

# Smarter Connected Commerce:

## Evolution and Opportunities for Micro, Small, and Medium Enterprises (MSMEs) in Asia-Pacific (APAC)

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## Structure and Composition of MSME

### MSMEs—Backbone of APAC Economies

Micro, small, and medium enterprises' (MSMEs) contributions to the economy and exports have steadily increased during the last few years because of technological advances, government policies, and increasing levels of entrepreneurship across APAC. MSMEs contribute an impressive amount (\$15 trillion in 2021) to APAC's gross domestic product (GDP), and about 20%–30% of this contribution goes to the manufacturing GDP.

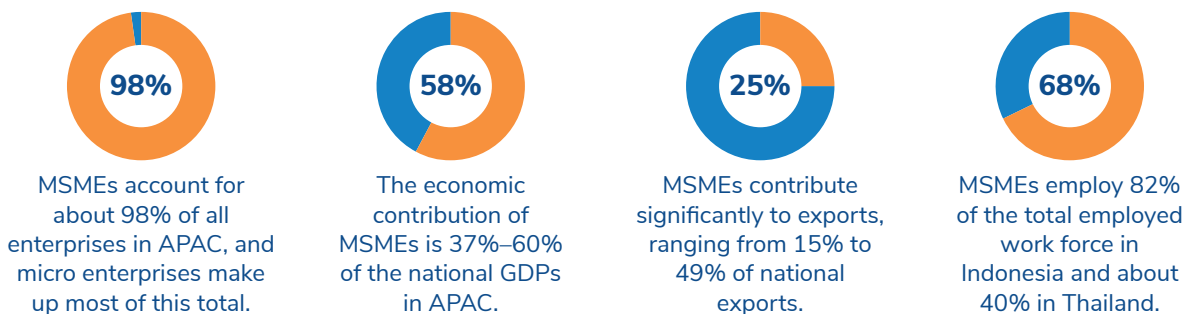
**In the Association of Southeast Asian Nations (ASEAN), Indonesian MSMEs contribute the largest percentage (61%) to their country's GDP. In South Asia, India's MSMEs have one of the highest shares (49% in 2020) in exports.**



According to the World Bank, the number of MSMEs in the region is approximately 170 million. They outnumber large enterprises and, therefore, employ a significant portion of their countries' working population.

