

Micro, Small, and Medium Enterprise (MSME)

Business Outlook 2024 MALAYSIA

Accelerating Productivity with Digital Tools

Malaysian MSMEs are amping up digitalisation initiatives and productivity tools to spur their next phase of growth.

TABLE OF CONTENTS

CONTENTS

Page 1

Foreword

Page 2

Executive Summary

Page 3

Chapter 1: A Glance Back, A Look Forward

Page 5

Chapter 2: What Actually Matters to MSMEs in 2024?

Page 9

Chapter 3: Where Will Growth Be Focused?

Page 11

Conclusion

Foreword



Kellee Kam

Group Chief
Executive Officer,
Alliance Bank
Malaysia Berhad

I am proud to present the third edition of Alliance Bank Bhd Digital SME (Alliance Digital SME)'s MSME Business Outlook survey, our half-yearly check-ins with MSMEs across Malaysia, both within our client base and across our supporting partner networks. These check-ins enable Alliance Bank to take accurate temperatures of MSME business sentiment for the coming period, and subsequently, empower us to innovate products and services in tandem with their changing needs.

In February 2023, Alliance Bank unveiled our Acceler8 strategic plan that outlines our growth trajectory through to FY2027. MSMEs are a key part of our Acceler8 strategy. In our 1HFY2024 ending 30 September 2023, SME loans outpaced industry growth by 1.8 times. Alliance Bank also acquired 6,200 new-to-bank business customers, representing a massive 30% year-on-year growth.

Growth alone, without a sustainable path to consistent gains, is not enough. Environment, Social, and Governance (ESG) factors are equally crucial to building sustainable SME growth. Recognising this, Alliance Bank piloted an SME climate action programme for suppliers of Mah Sing Group through Bursa Malaysia's Centralised Sustainability Intelligence Platform. We also collaborated with InvestSarawak, Solarvest, Monash University Malaysia, INCEIF University, and SME Corp to help SMEs implement ESG practices.

MSMEs cannot simply invest in digitalisation or ESG solutions, without the backing of a strong domestic economy to keep revenues on the uptrend. AllianceDBS Research expects the implementation of the strategic developments and flagship projects under the Madani Economy Framework, 12th Malaysia Plan Mid-Term Review, New Energy Transition Roadmap, and New Industrial Master Plan 2030 to accelerate the economic take-off for Malaysia. In addition, the realisation of record-high approved investments from foreign investors in 2021-2022 may potentially keep the overall economy on a healthy growth trajectory in 2024.

Malaysia's economic outlook is expected to grow by 4.3% in 2024 – in line with government's forecast of 4%-5%. Fundamentals remain strong as Malaysia's economy continues to take comfort from its resilient domestic demand, underpinned by sustained household spending. MSMEs are poised to benefit immensely from the robust economic growth in 2024, a sentiment that our survey respondents shared vis-à-vis their ambitious expansion and digitalisation plans.

Executive Summary



Raymond Chui

Group Chief SME &
Commercial Banking
Officer,
Alliance Bank Malaysia
Berhad

While our previous surveys throughout 2022 and 2023 showed Malaysian MSMEs' efforts to accelerate their post-pandemic recovery via entering new markets, hiring key talents, and increasing sales and marketing efforts, our 2024 outlook survey revealed that MSMEs expect to spend more on digital tools to improve their business productivity.

For many MSMEs, the recovery to pre-pandemic revenues is close to completion, with further growth expected to be fueled by better margins and more time invested in business development efforts. Digital tools are expected to ease day-to-day administrative tasks that often bog down business owners.

The MSME Business Outlook 2024 – Malaysia survey offers a new, sectoral view of MSMEs' goals, challenges, and needs for the first half of 2024. These findings provide a temperature check of the segment, which can help guide policymakers and financial institutions like Alliance Bank that count MSMEs as a key customer demographic.

In 2023, over 72% of MSMEs saw increased revenues compared to 2022, with MSMEs in the Services, Manufacturing, Construction, and Wholesale & Trading sectors performing particularly well.

