UOB Business Outlook Study 2023

(SME & Large Enterprises)

Malaysia Report

Foreword

ASEAN is an interconnected, young, and dynamic economic region of more than 650 million people, offering unique and diverse business opportunities. Amidst market turbulence and uncertainty, ASEAN has weathered recessionary risks well and continues to show strong growth potential.

Today's multipolar world should expect a new post-Covid era of re-globalisation, even regionalisation, alongside a different set of geopolitical objectives. This means new investment opportunities for ASEAN that bring opportunity for business growth.

As a strategic partner to businesses, we have commissioned the UOB Business Outlook Study 2023 (SME & Large Enterprises) to capture key insights from over 4,000 companies across industries and 7 markets, to understand current business sentiments and how we can continue to support their resilience, growth and needs.

The insights cover three key areas:

1. The trends that are shaping the growth of businesses, in the areas of Sustainability, Digitalisation, Supply Chain Management and Overseas Expansion;
2. How companies are adapting to a changing business landscape and adopting growth strategies;
3. How UOB and industry partners can continue to support businesses with their growth ambitions

ASEAN remains competitive – in terms of its cost, young labour force, and infrastructure – all of which are beneficial for businesses. The region's part in achieving sustainable development also requires the need for businesses to strategically look at business sustainability, from day-to-day operations and long-term succession planning, to net zero goals through transition towards ESG goals.

In an awakening region, business leaders need strategic partners with the ambition and capability to build the future of ASEAN. This is especially true for SMEs that form the backbone, specifically, 97% of ASEAN's economies.

As the One Bank For ASEAN, UOB connects businesses with and within ASEAN, and to Greater China, and the rest of the world.

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Background and Methodology

UOB conducted a Business Outlook Study in **Malaysia** covering **528 business owners and key executives** from SMEs and Large Enterprises.

This study provides a comprehensive understanding of the current business sentiments, inflation impact and outlook among businesses across various sectors in Malaysia. The study also captures insights around key themes such as Sustainability, Digitalisation, Supply Chain Management and Overseas Expansion.

What

15-minute online surveys

Total of 528 interviews

Data collection:
28 December 2022 - 20 January 2023

Who

Businesses with revenue of less than MYR 900 million

Covers both SMEs and Large Enterprises across key industry verticals

Owners/chief executive level/management level who are involved with business decision making

Coverage

Regions	Sample
Central	278
South	104
North	68
East Coast	26
East Malaysia	52
Total	**528**

Business classification:
Small Enterprises: Annual turnover <MYR 50 million
Medium Enterprises: Annual turnover MYR 50 million to <MYR 900 million

Industries	Sample
Community & Personal	63
Consumer Goods	62
Tech, Media & Telecom	62
Construction & Infrastructure	61
Manufacturing & Engineering	60
Real Estate/Hospitality	60
Business Services	51
Professional Services	50
Industrials, Oil & Gas	31
Wholesale Trade	28
Total	**528**

2. Business Sentiments

Business environment in 2022

Business environment in Malaysia was more positive than in Hong Kong and Thailand.

More than **7 in 10** businesses in Malaysia said the business environment was positive in 2022.

Most positive sentiments (sectors)

81% Industrials, Oil & Gas

80% Professional Services

78% Real Estate/ Hospitality

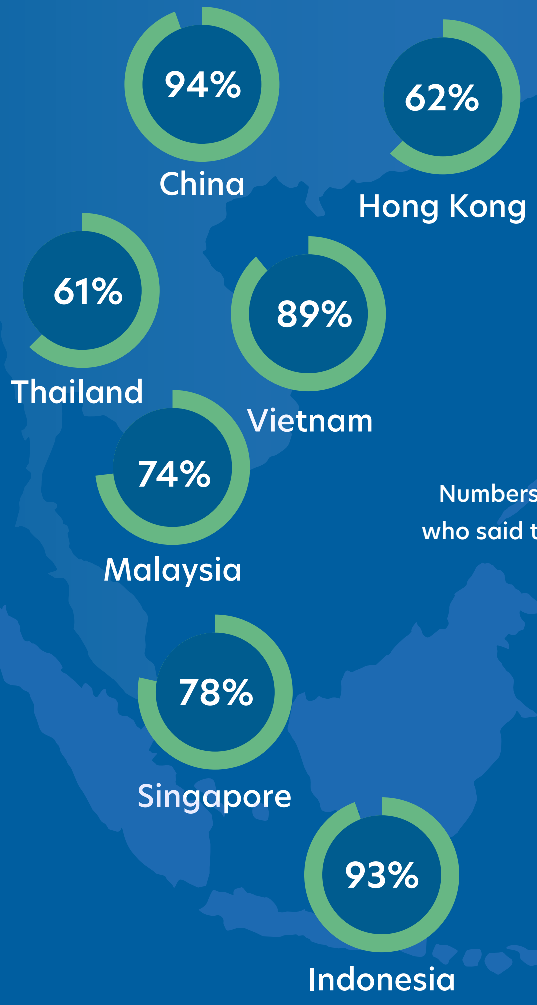
Most positive sentiments (enterprises)

78% Medium Enterprises

Most positive sentiments (regions)

80% South

79% North



Numbers represent percentage of businesses who said the current environment is somewhat or very positive in 2022.

Q) How do you perceive the current business environment in ____ (country)? Base: Total (528)

Increased revenue in 2022 has contributed to the positive sentiment among businesses

Nearly **8 in 10** businesses in Malaysia have seen an increase in their revenue in 2022.

Fewer businesses in Malaysia experienced revenue growth in 2022 compared with other markets in ASEAN.

Most revenue growth (sectors)

- 90% Industrials, Oil & Gas
- 85% Real Estate/ Hospitality
- 84% Professional Services

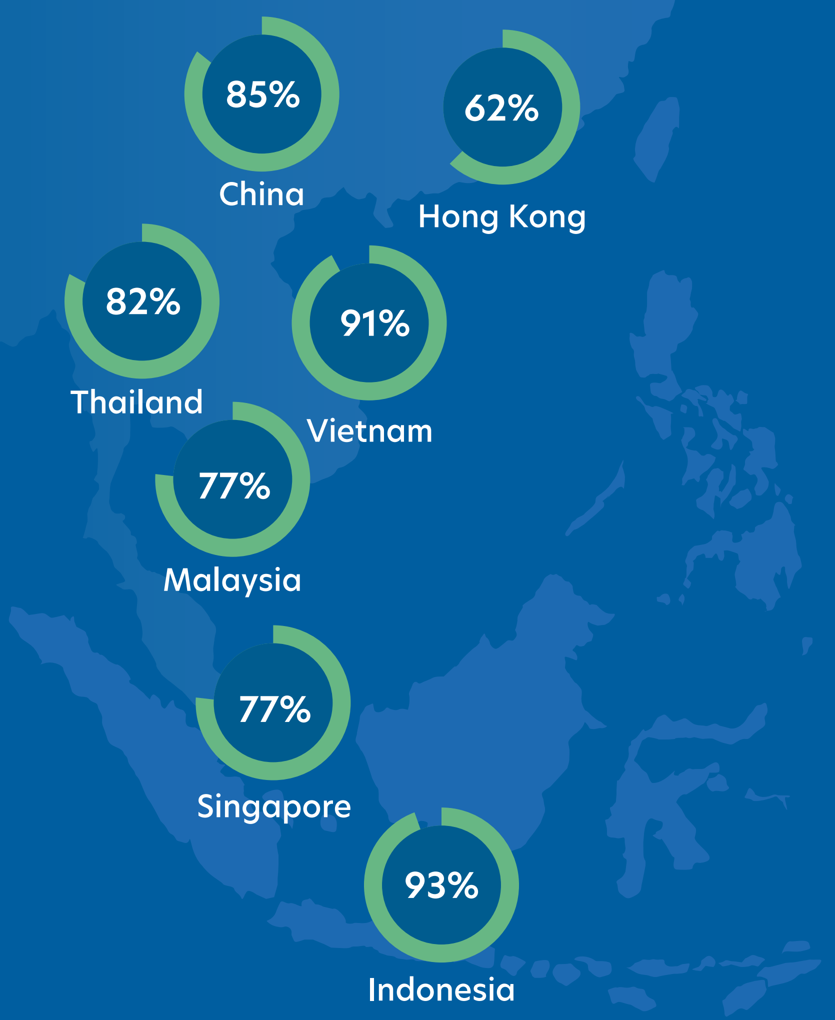
Most revenue growth (enterprises)

- 78% Small Enterprises

Most revenue growth (regions)

- 88% East Malaysia
- 87% South

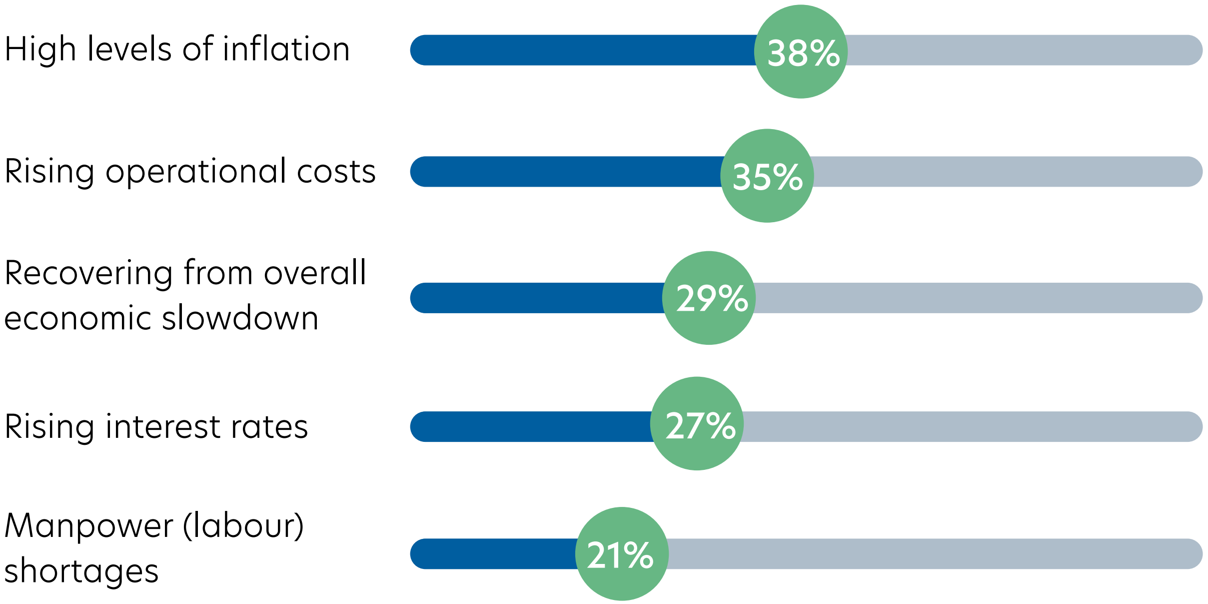
Revenue improvement in 2022 vs 2021



Q) How has your company's revenue changed in 2022 as compared with 2021? Base: Total (528)

The positive business sentiment is in spite of macro factors like high level of inflation and rising operational costs impacting businesses in 2022

Macro factors impacting businesses



Most impacted regions

Recovering from overall economic slowdown

43%

North

Q) Which of the factors below had the biggest impact on your business in 2022? Select up to 5. Base: Total (528)

These macro factors have led to cost cutting and rising operating expenses

2 in 5 businesses in Malaysia say there is a need to cut costs.

