



社会经济研究中心
**SOCIO-ECONOMIC
RESEARCH CENTRE**

The 4th ISM International Statistical Conference (ISM-IV)

**Stepping into Digitalisation Era:
Are Malaysian SMEs ready to embrace it?**

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Agenda



Key messages

Digitalisation - faster, smarter and better

- Information and communications technology (ICT) has **FUNDAMENTALLY CHANGED** the way of doing business
- “E-commerce” has enjoyed **EXPONENTIAL GROWTH**
- BUT, most developing countries have yet to **TAKE FULL ADVANTAGE**

How Malaysian SMEs react and response to ICT era?

- **HIGH** level of ICT connectivity but **MODERATE** adoption in business operation
- **CONSTRAINTS** : high investment and maintenance costs as well as financing
- Lack of **SOFT SKILLS** and low **IT LITERACY**
- SMEs see **OPPORTUNITIES YET ANXIETIES** about Digital Free Trade Zone (DFTZ)

Pushing SMEs ahead towards digital future

- Allocate **FUNDING** and **INCENTIVES**
- **AFFORDABLE PRICING** for the adoption of ICT
- Intensify **PUBLIC-PRIVATE COLLABORATION**
- Speed up **E-GOVERNMENT SERVICES**
- Strengthen **DATA PRIVACY** and **USER PROTECTION**

Key probing questions

- ✓ How ready SME businesses are in terms of **CONNECTIVITY, CAPABILITY AND CONFIDENCE** when embracing technology?
- ✓ What are the **USAGE AND EFFECTS OF ICT** on SMEs and their perceptions toward a digital environment?
- ✓ What causes the **DIGITAL DIVIDE AND TECHNOLOGY GAP** between SMEs and large companies?
- ✓ What are the **BARRIERS AND CHALLENGES** encountered by SMEs in adopting ICT?
- ✓ How to **FACILITATE SMEs** to participate actively in the digitalization ecosystem?
- ✓ To assess the **POTENTIAL IMPACT** of **DIGITAL FREE TRADE ZONE (DFTZ)** and how Malaysian SMEs would **LEVERAGE** on digital platform to outreach borderless markets?

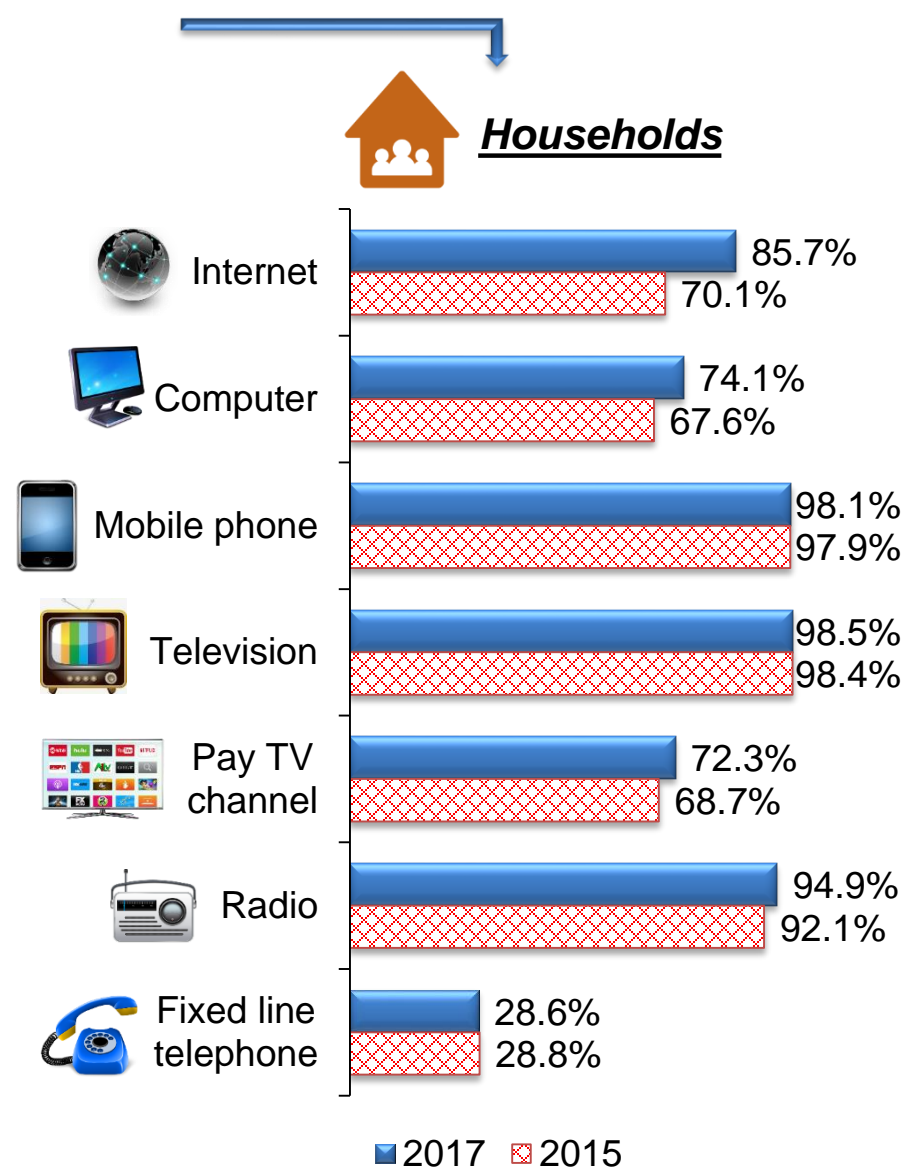
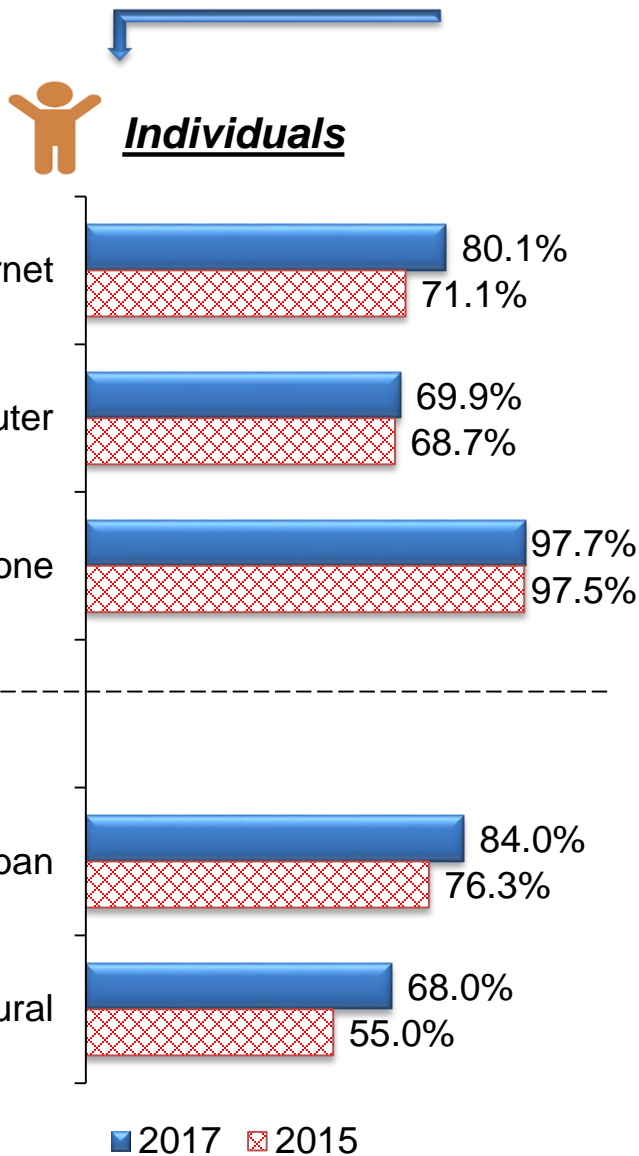


Section 1:

Where are we now?



