



Empowering Participation in Commerce:

New Strategies for Digitization
of Micro and Small Businesses

VISA

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Executive Summary

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. Yet, a coherent vision of what digitization means for micro and small businesses has not been articulated.

Today, more stakeholders than before — now including private companies as well as public and not for profit organizations — are generating evidence and commentary on the changes that digitization is making on small businesses. Additionally, understanding of what innovations mean for small businesses is emerging at a faster pace. Coupled with focus on rebuilding local small businesses as part of the pandemic recovery, this evidence demands an urgent re-casting of our mental model of small businesses.

A review of twenty years of published English-language literature from the rise of digital payments to the present makes clear that a new vision of micro and small business is needed. Digital tools are changing how traditional, community-bound small businesses operate and even what a micro or small business is. The insights reflect the many ways that small businesses use digital tools and services, and that the resulting benefits are multi-dimensional: increasing sales, customers, or revenue leading to more growth and resilience of the business and also positively impacting the business owners, employees, and customers. Today's deepest insights make clear that the digitization journey is an ongoing process and involves numerous participants — not simply a one-time adoption, by a single business owner of a single digital product. These

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complex, ongoing digitization processes also bring new risks that are specific to the digital world, such as data breaches and cyber fraud, which are unfamiliar to many small business owners.

Why does this matter? With an outdated mental picture of the micro and small business sector, policies and investments could be misguided, propping up sectors that are stagnating or in decline, slowing the pace of recovery and holding back economies. With an updated view of the journey and benefits of digitization to the small business, and what that means for potential transformation of the small business sector, a powerful transformation could be initiated that adds more value to economies by building thriving small business cultures, including new opportunities for younger generations.

To facilitate this new thinking, the annex presents some of the next questions that should be addressed to guide strategies, investments, and solutions.

With an updated view of the journey and benefits of digitization to the small business, a powerful transformation could be initiated that adds more value to economies by building thriving small business cultures.

I. Introduction

There are no doubts about how important micro and small businesses¹ are to economies, both in lower-income and wealthier nations.² How to support these small businesses to function well and grow has always been in the strategies of governments, development organizations and providers of financial services. In the past twenty years, the digitization of small businesses has taken increased prominence in these strategies.

An understanding of how digital payments can benefit small businesses has evolved, initially coalescing around efficiency gains, increased sales and opportunities generated by digital data, such as alternative lending. Over time, the discussion, as reflected in published research and papers, has expanded in three key ways. First, while initiated among global development actors, the discussion has more recently included private sector providers, reflecting an enlarged body of stakeholders and more diverse perspectives. Second, COVID-19 has sparked a transformation in the sector by causing some small businesses either to accelerate digitization or close.³ Last, while initially the discussion of benefits and risks of digitization lagged well behind the innovation of products and services, evidence about the impacts and implications of new digital innovations are now emerging almost immediately, contributing to a faster cycle of product development and the sense of urgency.

The emerging new common understanding of digitization of small businesses has several attributes. The process of digitization is a journey. It can stop and start; backsliding is possible and there may be a hidden challenge of incomplete digitization. Next, digitization is today most impactful when there is integration to complete a 360-degree digitization experience for the small business — not when it is undertaken digital product by product along specific business needs, such as vendor payments or social media sales. Finally, because of the opportunities that digitization and online access present, 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 a small business is changing, with the emergence of digitally native micro-companies delivering digital products and services, and corresponding implications for job creation and creation of value within an economy.

The implications of recognizing and understanding this moment of transition are significant to inform how public and private sectors direct and prioritize investments.

I. Introduction: (cont.)

Failing to understand the digitization journey and to articulate a new vision for the small businesses loses the opportunity to support and accelerate the success of the sector as a whole and maximize the sector's contribution to ongoing evolution of inclusive economies, with increased growth and employment. Additionally, without an understanding of all the potential benefits of digitization to small business owners, opportunities could be missed to design digital products and services that optimize multi-dimensional value for a small business owner, employees, customers, suppliers, and others in the value chain. Not recognizing digitization as a multi-layered and ongoing journey could make it impossible to understand how and why a small business may stall in their digitization evolution, and to address barriers.

WHAT DO WE MEAN BY DIGITIZATION OF SMALL BUSINESSES?

This paper defines digitization as including the use by a small business of any product or service that is connected to a digital payment, i.e., digital in-person and remote customer payments, digital marketing and online marketplaces, digital supplier payments and online banking and digital back-end system to integrate and provide business intelligence.

