



DIGITAL DIALOGUES

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DRIVING DIGITAL COMMERCE FOR SMALL AND MEDIUM-SIZED BUSINESSES

On 4 August 2020, the Financial Times held a Digital Dialogue in partnership with Visa on Driving Digital Commerce for Small and Medium-Sized Businesses. Featuring **Andrew Torre**, Regional President CEMEA of *Visa*, interviewed by **Pilita Clark**, Associate Editor and Business Columnist at the *Financial Times*, the event explored the current economic context for SMBs, the potential for the expansion of digital payments in the CEMEA region and the role of different stakeholders in supporting SMBs as they become more digitally oriented.

FEATURING



Andrew Torre
Regional President
Central Europe
Middle East and
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INTERVIEWED BY



Pilita Clark
Associate Editor and
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Financial Times

DRIVING DIGITAL COMMERCE FOR SMALL AND MEDIUM-SIZED BUSINESSES

THE CURRENT ECONOMIC CONTEXT FOR SMALL AND MEDIUM-SIZED BUSINESSES

Around 90% of businesses across the globe are small and medium-sized businesses. These businesses account for 50-60% of employment. The vital economic role they play is evidenced in the scale of the stimulus packages unveiled by various governments for SMBs and/or consumers. In its recent study entitled “Coronavirus (COVID-19): SMB policy responses”, however, the OECD revealed that “One third of SMBs fear to be out of business without further support within 1 month, and up to 50% within three months”. The study also highlighted that SMBs may have less resilience in dealing with the economic shock of Covid-19 due to “the low level of digitalisation and difficulties in accessing and adopting technologies”.

These challenges necessarily vary across different countries and market segments. Payments for entertainment, travel, restaurants and bars have been significantly depressed. Yet, there is some recovery in payments for other non-essential goods, services and fuel, as well as a strong rise in payments on essential goods and services, including groceries and pharmaceuticals. As noted by Andrew Torre, countries and regions with fast growing economies, increasingly urban populations, and “young natively digital consumers that are mobile first or mobile by design”, have seen lower than average drops in payment volumes. Across the Visa network, for example, global payment volumes dropped by 5% in the CEMEA region in Q2 of this year, in comparison to a global average drop of 10%.

A GIANT LEAP FOR E-COMMERCE AND DIGITIZATION

Covid-19 has accelerated the trend towards e-commerce all over the world, including the CEMEA region. Person-to-person (P2P) payment channels have also seen significant growth, enabling freelance workers to gain direct payment for goods and services. The pandemic has led to a spike in penetration, consumer awareness and merchant uptake of contactless payments, with consumers now using some form of contactless payment. A recent study by Visa shows that 80% of consumers in the CEMEA region enjoy the convenience of e-commerce and say they would prefer using digital payments going forwards.

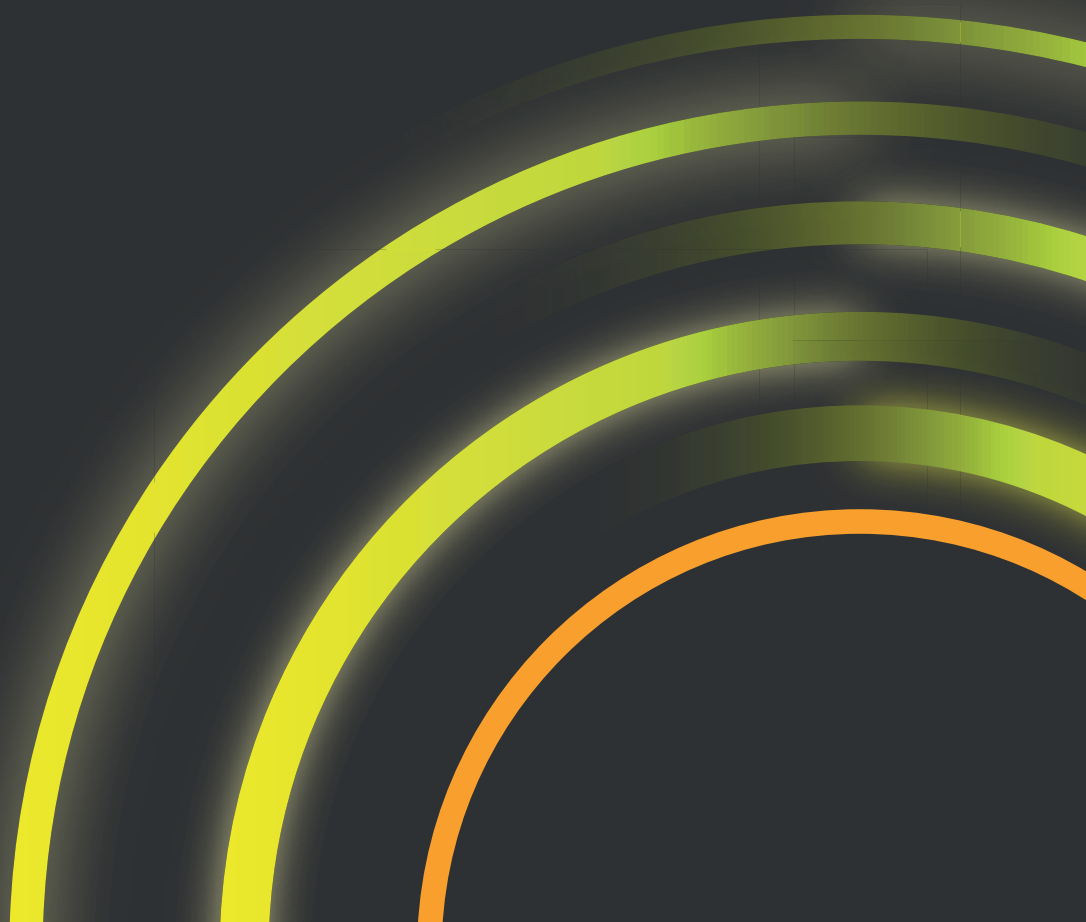
There are, of course, concerns that a cashless future could marginalise vulnerable people. Yet, as noted by Andrew Torre, current trends create equally valid justifications for governments “to embrace digital services and financial inclusion”. The socio-economic benefits of this approach include giving marginalised communities better access to credit, helping physical stores reduce bottlenecks, enabling social distancing for consumers and merchants, and generating new sales outlets for SMBs. Indeed, in the same Visa survey, 67% of SMBs worldwide said they had tried new digital systems and approaches to keep their business on track. This willingness to adopt new technologies is being helped by the increasing number of businesses providing affordable digital services to SMBs. This includes companies that provide simple web design and payment facilitation, as well as marketplace platforms such as Amazon, Noon and Alibaba. For some commentators, however, the growing use of such services go hand-in-hand with potentially problematic developments such as marketplace monopolisation.