Factors impacting business operations

Factor	%
Needed to cut costs	40%
Increase in operating expenses	36%
Insufficient cash flow	30%
Drop in customer demand/revenues	27%
Delays in customer payments	26%

Most impacted sectors

Increase in operating expenses

50%
Real Estate/ Hospitality

Drop in customer demand/revenues

40%
Manufacturing & Engineering

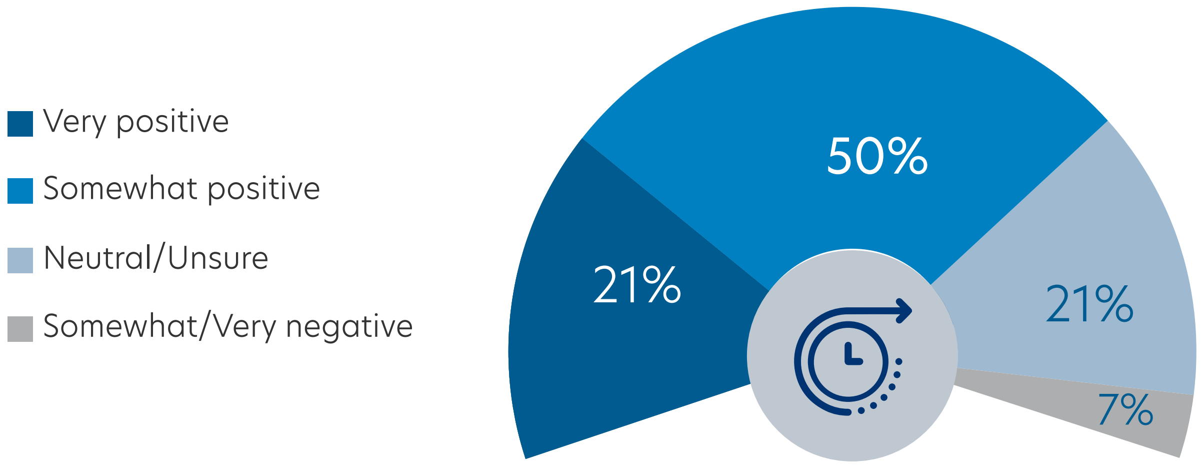
Q) How have the above factors affected your business in 2022? Base: Total (528)

Business Sentiments

Business Outlook 2023 and Beyond

Over **7 in 10** businesses in Malaysia have a positive business outlook in 2023

Outlook for 2023



Most positive outlook (sectors)

81% Industrials, Oil & Gas

77% Tech, Media & Telecom

76% Professional Services

Most positive outlook (enterprises)

72% Medium Enterprises

Most positive outlook (regions)

77% East Coast

74% South

Q) How would you describe the outlook for your business in 2023? Base: Total (528)

Reducing costs, sourcing for new customers and digitalising the business are key priorities for businesses in Malaysia in the next 3 years

Priorities in the next 1-3 years

Reduce costs
42%

Source for new customer base
37%

Digitalise the business to raise efficiency
33%

Diversify supply chains
29%

Develop new sources of revenue
28%

Re-skill/upskill existing talent
27%

Priorities by sectors

Re-skill/upskill existing talent

41%
Community & Personal Services

Digitalisation is a key business priority as it improves customer service and helps businesses extend their range of products/services to new customers.

Q) What are your top business priorities for the next 1-3 years? Base: Total (528)

Improving customer service and extending products/services range are top actions taken by businesses in Malaysia to drive growth

Top actions for growth

29%
Focus on improving customer service/experience

29%
Extend our range of products and services

27%
Use digital marketing tools to build the company's brand

27%
Diversify sales channels to selling online via e-commerce platforms

27%
Adopt digital solutions to automate processes

26%
Upgrade equipment/facility to improve productivity

Most prioritised in

Diversify sales channels to selling online via e-commerce platforms

40%
Professional Services

Adopt digital solutions to automate processes

32%
Central

30%
Medium Enterprises

Q) How do you plan to achieve these priorities? Base: Total (528)

User-friendly channels for customer interaction and automation will play a key role in helping businesses improve customer service

Over 3 in 5

businesses are looking for user-friendly channels for customer interaction.

Capabilities for better customer experience

64%

User-friendly channels for customer interaction

57%

Automation to ease customer service

34%

Use of AI, chatbots etc. for real-time interaction

27%

Hyper personalised service/offer for customers

Most prioritised in

Automation to ease customer service

65% Medium Enterprises

Use of AI, chatbots etc. for real-time interaction

52% Industrials, Oil & Gas

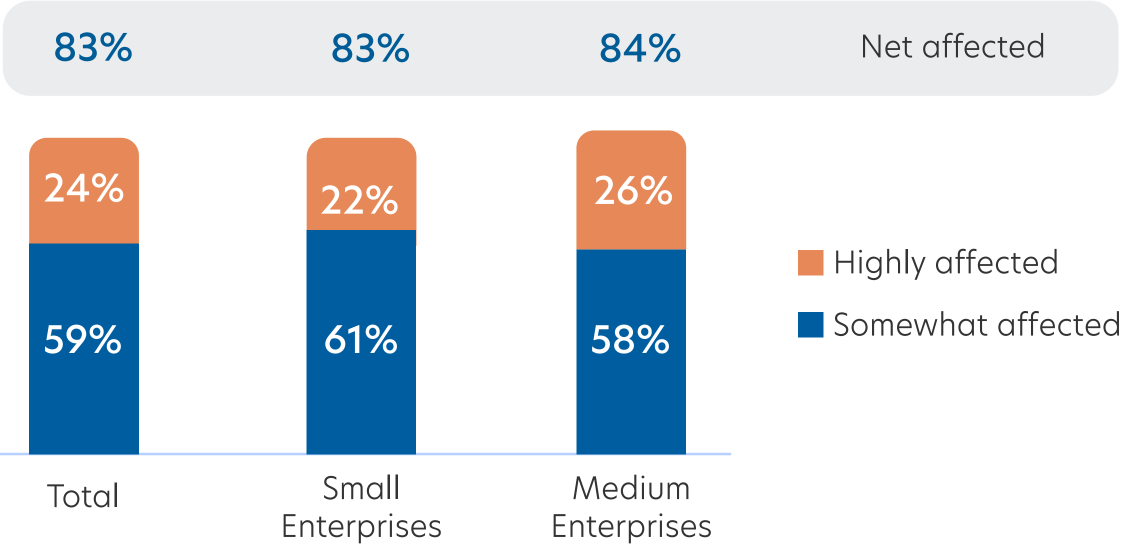
40% Medium Enterprises

Q) What are the key channels/capabilities that your business needs to improve upon to handle this change in customer engagement expectations? Base: Total (528)

3. Inflation Impact on Businesses

Extent of inflation affecting businesses in 2022

Over 8 in 10 businesses in Malaysia have felt the impact of high inflation.



Q) To what extent has high inflation affected your business this year? Base: Total (528)

More medium-sized enterprises said they were greatly affected by high inflation, compared with small enterprises.

Extent of inflation by markets

Most affected sectors

92% Construction & Infrastructure

87% Industrials, Oil & Gas

86% Business Services

Most affected regions

87% Central

82% North

Many businesses have seen an increase in cost of operations and raw materials

Impact of inflation on business operations

Increase in cost of operations
62%

Increase in cost of raw materials
53%

Reduction in profit levels
40%

Increase in utility costs
34%

Increase in staff salaries
32%

Increase in cost of equipment/machinery
27%

Over 3 in 5 businesses in Malaysia say that high inflation has led to an increase in cost of operations.

Over 1 in 2 businesses have seen an increase in cost of raw materials.

Inflation is also impacting the profitability of businesses in Malaysia. Businesses in Manufacturing & Engineering and Real Estate/Hospitality have seen a greater impact in their profit reduction.

Q) Which specific areas of your business have been affected by high inflation? Base: Those affected by high inflation (439)

Inflation Impact on Businesses

Inflation Expectation in 2023

Nearly 1 in 2 businesses expect inflation to reduce within the next 12 months

Expectations of inflation

In the next 3-6 months	In the next 6-12 months	In the next 1-2 years	In the next 2-3 years	After 3 years
12%	34%	31%	15%	8%

Most affected sectors

- 58% Industrials, Oil & Gas
- 56% Consumer Goods
- 52% Community & Personal Services

Most affected enterprises

- 48% Small Enterprises

Most affected regions

- 54% East Malaysia
- 49% North

Q) By when do you expect the high inflation to reduce? Base: Total (528)

Productivity improvement and stronger price negotiations are key measures to mitigate inflation impact

Ways to combat inflation

Nearly 1 in 2 businesses are improving productivity to combat inflation.

Differences in combating approach

Cost-cutting on company activities (e.g. trips, seminars etc.)

53% Manufacturing & Engineering

Taking advantage of government grants/schemes

54% Professional Services

54% East Coast

42% South

Q) What is your company doing to mitigate the impact of high inflation on your business? Base: Total (528)

4. State of Sustainability and Future Plans

Sustainability is important to a vast majority of businesses in Malaysia

Importance of sustainability

Total	Small Enterprises	Medium Enterprises
84%	82%	86%

Leading sectors

- 88% Manufacturing & Engineering
- 86% Professional Services
- 85% Tech, Media & Telecom

Leading regions

- 90% South
- 82% Central

Q) How important is sustainability (Environmental, Social and Governance considerations) to your business?
Base: Total (528)

Sustainability helps businesses improve their reputation, attract investors and retain/attract talent

Nearly 3 in 5 businesses say that sustainability helps to improve their business reputation and branding.

Nearly 1 in 2 businesses say that adopting sustainable practices helps attract investors.

