

---

# Building SME digital resilience: **What have we learned from the MCO?**

Dr Avvari V Mohan  
Lau Zheng Zhou



## Authors



### 1) Dr Avvari V Mohan

Dr Avvari Mohan is Associate Professor of Strategy & Innovation and Director of Research at the Nottingham University Business School (NUBS) in the University of Nottingham Malaysia. His research interests are in the areas of Strategy and Innovation with special interest in sustainability-oriented strategies. He is particularly interested in collaborations or linkages firms develop with other organisations for Innovation and Sustainable Development/CSR. He has served as a Council Member of the Consumer Forum (CFM) for the Malaysian Communications and Multimedia Industry, as a resource person in WTA-UNESCO workshops and more recently as a UNESCO Expert for entrepreneurship and innovation.



### 2) Lau Zheng Zhou

Lau Zheng Zhou is Research Manager of the Economics and Business Unit at IDEAS. His research interest is in the intersection between markets and institutions, such as SME and industrial development policies, global value chains and technological spillovers, and also China's Belt and Road Initiative. Lau obtained a First-Class Honours in Business Economics from the University of Nottingham and Master's degree in Political Science and Political Economy from the London School of Economics.

---

### Acknowledgement

*\*The authors of this report would like to thank Chin Ren Yi (Co-founder and Creative Director of myBurgerlab), Vivien Chong (Founder of Pink and Proper), Datuk Grace Chia (Founder and Group CEO of Mission Esprit Venture), Chin Chee Seong (National Vice President SME Association of Malaysia) and all the discussants who attended IDEAS' SME roundtable meetings for granting us the opportunity to learn and understand their experiences for the purpose of this research.*

*\*\* The authors of this report would also like to thank IDEAS interns Sabrina Tang, Yohendran Nadar Arulthevan and Aqmal Zullif for their valuable assistance in project coordination, data and information gathering as well as providing insightful comments in the writing process.*

*\*\*\* Please contact the author for more information about this paper at [lau@ideas.org.my](mailto:lau@ideas.org.my) (Lau Zheng Zhou).*

---

# I. Introduction

The unprecedented levels of unemployment and business closures reflect the impact of the movement control order (MCO) to address the Covid-19 pandemic. Job losses have surpassed 67,000 and some 4,000 businesses have been estimated to go under.<sup>1</sup> Even as lockdown restrictions are gradually being lifted, as consumer preferences change, businesses have had to innovate their offerings and the way they do their business.

In particular, the retail sector has seen significant changes in consumer trends and spending patterns accompanied by rapid digital adoption.<sup>2</sup> Although e-commerce platforms provided an avenue for sales, there was a significant drop in total revenue. The Department of Statistics Malaysia reported a sales contraction of 23.7% in the second quarter of 2020 for retailers.<sup>3</sup> According to the Malaysian Retail Association, as a result of MCO, 61% of retail outlets were found to have closed down and an estimated a loss of RM10.9 billion in sales for the year.<sup>4</sup>

This paper aims to provide a discussion about how SMEs in the retail sector, including micro-SMEs (MSMEs), have responded to the COVID-19 pandemic. The paper will also consider policy implications and provide recommendations to support SME digitalisation moving forward. The paper draws on information from field interviews and case studies, as well as gleanings from a roundtable organised with relevant stakeholders to develop the discussion. These findings along with discussions during the roundtable were used to identify key success factors for SMEs.

---

<sup>1</sup> See *Job losses surpass 67,000 as at end-July* (The Malaysian Reserve, 12 August 2020)

<sup>2</sup> According to J.P. Morgan, Malaysia's annual sales on e-commerce marketplace have expanded significantly since 2015, jumping 47.8% in 2017 alone. However, despite the rapid growth, just under half the population is yet to shop online by 2019, meaning there are almost 16 million as-yet untapped e-shoppers. See J.P. Morgan 2019 Payments Trends – Global Insights Report.

