

FROM DISRUPTION TO TRANSFORMATION:

Examining the impact of COVID-19
and digital acceleration on
Singapore's home-based and
other micro-businesses

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ABOUT THIS REPORT

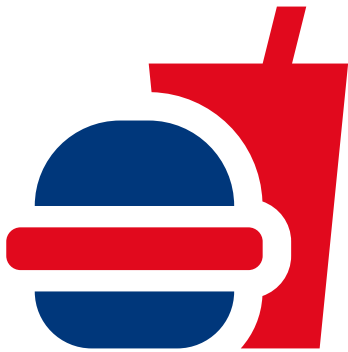
From Disruption to Transformation examines the impact of COVID-19 on Singapore's home-based and other micro-businesses, with a particular focus on if and how they have adopted technology to overcome recent challenges and accelerate transformation in their businesses. This report analyses the challenges, needs and preferences of micro-businesses in the current climate of rapid digitalisation and change. It aims to engage all related stakeholders, including micro-business owners and solution providers, on how best to support this integral section of Singapore's business ecosystem and further its resilience.

This report is based on findings from a study commissioned by The FinLab in April 2021 with 250 micro-businesses in Singapore, comprising of an even split between home-based and other types of micro-businesses. The report defines micro-businesses as those with annual revenue of less than S\$1 million and/or less than 10 employees. Home-based micro-businesses here are differentiated according to criteria set by the Singapore government¹, including being wholly owned and operated by the home owner, and not employing any person outside of the household.

¹URA Singapore 2021, <https://www.ura.gov.sg/Corporate/Guidelines/Home-Business/Home-Based-Businesses>

SURVEY FINDINGS

What constitutes home-based and other micro-businesses in Singapore?



38%

Most home-based businesses are in the food and beverage industry



67%

have less than 5 employees



66%

believe their product/service is their competitive advantage



34%

Most other micro-businesses are in the finance industry



55%

have between 6 to 10 employees



44%

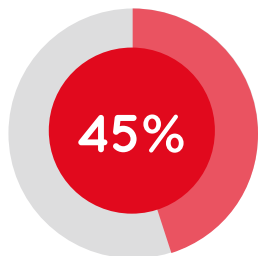
believe pricing is their competitive advantage

How were Singapore's home-based and other micro-businesses disrupted and transformed in the last year?

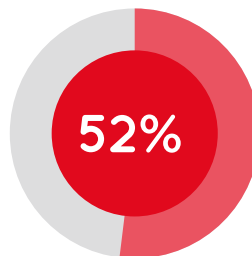


95%

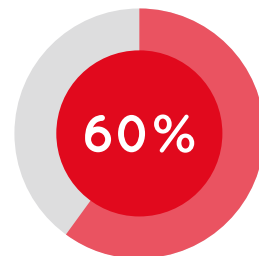
have been negatively impacted by COVID-19



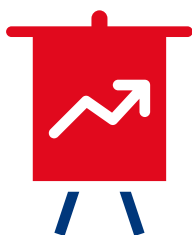
recorded a drop in sales due to COVID-19



cited cash flow management as their biggest pain point

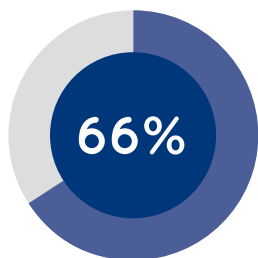


reduced, halted plans, or had no plans to adopt technology in the last year

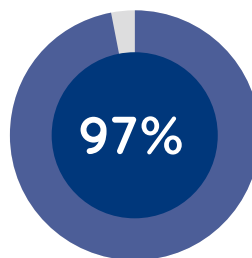


94%

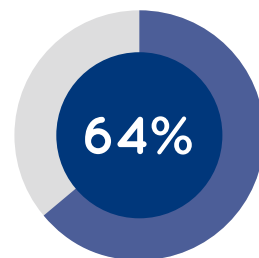
improved business performance through technology adoption



increased productivity and optimised processes after implementing digital solutions



planned to sustain or increase technology adoption

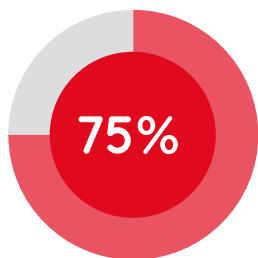


felt their businesses would benefit from more artificial intelligence/machine learning solutions

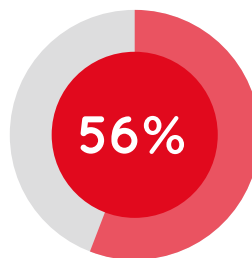


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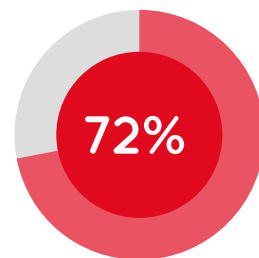
needed additional support for digitalisation



were lacking knowledge of how to optimise their digital tools



needed most support with financing and access to capital



wanted help finding the right digital solutions for their organisation



SECTION 1:

Understanding the impact
of COVID-19 on Singapore's
home-based and other
micro-businesses

