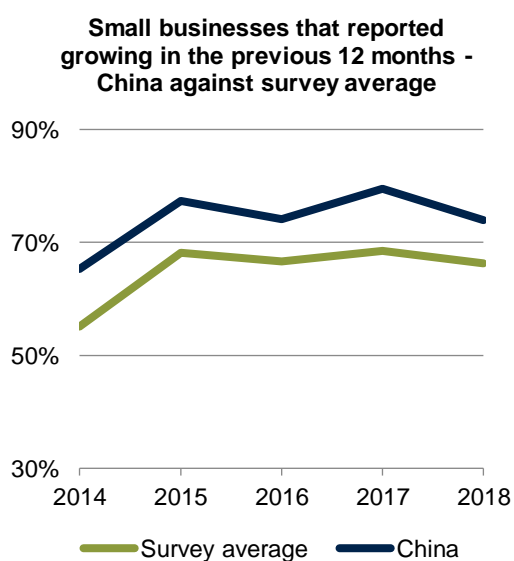
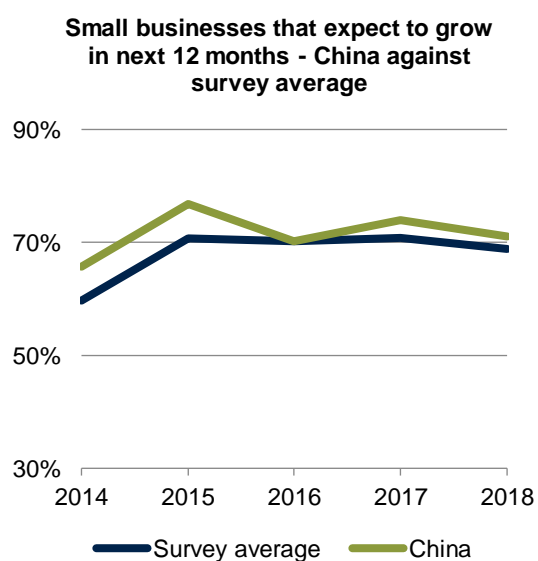


ASIA-PACIFIC SMALL BUSINESS SURVEY 2018

MAINLAND CHINA MARKET SUMMARY

Data snapshot

Business and economic growth



	2018	Survey average 2018	Rank 2018	2017	Rank 2017	2016	2015	2014
Businesses that grew in the last 12 months	74.0%	66.3%	4/10	79.5%	3/8	74.1%	77.4%	65.3%
Businesses that expect to grow in the next 12 months	71.1%	68.8%	5/10	78.1%	3/8	77.3%	76.7%	65.7%
Businesses that expect the local economy to grow in the next 12 months	64.3%	58.4%	5/10	76.7%	3/8	69.2%	71.1%	71.2%

Business activity over the past 12 months

	2018	Survey average 2018	Rank 2018	2017	Rank 2017	2016	2015	2014
Increased employee numbers	39.7%	30.3%	3/10	43.9%	3/8	38.8%	43.1%	38.0%
Improved business management had a major positive impact on their business	25.8%	21.8%	5/10	29.2%	3/8	32.2%	33.1%	N/A
Increasing costs had a major negative impact on their business	34.4%	39.9%	9/10	36.0%	4/8	36.2%	38.9%	N/A
Required funds from an external source	79.6%	53.1%	1/10	84.5%	3/8	80.7%	79.3%	85.8%
Sought external funds for business growth	59.9%	58.6%	4/10	69.3%	2/8	66.5%	62.4%	74.9%
Found it easy or very easy to access external finance	35.4%	30.2%	4/10	36.1%	4/8	40.3%	59.3%	33.4%
A bank was the business's main source of external finance	29.6%	38.1%	9/10	31.3%	8/8	32.5%	27.7%	N/A

Planned business activity over the next 12 months

	2018	Survey average 2018	Rank 2018	2017	Rank 2017	2016	2015	2014
Expect to increase employee numbers	51.0%	41.2%	4/10	51.5%	3/8	49.4%	55.2%	53.1%
Will introduce a new product, service or process unique to their market or the world	26.0%	20.8%	5/10	27.2%	4/8	28.5%	31.6%	N/A
Expect revenue from overseas markets to grow strongly	14.4%	15.0%	6/10	17.2%	3/8	16.6%	15.7%	N/A
Will seek external funds	36.4%	22.9%	3/10	39.8%	3/8	37.0%	45.2	51.6%
Expect easy to very easy access to finance	33.8%	25.1%	1/10	39.6%	2/8	42.7%	55.4%	33.9%