Stronger drivers

To build an environmentally and socially sustainable future for the market

60%
Professional Services

Helps attract investors

57%
South

Drivers of sustainability

57% Improved reputation/ better branding of the company

47% Helps attract investors

42% Enables talent retention/attraction

42% To build an environmentally and socially sustainable future for the market

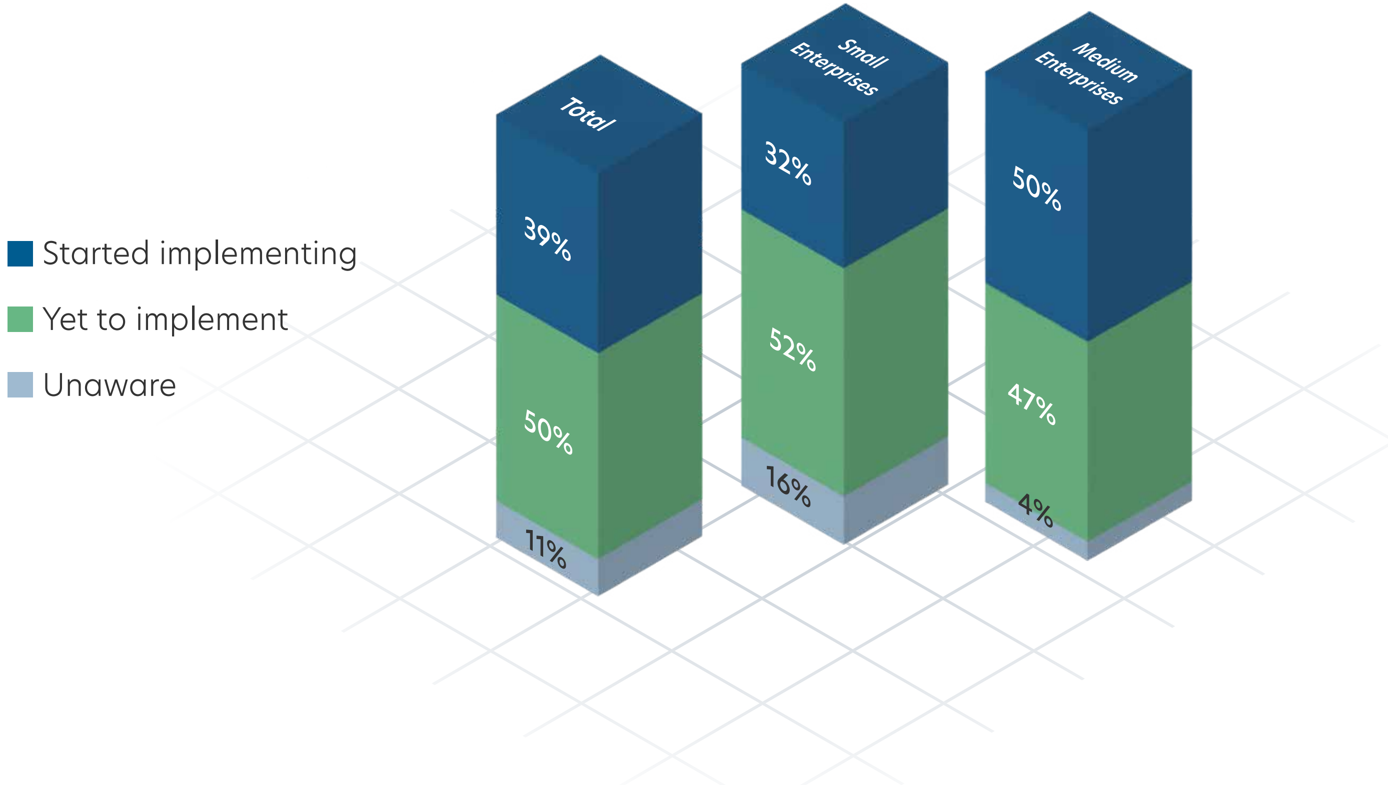
41% Customers prefer or demand for it

40% Helps my business fit better into the ecosystem

Q) Why is sustainability important to your business? Base: Those who regard sustainability as important (441)

Yet, less than half of all businesses have started implementing sustainable practices

Current stage of sustainability adoption



Implementing sectors

48% Manufacturing & Engineering

42% Consumer Goods

42% Industrials, Oil & Gas

Implementing regions

43% South

41% North

Q) What stage is your company at today in the adoption of sustainability practices? Base: Total (528)

Concerns prevail about the increase in cost of products/services to end customers and lack of manpower/resources

Key barriers to implementation

Stronger barriers

May lead to increase in cost of our products/services to end customers

47% Consumer Goods

47% Tech, Media & Telecom

Concerns about negative impact on profits due to the costs associated with sustainable practices

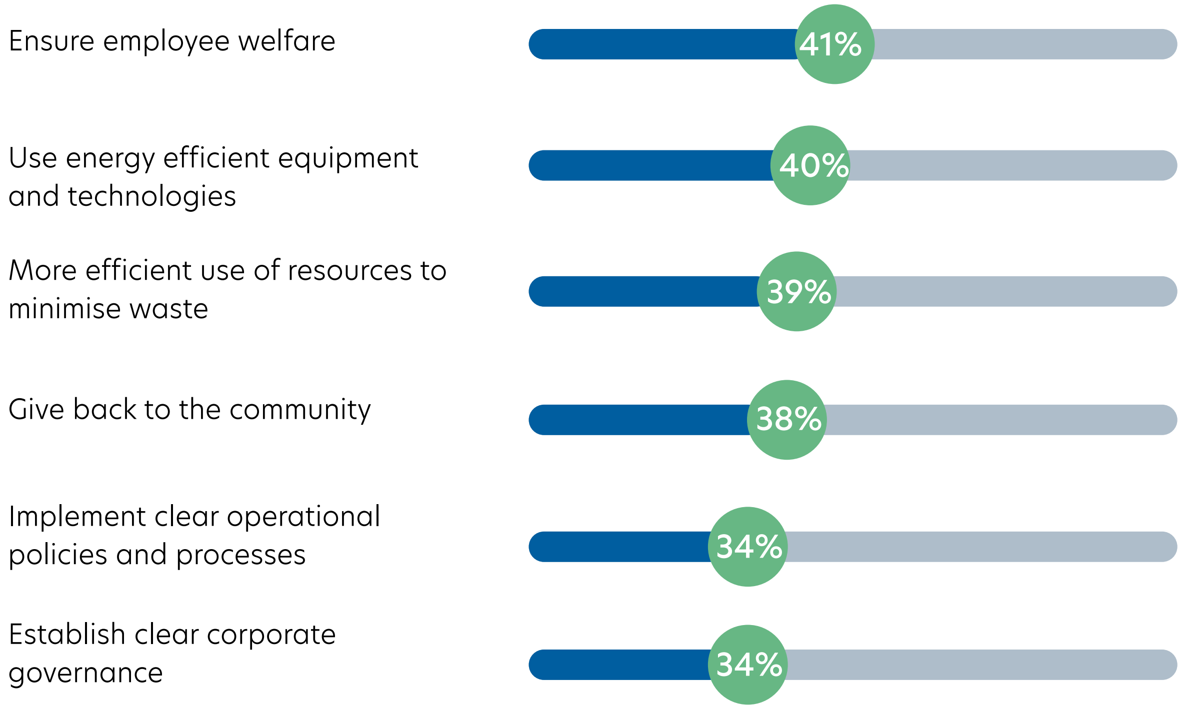
43% Manufacturing & Engineering

39% Medium Enterprises

Q) What are the major barriers to implementing sustainability practices in your company? Base: Total (528)

But businesses are convinced about implementing practices like employee welfare and efficient use of resources

Practices planning to implement



Prioritised areas

Use energy efficient equipment and technologies

50%
Medium Enterprises

More efficient use of resources to minimise waste

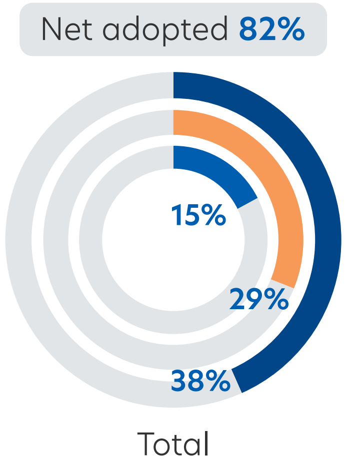
55%
North

Q) What sustainable practices (based on the ESG considerations) do you plan to incorporate within your business in future?
Base: Those who have not implemented sustainability practices (323)

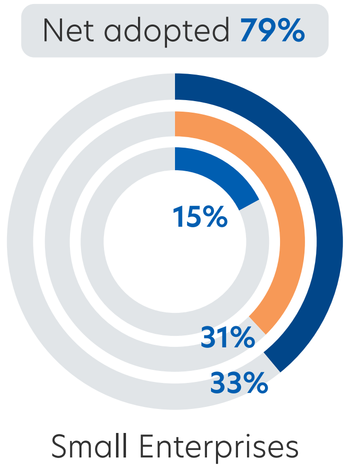
5. State of Digitalisation

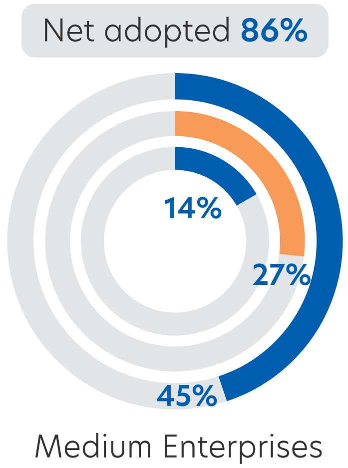
Over 8 in 10 businesses have adopted digitalisation in at least one department

Current state of digital adoption



- Adopted across one department
- Adopted across entire business
- Adopted across multiple departments





Q) What is the current state of digital adoption in your company? Base: Total (528)

