CATALYST

Inclusive Cashless Payment Partnership

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QUICKSAND

Digitizing Micro-business Ecosystems

Fixed Stores

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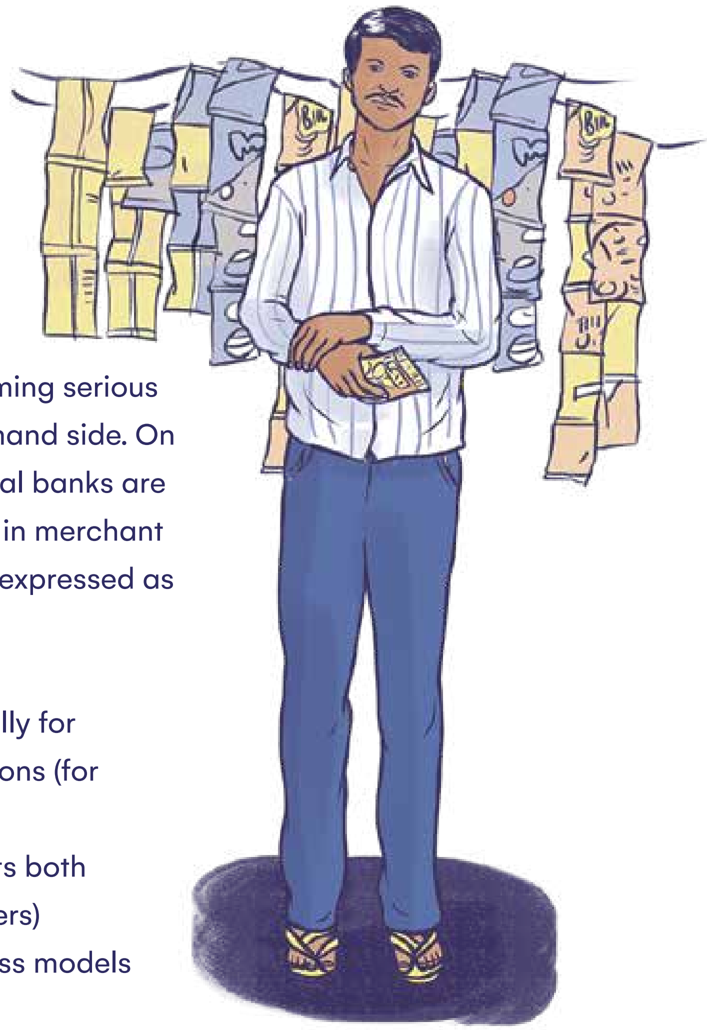
Context

Understanding the fixed store landscape

Recent changes in the policy and regulatory landscape in India have encouraged a move towards a cash-light economy. This has been accompanied by the development of an enabling public technology infrastructure, that has opened up the participation of public and private sector in bringing the mass market into the financial mainstream through technology driven innovations. While this combined effort has led to a significant increase in cashless payments, these have so far been confined to certain markets and use cases (eg. peer-to-peer transactions, online commerce).

The mass market in India continues to remain cash-dominated. Micro merchants, typified by neighborhood mom and pop stores, account for over 90% of retail value and are a key link in the digitization journey for most Indians, and transformation across the broader commercial value chain.

The **fixed establishment based store** as a category of micro-merchants is diverse with significant variation in category type, number of customer and supplier transactions, average transaction size, customer profiles, business turnover and margins, etc. These variations point to the fact that there is no singular digitization solution that can work across this merchant category and any product or service aimed at fixed store merchants will need to respond to this diversity with customized experiences and business models.



Digitizing the fixed store ecosystem means overcoming serious challenges from both the supply as well as the demand side. On the supply side, it is well documented that traditional banks are yet to find compelling financial incentives to invest in merchant acquisition. On the demand side, there are several expressed as well as latent challenges such as:

- ease and comfort of cash transactions especially for businesses with high velocity of micro transactions (for example, a juice stall)
- the entrenched cash habits of their counterparts both downstream (consumers) and upstream (suppliers)
- an evident gap in relevant solutions and business models aimed at digitizing this ecosystem
- (and less expressedly) a disinclination on the part of merchants in declaring formal incomes for tax reasons

In spite of these challenges, there are favorable headwinds to address the digitization potential of this segment. These include:

- Policy and institutional reforms such as GST, tax breaks for digital businesses, new licenses for payment banks and favorable merchant discount rates (MDR) for new and efficient digital payment technologies etc.
- The development and proliferation of affordable and convenient technologies encapsulated within the India Stack including Aadhaar, UPI amongst others, to enable easier and cost-effective onboarding of small merchants, and the integration of payments in their broader business workflows.

