

SUBMISSION ON DIGITALISATION OF SMALL BUSINESSES IN HONG KONG 2020

3 June 2020

Mr. Edward Yau
Commerce and Economic Development Bureau
22/F, West Wing, Central Government Offices,
2 Tim Mei Avenue, Tamar,
Hong Kong

By email: sced@cedb.gov.hk

Dear Mr. Yau,

Digitalisation of small businesses in Hong Kong

CPA Australia represents the diverse interests of over 166,000 members working in 100 countries and regions around the world. We make this submission on behalf of our members and in the broader public interest.

We are pleased to share with you key findings from CPA Australia's 11th annual [Asia-Pacific Small Business Survey](#), and to provide policy suggestions for supporting digitalisation of small businesses in Hong Kong.

These survey results and policy suggestions may assist the Commerce and Economic Development Bureau (CEDB) to develop strategies to encourage greater digitalising of small businesses in Hong Kong. Further, we believe the survey data should increase the CEDB's understanding of the level of digitalisation of Hong Kong's small businesses relative to their counterparts in Mainland China – particularly Guangzhou and Shenzhen, the importance of digitalisation to small business growth, and some of the key factors influencing the level of digitalisation.

In summary, our survey results show that high growth businesses are much more likely to utilise various technologies, including e-commerce and social media, in their business, as well as investing in technology. However, Hong Kong's small businesses are significantly less likely than small businesses in Mainland China to be utilising or investing in technology.

Over the past 11 years, we have surveyed over 27,000 small businesses across the Asia-Pacific including over 2,900 small businesses from Hong Kong and over 4,000 small businesses from Mainland China. From the results of the survey we conclude that this technology gap between small business in Hong Kong and small business in Mainland China is likely to have contributed towards Hong Kong's small businesses being significantly less likely to report growing as a business than their peers in Mainland China every year since 2014.

Key survey results include:

- When Hong Kong's small businesses do invest in technology, they are significantly less likely than small businesses in Mainland China to report their investment was profitable in the short-term, with 29.7 per cent stating their investment in technology in 2019 improved their profitability, compared with 64.1 per cent of small businesses in Guangzhou and 66.2 per cent in Shenzhen.
- 31.7 per cent of Hong Kong's small businesses stated that they did NOT earn any revenue from online sales in 2019, compared with just 3.8 per cent in Guangzhou and 0.6 per cent in Shenzhen.
- 16.8 per cent of Hong Kong's small business stated that they did NOT use social media for business purposes in 2019 compared with just 1.9 per cent in Guangzhou and 1.3 per cent in Shenzhen.

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- 16.7 per cent of Hong Kong's small businesses stated they do NOT allow customers to pay via new digital / online payment technologies such as Apple Pay, Alipay, and PayPal, compared with only 0.6 per cent of small businesses in Guangzhou and none in Shenzhen.
 - Hong Kong's small businesses seem somewhat less concerned than their Mainland Chinese counterparts in their assessment of cyber risks, with 31.7 per cent stating that they believe a cyberattack on their business is likely in 2020, compared to 37.2 per cent in Guangzhou and 50.3 per cent in Shenzhen.

Our survey results show that the age of the respondent, the age of the business and the size of the business are all factors influencing the level of digitalisation.

For example, of the 11 markets surveyed in 2019, 58.4 per cent of respondents aged under 40 stated that their investment in technology in 2019 was already profitable, compared with 24.9 per cent of respondents over 50. Similarly, 34.8 per cent of respondents aged over 50 stated their business did NOT invest in any technology in 2019, compared with 15.6 per cent of respondents under 40.

Another influencing factor is the number of staff employed by the business, with businesses with five or more employees being significantly more likely to report that their investment in technology in 2019 was already profitable (58.9 per cent) than businesses with no staff (27.3 per cent).

The demographic profile of Hong Kong's small business respondents in 2019 showed that compared to Mainland China, Hong Kong was less likely to have respondents:

- aged under 40 (53.1 per cent compared to 77.5 per cent in Mainland China).
- from businesses established less than ten years (52.8 per cent compared to 74.2 per cent in Mainland China).
- from businesses with 10 to 19 employees (50.8 per cent compared to 73.1 per cent in Mainland China).

A [Hong Kong Census and Statistics Department report](#) on technology adoption of Hong Kong businesses of all sizes found that in 2019 only 9 per cent adopted e-commerce sales and 21.2 per cent adopted e-commerce purchases. This finding corresponds to our survey results on the small proportion of Hong Kong's small businesses that have adopted e-commerce and technology, and suggests that a large proportion of businesses will need to change their business model for them to be sustainable businesses post-COVID-19.

For policymakers and others seeking to promote the recovery of Hong Kong's small business sector following the COVID-19 pandemic, as well as the impacts of social unrest, improving the digital capability, capacity, and knowledge of small business is a must. According to research conducted by the [Australian Taxation Office](#), accountants are considered one of the most trusted source of advice and information for small businesses. With over one quarter of Hong Kong's small businesses having fewer than five employees, the role of external professional advisers such as accountants will be critical in building such capability, capacity, and knowledge.

Based on the outcomes of the survey and engagement with our members, we make the following suggestions:

- to assist small business to build the capability, capacity, and knowledge to invest in the most appropriate technologies for their business, the Government collaborate with local business chambers, banks, and other places small business seek advice, such as accounting firms, to promote the variety of public funding programmes (e.g. Distance Business Programme, Technology Voucher Programme, Retail Technology Adoption Assistance Scheme, SME Export Marketing Fund) offered to businesses to adopt technology solutions and upgrade their business processes.
- to assist small business make greater use of social media, the Government should consider providing direct financial incentives to small business to engage professional advisers to advise on how best to use social media for their business and to help them use it.