Most home-based and other micro-businesses cited cash flow, financial access and supply chain disruption as their biggest pandemic pain points

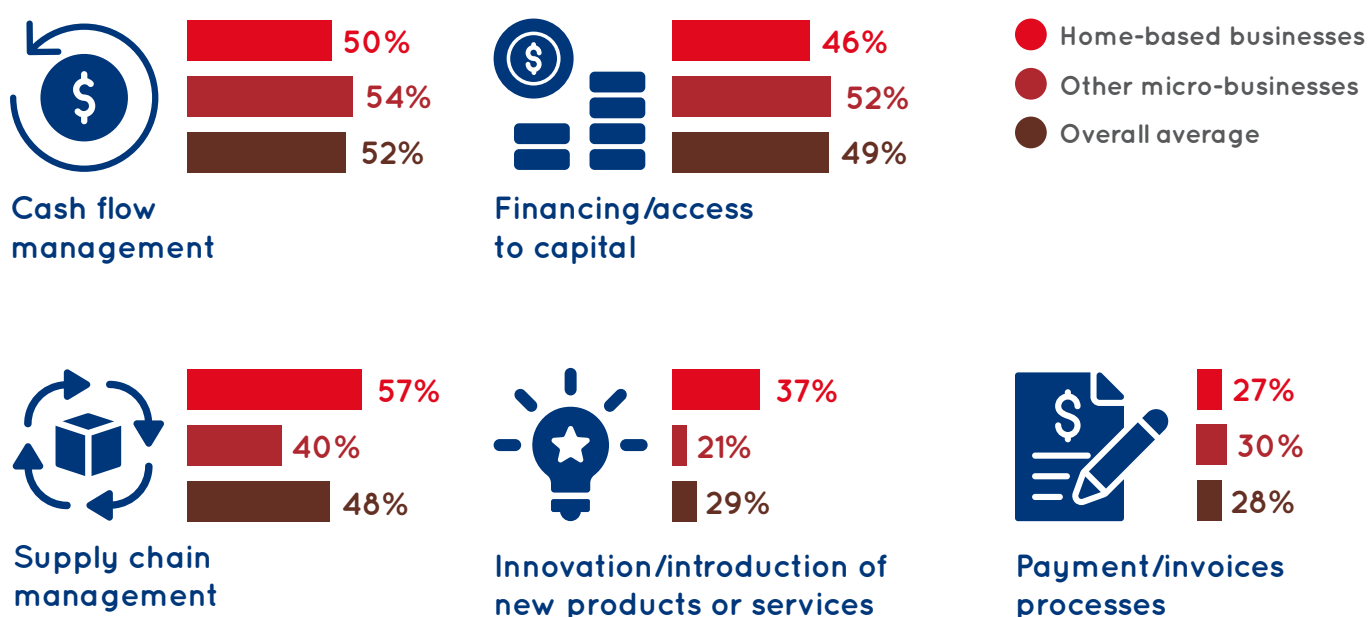
With the global economy still being disrupted by the pandemic, businesses of all sizes continue to be impacted. Singapore's home-based and other micro-businesses are no exception, with an overwhelming 95 per cent of those surveyed reporting being negatively impacted by COVID-19.

When asked to define the nature of this impact in the last 12 months, 45 per cent reported a drop in sales, which are significant outcomes, especially for businesses of this size. Many home-based and other micro-businesses also experienced changing customer behaviour (32 per cent) that could negatively impact their business or require operational overhaul. For example, according to UOB's recent

ASEAN Consumer Sentiment Study 2021, Singaporeans reported purchasing more food and beverage related goods online as a result of the pandemic. Four in 10 consumers said they started buying household groceries online in the past six months with 94 per cent indicating they plan to continue doing so in the future². Micro-businesses such as family-run groceries and shops, which primarily operate offline, would be most impacted by this shift.

More than a quarter (28 per cent) of the surveyed micro-businesses in Singapore also said they have been impacted by cash flow difficulties resulting from the pandemic—which also constituted their biggest pain point in the last 12 months (52 per cent).

What were your organisation's top pain points over the past 12 months?



² UOB ASEAN Consumer Sentiment Study 2021, <https://www.uobgroup.com/web-resources/uobgroup/pdf/newsroom/2021/UOB-survey-shows-70-per-cent-of-consumers-increased-digital-payment-usage-in-Singapore.pdf>

