



Small and Micro Business Immersive Study

# Understanding Obstacles Facing Small and Micro Business Owners



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# Letter

Visa's mission is to connect the world through the most innovative, reliable and secure digital payment network that enables individuals, businesses and economies to thrive. Small and micro businesses (SMBs) represent up to 70 percent of global employment and serve more than 4.5 billion customers every day. They are the backbone of our local economies and central to our vision of advancing progress for everyone, everywhere.

Despite their important contribution to economic development, SMB owners face many challenges, high levels of stress and are often unsure of how to acquire the skills, connections and resources needed to grow resilient businesses. Moreover, they are facing unprecedented economic challenges, threatening their survival as a result of the COVID-19 pandemic. They now must take swift actions to save their businesses, such as making changes to their physical businesses and adopting technology that allows them to become more connected digitally to customers and suppliers.

The public and private sectors have a vital role to play in supporting SMBs during the current time and through the longer-term recovery. To strengthen the ecosystems that allow SMBs to thrive, we must gain a deep understanding of the complexities of their existing challenges and their new COVID-19 realities.

With that in mind, we are sharing the findings from Visa-commissioned research of more than 500 hours of immersive interviews with small retailers in India, Indonesia, Mexico and Nigeria. While this research was completed before the COVID-19 crisis, we believe there are a number of useful insights that could be applied in the development of effective programs, support and solutions to help SMBs get back on their feet and recover.

This report seeks to share two important areas of knowledge:

1. What factors impede SMBs from traversing the gap between their daily reality and their future aspirations?
2. How can private, public and non-profit sectors apply SMB-led design and thinking to ensure programs, products and partnerships provide SMBs with a clear path toward reaching their aspirations?

We invite you, the community of private sector, government and non-profit organizations whose work aims to help SMBs recover and become more resilient, to apply these findings in your efforts to support SMBs during this time of their greatest need. As these small businesses can often be on the front lines of providing essential services to their neighborhoods and the broader communities, supporting them will have a multiplier impact on economic recovery for the community.

I am confident that when we work together, we can get through these challenging times and drive toward a more inclusive and robust global economy.



**Bill Sheedy**  
EVP: Corporate Strategy

– *Bill Sheedy*  
*EVP, Visa Inc.*



## Research Methodology

There are many initiatives, programs and commercial partnerships aimed at improving the lives of SMBs. However, evidence suggests that solutions are not gaining traction, whether as a result of the daily personal and financial stresses facing SMBs, perceived complexity of products, or skepticism about benefits. To get at the heart of this issue, Visa and Boston Consulting Group embarked on an extensive research study in 2019 to help further inform its social impact strategy and the development of programs.

To understand micro- and small-business owners at a deeper and more personal level, we spent more than 500 hours with SMBs in India, Indonesia, Mexico and Nigeria. These countries were chosen because of the relative importance of SMBs to the local economy and the diversity of each country's economy. We used a range of ethnographic research methods including in-depth interviews, full-day observation, and mind discovery workshops (a variant on focus groups) with a total of 250 SMB owners. Research was conducted in tier-one cities including Jakarta, Lagos, Mexico City and Mumbai. To drive comparability across markets, and in recognition of their prevalence in all geographic settings, the work focused on mini-grocery stores. For this work, we defined SMBs as enterprises with zero to 10 employees.

To augment new primary data collected, we also analyzed existing literature spanning 60 sources ranging from academic articles and papers, studies and surveys conducted by NGOs, and reports funded by corporations. In addition, we interviewed more than 30 subject matter experts and opinion leaders in the SMB space.



Our research included more than 500 hours of ethnographic engagement with SMBs.

# Establishing a Baseline of Understanding

1  
Lack of access  
to growth  
capital

2  
Rising  
competition

3  
Limited  
knowledge  
and skills

4  
Limited resilience  
as a result of low  
savings and  
minimal insurance

5  
Lack of time and  
reliable labor to  
enable them  
to delegate

TODAY obstacles are overwhelming

How do  
we better  
understand  
the factors  
impeding  
SMBs...



...in order  
to help them  
traverse the  
gap between  
their daily  
reality and  
their hoped-  
for future?

**TOMORROW** pride and dreams are universal

1  
Family life  
fulfilled

2  
Quality of life  
upgraded

3  
Personal goals  
realized

4  
Business success  
and growth

## What factors impede SMBs from traversing the gap between their daily reality and their future aspirations?

Why do many micro- and small-businesses not succeed or fail to move beyond a baseline of subsistence? It is not a question of work ethic or commitment — most SMBs work seven days a week, sometimes 16 hours a day. It's not that they lack ambition — they all aspire to a better life. Answering or at the very least understanding what is at the root of this existential question is the key to helping SMBs move on the continuum from daily struggle to future security.

Although well documented, it is important to first gain a full understanding of the daily reality of an SMB owner. And, given the realities they face, how do they view their situation, and what are their hopes and dreams for the future?

What the research found was that SMBs face three main pressures and aspirations. Personal stress is a constant daily reality. Substantial business obstacles that stand in the way of their success. Yet, despite these pressures, they have personal and professional dreams for a better future. Some of those dreams are modest — more time to spend with friends and family — and others more ambitious — growing the business and opening more than one location.

