



The HP Asia SMB Report 2020

FROM SURVIVAL TO REVIVAL
How Asia's SMBs can find their way back to growth

➤ Content

Foreword	➤ 04
Executive summary	➤ 05
Shifting from survival to revival	➤ 08
Strategizing for growth	➤ 10
Struggling with execution	➤ 12
Unlocking innovation	➤ 14
Key steps to success	➤ 16
About the report	➤ 18



> Foreword

Every company started somewhere. SMBs are entrepreneurs, innovators, inventors – all passionate and dedicated to their business and craft, each with the potential to be a multinational company of the future. Nowhere is this more true than in Asia. A region propelling growth in the global economy, rich with an SMB heritage with aspirational, adventurous mindsets. The rise of technology has enabled these companies not only to be nimble and flexible in their operations but also to adapt to customer needs more quickly and reach beyond their borders.

Recent events have only fueled this trend. Whether it's from today's buyer who expects SMBs to offer streamlined, automated and personalized experiences, or workforces now required to work remotely, safely and securely. The ability for businesses to adapt business models to deliver fast-paced, continuous engagement between customers, partners and employees is critical to success.

As a global enterprise, HP thrives with change and constantly reinvents to disrupt industries. We have undertaken the journey of growth and adaptation ourselves. From a two-man startup in a garage 81 years ago, to forming a new company – HP Inc – focused on accelerating innovation for our customers. We operate today in 170 countries with over 55,000 employees, addressing the computing and printing needs of our customers. Our heritage means we are in a unique position to partner with SMBs as they themselves adapt to move from surviving the current global economic winds to reviving their businesses through transformation as Asia returns to growth.

However, first we must understand the landscape, and so we commissioned this report to seek out the pain points, discover where the challenges are and understand SMB mindsets and motivations for the future. A key finding from the research is that the more a company values digital transformation, the more positive they are about future growth.

While it is important for SMBs to be prudent with their spending in this environment, **adopting digital solutions** can help them become **more agile** and set them up for not just revival but **long-term success**.

For HP, it is clear we have a role to assist SMBs in their journey – from helping them adapt to new agile work environments, providing them the right devices, technology and tools so they can unlock innovation for customer and employee-centric experiences, to upskilling talent and driving learning across the region.

I'm proud of the efforts HP takes in Asia to reinvent the markets we operate in and to upskill talent across the region. I look forward to the work we can do together to transform businesses, so that the SMBs of today can become the leaders of their domain and eventually the global leaders of tomorrow.

Ng Tian-Chong
Managing Director, Greater Asia
HP Inc.



Executive Summary

From South Korea's themed cafés and Indonesia's booming delivery platforms to Singapore's family-owned manufacturers and Australian personal care brands, it is small and medium-sized businesses (SMBs) that lend Asia much of its vibrance and diversity. Indeed, SMBs are Asia's economic heart. According to AEPIC, they make up over 90% of all businesses.

Not only do these businesses employ two out of three private sector workers, they are also important customers and suppliers to larger enterprises. In recent decades, SMBs' entrepreneurial spirit has driven much of Asia's growth – which is why they are so critical to economic recovery as the region grapples with the impact of COVID-19.

But we know SMBs are particularly susceptible to economic downturns. They are more dependent on consumer spending than larger businesses and often have fewer sources of finance. Low technology adoption and process automation can also make such businesses susceptible to disruption.

As this report examines in detail, there seems to be a paradox in SMBs' current situation:

- They know digital adoption is very important to their recovery.
- But they are currently focused on managing their cash flow.
- Many have not devoted resources to innovation.
- They also do not know where to look for support to embrace digital transformation.

SMBs' ability to survive and bounce back will significantly affect Asia's economic course in the aftermath of the pandemic – the IMF predicts Asia is expected to return to 7.4%^a growth in 2021. This presents an opportunity to transform now to position for this coming revival.

Insights from HP's inaugural Asia SMB Research Report show that the impact of COVID-19 has been enormous and pervasive, upending SMBs' plans and growth prospects across the region. From 46% of SMBs expecting growth before the pandemic, that number has markedly dropped to just 16%. In Singapore, for example, the share of businesses expecting a reduction in growth jumped from 5% before the pandemic to 48%. Among Japanese companies, the proportion of those anticipating stable growth more than halved.

Despite this, SMBs are generally optimistic. Most of them (60%) are confident they will endure, with many (53%) believing they will thrive in a post-pandemic economy. Businesses that have been operating for less than a year are most bullish (63%) in believing they will do well.

