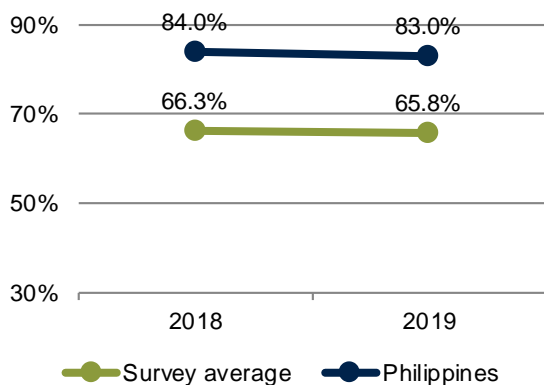


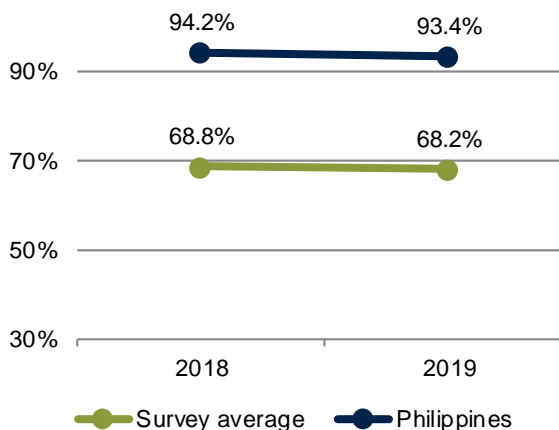
Philippines market summary

Business and economic growth

Small businesses that reported growing in the previous 12 months - Philippines against survey average



Small businesses that expect to grow in next 12 months - Philippines against survey average



| | 2019 | Survey average 2019 | Rank 2019 | 2018 | Rank 2018 |
|--|-------|---------------------|-----------|-------|-----------|
| Businesses that grew in the last 12 months | 83.0% | 65.8% | 3/11 | 84.0% | 3/10 |
| Businesses that expect to grow in the next 12 months | 93.4% | 68.2% | 2/11 | 94.2% | 1/10 |
| Businesses that expect the local economy to grow in the next 12 months | 83.3% | 59.1% | 2/11 | 81.8% | 2/10 |

Business activity over the past 12 months

| | 2019 | Survey average 2019 | Rank 2019 | 2018 | Rank 2018 |
|--|-------|---------------------|-----------|-------|-----------|
| Increased employee numbers | 39.0% | 32.5% | 5/11 | 38.2% | 4/10 |
| Improved business management had a major positive impact on the business | 19.7% | 17.6% | 6/11 | 36.4% | 1/10 |
| Increasing costs had a major negative impact on their business | 34.1% | 33.8% | 5/11 | 50.2% | 2/10 |
| Required funds from an external source | 58.0% | 52.2% | 6/11 | 62.7% | 4/10 |
| Sought external funds for business growth | 54.8% | 54.0% | 5/11 | 57.4% | 5/10 |
| Found it easy or very easy to access external finance | 18.6% | 31.6% | 9/11 | 24.8% | 6/10 |
| A bank was the business's main source of external finance | 28.8% | 36.2% | 8/11 | 30.5% | 8/10 |

Planned business activity over the next 12 months

| | 2020 | Survey average | Rank 2019 | 2019 | Rank 2019 |
|--|-------|----------------|-----------|-------|-----------|
| Expect to increase employee numbers | 54.1% | 42.7% | 5/11 | 61.8% | 3/10 |
| Will introduce a new product, service or process unique to their market or the world | 32.5% | 25.8% | 5/11 | 35.6% | 1/10 |
| Expect revenue from overseas markets to grow strongly | 27.5% | 17.1% | 1/11 | 28.0% | 2/10 |
| Will seek external funds | 18.7% | 23.3% | 5/11 | 26.7% | 4/10 |
| Expect easy to very easy access to finance | 14.5% | 27.4% | 9/11 | 23.9% | 6/10 |

Social media, e-commerce and technology

| | 2019 | Survey average 2019 | Rank 2019 | 2018 | Rank 2018 |
|---|--------------------|---------------------|-----------|--------------------|-----------|
| Did NOT earn any revenue from online sales | 21.3% | 26.2% | 7/11 | 22.7% | 7/10 |
| Did NOT use social media for business purposes | 14.1% | 18.9% | 7/11 | 10.2% | 8/10 |
| Investment in technology by the business over the past 12 months has improved profitability | 67.5% | 48.9% | 3/11 | 76.4% | 3/10 |
| Technology the business invested in most heavily over the past 12 months | Computer equipment | Computer equipment | N/A | Computer equipment | N/A |
| Consider the business likely to be cyberattacked in next 12 months | 33.1% | 37.5% | 7/11 | 28.9% | 8/10 |
| Reviewed the business's cybersecurity protections in last six months | 34.8% | 45.9% | 10/11 | 40.0% | 6/10 |
| More than 10 per cent of sales is received through digital payment options such as PayPal, Alipay, WeChat Pay | 47.2% | 60.1% | 8/11 | 43.1% | 6/10 |