### Personal Stress Is Constant

SMBs across all countries identified themselves as over-worked and stressed, with little personal time to spend with friends or family members. Many work very long hours, seven days a week. In addition to time constraints, SMB owners are often financially stressed with little or no savings. For most SMBs, their income barely elevates them above subsistence levels, with average net income of between \$10 and \$15 a day. Profit margins for SMBs interviewed in India, for example, are consumed by the cost of goods and services (80-85 percent) and further eroded by labor, rent and administrative costs. Compounding these financial stresses are environmental realities which include poor transportation, lack of critical infrastructure — electricity, telecommunications — and high rates of crime.

#### A Day in Cynthia's Life:



**SMB Profile<sup>2</sup>**  
**Cynthia**  
Lagos, Nigeria

Cynthia operates a busy grocery store in Lagos. She works upward of ~16 hours a day, 365 days a year in a difficult, strenuous environment. Her days are busy and chaotic, balancing business duties with personal obligations. She wakes up at six in the morning and doesn't leave her store until 8 p.m.



## Business Obstacles Are Substantial

At the next level of research, we sought to unpack and organize the business challenges that are most consistent among the SMBs we interviewed. Across all the SMBs in all four countries we surveyed, five key business obstacles emerged.



INDIA



INDONESIA



MEXICO



NIGERIA

- 1. Lack of access to growth capital** – Working capital — while not universally available — is more available than ever before from dedicated microlenders and, increasingly, from suppliers. Lack of access to growth capital is a more widespread and keenly felt barrier. SMBs, when faced with rejection from a formal financial institution, suffer an erosion of confidence in themselves and the system, in addition to missing out on the resources needed to grow their business.



- 2. Rising competition** – In many emerging economies, large, low-cost retailers are opening in locations previously only served by small grocery stores. These retailers, as well as the emergence of e-commerce, are putting extraordinary competitive pressure on SMBs.



- 3. Limited knowledge and skills** – While many SMBs have access to some type of financial product, they have generally limited knowledge of financial and accounting terms, which leads to rudimentary business planning.



- 4. Limited resilience as a result of low savings and minimal insurance** – SMBs have limited savings and insurance, which leaves them vulnerable to financial shocks, such as a serious illness, theft, etc.



- 5. Lack of time and reliable labor to enable them to delegate** – SMBs typically have a hard time finding and retaining reliable employees due to the low pay offered.



■ Priority for SMBs

Within the four countries surveyed, some interesting differences emerged. For example, time stress was most acute in India and Mexico, whereas lack of access to capital was a bigger problem for SMBs in Mexico and Nigeria.

## Pride and Dreams for a Brighter Future Are Universal

Despite their daily struggles, SMBs share tangible hopes and dreams for a brighter future that are universally recognizable — they aspire to help their children achieve academic and professional success; earn greater material wealth; achieve better work-life balance; and grow their business through improved inventory, larger stores, additional locations, etc.

Most business owners have a great deal of pride in their work, being their own boss and the status of being a business owner at the center of their communities. They are willing to invest significant time and personal effort to sustain their businesses and exhibit clear “get it done” attitudes.

SMBs take a great deal of pride in owning and operating their own business notwithstanding the myriad challenges they face. Many small business owners play multiple roles in their community — retail hub for people unable to travel long distances, mentor, friend and confidant. In summary, aspirations can be characterized as follows:

- SMBs want to have a **fulfilled family life**, where children are well educated and set up for success, healthy and where there is time to spend together.
- They would like to **improve the quality of their lives**, such as owning a nicer home and/or car. They would like to be able to afford to take time off to travel.
- Related, they would like to **achieve their personal goals**, including attending festivals and religious pilgrimages and furthering their education.
- Finally, they aspire to **build a more successful business** with branded inventory, door-to-door delivery and nicer, cleaner, more well stocked stores.

SMBs take a great deal of pride in their status within the community and share tangible dreams for a brighter future.





# Getting to the Heart of SMB Decision-Making

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Emotional and rational decision drivers





When you sit and talk to SMB owners, a more nuanced picture emerges of their self-image that goes a long way to explaining their behavior. This ethnographic work centered on understanding the emotional and rational decision drivers that could help build program awareness, facilitate trial and engender sustained use. The research exposed three apparent tensions in behavior that revealed key insights into the underlying psychology of SMB owners.



SMBs are well connected to their communities and proud of being able to help and give advice to others.

In many cases, they see their store as a hub that connects their community. They view their role as more than just a purveyor of goods; they take pride in the fact that they are often the source of information for people living nearby. They are proud of their willingness to go above and beyond to serve their community. For example, SMBs say they have helped a neighbor in need by opening their store late at night; they have provided basic medical advice based on their experience selling over-the-counter medicine and supplies.

## HOWEVER

They have limited trust outside their immediate circle and rarely ask for help or advice.

Pride cuts both ways for SMB owners. On the one hand, it fuels their desire to succeed and to serve their customers and their communities. On the other, it feeds a sense of isolation and lack of trust. If you are seen as a leader in your community, you worry that asking for help will betray a lack of confidence and diminish your standing. The trust circle for an SMB is incredibly small — often just a spouse or close family member. Compounding the trust deficit is a sense of isolation. SMBs sit in their store up to 16 hours a day. They don't have the luxury of leaving and interacting with others in the community. Typically, the only other SMBs they know are competitors, and while they have many transactional interactions, they lack the time for consistent and frequent social interactions, which is crucial for building trust. SMBs have very high standards for themselves and often feel they must be highly sophisticated across their commercial dealings. As a result, they exhibit a reluctance to acknowledge limitations in their knowledge and awareness, hindering reciprocal sharing that builds trust. Cultural traits regarding privacy and courtesy also contribute to SMB reluctance to seek help or advice. SMBs are intensely private about personal and financial information outside the immediate household, but not linked to a specific fear (e.g., *"samaaj kya sochega"* in Hindi means "what would people think"). Additionally, some cultures have strong inhibitions against "bothering" or "imposing on" others' time.