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FOUNDATIONS FOR A DIGITAL ECONOMIC RECOVERY

Over the course of the last six months, the general belief in the prospect of an economic recovery appears to have become more buoyant across the private sector. In a recently published “Back to Business” study by Visa, 78% of SMBs across eight countries were optimistic about the future, with 71% of small businesses saying they were receiving support from their local communities. Maintaining this buoyancy, however, will require strong leadership, collaboration and coordination across governments and private sector organisations. As observed by Andrew Torre, this is evidenced in the benefits already being generated by the Russian government’s “thoughtful approach to innovation and payments” prior to the pandemic, which required companies with turnovers of over 40 million roubles to start accepting electronic payments. This has helped to mitigate the impact of Covid-19 on Russian SMBs and the wider economy, as well as helping to stimulate innovation and technology adoption rates across Russian businesses.

Such policies, however, have to be supported by private sector initiatives, particularly from technology providers. This includes the creation of programmes, such as Visa’s “Back to Business” project, to help more-rapidly onboard SMBs with digital services, and educate SMBs on basic digital skills (including understanding digital payments and marketing), and to inform consumers about small businesses in their communities whilst also incentivising them to shop locally. Outside of such initiatives, technology providers should maintain a balance between charging affordable fees for their services and maintaining sufficient investment funding required to develop next generation security solutions (such as ‘tokenization’ payment systems) and new technological innovations (such tap-to-phone technology turning mobile devices to POS terminals for small businesses). In a global recession, companies must take special care to understand how their money is being spent, whether it be on R&D or fees. Undoubtedly, digital innovation and collaboration will be crucial in helping many small and medium-sized businesses survive and grow in CEMEA and the rest of the world.



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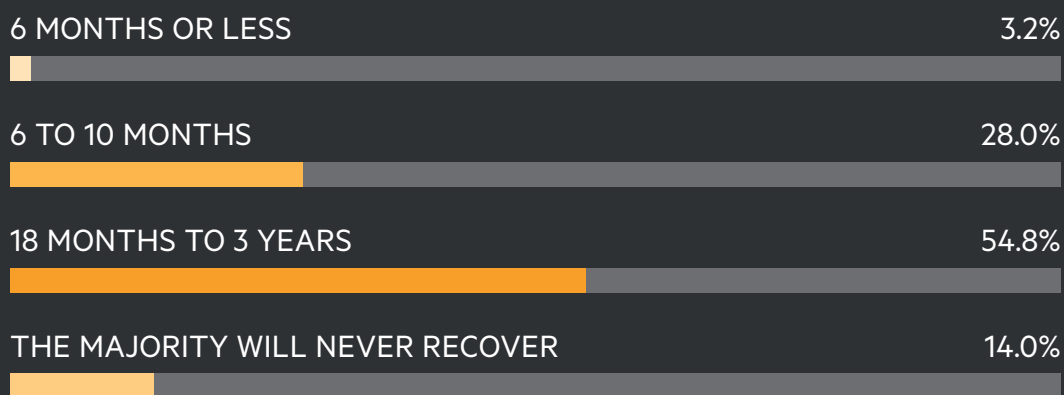
KEY TAKEAWAYS FROM THE INTERVIEW

- Many small and medium sized businesses have been hit hard by COVID-19, but it varies a lot between different countries and sectors. For example, food and groceries have done well but travel and entertainment have been very depressed.
- Consumers want convenience. Young, natively digital, urban consumers are on the rise in Central Europe, Middle East and Africa. Many do not want to touch cash or have any physical contact. SMBs that embrace digital transformation and a shift to ecommerce will be better placed to connect with these consumers.
- There is a huge scope for innovation to help SMBs make the digital pivot and connect with consumers in new ways – and it’s increasingly easy for them to do that online.
- Innovation in digital commerce can support SMBs as they expand. For example, payment credentials can be digitised in the form of push payments or peer to peer payments.
- Cybersecurity is a concern, but card details can be tokenised securely, creating a 16-digit number for the consumer that only works for one merchant.
- Governments have a significant role to play in supporting SMBs, particularly through fiscal stimulus which can go directly to businesses or consumers. Campaigns that build communities and educate SMBs can also make a big difference.

AUDIENCE POLL RESULTS

Two polls were carried out during the interview to gauge the audience’s view on the pace of the CEMEA region’s progression towards a society dominated by digital payments, as well as the prospects for recovery for small and medium sized businesses from the Covid-19 pandemic.

How long will it take on average for small and medium-sized businesses to fully recover from the COVID-19 pandemic?



Will digital payments represent the majority of consumer spending in Central Europe, Middle East and Africa within the next 5 years?