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- to assist small business make greater use of new payment technology, the Government should consider providing independently prepared information explaining new payment technologies such as online payment and e-payment, and their advantages. The Government should also consider providing direct financial incentives for small business to adopt new payment technologies. See Singapore's [support for digital transformation](#) in the Fortitude Budget 2020 for further information.
 - the Government should continue to provide information and support on cybersecurity for small business.
 - given that the data shows the level of digitalisation of business is influenced by age, policymakers should investigate the barriers that prevent younger people from starting their own business or buying an existing business and enact policies to alleviate or remove these barriers.

Attached is a summary of some of the key results from the survey. We would be happy to share the full results and data from this survey series, including unpublished data if you would like further information.

If you have any queries, please do not hesitate to contact Jonathan Ng, Policy Adviser, at CPA Australia on jonathan.ng@cpaaustralia.com.au or (852) 22892717.

Your sincerely,



Deborah Leung FCPA (Aust.)
Executive General Manager – International



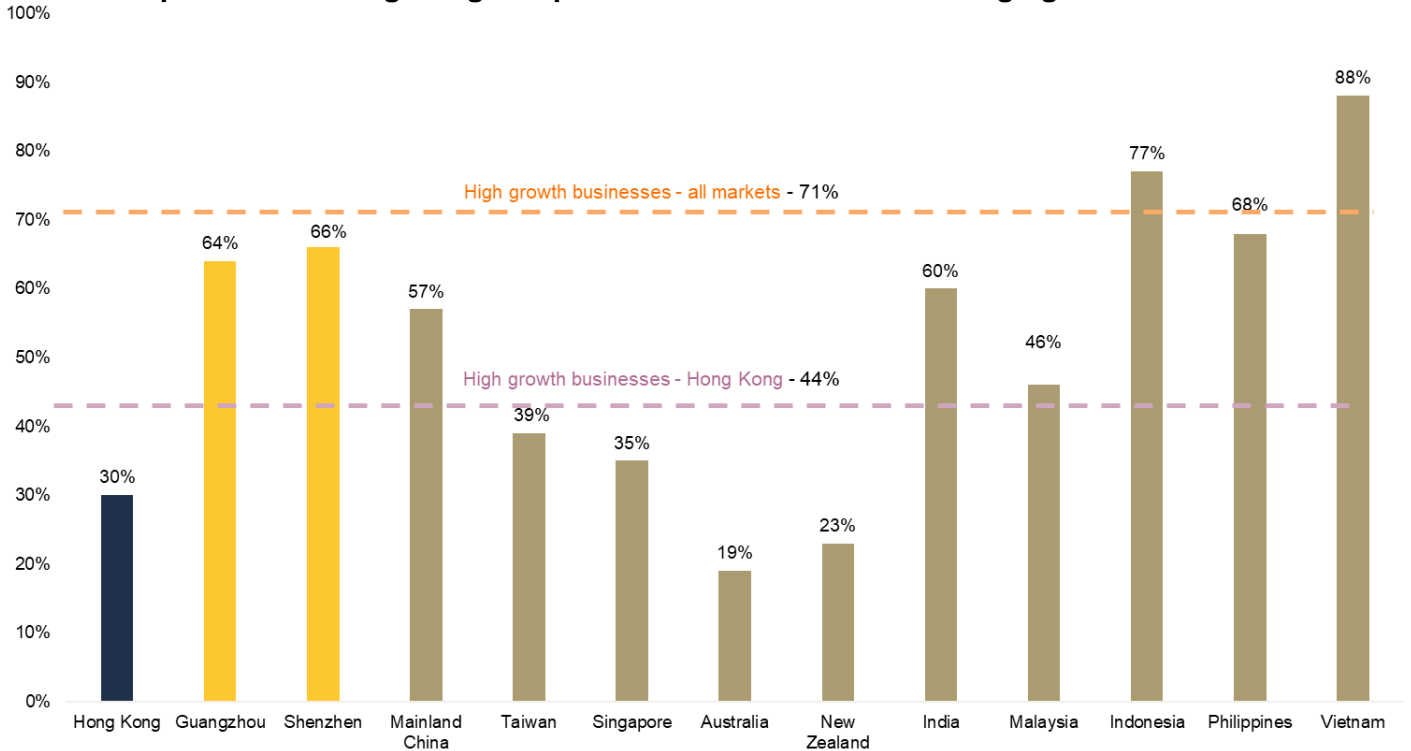
Dr. Gary Pflugrath CPA (Aust.)
Executive General Manager – Policy and Advocacy

Encl.