II. Common Wisdom: Evolution of understanding of how digital adds value to small businesses

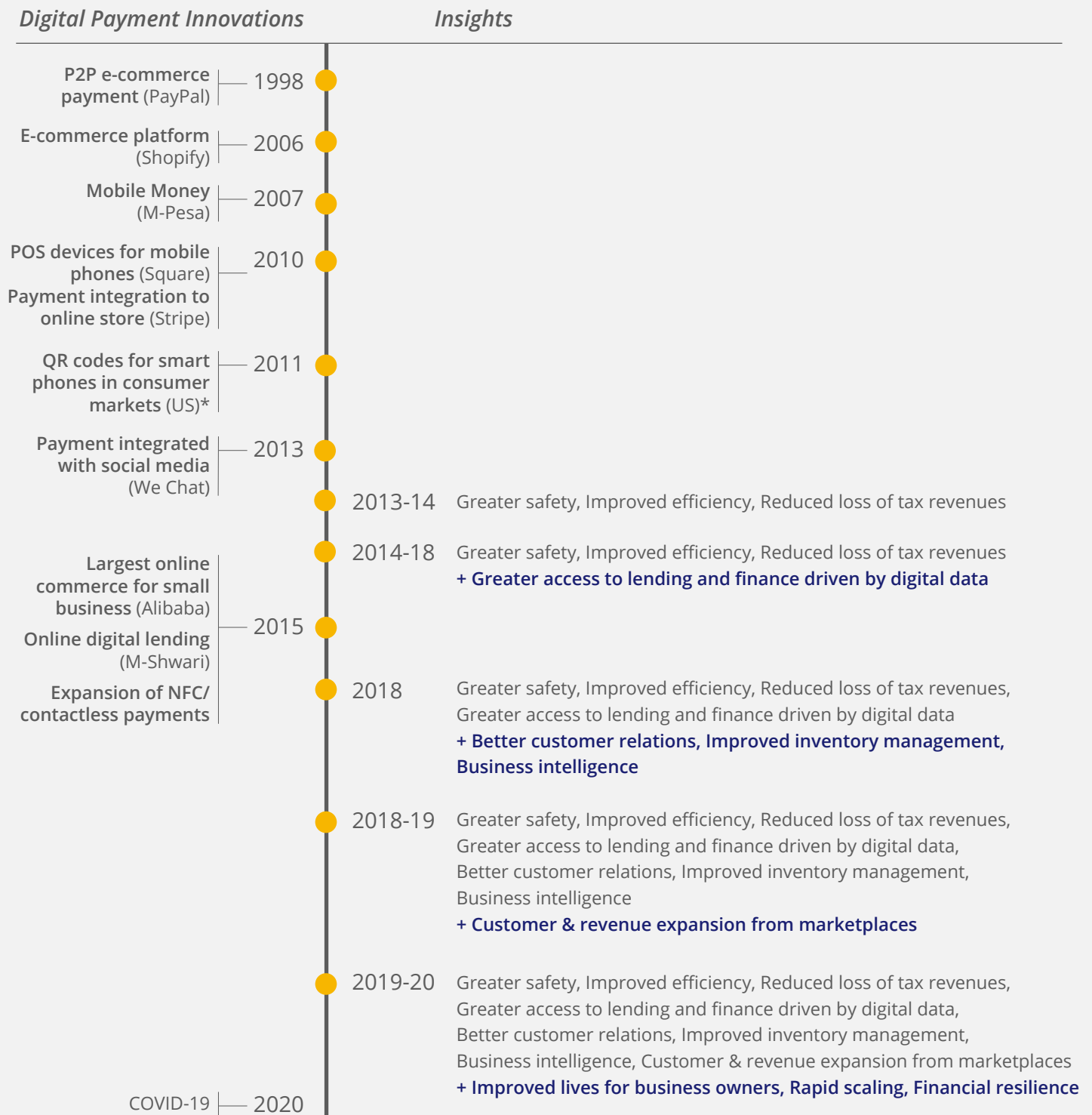
Tracking the English-language literature on digitization and micro and small businesses reveals two key observations, as reflected in Figure 1. (*See page 8.*) First, the common wisdom on the benefits of digitization to small businesses has evolved and is now reflecting the views of a broader group of stakeholders, including private companies in addition to those of development agencies and governments. Second, evidence and knowledge are also emerging faster after new digital innovations are introduced.

Early on, the leading global narrative around financial services and small businesses focused on lending, i.e., that access to loans and credit was essential and transformative for small businesses and improving household incomes. In the past five years, research has provided clear evidence that lending is not the panacea, though credit as a critical and still-needed solution continues to be a leading narrative.⁴

In the past five years as well, digitization and the multitude of benefits that come with it has taken center stage. With digitization, change in the small business sector is happening fast. Failing to quickly learn the impact of digitization runs the risk of misunderstanding how to support to best advantage an evolution in the small business sector in relation to larger economic structural transformations.

FIGURE 1: Evolution of Digital Payment Innovations and Insights

As new product and services were introduced, the research and common wisdom followed, but with a time lag. More recently, the discussion of the outcomes and benefits is happening more quickly after products are introduced and getting closer to real time. This reflects the entrance of more evidence and insights from private providers, who have access to data and insights from digital products and platforms, as well as the urgency created by COVID-19.