Malaysians are moving ahead in DIGITALISATION era



Malaysian youths are ready for online retail transactions



SGP

MYS

THA

CHN

IND

IDN

PHL

In 2017:

Having an account*

Age 15++	98%	85%	82%	80%	80%	49%	34%
Age "15-24"	98%	84%	73%	87%	71%	47%	24%

Debit cards ownership

Age 15++	92%	74%	60%	67%	33%	31%	21%
Age "15-24"	82%	78%	50%	71%	29%	33%	8%

Credit cards ownership

Age 15++	49%	21%	10%	21%	3%	2%	2%
Age "15-24"	8%	19%	12%	18%	1%	3%	1%

Mobile money account

Age 15++	10%	11%	8%	n.a	2%	3%	5%
Age "15-24"	4%	16%	16%	n.a	1%	5%	4%

Use internet to pay bills or to shop online

Age 15++	57%	39%	19%	49%	4%	11%	10%
Age "15-24"	49%	54%	37%	78%	5%	22%	14%

Made or received digital payments

Age 15++	90%	70%	62%	68%	29%	35%	25%
Age "15-24"	79%	72%	59%	81%	21%	36%	17%

Note: * respondent who having an account at a bank or another type of financial institution or report personally using a mobile money service in the past 12 months.
Source: The Global Findex database 2017

Purpose of INTERNET USAGE

Overall

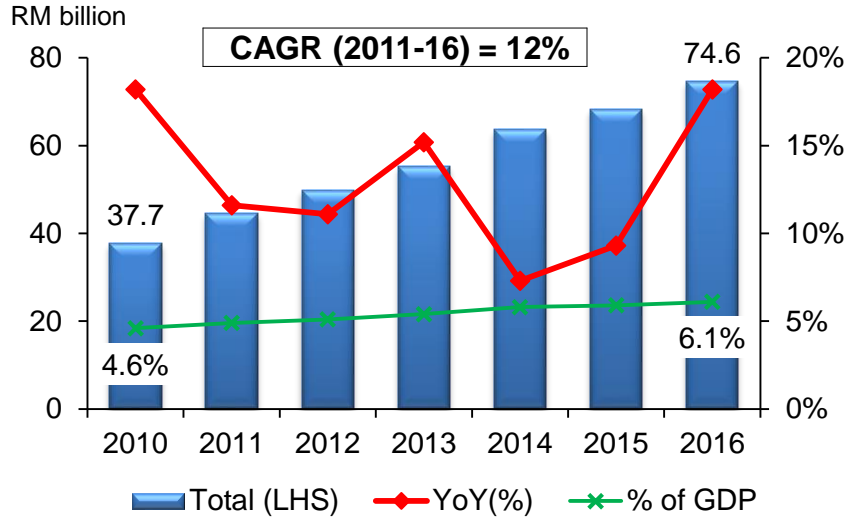
SMEs

	%	<i>Purpose of Internet Usage (2015)</i>	%	
	70.6	Sending or receiving email	71.2	✓
✓	41.3	Internet banking	41.2	
✓	38.9	Getting information about goods and services	38.5	
	36.6	Posting information or instant messaging	36.9	✓
✓	23.5	Getting information from government organisations	23.2	
	18.6	Telephoning over the internet	18.6	
✓	16.5	Interacting with government organisations	16.2	
✓	10.8	Internal or external recruitment	10.1	
✓	10.3	Providing customer service	10.0	
	9.9	Accessing other financial services	9.3	
	5.7	Delivering products online	5.2	
	2.5	Staff training (e-learning application)	2.4	

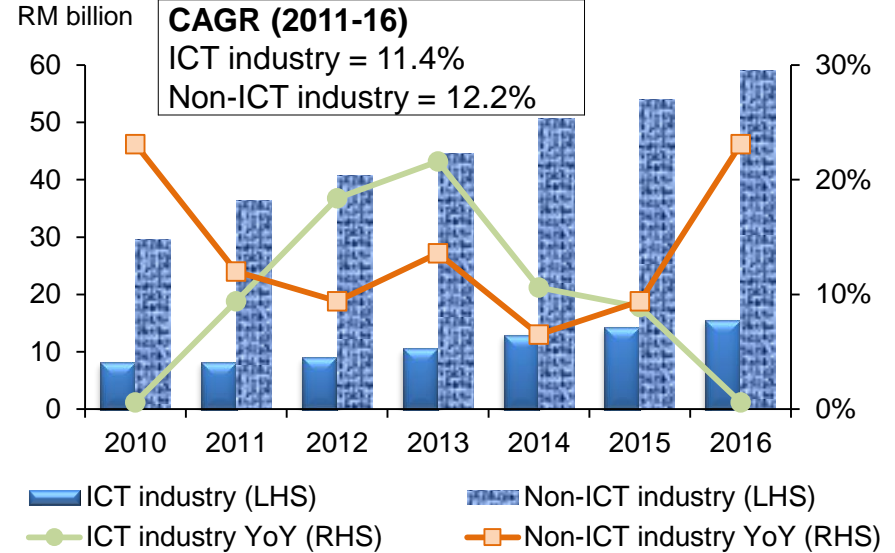
Source: DOSM

BOOMING Malaysia's e-commerce industry

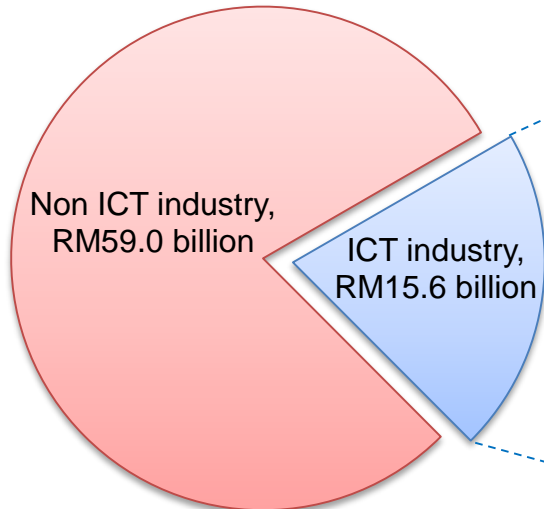
Malaysia's e-commerce is growing steadily



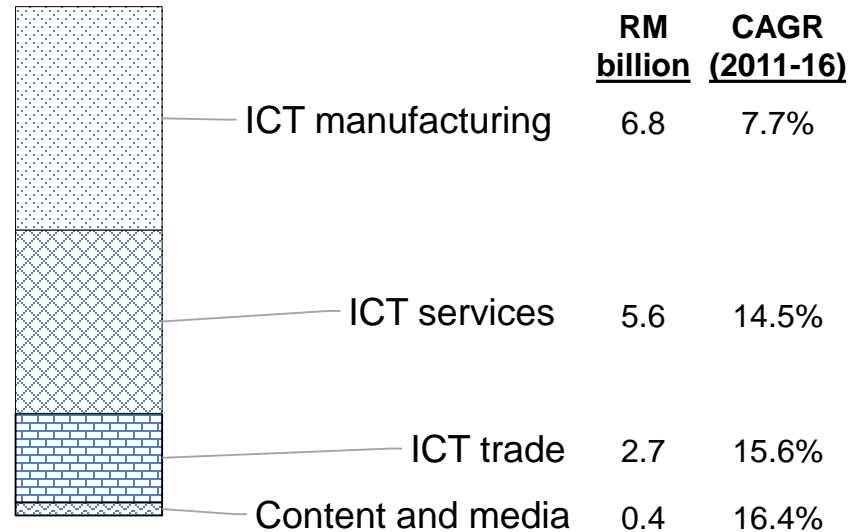
Non-ICT industry drives Malaysia's e-commerce



E-commerce gross value added (2016)