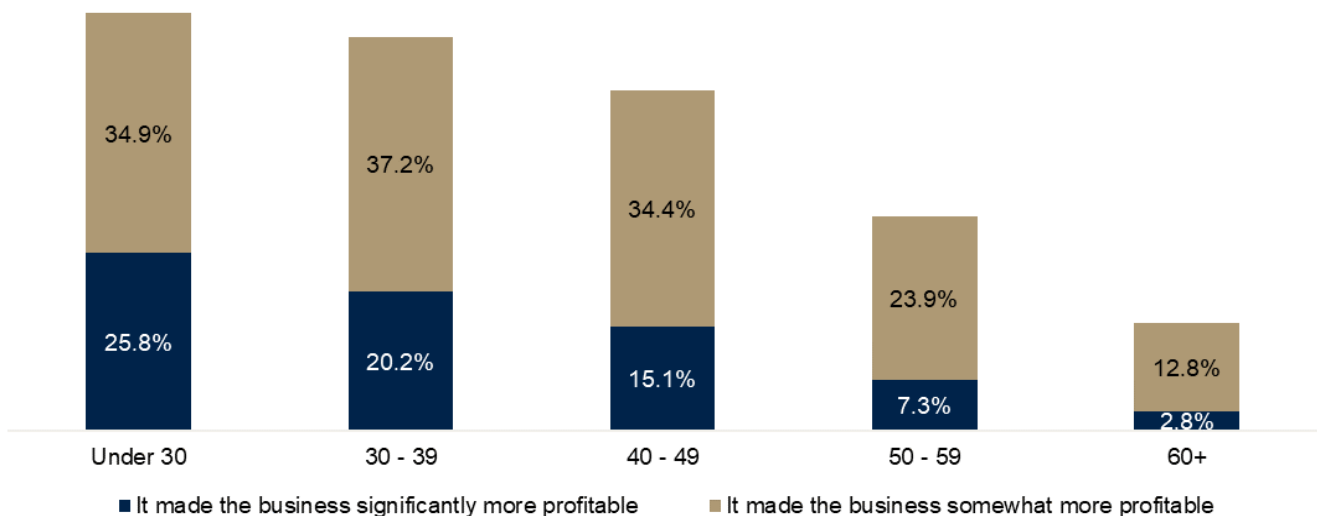
KEY TECHNOLOGY RESULTS FROM THE 2019/20 ASIA PACIFIC SMALL BUSINESS SURVEY

The impact of technology on small business profitability

Percentage of businesses that reported their investment in technology in 2019 had already made them more profitable – Hong Kong compared with other markets and high growth businesses

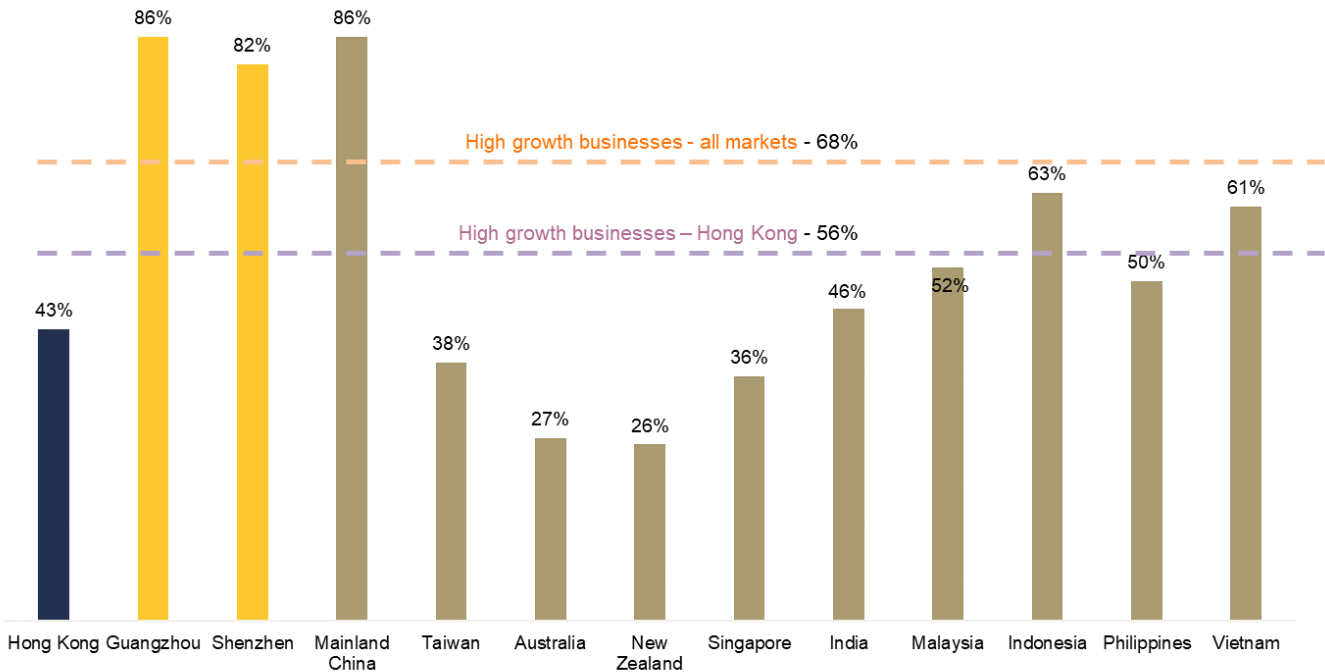


Percentage of businesses that reported their investment in technology in 2019 had already made them more profitable – by age of respondents

