Special Highlights

Digitalisation of SMEs: Unlocking Potential to Boost Growth

Gartner defines digitalisation as “use of digital technologies to change a business model and provide new revenue and value-producing opportunities; it is the process of moving to a digital business”. In layman’s term, it is simply transitioning business to a digital business by converting and automating manufacturing processes under the control of digital technologies. This may be illustrated by automating what were previously manual workflows in producing new products. In order to achieve this, business needs to leverage on digitisation, whereby, digitisation is a part of digitalisation. By doing so, productivity can be redefined and enhanced to achieve greater heights.

Digitisation which is the process of changing from analog to digital form was first began anywhere from the late 1950s to the late 1970s, during the Third Industrial Revolution (IR 3.0). The mass production of computers and other digital electronics since the era of the IR 3.0 has been further accelerated now especially with the advent of the Fourth Industrial Revolution (IR 4.0). In fact, the nine pillars of the IR 4.0 which constitute of technological advancement, such as Internet of Things (IoT), Big Data and Cloud Computing play a critical role in transforming the traditional business landscape and the way we live. The IR 4.0 is set to trigger change throughout the world, and will require both large businesses and SMEs to innovate in order to stay relevant and competitive in the global market lest becoming defunct. With its wide spread and pervasive impact, digitalisation offers abundance of opportunities.

The digital revolution has also seen trading across borders to change drastically. Digitalisation has made the world more connected and accessible through a more cost effective way. Businesses particularly SMEs can now reach new customers and international markets with relative ease through e-commerce, mobile commerce and social media platforms. According to a study from Dubai Multi Commodities Centre (DMCC), full digitalisation of e-commerce could lead to a six-fold increase in the number of business that export goods.

Retail e-commerce sales were driven largely by mobile commerce which represents sales conducted via mobile devices. Globally, mobile commerce sales grew by 40.0% in 2017 to USD1.36 trillion, which is nearly 60.0% of total e-commerce spending

E-COMMERCE WORLDWIDE

The world has been witnessing the unstoppable rise of e-commerce since the launch of behemoths, such as Amazon and Alibaba in the 1990s. In 2015, the cross-border e-commerce market accounted for USD300 billion in gross merchandise volume (GMV) or 15.0% of the overall e-commerce revenue. According to a DHL report, the cross-border market will continue to grow by about 25.0% annually until 2020. This is nearly twice the growth rate of domestic e-commerce. By 2020, cross-border e-commerce GMV is projected to reach USD900 billion, or about 22.0% of the global e-commerce market.

By 2017, retail e-commerce sales worldwide has been estimated to reach just over USD2.3 trillion, almost 25.0% increase over the previous year and representing 10.2% share of total retail sales globally compared to 8.6% in 2016. The key contributing factor of this growth is the Asia-Pacific region with its overall retail spending in e-commerce stood at 14.6%.

Between 2017 and 2021, e-commerce sales worldwide are forecasted to grow by 141.0%, from USD2.3 trillion to almost USD4.5 trillion, or just over 16.0% of total retail sales globally. The combined volume of e-commerce sales in China and the US is expected to total USD1.6 trillion in 2017, almost 70.0% of the e-commerce volume globally. However, e-commerce in central and eastern Europe and parts of Southeast Asia is forecasted to be less than 5.0% of total retail sales while no significant growth is expected up to 2021 for Latin America, the Middle East and Africa.

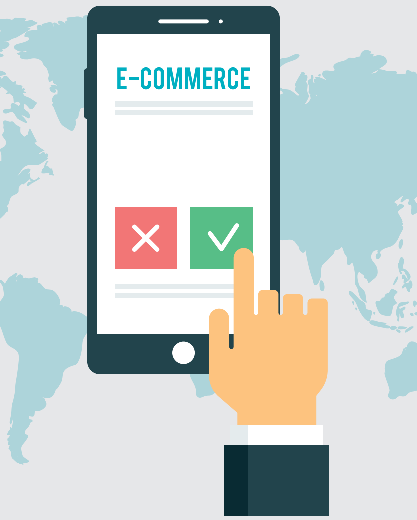
Retail e-commerce sales were driven largely by mobile commerce which represents sales conducted via mobile devices. Globally, mobile commerce sales grew by 40.0% in 2017 to USD1.4 trillion, which is nearly 60.0% of total e-commerce spending. China alone accounted for 67.0% of mobile commerce sales worldwide during the year, driven by its mobile-first internet audience. Globally, mobile commerce volume is expected to almost triple from USD909.9 billion to USD2.6 trillion between 2017 and 2021, by which time it would take up a share of close to 73.0% of total e-commerce sales.