## Trust Deficit

### Paula – Jakarta, Indonesia

Paula, 33, owns a small grocery store in Jakarta, Indonesia, where she employs one other person. As with many ambitious entrepreneurs, she is eager to grow her business by embracing new ideas and technologies. The store, however, brings in an average of \$350 per day, which leaves little left over to invest in her business. Paula's store acts as a hub for members of the community. She sees herself as a role model to her less well-off customers, so she listens and offers advice, but rarely voices her own questions in return.

She owns a smartphone and has begun to integrate it into her business.

“I saw a TV ad for BukaLapak<sup>1</sup> which showed their cheaper prices, so I downloaded it and tried it...it's completely changed how I order goods.”

She does have a bank account, but rarely accesses it. Moreover, Paula faces many of the financial and cultural challenges faced by women entrepreneurs. She, like many of the SMBs interviewed, expressed reluctance to ask for help for fear that her standing in her family and the broader community would diminish.

“If I share my worries, it will 'lose face' for my husband. If I share things I'm proud or happy about, people might say I'm boasting. So I just keep quiet.”



### SMB Profile<sup>2</sup>

**Paula**

Jakarta, Indonesia

Paula sees herself as a role model to her less well-off customers, so she listens and offers advice, but rarely voices her own questions in return.





SMBs want to improve and keep up to satisfy customers and are pragmatic in evaluating costs and benefits.

SMBs are gritty and used to keeping things running in broken and constantly challenging environments. Simply put, “they make it work.”

## HOWEVER

SMBs resist implementing changes, are reluctant to be first movers and have low tolerance for failure.

SMBs’ aversion to risk is not inherent; it comes from a fear of disrupting the personal service that is a hallmark of their business. As a result, even when problems and opportunities are pointed out, they feel little urgency to take risks and change their existing “patches” that get the job done. Indefinite procrastination when it comes to making “risky” decisions is another character trait of SMBs whose work lives have little diversity from day to day. They operate businesses with few obvious deadlines for making big decisions. As a result, even if SMBs are aware of a particular solution or program, they have a strong bias toward the “present” and indefinitely procrastinate when taking the time to consider adoption. SMBs count cash every night and are acutely aware of their thin margins. As a result, while they might be attracted to non-financial pitches, e.g., status or leisure, they struggle to rationalize financial costs. Also contributing to their unwillingness to try things that are less familiar, is the high-degree of confidence SMBs have in their own knowledge and capabilities. Simply put, being very good at what they do can reinforce the status quo. While these obstacles to trial and change are very real, SMBs also don’t want to be left behind, making them fast followers. In other words, with the right incentives and encouragement from a trusted source, SMBs can be fast second-movers.

## Low Risk Tolerance

### Maria – Mexico

María, 56, and her husband have worked every single day of the year for the last 25 years. They often work 19 hours each day at their business.

María is proud that the fruits of her labor have enabled her three daughters to graduate from college and not work in the store, because this job can get you sick, both physically and mentally. Since her husband got sick, she has to put in additional effort as he is physically unable to work long hours at the store. She seems tired and depressed, and it is hard for her to imagine her life being different.

María is worried that she will never be able to stop working. As she and her husband grow older, medical expenses pile up, replacing tuition costs, and since they don't have medical insurance they must keep working to cover them. María worries that this life will consume her for the next 3 to 5 years.

“People suggest things to me all the time, but there's always something difficult and complicated. If everyone recommends and has good reviews I might try it, but mostly I'm good as I am.”

María has managed her store roughly in the same way for most of its active life. In her experience, new solutions are time consuming and contribute little value. What's more, she's observed neighboring SMBs that have implemented solutions with seemingly little payback. She feels as though she's been able to outperform these SMBs without adopting new solutions.



### SMB Profile<sup>2</sup>

**Maria**  
Mexico

María is worried that she will never be able to stop working. María worries that this life will consume her in the next 3-5 years.



SMBs are disciplined and diligent, investing time and effort as if they have no marginal value.

What is clear is that they attach very little value on their own time, which results in extremely long work days and no time off. SMBs want to feel in control of their destiny, and accomplish that by being involved hands-on with time and effort. SMBs consistently express the belief that running a business means reaping returns proportionate to effort.

## HOWEVER

They make decisions over-weighting short term financial impacts, and sometimes without overall strategic coherence.

SMBs consider time and energy to be expendable and free, whereas they are very hesitant to spend money because they are constantly aware of their thin margins and limited cash flows. As a result of immediate time pressures and financial demands, SMBs weigh short-term impacts much more heavily than long-term effects. SMBs have broad and deep visibility into their businesses but they lack perspective and work from minimal amounts of benchmarking data. They know how much they are selling but are unaware of how much they “should” be selling. They tend to focus on nominal amounts rather than the value of goods or services. This leads SMBs to set targets based on numbers that are easy to grasp but generally bad proxies for overall goals.





