

A Survival Kit

DiTG

DIGITAL TRANSFORMATION GUIDE



A Guide to Digital Transformation
for Micro, Small and Medium Businesses

DIGITAL PRODUCTIVITY NEXUS (DPN)

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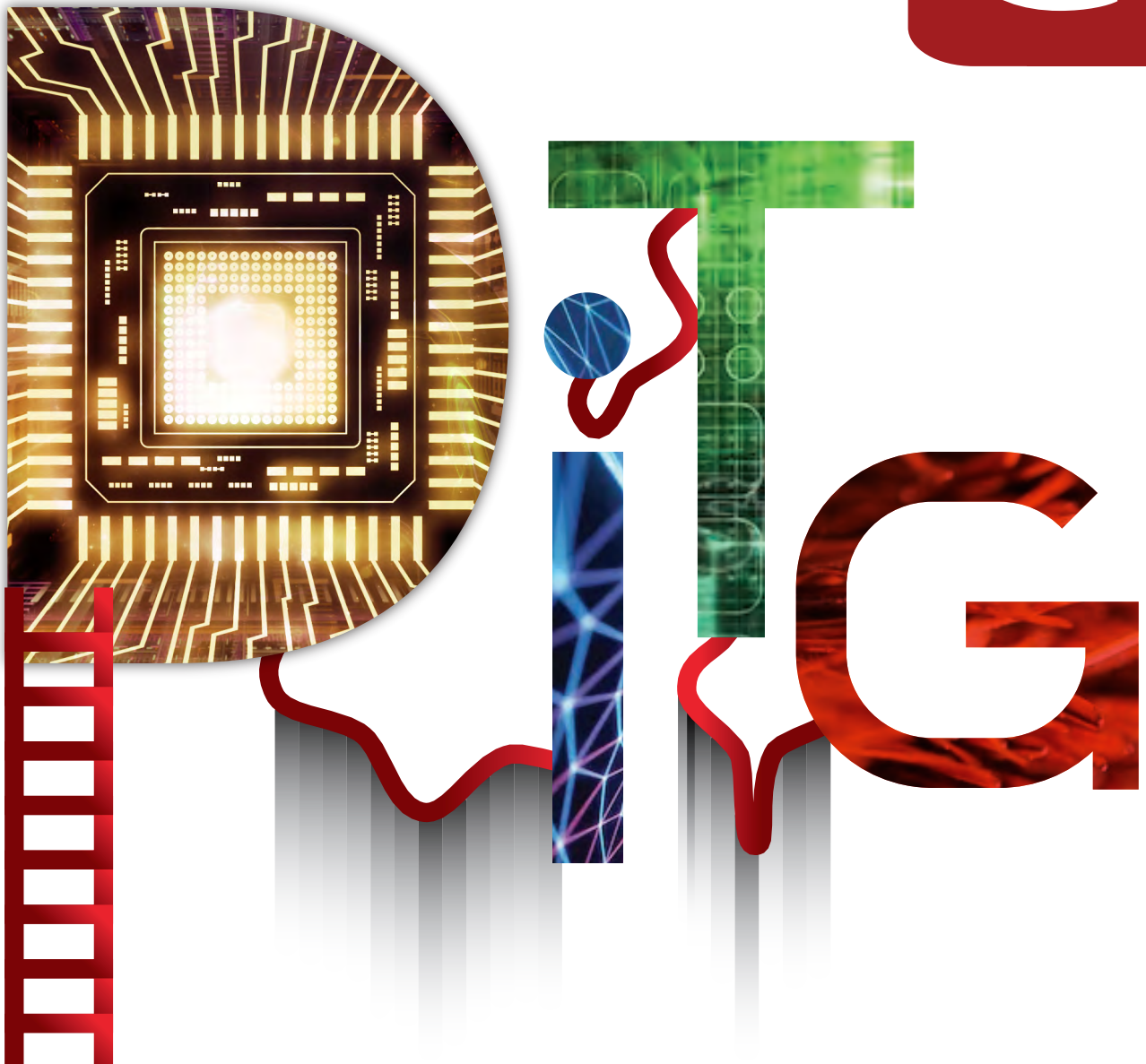


POST COVID-19 LANDSCAPE:
A Guide to Digital Transformation
for Micro, Small and Medium Businesses
by DIGITAL PRODUCTIVITY NEXUS (DPN)



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*A Preliminary Guide for
Micro Businesses and SMEs*

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ABOUT THE DiTG

A Digital Transformation Guide (DiTG) is a survival kit for micro, small and medium businesses to transform from the traditional way of doing business and offers a preliminary guide to digital transformation as the way forward.