ASIA-PACIFIC - FASTEST GROWING E-COMMERCE MARKET

The e-commerce growth rate in Asia-Pacific is expected to be at 30.0%, double that of the United States (US), an indication of the region's pole position in the global e-commerce economy. By 2021, the region will command two-third of total global e-commerce sales while its share of cross-border volume will be at 22.0%.

In 2017, retail e-commerce sales in Asia-Pacific grew by 30.0% year-on-year to reach USD1.4 trillion. Growth is constant even in countries like Japan where retail sales have been sluggish. With increasing internet and mobile usage and improved fulfillment processes, the region's retail e-commerce volume is expected to reach USD3 trillion by 2021.

Similar to the global scenario, mobile commerce sales predominate in Asia-Pacific. For China, mobile commerce sales is forecasted to grow by 42.0% to USD882 billion in 2017, accounting for 73.0% of total retail e-commerce sales, the largest share of any country in the world. Similarly, for the same year in India where e-commerce retail sales totalled USD16 billion, 72.0% of sales were conducted via mobile devices. In South Korea, mobile commerce accounted for close to 60.0% of total retail e-commerce sales. Asia-Pacific's e-commerce sales share distribution from 2017 to 2021 is projected to increase to two-third of the global volume while those of North America and Europe will decline accordingly.



E-COMMERCE IN MALAYSIA

Malaysia recorded high growth of 28.0% in online retail market in 2017 according to the Euromonitor International with e-commerce contribution to Growth Domestic Product (GDP) estimated to have reached RM68 billion in 2015. The latest data from the Department of Statistics, Malaysia (DOSM) revealed that the digital economy accounts for 18.2% of GDP in 2016 while e-commerce contribution to GDP has increased slightly from 5.9% in 2015 to 6.1% in 2016. Malaysia is one of the leading countries in ASEAN in terms of its e-commerce contribution to GDP and this is projected to grow by about 11.0% to RM144 billion by 2020 as projected under the Eleventh Malaysia Plan (RMKe-11). However, with Government interventions, Malaysia would be able to double the e-commerce growth rate to reach 21.0% or RM211 billion of e-commerce contribution to GDP by 2020.

E-commerce growth in Malaysia is driven by favourable demographics, economic trends, infrastructure and ecosystem. A healthy GDP growth has increased disposable income, with a large segment of the population who are technologically savvy. More than 67.0% of the population uses the internet, with most users spending over 16 hours online weekly. An estimated 80.0% of internet users have made online purchases previously, a rate which is comparable to that of China, India, Singapore and Thailand.

The highest number of e-commerce establishments was located in Selangor, followed by Kuala Lumpur and Johor. In the services sector, wholesale & retail trade and information & communications are the two key e-commerce players. The leading contributor to the domestic e-commerce economy was the manufacturing sector which generated a total of RM46.5 billion in revenue. In cross-border e-commerce, the services sector was the main contributor. As at February 2018, 58,824 online businesses are registered with the Companies Commission of Malaysia (SSM). Malaysia had come to an inflection point of e-commerce growth and focused Government intervention was needed to foster further progress. Accordingly, in order to accelerate development from the current nascent growth stage of the e-commerce economy, the National eCommerce Strategic Roadmap (NeSR) was launched in 2016.

One of the focus of NeSR is to future-proof existing businesses by ushering approximately 80.0% of SMEs into the international e-commerce arena and ensuring they have the capabilities to keep pace with developments in the digital economy. Currently, SMEs in Malaysia accounted for 98.5% of the country's total business establishments. In 2017, SMEs contributed 37.1% to overall GDP, 17.3% to total exports and 66.0% to total employment. According to the Economic Census 2016: Usage of ICT by Businesses and E-commerce (reference year 2015), 4.8% of SMEs (43,460 out of 907,065 SMEs), primarily those in the manufacturing and services sectors are engaged in e-commerce transactions. Under the NeSR, identified Government Ministries and agencies will undertake programmes aimed at doubling Malaysia's e-commerce growth rate and increasing the contribution of e-commerce to GDP to RM211 billion by 2020.

DIGITAL FREE TRADE ZONE

Malaysia's Digital Free Trade Zone (DFTZ) which is the world's first e-commerce platform outside of China, is jointly developed by the Malaysia Government and Alibaba. It is intended to help SMEs export their products globally with ease; enable global marketplaces to source from Malaysian manufacturers or sellers; make Malaysia the regional fulfillment hub for global brands to reach ASEAN buyers; and nurture an ecosystem to drive innovation in the e-commerce and internet economy.

