</tr>
<tr>
<td>Ecommerce logistics and trade facilitation</td>
<td>Top 25%</td>
<td>Bottom 50%</td>
<td>Top 25%</td>
<td>Bottom 50%</td>
<td>Top 25%</td>
<td>Bottom 50%</td>
<td>Top 50%</td>
<td>Bottom 25%</td>
</tr>
<tr>
<td>SME capacity-building and export promotion for ecommerce</td>
<td>Top 25%</td>
<td>Bottom 50%</td>
<td>Top 25%</td>
<td>Bottom 50%</td>
<td>Top 25%</td>
<td>Bottom 50%</td>
<td>Top 50%</td>
<td>Bottom 25%</td>
</tr>
<tr>
<td>SME finance</td>
<td>Top 25%</td>
<td>Bottom 50%</td>
<td>Top 25%</td>
<td>Bottom 50%</td>
<td>Top 25%</td>
<td>Bottom 50%</td>
<td>Top 50%</td>
<td>Bottom 25%</td>
</tr>
<tr>
<td>Government eprocurement promotion for SMEs</td>
<td>Top 25%</td>
<td>Bottom 50%</td>
<td>Top 25%</td>
<td>Bottom 50%</td>
<td>Top 25%</td>
<td>Bottom 50%</td>
<td>Top 50%</td>
<td>Bottom 25%</td>
</tr>
<tr>
<td>Ecommerce diagnostics and strategy</td>
<td>Top 25%</td>
<td>Bottom 50%</td>
<td>Top 25%</td>
<td>Bottom 50%</td>
<td>Top 25%</td>
<td>Bottom 50%</td>
<td>Top 50%</td>
<td>Bottom 25%</td>
</tr>
<tr>
<td>Overall</td>
<td>Top 25%</td>
<td>Bottom 50%</td>
<td>Top 25%</td>
<td>Bottom 50%</td>
<td>Top 25%</td>
<td>Bottom 50%</td>
<td>Top 50%</td>
<td>Bottom 25%</td>
</tr>
</tbody>
</table>

Source: Suominen, Vambell, Furtek (2021)
Our goal today: Create Roadmap and pilots for MSME Ecommerce in the Philippines
What to do – and how to do it?
Thank you