Sectors leading in digital adoption

92% Tech, Media & Telecom

86% Professional Services

85% Consumer Goods

Regions leading in digital adoption

88% South

83% East Malaysia

Marketing, Sales and Customer service are a priority

Top priorities for digitalisation

Marketing
41%

Sales
39%

Customer service
38%

Payroll
34%

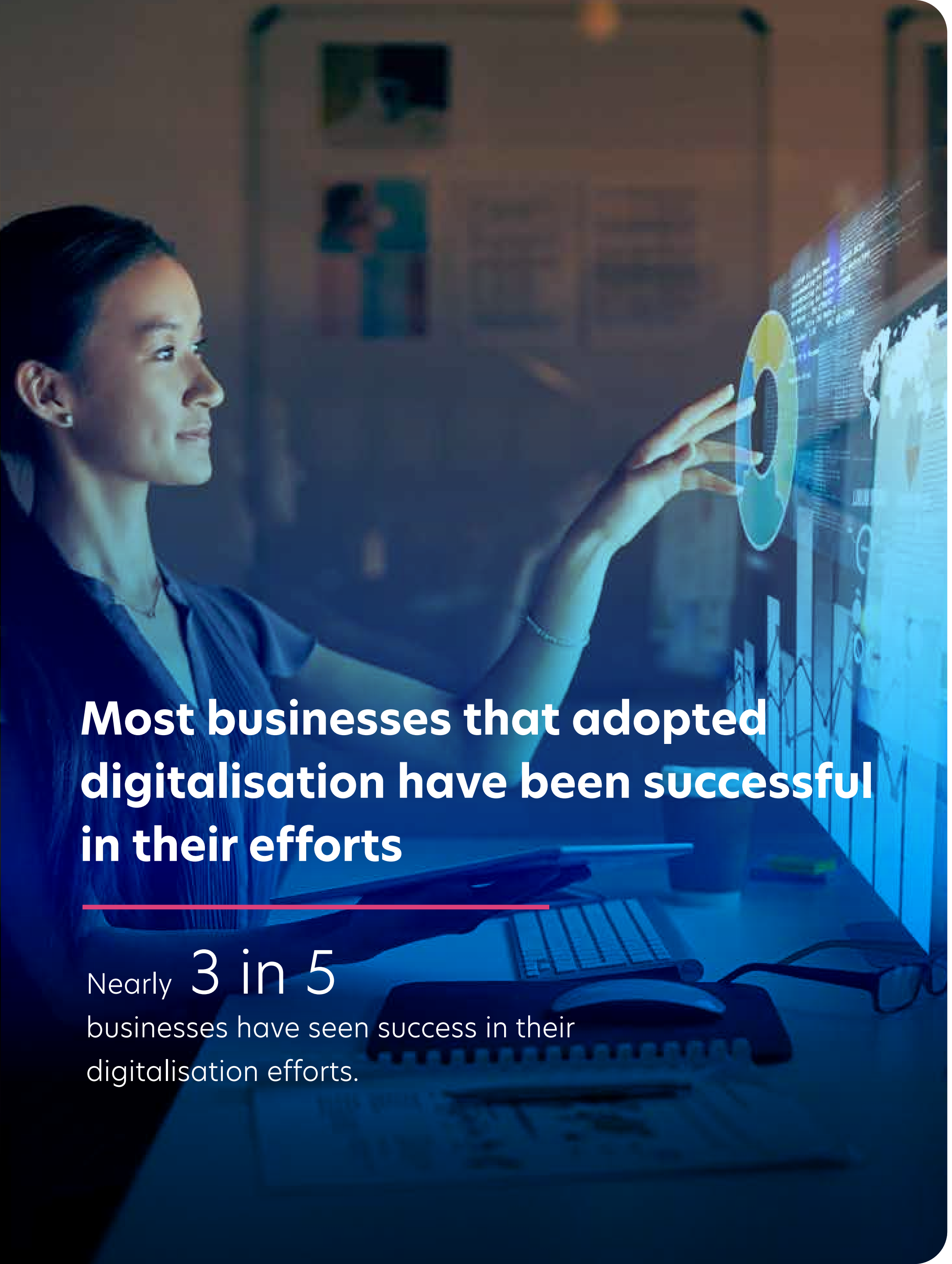
Accounting
32%

Human resource management
31%

Priority areas

Marketing	Sales	Customer service	
46% Small Enterprises	58% Real Estate/ Hospitality	55% Real Estate/ Hospitality	41% Small Enterprises

Q) Which of these processes did your company digitalise specifically to help your business perform better in 2022? Base: Those currently trialling or adopted digitalisation in at least one department (489)

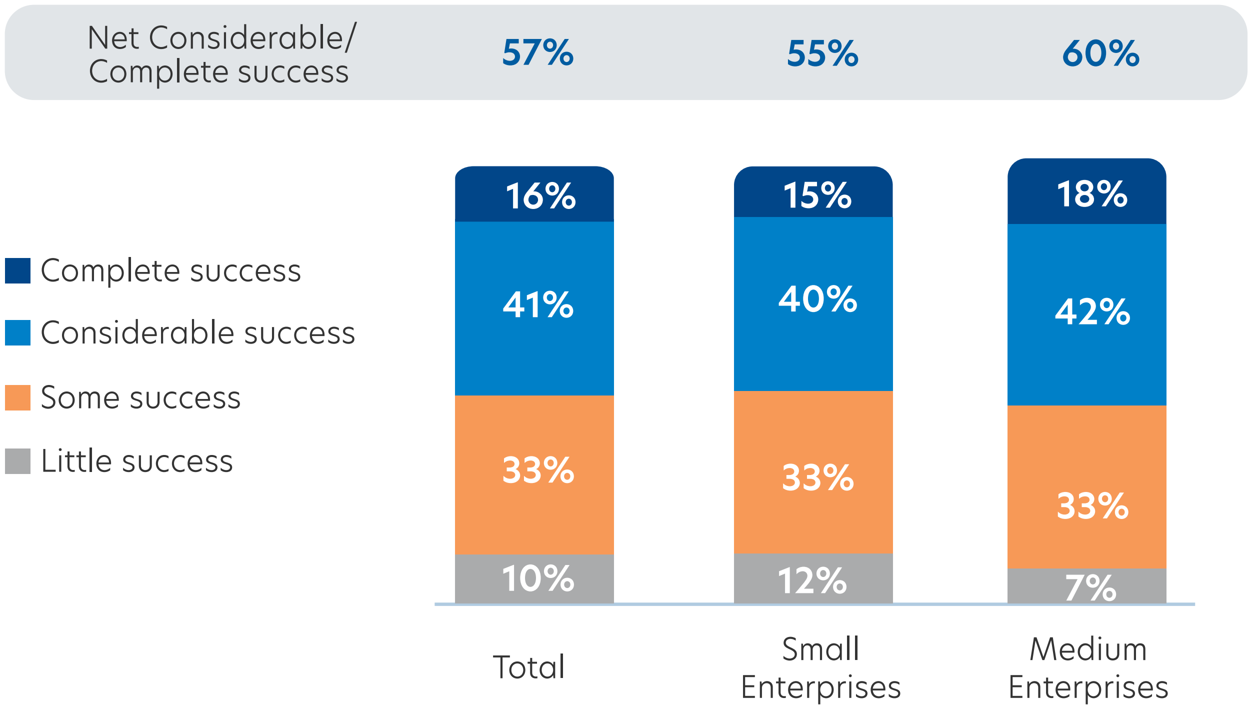


Most businesses that adopted digitalisation have been successful in their efforts

Nearly 3 in 5

businesses have seen success in their digitalisation efforts.

Success with digitalisation



More success with digitalisation (sectors)

70% Tech, Media & Telecom

63% Business Services

58% Consumer Goods

More success with digitalisation (regions)

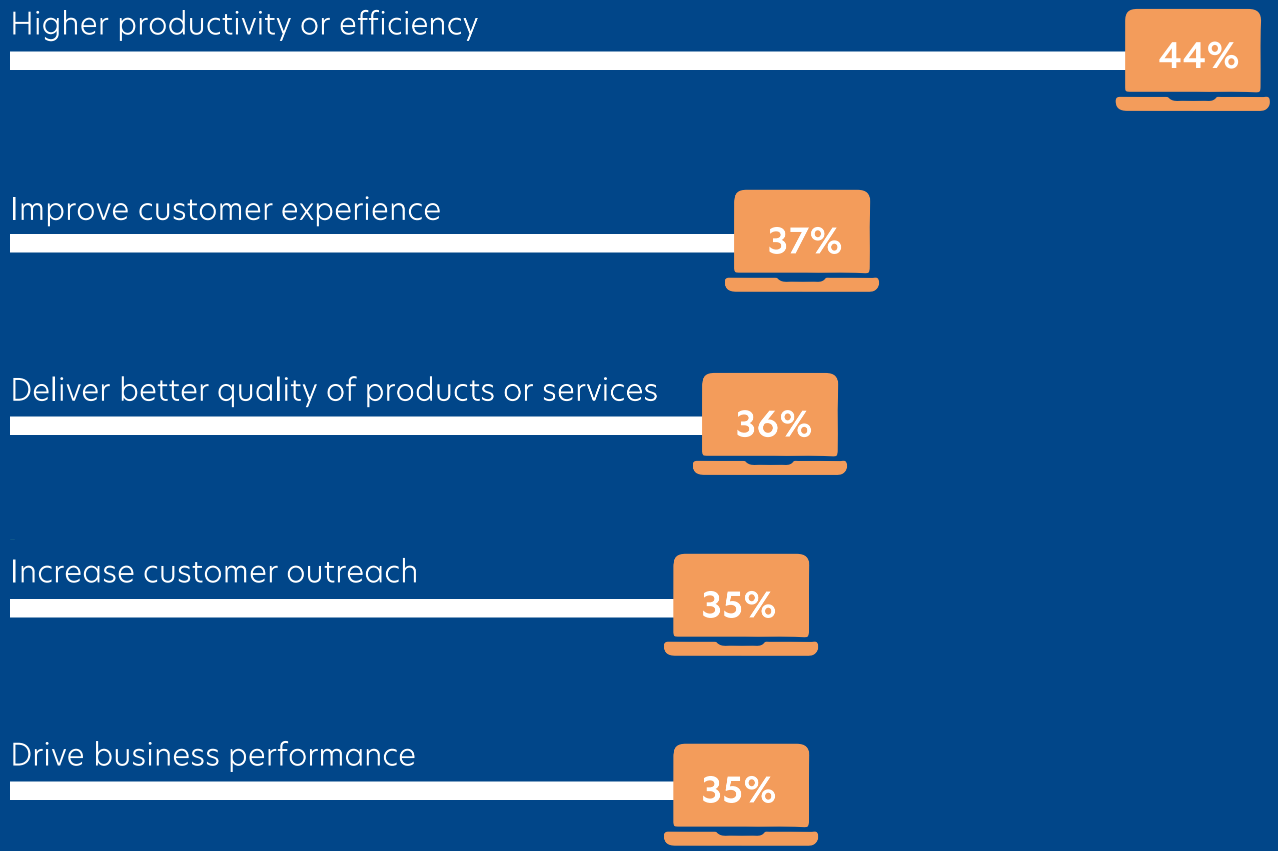
70% South

60% East Malaysia

Q) How much success has your company had so far in its digital adoption journey?
Base: Those currently trialling or adopted digitalisation in at least one department (489)

Digitalisation has led to higher productivity, better customer engagement and delivery of better quality products

Impact of digitalisation



Most impacted areas by region

Higher productivity or efficiency

61%
North

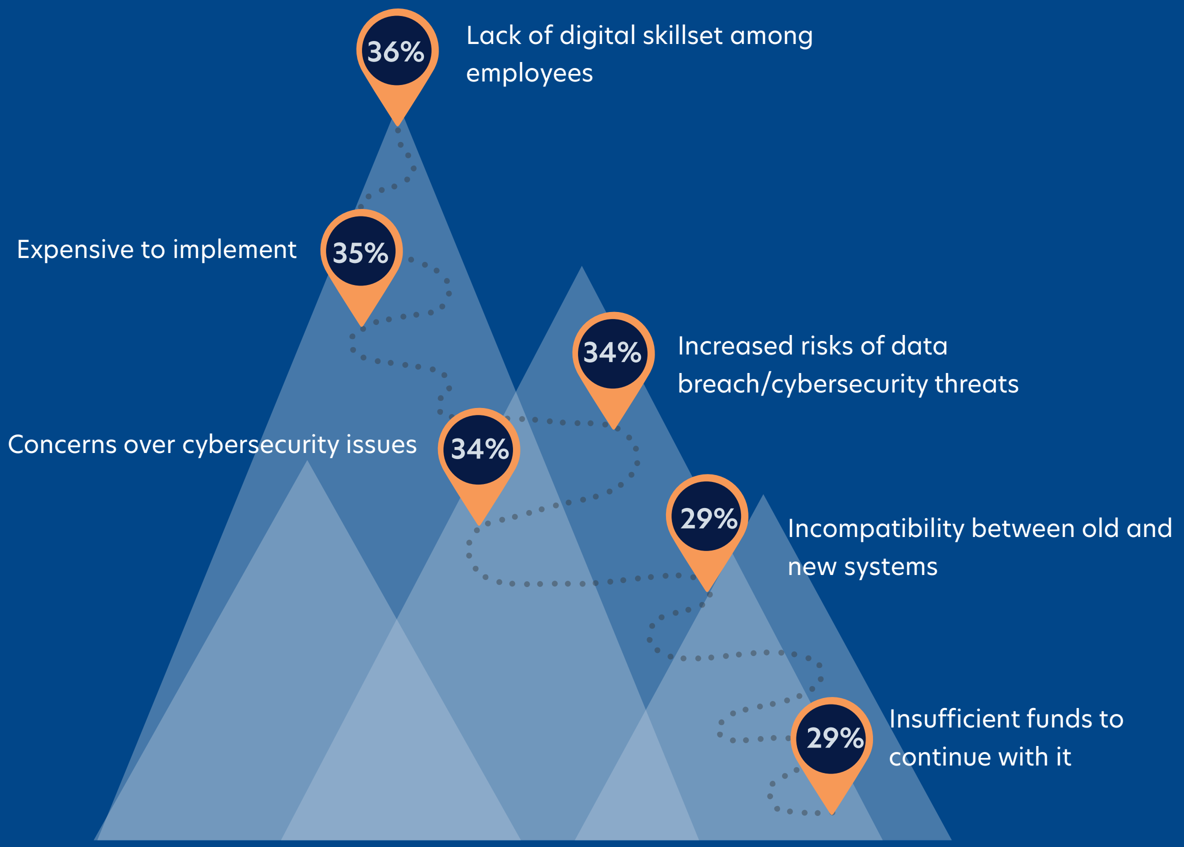
Drive business performance

41%
Central

Q)How has digital adoption impacted your company? Base: Those adopted digitalisation in at least one department (431)

Yet, there are several challenges that need to be addressed

Top challenges in digitalisation



Cybersecurity and data breach risks are key concerns for businesses. Training employees and finding the right technology partners can help to address these concerns.