## Low Time Value

### Dhinesh – Mumbai, India

Dhinesh, 39, lives and works in Mumbai. His biggest concern is his volatile cash flows. While he is diligent about price-shopping from multiple suppliers every day, he struggles to generate enough working capital on slow days. When asked about requesting credit from suppliers, he says he worries they will charge him higher prices as a result. In reality, he hasn't inquired about credit and therefore doesn't know how much, if any, more money he would pay for supplies. Since he runs a low-margin, high-volume business, he would do better in the long term if he did receive supplies on credit as it would enable him to keep essential stock on his shelves. As with many small businesses, Dhinesh places almost no value on his own time and therefore claims to prefer to spend more time comparison shopping among suppliers.

“Every night we stay up two hours making small packets of rice. We could buy pre-packed rice, but it's more expensive.”



**SMB Profile<sup>2</sup>**  
**Dhinesh**  
Mumbai, India

Dhinesh is diligent about price-shopping from multiple suppliers every day, but he struggles to generate enough working capital on slow days. He would do better in the long term if he did receive credit for supplies as it would enable him to keep essential stock on his shelves.



# The Path to Progress

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Designing programs that are sensitive to and account for emotional and rational decision drivers





Moving SMBs on the critical journey from daily preoccupations to reaching future aspirations is one of the most important (yet elusive) priorities for the private sector, NGOs and governments. There is no single action that will address all SMB challenges. Likewise, as outlined earlier in the report, not all SMBs fit into neat categories and therefore solutions will need to be tailored accordingly. Finally, the path to progress is long. For all of us with a stake in enabling SMBs to succeed, the commitment must be sustained, and it must be consistent. The goal is to ensure new products and programs can be more successful than prior solutions deployed, but which failed to gain critical mass.

Based on our findings through immersive engagement with SMBs, there is a clear roadmap to developing products, programs and partnerships that support the growth of this sector. The four steps that follow illustrate an approach to designing programs that are sensitive to and account for emotional and rational decision drivers.

Leverage SMB behaviors throughout the solution “journey” to:





## 1. Design with an SMB-first mentality.

SMBs are, as discussed above, are fast-followers rather than first-movers. At the same time, they have a low tolerance for failure and are particularly sensitive to short-term financial impacts. One approach to increasing their confidence is to tap into their experiences as entrepreneurs and problem solvers. For example, you can remind them of how they have overcome problems in the past, to engender a willingness to take a calculated risk. Also, it is important to express costs and benefits in ways that are tangible and relatable to SMBs. For example, rather than expressing costs in terms of percentages, describe the actual monetary implications. “A business loan will cost \$10 per year in interest.” Optimize and structure any behavior changes in achievable, bite-sized increments. We know that word-of-mouth among peers and respected figures of authority is influential. Therefore, creating quick, easy wins and disseminating positive success stories help position solutions as no-brainer decisions. Also, to help overcome resistance to adoption, SMBs need to be offered an easy off-ramp.

In summary, there are five key SMB-led features to consider when designing programs, partnerships and solutions to address the economic, social, environmental and behavioral realities facing micro entrepreneurs.

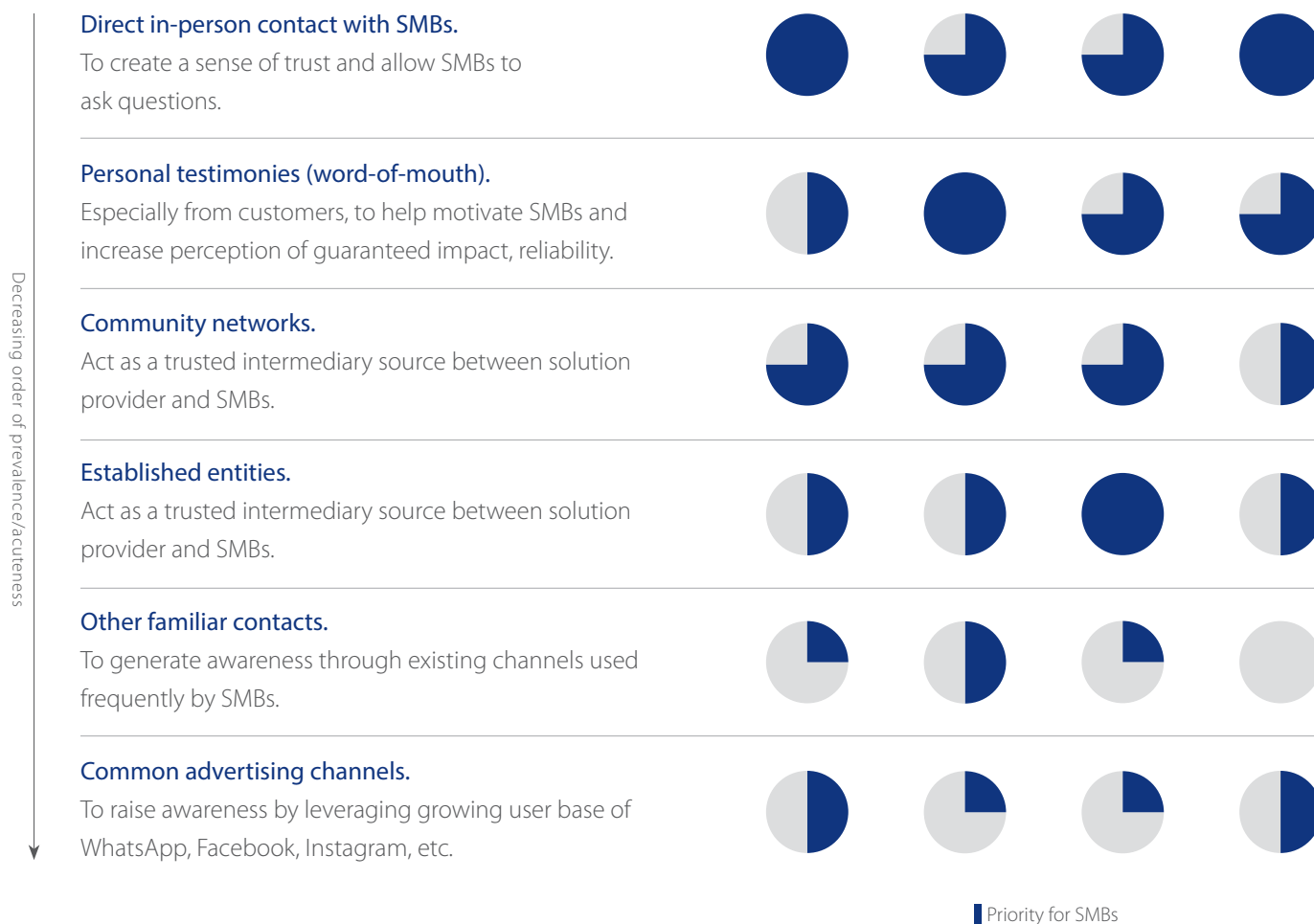
1. Ensure any solution is simple and easy to understand. For example, in Mexico, our research found that SMBs don't like complicated forms and applications.
2. Reduce unnecessary upfront costs. In Indonesia, SMBs demonstrated a willingness to invest time and energy if it didn't affect their cash flow.
3. Ensure onboarding is as seamless as possible. SMBs in Mexico have high expectations of hands-on support and responsiveness.
4. Demonstrate “guaranteed” value. In Nigeria, SMBs were very reluctant to sink funds and preferred an option that offer a free trial with a money-back guarantee.
5. Design solutions that take account for ecosystem constraints. Indonesian SMBs tend not to want to update apps and delete those that are data heavy.