The table below[1] highlights the diversity of the segment and some key characteristics of each category within it. These figures are representative of the segment in general:

	Average ticket size (INR)	Profit as a % of sales	Repeat customer rates	Customer profile	Amount of time spent by customers during purchase	Smartphone ownership	Supply chain organization	Digital payment adoption rates
Retail								
General Store	150	19%	50%	General, often domestic help	Low	70%	Fragmented	37%
Dairy Booth	50	3%	75%	General, often domestic help	Low	52%	Federated	13%
Hardware and Homeware	500	19%	30%	Middle class and vendors (e,g, plumbers, electricians)	High	78%	Fragmented	50%
Apparel & Footwear	500	20%	30%	Middle class	High	83%	Fragmented	53%
Toiletries & Cosmetics	300	23%	30%	Middle class with women a dominant consumer group	Medium	84%	Fragmented	29%
Medical	200	22%	50%	Middle class	Medium	90%	Fragmented	38%
Wholesale	2000	14%	50%	Middle class	High	87%	Fragmented but less than retailers	47%
Services								
Food	50	25%	50%	Vendors	Low	69%	Fragmented	30%
eMitra	100	40%	50%	Older customers, low-income	Medium	94%	Federated	95%
Hardware & Manufacturing	450	24%	33%	Vendors	High	69%	Fragmented	32%

Note: Figures represent median values

1 Represents a sample of 1300 merchants across purposefully sampled categories. For details see: Mapping the merchants mind – An analysis of digital payment behaviors by fixed store merchants in Jaipur, CATALYST at IFMR, May 2018.

Summarized below are a few critical pain points that fixed store merchants face related to digitization:

Lack of tools and avenues to achieve the growth that most fixed store merchants aspire towards

CATALYST's study of this segment revealed that almost 90% of the small traders and retailers surveyed showed a strong aspiration to grow their businesses – through new customers, increased sales, and greater product diversification. This is especially true in an environment where competitive pressure is increasing from corporatized and online retail. However, merchants often lack the necessary tools and avenues to effectively meet their business goals. For example, formal credit – crucial for such activities as inventory expansion, expansion into new product categories, refurbishment of the establishment etc. — is largely unavailable to fixed store merchants in spite of clocking a large velocity of transactions. Often the inability of merchants to record their transaction histories or a systematic capture of their business metrics makes their credit worthiness impossible to evaluate. In addition, traditional banks and financial institutions have cumbersome processes and business models that are incompatible with the needs of these smaller businesses. As a result, even merchants that can demonstrate an ability and willingness to pay, tend to rely on typically inefficient and informal modes of financing for their business needs.