The first phase of the DFTZ was launched in **November 2017**

The DFTZ is a trade facilitation platform that is integrated with other business and Government service platforms to facilitate a paperless, end-to-end and accurate capture, storage, exchange of data and analytics processes related to online trade activities. It is a unique digital hub that brings together a multitude of key parties, such as trade facilitation and e-market players, Government agencies, logistics providers and freight forwarders, to help businesses gain easier market access in cross-border e-commerce.

The first phase of the DFTZ was launched in November 2017. DFTZ has three key components:

Satellite Services Hub: To connect businesses to service providers in financing, last-mile fulfillment, insurance and other services crucial in cross-border trade

eFulfillment Hub: To connect exporters to last-mile fulfillment services

eService Platform: To manage all the processes involved in cross-border trade such as customs clearance, foreign exchange and even the appointment of a forwarding agent

Malaysia is among the first countries to embark on the eServices platform, a unique feature of the DFTZ that digitally connects users with Government and private sector services to support cross-border trade. In the future, it can be connected to similar platforms in other countries to make cross-border trade even easier.

The development of the DFTZ comprised of two phases, the first, which is managed by Pos Malaysia Berhad, is currently operational. The second phase will be undertaken by Cainiao Network, the logistics arm of Alibaba, in partnership with Malaysia Airports Berhad, in a green-field investment in the Kuala Lumpur International Airport Aeropolis DFTZ Park, scheduled to be operational in 2020.

Alibaba will host its regional eFulfillment hub at DFTZ Park which will support a regional multimodal trans-shipment hub to include sea freight via Port Klang and rail cargo to Bukit Kayu Hitam. The hub will subsequently be linked to Alibaba's planned eWorld Trade Platform hubs in other countries.

Benefits of DFTZ to SMEs

The DFTZ is essentially a trade facilitator for SMEs as it creates a more level playing field for the latter to gain easier entry into cross-border e-commerce. The DFTZ helps SMEs by:

Facilitating access to **global markets**

Providing access to **e-fulfillment** services (warehousing, pick and pack, labelling, and others)

Simplifying and **accelerating cargo clearance processes** with the help of the eServices platform

Providing access to players in the **e-commerce ecosystem** (financing, last-mile fulfilment, insurance, digital marketing)

Providing end-to-end support to businesses in **cross-border trade**, **networking** and **knowledge-sharing** to drive innovation within the internet ecosystem

Providing the **ecosystem** and **facilities** for brands to use Malaysia as a **trans-shipment hub** for the ASEAN region

SMEs that are on-boarded with DFTZ will gain access to the Malaysia Pavilion in Alibaba (a dedicated page featuring Made in Malaysia products); certified e-commerce talent who will assist in growing their businesses; a detailed analytics dashboard report of store and sales performance; and marketplace access from Alibaba's other marketplaces such as TMALL, TaoBao and 1688.

DFTZ also enhances the value proposition of SMEs by providing access to international best-in-class facilities, such as modular warehouses with the latest technology, including sorting, shelving and pick-pack facilities, convenient locations and innovations for efficient cross-border trade. Importers and exporters doing their transactions via DFTZ also gain access to the e-Services platforms that connect the online services of global e-commerce companies to the relevant Malaysian public sector systems so as to facilitate a seamless flow of their online businesses.

To date, about 3,000 export-ready Malaysian SMEs are on the e-commerce platforms in the DFTZ. Of the number, Selangor, Federal Territory of Kuala Lumpur and Melaka combined accounted for almost 70.0% of the total. DFTZ has targeted for 10,000 SMEs to be on-board the platform by end of 2018. Training and hand-holding will be provided to help SMEs market their products on Alibaba.com.

DIGITAL PAYMENT

Digital and cashless transactions are pivotal in e-commerce, therefore, a reliable e-payment infrastructure is critical for the development of the digital economy. Digital payments can unlock significant value to SMEs by delivering better customer experience, for example, through accepting payments from any location, reducing costs and enhancing record-keeping security while boosting capability for cross-border commerce at the same time.

In 2011, Bank Negara Malaysia (BNM) has launched the Financial Sector Blueprint 2011-2020 to accelerate the country's migration to electronic payment within a 10-year timeframe. BNM targets to increase the number of e-payment transactions per capita from 44 transactions to 200 transactions and reduce cheques by more than half, from 207 million to 100 million per year. Various measures have been introduced under the blueprint, including providing pricing incentives to prompt a switch from paper-based payments to e-payment and facilitating a more extensive outreach of e-payments infrastructure such as point-of-sale terminals and mobile phone banking.