*While QR codes were introduced in 1994 in Japan, the ComScore MobiLens service reported that 14 million smartphone users in the U.S. (which represented more than 6% of American mobile phone users) scanned a QR code in June 2011.
<https://www.comscore.com/Insights/Press-Releases/2011/8/14-Million-Americans-Scanned-QR-or-Bar-Codes-on-their-Mobile-Phones-in-June-2011>

Cost of cash: reduced loss of tax revenues, improved efficiency, and greater safety

Around 2013-2014, several years after the introduction of mobile money, thought leaders began to articulate the ways that digitization would provide economic benefits at various levels.⁵ This articulation focused on digital payments initially and spawned a largely academic body of work that estimated the cost of cash affecting both small businesses and their customers. The most notable work includes a series of papers by researchers at Tufts University that covered the United States, Mexico, Egypt, and India.⁶ It focused on: a) the macro level — for example in lost tax revenues due to cash; b) safety, i.e., pointing out theft in U.S. retailers of \$40 billion;⁷ and c) efficiency losses, specifically for micro and small businesses, due to cash and gains due to digital payments. This rationale also became widely evident in research and policy papers from development and aid agencies, including the United Nations-based Better Than Cash Alliance, as well as U.S. Agency for International Development (USAID). This framework became a dominant narrative and continues to appear in literature and policy documents.

Digital data-based lending

Since 2014, the conversation narrowed to focus more clearly on how digital payments might benefit small businesses versus consumers. It became clear that the immediate efficiency gains from digital payments were not enough to compel small business owners to shift away from cash payments, as many owners and their customers considered cash free, ubiquitous, fast, and easy to use.⁸

Advances in uses of digital data for banks and others to make lending decisions presented a new proposition for small businesses. At first, the record of digital transactions, namely payments from customers, provided a new stream of data against which banks could approve loans. For a small business, accepting digital payments often meant a first-time and on-going formal relationship with a bank; the data on transactions and revenue often translated into the bank being able to offer more, less expensive, and longer-term credit. After a few more years, discussions noted another shift. Increasingly, small business payments (being paid and paying for things) were taking place through a new breed of digital-first payment providers, focused specifically on the needs of this market segment. These providers then formed new partnerships to provide data to other firms, banks and fintechs focused on lending — such as the 2013 partnership in which Kabbage began to make loans based on payment data from Stripe.⁹

II. Common Wisdom: (cont.)

As a result, the research once again began to put significant focus on the potential for digitized payments and transactions to unlock credit markets for small business — but now also with the potential to deliver loans digitally.¹⁰ This included emphasis on the demand for credit, and innovations that affected scalable lending business models. The International Finance Corporation's SME Finance Forum estimated unmet credit needs for micro, small and medium businesses in developing countries at \$5 trillion in 2018.¹¹ Payment providers could increase their margin by creating and promoting use of digital transactions by small businesses, then providing loans with a lower cost of credit assessment, which in turn allowed them to charge lower transaction fees without decreasing margin — an upward spiral of scale and expansion. This understanding was especially relevant in emerging markets, where small business credit was for many years seen as expensive and labor intensive to provide — and therefore a lending segment that banks and mainstream providers were not interested to serve, leaving this lending to microfinance institutions. The potential of digitization for small business lending was therefore to increase the range of institutions interested in small business finance.

The digital data discussion soon expanded to include how other kinds of data — quickly known as “alternative data” such as phone use, contact lists and social media patterns — opens lending and credit opportunities for individuals and small businesses. Academic and practitioner-sponsored research contains numerous examples out of Africa, where the rapid spread of mobile phones and mobile money among lower- and middle-income consumers connected these groups digitally for the first time and generated huge streams of real time data. The launch in 2012 and steady growth of M-Shwari by Kenyan mobile money innovator Safaricom opened a new conversation about using other kinds of data on mobile phones and communications over Safaricom to score credit. This approach soon spread to additional providers such as Branch, which uses smartphone data from Mobile Network Operators (MNOs) across Africa, such as text messages, call logs, contacts, and GPS along with a borrower's loan repayment history to assess borrowers and extend credit digitally. CGAP began writing about innovative credit scoring model behind M-Shwari in 2015¹² and by 2016 had created a short course for a range of credit providers.¹³ With respect to the benefits of these alternative data models, however, the literature so far, such as Bharadwaj, Jack and Suri (2019),¹⁴ points to an increase in household resilience rather than to a growth in business revenue. Another small body of research emerged on the risks, specifically for the explosion of instant, digital credit causing a new wave over-indebtedness, as was being seen in East Africa. These small loans were being used for consumption, not production or investments in long-term welfare generating activities.

Benefit of digital broadens to include a range of value-adds for small businesses

By 2018, the conversation expanded once again to consider digitally driven and enabled value-adds for small businesses. Three main types of value-added services became the focus of benefits to merchants:

1. Managing customer relations (including customer credit)
2. Managing inventory
3. Extracting business intelligence¹⁵

All these value-added services were built on the rails of digital payments by small businesses, both to suppliers and from customers. Documented pilot programs and demonstration cases showed that digital payments and related services could help small businesses to increase repeat business, manage inventory and better and more rapidly understand their businesses.¹⁶ Yet, the desire of merchants and business owners to shift to digital payments lagged these findings.¹⁷ Small merchants were still especially worried about the sales and revenue they would lose if they did not maintain a high speed for each transaction. Discussion during this time posited that these barriers might change with faster, easier technology solutions including QR codes and contactless payments, and more use of smartphones — as began to emerge and be evident with WeChat Pay in China.