Top challenges by sectors/ enterprises

Lack of digital skillset among employees

53%
Real Estate/ Hospitality

Expensive to implement

52%
Tech, Media & Telecom

Increased risks of data breach/ cybersecurity threats

41%
Medium Enterprises

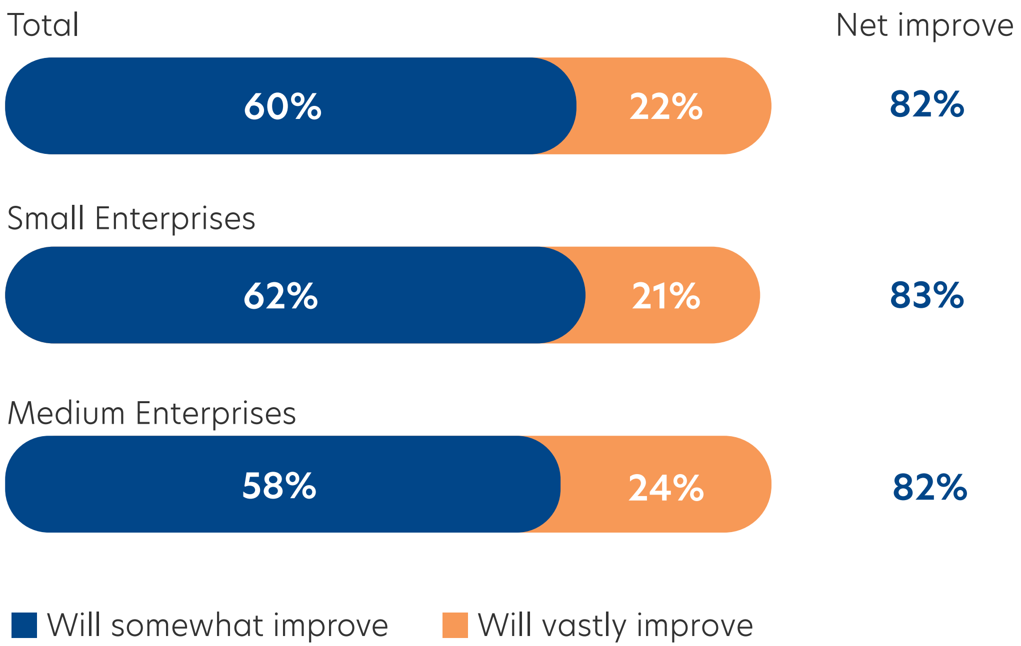
Q) What challenges have you faced or expect to face in your digital adoption journey? Base: Total (528)

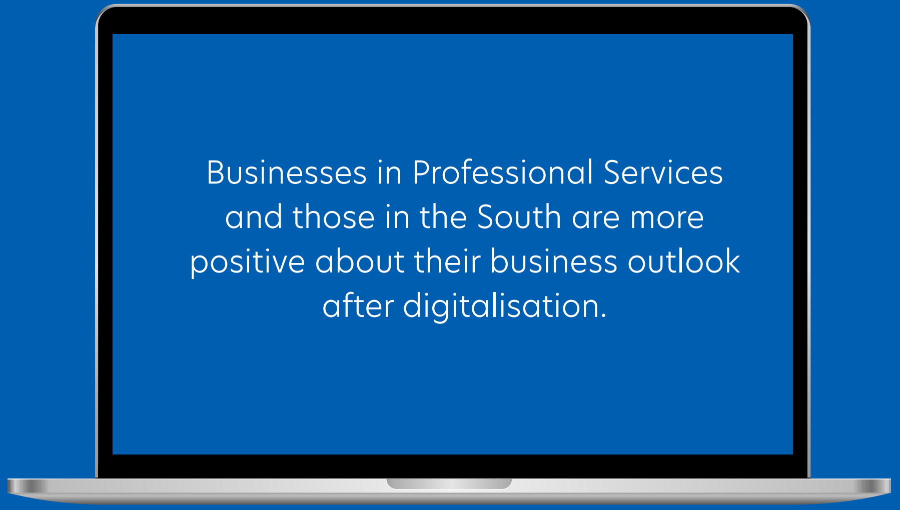
State of Digitalisation

Outlook for 2023

Post-digitalisation business outlook is expected to be positive

Business outlook post-digitalisation





Most positive outlook (sectors)

90% Professional Services

90% Industrials, Oil & Gas

87% Tech, Media & Telecom

Most positive outlook (regions)

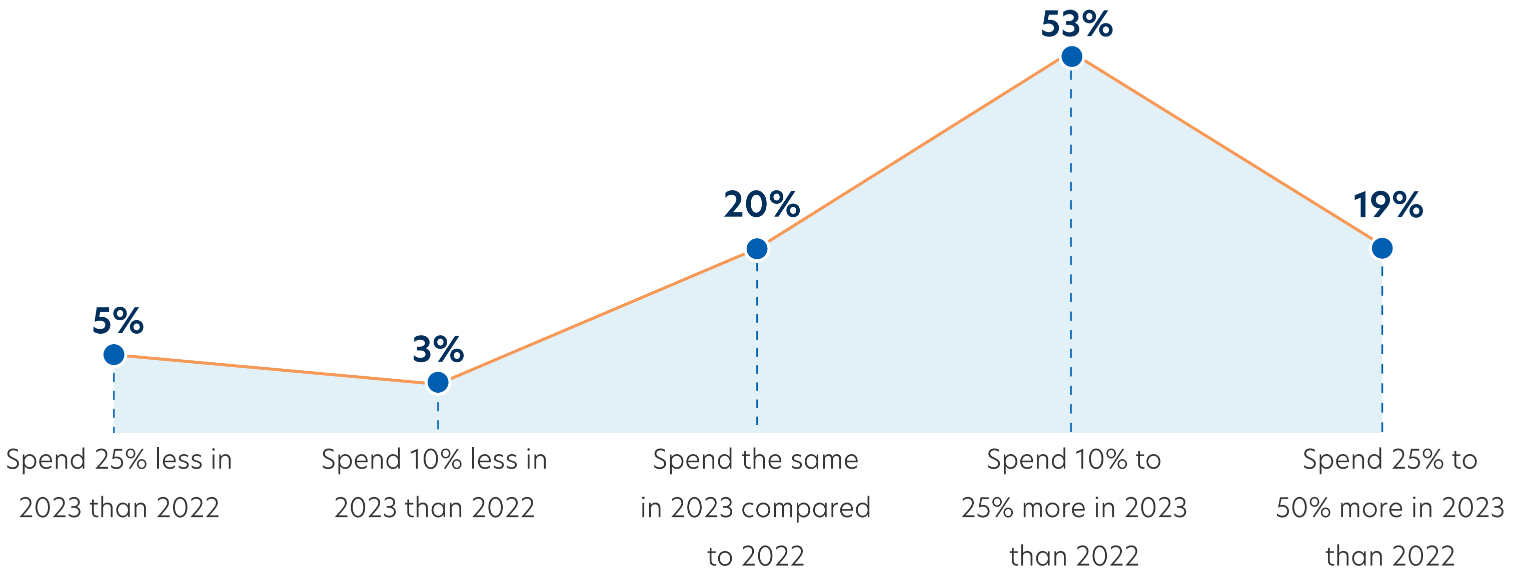
89% South

88% North

Q) How do you see your company's business outlook changing (e.g. revenue, productivity) in 2023, after digital adoption?
Base: Total (528)

Hence, businesses are continuing their digitalisation journey. Most expect to spend more on it in 2023

Future expenditure in 2023



72%
of businesses foresee spending more on digitalisation in 2023.

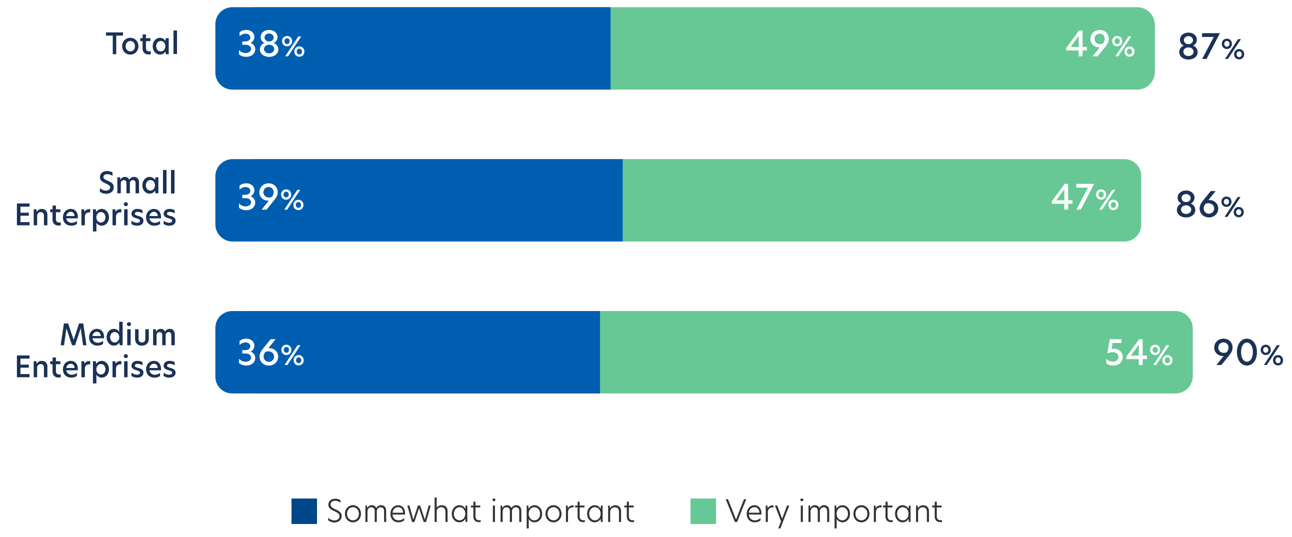
Q) Do you foresee spending more on digital solutions and/or technology in 2023 compared to 2022? Base: Total (528)

6. Supply Chain Management (SCM)

SCM is important to most businesses in Malaysia

Nearly 9 in 10
businesses consider SCM important.