This aligns with the improved domestic demand in 2023, which fueled the country's GDP growth of 3.7% (as reported by the [Ministry of Finance](#)), and bodes well for the coming year, given that both the [International Monetary Fund \(IMF\)](#) and the [World Bank](#) have projected Malaysian GDP growth to increase further to 4.3% in 2024.

Last year, MSMEs noted three main impactful changes: stronger sales and revenue, upgraded/digitalised business tools, and better branding/marketing results. As a challenger bank, Alliance Digital SME itself has embraced digitalisation as a key tenet of its own growth journey. Our fully-digital business loans enable us to cater to as MSMEs as possible with hassle-free and tailored solutions that empower MSME owners to spend more time on growing their businesses,

These Alliance Digital SME loans are built to support business customers through their life cycle: Alliance Digital SME Startup Financing provides up to RM100,000 in financing for businesses with at least six months under their belts, Digital SME Express Financing unlocks up to RM500,000 for those who have been in business for at least one year, and Digital SME Cash Flow Financing offers up to RM1 million for MSMEs with at least three years of operations.

CHAPTER 1

DOMESTIC DEMAND DRIVES SALES

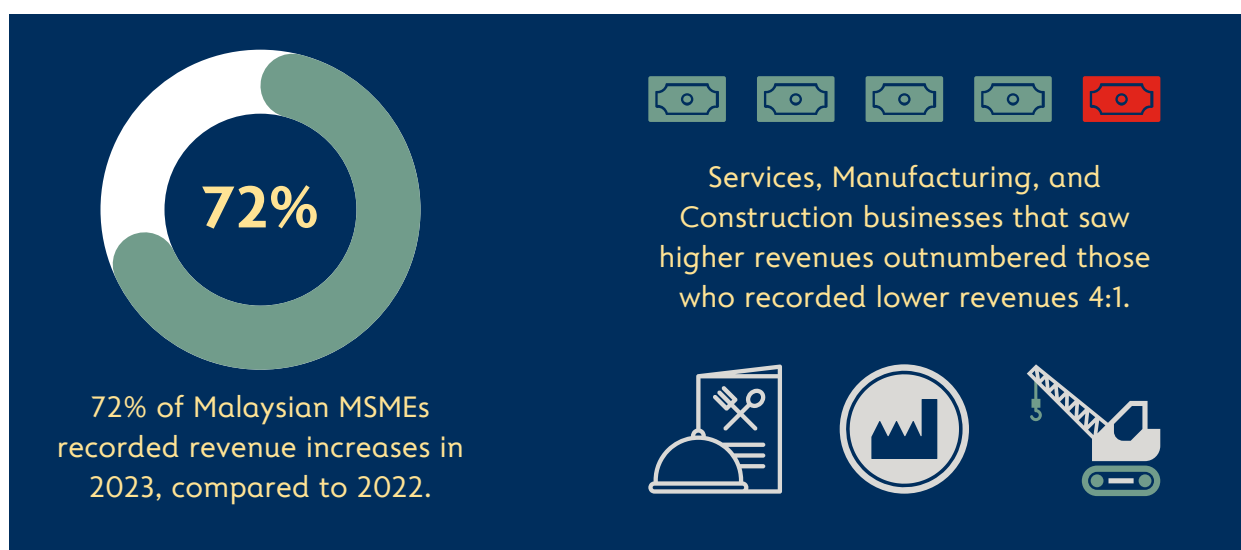
Domestic demand has continued to be the main driver of the Malaysian economy, supported by strong employment and higher incomes as well as the resurgence of the tourism sector. Despite the ringgit oscillating between RM4.30 to RM4.70 to the greenback across 2023, inflation slowed towards the tail-end of the year in line with the easing cost environment, providing some relief to MSME cash flows and margins.

REVENUES STILL UP, ALBEIT AT A SMALLER QUANTUM

The strengthened domestic demand saw 72% of survey respondents recording increased revenues in 2023, compared to 2022.

In key sectors like Services, Manufacturing, and Construction, businesses that registered better revenues outstripped those who did not by 4-to-1. Meanwhile, MSMEs in Wholesale & Trading that saw increased revenues outnumbered those who did not by 2-to-1.

