

## COMMENTARY

## Digitalising our SMEs – benefits, costs and considerations

Compared to MNCs, SMEs are more resource-constrained, face sizeable overheads and lack economies of scale when investing in technology

By Samuel Chng and Lim Sun Sun

In this year's National Day Rally speech, Prime Minister Lee Hsien Loong touched on the need to help Singapore companies make their mark in the global economy. Praising homegrown companies such as baby product manufacturer Hegen for leveraging digital channels for internationalisation, he signalled the government's continuing commitment to support local entrepreneurship.

In this regard, our many government schemes to boost digitalisation are laudable. However, our small and medium-sized enterprises (SMEs) may need further support from all sectors of society as they digitalise and internationalise, while they continue to enhance the dynamism of urban life in Singapore.

**The impetus for digitalisation**

The digitalisation journey for SMEs in Singapore is by no means seamless as they face a unique set of obstacles. Compared to multinational corporations (MNCs), SMEs are up against more barriers. Unlike larger corporations that possess a wealth of resources, SMEs are more resource-constrained, face sizeable overheads and lack economies of scale when investing in technology.

Such constraints further limit their ability to embark on research and development and innovation. This has adverse implications for growth in a technology-driven climate which rewards companies that can successfully digitalise and pivot their businesses to meet evolving market needs and overcome crises such as the ongoing pandemic.

The benefits of digitalisation for SMEs are clear – they can improve their work processes, boost productivity and reach out to new customers and markets. In March this year, a study by UOB found that two in five SMEs that had implemented digitalisation initiatives in 2020 experienced stronger revenue

growth within the same year. They reported productivity and efficiency gains ranging between 22 and 49 per cent across a range of sectors even in a trying business environment.

Nevertheless, seemingly conflicting narratives have emerged about the impact of the pandemic on digitalisation efforts by SMEs. One view purports that it accelerated their adoption of digital technologies and digitalisation plans. Another view holds that the pandemic delayed digitalisation plans because it hurt their businesses and SMEs have had to deprioritise investments in digitalisation. Despite these mixed outcomes for SMEs, Covid-19 has certainly propelled an increasing number of SMEs to consider the impetus to digitalise.

A host of programmes and initiatives have been developed by the Singapore government to give SMEs a shot in the arm for their digitalisation plans. Most notably the Infocomm and Media Development Authority's SMEs Go Digital programme has been taken up by more than 75,000 SMEs since it was launched in April 2017. The scheme offers pre-approved digitalisation solutions and grants to defray significant portions of the costs.

At the same time, its Start Digital and Grow Digital initiatives help SMEs digitalise and internalise while the SME Digital Tech Hub provides them with free digital consultancy and expert advice. SMEs can thus tap this comprehensive support infrastructure to level up in the digitalisation game.

**Key considerations**

Yet not all SMEs have leapt at these programmes to embrace technology and embark on digitalisation. In the SME Digital Transformation Study conducted by Microsoft and the Association for SMEs in the second quarter of 2020, 83 per cent of SMEs in Singapore have digitalisation strategies in

place.

While the overall outlook is positive, there clearly remains a sizeable number of SMEs that are not actively looking to digitalise. What could be holding those companies back?

Fundamentally, digitalisation is by no means a trivial or instant process. The smooth introduction of new digital technologies into any workplace requires that digitalisation plans be holistic and realistic. The financial sustainability of maintaining digital solutions after the initial startup grant lapses has to be factored in. The compatibility of subsidised "off-the-shelf" digital solutions with existing and future processes and systems needs to be evaluated. The potential cybersecurity risk posed by digitalising operations must be hedged. When internationalising, SMEs also need to strategise ways to trounce the stiff competition in the global marketplace.

Beyond these considerations are critical yet dicey human factors. Employees must up-skill or re-skill with new digital skillsets as tasks and roles evolve, and SMEs must be prepared to invest in training employees and recruiting necessary talent. Our ongoing re-

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search of digital transformation in Singapore suggests that while training may not be a significant financial outlay, it could be highly disruptive to day-to-day operations in an already lean organisation. Also, attracting the necessary talents to work in an SME may be especially difficult when potential hires covet the glitz and prestige of working in a tech startup or large corporation.

**Critical role of SMEs**

In view of this multitude of considerations, challenges and costs of digitalising, we should, more than ever, support our SMEs. After all, SMEs contribute significantly towards a thriving urban life in Singapore, and this vital role they play should not be taken for granted.

In retail for example, smaller retailers such as mama shops are a key part of the urban landscape, contributing to the serendipity, conviviality, and vibrancy of a city. However, if more shops go online and become digital-only, it may lead to an increasing number of dead malls and retail sites. This would be devastating as retail stores are one of the major pillars of the built environment and the urban economy. In Singapore, the pulsating core of our HDB heartlands could become moribund.

In the US, a "retail apocalypse" is imminent as UBS predicted that 100,000 physical stores would close their doors by 2025 amid the rise of e-commerce. In the UK, the equivalent is labelled "the death of the British high-street" as the number of vacant stores has been rising at an alarming rate, further exacerbated by the pandemic. Consequently, several groups have called upon the British government to sustain the buzz of urban centres all over the country. Singapore's freight retail scene is not immune to a similar fate.

Furthermore, small retailers add to the diversity and selection of shops and offerings

that consumers appreciate and welcome. Imagine entering a shopping mall or arcade with the same predictable selection of shops. The same can be said for the food and beverage industry, whose wide and innovative variety of cuisine has grown to be synonymous with Singapore.

Above all, SMEs constitute 99 per cent of all enterprises in Singapore and support seven in 10 employments locally, making them the backbone of the economy and workforce. They drive the local entrepreneurial and innovative spirit too, encouraging locals to operate and grow their businesses to the best of their capabilities and adding to the hustle and bustle of urban life in Singapore.

**Supporting SMEs with empathy**

Fundamentally, as SMEs answer the call to digitalise and internationalise, our economy stands to benefit considerably from their endeavours. However, we must also be cognisant of the challenges they face and consider the trade-offs they have to make.

Programmes to support SMEs on their digitalisation journeys must assume an empathetic stance and offer solutions that are well-tailored to the constraints SMEs grapple with. Consumers should also play our part to support SMEs when we can by buying local brands to support local businesses that lend colour and vigour to our neighbourhoods and shared spaces.

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