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Impact of Digital Payment on the Growth of Retail Businesses in India

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Abstract

In the second decade of the 21st century, digital payment systems have become the dominant mode of transaction and have brought about a remarkable transformation in the retail sector in India. Considering the increase in adoption of mobile wallets, AES and other digital payments as a means of payment for small and medium enterprises (SMEs), this paper sheds light on the impact of digital payment systems on the development of small and medium enterprises (SMEs). Furthermore, this paper also explores aspects such as customer reach, revenue growth, operational efficiency, financial inclusion and the role of government policies; To provide a comprehensive analysis of the ongoing digital payment revolution in India, Fely Hay conducted the paper research relying on case studies, reports and supporting documents. Digital payments help in creating financial records. These financial records make it easier for retailers to improve their creditworthiness. The use of Paytm and Bharatpe has had a positive impact on retailers. Digital payments have increased their transactions. It seems to have helped in increasing the customer base of retailers. The detailed study reveals that digital payments are an important pillar in shaping the retail industry in India. This includes government policies, various case studies, and market trends. The findings suggest that technological improvements and positive policies in digital payments will be crucial for the growth and continued growth of the retail industry. Government initiatives like Digital India and UPI have made it easier for retailers to plan their finances. Digital payments have eliminated the need for customers to carry large amounts of cash. However, digital payments face challenges such as infrastructure, digital illiteracy, cyber security threats, etc.

Keywords: Digital Payment, Retail Business, UPI, Mobile Wallets, Financial Inclusion.

Introduction

Since Last two decades, Indian economy entered into free-market oriented business. Due to the positive Endeavour to support digitalization, digital payment system has played a crucial role in India's digital sector. As a result, India's retail sector has influenced the global economy at large level and this sector is now the gusted growing sector in the world. The growth of small businesses, small size retailers has been accelerated by the new digital technology in general and digital payment system in particular. The digital payment system is very conducive to reduce transaction friction, increasing, convenience for customer and make a smooth way for better financial management. as digital we is an inevitable need in all walks of life, the good of India strongly supported the cashless business transaction and encourage fetch companies to contribute in it.

The digital mode of transaction in various business fields has taken place of traditional cash payment mode considering this remarkable and drastic transformation, the paper examines how digital payment system has influenced in the field of retail sector in India.

Statement of the Problems

Considering particular small and medium size enterprises, the research problem in this study has interpreted how digital payment system influenced the growth of retail business in India. With a view to analyze the transformation from traditional based cash transaction to digital mode of payments, the researcher has observed certain implications on business performance, financial inclusion and operational efficiency.

Objective of Study:

1. To analyze the role of digital payments in enhancing sales and customer reach for retail Businesses.
2. To examine the impact of digital transactions on operational efficiency and financial management.
3. To assess the contribution of digital payments to financial inclusion and credit accessibility for retailers.
4. To identify the challenges faced by retailers in adopting digital payment solutions.
5. To explore future trends and policy recommendations for improving digital payment adoption in the retail sector.
6. To Study the change in trends on digital transforming.

Scope of the Research Paper

The scope of this research paper encompasses the impact of digital payments on the growth of retail businesses in India, with a particular focus on small and medium-sized enterprises (SMEs). The study covers the following key areas:

1. Geographical Scope

The research is centered on India, analyzing digital payment adoption across both urban and rural retail businesses. It considers regional variations in digital payment infrastructure, accessibility, and adoption challenges.

2. Conceptual Scope

The paper explores the transformation of traditional cash-based retail transactions to digital payment systems such as UPI, mobile wallets (e.g.,

Paytm, Google Pay, PhonePe), and POS machines. It examines the role of government policies (e.g., Digital India, GST) and fintech companies in promoting digital payment adoption.

3. Business & Economic Scope

The study evaluates how digital payments enhance business operations, including sales growth, customer reach, and financial management. It assesses the contribution of digital payments to financial inclusion, particularly in enabling small retailers to access microloans and credit facilities.

4. Technological Scope

The research covers various digital payment systems, including UPI, mobile wallets, online banking, and POS systems. It explores the technological challenges related to cyber security, internet connectivity, and digital literacy among retailers.

5. Policy & Future Trends Scope

The study identifies government initiatives that influence digital payment adoption and suggests policy recommendations for further improving digital financial transactions. It discusses emerging trends in digital payments and their long-term impact on the retail sector.

Limitations

1. The study does not focus on large-scale corporate retailers but primarily on SMEs and small retailers.
2. It relies on secondary data sources (market reports, case studies) rather than extensive primary data collection (e.g., surveys or interviews).
3. The research covers present and recent past trends, but long-term effects of digital payment adoption remain speculative.