<sup>3</sup> See *Revenue for Services Sector Second Quarter 2020* (DOSM, 10 August 2020)

<sup>4</sup> See *2020 retail sales expected to be set back by RM10.9b* (The Edge, 15 April 2020)

## 2. Case studies

In this section we will present two case studies to highlight key success factors that had helped SMEs to survive the MCO period and also provide new impetus for growth moving forward. The case studies are presented following interviews with SME owners.

---

### 2.1 Case study I – My Burger Lab



Established in 2012, myBurgerLab (MBL) has always highlighted the importance of building the food and beverage retail as a community business. This image of a closely-knitted relationship between the business and customers has been reinforced over time through “word-of-mouth” marketing conducted mostly via online platforms rather than mass advertising.

MBL’s active and innovative engagement with the community on social media was instrumental for sales and brand development in the immediate aftermath of the pandemic. For example, knowing that people will spend more time online during the MCO period, MBL leveraged on gaming platforms to increase brand recall and awareness in a more subtle manner compared to mass advertising on social media. On the other hand, MBL switched to engaging more local suppliers to support the development of other SMEs along supply chains.

---

Besides, MBL saw an opportunity to encourage takeaways and rely less on food delivery apps which could take 30-35% of the price for each order.<sup>5</sup>Hence, the surge in delivery orders from 35% pre-MCO to more than 90% during the MCO was financially challenging.<sup>6</sup>In response, customers were offered discounts of up to 20% when they ordered directly from MBL and self-collected their food. This process innovation produced the twin benefits of optimising distribution costs with the use of a digital platform as well as minimising crowding at the physical shop.

Changing consumer behaviour has also prompted MBL to undertake product innovation. Home DIY kits for burgers and pizzas were rolled-out to enhance the experience of customers who now prefer to dine at home. By doing so, it further reinforces MBL's brand as a business who cares for the community.

In short, MBL builds on its brand as a community business and leverages on digital platforms for product and process innovation that has not only optimised operation costs but also uncovers new sources of sales revenue by adapting to the changing trends in consumer behaviour.

---

<sup>5</sup>See *Popular Malaysian Burger Chain Tries to Keep the Sizzle During Harsh Economic Times* (VOA News, 14 April 2020)