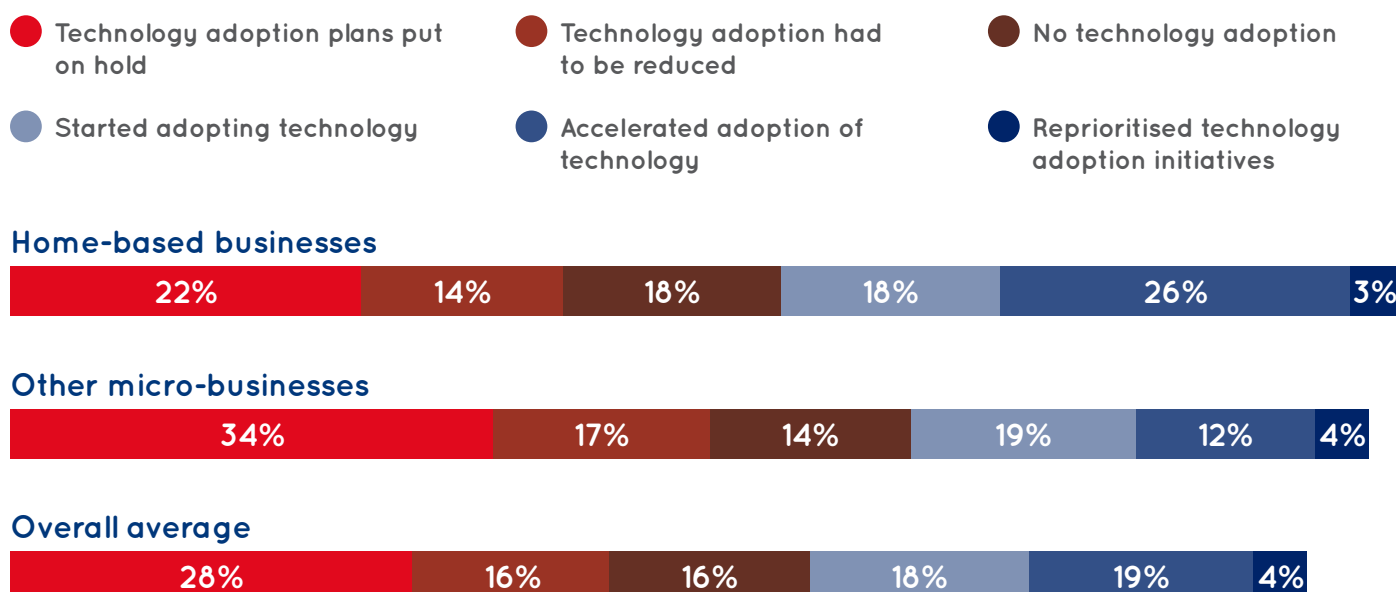
Other than cash flow management, survey respondents ranked problems relating to financing and access to capital (49 per cent) as their second highest pain point. Supply chain management (48 per cent) came in third, indicating the impact felt by micro-businesses from the ripple effect of global supply-chain disruptions. Small businesses are affected by supply-chain disruptions in many ways, including inflating costs, or causing issues with production—all of which can affect their bottom line.

An example of this would be home-based bakers who specialise in making goods containing imported ingredients. With multiple lockdowns that disrupted imports and exports worldwide, many home-based bakers are likely to have seen supply issues and delays hampering their production and sales. This is compounded by the strict limitations on home-based businesses which means these micro-business owners often lack access to storage facilities and activities needed to stockpile ingredients.

More than a quarter of home-based and other micro-businesses put their technology adoption plans on hold, owing to lack of knowledge, funding and support

Alongside critical business functions, the digitalisation journey of micro-businesses was also significantly disrupted over the last year. According to a recent study by Microsoft, almost 75 per cent of large organisations (with more than 250 employees) in Singapore have accelerated their pace of digitalisation because of the pandemic³. Micro-businesses, however, are lagging in this aspect, with 60 per cent saying they reduced, halted or had no technology adoption plans in the last year.

Which of these statements is most applicable to your organisation's technology adoption in the past 12 months?



³ Microsoft IDC Study 2020, <https://news.microsoft.com/en-sg/2020/09/10/culture-of-innovation/>

The top reasons cited for these challenges in technology adoption were:



54%

Lack of knowledge on how to optimise digital tools

Implementing—let alone optimising—digital tools can be a complex, expensive and time-consuming process for micro-businesses. The growing volume of solutions in the market has compounded this issue, with each solution requiring extensive understanding owing to individual differences in functionality, operation and optimisation.



43%

Lack of funds

Considering lower revenues, micro-businesses are likely to have redirected their technology funds to more traditional, business-critical areas in a bid to stay afloat amidst the pandemic. This may have been compounded by existing funding limitations on businesses of this size, as technology often requires significant investment and does not always yield immediate results if not properly implemented.



32%

Lack of support within and outside the organisation

While Singapore's government and banking institutions have lent extensive support through financing schemes for digitalisation, the lack of external support felt by micro-businesses may indicate that more could be done for their proliferation. The lack of internal support felt within micro-businesses may indicate the need for more education around the benefits of technology adoption, or incentives to help it gain precedence over other pressing business priorities.