Compared to 2021 and 2022, when MSMEs recorded massive spikes in their sales as borders reopened and trade resumed, revenue growth in 2023 was more moderate — and ostensibly, more sustainable — with a third of MSMEs seeing revenues grow 11-30% year-on-year.



IMPACTFUL CHANGES, SURMOUNTING CHALLENGES

Sector	Most Impactful Changes	Biggest Challenge
Services	<ul style="list-style-type: none"> • Stronger sales and revenue • Upgraded/ digitalised business tools • Better branding/ marketing results 	Difficulty in finding talents to help
Manufacturing	<ul style="list-style-type: none"> • Upgraded/ digitalised business tools • Able to get access to financing for better cash flow • Hired more talents 	No new revenue streams
Wholesale & Trading	<ul style="list-style-type: none"> • Stronger sales and revenue • New revenue stream • Better branding/ marketing results 	No access to financing/ loans

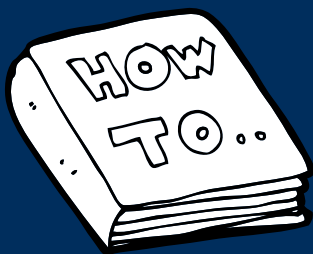
CHAPTER 2

CASH FLOW GAP REMAINS

Over 70% of MSMEs expect to have cash flow issues in 2024, with those in the Wholesale & Trading (77.5%) and Services (65.5%) sectors having the most need. This comes as no surprise as it is the nature of their business and many MSMEs in these sectors have to bridge the cash flow gap between their invoices being paid and having to fork out monthly rental and payroll expenses.

Business owners are expecting to bridge the cash flow gap with bank loans (49.7%), investor funding (22.0%) and peer-to-peer (P2P) financing solutions (13.2%). Although banks are still many MSMEs' number one option, only 20.8% of respondents were successful in accessing business financing within the last six months.

Survey respondents noted three main difficulties in accessing funds: process takes too long, too much documentation, and interest rates that are too high.



ENHANCE CASH FLOW EFFICIENCY

- **Receivables:** Engage in early and proactive discussions with customers, consider reduced terms for discounts, and discourage debtor financing.
- **Payables:** Cease early payments, focus on critical suppliers, and review existing terms and supply chain financing.
- **Inventory:** Trim orders and back-up stocks, adopt a consignment approach, offer discounts on slow-moving and obsolete stock, and address production bottlenecks to minimise work-in-progress (WIP).



BRIDGING THE CASH FLOW GAP

REALIGN YOUR COST BASE

- Implement cost optimisation strategies to translate savings into improved financial health and enterprise value.
- Commit to a bold yet realistic transformation programme, driving execution for value creation, and emphasise agility and flexibility through a repetitive process that delivers quick wins.



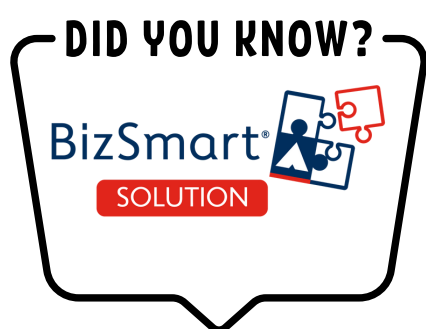
CONSIDER CREDIT/FUNDING

- Tap into existing revolving credit facilities or request covenant waivers from lenders.
- Conduct early discussions with lenders.
- Revisit forecasts to identify potential cash shortfalls and funding needs.
- Implement working capital management.
- Recognise un-pledged collateral to support new funding requests.
- Appraise existing facilities or inter-creditor arrangements.
- Request committed but undrawn lines to enhance liquidity.
- Explore informal or formal restructuring schemes.
- Explore alternative lenders and special situation funds.

FINANCING AND DIGITAL NEEDS

Financing support is still the most in-demand (34.1%) product MSMEs require from banks.

However, as evidenced by their expansionary views, respondents also pointed out a need for non-financing services such as business/networking events (17.4%), business coaching/ upskilling (12.0%), and digitalising the business (12.0%).



BizSmart Solution is the Alliance Bank digital ecosystem that helps MSMEs reach out to new customers and digitalise their businesses. To date, the platform has generated more than 2,000 leads for BizSmart Solution partners.