<sup>6</sup>Information collected from the interview with MBL

## 2.2 Case Study 2 – Pink and Proper



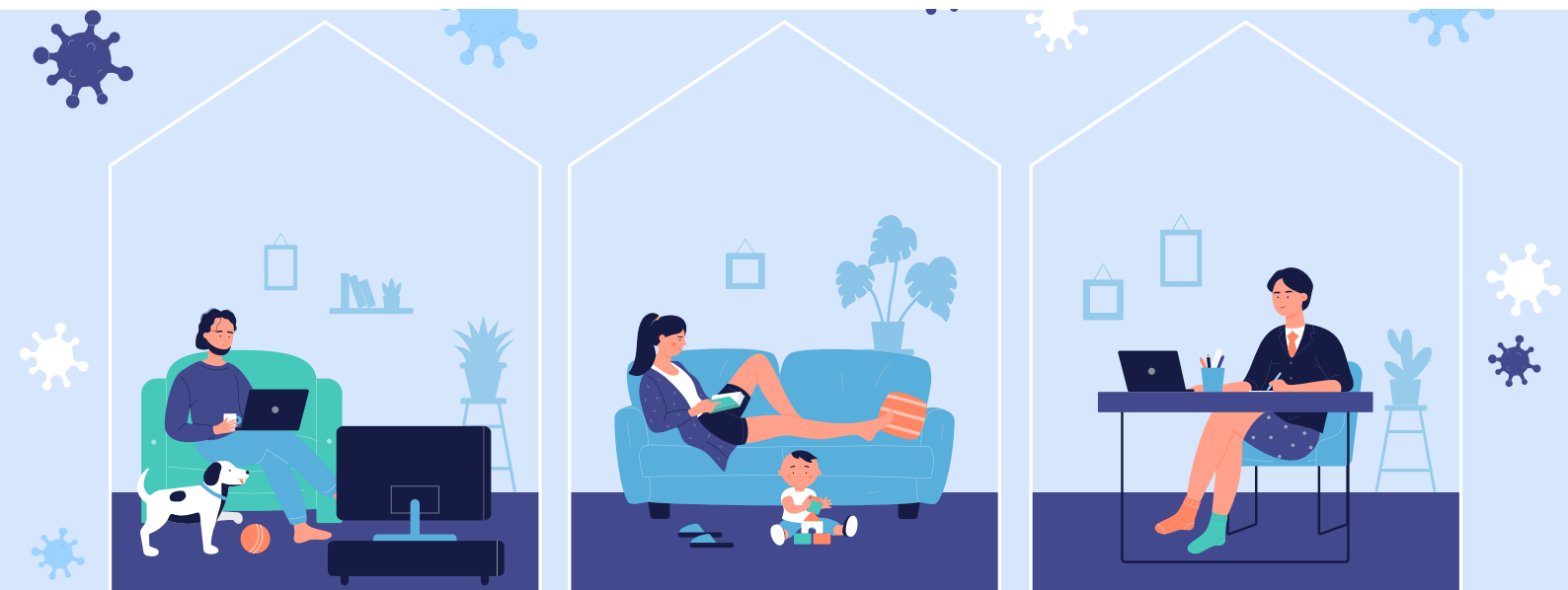
Fashion retailer Pink and Proper (P&P) was founded in 2011 with the aim of making stylish but affordable swimwear. The swimwear garments are all hand-picked by the P&P team to improve quality assurance. In addition to swimwear, P&P's product catalogue also includes accessories such as jewellery, hats, and sandals. All of P&P's products are sold online via their own website and also on e-commerce platforms like Zalora.

Similar to many retailers, P&P's sales took a dip during the MCO period. But since the company has already built up an online presence in other foreign markets before the pandemic, sales revenue continued to be generated and surplus inventory could still be sold in these markets. Nevertheless, P&P has started to pivot into new peripheral products such as lingerie in response to the ongoing imposition of border closure and travel bans which have impacted its biggest source of revenue – the tourists.

---

P&P has also reiterated the importance of engagement with different stakeholders in times of crisis. As a digital retailer, P&P has embarked on an active partnership with social media influencers and individuals from the fashion sector to produce creative content to keep its customers engaged. Online campaigns were also co-organised with travel-related businesses to promote a new line of fashion products.

In short, the key factor for P&P's survival is the adoption of digital marketing to not only build a presence in the e-commerce marketplace, but also as a customer and stakeholder engagement strategy to build brand awareness and encourage sales conversion.



## **3. Key success factors in building SME resilience**

In this section, we will discuss key success factors that have helped retail SMEs to build resilience during the MCO period, as identified in the interviews and case studies, as well as insights gleaned from focus group discussions with other stakeholders. We will also highlight barriers faced by SMEs more generally in adopting these success factors before providing policy recommendations in the next section.

---

### **3.1 Building brand loyalty through an omnichannel retail strategy**

Brand awareness and loyalty have been instrumental in helping retail SMEs build resilience in times of crisis. The case studies presented in the preceding section have pointed at the creative use of digital platforms to strengthen the sense of community among customers rather than treating them purely as an online channel for distribution. It is also important to highlight that the debate is not whether an SME should choose a digital platform over physical retail for distribution purposes but rather to devise an omnichannel retail strategy so that a seamless customer experience, be it information gathering or making a purchase, can be facilitated through a mobile device, a laptop or in a brick-and-mortar store.

---

The Super App providers that we interviewed experienced an uptake in SME participation during the MCO with almost half of the users ordered from brands they had never heard before. <sup>7</sup>While SMEs' participation in Super Apps is a step in the right direction, there is still a need to build brand awareness and loyalty using digital means as the online marketplace matures along with the increase in uptake by other SME competitors.