Literature Review:

1. Agarwal and Tripathi (2020) in "Impact of Digital Payments on Consumer Behavior: A Study of Indian Retail Sector" found that digital payments significantly enhance customer reach and convenience, driving higher transaction frequency, particularly among tech-savvy demographics, due to increased accessibility and satisfaction.
2. Das and Kumar (2021) in "Digital Payments and Operational Efficiency: A Case Study of Small and Medium Retail Enterprises in India" demonstrated that digital payment adoption

streamlines operations for SMEs, reducing cash handling and improving cash flow, resulting in cost savings and revenue growth.

3. Jha and Singh (2022) in "Financial Inclusion and Market Expansion: The Role of Digital Payments in Rural Indian Retail" highlighted the role of digital payments in expanding market access in rural areas by enabling transactions for previously unbanked populations, while acknowledging infrastructure challenges.
4. Mehta and Sharma (2023) in "The Catalytic Effect on Digital Payments of E-commerce Growth in India" This book emphasizes the fact that retailers have seen their business grow as a result of accepting digital payments.
5. Reddy and Menon (2024) in "Navigating the Challenges: Digital Literacy and Cyber security in the Indian Retail Payment Ecosystem" It also highlights the challenges of digital literacy and cybersecurity that are needed to drive digital payments in India.

Research Methodology:

A descriptive and analytical research method has been adopted for this study. The objective is to provide a comprehensive understanding of the current status of digital payment adoption in India's retail sector. The research employs both qualitative and quantitative approaches to analyze market trends, consumer behavior, and competitive dynamics.

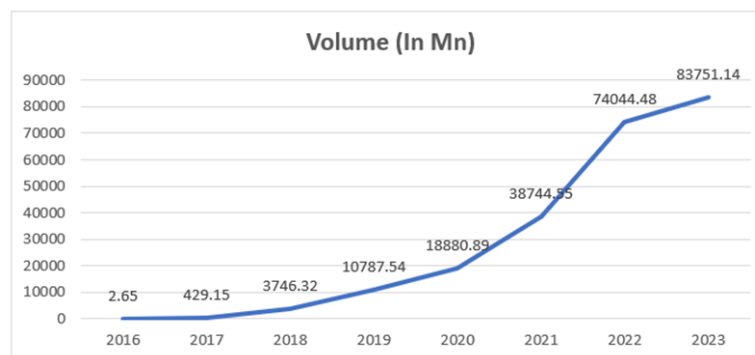
To get the insight of various aspects such as market size, geographical challenges & variations growth trends & its fluctuations, the

research has been relied on the secondary data sources. The Secondary data sources include reports from market research firms and industry publications. To comprehend industry practices and performance metrics, academic journals and case studies of leading digital payment. Providers and retail business has been examined. The methodology aims to provide a tangible understanding of the digital payments in the small scale retail industry in the current as well as the future state/time/prospect.

Overview of Digital Payment Systems in India

Online banking upi payment and mobile wallets are the most influential methods that digital payment system operates the good of India positive whose to encourage digitalisation in small details has results in digital India program 2015 and the introduction of good and service tax in 2017 as produce vital in promoting cashless transaction through digital payment small retailers some of the most popular fetch companies include.

- **UPI (Unified payment interface)** The Company has created a drastic change in digital payments which has been launched by National Payment Cooperation of India NPCI and it revolutionised money transaction in the context of real time and low cost transaction.
- **Mobile Wallets (e.g., Paytm, PhonePe, Google Pay):** This system has fulfilled successfully the geographical challenges such as easy accessibility in rural areas and enable retailers to reach middle class and lower middle class consumers.



[WWW.NIC.IN](http://www.nic.in) (National Information Centre-India)

UPI Growth in India: A Remarkable Digital Revolution

UPI has transformed India's digital payment system scenario since its launching in 2016 by the National Payment Cooperation of India. The platform has witnessed exponential

growth, driven by government initiatives, fintech innovations, and widespread adoption among consumers and businesses.

1. Year-on-Year Growth Highlights

2. 2017: UPI recorded a massive 900% YoY growth, processing over 100 million transactions worth INR 67 billion.
 3. 2018: Growth remained strong at 246% YoY, with transaction value surpassing INR 1.5 trillion.
 4. 2019: UPI processed INR 2.9 trillion in transactions, registering a 67% YoY growth.
 5. 2020: Despite the pandemic, UPI saw a 63% YoY growth, with transactions worth INR 4.3 trillion in December 2020 alone.
 6. 2021: Transactions grew by 72% YoY, with over 1.49 billion transactions worth INR 5.6 trillion in June 2021.
 7. 2022: UPI transactions hit INR 125.95 trillion, 1.75X YoY growth, accounting for nearly 86% of India's GDP in FY22.
 8. 2023: UPI reached a staggering 83.75 billion transactions, solidifying its dominance in digital payments.
- **Point of Sale (POS) Systems:** Retailers are increasingly using POS machines and digital cash registers that are integrated with mobile payment apps for seamless transactions.

Impact of Digital Payments on Small and Medium Retail Businesses

1. Enhanced Transaction Efficiency

One of the primary advantages of digital payments is the efficiency it brings to retail transactions. The quick and easy transaction is the feature of digital payment system and is helpful to get rid of manual cash handling. It is also effective in reducing human errors and accelerating customer service and enriching the overall customer experience.