Reach out to over 100,000 Alliance Bank customers nationwide.

Increased exposure for better lead generation and customer acquisition.

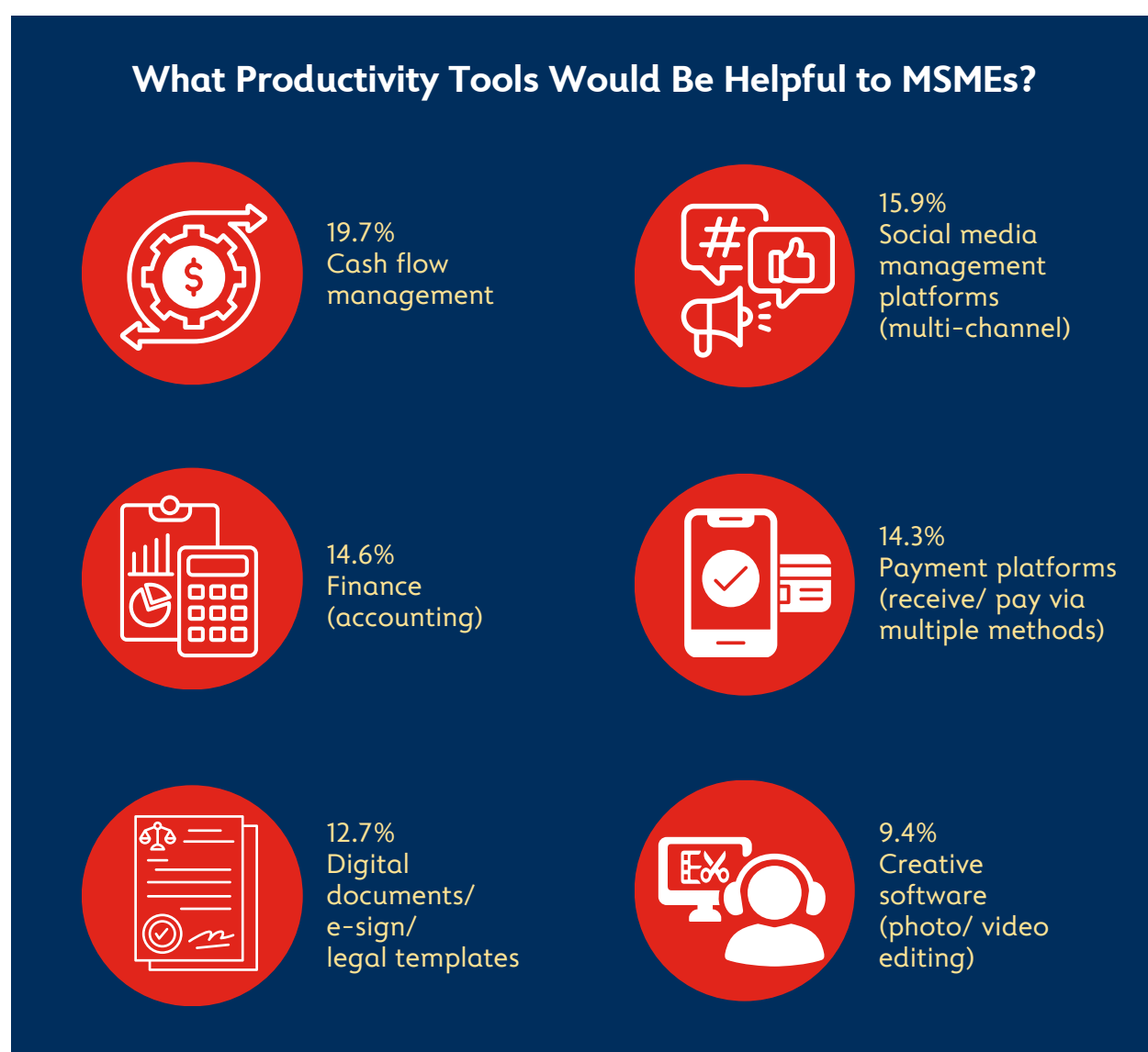


Enhance business capabilities by accessing different solutions – all at preferential rates.