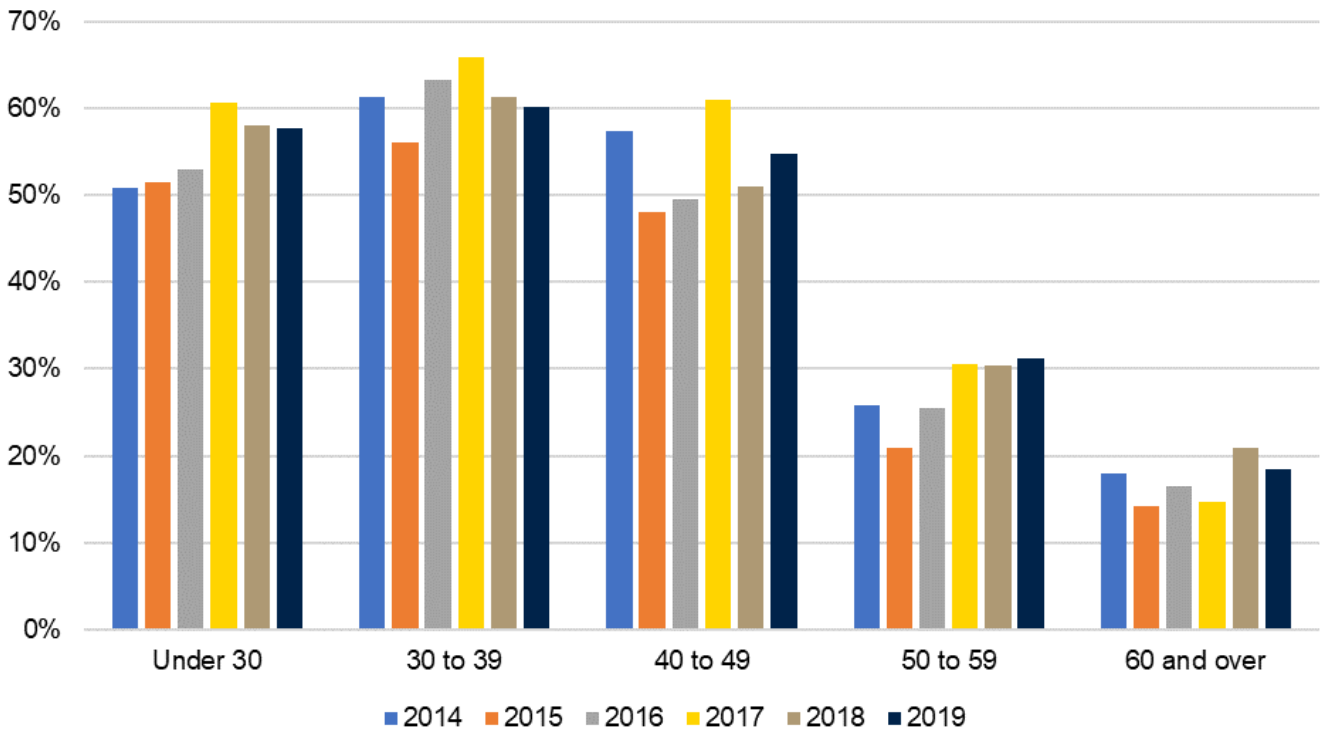


Selling online

Percentage of small businesses that generated more than 10 per cent of their revenue through online sales in 2019 – Hong Kong compared with other markets and high growth businesses

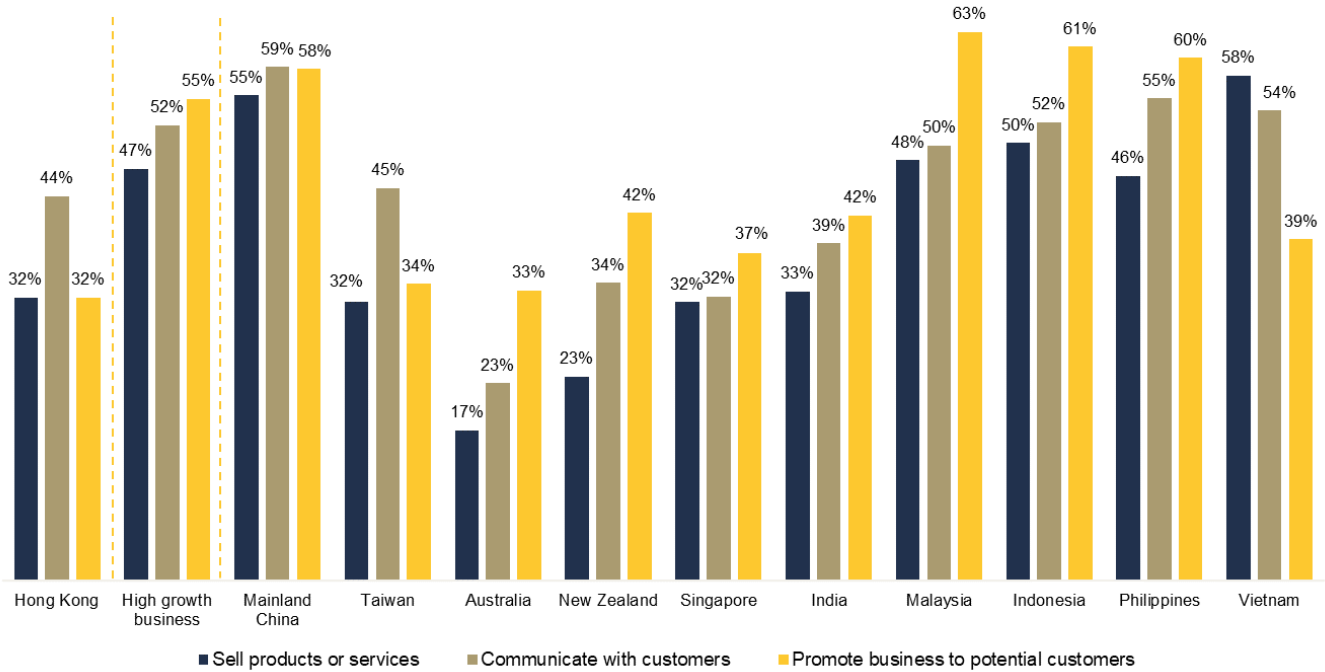


Percentage of businesses that generated more than 10 per cent of their revenue through online sales – by age of respondent and over time