Customer and revenue expansion potential of digital platforms

Starting in 2018, common wisdom talked more and more about the mega digital platforms, e.g., Amazon and Alibaba, and what they meant for small businesses.¹⁸ This potential combined well with digital payments, which allowed small businesses to sell to customers not physically present and held the promise of expanding revenues and employment.¹⁹

That said, common wisdom also recognized that digital marketplace platforms can take as much as they offer. For example, since 2006 Etsy has created a virtual marketplace where individual artisans sell their handmade goods. It became transformational for many artisans, providing reach to buyers far beyond their immediate location and fueling sales and often significant business expansion. In 2013, Etsy began to allow larger manufacturers to sell on the platform, increasing competition for the artisan small business. Later, increasing Etsy fees put pressure on independent artisans given thinner margins as compared to large producers of

II. Common Wisdom: (cont.)

mass-produced goods.²⁰ With digital marketplace platforms like Etsy, there is a huge opportunity for small business, while also a potential risk of the market being taken over by medium or big firms.

Putting selling into the hands of small businesses was an important innovation. Based on this in part, e-commerce platforms like Shopify have had an ongoing role in increasing small business sales.²¹ They help small businesses to open an online store while providing web hosting, integration with social media for advertising, a payment gateway, and a fulfillment network.²² They make it easier for many small businesses to join digital commerce by taking care of technical aspects, back end support and integrated digital services and providers that small businesses used to need to navigate one-by-one. In the last several years, additional e-commerce platforms have arisen rapidly competing with Shopify and each other on price, customer reach and service integrations.

The evolution of the digital platform discussion spanned at least a decade. It sped up rapidly from 2018 onwards and introduced the beginnings of an important trend. Before 2018, common wisdom spoke of digitization mostly in verticals — for marketing, for example, or business intelligence, or vendor payments. In the last couple of years, the discussions generated by the success of digital and e-commerce platforms began to reframe the benefits of an integration of digital tools across the entire small business. This discussion becomes more relevant in the COVID-19 era and will continue to be so in the next generation of conversations.

PLATFORMS EXPLAINED

Digital marketplace platforms:

A third-party website that includes product listing from many sellers across product categories. Examples of digital marketplace platforms are Etsy, Newegg. Examples of mega digital platforms are Amazon, Alibaba.

E-commerce platforms:

Companies that help businesses build an independent website where buyers purchase good directly from the business' website. Examples of e-commerce platforms are Shopify, BigCommerce, WooCommerce.

III. COVID-19 accelerates the conversation on being digital

How we think about the value digital payments add to small businesses today reflects what has happened with COVID-19. During 2020, the lockdowns sparked desire by consumers to avoid physical contact and support local communities. This resulted in increased digital payment acceptance and volumes for many small businesses. Aided by the rise of online orders and touch-free transactions, digital payments and commerce suddenly became a necessity for many small businesses that had never considering offering or using them.²³ Data has shown that digital payments and commerce helped to offset an overall negative impact of the pandemic on many businesses. According to a recent study by the National Retailer Federation²⁴ U.S. retailers reported a 69% increase in contactless transactions since January 2020. The World Economic Forum called for governments and providers to help small businesses survive the pandemic by using digitization to better access to value chains, supply platforms and working capital credit.²⁵ COVID-19, essentially, accelerated years of digital transformation into one.

The most current evidence shows that benefits of digital for small businesses are increasingly multi-dimensional — aiding the business, owners, employees and the sector in numerous ways beyond the payment itself — as new products, services and a digital ecosystem become available. Without considering this full set of benefits and understanding their implications, opportunities will be missed to design products and services that can optimize the impact for all participants in the sector.

In this way, the COVID-19 period has turned into a learning period itself, given the significant shift to digital capabilities by small businesses in the last year. These learnings can be characterized into two types: additional evidence of the impact of digital on small businesses in ways that were foreseen, and new benefits not previously envisioned.

Foreseen benefits — additional evidence

Resilience and rapid scaling

Before COVID-19, there was already evidence that digital payments helped to improve the financial performance of small businesses.²⁶ In 2015, there was already evidence from the United Kingdom²⁷ that small business owners were recognizing the potential to increase and broaden revenues by using social media to enhance

III. COVID-19 accelerates the conversation: (cont.)

marketing, develop online sales, and optimize search engines to point to their online stores. In a 2019 Deloitte survey,²⁸ more than 90% of small businesses that used at least one digital tool said they experienced revenue growth due to their use of digital tools. Eight percent of small businesses attributed this to obtaining new customers and 61% to more sales to existing customers. During COVID-19, this evidence got deeper. In a Visa-commissioned study in Mexico²⁹ of micro and small businesses that had started to accept digital payments in the prior 18 months, three quarters of respondents reported increased revenues, with an average increase of 22% in monthly revenue among those that did report growth.