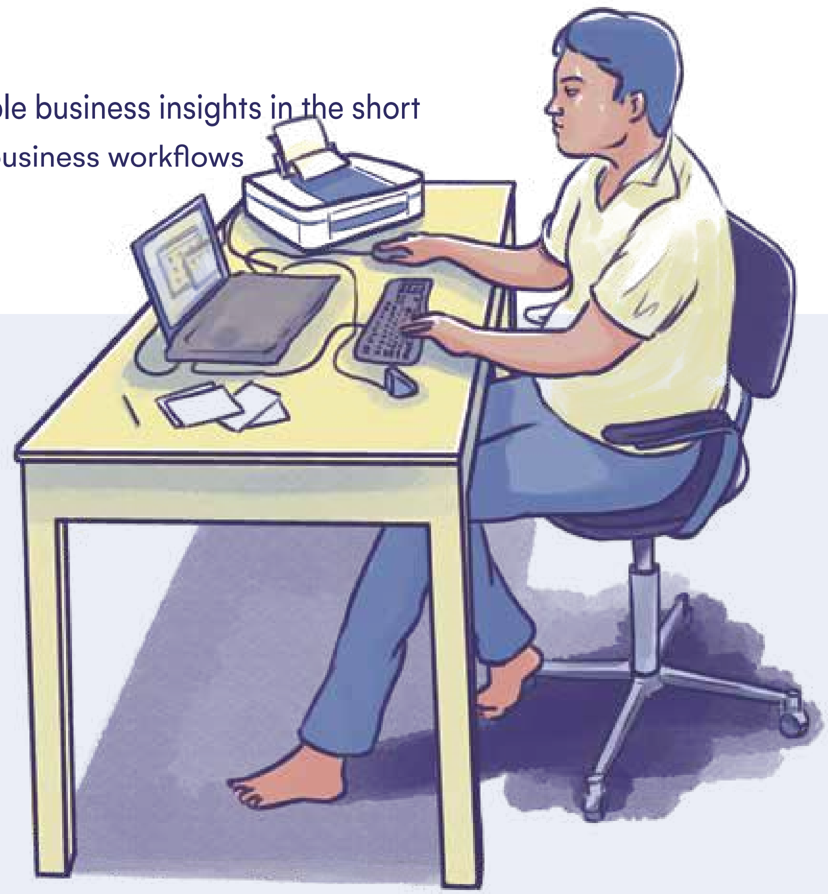
Design Principle #1: Demonstrate the immediate and tangible link of digital payments to greater business value

Design Principle #2: Link digital payment histories with access to financing

An ad-hoc approach to transactions and record keeping precludes access to key business insights

On an average, most micro-merchants have significant room to tighten operations, focus their energy on strategic matters and conduct more targeted sales. Business insights, however, require a process-oriented, formalized approach to record keeping and transactions. There are several disadvantages to manual methods of record keeping and transactions, primary being that they are tedious and time consuming, but also that they prevent the ability to detect meta trends and auto triggers that drive business benefits.

Design Principle #3: Provide actionable business insights in the short term, with least disruption to existing business workflows



The cost of non-compliance will only ratchet up with time for micro-merchants

A cash-based environment accompanied by little to no bookkeeping means that many micro-merchants operate outside the tax system. In the short term this is a powerful disincentive for digitization for many shopkeepers. However, in the long run, the government is expected to pursue tax compliance aggressively. The GST regime is an important milestone in what the government expects would be a journey towards formalization for large parts of the informal sector. This implies that over time, the cost of non-compliance will increase for micro-merchants, in the form of monetary penalties and other punitive measures. Furthermore, their journey towards compliance will be complicated by reliance on cash and manual bookkeeping, which will mean a more time-consuming and expensive auditing process.

Design Principle #4 Design digital solutions with a view to reduce time, effort and money involved in key business workflows especially tax compliance

Thin operating margins limit willingness to pay

Traditional digital payment instrument costs (for example, the card ecosystem) have included significant upfront installation costs, monthly recurring rental fees, and transaction fees. New acceptance technologies that are built for smartphones are more affordable, but even transaction fees alone can be a barrier for micro merchants that deal with small ticket sizes and razor thin margins, not to mention low trust and high transition costs.

Design principle #5: Pricing needs to be directly tied to value created

Cash is endemic in the ecosystem and any change is seen as disruptive

Often, what may motivate the merchants to adopt digital payments is a demand from counter parties such as customers and suppliers. However in this ecosystem, cash is so entrenched that there is little expectation from these counterparties to go digital without any external intervention. Furthermore, customers habituated to paying in cash anonymously, may find the nudge to pay digitally disruptive.

The pain points described above point towards how an effective digitization strategy can be framed to tackle them. The opportunities associated with the digitization potential of this segment are discussed in the following section.

Case study

Digitizing fixed store transactions in Jaipur, Rajasthan

Barkat Nagar is a major low-income market cluster in Jaipur, with a presence of nearly 600 merchants in a stretch of 1.5 km. The establishments mainly consist of specialized stores dealing in apparel, general merchandise and books. The familiarity with digital payments in the neighborhood is relatively high owing to a consumer population engaged in white collar jobs or businesses, a strong youth presence and a reasonable penetration of mobile wallets amongst the merchant cluster.