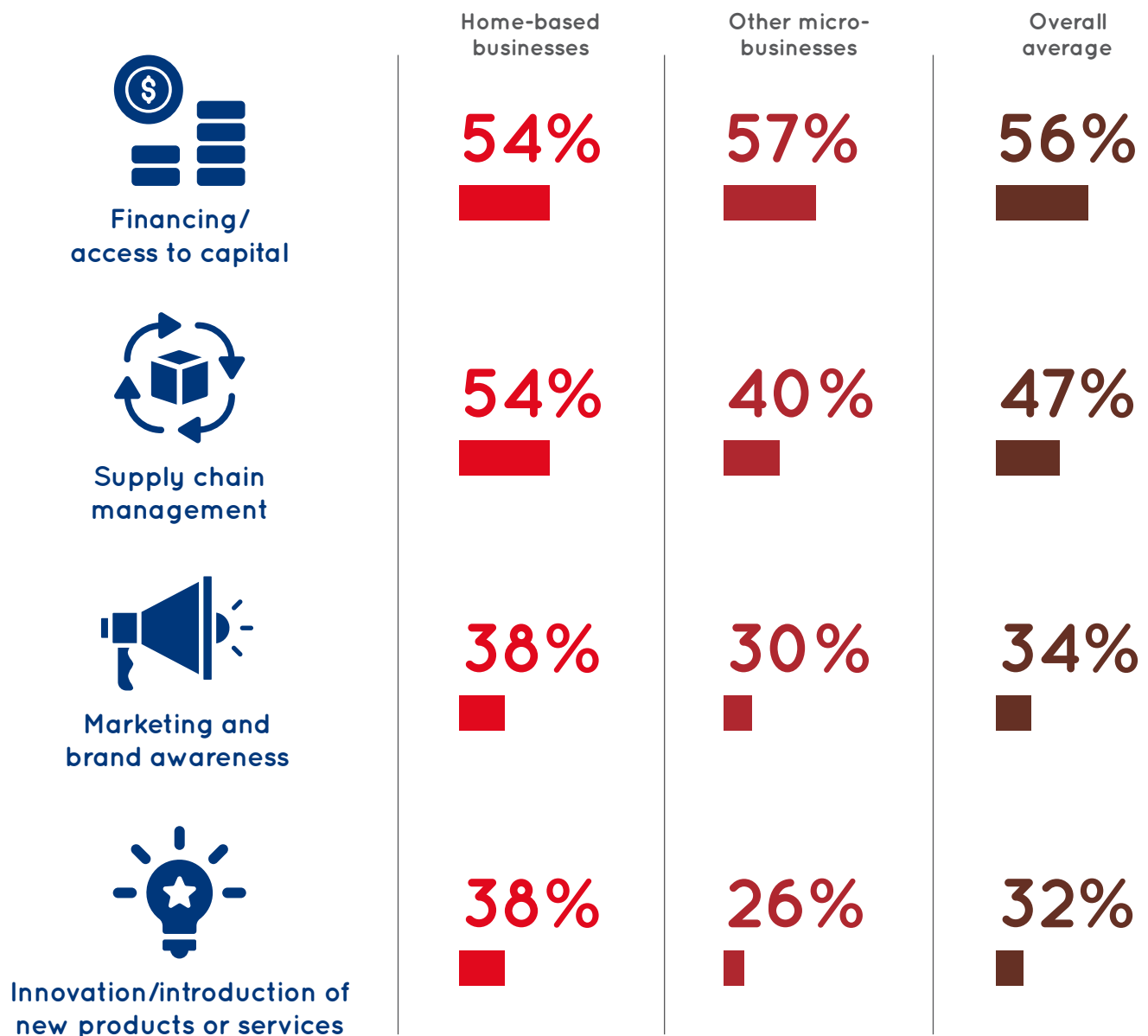
⁴UOB Government Assistance Scheme 2021, <https://www.uob.com.sg/business/finance/government-assistance-scheme.page>

Understanding micro-business pain points is critical for solution providers

With the current wave of change in favour of digitalisation, overcoming these hurdles to technology adoption will be critical for micro-businesses looking to adapt, pivot and thrive in a post-pandemic world.

Conversely, to serve these needs and to improve accessibility to efficient solutions, it is important for solution providers and other stakeholders to understand the challenges faced by micro-businesses, and the priority areas in which they are seeking support.

What are the areas your organisation needs the most support in over the next 12 months?





Our survey shows that in line with their pain points, micro-businesses said financing and access to capital (56 per cent), and supply chain management (47 per cent) are the two areas that require most support. Marketing and brand awareness (34 per cent) came in as the third highest priority area, showing a growing awareness amidst micro-businesses of the importance of harnessing marketing and branding to improve their business outcomes. The ability to innovate and to provide new products or services to the market was also high on the list (32 per cent).

Tech solution providers that can address these concerns will appeal more broadly to micro-businesses in need. Doing so may also increase the likelihood of them partnering on related efforts by the government, banks and finance companies⁵ in Singapore, such as UOB's

[relief measures and digital solutions for SMEs.](#) Among the micro-businesses that embarked on digitalisation over the last year, a small percentage (6 per cent) of them said that they did not reap any immediate benefits. Of these, most cited similar reasons such as uncertainty on how to operate digital tools correctly (75 per cent), lack of digital skills to operate tools and processes (38 per cent) and lack of knowledge on how to optimise digital tools (25 per cent).

These findings indicate that there is a knowledge gap between implementation and execution when it comes to operating digital solutions, as well as the need for micro-businesses to gain access to resources for support. This includes education around digital solutions themselves, as well as training and re-skilling of staff to operate these solutions.