In fact, as one Super App provider pointed out, big retailer brands tend to have an advantage over SMEs as the brand recall among customers is stronger thus resulting in the Super App algorithms presenting these brands as top choices for users. So, for SMEs to pivot more sustainably, there has to be a more comprehensive branding strategy that encompasses the various distribution channels to promote a seamless customer experience and strong brand recall.



---

<sup>7</sup>While there are various definitions for Super App, but there seems to be a consensus in terms of its functionality as a single portal to a wide range of virtual products and services, encompassing e-commerce marketplace, online payments and messaging services.

## 3.2 Penetrating into new local and regional markets via Super Apps

The proliferation of Super Apps as a marketplace of services and offerings can help local retail SMEs penetrate into new market segment, both locally and regionally. As the case studies suggest, retailers who have already built brand presence on an e-commerce platform, either via proprietary online store or Super App, can leverage on that presence to undertake product and process innovation, in addition to creating new sources of sales particularly from foreign markets.

By undertaking digitalization effort in the front and back end, even if it is done minimally to participate in the Super Apps marketplace, retail SMEs would have already generated efficiency spillovers through automation and digitising some of the operation functions.

While there remain differences in terms of distribution needs between service retailers (MBL) and product retailers (P&P), and therefore varying strategies for market penetration, the ability for retail SMEs to undertake product and process innovation, and to facilitate online payments and delivery, is greatly enhanced through participation on Super Apps or proprietary online store.

Despite the operational costs incurred in engaging Super Apps, a retail SME could treat that as an investment so that there is greater room for the business to build a community surrounding its brand or nurturing digital analytic skills to prepare itself for the next stage of growth.

---

The main barrier facing purely offline SME retailers is the lack of mental readiness to make the digital leap of faith. Some hybrid SME operators have shared that they were not able to achieve the same level of revenue after digitalising and this short-term observation will leave a mental scar on any future digitalisation plans. But as the case studies demonstrated, the adoption of digital technologies is not a factor for success by itself, but rather a tool to create new sources of competitiveness, be it for community engagement or aiding innovation to enhance customer experience.

In response, the government can play a role in supporting SMEs overcome sales concerns by gaining access to new local and regional markets. For instance, the “Local Heroes” campaign by Grab in collaboration with MDEC provided incentives for the public to use e-wallets when making purchases on the Super App. But the government should not be in direct ownerships of any e-commerce marketplace lest crowding-out private competition. Instead the government should work with private actors to bridge SMEs’ gap in digital infrastructure investments as well as supporting brand development to gain entry into new local and regional markets.



# Digital technologies as an enabler to building SME resilience

## Digital Technologies



### For Operations and Business Development

- Digital sales and marketing
- Other support functions

-Data collection and insight, accounting and receivables management, etc.



- Engagement with Stakeholder

- Online community



Cross-border trade through Super Apps

## 3.3 Employee reskilling and empowerment

The government's wage subsidies programme played a role in minimising the extent of staff layoffs following the MCO announcement. Under the PRIHATIN stimulus package, an eligible business can receive wage subsidies of at least RM600 per employee from PERKESO. Also, various budgetary allocations were made to fund training and reskilling programmes with particular emphasis on building digital skills.

While the SMEs that we interviewed were recipients of these wage subsidies, most of them agreed that these were insufficient to meet the monthly overhead expenses considering the scale of disruption that the MCO had brought upon their operations. Some of the SMEs were unable to secure loans from financial institutions including those who were mandated by the government because of the unique risk profiles that these businesses possess. So, SMEs who managed to survive the MCO period turned to employee reskilling to minimise layoffs while helping businesses to pivot.