The same report provided evidence that digital helped small businesses to reduce operating costs — on average they attributed one fifth of their reduction in operating costs to the use of digital tools. This included running a better business through improved inventory and expense monitoring.³⁰

Additional evidence coming out of the COVID-19 period confirms that digital payments help small businesses to get online and scale more rapidly.³¹ PayPal reports that, based on their own data for U.S.-based small businesses, those who created a PayPal business account in the first months of the pandemic were able to ramp up much faster than in previous periods.³²

COVID-19 has also shown that digitized businesses indeed have greater resilience by being able diversify sales and revenues, to decrease costs, to have a better handle on the day-to-day performance of their business and being better able to pivot. A report by the Mandiri Institute in Indonesia shows that, based on a survey in May 2020, 42% of the offline businesses surveyed have closed shop compared to only 24% of the online businesses surveyed.³³

Small business owners themselves acknowledge what a difference digitization makes to their business. Visa's Small Business in the Digital Age study conducted in five countries in September 2020 reveals that most small business owners are looking for assistance to digitize their sales channels, acquire better internet capabilities, improve digital payments, and increase cybersecurity protection — and all of these are greater priorities than grant assistance.³⁴

III. COVID-19 accelerates the conversation: (cont.)

Improved lives for business owners

In the past several years, there has been some evidence that digitization may help to improve the lives of small business owners beyond increasing business revenue and thus income. Running a small business, though requiring hard work and long hours, can help business owners balance professional obligations with family life. For example, research in China conducted by Visa³⁵ found that women owners of micro and small businesses are devoted to both their business and their families. Family satisfaction was the largest and leading factor influencing their overall job satisfaction, followed by business outlook in 2020 and then income and health. Visa Beijing 2022 and Women report³⁶ showed that 77% of women business owners interviewed were very or quite satisfied with their family life.

This latest evidence from the pandemic helps to unpack some of the reasons why digitization may help improve the lives of small business owners. One is that having digital tools or a digital business enables owners to be remote — e.g., not onsite of the business — some or all the time.³⁷ Another is allowing them to split their time better among different responsibilities, be they professional, educational, or personal.³⁸ A third is the visibility that digital payments, transactions, and inventory management provides for the business owner into day-to-day operations and financial accounts — including around the clock and remotely.³⁹

New unforeseen benefits

Digital credit distribution, which may lead to large-scale digital lending

The most well-recognized evidence from COVID-19 on small business lending is more about how digitization facilitated identification of beneficiaries and decreased turnaround time for processing loans rather than increased lending itself. One of the recognized benefits of digital payments is the relationship with a formal financial institution. In the early days of COVID-19, having an established relationship

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III. COVID-19 accelerates the conversation: (cont.)

proved enormously beneficial for a small business whether for private lines of credit or accessing and receiving government support. Additionally, a positive outcome of COVID-19-era government support for small businesses was that lenders were prompted to invest in and ramp up their digital lending processes. BBVA, for example, has invested heavily in a new digital lending platform that allows loans to reach customers within days.⁴⁰

Moreover, government support programs engaged a broader set of non-mainstream financial institutions in disbursing aid. This brought about new relationships between small businesses and financial institutions. In the U.S., non-bank lenders such as BlueVine, Kabbage and Ready Capital (partnering with Lendio) are now positioned to expand their lending for small businesses during the recovery because the Small Business Administration involved new types of financial institutions in disbursements of COVID-19 loans. Square, for example, has reported a 60% increase in new loan customers.⁴¹

A proof point for the scale and speed potential for digital lending itself in the past year comes from Indonesia. SMESCO, the government institution responsible for training and facilitating micro and small businesses, pushed the share of micro and small businesses using online platforms up to 16% in 2020 from 13% in 2019.⁴² The Indonesia Financial Services Authority (OJK) shows that fintech lending platforms have disbursed 24% more in loan value in October 2020 compared to year before.⁴³ One of the additional outcomes is that these small businesses can now have a formal credit score, which is helpful to future financing needs.

IV. An updated view of small businesses and the digitization journey

This evolving body of evidence is changing not just a broader vision of the benefits of digitization but even the way small businesses can be defined. This updated view has two characteristics. First, there is a change in the mental model of what a small business is. The traditional model is a shop-front-only establishment serving a defined physical community. The updated model is one unleashed from physical bounds, and where digital information may even create the business itself. Second, it is now clear that the digitization process for small businesses is multi-layered and ongoing. Both of these have significant implications on what it means and how to build back better from COVID-19, and for the successful, enduring digital adoption by a small business.

We need to change our perception of what it means to be a small business

Most of the conversation about the digitization of small businesses in the past fifteen years conjures an image of small, community-bound businesses such as retail merchants, agricultural suppliers and farmers, producers of small handicrafts, or restaurants owners. Digital may expand their business but does not fundamentally alter the nature of the business.

The recent literature, however, has increasingly pointed to an evolving trend about how the digital economy leads a changing nature of work and small businesses themselves. The small business of today can exist across borders more easily than previously. For instance, an accountant in one country can serve a business in other and an employee in yet a third. As well, digital has created additional types of businesses and work through crowdsourcing, the sharing economy, gig labor and paying workers on online platforms. In some cases, gig workers can, in essence, become micro businesses themselves.

Another phenomenon is the rise of creative, multimedia work and sales that are driven by digital data itself.⁴⁴ Good examples are businesses that aggregate online data or conduct online research to create online advertising campaigns. Another kind of digital small business consolidates and organizes information that is pulled from diverse sources on the internet. These are examples where a small business not only uses digital to add value to their business, but where access to digital creates the business itself. This lends itself to a whole new small business and livelihoods landscape.