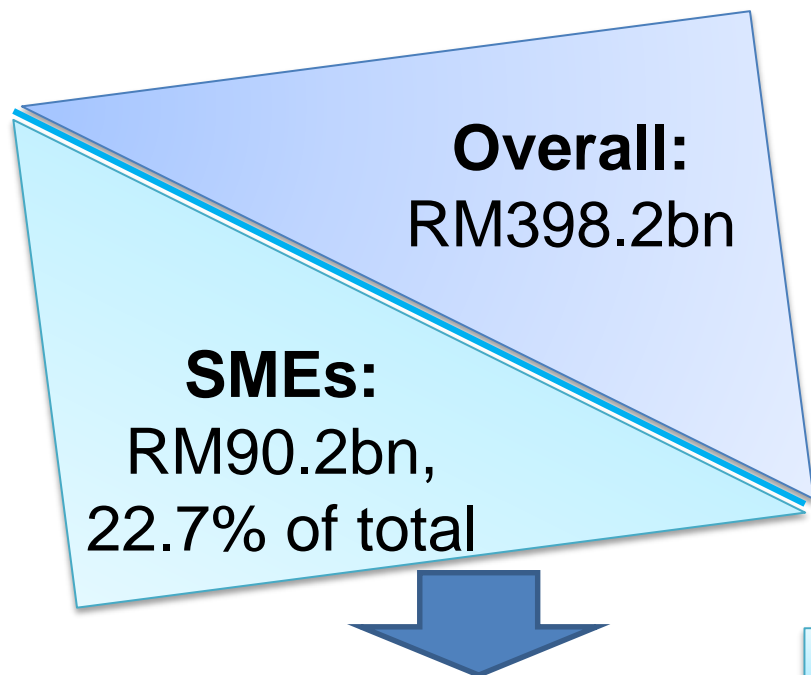







By sector








Source: DOS, Malaysia (DOSM)

INCOME from e-commerce transactions (2015)



		Share
 Agriculture	RM0.2bn	0.0%
 Mining & quarrying	RM6.8bn	1.7%
 Manufacturing	RM275.9bn	69.3%
 Construction	RM0.2bn	0.1%
 Services	RM115.1bn	28.9%

		Share
 Agriculture	RM4mil	0.0%
 Mining & quarrying	RM194mil	0.2%
 Manufacturing	RM47.1bn	52.2%
 Construction	RM58mil	0.1%
 Services	RM42.9bn	47.5%



Major contributors in services sector – **SMEs**

- 1 Wholesale & retail trade — RM37.2bn
- 2 Financial & insurance/takaful — RM1.8bn
- 3 Administrative & support service — RM1.6bn

All eyes on for the NEXT E-COMMERCE BOOM

The future is bright for e-commerce



- **US\$3.8 billion** expected e-commerce market growth in 2017



- Access to **625 million** ASEAN people



- **20 million** “Digital Population”



- **30%** e-commerce transactions in ASEAN are from Malaysia



- **DFTZ** to double e-commerce annual growth from 10.8% in 2016 to **20.8% in 2020** by 2020 (Contribution to GDP: RM211 bn or US\$47.7 bn)

Consumer confidence is on the rise



- **136%** mobile penetration in 2016



- **47%** use their smartphone to shop online



- Approx. **7 million** shop online every month



- **39%** purchase daily necessities



- **23%** buy fashion and accessories



- **20%** like to buy unusual or hard to find items

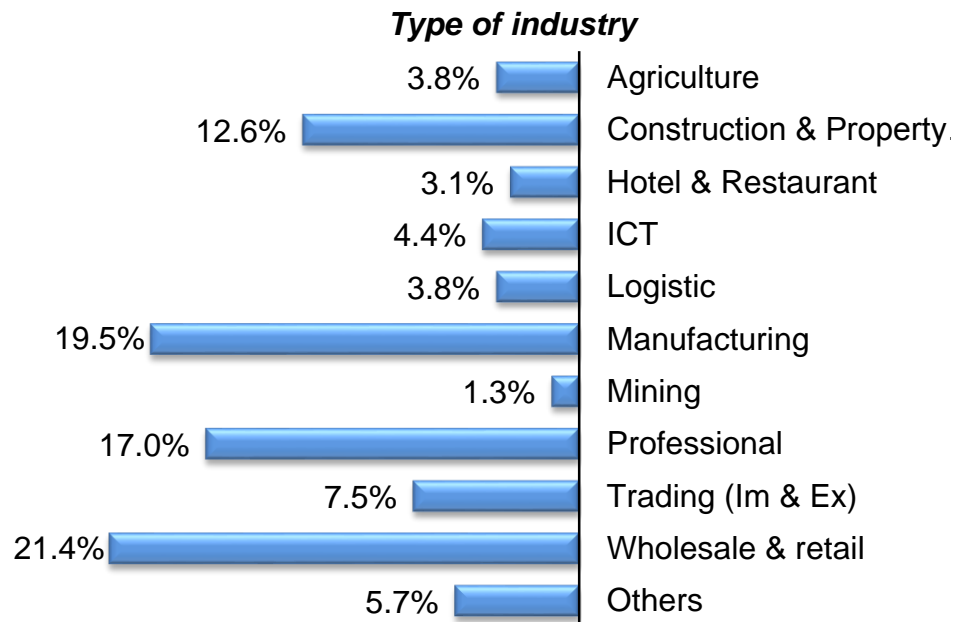
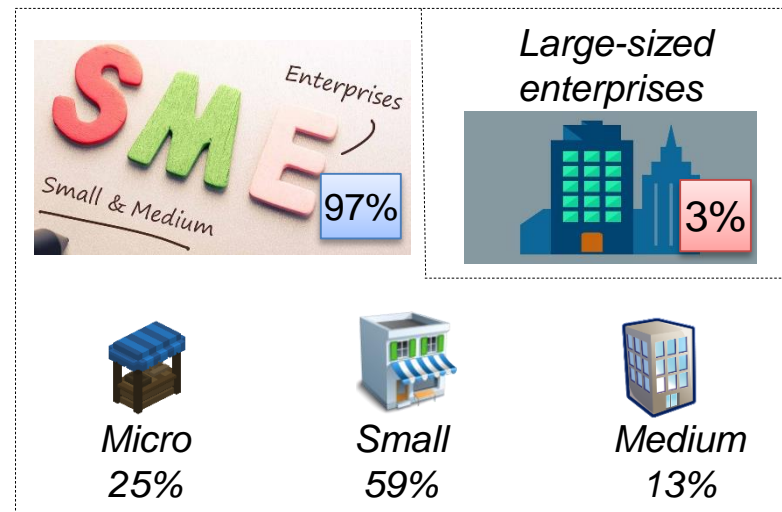
Survey approach & methodology

- Sample size = 159
- Simple random sampling
- Data collected were analysed using descriptive statistics
- Five-page questionnaire that contains closed-ended questions and five-point Likert scale
- Distribution channels of survey:



- Future studies must attempt to have a larger sample size of SMEs with adequate representation from a cross-section of industry

Demographic profile



SMEs: Increasing CONNECTIVITY with ICT

SERC survey
SMEs (2017)

79.2%

71.4%

64.9%

31.8%

Physical access to ICT devices and tools



Computer



Internet



Web presence



Intranet

Economic Census
SMEs (2015)

