



Social Media for Business: An Initial Scoping Exercise for Sri Lanka

Kithmina Hewage &
Harini Weerasekera¹

Introduction

Social media outlets such as Facebook (FB) and Instagram (IG) are increasingly being used by Micro, Small and Medium Enterprises (MSMEs) in Sri Lanka as a platform for business. As of January 2018, there were 6 million active social media users in Sri Lanka, accounting for 30% of the population.² The number of FB users is also approximated at 6 million, while there are estimated to be just under a million IG users. Whilst the share of users employing social media for business purposes is not estimated, there is considerable anecdotal evidence of home-cooks, bakers, designers, event service providers, and other entrepreneurs successfully leveraging social media as their primary platform for commerce. These economic activities are mainly B2C (Business to Customer) with cash-on-delivery facilities.

As Sri Lanka steps into a phase of development where digitalisation of services is being prioritised (government services, doing business procedures, etc) the role that social media platforms play as enablers of business activity should not be underestimated. Particularly for segments such as MSMEs and youth, social media platforms are increasingly becoming the primary engagement platform for business activities such as advertising, selling and delivery. The rapid growth in mobile phone penetration in Sri Lanka is an area that can be further leveraged.

This initial scoping exercise is an attempt to gain some perspective on current trends among MSMEs

using social media as their primary platform for business. This study looks at the demographics of business owners using social media as their primary platform, the regional distribution of their clientele, usage of social media platforms, logistical considerations such as delivery and payments, and issues pertaining to the regulatory ecosystem. A better understanding of these initial trends, would ideally, facilitate further research into the sector and subsequently translate to policy frameworks that complement the needs of the businesses whilst protecting the welfare of consumers.

Methodology

An online survey was conducted to extract data from social media-based businesses. Firstly, a sample database was created by randomly searching online for businesses operating on IG/FB under three broad categories: food, retail, and services. Contact information was sourced from the company 'About' pages on IG/FB. Subsequently, the online survey was emailed to 41 companies, with follow up calls, and was also circulated to contacts via social media.

Finally, the survey drew information on basic company and respondent information, social media usage, payment and advertising methods, etc. A sample of 40 companies was created with the above data. The analysis is not intended to be nationally representative, but rather, a scoping study of social media usage among businesses in Sri Lanka.

1. The authors wish to thank Damithri Munasinghe, Malitha Goonaratne, and Vihan Aluwihare-Jinadasa for their research assistance.

2. Kemp, S. "Digital in 2018: World's Users Pass the 4 Billion Mark". We are social. Available at: <https://wearesocial.com/blog/2018/01/global-digital-report-2018>