IV. An updated view of digitization: (cont.)

Together, this creates a revised mental picture of a small business as one that may be purely digital and not bound by geographic constraints.

The implication is that failure to update the mental model of what a small business is and can be will reduce the potential to build back better. This mental model influences where public and private investments are made in the small business sector and how much value that sector adds to the economy. Using the traditional model loses the opportunity to transform the small business sector to higher productivity employment and growth areas of the economy through investments, policies, and infrastructure, and directing resources in sub-optimal ways.

The digital experience for small businesses is now multidimensional and interconnected

The benefits of digital for micro and small business are increasingly understood to be multi-dimensional involving new products and services, new ecosystems such as super-platforms, new ways of engaging labor, inventory, suppliers, payments, record-keeping, etc. Small businesses need to adopt multiple services, no longer a single product one at a time. The process is and will be ongoing — not one and done, and greater value is created when these services are integrated.

Without understanding digitization as a multilayered and ongoing journey, it will be difficult to understand how and why a small business may decide to halt their process of digitization and what barriers might be at play, and then to address those. This requires understanding all actors in the ecosystem of a small business that need to adapt to digitization so that the business moves beyond a point where backsliding is no longer possible. This also begs questions of how best to integrate among different service providers and products to help micro and small businesses shift to using digital tools, and to ensure their success.

V. New strategies:

What can help small businesses get the most value from digitization?

Prevent backsliding during the digitization journey

As discussed above, one challenge is incomplete transformations or backsliding. A 2018 McKinsey study suggests that only 30% of digital transformations are successful. Businesses may give marketing on social media a try but come to roadblocks about integrating it as a core generator of sales, for example. A positive note is that digital transformations tend to be more successful for small businesses than larger ones.⁴⁵ Although this study offers a range of recommendations for how to ensure a complete digitization process, it does not offer specific recommendations for small businesses, which may have a smaller budget to invest in the digitization process. A key outstanding question remains why firms might backslide and how to prevent it.

Becoming digitized affected not only the business owner

New strategies need to recognize that digitization is a journey that involve — and shaping products, policies, marketing campaigns and investments accordingly.

In many countries, increasingly consumers want to pay digitally, and COVID-19 may have sharpened a customer preference for patronizing small businesses.⁴⁶ However, this increased level of digital payments brings its own challenges for the business. Customers are now demanding an omni-channel digital experience with a high degree of personalization. This means small businesses need upgrades in payment platform integrations. Consumers are increasingly voicing their expectations that hold companies to a higher level of data stewardship, putting the onus on small businesses to put safeguards against data breaches in place — a topic further discussed below.⁴⁷

New strategies should include how to enable successful journeys for small businesses into this digitized state, how to prevent a “partial digitization” and how to mitigate risks.

V. New strategies: (cont.)

At the same time, digitization brings challenges to less technically minded owners and their employees. As the Good Things Foundation⁴⁸ points out, supporting digital skills is a broad effort, especially for small business owners from disadvantaged groups. One of the biggest challenges for small business owners to become digital is a lack of time for training.⁴⁹ Included in this is the amount of time needed to investigate and assess options, and what to do when owners are unsure of whether the digital tools are in fact trustworthy. More and more research find that peer-based networks are critical for increased use of digital tools, including to overcome this assessment and trust barrier.

For small business employees, adapting to a new digital job can be a daunting process. A Canadian program developed a flexible training model to increase basic workplace skills in small rural businesses. Evaluation of the outcomes found that although small business owners were positive about the program and employees gained skills, employees' self-esteem dropped, and stress increased. Even so, employees became more future-oriented about their role.⁵⁰ This reinforces the notion that the small business journey to digitization is truly a transformation on a human level and not just one at the business or technological level.

Doing more online means more need for cybersecurity protocols

For small businesses, having a more digitized sales and marketing channel means also digitizing back-end operations to facilitate instant and omni channel experiences.⁵² This end-to-end digitization is bringing pressing concerns about privacy and cybersecurity, but the ways small business can address these concerns easily are limited. One of the easiest, right now, is that small businesses can sign up for platforms like Shopify, WooCommerce or Wix that are fully integrated and take care of many of the technical issues and thus security issues. There is also a growing array of fraud and cybersecurity protection offerings that cater specifically to small digital businesses.

The small business journey to digitization is truly a transformation on a human level and not just one at a business or technological level.

V. New strategies: (cont.)

Platforms like Authorize.net⁵² help bring enterprise-grade systems to small businesses — and help small businesses manage these tools. Overall, having to assess, choose and implement separately each tool and service for security, distribution, payment, sales channels, and back-end integration can be overwhelming for a small business. Leveraging platforms that integrate all of these simplifies the small business decision-making and management.

The challenge of digitization participation

Specific small business segments are at risk of falling behind. Women small business owners are critical to realizing the potential economic benefits of digitization but are less confident about their abilities to succeed. According to the Global Entrepreneurship Report on Women's Empowerment, women have much lower confidence about being able to start a business than men and a much smaller proportion of women expect high growth compared to men.⁵⁴

Yet, evidence from the Visa Small Business in the Digital Age study suggests that women are highly motivated to become digital. (See page 23.) Other segments might also be disadvantaged. For example, older firms may lack the motivation or skills to digitize.

