

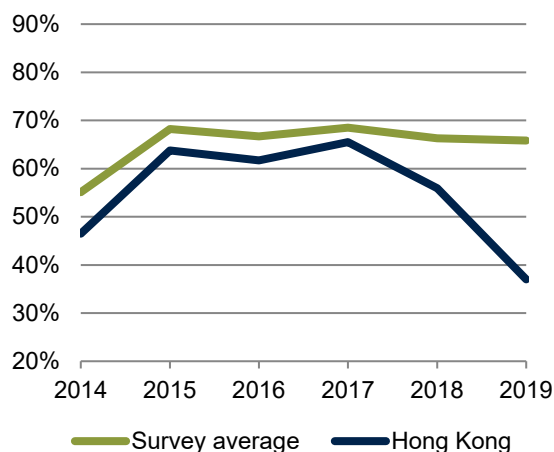
ASIA-PACIFIC SMALL BUSINESS SURVEY 2019-20

HONG KONG MARKET SUMMARY

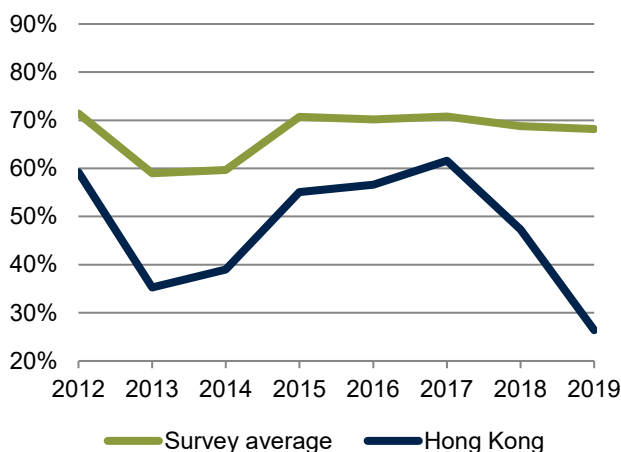
Data snapshot

Business and economic growth

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



Small businesses that expect to grow in the next 12 months - Hong Kong against survey average



	2019	Survey average 2019	Rank 2019	2018	Rank 2018	2017	2016	2015
Businesses that grew in the last 12 months	37.0%	65.8%	10/11	55.9%	9/10	65.5%	61.7%	63.8%
Businesses that expect to grow in the next 12 months	26.4%	68.2%	11/11	47.3%	10/10	61.6%	56.6%	55.1%
Businesses that expect the local economy to grow in the next 12 months	17.5%	59.1%	11/11	29.0%	10/10	57.7%	50.2%	52.1%

Business activity over the past 12 months

	2019	Survey average 2019	Rank 2019	2018	Rank 2018	2017	2016	2015
Increased employee numbers	14.5%	32.5%	10/11	16.8%	9/10	30.0%	19.6%	32.5%
Improved business management had a major positive impact on their business	16.8%	17.6%	7/11	21.1%	6/10	19.4%	20.9%	20.4%
Increasing costs had a major negative impact on their business	26.4%	33.8%	11/11	43.0%	5/10	37.7%	37.3%	41.9%
Required funds from an external source	60.7%	52.2%	4/11	53.4%	5/10	66.5%	72.7%	78.1%
Sought external funds for business growth	46.2%	54.0%	8/11	52.3%	7/10	55.3%	51.8%	50.2%
Found it easy or very easy to access external finance	20.1%	31.6%	8/11	12.8%	10/10	23.8%	19.9%	43.5%
A bank was the business's main source of external finance	31.0%	36.2%	6/11	38.9%	6/10	43.2%	31.4%	47.3%
Rent was the most detrimental factor impacting their business	41.9%	30.8%	2/11	52.7%	1/10	51.0%	52.4%	54.3%

Planned business activity over the next 12 months

	2020	Survey average	Rank 2020	2019	Rank 2019	2018	2017	2016
Expect to increase employee numbers	14.2%	42.7%	10/11	22.9%	8/10	33.9%	30.2%	32.8%
Will introduce a new product, service or process unique to their market or the world	8.6%	25.8%	9/11	12.5%	8/10	13.5%	14.8%	17.7%
Expect revenue from overseas markets to grow strongly	5.3%	17.1%	10/11	7.9%	8/10	15.5%	13.5%	22.3%
Will seek external funds	14.9%	23.3%	7/11	17.9%	5/10	21.9%	24.4%	31.3%
Expect easy to very easy access to finance	14.1%	27.4%	10/11	11.8%	9/10	21.5%	19.3%	41.7%