Importance of SCM



Higher importance to SCM (sectors)

92% Construction & Infrastructure

92% Manufacturing & Engineering

90% Consumer Goods

Higher importance to SCM (regions)

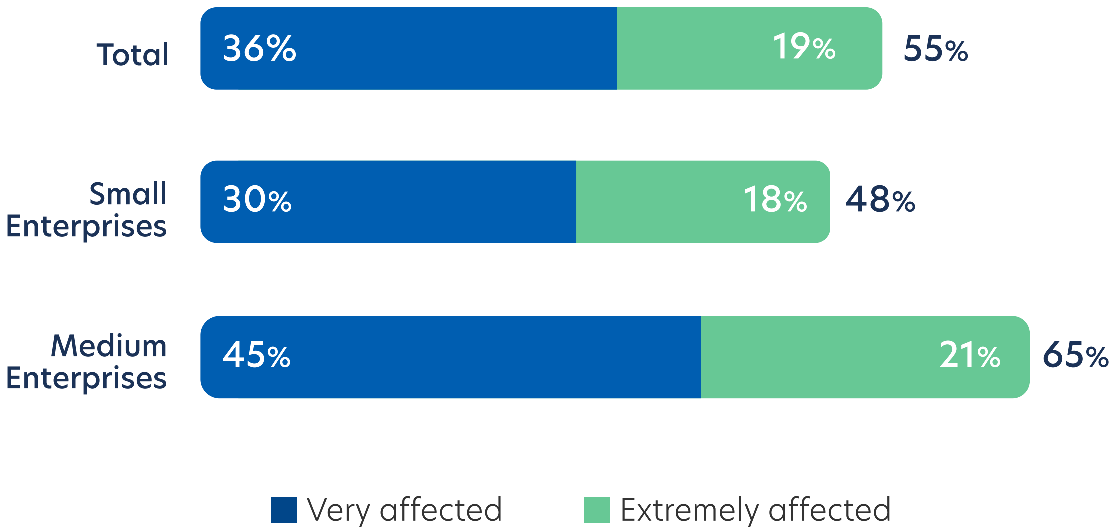
91% South

90% North

Q) How important is supply chain management to your business? Base: Total (528)

Geopolitical tensions are having an adverse impact on supply chains

Geopolitical impact on supply chains



Q) To what extent has your company's supply chain been affected by geopolitical tensions such as Russia-Ukraine conflict, US-China trade tensions, or by COVID-19 restrictions etc.? Base: Total (528)

Over **1 in 2** businesses say their supply chain has been affected by geopolitical tensions.

Most impacted sectors

72% Construction & Infrastructure

67% Business Services

65% Industrials, Oil & Gas

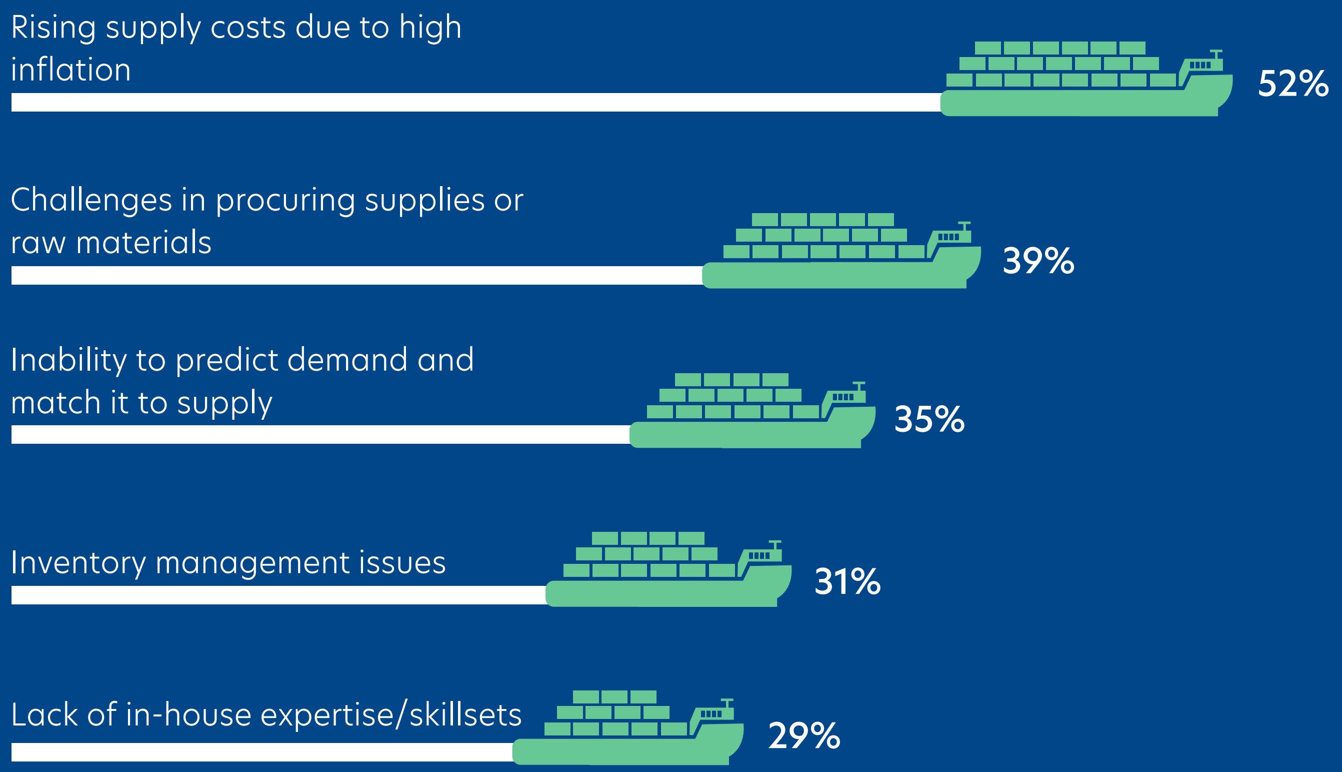
Most impacted regions

63% South

56% North

This has led to rising supply costs and challenges in procurement

Key supply chain challenges



Higher challenge sectors

Rising supply costs due to high inflation

64%
Construction & Infrastructure

Challenges in procuring supplies or raw materials

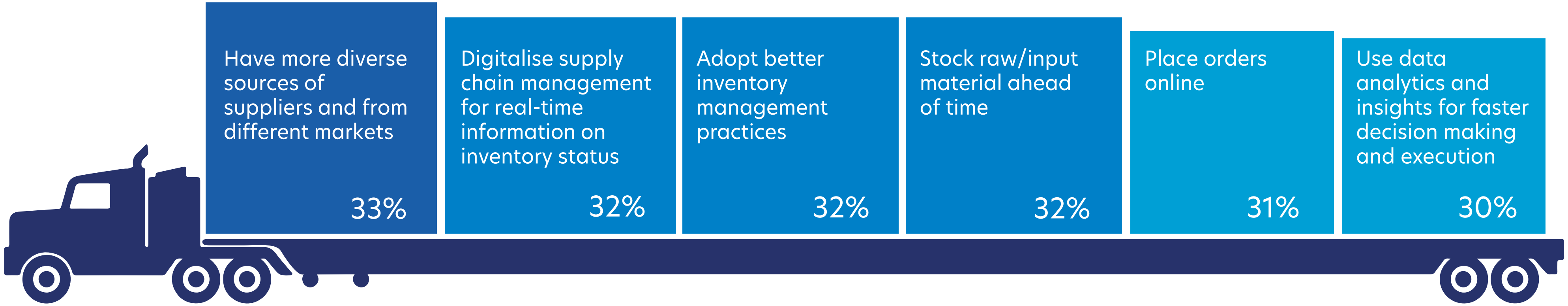
52%
Manufacturing & Engineering

Over **1 in 2** businesses say their key supply chain challenge is rising supply costs due to high inflation.

Q) What are the current challenges faced by the business in supply chain management? Base: Total (528)

To address these challenges, businesses have diversified sources of suppliers and digitalised supply chain management