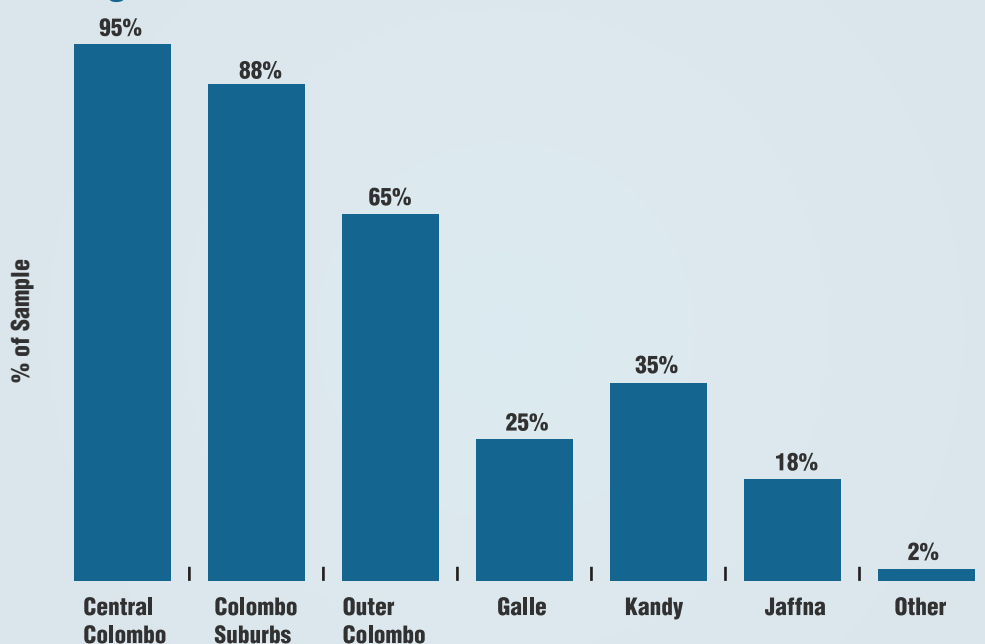
Company and Owner Demographics

A majority of responses were from retail companies (52%) while food and service accounted for 30% and 18% respectively. Firms in the sample were relatively new establishments, with 70% beginning business operations post-2017, 70% having only one to two employees, and were operating from home (75%), as opposed to a store front (5%) or office space (20%). Most of these companies were Colombo-based, with around 11% representation in the sample reported from outside the Western Province. Within the sample, 70% of business owners were female and around 80% were in the 18-30 age category. Effectively, the largest age

group engaged in these businesses was the 25-30 age category (60%) while the 18-24 age group accounted for 25% of the sample.

In terms of the formal/informal sector composition, 60% of companies are deemed informal, on account of stating that they have not registered with the registrar of companies. Their reasons for not registering are more to do with their turnover being too small to require registration (40%), rather than administrative constraints/costs (16%).

Regional Distribution of Firms' Customer Base



Note : Multiple Responses

(Figure 1)

In terms of the customer base, a majority of companies served less than 50 customers per month (50%). Based on further analysis, it was inferred that a strong relationship exists between the number of employees and customers served. Since 70% of firms are made up of only one/two employ-

ees, there is scope for expansion of clientele as firms expand and recruit more workers. Although most businesses are Colombo-based, the customer base is geographically mixed – 20-35% of firms had customers from central cities like Galle, Kandy and Jaffna (Figure 1) .

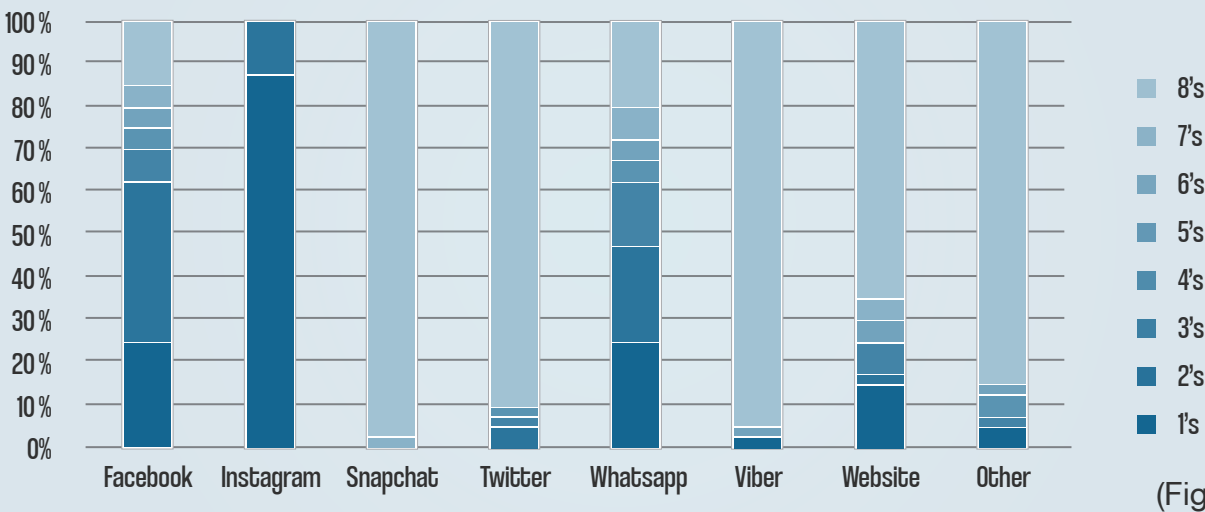
Social Media Usage

Interestingly, 62% of companies do not have a website, which implies that for those operating off social media, having a website is not a priority. Customer reach through social media alone is sufficient; 100% of respondents stated that they exclusively use social media to market their products. Social media enables the additional benefit of communicating directly with customers, to cater to specific needs and curate a product, which is not possible through a website.