CATALYST conducted a set of pilots in Barkat Nagar seeking to digitize customer-to-merchant payments. These efforts were largely focused on:

- Digitizing a dense market cluster of ~500 shops in two phases – one with a broad spectrum of solutions and a follow-on focused more narrowly on UPI with QR code as acceptance form factor for ease of use

- Targeting certain federated networks of merchants that CATALYST had access to — namely eMitras (outlets providing Government of Rajasthan's G2P services) and dairy retail booths

- As part of its incubation program, partnering with two companies – PayNearBy and FingPay – both of which are building new Aadhaar payment based propositions relevant to fixed store merchants. Details regarding the interventions in the market cluster and eMitra network are provided below.

Digitizing a dense market cluster

In an ecosystem where there is limited penetration of digital payments among customers, the challenge is two-fold — adoption of digital payment acceptance solutions by merchants and nudging customers to pay digitally through relevant form factors (cards and mobile). This becomes even more challenging with newer technologies (eg. UPI), which require a cumbersome registration and onboarding process. The main activities carried out by CATALYST in the two phases and the key learnings from each are captured below.

Phase One

In the first phase of engagement in Barkat Nagar, CATALYST partnered with a set of solution partners (including banks) that offer a spectrum of solution technologies across price points (ranging from relatively expensive PoS terminals to less expensive app-based solutions). CATALYST, then aligned and consulted with local stakeholders including the Government of Rajasthan, the local councillor and the local merchant association to frame the best engagement strategy with the community. The next step was to disseminate information, including distribution of collaterals with relevant and accurate data comparing the benefits, costs, terms & conditions of different solutions on offer. This was accompanied by store-to-store visits by trained CATALYST feet-on-street personnel whose focus was on education and awareness building (versus marketing and promotion). Finally, decisions on merchant adoption of digital methods of payments and their sustained use over time were recorded and analyzed.


Parrot

Key learnings from phase one

- Demand from customers for digital payments is a powerful nudge factor for merchants. Merchants typically base their decision to adopt digital payment solutions on the number of customers turned away due to their inability to accept their tender. However, the market in Barkat Nagar had a high consumer preference for cash payments thereby creating a disincentive for merchants to shift to digital payments
- Mobile Point of Sale (mPoS) solutions saw higher adoption as compared to traditional PoS solutions, primarily due to their lower cost of trial. Additionally, the ease of use of the mPoS solution was also an influencing factor
- Similarly, weblink solutions were also adopted by some merchants as there was no upfront cost associated with them
- However, sustained usage of mPOS, app and weblink based solutions was low, primarily due to poor quality or time-consuming experiences (for both upfront registration as a well as subsequent transactions)
- Interestingly, a significant share of consumers when nudged to pay digitally at merchant points of sale readily switched from cash to cards. This was in large part due to the ready availability of debit cards with consumers.

Phase two

In the second phase, CATALYST focused its efforts on UPI (BHIM and PhonePe), which had shown high initial adoption (though lower sustained usage) by merchants, primarily due to the absence of any upfront fee. CATALYST also sought to test QR codes as an acceptance form factor for merchants along with the role that incentives would play in driving their use. To this end, CATALYST ran a store-to-store beat to engage merchants on UPI QR, help onboard them when there was interest, and then print and stick a QR in a prominent place in the store. Furthermore, the merchant was trained on how to enable customers to use UPI QR and usage-based incentives were conveyed to the merchant. These included incentives for the merchant over and above those already being offered by digital payment solutions and a lottery based incentive for the merchant's customers[2]. Like in the first phase, adoption and follow on usage was tracked and reasons recorded.

2 Merchant perspectives on the BHIM experience, CATALYST at IFMR, July 2018.

Key learnings from phase two

- BHIM activations were driven by the simplicity of the solution including instant sign-up and activation. Handholding at the time of onboarding help convert "interested" merchants to UPI-enabled ones.
- The BHIM soution's association with the Government led to greater recall and enhanced trust from merchants and customers, which led to a greater openness to try the solution
- At the same time, failed activations caused due to issues related to debit card authentication and linkage of mobiles to bank accounts led to significant drop-offs
- There was a lack of demand for UPI payments from consumers driven by a lack of solution awareness. Merchants were also neither willing nor able to significantly change their customer's behaviors.