MSMES' DIGITAL PRIORITIES

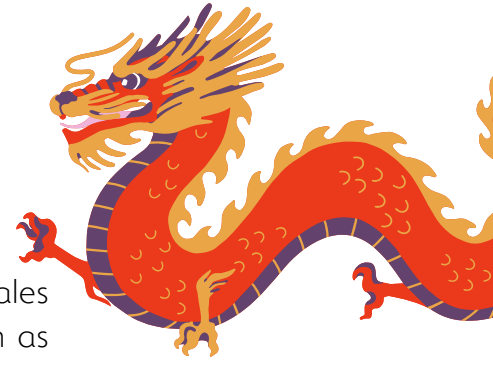
The increased focus on digital tools points to Malaysian MSMEs' accelerated acceptance of technology as a business productivity tool. MSMEs' digital priorities over the next 12 months include: increasing the use of new technologies, improving digital capabilities, expanding into new markets, and introducing new products and services.

The majority of MSMEs still require very basic digitalisation tools such as enterprise resource planning (ERP) and customer relationship management (CRM) solutions. As many businesses take an omni-channel approach to engaging customers, across their own sites as well as different social media platforms, it is vital that these solutions take a more holistic view that includes social media management.



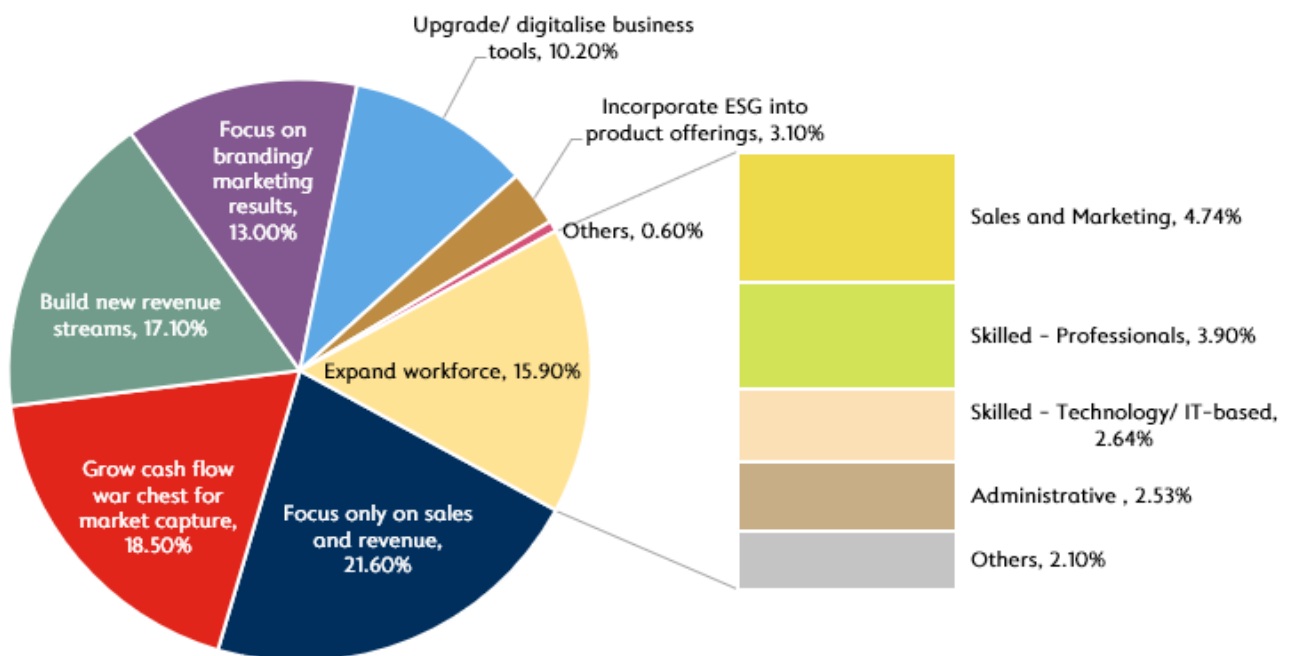
CHAPTER 3

GOALS FOR 2024



The Year of the Dragon has Malaysian MSMEs focusing on the sales and revenue above all, followed by expansionary strategies such as building up a cash flow war chest for market capture (i.e. apply for financing) and building new business revenue streams.