One distinguishable factor found in our SME interviews is the empowerment of the younger workforce, the digital natives, in crafting innovative solutions to help businesses pivot.<sup>8</sup>As presented in the case studies, SMEs were able to innovate and adapt more readily because the digital native workforce was more attuned to shifting consumer trends and new ideas as they were users themselves on digital platforms and other online community sites. So, SMEs should re-evaluate the compatibility of their business models and the potential skills and value that their employees can provide.

---

<sup>8</sup>The term *digital native* broadly describes a person who has grown up in the digital age, rather than having acquired familiarity with digital systems as an adult, the latter also known as a *digital immigrant*.

---

Reskilling plays an important role in empowering digital natives at the workplace but the SMEs that we interviewed did not rate the training programmes conducted by government agencies as exceptionally helpful. Each SME is faced with unique practical challenges and private actors such as start-ups and NGOs could have better on-the-ground insights and solutions for the SMEs. Therefore, it is important for the government to consider a budgetary allocation to facilitate SME-start up partnerships to nurture a dynamic ecosystem where digital skills can be upgraded and made relevant as digital technology continues to evolve.

---

## **3.4 Importance of Innovation and Collaborative Research & Development**

From the case study and interviews, investment in research and development (R&D) for product innovation is critical for the success of SMEs. The MBL case demonstrated a simple low-cost product and process innovation without any investments in formal R&D to help cater to the needs of changing consumption trends. In the case of other SMEs, the importance of formal R&D are discussed, not only to address consumer trends but also to differentiate in competitive markets and this helps to stand out especially in digital platforms. What is even more important for SMEs is to work in partnership with various organisations to leverage the resources and keep their R&D costs low.

## 4.0 Recommended actions

To overcome digitalisation barriers and build SME resilience, we recommend a set of policy recommendations in Table 1. Both the government and the private sector have a role to play in developing a dynamic digital ecosystem for SMEs to thrive. However, we caution against the direct participation by public sector actors in commercialisation activities as their focus should be on policy coordination and the facilitation of SME linkages with other stakeholders.

### Policy Recommendations

<b>01</b>	<p><b>Encourage offline retail SMEs to begin the process of digital technology adoption through Super Apps.</b></p> <p>Government agencies, Super App providers, and start-ups can form linkages to create awareness and facilitate digital capacity building as a means to increase SME uptake. The government should focus more on supporting the capacity building process rather than acting as a training provider.</p>
<b>02</b>	<p><b>Promote SME-research institute partnerships to develop a vibrant sectoral R&amp;D and innovation system.</b></p> <p>The commercialisation of research outcomes will create new and sustainable sources of SME competitiveness. For example, a Centre for Food Innovation can be established through partnerships between public research institutes or universities, industrial associations such as the Malaysian Palm Oil Board, industry players as well as SMEs to ensure the development of a commercially viable supply chain ecosystem from the get-go.</p>
<b>03</b>	<p><b>Enhance existing policy and regulatory framework to strengthen the role of alternative financing in supporting SMEs.</b></p> <p>Established financial institutions including even the development finance institutions have not been adequately supporting the digitalisation journey of many SMEs, especially the micro-SMEs. So instead of trying to incentivise the banking system, policymakers should consider setting aside budgetary allocations to nurture and develop a healthy alternative financing ecosystem that is geared towards supporting SMEs' financial needs, particularly during times of crisis.</p>

---

## References

Department of Statistics Malaysia (2020), Revenue for Services Sector Second Quarter 2020

J.P. Morgan (2019), Morgan 2019 Payments Trends – Global Insights Report

The Edge (2020), 2020 retail sales expected to be set back by RM10.9b

The Malaysian Reserve (2020), Job losses surpass 67,000 as at end-July

Voice of America News (2020), Popular Malaysian Burger Chain Tries to Keep the Sizzle During Harsh Economic Times









---

The Institute for Democracy and Economic Affairs (IDEAS) is a nonprofit research institute based in Malaysia dedicated to promoting solutions to public policy challenges. Our vision is :

***“A Malaysia that upholds the principles of liberty and justice”***

Our mission at IDEAS is to improve the level of understanding and acceptance of public policies based on the principles of rule of law, limited government, competitive market and free individuals. Our work is independent of vested interests and partisan influences. We have also expanded our work into new areas focussing on our three overarching missions – advancing a competitive economy, ensuring trust in institutions and promoting an inclusive Malaysia. We act as an intellectual centre creating space for cross partisan principles-centric and results-oriented dialogue.