Digitizing eMitra payments

Context and rationale

The efforts here were focused on ascertaining the digitization potential of a network of e-governance service providers, who are already digitally connected, and where the influence of a single institution could possibly drive large-scale conversion.

eMitra is a Government of Rajasthan (GoR) e-governance platform, which provides government to customer (G2C) and business to customer (B2C) services to citizens including utility bill payments, registrations for government services, etc. Rajasthan has over 52,000 physical eMitra centers across the state of which approximately 5,000 centers operate in Jaipur. A tenth of the centers in Jaipur account for about 80% of transaction volumes in the city. This sample comprised the base for CATALYST's intervention. eMitra kiosks are frequented by demographics such as the elderly and women, who typically have limited access to technology and need assistance to undertake digital transactions.

These merchants usually run broader mainstream businesses (usually grocery or department stores, cyber cafes, online ticket booking offices etc.) with the eMitra business providing secondary income. On a monthly basis, eMitras conduct business worth Rs 5-7 lakhs in total throughout, with over half accounted for by electricity and water bill payments. The transaction value for eMitra services ranges between Rs 300-2,000. The eMitra merchant operates with a prepaid balance in the government account which is debited every time a customer makes a cash-based transaction.

The CATALYST pilots were implemented across two phases — in phase I 35 eMitras were given Point of Sale (PoS) machines, free of charge, to accept debit card payments and in phase II, UPI payments were centrally facilitated and also promoted through incentives (over and above those offered by the platforms themselves). The 'theory of change' was that a digital solution such as PoS or UPI would free up working capital locked in maintaining pre-period account balances and reduce inefficiencies associated with making frequent trips to the bank. Across both cases, target merchants were educated, handheld and trained to nudge their customers to pay digitally. Treating merchants as change agents in the marketplace was an important component of the pilot.

Key learnings

- Across the board, merchants found value from not having to make as frequent trips to the bank to deposit cash
- For both large and small transactions, there were also benefits from digitization. For large transactions, the time needed to count cash was eliminated while for smaller ticket sizes, entrepreneurs no longer required loose change. It was also easier to nudge customers to use digital payment methods for large transactions
- For the experiments with PoS machines, charging a transaction level fee (i.e., merchant discount rate) to the small entrepreneur resulted in it being passed onto the customer as a "surcharge" which in turn created a strong disincentive for them to switch to digital
- There were certain structural constraints associated with this particular business model. The primary customer demographic at eMitras are elderly people from low-income groups, who were observed to be uncomfortable in using technology and had a distinct preference for cash over digital modes of transactions. In addition, these customers tended to not have smartphones (to make UPI payments)
- The eMitra agents by their very design are an offline channel to pay bills. Nudging customers to pay digitally detracts from their own relevance. This made them reluctant agents of change for their customers
- For businesses that were extremely busy on account of high footfalls and therefore had limited time, expecting merchants to nudge behavior change amongst their customers was a challenge. This was more successful in instances where the entrepreneur was familiar with the customer and so could communicate the benefits and help onboard them
- First time customer and merchant experiences with payment methods can shape long-term trust and behavior. Specifically, a bad first experience can result in low trust and alienation which is much harder to overcome later

Opportunity

Transforming the fixed store ecosystem

The fixed store merchant ecosystem is a well organized business community that is highly growth-oriented. However, they also feature a very entrenched and long standing way of conducting business that is cash dominated and riddled with manual processes. These ways of doing business are undergoing significant structural transformations that may unlock the business growth that this community desires. However, there are tough challenges to overcome in order to convince this segment to adopt digital payments. Therefore, other propositions that can create broader value for the businesses and yet embed digital workflows may offer a better chance at success.

Opportunity 1

Providing access to digital finance as a way to amplify and provide leverage for business stability and growth

Opportunity 2

Efficiency, compliance and business insights for fixed store merchants

Opportunity 3

Augmenting revenue and deepening customer relationships by leveraging the unique proposition of fixed store merchants

Opportunity 1

Providing access to digital finance as a way to amplify and provide leverage for business stability and growth

Digital transaction histories created with digital payments can help unlock access to efficient and affordable credit for micro-merchants, many of whom have little access to it currently in the cash-dominated ecosystem. These transaction histories can also provide context for other financial services, such as shop insurance or short-term cash flow management solutions.