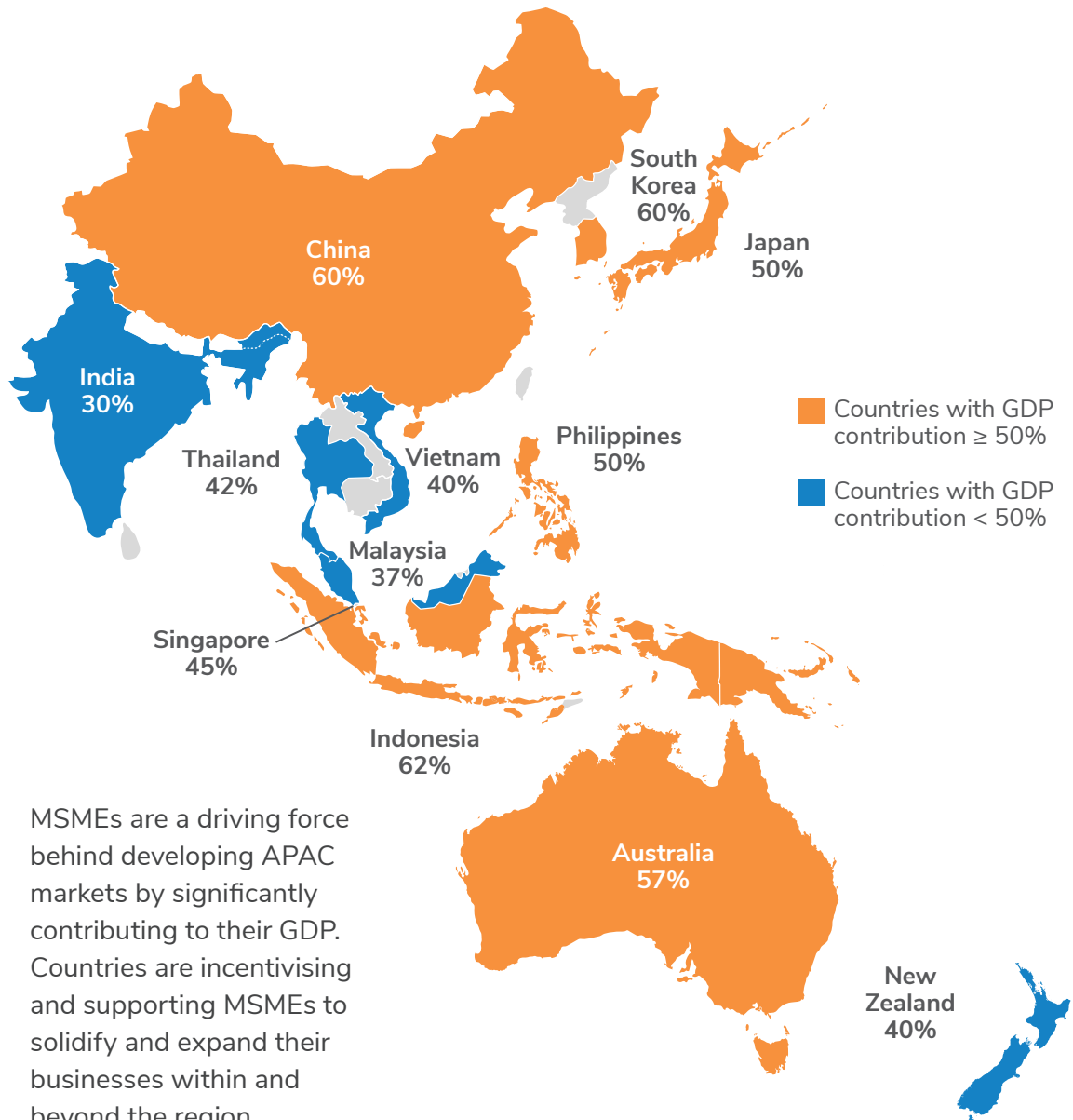
In APAC, exports from MSMEs accounted for approximately \$896 billion in 2020. MSMEs contribute significantly to the exports of APAC countries, ranging from 15% to 49% of the total exports. As commerce became smarter and more connected, MSMEs turned to electronic commerce (eCommerce) to access a more extensive network and a larger regional and international consumer base.

### MSME Contribution to the Economy, APAC, 2021



*Note: The definition of MSME varies across countries and in some cases is industry specific. Some of the indicators are the number of employees, assets, and turnover. Estimates are based on national ministries, government agencies, and Asia Development Bank publications. Source: Frost & Sullivan*

## MSME Contribution to GDP by Country, APAC, 2021



- MSMEs are a driving force behind developing APAC markets by significantly contributing to their GDP.
- Countries are incentivising and supporting MSMEs to solidify and expand their businesses within and beyond the region.
- MSMEs in APAC needing access to international markets challenged their expansion. However, with the COVID-19 pandemic changing market dynamics, the upsurge of eCommerce resolved this issue.
- The digitalization of their businesses is an important requirement for MSMEs as they rapidly grow, and it is a crucial indicator of their chances to prosper and flourish.

Note: Estimates are based on the publications of Ministry of Industry and Commerce, small business promotions, government agencies, and national and international agencies.  
 Sources: Asian Development Bank; World Bank; National Ministries; Frost & Sullivan

## eCommerce Boom—Creating Opportunities Beyond Borders

### APAC countries saw 30–40% increase in eCommerce

ASEAN online shopping platforms, such as Lazada and Shopee in Singapore and Tokopedia in Indonesia, experienced a sharp increase in activity during the pandemic compared with pre-pandemic levels. With the boom in eCommerce and mobile commerce, many micro, small, and medium suppliers experienced an increase in customer base locally and internationally during the pandemic.

#### CASE STUDY:

A Philippines-based jewelry brand with a strong eCommerce presence recently established FedEx's smarter connected logistics solutions for its fragile goods. The business required smart logistics services to ensure its fragile jewelry products arrived at the intended, cross-border destination on time and in proper condition. With quality logistics support, it currently serves a broader international market.