Top MSME Business Goals for 2024



For MSMEs that have expressed plans to expand their workforce, the focus is largely on sales and marketing staff, followed by skilled professionals, and then technology and administrative staff.

Concurrently, the key concerns for 2024 remain largely the same as previous years: lower sales, higher costs of doing business, ringgit depreciation, and reduced domestic demand.

OUTLOOK FOR 2024

Despite these concerns, over the next 12 months, MSMEs plan to expand into new markets (43.3%), introduce new products and services (33.7%), and explore strategic mergers and acquisitions (M&As) and partnerships (20.3%).

Given the appetite for both funding and digital tools, MSMEs need all the help they can get from financial institutions and policymakers, to play their role as the engine of growth (and now, innovation) for the country.

AllianceDBS Research forecasts Malaysia to be well-positioned for better economic growth in 2024 owing to its underlying strength in domestic demand that accounts for the lion share of the economy.

Private consumption will continue to be the key growth driver, underpinned by robust labour market conditions with continued expansion in employment and income prospects.

Revival in tourism activities in 2024 will likely provide a strong stimulus, especially with the introduction of visa-free entry for tourists from China and India, further boosting domestic economy which will certainly spill over to MSMEs.



CONCLUSION

The MSME Business Outlook 2024 – Malaysia survey found that MSMEs have largely seen revenues return to pre-pandemic figures, with further growth expected to be fueled by aggressive sales and marketing efforts, and aided by digitalisation tools that drive productivity and free up business owners to concentrate on expansion strategies.

Due to the cash flow gap, MSMEs often put digitalisation and technology upgrades on the backburner. But with ERP and CRM tools now taking a more holistic view of businesses and incorporating modern needs like social media management, more MSMEs are embracing tech to drive innovation and productivity.

At the same time, age-old issues such as cash flow financing continue to plague MSMEs, with a mismatch between the number of MSMEs requiring funding and those that are actually successful in applying for loans.

Key findings:



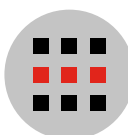
Over 72% of MSMEs recorded increased revenues in 2023, as compared to 2022. Outperforming sectors: Services, Manufacturing, Construction. Revenue increases have moderated and stabilised, between 11% and 30% year-on-year.



Over 70% of MSMEs expect cash flow issues in 2024, primarily those in Wholesale & Trading and Services. However, only 20.8% of respondents were successful in obtaining loans over the past six months.



MSMEs depend on banks for: financing support, business/networking events, coaching/upskilling, and digitalising the business.



Key productivity tools: cash flow management, social media management, finance, payment platforms, digital documents, creative software, and HR/payroll.



MSMEs' top business goals for 2024 are: focusing only on sales and revenue (21.6%), building up a cash flow war chest (18.5%), and building new revenue streams (17.1%).



Key talent needs for 2024: sales and marketing staff (29.8%) and skilled professionals (24.5%).



Strategies for the next 12 months: expand into new markets (43.3%), introduce new products and services (33.7%), and explore strategic mergers and acquisitions (M&As) and partnerships (20.3%).

DISCLAIMER

This report has been prepared for information purposes only by Alliance Bank Bhd Digital SME ("Alliance Digital SME"). Receipt and review of this report indicate your agreement not to distribute, reproduce or disclose in any other form or medium (whether electronic or otherwise) the contents, views, information or opinions contained herein without the prior written consent of Alliance Digital SME.

This report is based on data and information obtained from various sources believed to be reliable at the time of issuance of this report and any opinion expressed herein is subject to change without prior notice and may differ or be contrary to opinions expressed by Alliance Digital SME's affiliates and/or related parties.

Alliance Digital SME does not make any guarantee, representation or warranty (whether express or implied) as to the accuracy, completeness, reliability or fairness of the data and information obtained from such sources as may be contained in this report.

As such, neither Alliance Digital SME nor its affiliates and/or related parties shall be held liable or responsible in any manner whatsoever arising out of or in connection with the reliance and usage of such data and information or third party references as may be made in this report (including, but not limited to any direct, indirect or consequential losses, loss of profits and damages).