Apart from barriers to credit access, the application and approval process for formal credit is also cumbersome and slow, and hardly optimized for small businesses. Fixed store merchants as a business community see value in process efficiency and would be attracted to credit propositions that reflect this value. Furthermore, merchants would benefit from a structured and transparent roadmap towards access to formal credit with attractive terms and clear digitization conditions.

Opportunity 2

Efficiency, compliance and business insights for fixed store merchants

Digital payments can potentially make micro-merchant enterprises more efficient. Solutions can leverage digital payment histories and digital bookkeeping to generate data-based, business and customer insights that can in turn help make better business decisions (for example, ability to target customers with products and services at relevant times, optimizing inventory, and better pricing and cash flow management). Digital payments can also help merchants increase their tax compliance readiness. For example, solutions that automate tax filing from invoice and payments data, will make tax-compliance cheaper and easier for merchants by reducing reliance on accountants.

Opportunity 3

Augmenting revenue and deepening customer relationships by leveraging the unique proposition of fixed store merchants

Fixed store merchants share a unique and personal relationship with their customers – they understand the customer's needs and preferences and have significant influence over them. Digitally-enabled merchants can not only provide better customer service but can also be great assets for other businesses who wish to leverage the last-mile access they can provide. For example banks and other financial institutions are already providing simple financial products (such as savings, withdrawals, money transfers etc.) through agents and banking correspondents. These services not only bring the providers and end-consumers in contact but have the potential to make significant revenue for the merchant, which creates an impetus for them to promote digital services.

Designing a business model

Viable business models for effective digital solutions in this segment are still evolving and require a lot more learning. This section draws on insights from the work that CATALYST and its incubation partners carried out with the fixed store merchant segment. In the higher end of the stand-alone merchant segment (for example, those linked to brands, corporates and e-tailers), players such as EZtap and PineLabs are already demonstrating traction. However, in the lower end of the segment — which has been the focus area for CATALYST — the precedence of such solutions has proved harder. The focus of the Government to formalize small businesses and remove bottlenecks in adoption of digital payments are some developments in the external environment that offer promise.

Product suite

Product strategy

In the fixed store ecosystem, digital payment methods will often be followed up with value-added services that ultimately translate to top line growth. There are a few product ideas that can provide significant value-add to merchants and therefore may find favor with them.

Digitizing traditional customer and merchant transaction mechanisms

There is an opportunity to build on existing and widespread transaction mechanisms between customers and merchants such as digitizing the *khaata* system. Khaatas are a long held, informal tool used by merchants to provide products and services to loyal and trusted customers on credit. Digitizing can lead to efficient management of receivables, drive business insights around customer behavior for merchants and provide a convenient way for customers to make aggregated payments.

Choice of payment options

Payment services for digitizing transactions between merchants and customers should offer both entities some choice of payment types (card, UPI app, Aadhaar fingerprint). These choices should be based on the merchant context so as to enable merchants to support their customers' preferences. Solutions however should ideally streamline workflows across transaction management, simplified pricing, backend reconciliation processes, bank account analytics, insights and compliance.

Digital marketplace for third-party services

Technology now offers the ability to provide a digital marketplace that connects with several third-party services on the back-end, and on the front-end, leverages the local merchant's ability to provide trusted, last-mile sales and service support to customers. This is especially relevant for those services that remain under penetrated in the mass market context on account of limitations of traditional channels. These services could include:

- Traditional banking and financial services such as savings, withdrawals, money transfers etc.
- Protection credit, and investment instruments such as insurance, loans, mutual funds. There is an opportunity to distribute these products in disruptive formats with small ticket sizes and narrower scope (for example, instead of a full-fledged health cover, insurance could involve cover only for hospital visits)
- Know your customer (KYC) services for third parties
- Bill payments and other recurring payment collections at the micro-merchant
- Mobile and DTH recharge

For solution providers opening up their platforms to third-party services, it is important to think through their own role in this model and how they can maintain their relevance in the digital value chain. Do they own the merchant relationship? Do they train, incentivize and drive sales through their captive channels and capture value against it?