DiTG leverages on the current Covid-19 global pandemic and its disruption to normal activities to recommend digital migration as the path towards business viability and sustainability.



Among the backdrop issues looked into include the impact of the pandemic on smaller businesses and their challenges faced in attempting revival in a post Covid-19 economic landscape.



To address all these issues, the Digital Productivity Nexus (DPN) presents a digital transformation framework as the foundation to support micro businesses and SMEs.



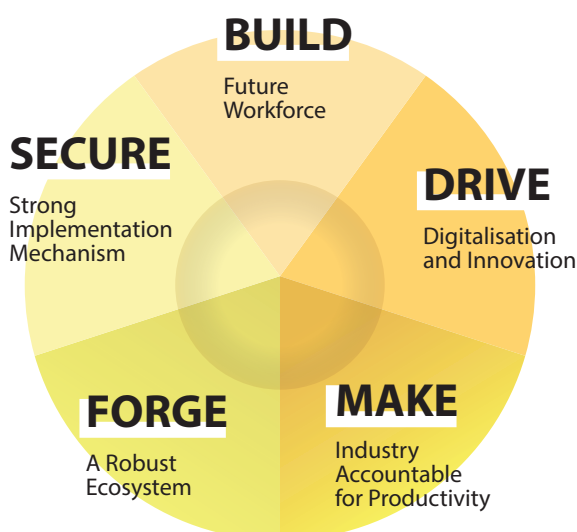
A Roadmap on Digital Transformation is also featured in this survival kit, providing a step-by-step guide on what smaller business owners must do to transform and survive, then thrive in the new age.

It should be noted that DiTG is only a provisional and preliminary guide intended to offer generic suggestions and recommendations for the road ahead. It does not represent an in-depth assessment and analysis of what needs to be done in a detailed and meticulous manner.

ABOUT THE DIGITAL PRODUCTIVITY NEXUS (DPN)

DPN is led by Dato' Wei Chuan Beng, Founder of REDtone International Berhad and former Chairman of PIKOM. He is supported by Working Group Leaders from the industry and academia; Shaifubahrim Saleh, Past President of Malaysian Service Providers Confederation (MSPC) and Advisor of PIKOM; Prof. Dr. Ahmad Zaki Abu Bakar, President of Malaysian National Computer Confederation (MNCC) and Danny Lee (Chairman of PIKOM). The governing committee are also well represented from various ministries and agencies, private sectors and industry associations.

Digitalisation is seen as a prominent platform to boost productivity growth and economic competitiveness in a country's long-term growth. We have seen how high-productivity nations adapt quickly to changes brought in by technology advancement. They involve the willingness to acculturate new ways of producing goods & services, resulting in new ways of doing business.



5 Strategic Thrusts

of the Malaysia Productivity Blueprint

Designed as an implementation guide to expedite productivity improvements through five strategic thrusts to ensure holistic and systematic change rather than fragmented efforts.

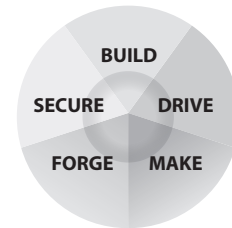
Realising this importance, the 11th Malaysia Plan outlined productivity as one of the 6 game-changers for the country to achieve high-income status in five years.

This calls for renewed efforts to boost productivity in a focussed and targeted manner, with clear outcomes at the national, sectoral, and enterprise levels.

The 11th Malaysia Plan proceeded to produce the Malaysia Productivity Blueprint (MPB) in May 2017 as a strategy to realise this aspiration.

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Based on these thrusts, nine subsectors were established, one of them is Information, Communication and Technology under the Digital Productivity Nexus (DPN).



Fully supported and monitored by Malaysia Productivity Corporation (MPC), DPN embarked on the 'Go B.I.G. with Digital' initiative, which aims to achieve breakthrough productivity via digital and technology adoption for drastic and huge impacts in businesses.