### MSMEs in APAC will increase focus on export opportunities

With regional integration stemming from free trade agreements (FTAs), trade barriers will diminish among countries, creating high intra-regional trade growth.



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**MSMEs are entering international markets by adopting digital tools to expand their customer base.**

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## Key Imperatives for Smarter Connected Commerce

The incorporation of technological trends boosted last-mile operations and created new customer expectations. To remain on par with other businesses, MSMEs must provide digitally advanced services that are now a requirement for gaining and maintaining a customer base. MSMEs are increasingly partnering with logistics companies for seamless logistics operations, resulting in greater customer satisfaction.



### Smart Business

eCommerce pushed the need for logistics solutions

supported by digital technologies and analytics software, such as artificial intelligence (AI), Big Data and predictive data analytics, cloud systems, and automation and robotics. More than 7 million online shops exist globally, indicating an increase in online shopping during the pandemic. This increase created a massive demand for logistics, with the number of parcels rising significantly. eCommerce companies are expanding rapidly and including all sizes of businesses on their platforms to access a wider customer base.



### Managing Supply Chain Disruptions

High uncertainty associated

with the next waves of the pandemic and related lockdown measures will force MSMEs in APAC to plan for business continuity. Partnership with strong logistics service providers will minimize the risk and challenges associated with these potential future disruptions. MSMEs leverage technologies, such as Big Data, AI, and Internet of Things (IoT), to predict any disruptions in the supply chain and take the actions necessary to eradicate them for a smoother logistics experience.



### Customer Experience

Customers increasingly expect same-day deliveries. To meet

these increasing customer expectations, businesses need efficient and quick dispatch and delivery times, requiring a technology-driven approach to logistics based on route optimization and delivery automation. Considering infrastructure and capacity constraints, the speed and efficiency of delivery times will challenge the customer delivery experience. In the absence of reliable logistics partners, MSMEs are more likely to lose customers due to delivery delays.



### Cross-border Trade

Intra-regional trade will open opportunities in APAC. In 2020,

APAC intra-regional trade accounted for 54% of the global total. With increasing contributions from MSMEs, the need for customs clearance solutions is a principal factor that will improve the logistics efficiency and overall competitiveness of MSMEs. Cross-border movement of goods became quicker and more efficient because of paperless digital trade solutions.



## Digitalization Powering Smarter Connected Commerce

### Digitalization Reshaping the MSME Landscape in the Post-pandemic Era

MSMEs can become APAC's growth engine during COVID-19 via trade, paving the way for economic recovery and resilience. Supply chains and logistics have become vital during this recovery phase.

Government support measures, such as financial incentives and infrastructure provision, have helped MSMEs recover during the COVID-19 pandemic. Developments in trade cooperation, such as Regional Comprehensive Economic Partnership (RCEP), will support long-term growth.

Digital platforms will also help MSMEs recover and increase their business in the post-COVID-19 era. With the shift in consumer behavior and sharp online shopping growth, cross-border purchases will gain prominence between 2022 and 2025.

The proliferation of eCommerce platforms helped MSMEs by simplifying their online presence on eCommerce sites such as Tokopedia, Lazada, and Shopee, which saw an upsurge of consumers. Several MSMEs adapted to the trend and used these platforms to build an international online presence.

#### CASE STUDY:

FedEx's logistics solution supports a bag manufacturer in China, which expanded operations in APAC markets. The manufacturer began operation in 2014, manufacturing and supplying travel bags, cases, fashion products, and outdoor supplies to customers. With market demand peaking, the bag manufacturer developed and internationalized its sales through eCommerce to its target markets in Canada, the United States, Europe, Australia, and Japan.

## Overcoming Logistics Challenges with Smarter Connected Solutions

MSMEs do not have the benefits of scale that larger enterprises enjoy. They are under constant cost pressures and require better solutions for managing inventory and providing customer service. For instance, poor inventory management (e.g., excess or under-ordering of raw materials and over-stocking of finished products) can tie up working capital or hold up assembly lines and strain company financials.