73.1%

56.5%

20.1%

26.7%

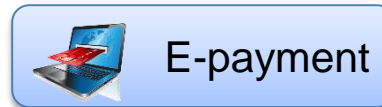
Usage of ICT applications



Email



Social Media



E-payment



CRM/CAM

90.0%

67.8%

82.4%

37.5%

71.2%

36.9%

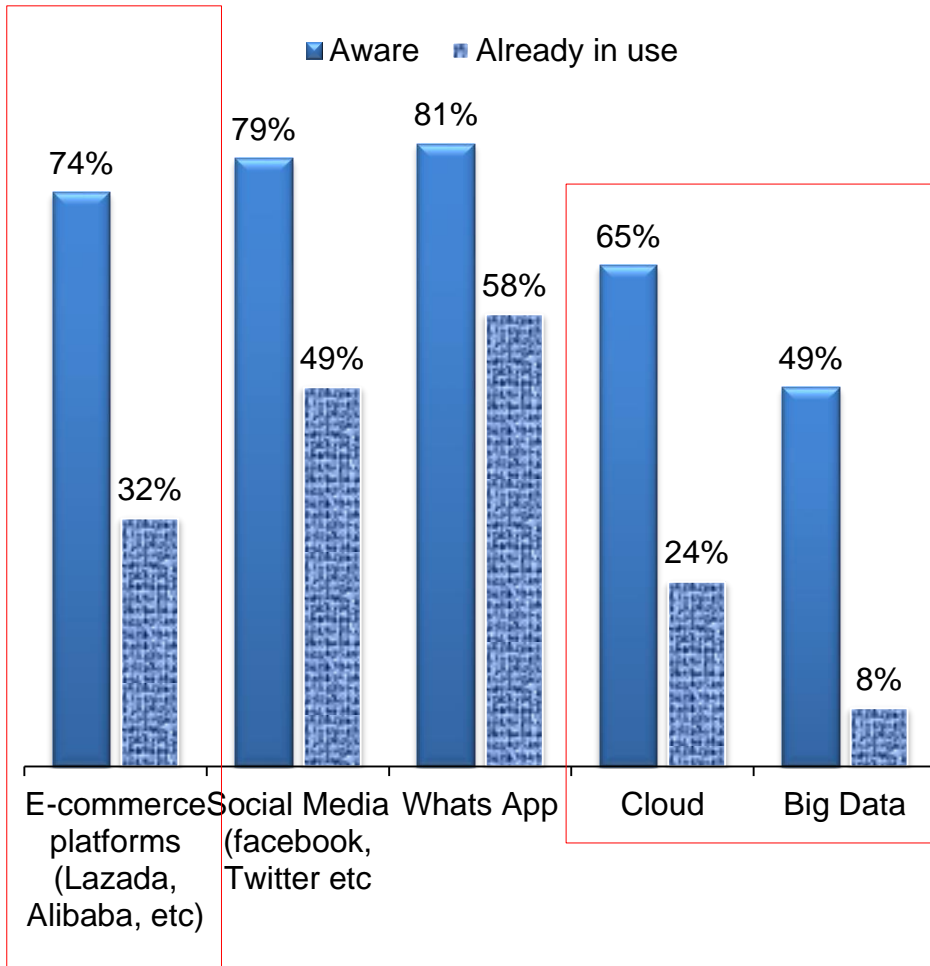
41.2%

10.0%

Source: DOS, Malaysia; SERC

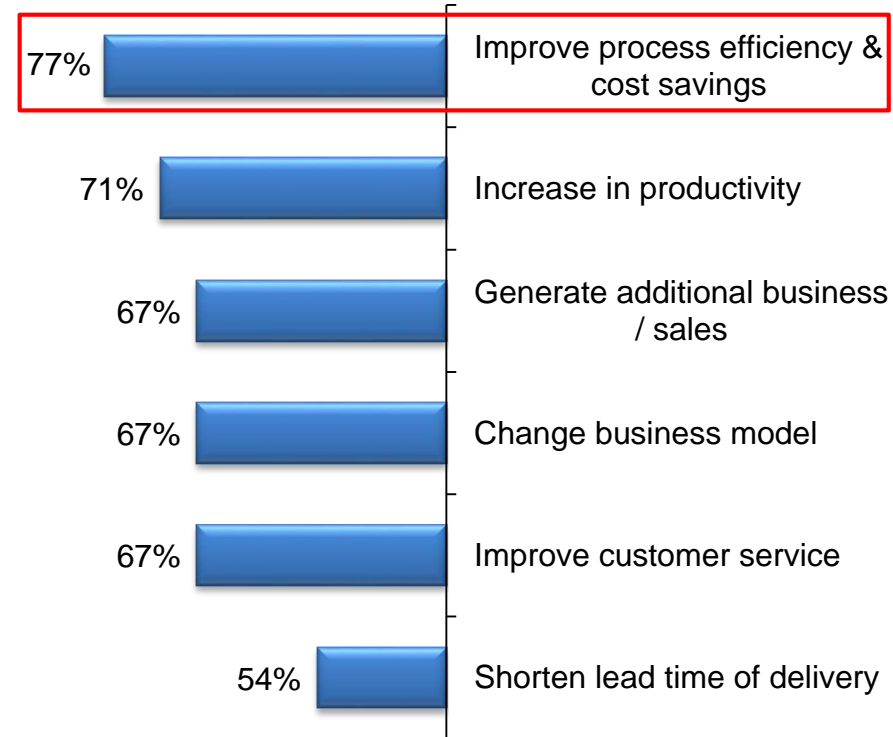
SMEs have yet to fully EMBRACE newer technologies

High awareness about mobile technologies but low adoption rate



SMEs rated ICT helps to improve process efficiency; cost savings; drive higher productivity and generate higher sales for SMEs

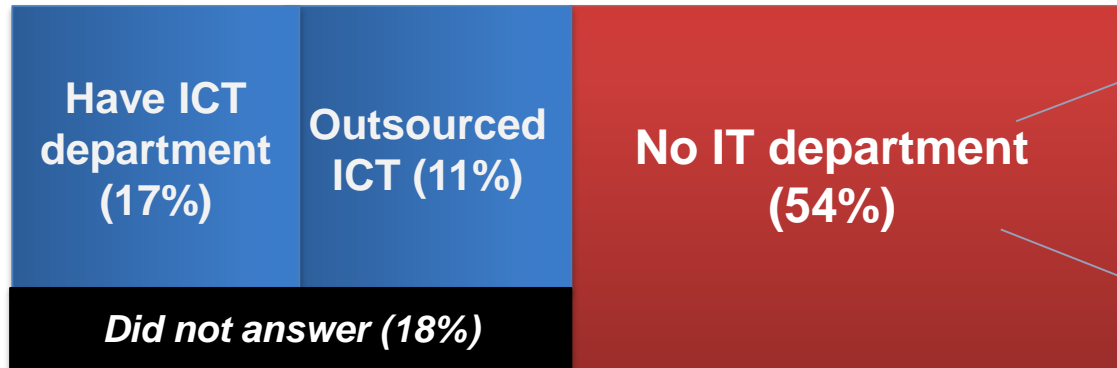
Impact of ICT adoption



Source: SERC

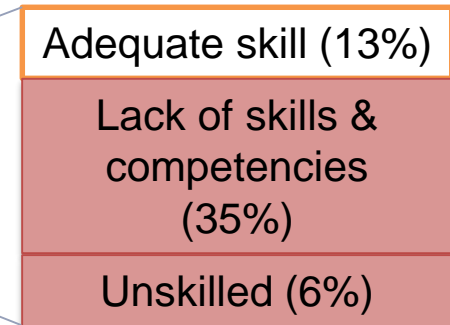
Urgent need of ICT TRAINING for SMEs

Level of ICT knowledge and competencies



Source: SERC

Skill & competencies of staff



- SMEs have yet fully realized the important of ICT department or outsourced ICT to grow their businesses in upcoming trends
- SMEs may use existing internal resources to implement basic applications, but these skills and competencies may not be adequate as technologies become more sophisticated

Basic applications



- Mailing, writing report, key in data, invoicing



SMEs may not be aware other functions in application above such as analysing data or designing a system