Social media, ecommerce and technology

	2018	Survey average 2018	Rank 2018	2017	Rank 2017	2016	2015	2014
Did not earn any revenue from online sales	5.4%	28.5%	10/10	6.8%	8/8	7.7%	9.2%	8.6%
Did not use social media for business purposes	3.7%	18.3%	10/10	4.8%	7/8	2.9%	2.3%	3.9%

Social media platform your business gets most value out of	Wechat	Facebook	N/A	N/A	N/A	N/A	N/A	Wechat
Investment in technology by the business over the past 12 months has improved profitability	67.0%	48.0%	4/10	74.1%	3/8	N/A	N/A	N/A
Technology your business invested in most heavily over the past 12 months	Computer equipment	Computer equipment	N/A	N/A	N/A	N/A	N/A	N/A
Consider your business likely to be cyberattacked in next 12 months	46.3%	39.4%	3/10	44.9%	4/8	N/A	N/A	N/A
Reviewed your business's cybersecurity protections in last six months	69.0%	49.4%	2/10	N/A	N/A	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	87.1%	55.1%	1/10	84.2%	1/8	N/A	N/A	N/A

Factors that had positive and negative influences on business in 2018

Top four factors that had a positive influence on small business in 2018	Top four factors that had a positive influence on small business in 2017
Improved customer satisfaction	Improved customer satisfaction
Introduced a new product or service	Good staff
Good staff	Introduced a new product or service
Improved business strategy	Cost control

Top four factors that had a negative impact on small business in 2018	Top four factors that had a negative impact on small business in 2017
Increasing costs	Increasing costs
Poor overall economic environment	Increasing rent
Increasing rent	Staff costs
Increasing competition	Increasing competition

Other

	2018	Survey average 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	39.7%	34.7%	4/10

Demographics

	2018	Survey average 2018	Rank 2018	2017	Rank 2017	2016	2015	2014
Business has been established for 10 years or less	64.8%	63.2%	5/10	73.1%	2/8	68.6%	69.8%	80.1%
Respondent is aged under 40	69.9%	52.5%	2/10	68.5%	2/8	60.0%	59.5%	67.9%
Respondent is the business owner	10.1%	36.8%	10/10	6.1%	8/8	9.5%	23.8%	30.4%
Business has 10 to 19 employees	70.0%	35.7%	1/10	77.9%	1/8	68.8%	65.6%	77.2%

Key figures by city (excluding Hong Kong and Taiwan)

	Beijing	Chongqing	Guangzhou	Shanghai	Shenzhen	Mainland China average	Survey average
Businesses that grew in the last 12 months	71.1%	76.2%	77.1%	73.7%	71.7%	74.0%	66.3%
Businesses that expect to grow in the next 12 months	76.3%	68.2%	77.8%	69.9%	63.2%	71.1%	68.8%
Businesses that expect the local economy to grow in the next 12 months	60.5%	67.5%	70.6%	62.8%	59.9%	64.3%	58.4%
Increased employee numbers over the past 12 months	42.1%	36.4%	45.8%	41.7%	32.2%	43.1%	38.0%
Plan to increase employee numbers over the next 12 months	53.3%	47.7%	54.2%	55.1%	44.7%	51.0%	41.2%
Required external funds over the past 12 months	78.9%	77.5%	77.1%	74.4%	90.1%	79.6%	53.1%
Found access to external finance easy or very easy over the past 12 months	32.5%	35.9%	29.7%	37.1%	40.9%	35.4%	30.2%
Banks were the main source of external funds	30.0%	21.4%	44.9%	29.3%	23.4%	29.6%	38.1%
Business growth was the main reason for seeking external finance	65.0%	53.0%	68.6%	69.0%	46.0%	59.9%	58.6%