This challenge gets even more complicated as MSMEs deal with international customers. Cross-border logistics challenges (e.g., irregular sea and air shipments and unpredictable delivery efficiencies) in peak and low seasons can hurt customer experience and negatively impact a business's prospects. Smarter, more connected logistics services can help address all of these challenges by providing digital solutions.

With eCommerce booming and FTAs such as EU-Vietnam and RCEP in action, global trade opportunities opened and broadened the horizons for MSMEs. Logistics partners can help facilitate and nourish cross-border trade so MSMEs can expand their reach. Services that extend delivery flexibility to customers by customizing the location and time line of deliveries are crucial to MSMEs' development.

**MSMEs will increase the use of digital marketing tools, expand eCommerce capabilities, adopt cloud-based solutions, and enhance cybersecurity measures.**



## Smarter Digitalized Logistics Rendering Competitive Advantage to MSMEs

### Digitalization as a requirement for success

With the onset of rapid digitalization, businesses must adapt to newer technologies that improve the efficiency of logistics operations. Customers increasingly require complete visibility, real-time tracking services, and flexible delivery options—businesses are gradually partnering with logistics companies to provide such services.

### Technologies impact on smarter connected commerce

Connected commerce allows customers the flexibility to shop online due to rapid advances in mobile and internet penetration across APAC. Adoption of technological tools results in productivity and efficiency. At this stage, adoption of digital technologies is at the core of the logistics service development for the smart connected commerce sector.

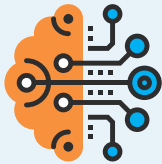


## Major Technologies and the Benefits They Offer MSMEs



### Big Data

MSMEs are using Big Data infrastructure to leverage predictive analysis by integrating multiple data sources to improve efficiency and reduce costs associated with administrative delays, such as customs clearance and cross-border movement of freight. By combating cross-border delays and assuring the timely delivery of goods, MSMEs can focus on their area of expertise.



### AI

MSMEs are combining digital solutions, such as AI and machine learning, with 5G technology to quickly and more accurately monitor and predict logistics delays in real time, enabling them to take suitable actions to manage risks. This approach helps MSMEs avoid delays that can lead to customers canceling their orders.



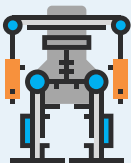
### IoT

Using technologies such as IoT to virtually connect data enhances last-mile operations. Data-driven logistics help last-mile operations perform more efficiently, making failures and mistakes negligible and avoiding business loss.



### Tracing Technology

Emerging customer trends, such as precise tracking and contactless delivery, require unique solutions from logistics service providers. Sensors help achieve precise tracking with greater visibility across the supply chain. It offers customers services to track and trace their goods, resulting in greater customer trust and assuring long-term customer relationships for MSMEs.



### Autonomous Vehicles & Robots

Logistics companies plan to accomplish contactless delivery by launching automated vehicles and robots soon. Ongoing pilot tests in Japan and Singapore pave the way for future last-mile deliveries. Businesses can avoid road congestion by utilizing automated robots and drones to deliver orders, and the hassle-free contactless deliveries will also please customers.

## Pathways to Smarter Connected Commerce

For a successful business model, MSMEs need to enlarge their digital presence and partner with logistics service providers to expand their regional presence. Assured logistics services will mitigate risks and form a strong customer base, so companies can focus on improving the quality of their products and digitalizing their businesses.

### Four Factors Playing Vital Roles in Smarter Connected Commerce



#### **FOCUS ON TARGET CUSTOMER**

A successful business requires customer retention, which is achievable through personalized services. With quality products and logistics services, MSMEs can build brand names and gain recognition.



#### **EXPLORE OPPORTUNITIES IN REGIONAL CROSS-BORDER TRADE**

With rapid advances in mobile and internet penetration across APAC, customers are shopping online more, which will generate huge opportunities for MSMEs in the next 5 years.



#### **PARTNERSHIPS WITH SERVICE PROVIDERS**

MSMEs can establish their regional presence by focusing on core competency and availing the services of stakeholders for optimal logistics efficiency.



#### **DIGITAL TOOLS FOR SMARTER CONNECTED COMMERCE**

MSMEs lack the workforce needed to handle vast databases. Digital tools can help cut down costs and expand profit margins with the efficient management of databases.



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