Figure 2 indicates these trends. Respondents were asked to rank applicable internet-based platforms from most used (1) to least used (8). In this survey,

IG was ranked as the number 1 platform by close to 90% of companies and ranked number 2 by the remainder, indicating that it is the most preferred social media-based platform to carry out business operations. This response can be expected, as the sample is sourced from FB/IG. However, notably, FB is less popular than IG; it was ranked between 1-5 by approximately 70% of respondents. Among platforms outside FB/IG, WhatsApp is the most popular platform, ranked between 1-5 by 70% of respondents. In contrast to WhatsApp, Snapchat, Twitter, and Website usage is fairly low.

Internet based platforms used to market/sell products

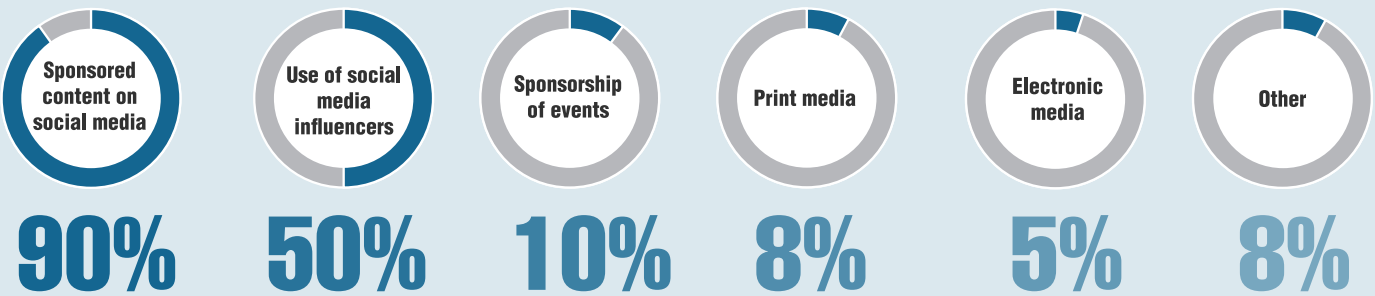


(Figure 2)

Note: Respondents were asked to select applicable and rank from most used (1) to least used (8).

The importance of social media usage is further evident as a key advertising/marketing tool (Figure 3). The use of traditional media outlets such as radio/newspapers is low relative to the use of social media influencers and sponsored content; 90% of the sample claimed to be using sponsored content on social media to advertise products, while 50% claimed to be using IG influencers, for the same purpose.