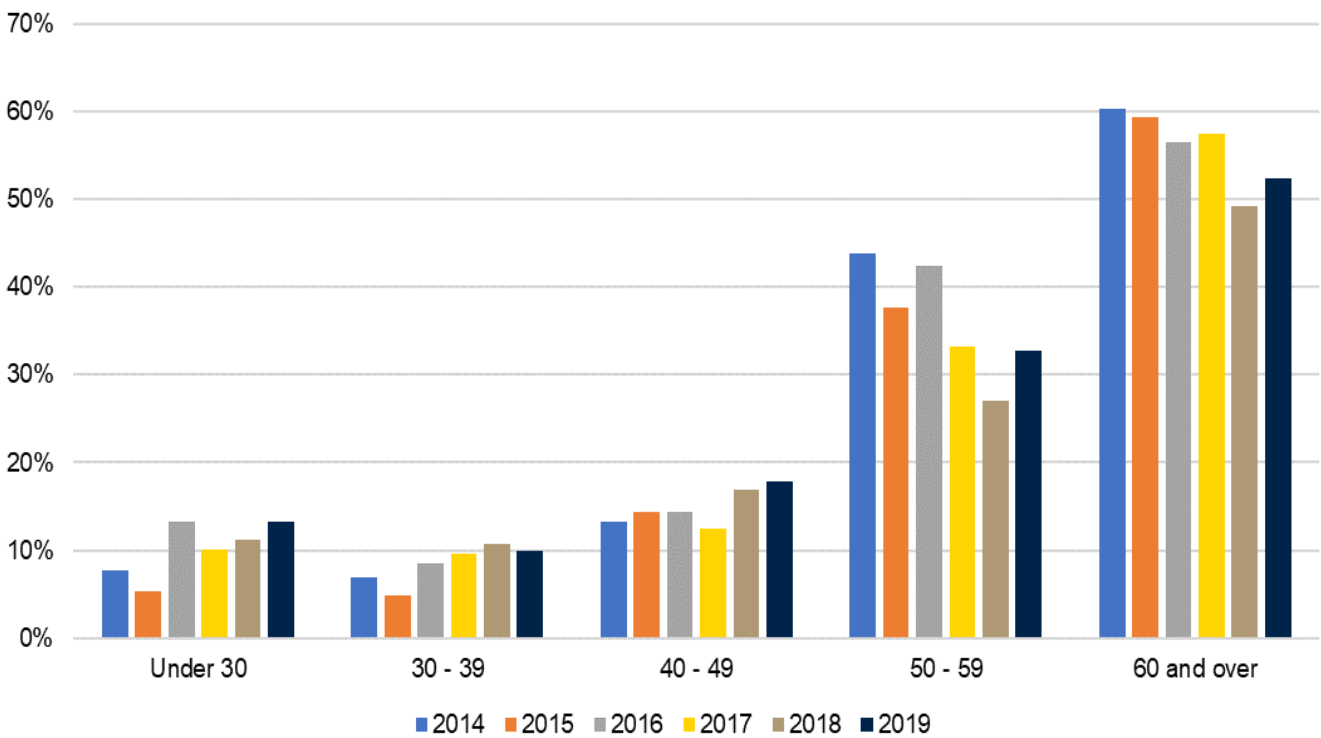


Social media

How small businesses use social media to engage with customers and potential customers in 2019 – Hong Kong compared with other markets and high growth businesses