'Go B.I.G. with Digital' focuses on catalysing productivity growth for Breakthrough results, strengthening Integrity and empowering best practices and Good values to increase productivity growth or 'Go B.I.G. with Digital'. This will be done through the adoption of the 4th Industrial Revolution (4IR), producing stronger connectivity and innovation of technology.

B

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G

Go B.I.G with Digital

Breakthrough Integrity Good

MICRO TO MEDIUM BUSINESSES

Backbone of the Economy

Since the outbreak of the Covid-19 pandemic and subsequent shutdown of economic activity in Malaysia and elsewhere, attention has focused on micro, small and medium-sized businesses due to their acknowledged lack of financial resilience to weather such storms.

However, due to the restriction to movement and constriction of economic activity in response to Covid-19 had a devastating effect on businesses, particularly micro enterprises and SMEs with limited cash reserves, lower access to financing and dependency on immediate consumer demand.

It was no surprise that numerous businesses went under or decided they were no longer viable during the different phases of the MCO in Malaysia and similar mandatory lockdowns elsewhere.

Micro businesses and SMEs faced numerous logistical and other issues during lockdowns, resulting in many being completely unable to operate and others only operating at significantly reduced capacities to offer products and/or services at a limited scale and scope.

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The experiences of many micro businesses and SMEs can be summed up as follows:



Drop in DEMAND

It is telling that world economic bodies have repeatedly revised downwards their projections in the past few months. The International Monetary Fund (IMF), in its latest World Economic Outlook Update June 2020, expects global growth to contract by -4.9% in 2020 and register 6.5% points lower in 2021 against its pre Covid-19 projection for that year. The World Bank has an even more dire forecast, predicting that the global economy will suffer negative growth of 5.2% in 2020.

Obstacles to OPERATIONS

Working from home (WFH) exclusively came with many restrictions and limitations. They were cases where employees had connectivity problems or a lack of knowledge in the use of online communication and interaction tools such as Zoom, Microsoft Teams or other similar platforms. Remote coordination of work among WFH employees was not ideal over the longer term with supervision of employees being one of many problems. In the case of marketing, it was an issue of 'out of sight, out of mind' for many customers.



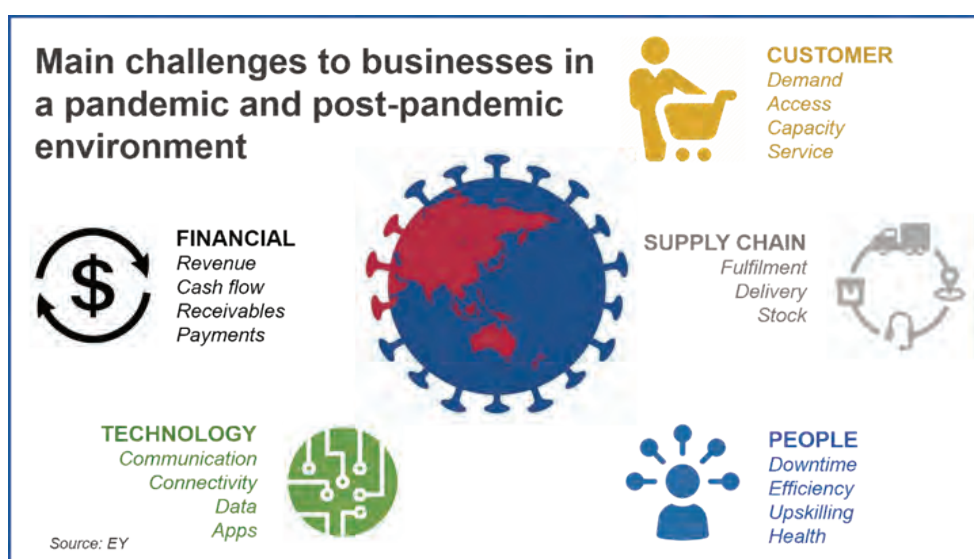
Lack of SUPPLY

A large proportion of businesses faced issues with their supply chain as many vendors were unable to continue production or deliver their supplies. In cases where the latter could, outlets were not open to receive stock. Likewise for service providers, the restrictions to movement precluded them from fulfilling their roles and offering customers their services.