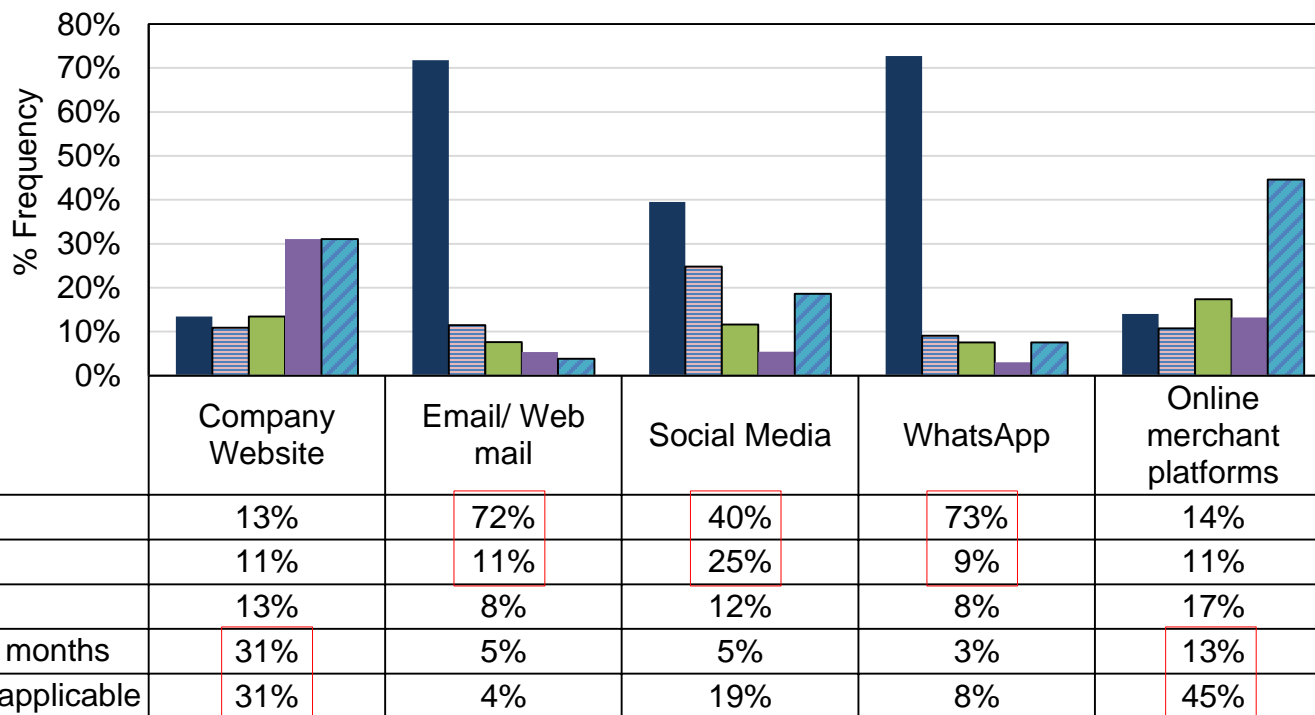
FREQUENCY of upkeeping ICT applications

- **More than 75%** (*daily + weekly*) of respondents use WhatsApp, email/webmail and social media on a daily and weekly basis.
- **Very low frequent usage** (*once every 3-4 months + Don't use/ N A*) of merchant platforms (62%) and company's own website (58%)

WHY ??

1. No access restrictions ( ,  , ), wider social networks, larger users and the speed of delivery mode.
2. Retain a website may be related to savings in advertising cost.

Frequency of SMEs' interfacing with ICT applications

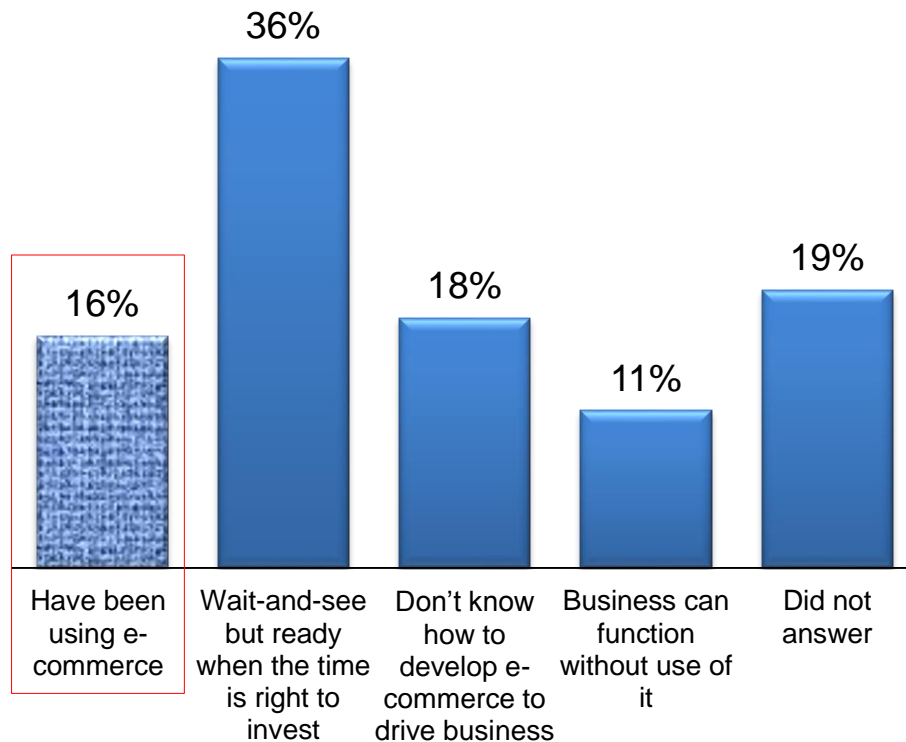


Lack of MOTIVATION to adopt ICT

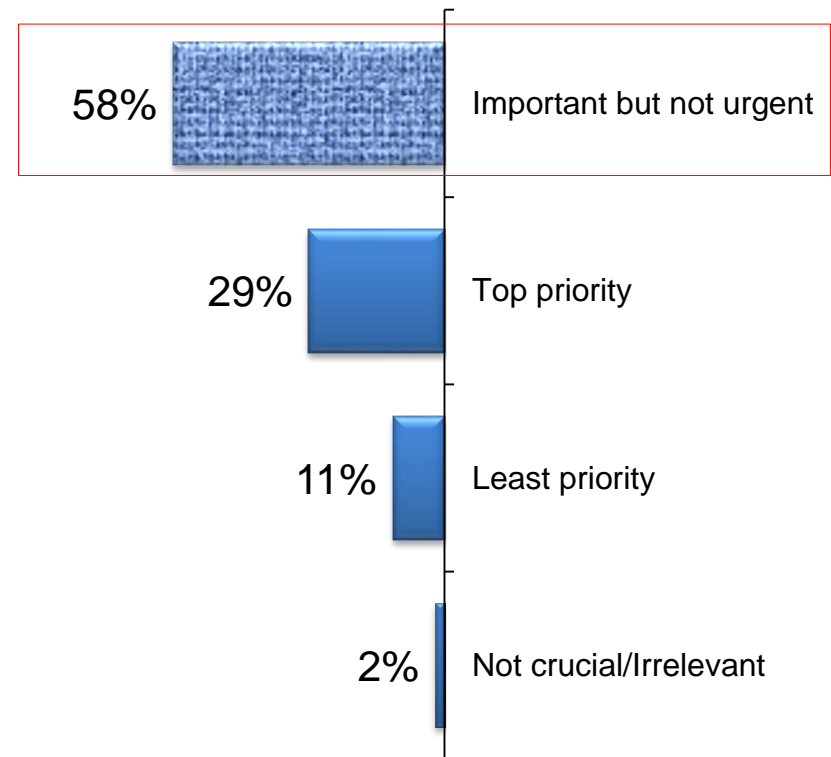
Only 16% of SMEs reported that they use e-commerce.

High investment and maintenance costs as well as financing constraint contributed to the low level of embracing digital technology.