SMBs are very reluctant to pay for anything — they are attracted to free trials and/or “your money back” offers.

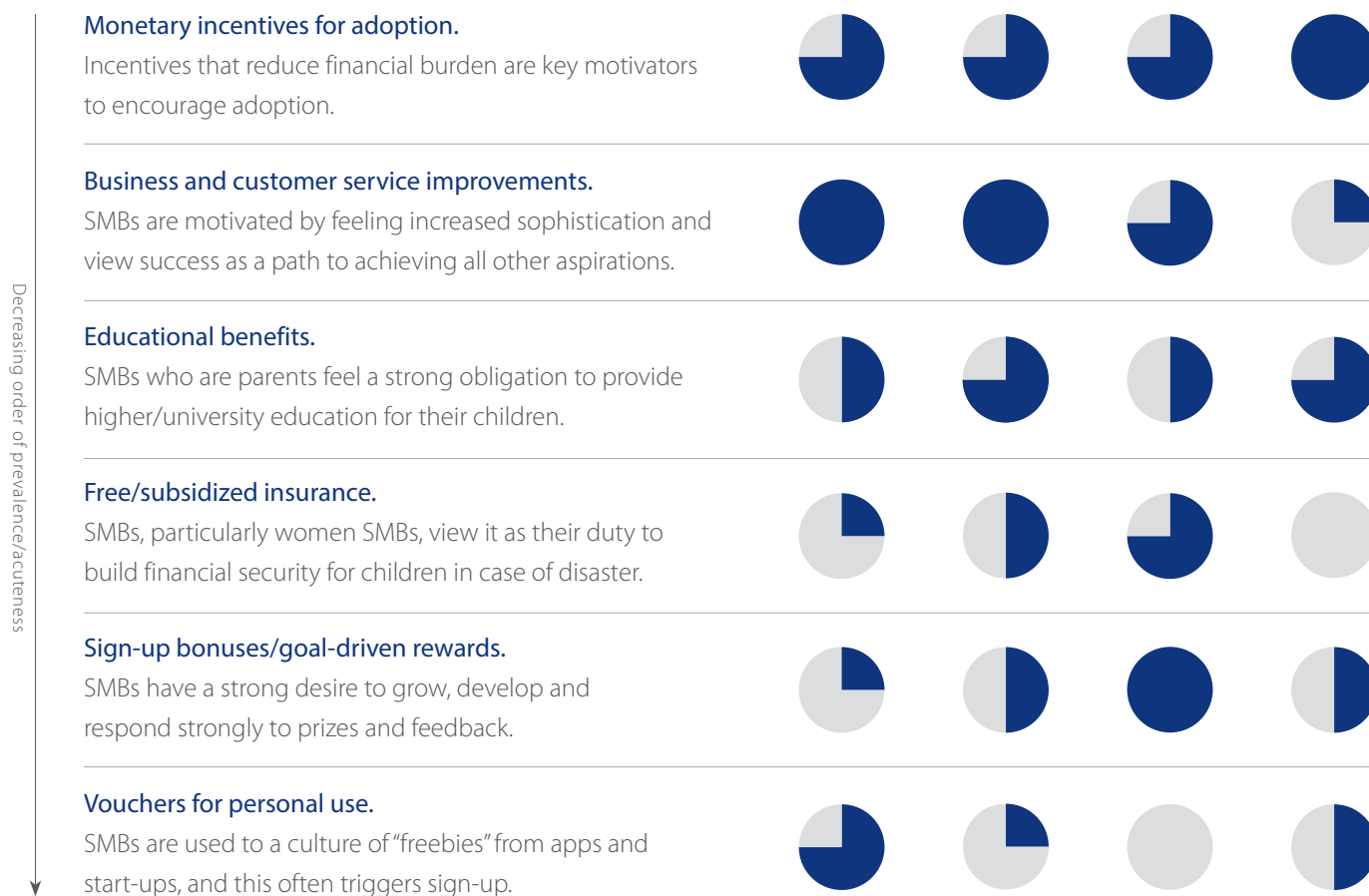
## 2. Trust is essential.