Advertising methods used



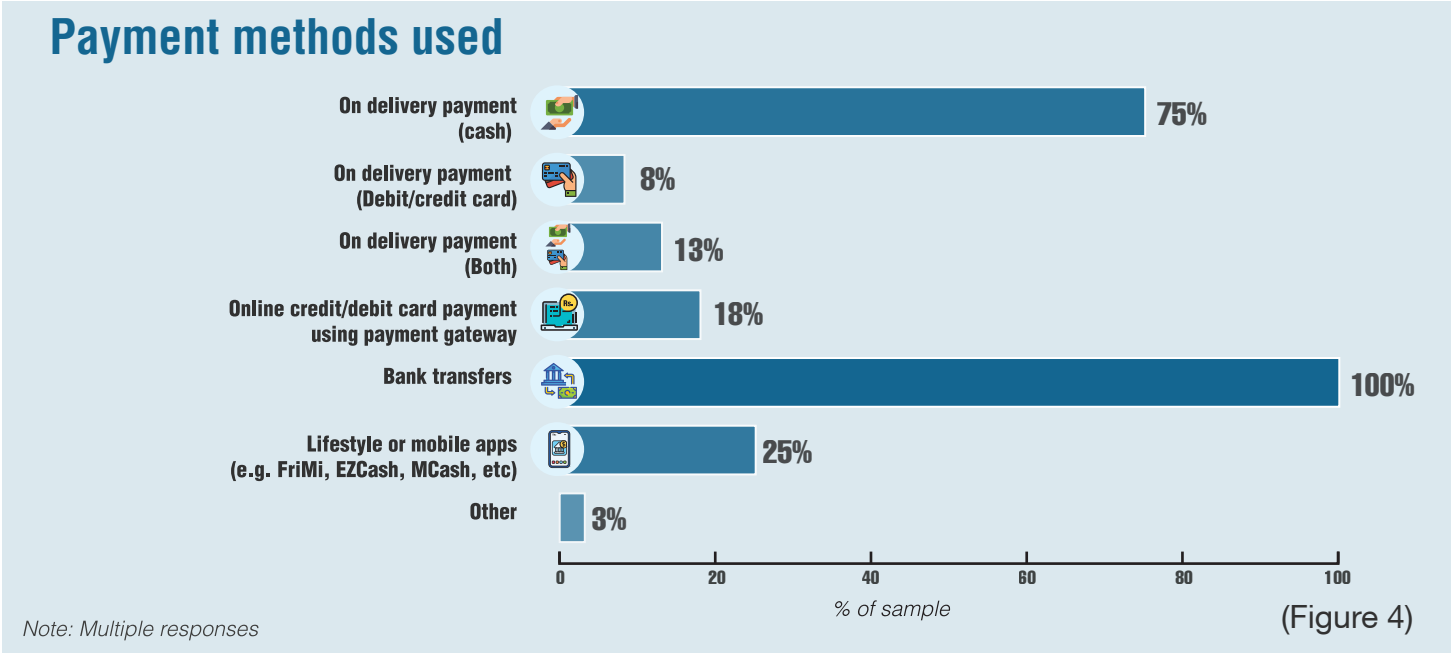
Note: Multiple responses

(Figure 3)

Logistics: Delivery and payment

In terms of delivery, a majority of businesses have been outsourcing to external delivery services, whilst customer pick up is also popular. However, when questioned on whether the emergence of delivery services such as Uber Eats and PickMe Food has increased demand for products, only 13% responded positively, while the remainder claimed it had no effect or was not applicable. Payment meth-

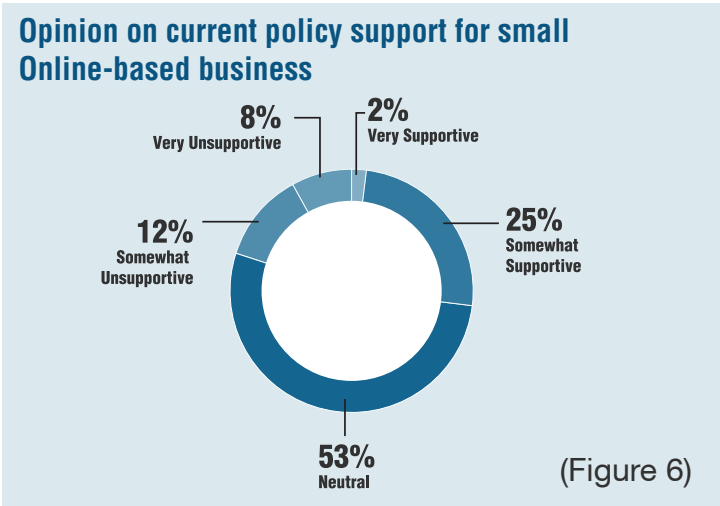
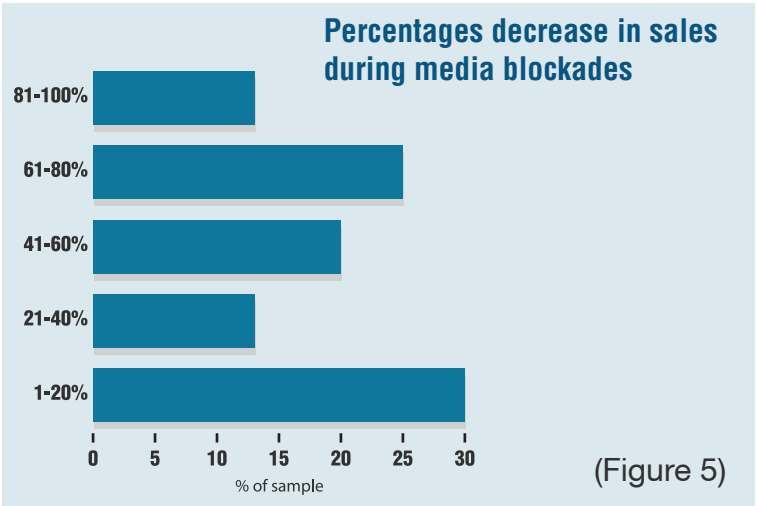
ods used were primarily bank transfers (nearly 100%) – businesses tend to ask customers to make an advance payment via bank transfer/deposit to confirm their orders. The remainder is paid on delivery as cash (75%), while a limited number of card payments upon delivery were observed. Only 17% of the sample provided facilities to make online card payments through a payment gateway.