Actions for supply chain stability



Top actions by markets/sectors/enterprises

Have more diverse sources of suppliers and from different markets

44%
North

Digitalise supply chain management

39%
Medium Enterprises

Adopt better inventory management practices

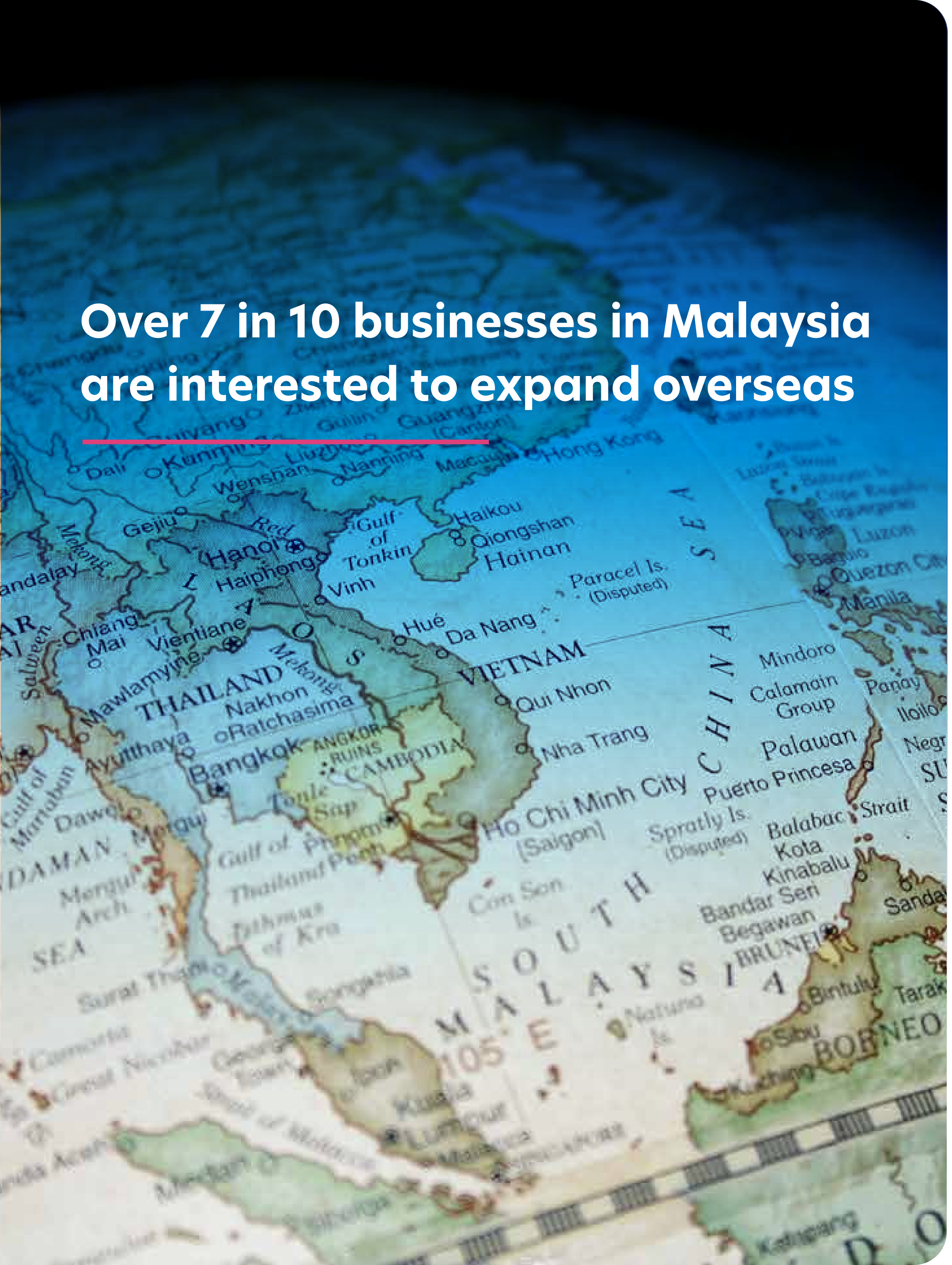
47%
Real Estate/ Hospitality

39%
Medium Enterprises

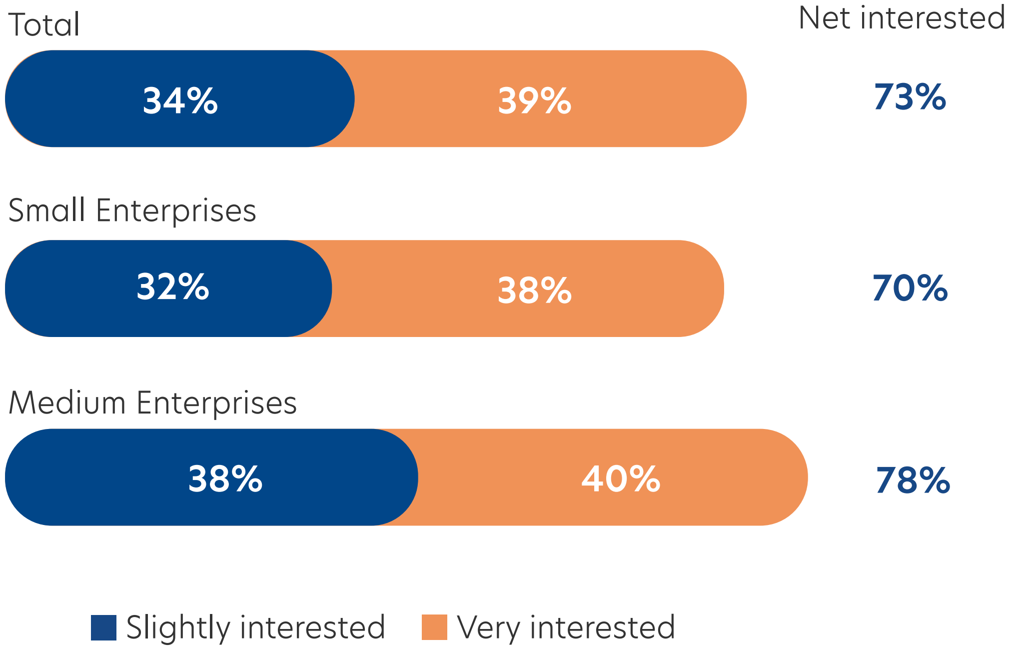
Q) What steps, if any, have you taken or are planning to take to ensure a stable supply chain in the future? Base: Total (528)

7. Interest in Overseas Expansion

Over 7 in 10 businesses in Malaysia are interested to expand overseas



Interest in overseas expansion



Most interested sectors

89% Tech, Media & Telecom

82% Construction & Infrastructure

77% Industrials, Oil & Gas

Most interested regions

82% South

72% North

Q) How interested is your business in expanding overseas in the next three years? Base: Total (528)

Interest in expansion is fuelled by a desire to grow revenue, improve profits and build an international reputation

Motivators for overseas expansion

Grow revenue
66%

Improve profitability
62%

Build reputation as an international business
56%

Leverage my company's regional/global network
39%

Reduce business risk by diversifying into other markets
27%

Take advantage of government policies/ schemes
21%

Top motivators by sectors/regions/ enterprises

Grow revenue

82% Tech, Media & Telecom

80% Real Estate/ Hospitality

75% South

71% Small Enterprises

Improve profitability

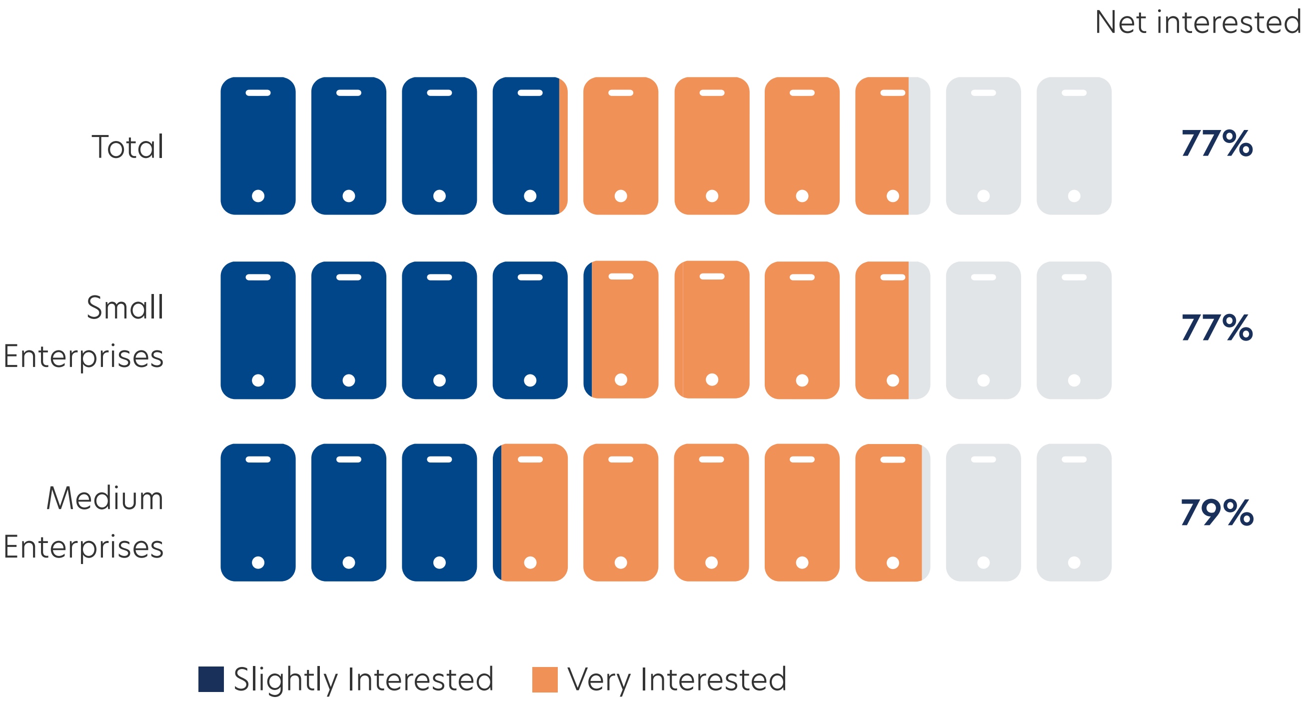
78% North

Nearly 7 in 10 businesses are looking to expand overseas to improve profits and revenue.

Q) What are the key motivators in your effort for overseas expansion? Base: Interested in overseas expansion (385)

Thus, cross-border digital trade platforms as a means for overseas expansion have high interest

Interest in using cross-border digital trade platforms



Q) How interested is your company in using cross-border digital trade platforms as a means for overseas expansion?
Base: Total (528)

Nearly **8 in 10** businesses are interested in leveraging cross-border digital trade platforms for their overseas expansion.

Most interested sectors

87% Tech, Media & Telecom

86% Business Services

84% Professional Services

Most interested regions

83% South

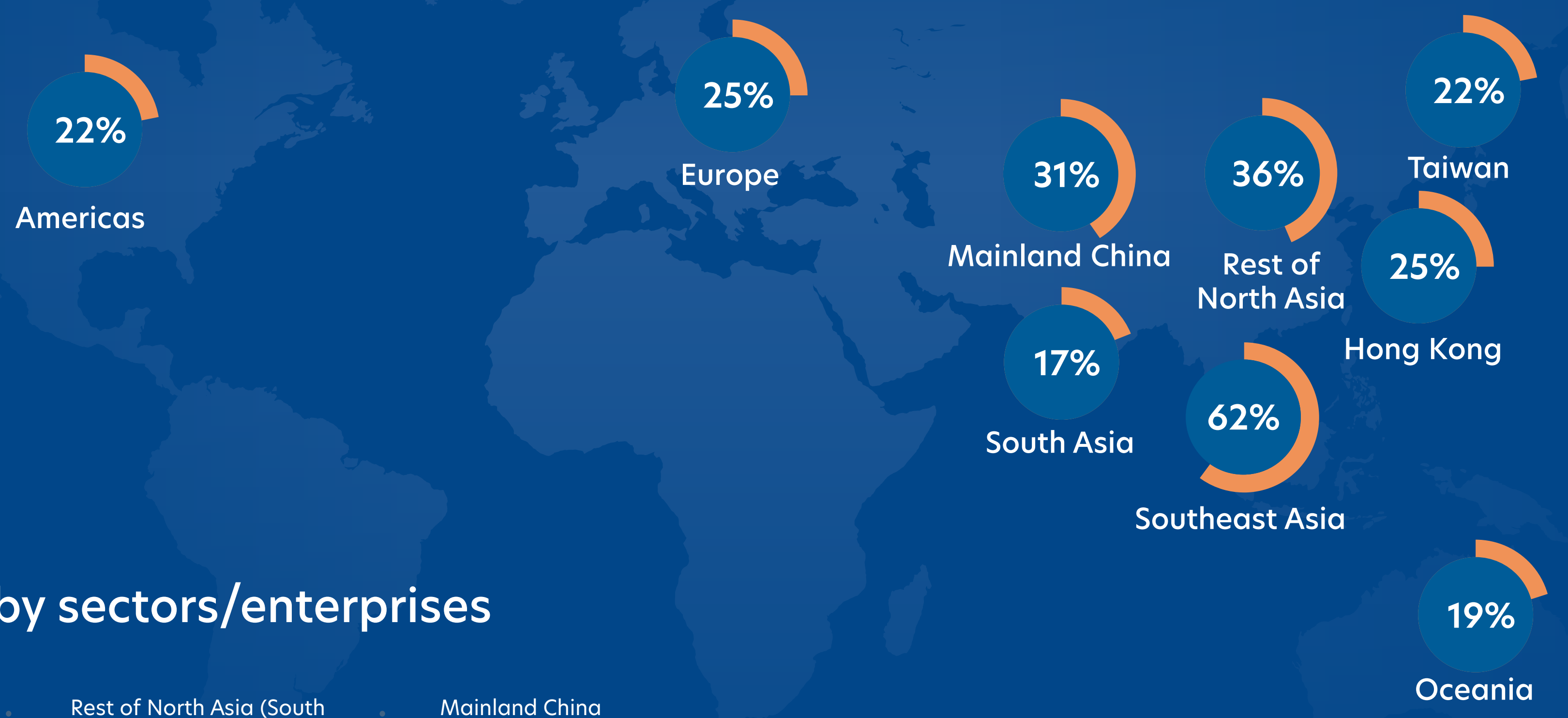
77% Central

Interest in Overseas Expansion

Future Expansion Plans

Southeast Asia, Rest of North Asia and Mainland China are key markets of interest for overseas expansion

