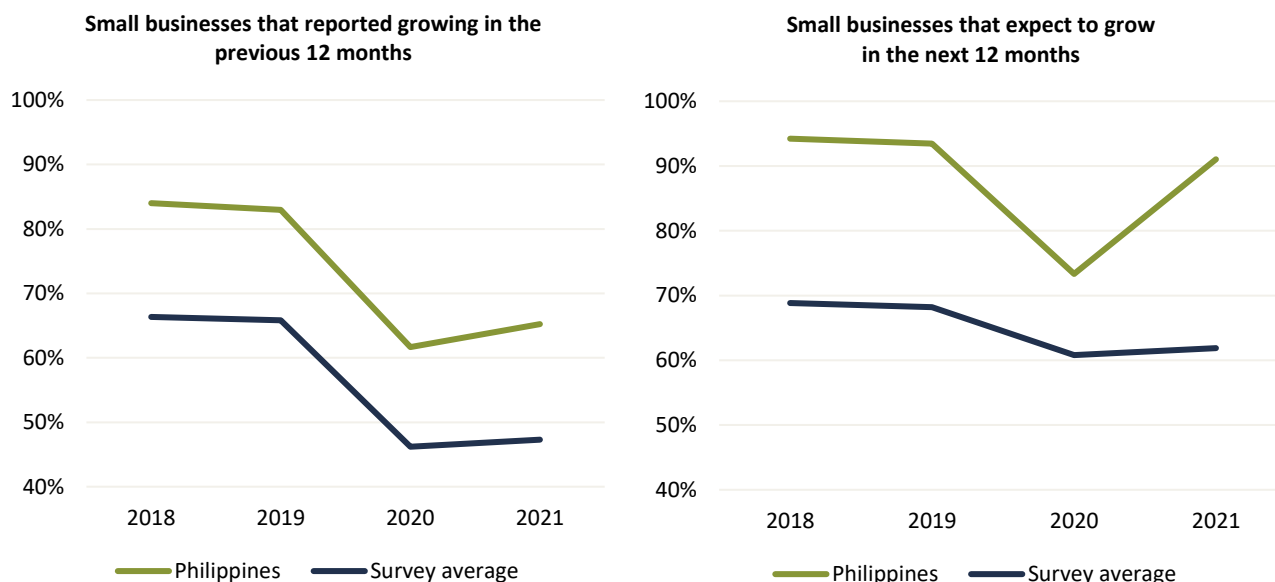


CPA AUSTRALIA ASIA-PACIFIC SMALL BUSINESS SURVEY 2021-2022

PHILIPPINES MARKET SUMMARY

Philippines

Business and economic growth



| | Philippines 2021 | Survey average 2021 | Rank 2021 | Philippines 2020 | Rank 2020 | Philippines 2019 | Philippines 2018 |
|--|------------------|---------------------|-----------|------------------|-----------|------------------|------------------|
| Businesses that grew in the last 12 months | 65.2% | 47.3% | 2/11 | 61.7% | 3/11 | 83.0% | 84.0% |
| Businesses that expect to grow in the next 12 months | 91.1% | 61.9% | 1/11 | 73.3% | 4/11 | 93.4% | 94.2% |
| Businesses that expect the local economy to grow in the next 12 months | 85.8% | 60.6% | 1/11 | 66.7% | 5/11 | 83.3% | 81.8% |

2021 was a stronger year for Filipino small businesses than 2020. 65.2 per cent grew last year, up slightly from the 61.7 per cent that grew in 2020. The result is the second highest, only behind Indonesia.

In addition, 32.1 per cent of the Philippines small businesses stated that their growth was very strong – the second highest result of the markets surveyed. In comparison, only 2.6 per cent of Hong Kong's businesses recorded very strong growth in 2021.

2022 is expected to be a better year for Filipino small businesses. 91.1 per cent of businesses expect to grow, the highest of the markets surveyed.

Overall, the results for the Philippines small business sector are positive. Many small businesses have characteristics strongly connected with growth, including a focus on:

- technology
- e-commerce
- improving business strategy and customer satisfaction

- good staff
- innovation
- exports

We are therefore likely to see many Filipino small businesses grow strongly in 2022 and beyond. Given these results, we believe several Filipino small businesses are likely to evolve into large and successful global businesses in the next few years.

Impacts of COVID-19

| | Philippines 2021 | Survey average 2021 | Rank 2021 | Philippines 2020 | Rank 2020 |
|---|------------------|---------------------|-----------|------------------|-----------|
| COVID-19 had a major negative impact on my business in the past 12 months | 56.0% | 51.0% | 6/11 | 58.3% | 5/11 |
| My business' major reaction to COVID-19 was to begin or increase its focus on online sales | 33.1% | 24.3% | 4/11 | 26.7% | 6/11 |

As in 2020, Filipino small businesses considered COVID-19 their biggest challenge in 2021. Fifty-six per cent said that COVID-19 had a major negative impact on their business in the past 12 months, slightly higher than the survey average of 51 per cent.