Nevertheless, there was a silver lining to the MCO as it underscored to many micro and SMEs that 'business as usual' could not apply under conditions such as those experienced during the economic shutdown.

To survive and sustain their enterprises over the long term, companies and freelancer communities began realising the importance of business agility and operational flexibility. This is critical as the issues faced by businesses during the MCO phases remain relevant in a post-pandemic world.

Surveys and studies conducted by financial consulting firms EY and KPMG reached similar conclusions. In a survey published on June 1 2020, EY identified 5 areas representing the main challenges to businesses during a pandemic lockdown or a post-pandemic landscape: Financial, Technology, People, Supply Chain and Customer, as depicted in the graphic below.



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KPMG:

Organizations will need to rethink their business and operating models.

Roadblocks being faced by micro and SMEs including depressed demand which it expects would take time before business performance can return to pre Covid-19 levels.

Liquidity and solvency challenges for many smaller and characteristically family-owned businesses.

Changing consumer patterns and preferences as well as rising digital savviness among the new generation of shoppers and spenders.

The consumer's search for value for money is much more than just short-term margin dilution. It is a fundamental change in purchase priorities and will be prevalent for 12 months or more.

Both EY and KPMG were in sync on the need for smaller businesses to adopt online platforms and tools in order to circumvent the physical obstacles posed by pandemic-like situations and also to capitalise on the growing digital way of doing business.

KPMG pointed to the limited technological capabilities of many micro businesses and SMEs as an impediment while EY addressed the difficulties in online connectivity and communication with customers and suppliers during the MCO.



“COVID-19 has amplified the need for easy access to products and services and relevant information.

The majority of customers are now comfortable using online channels, reducing physical purchase occasions and are gravitating towards touchless shopping and contactless payments. Ease, therefore, is at the heart of a digital shift, which touches all parts of society irrespective of age.”

“Organisations will need to invest in new digital methods of communication and payments. Organizations will have to consider releasing cash from existing channels and shifting into digital. Prioritizing digital will be key.”

“However, going digital for many of the smaller businesses will not be easy and straightforward,” as cautioned by Lau Zheng Zhou from the Institute for Democracy and Economic Affairs in Kuala Lumpur.

He was quoted as saying: “Some businesses try to adopt a digital solution to it, try to have e-commerce platform and for e-hailing riders to deliver your products, but that has not been successfully played out in many of these SMEs or small businesses. To expect businesses to disrupt their business model to adapt and survive is too high an order for many businesses.”

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DIGITAL TRANSFORMATION A Provisional Framework

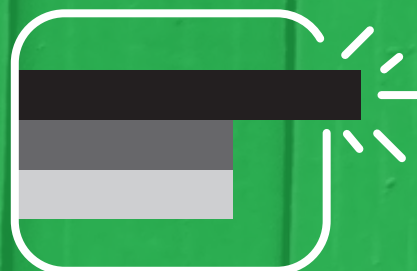
The campaign to drive micro businesses and SMEs towards digital transformation has been an on-going exercise for several years, beginning with e-commerce and gathering momentum through data analytics and the internet of things (IOT). The push for adoption of Industry 4.0 and automated processes as well as artificial intelligence has yet to include smaller businesses at this stage.

By and large, SMEs have been relatively resistant to going digital on a wide scale beyond creating a web presence, dabbling with e-commerce and digital payments, and engaging in digital marketing on social media platforms.



Adoption of digitalisation by one third of MSMEs in Germany at the height of the pandemic

McKinsey survey, May 2020



Nevertheless, most micro businesses and SMEs in Malaysia are in the dark as to their migration into the digital way of doing business. With this in mind, the Digital Productivity Nexus (DPN) has initiated in developing a provisional framework to guide these enterprises along the path towards digital transformation.

The framework is anchored on a central strategy built around 5 main aspects of doing business:
Financing, Digital, Talent, Processes, Business Model

Holistically, these aspects serve to address the issues and challenges facing micro businesses and SMEs in transitioning into the digital economy.

This framework is applicable in full or in part to all levels of businesses, from micro and small to medium-sized enterprises. It is essentially a preliminary guide to companies as they grow in size and increasingly adopt and adapt to the digital way of doing business.