Policy Ecosystem

Given the small size of many operators in the sector and the cross-cutting nature of their businesses, social media based MSMEs are particularly vulnerable to external shocks. Most notably, recent social media blockades were cited as particularly detrimental to operations. Amongst those surveyed, 83% noted that

they were negatively impacted by the most recent social media blockades following the Easter Sunday terrorist attacks and subsequent events. As noted in Figure 5, amongst those who were negatively affected, a majority reported a reduction in their sales by more than 40%.



In response to the overall policy ecosystem, only 27% of respondents believed that the current policy framework is supportive of small online-based businesses (Figure 6). Whilst ad-hoc policy shocks such as social media blockades are likely to affect these sentiments, some respondents also noted the absence of effective legislation to protect the interests of both the business and consumers for dispute resolution as problematic. The cost of production, especially regarding

the application of high rates of tariffs and para-tariffs, reduces profit margins of companies whilst often pricing out small businesses from importing higher quality ingredients and products for their services. Overall, the nature of the businesses, current market for social media-based e-commerce, and wider policy related factors inhibit the ability for small online-based businesses to scale up in the future.

Conclusion

The growth of social media platforms as a means of e-commerce has created opportunities for individuals to engage in economic activities, even at a very small scale. As noted earlier, this survey is not meant to be representative of the entire ecosystem of small online-based businesses in Sri Lanka. This scoping exercise, however, identifies three important areas of interest that could lead to more disaggregated insights on this ecosystem.

Firstly, the demographics of those who use social media for economic activities are mainly from the young, female demographic. In a country with low levels of female labour force participation, therefore, better-curated policies could potentially facilitate higher levels of economic activity and circumvent certain structural and cultural barriers that restrict women from engaging in formal employment. Conceptually, the barriers to entry into an online based services market is relatively lower than other economic activities. These barriers could potentially be lowered even further through initiatives that promote online e-commerce participation amongst females and youth through training and improving ICT services. A future study could provide insight into the types of direct and indirect barriers that influence potential female entrepreneurs in establishing an online-based enterprise.

Secondly, the survey suggests that most small online-based businesses are concentrated in Colombo and cater to a largely urban clientele. Moreover, access to clients appears to be influenced by networking considerations such as delivery options. Traditionally, social media-based entrepreneurship, and the gig-economy at large, is concentrated in urban areas due to the nature of services provided as well as the necessity for

connectivity. Therefore, many such opportunities that arise tend to be created in urban hubs as well. However, rural areas tend to suffer disproportionately more in terms of access to economic opportunities and unemployment. A broader study into the sector, therefore, has the potential to identify factors restricting social media-based e-commerce activities to urban and suburban areas.

Finally, as more small businesses move towards e-commerce, other economic tools such as payment gateways should adjust in a manner that facilitates access to these tools even for small businesses. Currently, many vendors depend on cash-on-delivery and bank transfers due to the high sunk costs of payment gateways and other structural factors. A broader study into the sector could pursue policy alternatives to improve trust amongst the public on social media-based e-commerce and other service-related factors that inhibit the use of such platforms. Each of these brief insights highlight the vast growth potential for existing small businesses to scale up whilst also expanding networks within the country and creating more opportunities for economic activity through social media outlets. Moreover, policymakers should be cognisant of the wider economic impacts of their decisions in regards to social media platforms as measures such as ad-hoc social media blocks have broader economic consequences. Social media platforms have evolved considerably since its inception and are becoming a prominent tool to create economic opportunity. Therefore, policymakers, service providers, the public, and other stakeholders should respond to shifts in dynamics and leverage opportunities accordingly.