33.1 per cent of Filipino small businesses began or increased their focus on online sales in 2021 in response to COVID-19, higher than the survey average of 24.3 per cent. The survey results show a strong relationship between online sales and business growth. This strong focus on e-commerce will help many Filipino small businesses navigate COVID-19 and be well-placed for long-term growth.

Use of technology

| | Philippines 2021 | Survey average 2021 | Rank 2021 | Philippines 2020 | Rank 2020 | Philippines 2019 | Philippines 2018 |
|---|--------------------|---------------------|-----------|--------------------|-----------|--------------------|--------------------|
| Did not earn any revenue from online sales | 11.6% | 19.0% | 7/11 | 11.7% | 9/11 | 21.3% | 22.7% |
| Did not use social media for business purposes | 11.6% | 17.2% | 7/11 | 9.3% | 10/11 | 14.1% | 10.2% |
| Investment in technology by the business over the past 12 months has improved profitability | 69.9% | 53.6% | 4/11 | 55.7% | 5/11 | 67.5% | 76.4% |
| Technology the business invested in most heavily over the past 12 months | Computer equipment | Computer equipment | N/A | Computer equipment | N/A | Computer equipment | Computer equipment |
| Consider the business likely to be cyberattacked in next 12 months | 36.4% | 44.3% | 7/11 | 29.0% | 9/11 | 33.1% | 28.9% |
| Reviewed the business' cybersecurity protections in last six months | 49.7% | 46.7% | 4/11 | 38.7% | 8/11 | 34.8% | 40.0% |
| More than 10 per cent of sales is received through digital payment options such as PayPal, PayMaya and Globe Telecom | 51.4% | 64.9% | 8/11 | 61.3% | 5/11 | 47.2% | 43.1% |

One factor driving the growth of the Philippines small business sector is their relatively strong uptake of new technologies. Most Filipino small businesses sell online. 50.3 per cent received more than 10 per cent of their revenue from online sales. However, this is down from 62.0 per cent in 2020. The drop in online sales could be attributed to the increase in the percentage of sales received in cash.

Further, an overwhelming majority of Filipino small businesses use social media. Only 11.6 per cent do not use social media in their businesses. They are most likely to use social media to promote their business to potential customers.

Most Filipino small businesses offer customers the choice of paying by new digital and mobile payment technologies such as PayPal, PayMaya and Globe Telecom. 51.4 per cent received more than 10 per cent of their sales through such technologies in 2021. This is, however, down from 61.3 per cent in 2020.

Cash however remains a very important payment option for Filipino small businesses. 81.1 per cent received 50 per cent or more of their sales in cash last year, the highest result of the 11 markets surveyed. Given the broad cross-section of industries represented in the Philippines survey sample, it is assumed that many business-to-business transactions are done in cash.

Considering that most Filipino small businesses are focusing on digital technologies, 36.4 per cent of Filipino small businesses expect to be cyberattacked in 2022, up from 29 per cent in 2021. This is below the survey average of 44.3 per cent. However, 49.7 per cent reviewed their cybersecurity measures in the past six months, so many are well prepared for such risks.

Helping to drive this focus on technology are the strong returns such investments are generating. 69.9 per cent of Filipino small businesses that invested in technology in 2021 reported such investments were already profitable. This is above the survey average of 53.6 per cent.

Business activity over the past 12 months

| | Philippines 2021 | Survey average 2021 | Rank 2021 | Philippines 2020 | Rank 2020 | Philippines 2019 | Philippines 2018 |
|---|---------------------|---------------------------|--------------|---------------------|--------------|---------------------|---------------------|
| Increased employee numbers | 41.4% | 28.7% | 2/11 | 27.7% | 4/11 | 39.0% | 38.2% |
| Improved customer satisfaction had a major positive impact on my business | 30.5% | 23.0% | 3/11 | 28.7% | 3/11 | 40.7% | 51.6% |
| Increasing costs had a major negative impact on their business | 30.5% | 29.2% | 5/11 | 26.0% | 4/11 | 34.1% | 50.2% |
| Required funds from an external source | 66.2% | 60.2% | 5/11 | 64.0% | 5/11 | 58.0% | 62.7% |
| Sought external funds for business growth | 45.5% | 48.2% | 5/11 | 43.2% | 6/11 | 54.8% | 57.4% |
| Sought external funds for business survival | 41.0% | 49.0% | 8/11 | 32.3% | 10/11 | 20.9% | 21.3% |
| Found it easy or very easy to access external finance | 38.0% | 45.9% | 5/11 | 13.0% | 11/11 | 18.6% | 24.8% |
| A bank was the business' main source of external finance | 13.0% | 34.2% | 11/11 | 14.6% | 10/11 | 28.8% | 30.5% |