Each aspect is interlinked and inter-dependent on one another in a company's journey towards becoming a digital-enabled business.

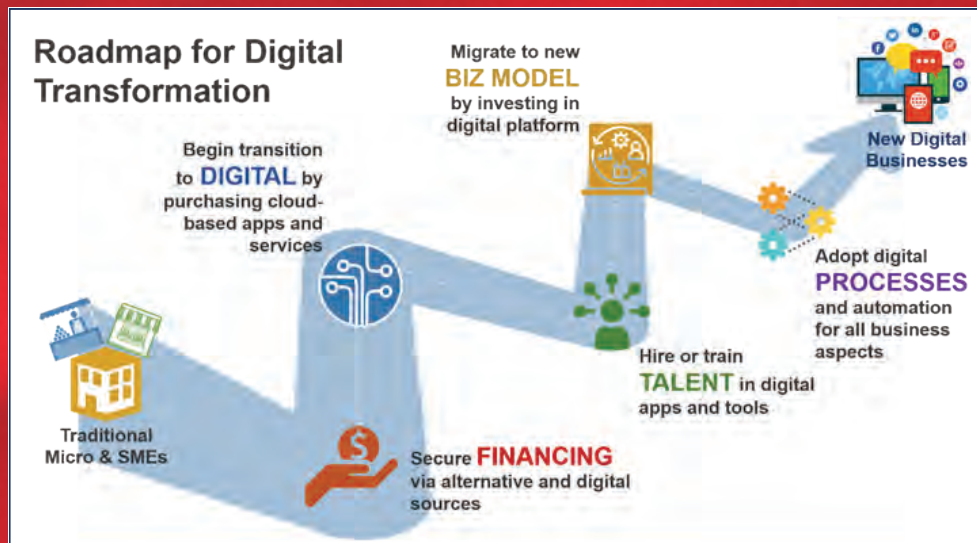
For instance, an enterprise requires funding to create an e-commerce platform along with a suite of digital tools to conduct business and perform services online. In order to do this, the enterprise then needs its owners and employees to undergo training to be proficient in such digital applications. At the same time, enterprises can seek alternative avenues of financing such as digital-driven crowdfunding and can access training via online programmes.

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ROADMAP A Preliminary Guide for Businesses

Based on the digital transformation framework, the DPN has outlined a preliminary guide for micro, small and medium-sized businesses to transition into the digital economy via a digital transformation roadmap.

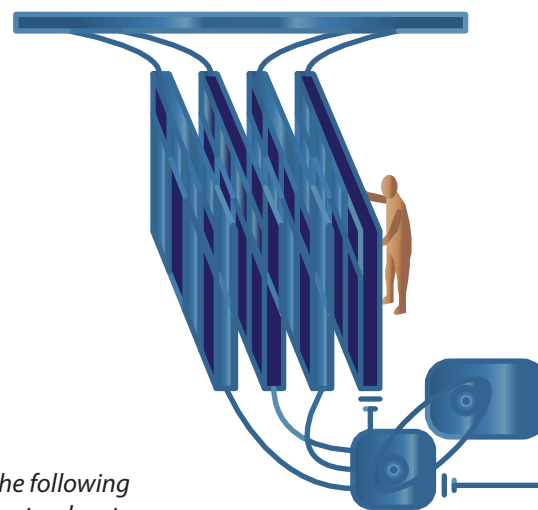
It should be noted, however, that this roadmap is merely a generic guide for businesses of different sizes and engaged in various industries. While some businesses can adopt every stage featured in the roadmap, others may only be able to embrace certain aspects of it.



As illustrated by the infographic in the previous page, the digital transformation journey for traditional businesses starts with securing financing via alternative and digital sources in the absence of sufficient own capital.

Such funds are required to invest in digital and cloud-based tools as the first step towards digital migration. Investment is also needed to train owners and employees of businesses in such digital apps as well as for the business migration to a digital platform – stages which may not be linear, but could be concurrent depending on the nature of business or the enterprise itself.

The final stage in this journey would be full digital adoption for the demand and supply sides, and operations of the business and this would nominally include digital marketing and digital procurement as well as automation and adoption of IR4.0 technologies.



The sections in the following pages will offer a step-by-step guide to digital transformation.