Because SMBs are concerned about their standing in the community, it is important that any program, product or solution is introduced in a way that reduces any stigma they may feel. The steps to adoption are more deliberate than most other business owners. SMBs will notice advertising, but it requires word-of-mouth recommendations from trusted peers or respected authority figures to pique their interest to learn more. Although costly, an initial face-to-face with a salesperson to help them understand the product in greater detail will help move the SMB further toward adoption. This approach is particularly important in India and Nigeria. The illustration below outlines the relative preferences for each approach in the four countries surveyed.



### 3. Employ triggers to drive adoption.

Behavioral, market-specific triggers can help SMBs overcome some of their reluctance to try new ideas by appealing to their price sensitivity and aspirations. For example, in India, desire to travel to other countries taps into media-driven “worldly” aspirations. Different behaviors require combinations of tailored nudges to achieve sustained usage. Trigger effectiveness varies by country as demonstrated in the table below. In Indonesia and Nigeria, for example, educational benefits are more effective motivators than in India and Mexico.



■ Priority for SMBs



#### 4. Nudges are effective to move beyond initial adoption to drive sustained use.

Some strategies that could encourage continued use of products help overcome SMBs' sense of isolation. For example, social interaction with other SMBs (digital or in-person) to create sense of mutual encouragement, share best practices and create confidence, helps motivate SMBs to act. Continued engagement with solution providers is popular across all four countries, with Indonesia and Mexico showing the highest preference for this approach. Interestingly, social interaction with peers was cited as important in every country except Indonesia.



Decreasing order of prevalence/acuteness

##### Continued engagement by salespeople.

To support SMBs until fully comfortable using complex or unfamiliar solutions.



##### Access to higher levels of benefits.

To motivate SMBs to continue using solutions in full/appropriate ways to reward desired behavior.



##### Social interaction with other SMBs (digital or in-person).

To create sense of mutual encouragement, check in on progress/share best practices.



##### Monetary incentives to promote sustained use.

To help SMBs in already precarious financial positions lift some financial burden off their shoulders.



##### Testimonials of progress/value.

To motivate SMBs by showing them success stories of fellow SMBs to leverage their "herd mentality."



##### Clear visualization of progress and motivational messages.

To help SMBs understand benefits from solution; provide actionable tips/motivation.



■ Priority for SMBs

# Conclusion

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Retail micro and small businesses are, as detailed above, vital to the economies and communities where they operate. However, these businesses face, in varying degrees, the same pressures — encroachment of larger, well-funded competitors; emergence of ecommerce; lack of access to capital; extreme time pressure; and lack of knowledge, among others.

Truly inclusive economies require a vibrant SMB sector, and it is imperative that organizations like Visa help business owners traverse the territory between their daily realities and their future aspirations. We need to design products, programs and partnerships that address the real needs, behavioral characteristics and societal realities facing SMBs.

Visa's approach is focused on helping SMBs develop skills, networks and affordable access to financial services through partners that have “last-mile” reach into the communities we are seeking to serve. There is no simple solution to the myriad cultural, economic and behavioral impediments facing SMBs, but we have experienced considerable success with tailored, practical programs in a number of countries. Our next challenge is to scale these efforts in countries where there is the greatest need and where we can have the greatest impact. Visa's commitment to these SMBs and their communities is embedded in our vision and mission. We will apply the learnings from this report to build partnerships and programs that enable SMBs to achieve their deserved aspirations.





# Examples of Visa Inc. and Visa Foundation Programs and Partnerships for SMBs Across the World

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**Women's World Banking**

## Visa Foundation Programs

In October 2017, the Visa Foundation announced its inaugural commitment, a multi-year grant of up to \$20 million to Women's World Banking in support of millions of low-income, women-led micro and small businesses. Over five years, the program will develop, test and scale innovative and sustainable products; expand Women's World Banking's global network of partner financial service providers; measure impact of access to improved financial services for women enterprise owners; and drive knowledge sharing, innovation and best practices.



In September 2019, the Visa Foundation, ANDE and the U.S. Agency for International Development launched the Gender Equality Initiative to address the barriers women face in founding, financing and scaling their businesses. Over two years, the initiative will distribute over US \$1 million in seed funding to entrepreneurial support organizations in South and Southeast Asia to address the gap in access to finance for women-led businesses, support research in Latin America and Africa, and advance women as key decision makers in the entrepreneurial ecosystem.



## Visa Inc. Programs

Visa has launched Practical Business Skills, a one-stop portal with free educational resources and interactive tools (in English and Spanish) to help business owners start, manage and grow their businesses. The program is focused on helping SMBs thrive at every stage of their journey so they can better manage their money and make confident, informed business decisions.