Social media, e-commerce and technology

	2019	Survey average 2019	Rank 2019	2018	Rank 2018	2017	2016	2015
Did NOT earn any revenue from online sales	31.7%	26.2%	5/11	31.9%	5/10	17.4%	21.9%	18.5%
Did NOT use social media for business purposes	16.8%	18.9%	6/11	16.1%	5/10	11.3%	11.6%	5.3%
Social media platform your business gets most value out of	N/A	N/A	N/A	Facebook	N/A	N/A	N/A	N/A
Investment in technology by the business over the past 12 months has improved profitability	29.7%	48.9%	9/11	32.6%	7/10	48.1%	N/A	N/A
Technology your business invested in most heavily over the past 12 months	Computer equipment	Computer equipment	N/A	Computer equipment	N/A	N/A	N/A	N/A
Consider your business likely to be cyberattacked in next 12 months	31.7%	37.5%	8/11	42.3%	5/10	44.2%	N/A	N/A
Reviewed your business's cybersecurity protections in last six months	39.3%	45.9%	5/11	53.8%	3/10	N/A	N/A	N/A
More than 10 per cent of sales is received through digital payment options such as PayPal, Alipay, WeChat Pay	54.2%	60.1%	4/11	51.9%	4/10	54.5%	N/A	N/A

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
Cost control	Cost control
Good staff	Customer loyalty
Customer loyalty	Good staff
Political stability	Introduced a new product or service [^]

[^] equal third

Top four factors that had a negative impact on small business in 2019	Top four factors that had a negative impact on small business in 2018
Political instability	Increasing costs
Poor overall economic environment	Increasing competition
Increasing competition	Increasing rent
Increasing costs	Staff costs

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	54.5%	33.1%	2/11	52.0%	1/10

Demographics

	2019	Survey average 2019	Rank 2019	2018	Rank 2018	2017	2016	2015
Business has been established for 10 years or less	52.8%	65.4%	9/11	52.0%	8/10	64.8%	68.8%	58.9%
Respondent is aged under 40	53.1%	54.7%	7/11	44.4%	8/10	51.3%	55.3%	63.4%
Respondent is the business owner	8.9%	42.5%	11/11	11.1%	9/10	7.4%	8.4%	9.8%
Business has 10 to 19 employees	50.8%	34.6%	3/11	42.3%	3/10	58.4%	60.5%	60.8%

Summary

2019 was a very challenging year for small businesses in Hong Kong, with only 37 per cent stating that they grew, the lowest on record. Even before the COVID-19 outbreak, pessimism among small businesses in Hong Kong looked as if it would continue into 2020, with less than one-third of the respondents expecting to grow, the lowest result for Hong Kong since the survey started and the lowest result among the markets surveyed. Further, small business confidence in Hong Kong's economy is down significantly and is at its lowest since the survey began, and is the lowest of the markets surveyed; and this is not taking into account the impact of COVID-19.

The major factors contributing to a challenging 2020 are domestic and international uncertainties, such as global trade tensions, slowing global growth, and recent social incidents in Hong Kong. We would also expect that the impacts of an additional challenge, COVID-19, would see even lower levels of confidence in Hong Kong.

The percentage of Hong Kong small businesses that reported growing in the previous 12 months (37.0 per cent) is second lowest among all surveyed markets, only slightly ahead of bottom-ranked Australia where 35.3 per cent reported growing. With only 26.4 per cent of small businesses expecting to grow in 2020, a big drop from 47.3 per cent in 2019, the results illustrate that 2020 was already expected to be a difficult year for Hong Kong's small businesses before the outbreak of COVID-19.

This challenge is further reflected in the sharp decline of small businesses that expect Hong Kong's economy to grow in 2020. 17.5 per cent of Hong Kong's small businesses expect the local economy to grow in 2020, an 11.5 percentage point decline from those that expected the local economy to grow in 2019. The potential impact that global trade tensions could have on Hong Kong's outward looking economy is one of the worries of Hong Kong small businesses, with 54.5 per cent of respondents forecasting that a global trade war could have negative impacts on their business, the second highest level, of concern among the 11 markets surveyed, after Vietnam. We would expect that COVID-19 would be the primary concern of small businesses now.