Since 2009, the financial industry has invested RM893 million to enhance the e-payment infrastructure and an additional RM346 million will be spent to expand the point-of-sale terminal network. Another RM40 million will be invested to develop a real-time retail payment platform

The initiatives implemented have proven effective as electronic fund transfers have increased almost five-fold, from 66 million transactions in 2011 to an estimated 329 million in 2017 while the volume of cheques has declined by 42.0% between 2011 and 2017, from 205 million to 120 million. At the current rate of decline, cheque usage is expected to decline to the targeted 100 million by 2019, a year ahead of schedule.

Since 2009, the financial industry has invested RM893 million to enhance the e-payment infrastructure and an additional RM346 million will be spent to expand the point-of-sale terminal network. Another RM40 million will be invested to develop a real-time retail payment platform. To capitalise on the 45.4 million debit cards in circulation and 42.8 million mobile phone subscriptions (70.0% of which are smartphones) in the country, BNM's next wave of its financial transformation agenda is the Interoperable Credit Transfer Framework (ICTF) which is in operation from 1 July 2018. ICTF enables a payer to instruct his institution to transfer funds to a beneficiary. Individuals and SMEs will not be charged a fee for making or receiving any instant transfer transaction of up to RM15,000.

The 7,000 SME merchants currently performing cashless transactions are doing so via Boost, an e-wallet application from SME Corp. Malaysia's partnership with Axiata Digital Services. SME Corp. Malaysia is targeting to increase the current number of SMEs using e-payment transactions to 100,000 by the end of this year through collaboration with industry players and its own awareness programmes. A recent development towards this objective was the appointment of SME Corp. Malaysia as a JomPay agent by RHB Bank.

JomPay, operated by Payments Network Malaysia Sdn. Bhd. (PayNet) is a national initiative supported by banks to enable e-payments across Malaysia. With JomPay, bank customers can pay any registered biller from the internet, mobile banking or ATMs by drawing funds from current, savings or credit card accounts. Billers need to only sign up with one bank to collect payments via most banks in Malaysia.

E-FULFILLMENT FOR EXPORT

E-commerce fulfillment describes the entire process of receiving an order and shipping it to the customer, including all of the operational and logistical steps that are part of this process, such as inventory management, warehouse organisation, order oversight, packaging and shipping, and customer communications regarding order fulfillment. This aspect of e-commerce can be outsourced to an order fulfillment service providers which is defined as a third-party company that provides order fulfillment steps on behalf of another party, such as an online seller.

E-fulfillment is generally made up of three main components: warehousing, order processing and delivery.

Warehousing

The warehouse functions with a storage system different from standard warehousing as it needs to manage and store individual loose items at various quantities. It also receives new shipments or returned products, perform quality checks as well as labelling and bar-coding.

Order Processing

An e-fulfillment service receives orders from multiple channels which are managed either through system integration or close co-operation. Order processing includes picking products according to order and ensuring suitable packing for shipping.

Delivery

A fulfillment service works closely with multiple couriers to distribute large volumes of shipments to individual buyers worldwide. The process demands proper selection of couriers based on service level and cost-efficiency, management of multiple logistics solutions providers as well as ensuring up-to-date shipping information to clients and receivers.

Importance of E-fulfillment Services to SMEs

Cross-border commerce can be a bewildering venture for SMEs, as unlike the bigger corporations, the former may lack knowledge on foreign exchange, logistics and market regulations of their overseas markets. SMEs can leverage on the expertise of a third party to manage the often complex aspects of order fulfillment.

A fulfillment service offers many benefits to SMEs, including:

- Automatic order fulfillment through a third party undertaking the logistical process for the seller;
- Lower shipping costs as when large quantities are shipped, sellers can obtain better rates, translating into savings for seller or buyer;
- Cheaper storage as sellers store inventory with fulfillment providers rather than the former renting his own warehouse;
- Flexible storage requirements as sellers can expand or contract demand as needed; and
- A wider range of services as fulfillment services offer other assistance, such as product assembly and kitting and many other services.

In Malaysia, some of the well-known e-fulfillment services providers are Pos Laju, TresGo, Hubwire, CollectCo, DHL, iStoreiSend, FedEx, Nationwide Express, EasyParcel and SkyNet Worldwide Express.