For most SMBs, the priority now is simply to survive the current crisis – and that means keeping a close eye on cash flow so they can rebuild and return to growth. But to what extent are they reimagining their business models and making sure they have the right strategies and tools to come back stronger and more resilient?

HP surveyed SMBs across Asia to discover the answer to this question and understand firms' mindsets and aspirations. We found that many SMBs realize they need to digitally transform so they can be more agile and recover faster. On average, 59% of participating businesses believe that digital adoption is essential or very important to their success. 1 in 5 are looking to migrate processes to digital to drive efficiency and speed for a future of accelerated consumer needs. Particularly notable in this respect are SMBs in Indonesia, India, and Thailand, where about 75% believe embracing digital is vital or very important.

Interestingly, it is younger businesses, in particular, that recognize the importance of digital – almost one-third of those that have been operating for less than a year view digital as imperative to their success. It is likely that these companies are predominately digitally first companies with data and customers at the centre of their strategy. This cohort also has the highest share of companies that expect to flourish post-pandemic.

Looking ahead, many businesses believe they must innovate their products, services, and work practices to pull through the current crisis. They are keen to step up their use of online tools and to digitize processes to increase efficiency and productivity. However, a potential barrier to SMBs' ability to innovate is their lack of go-to partners to support innovation. Naturally, with the current crisis, 1 in 3 firms are turning to their banks or other financial institutions for help with cash flow. However, only 19% are looking to technology companies to support their innovation and help drive future growth.

At HP, we are a partner to SMBs' revival and transformation. We believe in their ability to continue driving Asia's economic growth through innovation, and are committed to providing them with the devices, tools and technology they need to thrive in the next normal.

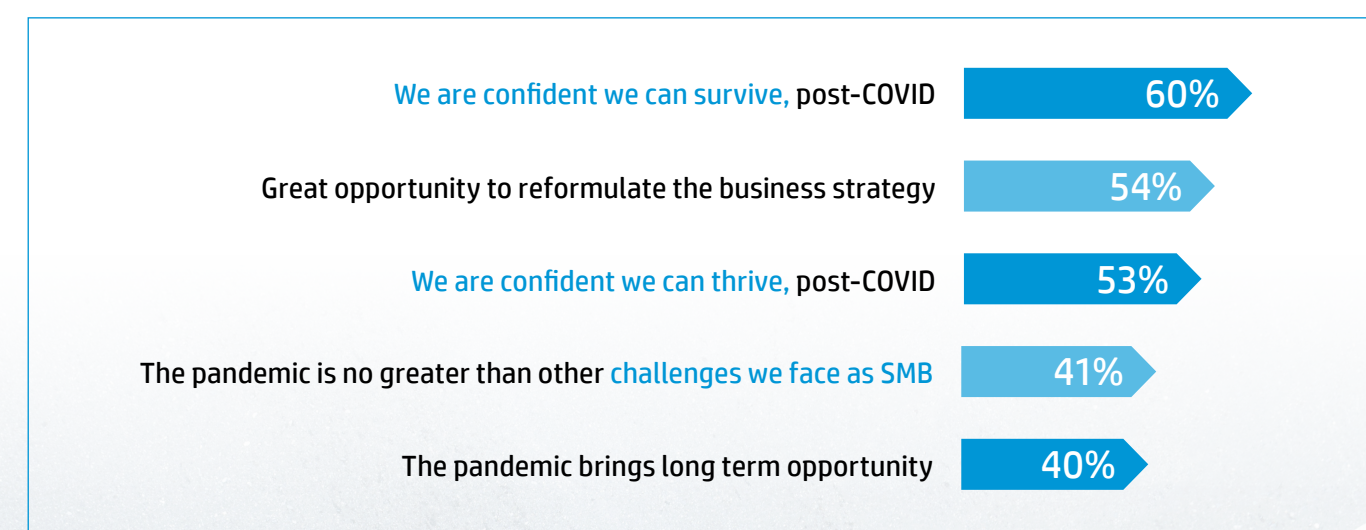
^aSource: World Economic Outlook Update, June 2020, Emerging and Developing Economies

➤ Shifting from survival to revival

COVID-19 has effectively put Asian SMBs into stasis, severely hitting their cash flow as orders get cancelled or delayed and payments come in late. **Five of the eight markets covered in this report identify cash flow as one of the major barriers to SMB recovery.**

Not surprisingly, more than four in five businesses in our survey expect the pandemic to have a moderate or high impact on their financial performance this year. Productivity has also declined, with 43% of businesses reporting a level that's lower than normal.