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Step 1:

FINANCING

SMEs, and in particular micro enterprises, generally find difficulty in gaining access to financing on account of the stringent qualifying criteria imposed by old-school financial institutions.



In order to minimise this reliance on traditional financing, they should explore alternative funding models such as crowdfunding.

Examples of where to find crowdfunding platforms:

Businesses can select the best crowdfunding platforms at the Malaysia Digital Hub by the Malaysia Digital Economy Corporation (MDEC)

pitchIN.com — the national crowdfunding platform

Other equity crowdfunding platforms include Ata Plus, Crowdo, CrowdPlus Asia, FundedByMe, Fundnel and Eureeca.com.

What you need to do:

Decide whether you want to raise funds via equity financing, loans or grants



Apply online to the appropriate agency or entity listed above or via your own research



Financing can take a few months to a year depending on the agency / entity / your requirements. In some cases, the agency or entity provides aid in the form of consultancy for digital transformation

Apart from crowdfunding, smaller businesses can also enter into collaborative schemes with **venture capitalists (VC), angel investors or partner up with a larger company able to share its resources and capabilities.**

Examples of VCs and collaborative schemes:

Cradle Investment Program by Cradle

SME Digitalisation Grant by Maxis Business

Others include Capital.my, NEXEA, Mavcap, Finnext, Khazanah, 1337 Accelerator, Watchtower and Friends, BizAngel, Expara Ventures, Netrove Partners, TinkBigVentures, and 500 Startups.

Another option is to seek non-equity Government loans or grants intended to spur adoption of digital technologies, models or platforms, or tap into the Covid-19 Prihatin package for SMEs. Among the items needed for financing would be the transition to a digital platform and related training for employees.

Examples of Government loans and grants:

- o Smart Automation Grant under the PENJANA initiative;
- o Soft Loan Schemes for Services Sector (SLSSS);
- o Soft Loan for SMEs (SLSME);
- o Tabung Usahawan Siswazah (TUS);
- o Young Entrepreneur Fund (YEF);
- o Bumiputera Enterprise Enhancement Programme (BEEP);
- o Business Start-up Fund (BSF);
- o TEKUN Financing;
- o PROSPER Usahawan Muda (PUMA)

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Step 2: DIGITAL

The proliferation of cloud-based digital tools and apps, many of which are subscription-based, has made it affordable for smaller enterprises to participate in the digital economy without having to outlay for expensive hardware and one-time payment software programmes.



This has made it possible for companies of all sizes including micro businesses to embrace a digital-first workplace with the bulk of demand and supply-side processes based in the cloud. Through cloud services, micro and SMEs can also access 'anything-as-a-service' encompassing software services and various other processes and functions.

Such digital services serve to improve process efficiency, flexibility and security and are available from anywhere and anytime, which would not require a fixed physical location to run operations.

Automation of repeatable tasks is another area for consideration as it can free employees from mundane and routine processes to focus on more valuable assignments up the value chain.

Examples of cloud-based tools for smaller businesses:

• Business intelligence	
• Business planning	▲
• Cloud-based accounting	▼
• Contract management	
• Customer relationship management (CRM)	
• Data and business document management	
• E-commerce marketplace	
• Email marketing	
• Employee time tracking and monitoring.	
• HR software and management	
• Search engine optimisation (SEO)	
• Social media analytics	
• Survey management	
• Video conferencing	
• Web hosting	

What you need to do:

Assess which cloud-based and other digital tools are applicable and suitable for your business



Base your decisions on a time-cost basis, meaning the cost of your time spent on a particular task / or wages for employees versus cost of cloud apps and services



Shop online for affordable subscription-based cloud or other digital services



4

Step 3: TALENT

The digital transformation of any business lies with its talents, who would be required to be suitably savvy with the digital way of doing business and operating a company. Depending on competency and availability, businesses may need to source for new digitally-savvy talents and train existing employees on various digital tools relevant to the business.



Training of talents can be carried out via digital means through online courses and even online mentorship. In many cases, training for specific cloud-based applications are already provided online and by the application / service provider. Some of these courses are claimable from the Human Resources Development Fund (HRDF).