Current intensity use of e-commerce / digital technology



Important level for innovation/digital technology



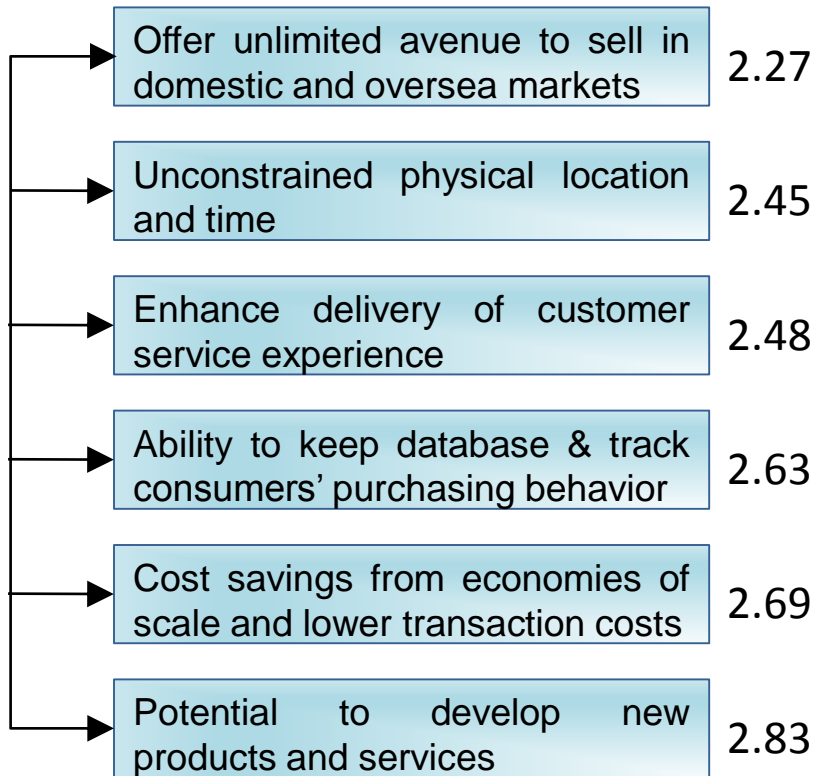
Source: SERC

Problems of FINANCING investment in the digital market

SMEs acknowledged that E-commerce offers enormous business opportunities

High cost of technology investment poses a barrier for SME's growth

Strategic benefits of E-commerce:

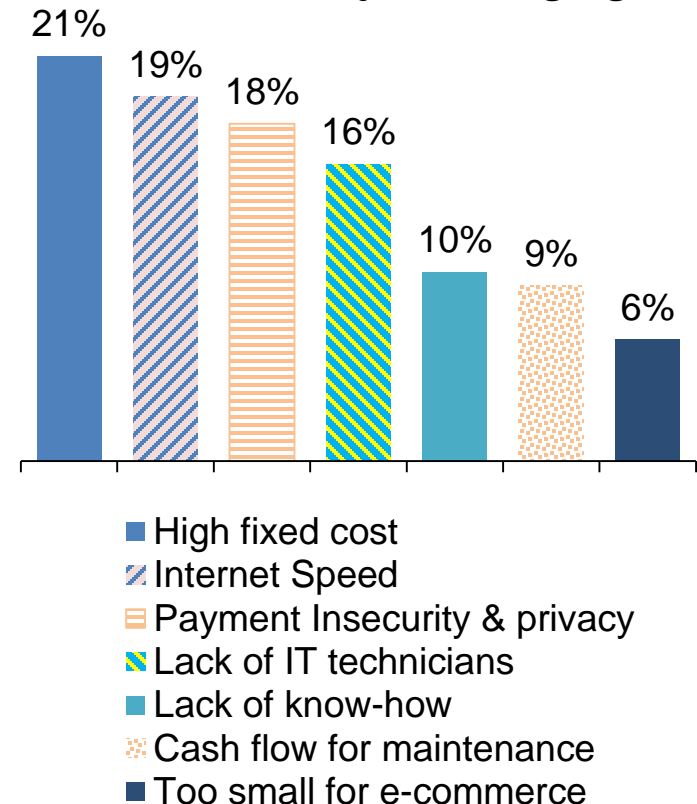


1=Extremely important 2=Very important
 3=Moderately important 4=Somewhat important
 5=Least important 6=No benefit/Not relevant