She's Next, a partnership of Visa and the Female Founder Collective, is an effort to support and champion women business owners as they build, sustain and advance their businesses. The initiative — currently in the U.S., Canada and South Africa to date — connects female founders with industry experts who can help them with the knowledge and tools to grow their business through funding, lending, personal development and marketing.



Recognizing the role fintech startups will continue to play driving innovation that yields improved access to better financial services, including for SMBs, Visa helped quadruple the investment capital deployed via Accion Venture Lab — a leader in fintech impact investing with a focus on financial inclusion. Visa has also made direct investments in fintech firms improving small business access to capital, such as Behalf and Branch.

# Annex: Country Profiles

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## India

India is the world's second-most populous country with almost 1.3 billion inhabitants and a large number of SMBs. Per capita GDP is growing and is currently approximately \$2,000 a year.<sup>1</sup> Despite the growth, its per capita GDP ranks lowest among the countries in this report. Lower income SMBs in need of loans larger than their personal networks can view collateral and documentation requirements and financial institution response times as obstacles.

SMBs in India face a number of internal and external business challenges:

### Internal Challenges

- **Sales and customer management** — Sales are extremely sensitive to competition; to compensate, many SMBs offer adjacent services or transform their businesses (e.g., renting out space).
- **Supply chain and inventory** — High fragmentation of suppliers and increasing competition from modern retailers reduce already limited SMB negotiation power and negatively impact SMBs' gross margins.
- **Financial products and solutions** — Lower income SMBs in need of loans larger than their personal networks can view collateral and documentation requirements and turn-around time of financial institutions as obstacles.
- **Business processes and automation** — While most SMBs use inefficient paper recordkeeping and make limited use of tracking systems and tools, they are satisfied with their processes and don't see need for change. Some younger SMBs are open to technology adoption but have concerns around, space, time and savviness required.
- **Knowledge and skills** — While some SMBs are quite sophisticated in their management of the business, they have limited knowledge and capacity to do more strategic planning. Often, they lack information and advice on how to expand their business and diversify revenue sources.

### External Challenges

- **Labor** — Lack of quality employees who can be trusted with cash handling and customer service and high attrition of non-family employees are major challenges, at current wages.
- **Competition** — Growth of modern retail and ecommerce has reduced demand for SMBs. Compounding the problem are SMB attempts to match supermarket prices and their ever-declining negotiation power with suppliers, both of which result in lower gross margins.
- **Regulation and taxes** — Lack of information on changing regulations forces SMBs to hire expensive accountants in order to ensure compliance.
- **Crime and corruption** — Lower-level officials (e.g., shop inspectors) are seen as exploitative and looking to charge hefty fines. Some SMBs reported theft (e.g., from children during festival season) as a concern.

## Indonesia

Indonesia is the largest economy in Southeast Asia, Indonesia and the world's fourth most populous country. Almost the entire economic output of the country (99.95 percent) is attributable to SMBs. In total, there are an estimated 41 million SMBs, including those working in the agricultural sector.

While the economy is robust, poverty is a persistent problem in Indonesia. Out of a population of around 260 million, about 25.9 million Indonesians still live below the poverty line. Based on March 2017 data, approximately 20.78 percent of the entire population remains in danger of falling into poverty, as their income hovers marginally above the national poverty line.

SMBs in Indonesia face a number of challenges:

### Internal Challenges

- **Sales and customer management** — SMB customers are often smaller F&B warungs who buy goods repackaged in smaller quantities and pay cash, pushing the need for deep inventory. Customer service cited as very important to retain customers in a highly competitive environment.
- **Supply chain and inventory** — Convolutional supply chain (Consumer packaged goods company > distributor > wholesaler > store/SMB > smaller store/SMB); as a result, SMBs have limited supplier choice and tight margins. Inventory management done day-to-day by eyeballing what's missing or running low.
- **Financial products and solutions** — SMBs have very low financial literacy and low trust of financial institutions. Due to personal values, revenue volatility, lack of collateral and financial knowledge, SMBs will not finance growth through debt. Bank loans are a last resort after borrowing from family and selling/pawning personal assets.
- **Business processes and automation** — Most operations are run out of each SMB's mind and on scrap paper (some have books). Appetite for digital solutions is low because businesses are not big enough to justify the cost.
- **Knowledge and skills** — SMBs think in extremely short time horizons (daily) and they have very basic business literacy. They employ cost-based pricing and have minimal understanding of concepts like fixed costs and margins.
- **Premise location and optimization** — SMBs often operate in extremely competitive neighborhoods and aspire to be in areas with high foot traffic and where motorcycles can easily stop. SMBs who rent premises appear to have larger appetite for growth than those who own their shops.

### External Challenges

- **Labor** — SMBs typically hire personal connections (family, village, neighbors, etc.), but employees are not trusted with core activities due to honesty and competency concerns. Labor usually retained through package of pay, housing, food and cigarettes.
- **Competition** — SMBs view their value proposition as packaging, convenience and their place in community and view other shops as their greatest threat and are less concerned about larger retailers. There is a slow but growing awareness of online as a threat; however, savvy SMBs are leveraging the channel to find suppliers.
- **Regulation and taxes** — Very few government regulations affect SMB operations, and very few pay taxes. Strict rules around property tax for square footage incentivize maintaining smaller stores or building vertically (even if suboptimal for sales).