What you need to do:

Assess your talent requirements depending on your nature of business, the complexity of cloud-based tools you are subscribing to, and scale and scope of your digital platform



Either hire digital-savvy talents or invest in training for existing employees



For training, access free relevant courses online or attend / send for external (online or otherwise) training which are HRDF-claimable



Step 4: PROCESSES

The digitalisation of processes will result in cost optimisation by automating certain tasks and negating the need for unnecessary labour doing low value jobs. In essence, there are three types of processes for digitalisation: demand-side, supply-side and operations.



Demand-side processes include such tasks as sales, marketing, customer outreach and acquisition, and customer servicing. Supply-side is mainly procurement while operations can include logistics, stock management and other ancillary aspects like administration and accounting. Automation is another critical area as part of the road towards IR4.0.

What you need to do:

Assess which tasks are easiest to migrate online



Subscribe to cloud-based tools for these tasks according to available funds and competency of existing talents



For smaller businesses, a gradual migration is recommended

4

Step 5:

BUSINESS MODEL

With the current business model of many micro and SMEs no longer sustainable and resilient in times of crisis, it is time for them to re-evaluate their existing way of operating an enterprise. Smaller businesses now have the impetus to migrate onto a digital platform to complement their physical presence.



In time to come, their e-commerce platform incorporating a digital payment gateway as well as digital marketing presence and online procurement system may well be more than just an alternative to physical sales and customer interaction.

In addition, having a digital platform enables businesses to stay current with the prevailing consumer trends of the new and younger generation. Further, this will also ease and facilitate the option of WFH for business owners and their employees.

What you need to do:

First, build an online presence – social media, website



Then engage in digital marketing (online ads, email marketing, social media marketing)



Finally, get onto an online marketplace as your 'digital shop' or develop an e-commerce site with payment gateway



For smaller businesses, a gradual migration is recommended

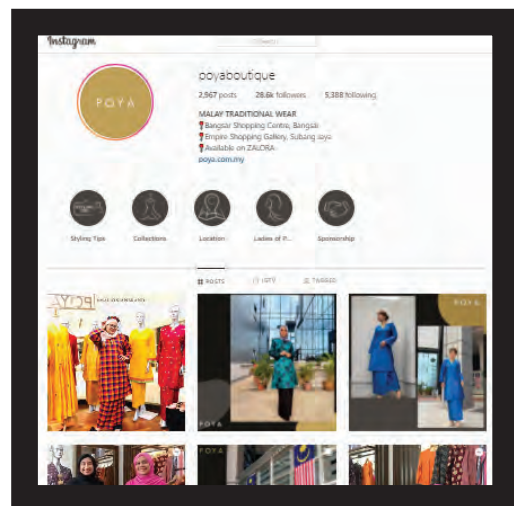
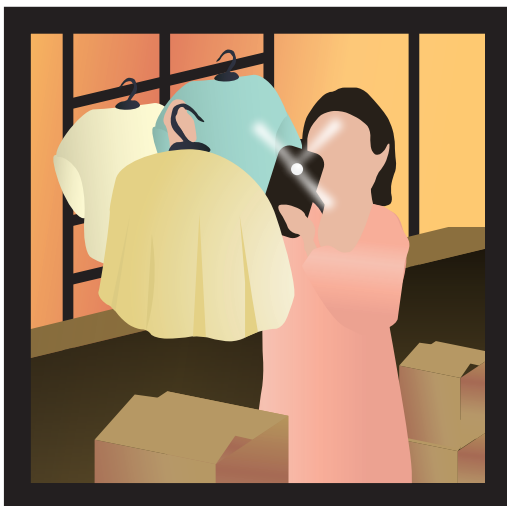
An example of traditional businesses that migrated to a digital platform since the MCO:



"We've been operating via a physical store for more than 20 years," said Adilah Khairudin, owner of traditional Malay clothing shop Poya Boutique



"... when the MCO was announced, I panicked because 90 per cent of our sales came from there. We have an Instagram account, but it wasn't really utilised until recently (as of June)."



"... With the few resources I have, I carefully curate the content to lure potential customers. I'm now a storyteller for my products - I need to be creative. And it works. I'm now getting customers from Kelantan, Penang and Terengganu. Before this, most of my customers were based in the Klang Valley. The pandemic made me realise that there is a bigger market for businesses online."



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