It is also important to gradually build the product portfolio of the merchant starting with those that are most relevant to them. For example, a merchant who operates in an area with a large migrant population, will likely find money transfer or remittances as a valuable and readily monetizable service.

Digital bookkeeping

Solution providers may provide light-weight digital bookkeeping to improve the efficiency of the merchant's enterprise and enable them in their journey towards tax compliance. This would include features such as invoice and sales tracking, bill payments, discount tracking, inventory management, tax compliance and other business insights based on data analysis.

Performance reliability

Performance reliability and consequently low failure rates, with quick refund management in case of failures, are very important. Since many customers may be new to digital payments, a bad experience, especially one that results in monetary loss, can turn them away from digital payments for a long time.

User experience and user interface design

While some fixed store merchants may be technologically very savvy, a large number of them are new to modern technology. Additionally, micro-merchants, with their specific business needs and entrenched manual and cash dominated practices, present a unique context to design a user experience (UX) for which has few established precedents. As such, designing for this context will involve flexibility and multiple iterations informed by feedback received from users. Summarized below are some key aspects that need to be considered while implementing a UX and User Interface (UI) for this context:

- Interfaces have to be designed to minimize disruption of existing workflows and transaction context. Complex, multi-step workflows may be far more cumbersome than cash and would dissuade merchants from moving away from cash

- Speed and ease of transaction should be a guiding principle. Among other things, this may mean that the most used features are available easily and more advanced and less frequently used features are hidden behind menus

- In the case of merchants that provide multiple services, it is important that money flow is seamless and interoperable across channels. For example, they may receive digital money into their mobile wallets from a customer against sale of a product. Another customer may pay them by cash for an e-governance service, for which they should be able to transfer money from their wallet directly to the government

- Leverage the UX and UI principles of platforms they frequently use and are already familiar with such as WhatsApp or Facebook

- A focus on local language is critical

- Ability for an agent to make payments on behalf of end consumers who may not be conversant with digital tools may be important in some cases (for example, domestic help). This may require a wallet type, stored value account, with easier authentication features.

Sales and distribution model

The contrasting challenges of achieving business efficiencies through automation on one end and the need to handhold early adoption and usage of digital solutions on the other, points to the need for a combination of high-touch and low-touch sales and distribution models. On one end of the spectrum, a solution provider may own their own channel and customer relationship, and on the other end, they may choose to leverage other entity's channel and become more of a back-end player themselves.

A high-touch approach would involve:

- Feet-on-street teams in areas where the solution is deployed and active
- Hand holding and training of retailers to use the products
- Support for manual troubleshooting and grievance redressal
- Focus on value along with volume, which implies that charges or fees would likely be higher than the low-touch model
- High levels of flexibility, especially on the backend, where multiple customizations may be needed to meet requirement of customers. This is often enabled by a modular design of the technology stack

A low-touch approach would involve:

- High levels of automation and very little street presence
- Automated support and lower emphasis on enhanced customer service
- More active relationships with organizations that have access to a large number of retailers such as distributors
- Focus on volume, which implies that charges and fees would be lower than the high touch model

Developing a revenue model

Micro-merchants are often not aware of many intangible costs they incur due to inherent inefficiencies in their cash-dominated enterprises. As such, the benefits of digitization are lost on them if the value is not demonstrated upfront. Summarized below are some ways in which a solution provider can approach this:

- Capturing data from merchants and showing them benchmarks around inefficiencies in their enterprise and the tangible benefit that digitization will bring in terms of enhanced revenue

- Grab their attention with new products and services that they will be able to provide to their customers and how that can impact their top and bottom lines if they were to add the ability to transact digitally

- Freemium models (for example, ones that waive off transaction charges) that allow merchants to experience the value creation without taking monetary risks

Revenues

Once merchants are convinced of the value of digitization, a pricing model can be negotiated with the following components:

- Subscription fee monthly or annually (discounted). Upfront costs associatied with installation or registration can be deal breakers as they disincentivize merchants from even trying new solutions
- Fee paid on transactions that flow through the platform. With pricing models based on transaction fees it is important to take into consideration the margins in the value chain. Among low-income groups and micro-merchants, the transaction fee needs to be low. This is especially true in extremely low margin settings such as the dairy value chain, where profit margin for retailers is under 5%

