



New strategies for the digitization of micro and small businesses

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Insights

- The emergence of digitally native micro-companies delivering digital products and services is changing the nature of small business.
- Evidence continues to show that digitization increases revenue, decreases costs, and improves small business resilience, and positively impacts business owners, employees and customers.
- A new vision for digitizing micro and small businesses must be multi-layered, ongoing, and involve numerous stakeholders from business owners to employees to vendors and suppliers.
- There is a pressing need to ensure connectivity for equitable access to the digital world for all small business owners. Decreasing small business exposure to cybersecurity and digital risks should be a priority for service providers and government entities. These risks become more important as small businesses become more digitized. Decreasing exposure to them cannot depend on the know-how of businesses alone.

Paola regularly visits indigenous women or "artesananas" in Oaxaca and Queretaro states of Mexico in order to procure unique textiles for her clothing line. Supporting the women and honoring traditional Mexican design is integral to her business. With the help of social media, she's been able to scale her business. Once Paola moved her operations entirely online, she saw a 100% increase in sales with almost all of her transactions through digital payments. She's able to offer payment options such as installments, and keep her clients happy

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and coming back for more high-quality pieces. She loves the user-friendly interface of the payments platform, and the ability to track her business growth with a few clicks on her cell phone or computer.²

The world of commerce and economic activity is at a moment of transformation, driven by the fast pace of digital innovation and adoption, and fueled by a sense of urgency and large amounts of funding to accelerate recovery from the COVID-19 pandemic. Understanding the impact of digitization on micro and small businesses can be an important factor in shaping both the recovery and the transformation and expansion of the micro and small business sector.

A review by Visa of 20 years of published English-language literature from the rise of digital payments to the present (Visa, 2021) makes clear that a new vision of micro and small business is needed. While more and more institutions, including public and private sector entities, are generating evidence and commentary on the changes that digitization is making on small businesses, a coherent vision of what digitization means for micro and small businesses has not been articulated in this body of literature.

Digital tools are changing how traditional, community-bound small businesses operate and even what a micro or small business is. The literature reflects the many ways that small businesses use digital tools and services, and that the resulting benefits are multidimensional: increasing sales, customers, and revenue, leading to more growth and resilience of the business and also positively impacting the business owners, employees, and customers. The digitization processes is complex, however, and brings new risks, such as data breaches and cyber fraud, which are unfamiliar to many small business owners.

Key attributes of small business digitization

The emerging understanding of digitization of small businesses has several attributes. First, the process of digitization is a journey. Because backsliding is possible, small businesses often face the challenge of “incomplete” digitization. Second, digitization is today most impactful when there is integration among all to complete a 360-degree “digitization experience” for the small business—not when it is undertaken ad hoc, digital product by product, along specific business needs. Finally, the nature of a small business has expanded from a community-bound production of goods and services into a wider range of enterprises that can act locally and deliver globally. The very nature of small business is changing, with the emergence of digitally native micro-companies delivering digital products and services, and corresponding implications for job creation and the creation of value within an economy.

Why does this matter? With an updated view of the journey and benefits of digitization to small businesses, and what that means for potential transformation of small business sector, a powerful transformation could be initiated that adds more value to economies by building thriving small business cultures and new opportunities for younger generations. The following recommendations can help policymakers, investors, and practitioners accelerate the small business sector’s recovery from the pandemic and long-term positive transformation of the small business sector.

² Derived from Visa 2021.

- The process of digitization is a journey. It is not simply a one-time adoption by a single business owner of a single digital product, but one that can stop and start, and that involves numerous participants. *Thus, approaches should consider digitization as something that is multi-layered and ongoing, and one that involves numerous stakeholders from business owners to employees to vendors and suppliers.*
- Digitization is most impactful when there is integration to complete a 360-degree “digitization experience” for the small business—not when it is undertaken ad hoc, digital product by product along specific business needs, such as a payment to a vendor or social media sales. *An updated understanding of all the potential benefits of digitization to small business owners is critical to design digital products and services that optimize multidimensional value for a small business owner, employees, customers, suppliers, and others in the value chain.* This includes the aggregation and integration of products and services, so that the onboarding for less-savvy business owners can be as easy as possible. At the same time, an approach may consider the right balance between all-in-one services and a la carte menus for more sophisticated small business with specific needs.
- Because of the opportunities that digitization and online access present, the nature of a small business has expanded beyond customers in their immediate neighborhood. *Policies, regulations, and industry standards are needed to support the expansion of global small businesses,* from ensuring widespread parcel pick-up and delivery of goods to data policies that encourage cross-border commerce with security and consumer protections.
- The experience that has been gathered about digitization and small business in the past year points to two immediate priorities in order to support small business digitization.
 - There is a *pressing need to ensure connectivity for equitable access to the digital world for all small business owners* because even more evidence has shown that digitization increases revenue, decreases costs, and improves resilience.
 - *Decreasing small business exposure to cybersecurity and digital risks should be a priority for service providers and government entities.* These risks become more important as small businesses become more digitized. Decreasing exposure to them cannot depend on the know-how of businesses alone.
- Finally, the very nature a small business is changing, with the emergence of digitally native micro-companies delivering digital products and services. *A dramatic change in thinking about how to support small businesses is needed. This includes consideration of the best way to conceive of how the small businesses sector could contribute to the new digital economy and add value, and what that means for jobs and job creation, creation of a digitally skilled small business workforce, GDP, and improving household incomes. What types of small businesses should get supported and how?*

For much of the past 20 years, support and interventions focused on finding new ways of creating and sustaining small businesses as a means of local employment, income generation, and poverty alleviation. Given how critical digitization has become to small business success, an overhaul may be needed to our thinking about small business-lending in order to focus it more effectively on those small businesses with the potential to contribute to and shape communities and economies in the digital age, and to economic growth.

Sources

Visa (2021). *Unlocking the Benefits of Digital Payments for Micro & Small Businesses: Insights from Mexico*.
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About the Visa Economic Empowerment Institute

The VEEI is a non-partisan center of excellence for research and public-private dialogue established by Visa.

The VEEI's overarching mission is to promote public policies that empower individuals, small businesses, and economies. It produces research and insights that inform long-term policy within the global payments ecosystem. Visa established the VEEI as the next step in its ongoing work to remove barriers to economic empowerment and to create more inclusive, equitable economic opportunities for everyone, everywhere.

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