2019 also featured a decline in the number of Hong Kong small businesses adding staff, reflecting less positive small business sentiment than in 2018. In 2019, 14.8 per cent of businesses added to their headcount, compared with 16.8 per cent in 2018. The subdued outlook for small businesses' headcount is further reflected in the drop in the proportion of Hong Kong's small businesses expecting to increase their headcount in 2020 (14.2 per cent compared to 22.9 per cent last year).

Reflecting the decline in small business sentiment in Hong Kong in 2019, it is no surprise that the number of small businesses that expect revenue from overseas markets to grow strongly (5.3 per cent) is down from the 7.9 per cent in 2018 and 15.5 per cent in 2017.

There was a fall in the percentage of Hong Kong small businesses that sourced finance from a bank in 2019 (31.0 per cent compared with 38.9 per cent in 2018). Following banks, investors were the next most likely source of finance, with Hong Kong's small businesses again being the most likely of the markets surveyed to nominate an investor as their main source of finance (25.0 per cent).

With Hong Kong's small businesses having a reasonable focus on digital technologies and experience in managing through challenging periods, we do expect that they will manage through these tough times and be well placed to rebound quickly and take advantage of opportunities, such as southern China's Greater Bay Area initiative and support strategies that will add long-term value such as investment in innovation and technology.

A positive feature of Hong Kong small businesses is their focus on digital technologies. For example:

- 43.3 per cent of businesses generate more than 10 per cent of their sales online, compared with 26.8 per cent of Australian small business.
- Only 16.8 per cent of Hong Kong small businesses do not use social media, compared with 45.1 per cent of Australian small business.
- 29.7 per cent of businesses that invested in technology in 2019 found that such an investment was already profitable, compared with 18.8 per cent of Australian small business.
- Hong Kong small businesses are one of the strongest users of new payment technologies, such as Alipay, Apple Pay and WeChat Pay. Over half (54.2 per cent) of Hong Kong's small businesses generate more than 10 per cent of their sales through such technologies, compared with 37.1 per cent of Australian small businesses.
- While 31.7 per cent of Hong Kong's small businesses expect a cyberattack in 2020, 39.3 per cent reviewed their cybersecurity measures in the past six months.

With Mainland China being the most important market for Hong Kong, it is no surprise that there is focus on digital technologies in Hong Kong. Other factors that are most likely driving this investment in technology by Hong Kong small businesses are increasing competition and concerns over staff costs.

Technology can help businesses stay ahead of competition and potentially help their businesses cut operational costs, transform business models, and increase profitability. Further, technology, such as automation, can reduce the need for staff or free up staff to perform higher value-added tasks.

Having said that, there is significant room for Hong Kong's small businesses to improve their focus on technology. Businesses should at least keep up with technological trends to cater to changing customer needs, new regulations, and new industry practices. In short, a stronger focus on technology should improve the number of Hong Kong businesses that report growing.

Considering local events during 2019, Hong Kong small businesses face several challenges in addition to global trade tensions, with political instability being the issue Hong Kong businesses are most likely to nominate as a barrier to growth. Again, reflecting the downward pressure local social incidents have on rental costs, Hong Kong's small businesses were most likely to nominate staff costs as the cost most detrimental to their business, breaking a five year hold of rent being the most detrimental cost, which came second in 2019.

Given these concerns around costs, it is not surprising that Hong Kong businesses were again the most likely of the markets surveyed to nominate cost control as having the most positive impact on their business. However, the results show there is little correlation between cost control and growth.

Hong Kong's small businesses would benefit from a stronger focus on innovation (only 8.6 per cent of Hong Kong businesses stated they will innovate in 2020, compared with 45.6 per cent of businesses in top-placed Mainland China). Small businesses should be taking advantage of Hong Kong's proximity to leading innovation and technology centres, such as Shenzhen, and grasp the opportunities offered by significant government investment in innovation.

2019 was a very challenging year for Hong Kong's small businesses and 2020 looks set to be just as challenging, if not more. We do, however, expect that the reasonable level of digital and management skills among Hong Kong's small businesses, plus their experience in managing through difficult periods, should see them return to growth in the medium-term as internal and external uncertainties recede.