Figure 1: Asian SMBs' outlook for their business amid the COVID-19 pandemic



Indian businesses are notably optimistic of their ability to survive (73% of respondents in the country), while Indonesia has the highest proportion (72%) of SMBs that expect to thrive. As we examine later in this report, these are also businesses that understand the value of digital tools for their success.

As Asian SMBs plan how they will navigate a post-pandemic world, 64% are taking the current crisis as an opportunity to redesign their business strategy. They realize that a business-as-usual approach may no longer work, and that to improve their operations and productivity, they need to rethink their business models. In particular, they want to innovate how they work, pursue flexible work options, innovate their products and services, and keep pace with technology.

➤ Strategizing for growth

Figure 2: Strategies SMBs believe can help them bounce back from the pandemic



Innovating how people work is the top strategy for business revival, even for the smallest SMB. Flexible work arrangements also figure in the top three strategies for all markets except Vietnam. For smallest SMBs, this might mean making the work practices they put in place during the pandemic permanent.

Worth noting is the fact that around one in four businesses believe innovating their products and services and using digital tools can help them turn the corner. Singaporean and Indian SMBs are particularly inclined to innovate this way. Many SMBs in India see better use of online tools as key to accelerating their recovery, and in Singapore, innovating products and services leads as a rebound strategy.

By company size, micro businesses seek to improve product-related processes. They identify product and service innovation and bringing products to market as two of their main strategies for recovery.

In retail and financial services, businesses are keen to innovate products and services to help them bounce back. Manufacturing companies understandably prefer strategies that can support product delivery to market, particularly given supply chain disruptions due to COVID-19. In education and healthcare, businesses focus on further leveraging online tools to gain more flexibility in providing services.

Figure 3: Importance of digital adoption to SMBs' success

Survey Average %		Australia (%)	India (%)	Indonesia (%)	Japan (%)	Singapore (%)	South Korea (%)	Thailand (%)	Vietnam (%)
Essential	23%	17%	35%	34%	14%	19%	15%	35%	13%
Very Important	36%	41%	40%	40%	20%	31%	28%	40%	47%
Important	28%	29%	17%	24%	36%	33%	41%	17%	30%
Relevant	14%	14%	9%	4%	31%	18%	18%	9%	11%

Across all sectors, geographies, and company sizes, many SMBs recognize the importance of going digital to revive their businesses. Around three in five believe digital adoption is essential or very important to their success. This recognition is highest among Indian and Thai businesses, with 75% in each market believing digital adoption is vital or very important. The figure is also high in Indonesia, at 74%.

In contrast, only 34% of respondents in Japan see adopting digital tools as essential or highly important to their success. In South Korea, the figure is also relatively low, at 43%.

Younger businesses are most likely to recognize the importance of digital. Almost one-third (32%) of SMBs that have operated for less than a year believe digital is imperative to their success, compared to 22% of those that have been around for more than six years.

➤ Struggling with execution

While many SMBs realize the value of innovation, executing it can be difficult. In markets such as Australia, Singapore, South Korea, and Vietnam, knowing how to innovate ranks as one of the top three barriers to SMBs' quick recovery.

This struggle to innovate is not surprising when we consider SMBs' constraints in terms of resources. Unlike large companies with clear organizational structures and separate teams for different functions, small businesses have fewer employees, who often cover a broad portfolio of duties. Although this makes them flexible and agile, it can hinder their ability to build a culture of innovation.

Figure 4: Asian SMBs' approaches to innovation

Survey Average		Australia (%)	India (%)	Indonesia (%)	Japan (%)	Singapore (%)	South Korea (%)	Thailand (%)	Vietnam (%)
All employees can make suggestions	49%	46%	48%	46%	49%	52%	54%	47%	49%
We ask our customers what they want	42%	45%	51%	40%	25%	39%	42%	50%	46%
Dedicated individual/team	39%	27%	45%	59%	24%	37%	29%	51%	40%
Mirror the competition	36%	39%	42%	44%	19%	42%	32%	40%	34%
Work with external advisors	20%	15%	27%	22%	2%	24%	20%	28%	25%

Across the region, only 39% of SMBs have a person or team dedicated to innovation. More businesses (42%) rely on customer surveys to find out what changes they need to make. Others (36%) simply mirror what the competition does. This suggests that despite acknowledging the value of innovation, SMBs have generally not built it as a discipline or function.

Looking at individual markets, businesses in Indonesia (59%) and Thailand (51%) stand out for devoting resources to innovation. At the other end of the scale is Japan, where only 24% of SMBs have an individual or team dedicated to innovation.