⁵ MAS Support for SMEs 2021, <https://www.mas.gov.sg/regulation/covid-19/supporting-businesses-through-covid-19/support-for-smes>



Petite Bakehouse

Business Owner: Loy Teck Tien (Sophia)

Staff size: <5 employees

“Like many micro-business owners, I started Petite Bakery by doing everything myself. Pre-COVID, we primarily attracted local crowds and relied on organic footfall for sales. However, the shop’s opening hours often varied owing to family commitments. When the pandemic hit, we were forced to innovate and to change the way we worked.

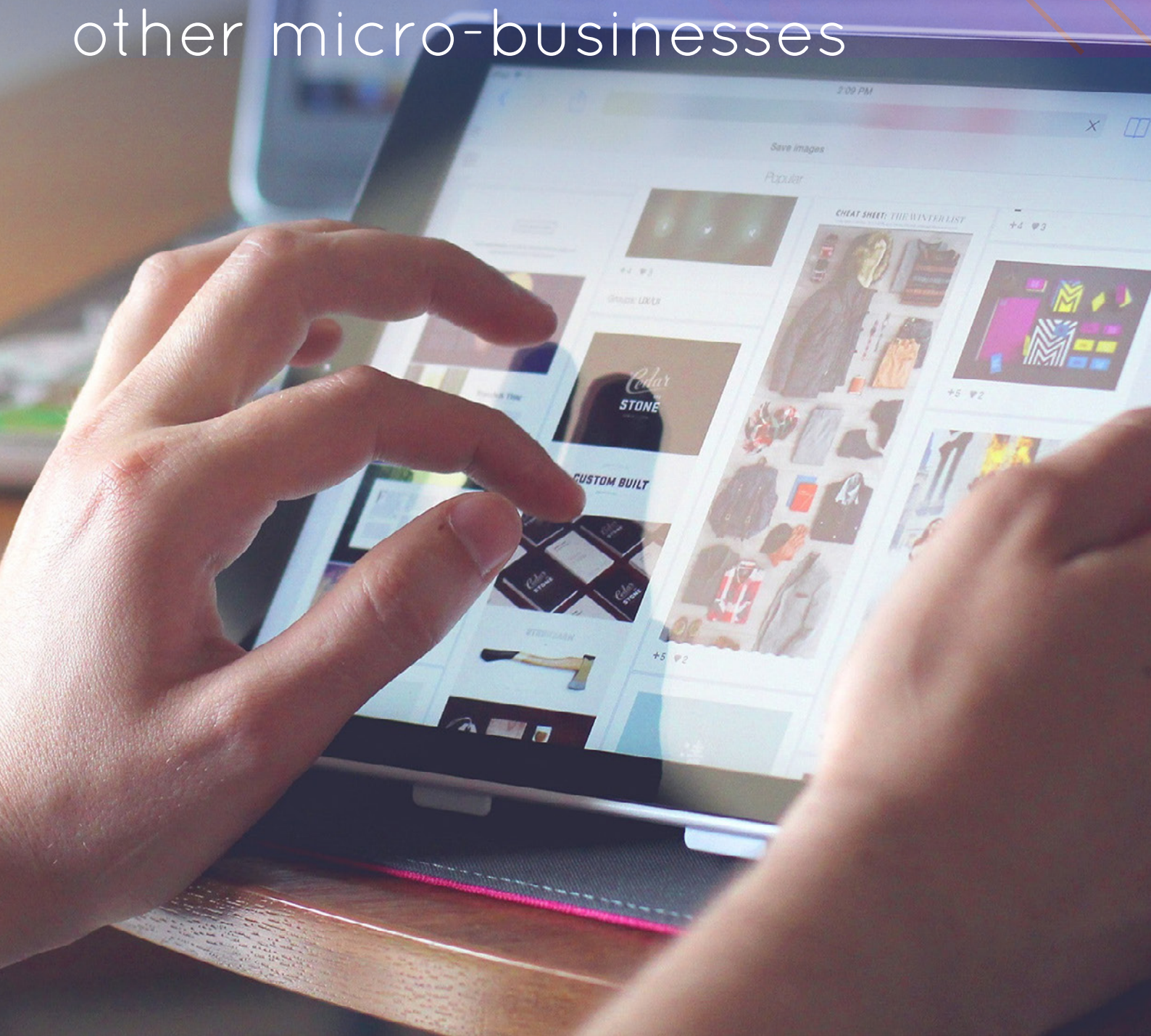
Looking to technology, we implemented a tech-driven solution that has transformed our business for the better. In April 2021, we launched the first-ever ‘Made in SG’ vending machine that dispenses baked goods. This ‘out of the box’ idea made perfect business sense — no rental fees were incurred as the machine is on our premises, and 24/7, even on weekends, with stock usually running out by midnight. The icing on the cake was that our idea soon went viral on social media, generating plenty of organic and earned reach.

Considering the limited resources for a business of our size, saving on headcount and improving efficiency through technology has been invaluable. Such solutions work better for us than enlisting third-party delivery partners, whose commission is often equivalent to our profits. Going forward, we plan to expand our marketing efforts (especially on social media) but are unsure how to proceed with this since we have always relied on organic marketing. What we do know is that audiences today prefer live and authentic content, and are therefore looking at working with influencers. We are open to working with partners to help us expand our revenue and reach.”