2. Expanded Customer Base

Digital payment system is conducive to increase customer base both in rural and urban area despite of geographical and infrastructural challenges. The dependency on cash transaction is now almost vanished and customers are now able to purchase conveniently through their mobile phones.

3. Increased Revenue and Sales

Having money in mobile app like through UPI, it is very beneficial for the retailers to convince for higher value purchases. Due to this cashless mode, customer tends to purchase anything spontaneously at any place.

Financial Inclusion and Access to Credit

Retailer can now build a digital transaction history, through this app in the mobile which can be used as a authentic base for getting micro loans and other financial services. It helps more and greater financial inclusion of small scale retailers. A Few year ago, it was very difficult to access to traditional banking services for loans and credit facility as they have the difficulties to provide authentic money transaction.

Role of Government Policies and Supportive Infrastructure

Under the digital India campaign the Indian government has taken initiative in promoting digital payment mode by encouraging and intuiting different companies. Which are in compliance with the rule of law of Indian government. Besides this, the goods & services tax- amendment bill passed in the parliaments in 2017 has encouraged for the adaptation of digital payments to comply with tax regulations.

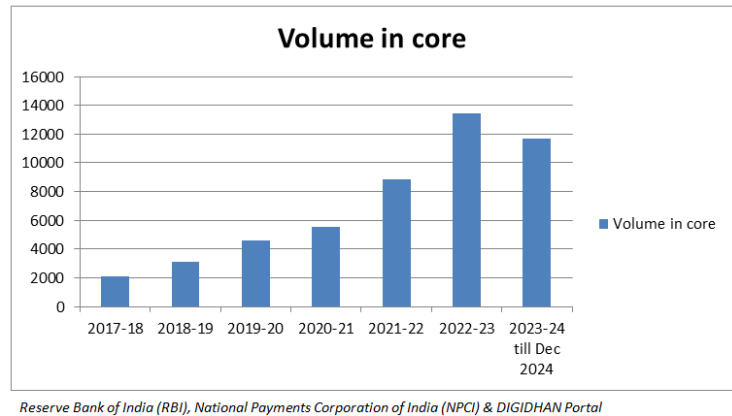
Case Studies of Successful Digital Payment Adoption

1. BharatPe's Impact on Small Retailers

Bharat pay is a fetch company which is used and operated agreeably by the common masses for digital transactions and this app is easily accessible to microfinance in services and digital payment tools. using bharat pay app has two benefits. One is the capacity to accepts UPI based payments and the other is to offer loans on transaction history. It results in nourishing their business growth.

2. Paytm's Contribution to Retail Growth

Paytm, one of the prominent digital payment platform is playing a virtual role in wing digital payments. by means of this app, the small retailers are experiencing a significant time reduction in money transaction and better response from consumers that will lead to cater / enlarge business.



Statistical Analysis

The volume of digital payment transactions has grown steadily and exponentially over the years. The total transaction volume has increased from 2,071 core in FY 2017-18 to 13,462 core in FY 2022-23, marking a Compound Annual Growth Rate (CAGR) of 45%.

Digital payment system has resulted in the remarkable shift in the current year 2023-24 (December 11, 2023) that has the potential for surpassing the previous years volume. The Financial inclusion of small retailers as well as common masses has been increased due to the get initiatives such as digital India campaign, UPI & RBI's endeavor to promote cashless transactions.

UPI Adaption- The rise of UPI based platform the google pay and paytm has made digital transaction more easy and fast and this can be called UPI adaptation.

Covid 19- The common masses has experienced the urgent need of using digital transaction in the pandemic period of covid 19

In the initial phase, the small retailers has hesitated to use digital transaction but it is now adopted by all the small retails as well as big retailers.

Challenges and Barriers to Adoption

Though the digital payment system revolutionised the way of business transactions, there are still certain challenges like internet connectivity, digital literacy, cyber security concerns. The gut of Indian is dealing with cyber security concerns by making awareness in the masses though information (automatic AI message) before making & receiving phone calls and through other tactics. As it is the urgent need to ensure the constant and sustainable growth of digital mode of payment, the goat of Indian & other private sectors have to address challenges.

Conclusion

The way of money transaction has been revolutionised by the digital payment system. The business scenario has been changed with reference to time reduction, geographical limitation and authentic history of transaction. And these are the factors that have created efficiency for small scale retailers. Moreover, the financial inclusion of small retailers has been increased. Common people easily adopted the digital payment mode and accepted the shift from cash transaction by dint of digital technology in general and (mobile aap like Google pay, phone pay) in particular. The digital payment mode is still facing challenges but the continuous growth of digital payments is essential and inevitable to the ongoing evolution of India's retail sector.

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Conflicts of Interest

The authors declare that there are no conflicts of interest regarding the publication of this paper.

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