Women small business owners are critical to realizing the potential economic benefits of digitization but are less confident about their abilities to succeed.

Insights Spotlight

Small Business in the Digital Age: *Recommendations for Recovery and Resilience*

Visa Economic Empowerment Institute's study *Small Business in the Digital Age*⁵³ provides results from an online survey conducted in October 2020 with more than two thousand micro, small and medium-sized business in Malaysia, Philippines, South Africa, Brazil, and Colombia. Additional analysis specific to just micro and small businesses confirmed some of the existing knowledge on women and small business. First, more men have larger businesses than women. Second, women's businesses tend to be concentrated in two to three sectors, mostly food and beauty products, whereas men's businesses are spread across five to six diverse sectors.

The additional analysis of just micro and small businesses in the study also revealed some new insights:

A greater share of women-owned micro and small businesses started accepting digital payment methods, using platforms to sell, and having digital capabilities during COVID-19 (17%) compared to men (13%).

(See graph, page 23). Before COVID-19, involved men's and women's businesses were similar in terms of the proportion of firms that accepted digital payments, used digital platforms to sell and had various digital capabilities, like online invoicing and banking. During COVID-19, both women's and men's businesses changed in the same way in terms of number of clients and sales — most declining but some increasing. Also, during COVID-19, there was a significant increase in the share of both women's and men's businesses adopting various digital technologies. The reason behind this result is an open question. The Global Entrepreneurship Monitor on Women's Entrepreneurship may hold some clues. First, in low-income countries, women who own small businesses account for 15% of the adult population, very similar to the proportion of men who own small businesses. Moreover, globally, women business owners feel that starting a business is a good career is equal to men. Could it be that women small business owners are particularly motivated to see their businesses succeed because of the lack of an outside option? This is one area which needs more research.

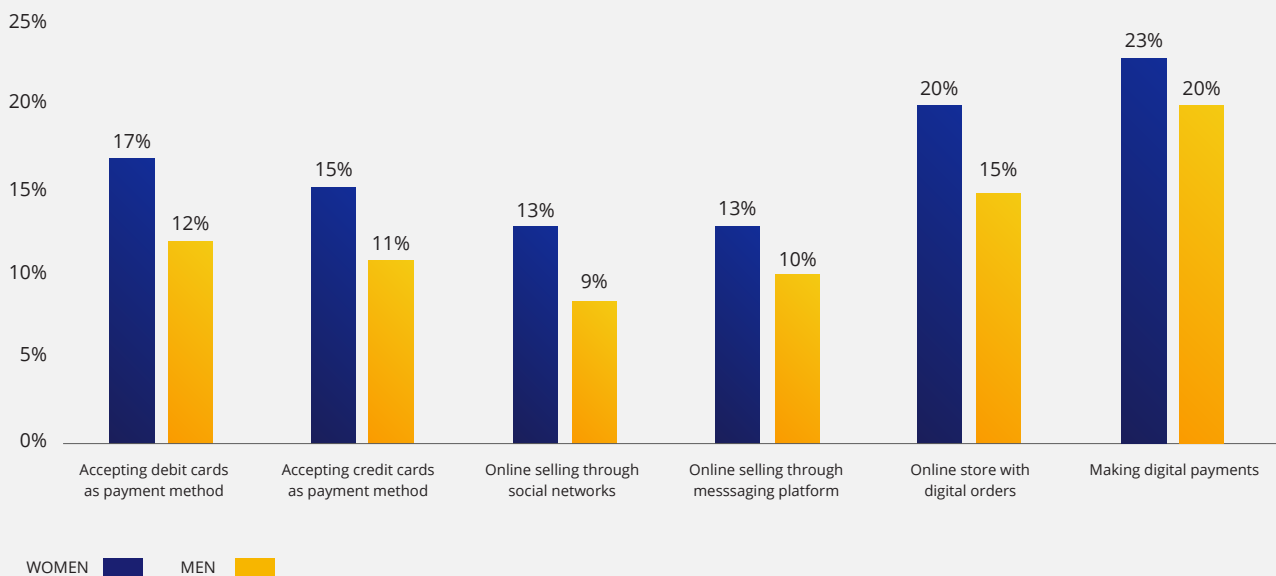
⁵³ Visa Economic Empowerment Institute (2021) *Small Business in the Digital Age: Recommendations for Recovery and Resilience*
<https://usa.visa.com/sites/visa-economic-empowerment-institute/digital-financial-inclusion/small-business-in-the-digital-age.html>

But women need more support to implement online banking, digital invoicing, and cybersecurity/fraud protection. A smaller share of surveyed women business owners has implemented online banking, digital invoicing, and cybersecurity/fraud protection than men business owners. These areas are more challenging to implement in a small business but also critical to enable a protected and fully digitized business. Women small business owners need assistance in implementation in these areas if their other digitization efforts are to fully pay off.