**MICRO-BUSINESS
SPOTLIGHT**

SECTION 2:

Understanding the role of technology in accelerating Singapore's home-based and other micro-businesses

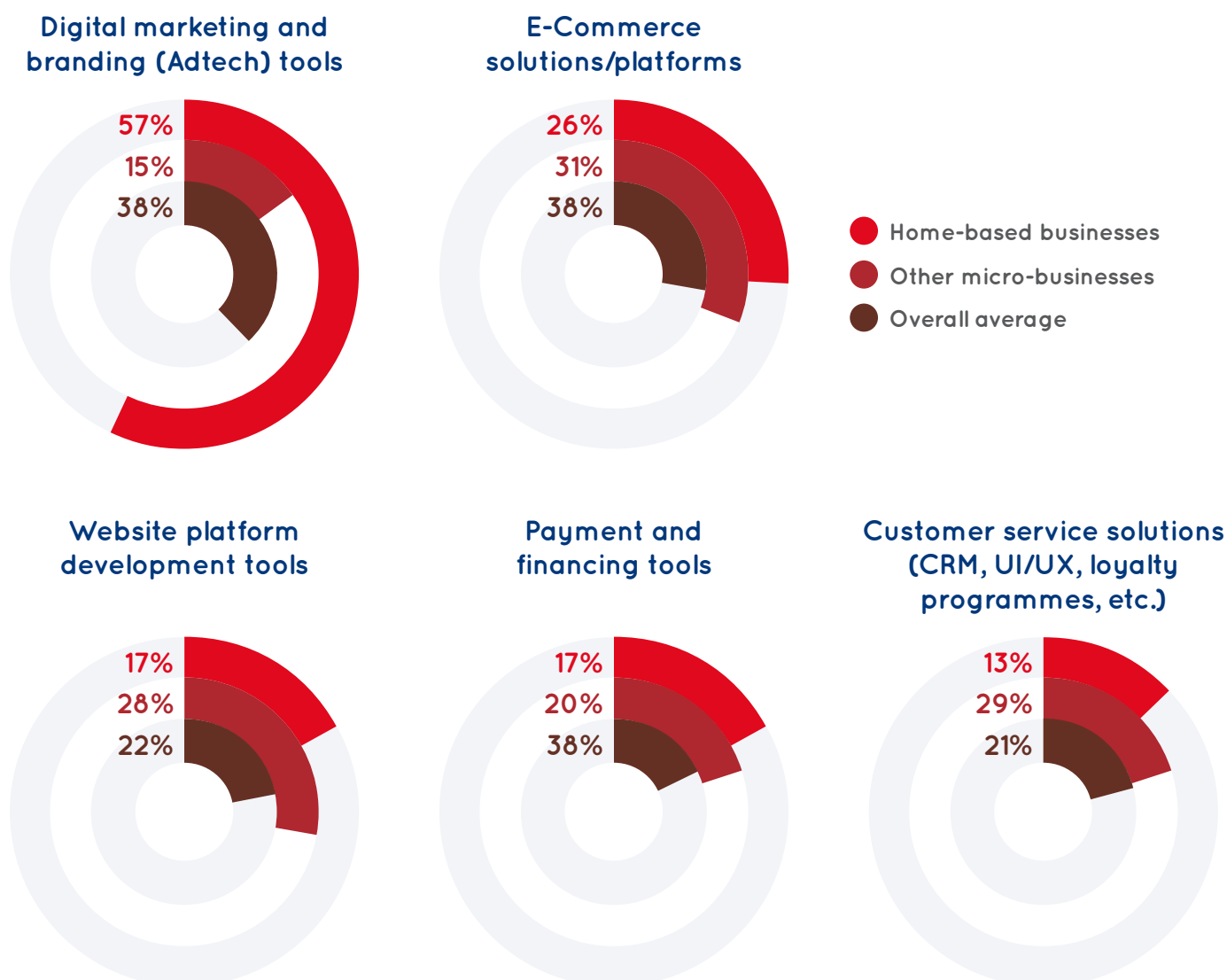


Home-based and other micro-businesses that digitalised during the pandemic improved their productivity, sales and brand awareness

Of the 40 per cent of respondents who were able to digitalise in the last year, the impact on their business has been overwhelmingly positive. Ninety-four per cent said business performance improved in the last 12 months after digital transformation, with most experiencing an increase in productivity and optimised processes (66 per cent), sales and revenue (31 per cent), and brand awareness (21 per cent).

To understand these outcomes, we asked home-based and other micro-businesses what digital solutions/technology they adopted over the past 12 months, of which adtech tools and e-commerce solutions/platforms topped the list.

What digital solutions/technology did your organisation adopt over the past 12 months?



With physical store operations largely restricted by the pandemic, the success of e-commerce platforms, website development and payment tools are more closely related to the recent shift in consumer preferences, behaviours and spending at online channels. The success of digital marketing tools also points to the growing awareness around the benefits of digital channels in building brand presence, competitive advantage and tapping into wider consumer pools. Similarly, customer service solutions will also play a pivotal role in building brand loyalty and differentiating from competitors.