## Mexico

Mexico is the world's 11th largest country by population with almost 126 million inhabitants and is the 11th biggest economy in the world with GDP of \$2.5 trillion. While the economy is growing, 46 percent of the population lives below the poverty line. SMBs are the engine of the Mexican economy, accounting for more than 90 percent of the economy and numbering 5.6 million.<sup>1</sup>

SMBs in Mexico face a number of challenges:

### Internal Challenges

- **Sales and customer management** — Decreasing sales due to competition from modern retailers is affecting profits. Seasonality heavily impacts sales (e.g., income can fall ~50 percent or increase ~40 percent depending on the month).
- **Supply chain and inventory** — Highly complex supply chains and a fragmented supplier base complicate operations. As a result of poor inventory methods and theft from clients, employees and suppliers are likely to remain mostly undetected.
- **Financial products and solutions** — SMBs prioritize financial independence and have a general aversion to credit and financial institutions. They also cite “asphyxiating” interest rates and a general lack of transparency as factors leading to the rejection of credit.
- **Business processes and automation** — Most businesses, particularly established older SMBs, run with little to no data and technology, relying on memory or paper-based records only. Very few use digital tools. Most SMBs do not track inventory, and they decide what to buy by looking at suppliers’ assortment.
- **Knowledge and skills** — SMBs are typically financially literate and conversant in basic P&L and cash-flow dynamics. Males are comfortable relying on empirical knowledge while female-owned SMBs want additional training.
- **Premise location and optimization** — Cost of construction and increased rents make it hard for most SMBs to increase the size of their stores.

### External Challenges

- **Labor** — There is a general hesitation to hire employees due to inability to trust them with customers and cash. Hired help supports with physical tasks and is typically not allowed in proximity to cash drawer.
- **Competition** — Emerging competition from modern retailers, particularly in densely populated areas, is eroding sales and margins. The main strength of SMB competitors is being open 24 hours, but SMBs argue they have better prices and product offerings.
- **Regulation and taxes** — Most SMBs are registered with relevant authorities, though some do not pay taxes. They are confident in their ability to comply with regulations and “come through” after any tax audits.
- **Crime and corruption** — Violence is pervasive and frequently experienced first- or secondhand. SMBs feel powerless to act on issues of safety, security and government mistrust.

## Nigeria

A key regional player in West Africa, with a population of approximately 197 million, Nigeria accounts for about 47 percent of West Africa's population and has one of the largest populations of youth in the world. A federation that consists of 36 autonomous states, Nigeria is a multi-ethnic and culturally diverse society. With an abundance of resources, it is Africa's biggest oil exporter, and also has the largest natural gas reserves on the continent.

SMBs in Nigeria face a number of challenges:

### Internal Challenges

- **Sales and customer management** — Seasonality heavily impacts sales (e.g., income can grow or fall ~30 percent to 40 percent depending on the month). Majority of customers are neighborhood residents and other SMBs who buy to resell to their own customers.
- **Supply chain and inventory** — Most SMBs do not track inventory. Inventory purchase are determined by what SMBs see is getting low and the amount of cash they have on hand. SMBs have limited negotiating power with suppliers and while they realize savings could be made from buying larger quantities, they lack the capital to do so.
- **Financial products and solutions** — Many SMBs have a high aversion to credit driven mainly by high interest rates and risks associated with not managing timely repayment. While most SMBs interviewed manage to save small amounts of money daily, they are unfamiliar with concept of earning a return on their savings — current solutions offer zero percent interest.
- **Business processes and automation** — Most SMBs run their businesses with no record keeping or technology. Younger SMBs who aim to track their margins do so using inefficient paper records. Most SMBs don't keep a record of prices and instead rely on memory.
- **Knowledge and skills** — Most SMBs have a tertiary education and were previously employed. They can discuss basic P&L and cash-flow, but beyond that it's very difficult to obtain details on margins or other metrics. Most SMBs show a willingness to learn but do not know exactly what knowledge is needed to grow their business.
- **Premise location and optimization** — SMBs are constrained by limited storage space including shelves for merchandise and storage for inventory (including cold storage).

### External Challenges

- **Labor** — Despite an oversupply of labor (high unemployment rates) and distrust of employees, high wage demands and lack of funds for payroll are major labor challenges. Some SMBs have lost significant sums of money to employee theft. SMBs would like to hire labor to support in non-cash handling activities such as recordkeeping, inventory pickup, etc.
- **Competition** — Modern retailers and e-commerce have very low penetration and are not seen as competitive threats. Primary competitors are other SMBs in close geographical proximity. There is a strong lack of acknowledgment of competition as SMBs believe their customers will remain loyal, as long as conflict is avoided.
- **Regulation and taxes** — SMBs generally are not registered with relevant authorities, but they pay a number of taxes and levies (shop permits are cited as the most significant). Other levies paid are seen as unnecessary, unfair and burdensome.
- **Crime and corruption** — Some SMBs live in unsafe areas but they have not experienced crime or violence.
- **Infrastructure** — Power (electricity) outages negatively impact businesses as they happen often and can last for considerable periods (~2 weeks). As a result, SMBs have to sell inventory at a discount and not readily re-stock. Despite these interruptions, power outages are viewed as a "natural part of life."



## Sources

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1. Visa Inc. and Dalberg, "Small Merchants, Big Opportunity: The forgotten path to financial inclusion".
2. The names and images of actual research subjects have been changed to protect their privacy.