Will seek external funds in next 12 months	36.2%	34.4%	37.9%	44.2%	28.9%	36.4%	22.9%
Expect easy to very easy access to finance in next 12 months	29.7%	36.1%	27.5%	35.4%	40.0%	33.8%	25.1%
Expect revenue from overseas markets to grow strongly over the next 12 months	9.9%	17.2%	15.7%	12.8%	16.4%	14.4%	15.0%
Will introduce a new product, service or process unique to their market or the world in the next 12 months	21.1%	29.1%	24.2%	30.1%	25.7%	26.0%	20.8%
Investment in technology by the business over the past 12 months has improved profitability	63.2%	64.2%	73.2%	71.8%	62.5%	67.0%	48.0%
More than 10 per cent of sales is received through digital payment options such as PayPal, Alipay, WeChat Pay	83.6%	92.5%	84.5%	85.3%	89.3%	87.1%	55.1%
Did not use social media for business purposes	3.3%	6.0%	2.6%	3.8%	2.6%	3.7%	18.3%
Did not generate any sales online	3.9%	8.6%	4.6%	8.3%	1.3%	5.4%	28.5%
Think it is likely their business will be cyberattacked in 2018	32.9%	41.1%	44.4%	48.7%	64.5%	46.3%	39.4%
Reviewed the business's cybersecurity protections in last six months	65.1%	65.6%	73.2%	65.4%	75.7%	69.0%	49.4%
Possible trade war between the US and a range of other economies will have a negative impact on the business in next 12 months	43.4%	36.4%	39.9%	43.6%	34.9%	39.7%	34.7%
Staff costs were most detrimental to the business	50.7%	48.3%	58.8%	53.8%	42.1%	50.8%	34.9%
Respondent aged under 40	68.4%	62.9%	79.1%	70.5%	68.4%	69.9%	52.5%

Summary

2018 was a positive year for Mainland China's small business sector, with 74.0 per cent of businesses stating that they grew which, which while higher than the survey average of 66.5 per cent, was down slightly from 79.5 per cent in 2017. This positive outlook is set to continue in 2019, with a similar number of businesses expecting to grow.

As in previous surveys, the number of small businesses from Mainland China that reported growing in 2018 was higher than most other markets included in this survey, and well above developed markets such as Australia, where 42.2 per cent of businesses reported growing.

This strong result is likely to continue in 2019, with Mainland China's small businesses being one of the most optimistic small business sectors in the region, with 71.1 per cent expecting to grow – again, much higher than the results for developed economies, such as Australia (47.3 per cent).

Small business confidence in the Mainland's economy in 2019 is reasonably strong, with 64.3 per cent of small businesses expecting the local economy to grow. This result is the lowest since Mainland China was included in the survey in 2014, however in the context of external risks, such as global trade tensions and a 'no deal' Brexit, we view this as a positive result. Further, small business confidence in Mainland China's economy is significantly greater than small business confidence in the economies of developed markets included in this survey, including Australia, where only 34.7 per cent of businesses expect their economy to grow in 2018.

Forty per cent of respondents from the Mainland stated that they added staff in 2018, reflecting the high number of small businesses from Mainland China experiencing growth and a strong economy. Small businesses from Mainland China are likely to continue to make an important contribution to job creation in 2019, with a very healthy 51.0 per cent expecting to add additional staff members.

Small businesses from Mainland China continue to be leaders in using technology in their business. Of the ten markets surveyed, they were the most likely to have earned revenue from online sales and the most likely to be using social media for business purposes. In fact, the percentage of Mainland Chinese small businesses making online sales and using social media is so high that it would be difficult to find businesses in Mainland China that are not. Further, they are not just dabbling in online sales – 81.3 per cent of them are earning over 10 per cent of their revenue from that channel.

Another area of technology where Mainland China's small business sector is a clear leader is the use of digital and online payment options. Small businesses from the Mainland are by far the most likely to offer clients the option to pay via new digital or mobile payment methods, such as Alipay, WeChat Pay etc. Nearly nine in ten (87.1 per cent) respondents generate more than 10 per cent of their sales through such technology, significantly above the survey average of 55.1 per cent.

Mainland China's small businesses are also making use of fintech to access finance, with small businesses from the Mainland being the most likely to access funding from peer-to-peer lending and crowd-sourced funding (14.6 per cent stated that this was their main source of external finance in 2018).