Due perhaps to their bigger workforces, medium-sized businesses are more likely to have a team or person in charge of innovation than small or micro businesses. But even these companies can find the search for suitable talent to lead innovation a challenge. This is because SMBs typically prefer to hire people who can fulfill multiple duties, to optimize productivity. As they plan their return to growth, this may become a bigger challenge for businesses with cash flow problems: hiring someone to lead innovation can help them grow, but can they afford it?

In fact, SMBs in Asia identify recruitment as one of their top five barriers to quickly bouncing back, whether they are hiring for technical skills (22%) or attitude (22%). With this emphasis on both proficiency and attitude, SMBs' ideal hire must have a combination of hard skills and a willingness to pitch in, which is not always easy to find.

➤ Unlocking innovation

Given their limited resources, **it is wise for SMBs to seek help so they can innovate effectively.** But as our findings show, **31% turn to financial institutions for advice.** In contrast, only nearly one in five (19%) is likely to get help from technology companies.

This suggests that many SMBs do not know where to look for support to unlock innovation. This is despite the fact that good IT companies offer the knowledge, technical support, and services to help businesses drive innovation through digitalization.

As SMBs look to capture future growth opportunities, it has never been more critical to prioritize innovation and work with a partner to drive digital transformation. Our research shows that growth correlates with how a company values digital adoption for its success. Of SMBs that reported good business growth in the past year, 56% see digital as a lever for success, with only 14% considering it of low importance.

Countries where SMBs value digital adoption all experienced business growth that was above the regional average: Indonesia (60%), India (58%), Vietnam (58%), Thailand (55%), and Australia (48%). Japan (38%), South Korea (29%), and to a lesser extent Singapore (24%), recorded the poorest growth while SMBs in these countries generally attribute less importance to digital as a tool for success.

It is also notable how a company's view of digital correlates with how well they innovate. Businesses that value digital tools are more likely to rate their innovation performance positively (39%) than those with less appreciation of digital (20%). The larger the company, the better the performance. About 58% of medium-sized businesses rated their innovation as being good in the past year, compared to 39% among micro businesses, highlighting the importance of having more resources to drive innovation.

Companies in Indonesia, India, Vietnam, Australia, and Thailand are most confident of their ability to innovate. Some are also among of the most bullish about their prospects post-pandemic, with plans to leverage digital tools as they shift from a survival to a revival mindset.



➤ Key steps to success

SMBs in Asia have the potential to bounce back stronger from the current crisis. Many of them are more agile and able to digitally transform than they realize. They just need to tap available resources and support. Here are some steps they can take to succeed post-pandemic.

- **Have the right tools.** With the right tools and resources, Asian SMBs can pivot and drive Asia's economic growth post-crisis while ensuring they have the culture, practices, and skills for the next normal.
- **Use technology as a 'new hire'.** When beginning their digital transformation process, it is vital for businesses to think about how they want to evolve and which technologies they can use as a new hire to help them get there. They must think through the resources they have at their disposal and where they can replicate these across the organization.
- **Get employees to use and master emerging technologies.** While this can be complicated, employees must be open to changing their processes if it will make their work faster and more efficient. Businesses must provide training and implement change management to support staff and ensure their teams have the right skills for the post-crisis ways of working.
- **Boost your security for the agile working model.** Flexible working styles are the new future of work, and security has never been more important. As the hybrid model of working from the office and home becomes a norm, companies must start considering security a critical business need.
- **Let go of legacy technology.** Companies often spend massive amounts of money just to maintain older technology that no longer meets their current business needs and doesn't provide the digital experience the market requires. This usually happens because an update is often expensive and complicated. However, holding on to legacy technology can bring down an entire business. It consumes valuable resources that can otherwise be spent on technology that is easier to use, provides better customer experiences, and enables quicker and easier data analysis.



> About the report

To understand how the COVID-19 pandemic has affected SMBs in Asia, and the tools and support they need to recover, **we surveyed 1,600 small businesses in eight countries.**

The survey comprised 200 interviews in each of Australia, India, Indonesia, Japan, South Korea, Singapore, Thailand, and Vietnam. We compared data across these markets to provide a meaningful discussion.

We conducted the online survey between May 26, 2020 and June 7, 2020 using a random sample of businesses obtained through our panel of research providers.

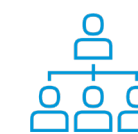
To qualify for the survey, participants had to be an owner, partner, managing director, chief executive officer, chief operating officer, chief financial officer, or director of a business with fewer than 200 employees. We split the sample evenly among:



Micro Business
(<10 employees)



Small Business
(10-49 employees)



Medium Business
(50-199 employees)

The survey participants were spread across industries including retail/wholesale, manufacturing, professional services, healthcare, education, and financial services.





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