Such solutions will likely play a role even beyond the pandemic. According to data from the Singapore government,

online sales in Singapore as a proportion of total sales value has risen since the start of 2020 and sustained post-circuit breaker, signalling a more permanent shift in consumer behaviour to online shopping⁶. The ripple effect will impact the way micro-businesses operate across industries.

To put this in perspective, imagine a family-run store or small food and beverage business that does not offer an e-commerce platform for its customers. While such a business may recover from the pandemic's impact in the short term, it will eventually lose out as digital spending habits become the norm. Micro-businesses that adopt digital solutions stand a higher chance to keep up with such trends and reap benefits in the long run.



⁶ Singapore MTI 2021, <https://www.mti.gov.sg/Newsroom/Speeches/2021/01/Speech-by-Minister-Chan-Chun-Sing-at-Amazon-Southeast-Asia-Online-Seller-Summit>

Most home-based and other micro-businesses plan to sustain or increase adoption efforts, with a focus on e-commerce, customer service and payments

The success seen by home-based and other micro-businesses as a result of technology adoption has been so significant that almost all (97 per cent) of them intend to sustain (47 per

cent) or increase (50 per cent) their efforts. Adding to this, respondents that previously put on hold, reduced, or had no technology adoption plans, one in two said they intend to start/restart (57 per cent) their technology adoption plans with a quarter planning to increase (26 per cent) in the next 12 months. Going deeper, the selection of technology these micro-businesses are looking to adopt provides a vital glimpse into their key priorities.

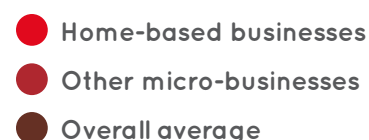
What digital solutions/technology does your organisation plan to adopt over the next 12 months?



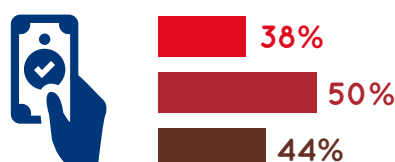
Digital marketing and branding (Adtech) tools



E-Commerce solutions/platforms



Website platform development tools



Payment and Financing tools



Customer service solutions (CRM, UI/UX, loyalty programmes, etc.)

It is worth noting that home-based micro-businesses ranked customer service solutions (60 per cent) as their top priority, followed by e-commerce solutions/platforms (55 per cent), and website platform development tools (40 per cent). Customer service solutions are critical for such businesses whose

customer service and acquisition capabilities are limited by restrictions on hiring external manpower. Customer service solutions will therefore not only help keep their existing customers happy and satisfied, but help them grow their customer base through organic, word-of-mouth recommendations.

Our research also found that other micro-businesses placed greater emphasis on payment and financing tools (50 per cent), followed by e-commerce solutions/platforms (49 per cent), and website platform development tools (48 per cent). While this is in line with the industry of most other micro-businesses surveyed (finance), payment solutions are also necessary for businesses in other industries to serve the growing base of customers who prefer online channels. This includes reducing their wait time and improving their accessibility and convenience — all of which are increasingly important competitive differentiators.

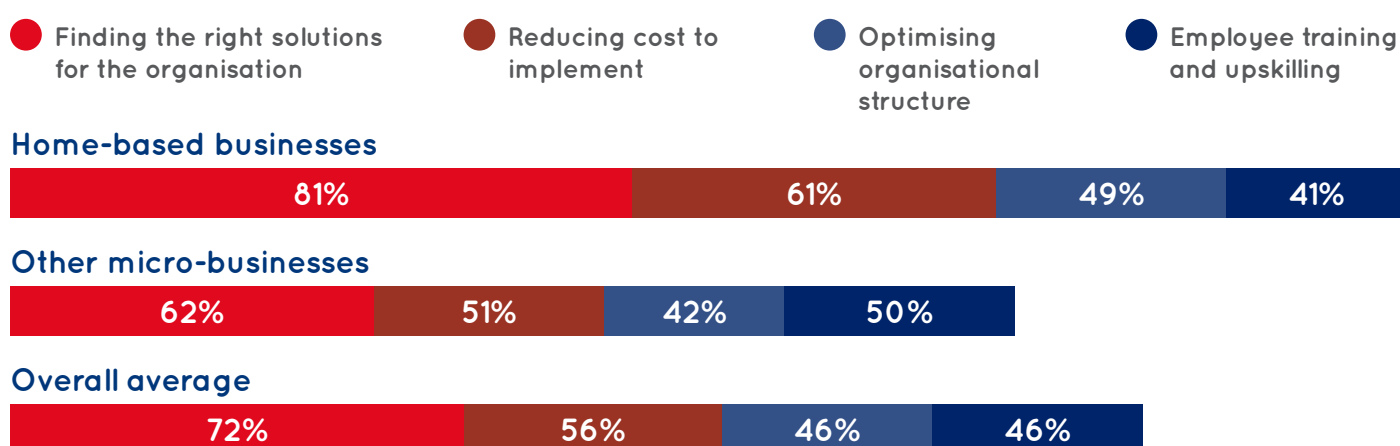
When it comes to technology, most micro-businesses believe their company will benefit from adopting artificial intelligence and machine learning solutions in the future (64 per cent). This opinion is indicative of growing awareness among business owners about how such solutions can help their businesses automate and optimise processes. They also believe blockchain technologies (23 per cent) will benefit them in the future, with the promises of trust, speed, and greater cyber security likely being appealing ways to solve pain points of cash flow and manual processes. Micro-businesses are also increasingly aware of the benefits of adopting green solutions (34 per cent) as consumer demand for more green and sustainability-focused brands increase.