2.0
Very Important

3.0
Moderately Important

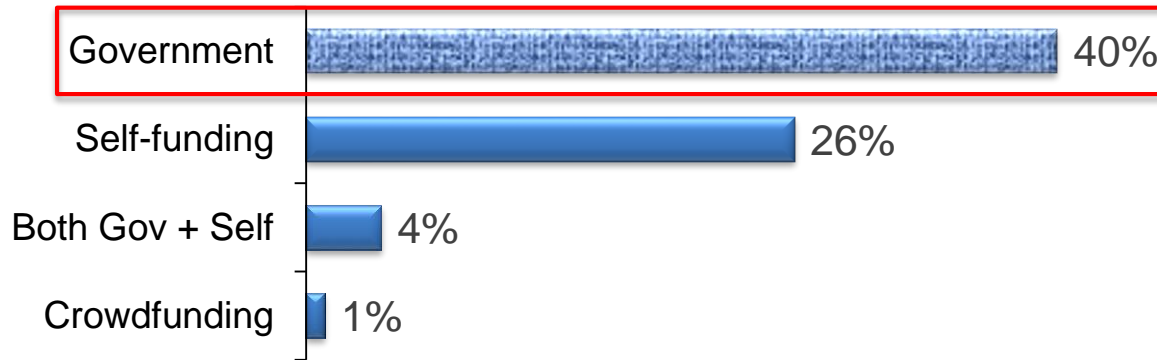
Barriers rated as Extremely challenging



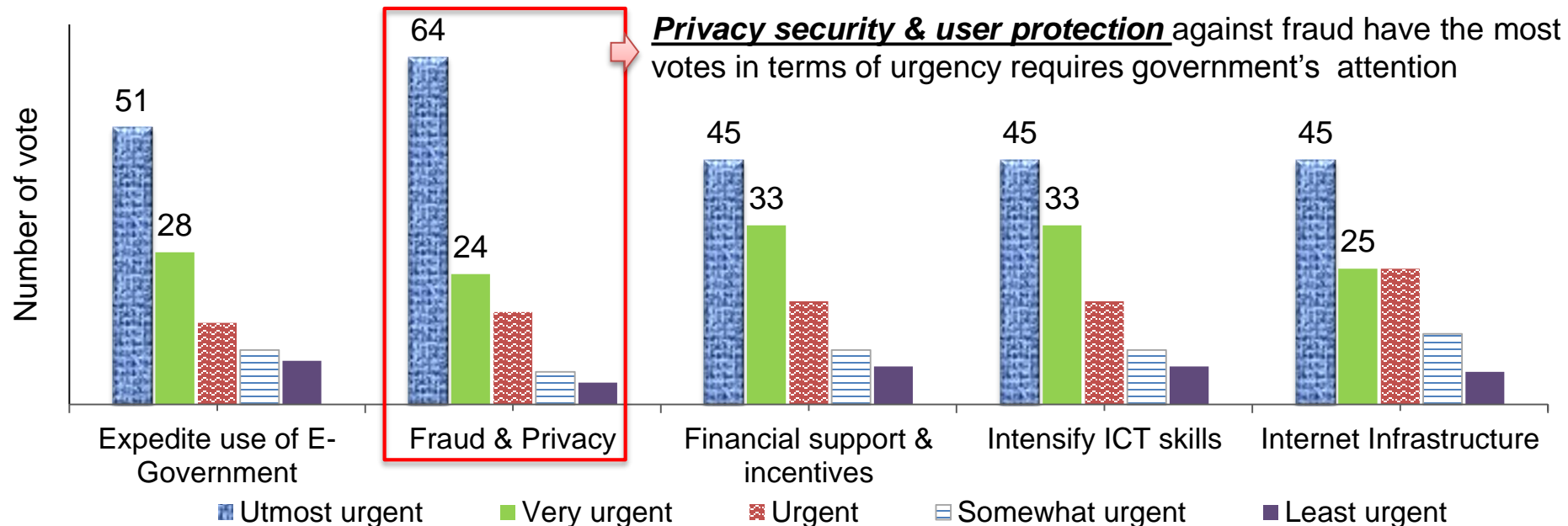
Source: SERC

Government's **FUNDING AND ASSISTANCE** is needed

Sources of funding for e-commerce's adoption or expansion



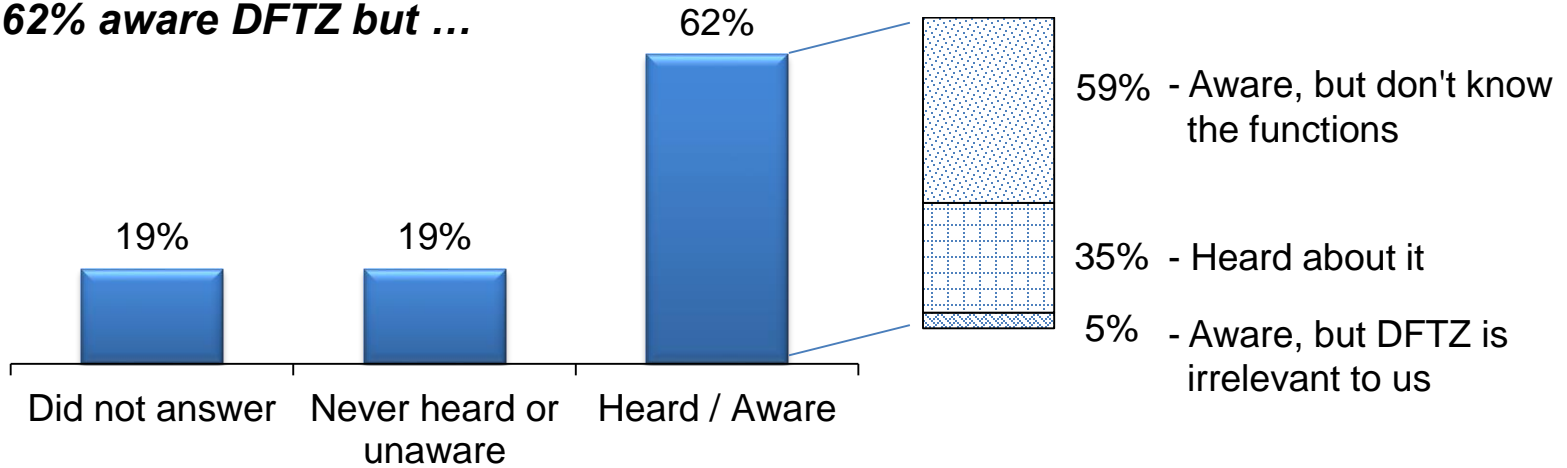
Initiatives expected from the Government



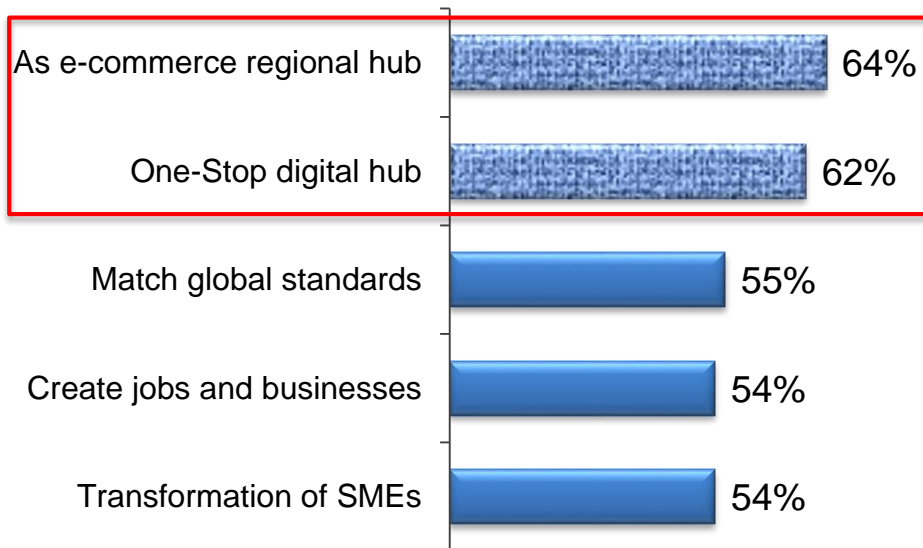
Source: SERC

DFTZ could be a **DOUBLE-EDGED** sword for SMEs

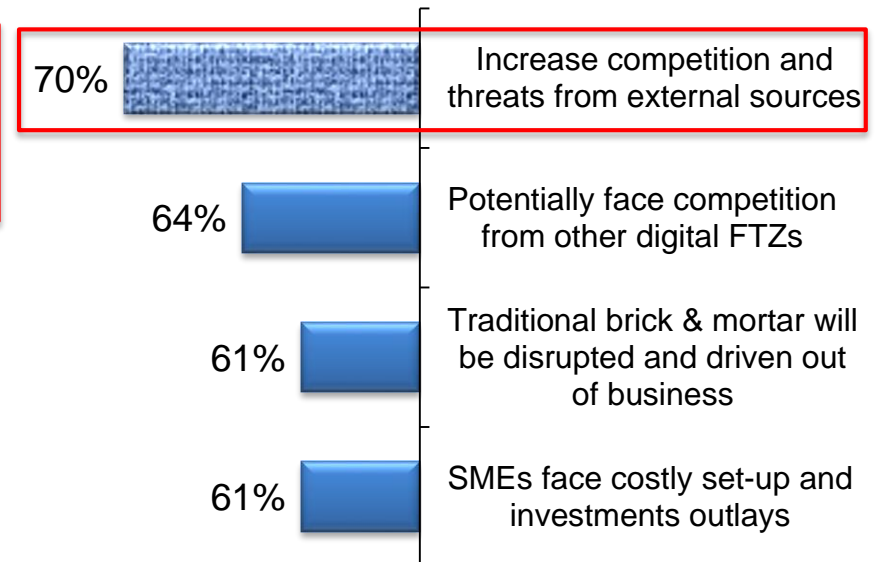
62% aware DFTZ but ...