Business age affects digitization. This dataset showed that businesses that are ten years or older were not adopting technology as quickly, which challenges our view of small business resilience and welfare. Common wisdom is that once a business survives beyond five years, it is strong and durable. However, this data suggests that older businesses are slower at transformations and pivots. In turn, the importance of digitization to small businesses raises questions about what the desirable composition of small businesses in an economy is, and how the small business sector should evolve.

Micro and Small Business Digital Adoptions during COVID-19

Percent of *women* vs. *men*



VI. Conclusions

The experience that has been gathered about digitization and small business in the past year points to two immediate priorities. First, 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 revenues, decreases costs, and improves resilience. Second, cybersecurity and digital risks become more important as small businesses become more digitized. Decreasing exposure to these risks cannot depend on the know-how of businesses alone.

This paper has shown that a dramatic change in thinking about how to support of small business is needed. For example, what is the best way to conceive of how the small businesses sector could contribute to the new digital economy? What does that mean for jobs, GDP and improving household incomes? Which types of small businesses should get supported and how? For much of the past twenty years, interventions focused on finding new ways of creating small businesses as a means of poverty alleviation and local employment. Given how critical digitization has become to small business success, a complete overhaul may be needed to revise our thinking about lending to focus more effectively on those businesses with potential to contribute to and shape communities and economies in the digital age, and to growth.

Increasingly, a critical question is how to form the partnerships can that support an entire 360-degree digital experience for small businesses. Much of the research has, until now, been specific to providers supporting the different business activities of marketing and selling, purchasing, and business intelligence. New thinking is needed to consider the aggregation and integration of products and services so that the onboarding for the least savvy of business owners can be as easy as possible. Is there a balance between all-in-one services and a la carte menus for more sophisticated small business with specific needs?

Increasingly, a critical question is how to form the partnerships can that support an entire 360-degree digital experience for small businesses.

VI. Conclusions: (cont.)

Additionally, the increasing digitization of businesses means platforms on which they sell and operate are rapidly gathering more data and insights. This data then powers the business models of these platforms, as well as other providers. Is there symmetry in who benefits from this data? Is it possible to ensure that small businesses themselves are sharing equitably in the value of this data and, if so, how?

Lastly, what is the best way to keep track of what support, interventions, products, and services are working best to benefit small businesses? The evidence reviewed showed that the biggest impact comes when there is an updated mental model of what small businesses are today and can be tomorrow in a world of digital commerce.

Annex

Questions to guide strategies, investments, and solutions

Discussion of the below questions can help to inform a view for how different stakeholders can support this new digitally enabled small business sector in terms of interventions, products, and policies/regulations, and identify what kinds of partnerships are necessary to be the most supportive.

Who are the small businesses of today and what role do they play in social and economic welfare?

- What is the best way to conceive of how the digitally enabled small businesses sector could contribute to the new digital economy? What does this mean for jobs, GDP and improving household incomes?
- Which types of small businesses should get priority support?

How is the digitization of small businesses understood?

- How to best provide specific support to more traditional small businesses and new, digital-first small businesses? Does it vary?
- What is the point where the digital transformation of a small business can no longer backslide?
- Who else needs to be digitally enabled for a small business to digitize successfully?
- As small businesses become more digitized, cybersecurity and digital risks become more important. Decreasing exposure to these risks cannot depend on the know-how of businesses alone. What is the best way to provide support to mitigate digital risks?

What is the best way to support *a la carte* and *prix fixe* digitalization onboarding?

- New thinking is needed to consider the aggregation and integration of services so that the onboarding to digital for the least savvy business owners is easy and supports a 360-degree digital experience for small businesses. Is there a balance between all-in-one services and a la carte menus for more sophisticated small business with specific needs?
- With respect to the aggregation and integration of digital services, what are the best ways of offer choice for small businesses?

How to ensure equity in digitization?

- There is a pressing need to ensure connectivity for equitable access to the digital world for all small business owners.
- Integrated onboarding unlocks exponentially more data, and scaled data has more value to providers. Is value accruing equally between the small business and the integrated platform?

How do we continue to learn and course-correct quickly?

- What is the best way to keep track of interventions and their outcomes to determine what is working best to provide the most benefit to small businesses?

Endnotes

- ¹ This paper focuses on “micro and small businesses.” We define micro businesses as 10 employees or less and small businesses as between 10 and 50 employees. For the remainder of this paper, except when referring to specific literature, we will refer simply to “small businesses” to mean micro and small businesses of 50 employees or less.
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- ¹¹ SME Forum (2018) “MSME Finance Gap Database” <https://www.smeinfoforum.org/data-sites/msme-finance-gap>
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Visa Inc. (NYSE: V) is the world's leader in digital payments. Our mission is to connect the world through the most innovative, reliable, and secure payment network – enabling individuals, businesses, and economies to thrive. Our advanced global processing network, VisaNet, provides secure and reliable payments around the world, and is capable of handling more than 65,000 transaction messages a second. The company's relentless focus on innovation is a catalyst for the rapid growth of digital commerce on any device for everyone, everywhere. As the world moves from analog to digital, Visa is applying our brand, products, people, network, and scale to reshape the future of commerce. For more information, visit About Visa, visa.com/blog and [@VisaNews](https://twitter.com/VisaNews).