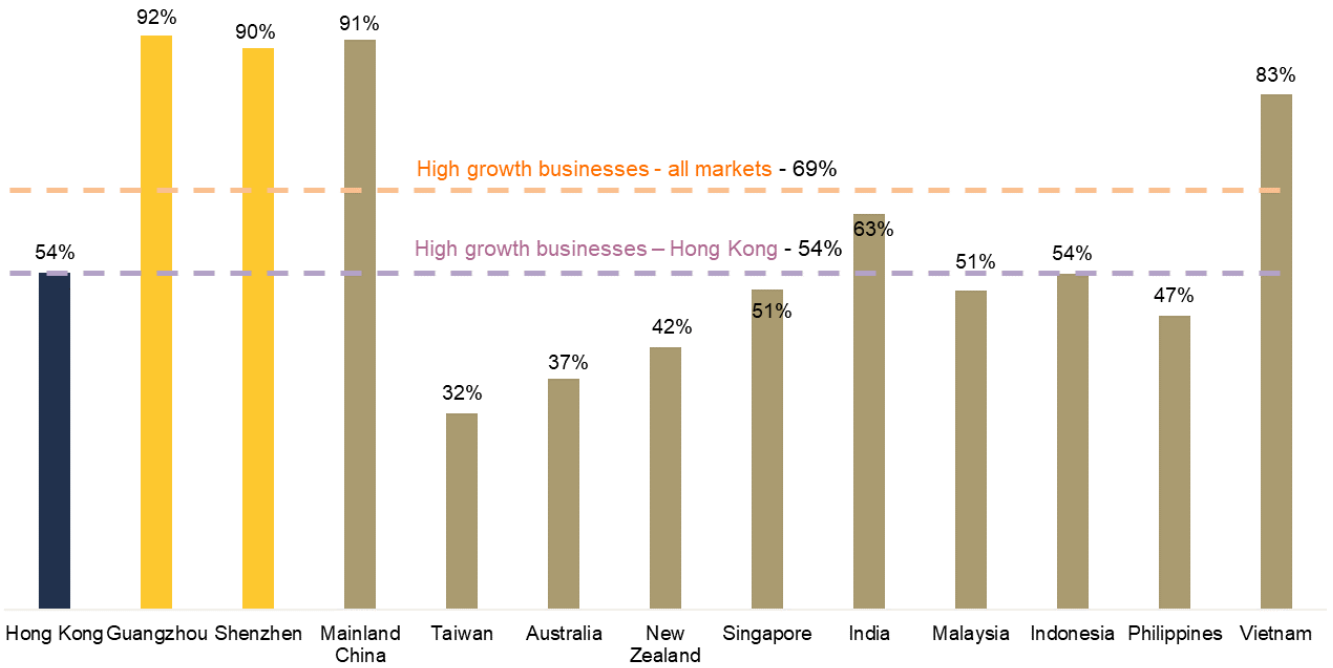


Percentage of businesses that did **NOT** use social media for business purposes – by age of respondent and over time

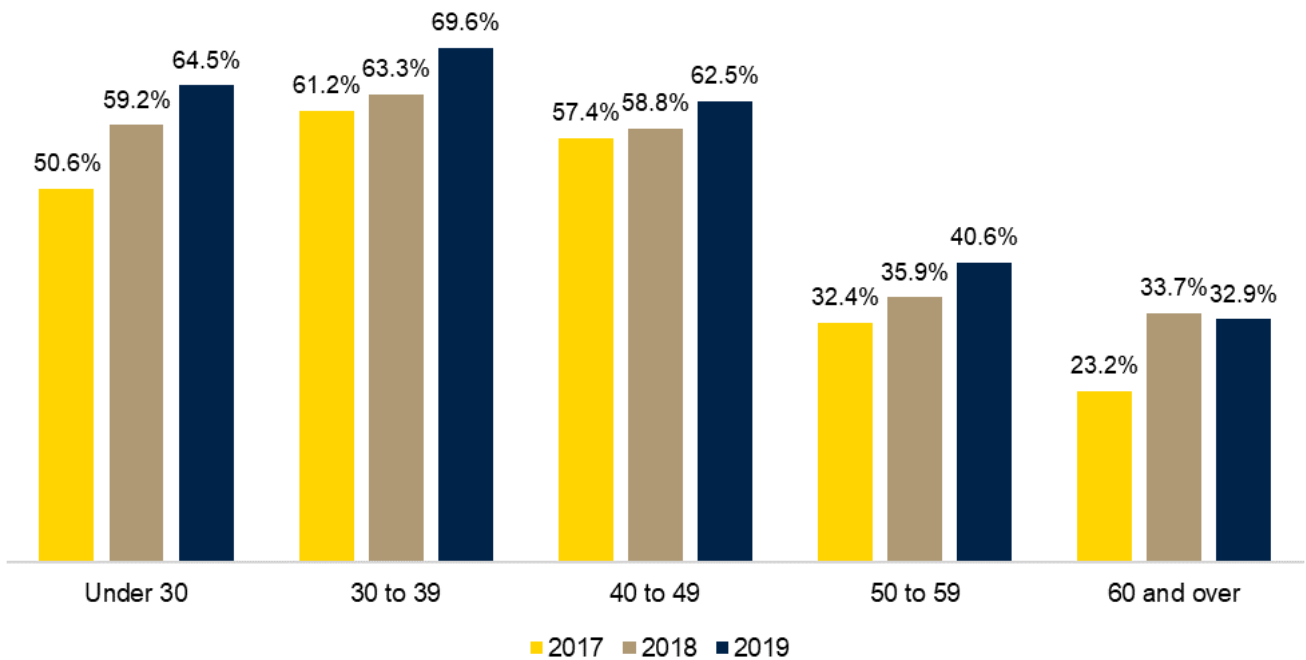


New payment technologies

Percentage of small businesses that generated more than 10 per cent of their sales through new payment technologies such as PayPal, Alipay and Apple Pay – Hong Kong compared with other markets and high growth businesses