Micro-businesses value technology but need to be directed to the right resources

For solution providers and other stakeholders, understanding the priorities of business owners will play a crucial role in shaping the direction of their future innovations and solutions. It is increasingly clear that micro-businesses are realising the value of technology adoption, but many still face barriers of entry and difficulties in their digitalisation journey.

What key areas of your organisation need support during the process of digitalisation?



A joint effort by the larger ecosystem is necessary to enable this support, which can be summarised by three key components: Understanding the business challenges of micro-businesses, helping them identify suitable solutions and ensuring implementation of those solutions to realise the value captured for their business.

Understanding key business challenges is necessary before being able to accurately identify and implement solutions to improve them. Micro-businesses can begin this journey by examining their business model, which will lay the foundation for true digital transformation and help deliver change on a structural level. The FinLab Online, for example, helps businesses evaluate where they

stand via its [Know Your Business](#) tool that helps business owners map out their business model. For more customised guidance, The FinLab also offers a [1-to-1 mentorship programme](#) to help them fine-tune their business models.

While tackling current concerns, it is also important for micro-businesses to plan ahead so they can seize opportunities to grow and remain competitive. Participating in a supportive community such as [The FinLab's Propel programme](#) will enable micro-businesses to learn about areas of innovation that are accessible to them, while tapping the collective knowledge and experience of the community for opportunities to transform their business.



NODSPARK

YOUR WARDROBE FOR NAILS

Nodspark

Business Owner: Eugenia Yeo

Staff size: <5 employees

“I run multiple micro-businesses, with some having more traditional business models and some run completely online. Prior to the pandemic, it was a lot easier to acquire new customers through pop-ups and other offline channels. But after all our offline activities were brought to a halt, we were pushed to become more resourceful and economical – and digitalisation played an important part in helping us achieve this.

Digital marketplaces were one of the first tech-based solutions we tapped on, but not all of them were made equal. We found ourselves preferring marketplaces that were more seamless and able to directly sync with our website, as opposed to others that required manually uploading our inventory — a tedious task for a team as small as ours. Aside from this, we also adopted a customer relationship management (CRM) software and found useful AI tools that could help us with tasks as complex as copywriting — which helped us reach new customers while saving us costs on headcount.

Most of the software we use today has come to us in the form of recommendations. I am also part of an entrepreneurship group for small business owners which also helps expose me to new solutions in the market, alongside educational talks and resources on industry trends.

Going forward, I will be looking at team management software as well as more digital marketing tools. Considering the time and resources needed to test these software before adoption, I believe a consultative approach from a solution provider will be invaluable in helping us understand how a solution can help us reach our goals.

MICRO-BUSINESS SPOTLIGHT

Overall, the pandemic certainly opened our eyes to the savings and efficiency that digital solutions can bring because time, after all, is money.”

KEY TAKEAWAYS



Customer service, payments, digital marketing and e-commerce are top tech priorities - but understanding tech-readiness is crucial.

Home-based businesses prioritised customer service solutions while other micro-businesses considered payment and financing tools as their top tech priorities. Both also emphasised e-commerce solutions and website platform development tools as top priorities. More micro-businesses are also aware of emerging technologies, such as AI/machine learning solutions, blockchain technologies and green solutions – providing solution providers with a clear direction as they innovate to provide relevant solutions for specific businesses.

However, it is also important for micro-businesses to build knowledge and awareness of their own digital readiness. The FinLab Online helps businesses evaluate this via its [Know Your Business](#) tools that help business owners understand what solutions would be the right fit for their business model.



Micro-businesses and solution providers must focus on closing knowledge gaps

As micro-businesses grapple with digitalisation, understanding and addressing their specific challenges is key, and equally so for the solution providers servicing them. Lack of knowledge was a repeatedly cited pain point or barrier of entry, indicating that closing this gap is a top priority. It is for this reason that SME innovators like The FinLab conduct educational initiatives such as online masterclasses, videos, infographics and articles to reach and engage businesses across their needs and preferences.



A difficult yet opportune time for micro-businesses—and solution providers

Singapore's home-based and other-micro-businesses overwhelmingly reported being negatively impacted by COVID-19. However, government grants and initiatives to help businesses tide through current challenges have provided support and created opportunities for both microbusinesses and solution providers to innovate and expand their offerings. Solution providers that can help micro-businesses tide through challenging times will likely see higher adoption rates.

For more information resources, solutions and digital tools for micro-businesses, visit [The FinLab Online](#).



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