The strong level of digital capability in Mainland China's small business sector is also having a very positive impact on technology investment decisions. Of the small businesses from Mainland China that invested in technology in 2018, 67.0 per cent stated that such an investment was already profitable. In Australia, where digital technology has a relatively low uptake among small businesses, only 16.4 per cent of businesses that invested in technology in 2018 reported that their investment was already profitable. Small businesses from China were the most likely to state that the technology they invested in most heavily was customer relationship management (CRM) software and artificial intelligence.

In addition to their strong focus on digital technologies, small businesses from Mainland China continue to have a strong focus on innovation through expected investments in totally new products, processes or services to the Mainland or the world in 2019.

The innovative culture of Mainland China's small business sector is supporting current and future growth and is helping to improve the competitiveness of Mainland China's businesses, both domestically and globally. It is highly likely that the Chinese Government's strong focus on innovation and technology is helping many small businesses to build and sustain an innovative culture.

Of course, small businesses from Mainland China, like all the other markets, face several challenges – with increasing costs being identified as the most significant barrier to their growth. On global trade tensions, 39.7 per cent of respondents identified such tensions as potentially having a negative impact on their businesses in 2019 which, while high, was not as large as Hong Kong and Vietnam; possibly reflecting the growing domestic market for China's small businesses.

Small businesses in Mainland China found that 'improved customer satisfaction' and 'introducing a new product or service' had the most positive impacts on their business in 2018. These results reflect the strong growth orientation of small businesses in Mainland China.

With high staff costs being selected as the most detrimental cost to small businesses in Mainland China in 2018, it is not surprising that Mainland Chinese businesses were highly likely to select 'good staff' as the factor that had the most positive impact on their business in 2018.

Access to external finance is important for small businesses in Mainland China to help fund its growth and investment in technology. As a result, the percentage of businesses that required external finance in 2018 was the highest of the markets surveyed.

With Mainland Chinese small businesses being the third most likely to expect a cyberattack in 2019, it is no surprise that over two thirds (69.0 per cent) have reviewed their cybersecurity in the past six months.

Highlights of the five Mainland Chinese cities surveyed (Beijing, Chongqing, Guangzhou, Shanghai and Shenzhen) include:

- Small businesses from Guangzhou are experiencing the most positive conditions, with small businesses from that city being the most likely to have reported growing in 2018, expect to grow in 2019 and the most likely to have a positive outlook for the Mainland's economy in 2019.
- Reflecting this result, small businesses from Guangzhou were the most likely to report that they increased employee numbers in 2018.
- Small businesses from Shenzhen were the most likely to have required external finance despite not as many stating they grew in comparison to businesses from Guangzhou.
- Shenzhen small businesses were the most likely to experience easy financing conditions.
- Small businesses from Guangzhou were the most likely to state that a bank was their main source of their finance, while small businesses from Shenzhen were the most likely to nominate peer-to-peer lending as their main source of finance.
- Chongqing was again the only market in the survey where banks were not the most popular source of external finance for small business. Instead, businesses from Chongqing were slightly more likely to state that an investor was their main source of finance.
- Small businesses from Shanghai are the most likely to expect to require external finance in 2019.
- Shanghai small businesses were the most likely to state that they will innovate in 2019.
- Chongqing small businesses were the most likely to nominate 'improved customer satisfaction' as having a major positive impact on their business in 2018, while Guangzhou small businesses were the most likely to nominate 'introduced a new product or service' as having a major positive impact on their business.
- Shenzhen small businesses were the least likely to expect that global trade tension will have a negative impact on their business.
- Guangzhou small businesses were the most likely to be using social media to sell to customers, while Shanghai small businesses were the most likely to be using social media to learn about the behaviours of customers and potential customers.
- Shenzhen small businesses are the most likely to expect a cyberattack in 2019.
- Businesses from Shanghai were again the most likely to nominate staff costs as being detrimental to their business.

Looking at the results for Mainland China's small businesses, there is a lot to be positive about. Large numbers of small businesses are experiencing growth, they are leading in the adoption and utilisation of technology across the region, and a sizable number are investing in innovation. These factors will assist small businesses from China manage through a potentially challenging 2019.