- Revenue from value-added services especially lending or business insights that can provide more tangible and immediate value
- Revenue from third parties that are looking to leverage a captive merchant base to reach end-consumers, can be an additional source of income for solution providers

Costs

Summarized below are some key costs that a solutions provider is likely to incur:

- Outreach, including sales, marketing and relationship management. This cost can be significant in the high touch model where relationships with individual merchants needs to be established through an active feet-on-street approach
- Paying channel partners for customer acquisition. For example, in the low touch model a distributor may be paid against their services for on-boarding their retailer base onto the platform
- Product development, which will be significant to begin with but reduce when a stable product is arrived at. However, maintaining technology infrastructure (such as servers) and updating UX and UI will need to be considered as well
- Pontential starter incentives for:
  - merchants, to nudge them onto the platform and make the effort to digitize
  - customers, to nudge them to try out digital payments while paying merchants

Key partnerships

Summarized below are some key partnerships that will help in making the business model more viable for a solution provider as well as provide opportunities for growth:

Credit Organizations:

Micro-merchants, who have a significant digital transaction history, can be attractive customers for lending agencies including banks and NBFCs. Partnerships with lenders can not only add to the value proposition of the solutions provider, but also be a potential source of revenue for them. Here are some considerations around integrating credit into the solution design:

- Need for a local presence: Working with a local company with greater field presence may be helpful in reducing operational delays associated with dispensing credit as well as collecting repayments. Local presence can reduce the time between application and disbursement of credit as well as reduce loan default rates
- Credit partners can be nudged to integrate credit as part of the payment platform itself, as opposed to a standalone offer (for example, instant loans to fulfil bill payments)
  - » It is important that the full transaction history across different digital payment modes adopted by a merchant be included in any evaluation of credit worthiness and while calculating credit terms
  - » A transparent and achievable roadmap of digital payment milestones along the credit eligibility scale as an incentive for merchants to accelerate their digital transation footprint can be effective
  - » Tap into incoming payment flows for loan repayments to reduce the burden on merchant and reduce repayment risk for the lender

Similar to credit organizations, other value added services like insurance etc. can be integrated into the core platform.

Channel partners:

Especially for low-touch models, but not exclusively for them, channel partners can be very important for growth. The primary objective of these partnerships will be to drive customer acquisition. Considering the difficulty and costs associated with reaching merchants directly and gaining their trust to try solutions, this can be a powerful way to acquire a large market. Channel partners could include:

- Brands such as FMCG companies who are looking to digitize supply chains downstream
- Distributors of products and services, who like brands, may be keen to digitize retailers under them

Governments:

Partnership with State Governments can provide access to specific programs or networks as in the case of CATALYST's experiments with e-Mitra or Bhamasha in Rajasthan. These partnerships can give immediate access to a network of agents for whom part of the value chain (merchant to government) is digital by default and hence there is relatively greater value and reduced friction in adopting digital payments for the rest i.e. customer to merchant transactions. On the other hand, there is also scope for policymakers and regulators to influence such business models through mass scale programs and fiscal incentives to drive merchant acceptance of digital solutions given the efficiency benefits that can accrue to the broader ecosystem i.e. reduced cash handling across the banking ecosystem, knock-on effect on supplier and consumer digitization, additional tax revenues, jobs and growth. Advocacy with central agencies can therefore play a pivotal role in creating a more favorable environment for digitization of the fixed store ecosystem.

Concluding thoughts

The more straightforward case for providing digital payment solutions to the large mass of fixed store merchants in India is constrained by the behavioral and economic challenges to adoption. It is critical therefore that the journey towards digitization is premised on addressing their strong desire for growth and willingness to be intermediaries for a much larger suite of products and services that ultimately generate more profits and disposable income for these small businesses. It is also critical that these products create seamless onboarding and transaction experiences that can compete with cash and not create more overhead or distrupt existing business workflows. Fixed store retail merchants are one of the most important bridges the economy has between mainstream brands and manufacturers on one end, and the underserved mass of consumers on the other. Therefore, they have to be seen as change agents that can provide the critical missing link in the journey towards formalization of the Indian economy.

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