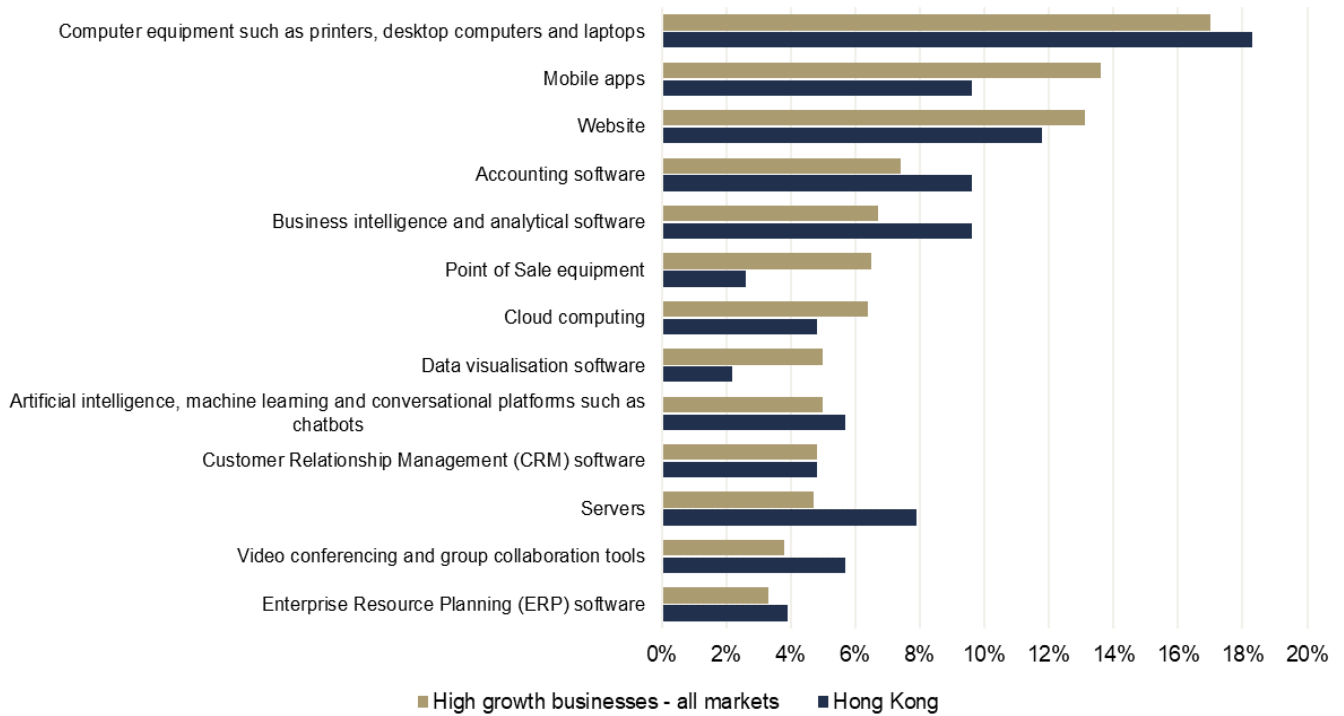


Percentage of small businesses that generated more than 10 per cent of their sales through new payment technologies such as PayPal, Alipay and Apple Pay – by age of respondent and over time



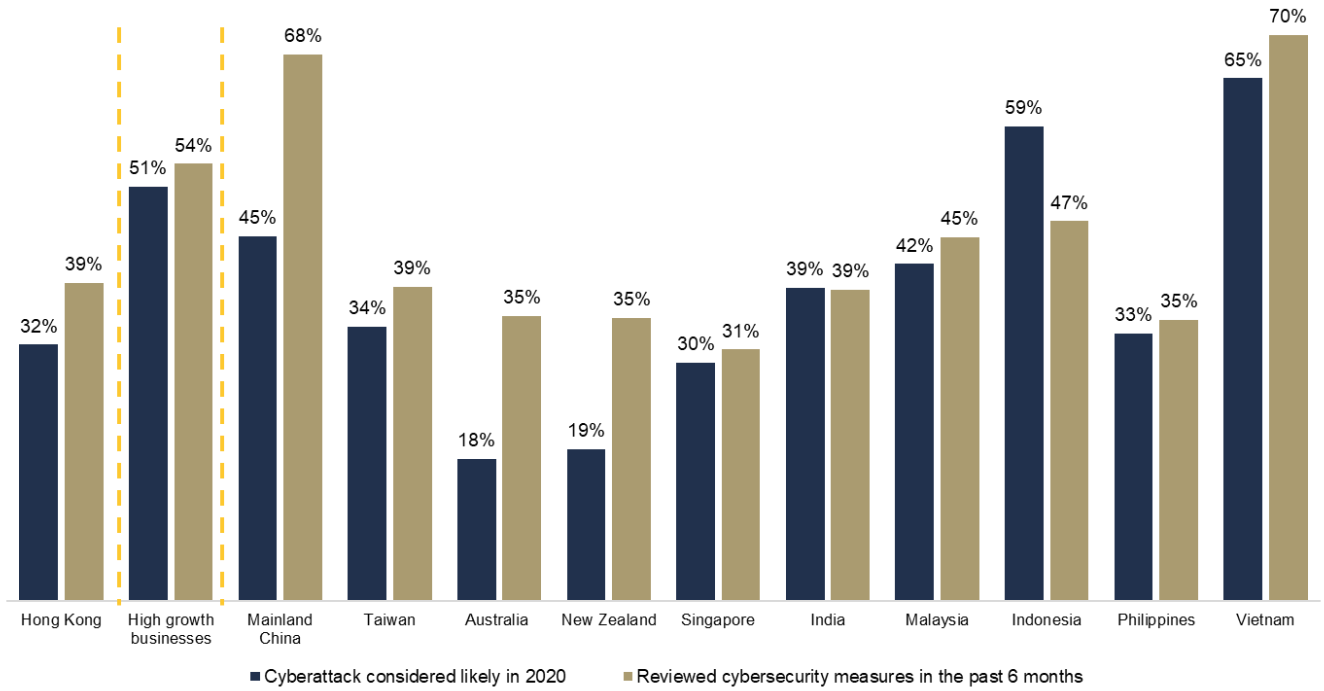
Type of technology invested in

Which types of technology did the business invest most heavily in in 2019 – Hong Kong compared with high growth small businesses