Perceived impact of DFTZ*



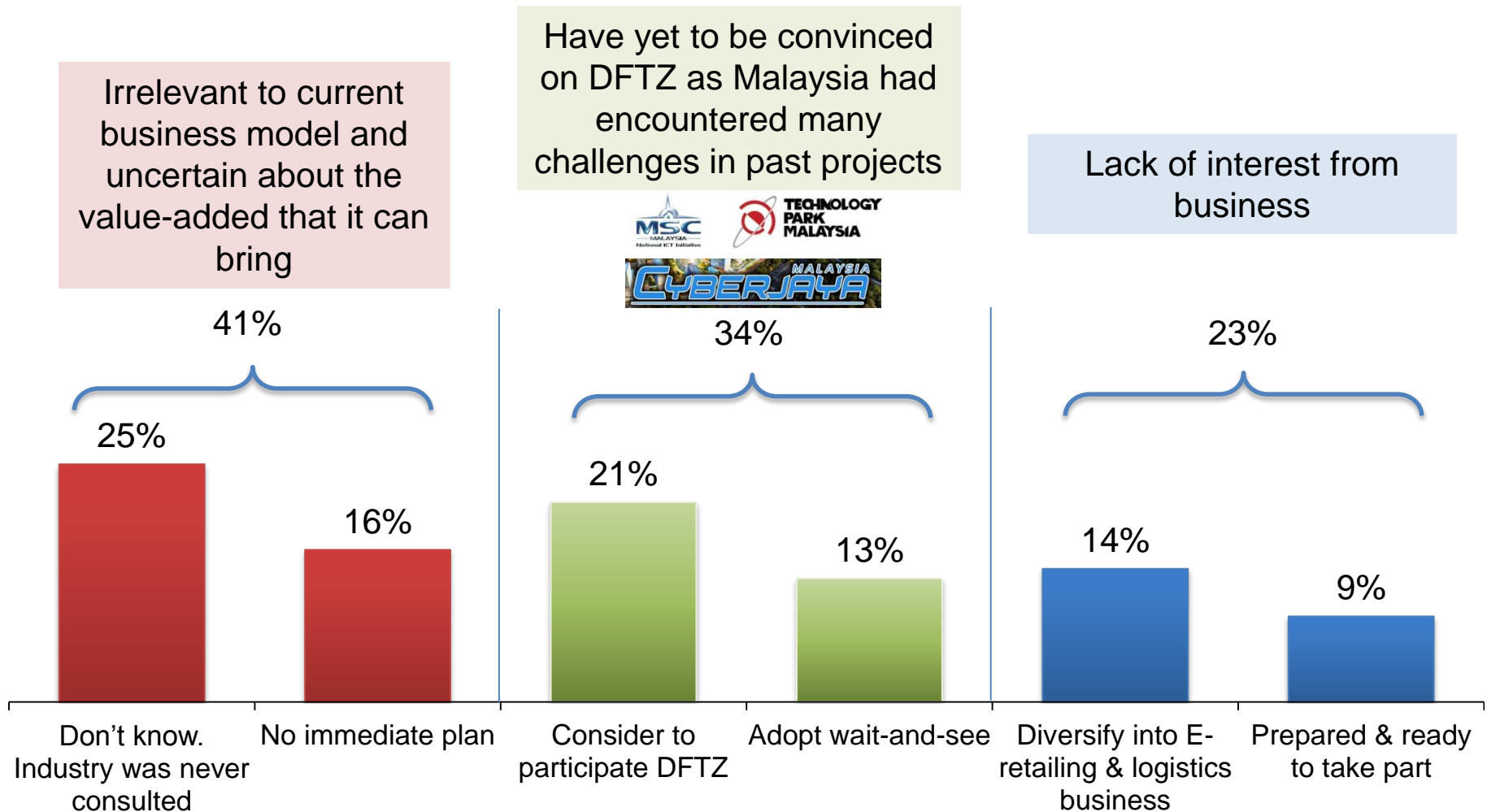
Challenge from DFTZ*



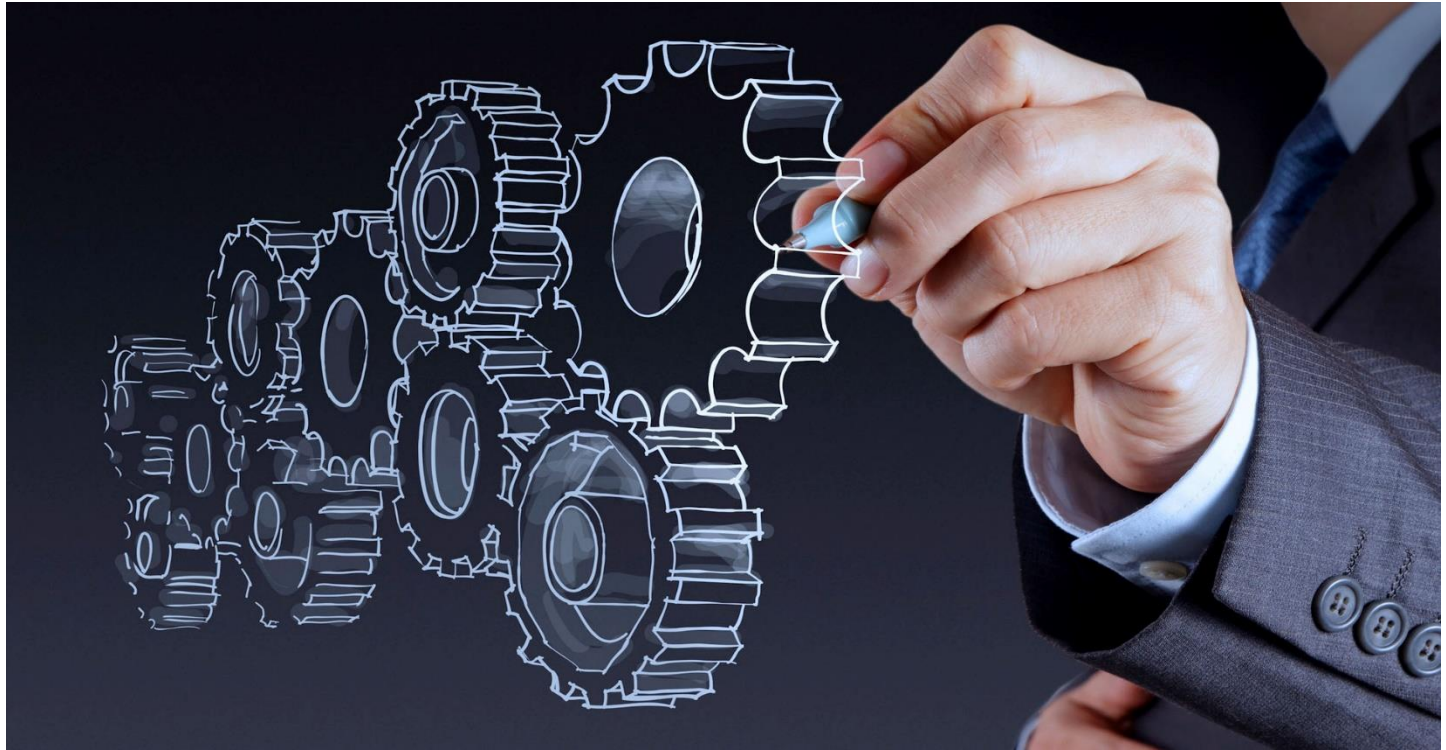
Source: SERC

NOT YET deeply understand the DFTZ

- The DFTZ sets an ambitious goal of doubling SME's exporting of goods to US\$38 billion by 2025. **What are businesses' future plan in relation to DFTZ?**



Section 3: Conclusion



CONNECTIVITY

- The **GAPS** between awareness and actual adoption level are **APPARENT**
- SMEs have **YET TO FULLY EMBRACE** newer technologies
- SMEs were **NEVER FELT PRESSURED** by rapidly evolving business environment to use advanced technology or e-commerce



Highlights of survey findings

CAPABILITY

- The size and business activity influences the level of adoption
- **LOW IT LITERACY** and **LACK OF IT TECHNICIANS** hindered the adoption of digital technology
- The government needs to look into **PROVIDING INCENTIVES OR GRANTS** to expedite the growth of digital technologies

CONFIDENCE

- Despite ICT raising productivity and sales, SMEs remained skeptical about **DATA PRIVACY AND PROTECTION SECURITY**
- SMEs are **UNAWARE** and 100% confident about how these advanced digital technologies (Big data, mobile apps, Cloud computing, etc) are of **RELEVANCE** to them
- **CREATE MORE AWARENESS** about DFTZ, getting Malaysian SMEs prepared to come onboard this game changer

Key POLICY RECOMMENDATIONS



FACILITATION OF ICT ADVISORY & COACHING SERVICES

- ❑ Setting up ICT centres and labs
- ❑ Tailored easy-to-use e-commerce solutions
- ❑ Expanding digital outreach program

Financing gateway

- Facilitation fund
- Fiscal tax incentives



BROADBAND COVERAGE & INTERNET SPEED

- ❑ Provide high quality broadband
- ❑ Boosting high-capacity telecoms networks
- ❑ Upgrading of existing networks

Expedite e-Government

- Speed up government's initiatives
- Full-fledged e-government services



GETTING AHEAD IN CONNECTED ECONOMY

- ❑ Create a favourable ecosystem
- ❑ Enhance ICT infrastructures
- ❑ Develop ICT policies for innovation

Security, privacy and building trust

- Credible legal framework
- Affordable security infrastructure
- Low compliance cost



CAPACITY BUILDING IN ICT DIFFUSION & KNOWLEDGE

- ❑ Intensify public-private sectors collaboration
- ❑ Develop ICT readiness enhancement program
- ❑ Institutionalise standards / ICT professionals / certification recognition

Q & A





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谢谢
THANK YOU

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