Planned business activity over the next 12 months

| | Philippines 2021 | Survey average 2021 | Rank 2021 | Philippines 2020 | Rank 2020 | Philippines 2019 | Philippines 2019 |
|--|---------------------|---------------------------|--------------|---------------------|--------------|---------------------|---------------------|
| Expect to increase employee numbers | 61.9% | 39.9% | 2/11 | 52.3% | 2/11 | 54.1% | 61.8% |
| Will introduce a new product, service or process unique to their market or the world | 45.4% | 27.0% | 2/11 | 31.3% | 2/11 | 32.5% | 35.6% |
| Expect revenue from overseas markets to grow strongly | 39.1% | 19.3% | 2/11 | 22.0% | 2/11 | 27.5% | 28.0% |
| Will seek external funds | 33.4% | 27.3% | 3/11 | 19.7% | 7/11 | 18.7% | 26.7% |
| Expect easy to very easy access to finance | 37.8% | 40.6% | 5/11 | 16.3% | 9/11 | 14.5% | 23.9% |

Innovation

The Philippines' small business sector is highly innovative. 45.4 per cent will introduce a totally new product, process or service to the country or the world in 2022. This is the second highest result of the markets surveyed. This innovative culture is likely to contribute to Filipino small business sector recording strong growth in the coming years.

Employee growth

The higher number of Filipino small businesses that grew in 2021 compared to in 2020 is reflected in the higher number that increased their headcount in 2021. 41.1 per cent added to their employee numbers last year, up from 27.7 per cent in 2020. This is the highest on record for the nation.

Strong growth expectations for 2022 is reflected in an increase in the number of Filipino small businesses that expect to add to their employee numbers this year (61.9 per cent).

Access to finance

Most Filipino small businesses needed external finance in 2021. 66.2 per cent needed external finance last year, up slightly from 64 per cent in 2020. However, reflecting a stronger but uncertain business environment in 2021, 41 per cent sought finance for survival, up from 32.3 per cent in 2020, while 45.5 per cent sourced finance for growth last year, up from 43.2 per cent in 2020.

Thirty-eight per cent of respondents from the Philippines found accessing finance easy or very easy in 2021, up significantly from 13 per cent in 2020. However, this result is still lower than the survey average of 45.9 per cent. They were the least likely to have sourced funds from a bank. Instead, they were more likely to source finance from family or friends or from their own personal resources.

Exports

39.1 per cent of Filipino small businesses expect to increase revenue from exporting in 2022, the second highest result of the markets surveyed. Seeking alternative markets is one way of growing business and diversifying revenue streams in difficult conditions. It also exposes the businesses to new competition and ideas, which will benefit such businesses in the long run. The survey results show that businesses that expect to grow their revenue from exporting are significantly more likely to grow.

Factors that had positive and negative influences on business

| Top four factors that had a positive influence on Filipino small business in 2021 | Top four factors that had a positive influence on Filipino small business in 2020 | Top four factors that had a positive influence on Filipino small business in 2019 |
|---|---|---|
| Customer loyalty | Customer loyalty | Customer loyalty |
| Improved customer satisfaction | Improved customer satisfaction | Improved customer satisfaction |
| Good staff | Good staff | Good staff |
| Improved business strategy | Improved business strategy | Improved business strategy |

| Top four factors that had a negative influence on Filipino small business in 2021 | Top four factors that had a negative influence on Filipino small business in 2020 | Top four factors that had a negative influence on Filipino small business in 2019 |
|---|---|---|
| COVID-19 | COVID-19 | Increasing competition |
| Increasing costs | Increasing costs | Increasing costs |
| Increasing competition | Increasing competition | Tax |
| Cash flow difficulties | Cash flow difficulties | Cash flow difficulties |

Small businesses in the Philippines found “increasing costs” and “increasing competition” the second and third largest barriers to growth last year, the same as in 2020. However, increasing competition is likely to have positive long-term implications, as it encourages innovation and expansion into new markets – essential elements of growth.

Demographics

| | Philippines 2021 | Survey average 2021 | Rank 2021 | Philippines 2020 | Rank 2020 | Philippines 2019 | Philippines 2018 |
|--|------------------|---------------------|-----------|------------------|-----------|------------------|------------------|
| Business has been established for 10 years or less | 88.1% | 62.8% | 1/11 | 82.0% | 3/11 | 82.6% | 83.1% |
| Respondent is aged under 40 | 57.3% | 45.2% | 4/11 | 69.3% | 2/11 | 64.9% | 65.3% |
| Respondent is the business owner | 61.9% | 39.0% | 3/11 | 66.3% | 1/11 | 69.5% | 64.9% |
| Business has 10 to 19 employees | 31.8% | 30.1% | 4/11 | 17.0% | 9/11 | 22.0% | 26.7% |