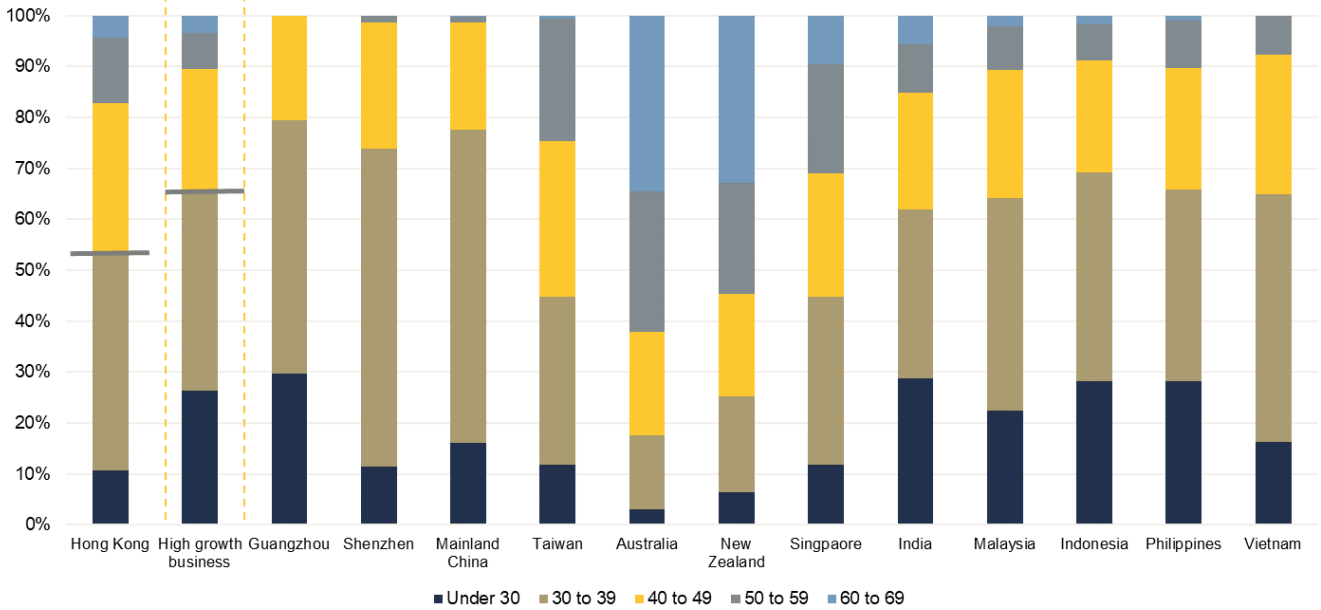
Cybersecurity

Percentage of businesses that believe a cyberattack on their business in 2020 is likely, and the percentage that reviewed their cybersecurity in the past six months – Hong Kong compared with other markets and high growth businesses

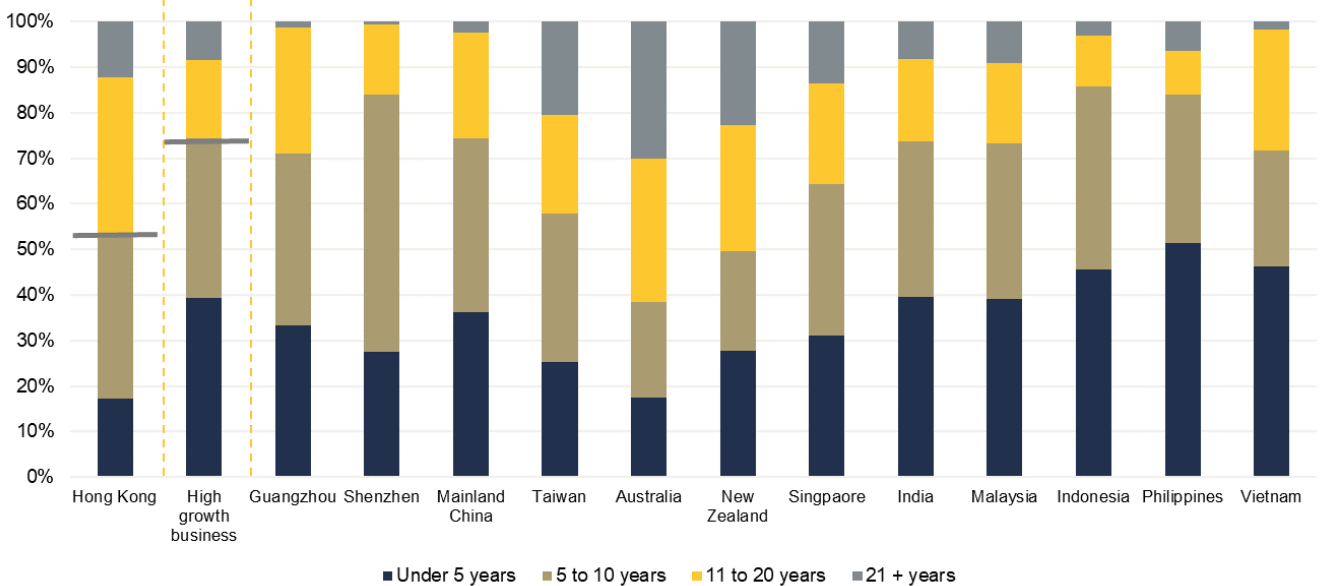


Demographics

Age of respondent – Hong Kong compared with other markets and high growth businesses



Age of business – Hong Kong compared with other markets and high growth businesses



Number of employees – Hong Kong compared with other markets and high growth businesses