Factors that had positive and negative influences on business

| Top four factors that had a positive influence on small business in 2019 | Top four factors that had a positive influence on small business in 2018 |
|--|--|
| Customer loyalty | Customer loyalty |
| Improved customer satisfaction | Improved customer satisfaction [^] |
| Good staff | Good staff |
| Improved business strategy | Improved business strategy |

[^] equal first

| Top four factors that had a positive influence on small business in 2019 | Top four factors that had a positive influence on small business in 2018 |
|--|--|
| Increasing competition | Increasing costs |
| Increasing costs | Increasing competition |
| Tax | Tax |
| Cash flow difficulties | Fluctuations in local currency |

Impact of a trade war

| | 2019 | Survey average 2019 | Rank 2019 | 2018 | Rank 2018 |
|---|-------|---------------------|-----------|-------|-----------|
| Possible trade war between the US and a range of other economies will have a negative impact on your business in next 12 months | 26.2% | 33.1% | 9/11 | 34.7% | 7/10 |

Demographics

| | 2019 | Survey average 2019 | Rank 2019 | 2018 | Rank 2018 |
|--|-------|---------------------|-----------|-------|-----------|
| Business has been established for 10 years or less | 82.6% | 65.4% | 2/11 | 83.1% | 1/10 |
| Respondent is aged under 40 | 64.9% | 54.7% | 4/11 | 65.3% | 4/10 |
| Respondent is the business owner | 69.5% | 42.5% | 2/11 | 64.9% | 2/10 |
| Business has 10 to 19 employees | 22.0% | 34.6% | 7/11 | 26.7% | 6/10 |

Summary

Conditions were very positive for small businesses in the Philippines in 2019, with more than eight in ten (83.0 per cent) reporting that they grew. This is the third highest result of the markets surveyed, only behind Vietnam and Indonesia, and well above the survey average of 65.8 per cent.

In addition to the overall result, 26.9 per cent of businesses stated that their growth in 2019 was very strong – the third highest result of the markets surveyed. In comparison, only 5.3 per cent of Hong Kong's businesses recorded very strong growth in 2019.

Reflecting the very positive business conditions, 39.0 per cent of small businesses in the Philippines stated that they added to their employee numbers in 2019.

One factor driving strong business growth is the relatively strong uptake of new technologies by small businesses in the Philippines. Many Filipino small businesses sell online, with 49.8 per cent stating that more than 10 per cent of their revenue comes from online sales. Further, an overwhelming majority of Filipino small businesses use social media, and they are most likely to use social media to communicate with existing customers.

More small businesses in the Philippines should consider new digital payment technologies, such as PayPal, PayMaya and Globe Telecom. That is, 47.2 per cent of Filipino small businesses receive more than 10 per cent of their sales through such technologies compared with 91.4 per cent of small businesses from Mainland China.

One reason for this slow uptake of digital payment technologies is the high reliance small businesses in the Philippines place on cash, with 80.3 per cent of businesses stating that it makes up 50 per cent or more of their sales, the highest result of the markets surveyed. Given the broad cross-section of industries represented in the Philippines survey sample, it can be assumed that many business-to-business transactions are still cash transactions.

Considering the strong focus on digital technologies (except for digital payment technologies), it is surprising that only 33.1 per cent of small businesses in the Philippines expect to be cyberattacked in 2020, which is below the survey average of 37.5 per cent.

The strong investment in technology in the Philippines is producing benefits for a large percentage of the nation's small businesses, with 67.5 per cent stating that their investment in technology in 2019 has already improved their profitability – well above the survey average of 48.9 per cent. This result, plus the changes to consumer behaviour driven by COVID-19 will no doubt encourage further investment in technology and assist Filipino small businesses to become more globally competitive.

The Philippines' small business sector is highly innovative, with 32.5 per cent stating that they will introduce a totally new product, process or service to the Philippines or the world in 2020; above the survey average of 25.8 per cent. This innovative culture is likely to contribute to the Philippines small business sector recording strong growth in the coming years.

Of course, while the survey results are overwhelmingly positive for the Philippines, businesses also report challenges, with increasing competition and increasing costs seen as the largest barriers to growth. However, competition is likely to have positive long-term implications, as it helps to encourage innovation and expansion into new markets – essential ingredients to growth.

The strong growth of small businesses in the Philippines is not necessarily being reflected in the demand for external finance, especially in comparison to the other high growth markets of Vietnam, Indonesia and Mainland China. This may reflect that Filipino small businesses are making better use of their existing assets, and/or they are able to largely fund their growth and capital asset needs from internal sources. Respondents from the Philippines were much more likely to find that accessing finance was difficult than easy, which may also explain the relatively lower demand for external finance.

The results for the Philippines small business sector are very positive. With significant numbers of Filipino small businesses having characteristics strongly connected with growth – a focus on technology, e-commerce, improving customer satisfaction, improving business strategy and innovation, we are likely to see this sector recover quickly from COVID-19 and then grow strongly for some time to come.