We achieve this by:

- Publishing cutting-edge research
- Initiating dialogues with government, lawmakers, businesses and civil society
  - Providing thought leadership
- Facilitating networking between like-minded individuals
- Organising educational programmes

Please support us by making a donation. You can make a contribution by cheque payable to “IDEAS Policy Research Berhad” or by transfer to our account CIMB 8008852042. We can only survive with your support.

© 2020 IDEAS. All rights reserved.

IDEAS Policy Research Berhad  
The Lower Penthouse  
Wisma Hang Sam, 1, Jalan Hang Lekir 50000 Kuala Lumpur

[www.ideas.org.my](http://www.ideas.org.my)  
Reg No: 1219187-V

## Selection of IDEAS' Publications (2019 - 2020)

---

### Policy Ideas

Policy Paper No 67 – Next Steps for Rare Diseases in Malaysia: Improving Access to treatments by Laurence Todd and Vaisnavi Rao (October 2020)

Policy Paper No 66: Education Policies in Overcoming Barriers Faced by Orang Asli Children: Education for all by Ya Shin Wan (October 2020)

Policy Paper No 65: Malaysia, Taiwan and CPTPP: Economic Impact Assessment (October 2020)

Policy Paper No 64: The Future of Malaysia's Energy Mix by Prof. Renato Lima-de-Oliveira and Mathias Stroh Varming (October 2020)

Policy Paper No 63: The Political Economy of Federal-State Relations: How the centre influences resource distribution to the periphery by Tricia Yeoh (May 2020)

Policy Paper No 62: SMEs' Compliance Cost in Malaysia by Adli Amirullah, Aiman Wan Alias, Sabrina Sabu (September 2019)

### Brief Ideas

API 2020 Briefing Paper No. 03- Keeping freights moving: Why ASEAN needs a Digital Integration Forum for the logistics sector by Suraj Nair (October 2020)

API 2020 Briefing Paper No. 02- ASEAN Integration Through the Skies: The Current Progress in Preparation for 2025 by Ridha Aditya Nugraha (October 2020)

Brief IDEAS No. 28 – Tourism Recovery Plan: An Opportunity for Change Post COVID-19 by Yohendran Nadar Arulthevan, Adli Amirullah (September 2020)

Brief Ideas No. 27 – COVID-19 Recovery Strategy: Malaysia as a Regional Manufacturing Hub by Lau Zheng Zhou and Natasha Tan (September 2020)

Brief Ideas No. 26 – Orang Asli and the Right to Self-Determination: Are we there yet? by Gamaliel Kan (September 2020)

Brief Ideas No. 25 – Structural Changes and the Prospect for FELDA by James Chin and Nur Zulaikha Azmi (September 2020)

API 2020 Briefing Paper No. 1 – Post-COVID Supply Chain Reconfigurations: Convergence or Divergence in ASEAN Economic Integration? by Lau Zheng Zhou and Natasha Tan (August 2020)

Brief Ideas No. 24 – The Education Gap of the Indigenous Communities of Australia and Canada by Rowena Sidhu (August 2020)

### Reports

Projek Pantau: Final Report of the Pakatan Harapan Government's Performance - May 2020

Policy IDEAS are IDEAS' regular publications that introduce and propose ideas for policy reforms based on analysis of existing policies or best practices.

Institute for Democracy and Economic Affairs (IDEAS)

The Lower Penthouse, Wisma Hang Sam, 1, Jalan Hang Lekir 50000 Kuala Lumpur