Location planned for overseas expansion



Top locations by sectors/enterprises

Southeast Asia (e.g. Indonesia, Malaysia, Thailand, Vietnam)

80% Real Estate/ Hospitality

Rest of North Asia (South Korea, Japan)

44% Medium Enterprises

Mainland China

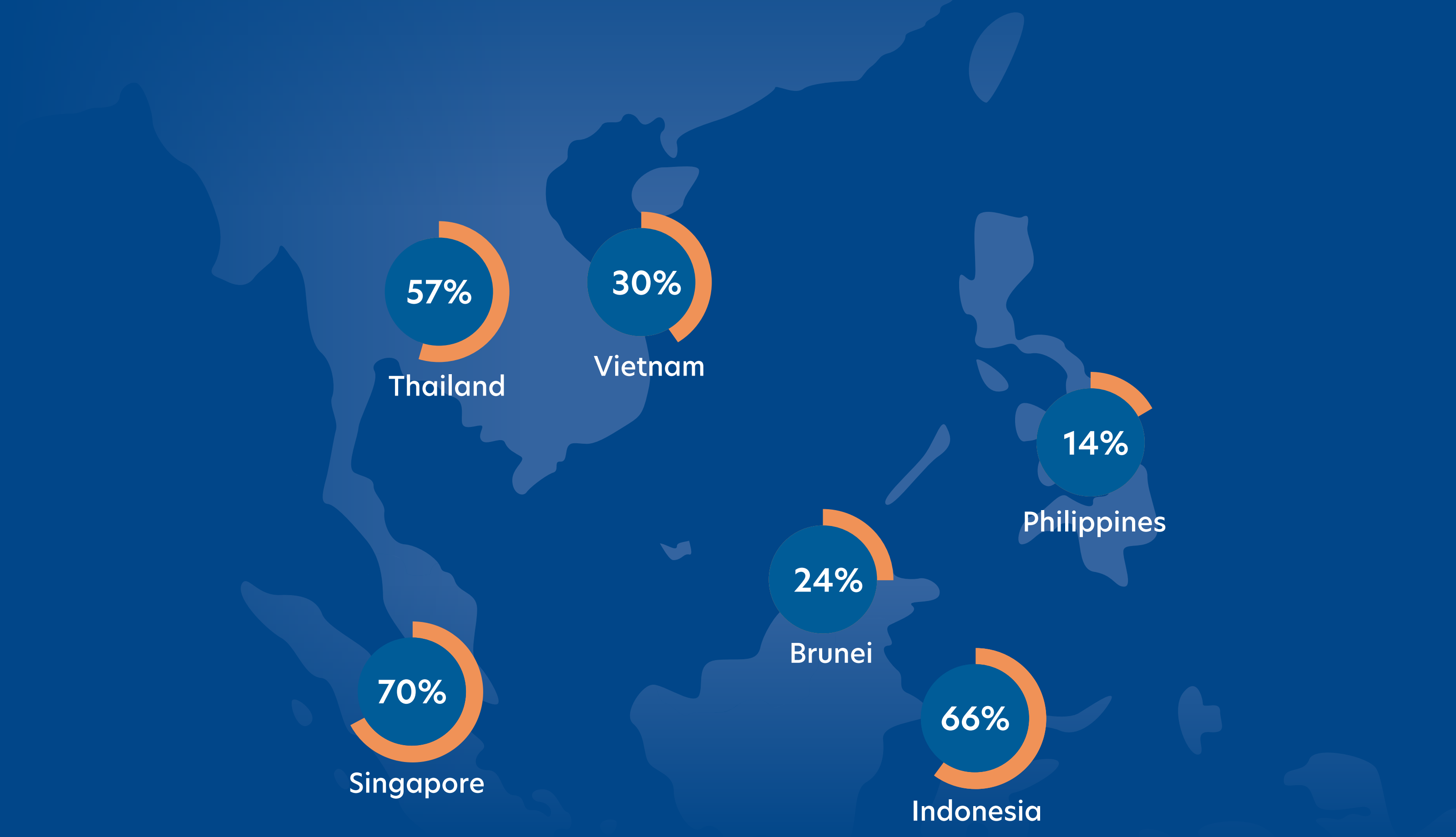
51% Manufacturing & Engineering

54% Industrials, Oil & Gas

Q) Which of these markets is your enterprise intending to venture into within 3 years (by 2025)? Base: Interested in overseas expansion (385)

Singapore, Indonesia and Thailand are the top 3 expansion markets within Southeast Asia

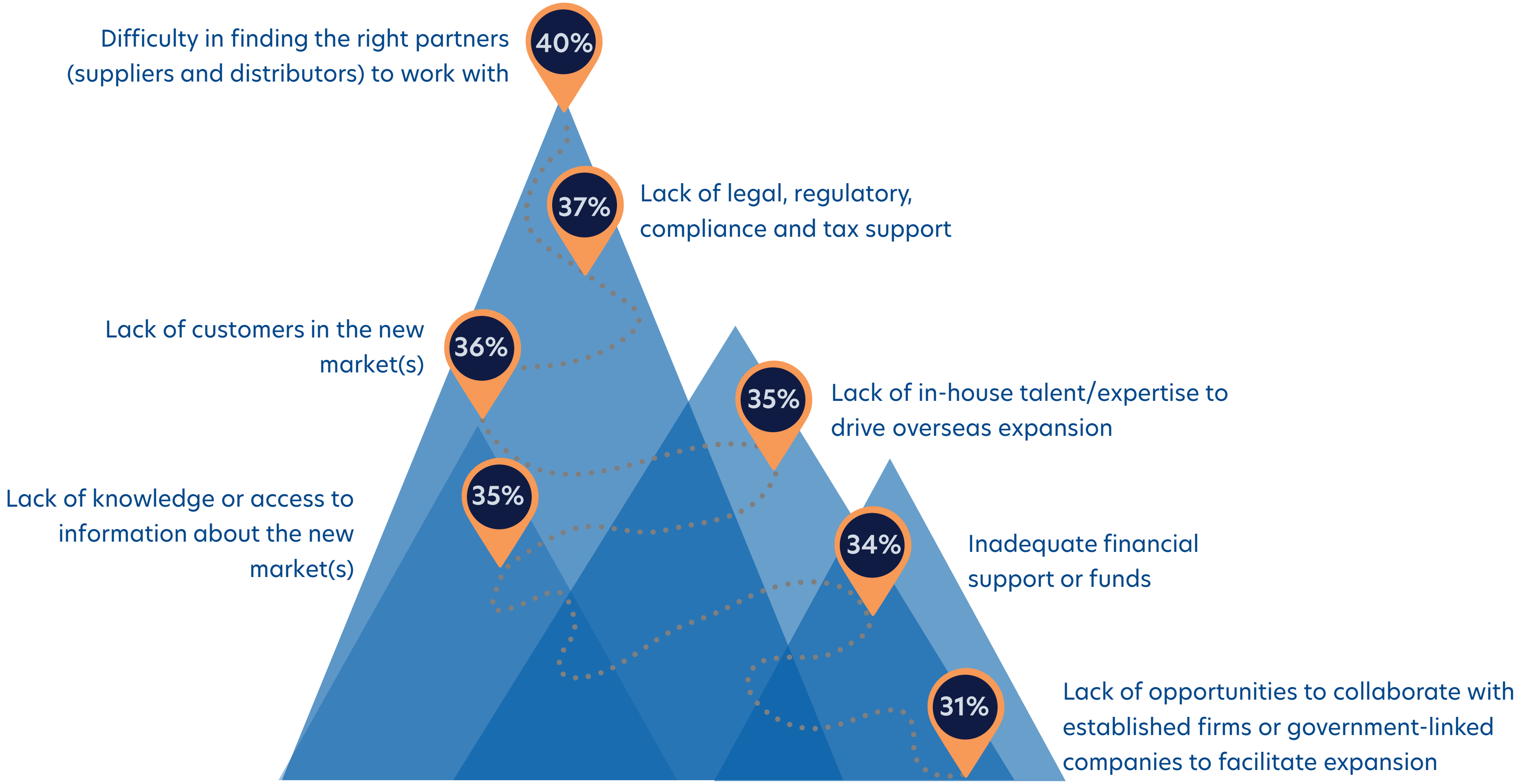
Priority markets within ASEAN



Q) Please select the most important countries (up to 3) in ASEAN that your enterprise is intending to venture into within 3 years (by FY2025).
Base: Interested in expanding within ASEAN (131)

Difficulty in finding the right partner and lack of legal, regulatory, compliance and tax support are key hurdles to expansion

Expected challenges for overseas expansion



Top challenges by sectors

Lack of legal, regulatory, compliance and tax support

50%
Manufacturing & Engineering

Lack of customers in the new market(s)

48%
Consumer Goods

Q) What are the key barriers in your effort for overseas expansion? Base: Total (528)

Support from the government and UOB (1/2)

SMEs may also look to government programmes and value-added services from UOB to realise their business ambitions.

Financial support

Syarikat Jaminan Pembiayaan Perniagaan Bhd: The government guarantee scheme limit to support SMEs will be increased to MYR 20 billion.

AES: Bank Negara Malaysia's (BNM) All Economic Sector (AES) is a financing scheme established by BNM to enhance access to financing for SMEs in all economic sectors, to support growth at reasonable cost, with a total allocation of MYR 6.5 billion. This financing scheme allows for working capital and capital expenditure financing.

Sustainability support

BNM High Tech & Green Facility (HTG): The overarching aim of HTG is to support SMEs involved in strategic sectors or critical technology segments to reset, invest, and grow their business opportunities. This would strengthen Malaysia's economic recovery and growth-oriented reforms aligned to the Twelfth Malaysia Plan (RMK-12) by catalysing strategic sectors, advancing digitalisation and embedding sustainability. HTG will also be available for financing solutions in green technologies such as renewable energy, biofuels, electric vehicles, smart grid solutions, agritech, and circular economy to waste management.

BNM Low Carbon Transition Facility: Established to support SMEs in adopting sustainable and low carbon practices. Open to SMEs in all sectors that are committed to transform their business operations towards low carbon operations. This includes improving energy efficiency, increasing use of sustainable material for production and obtaining sustainability certification. The aim is to encourage and support SMEs to adopt sustainable practices for business resilience.

U-Green Financing programme: UOB Malaysia has partnered with Syarikat Jaminan Pembiayaan Perniagaan Malaysia (SJPP) to launch the MYR 1 billion U-Green Financing programme, supporting Small and Medium Enterprises (SMEs) in embracing sustainability.

U-Solar Programme: Asia's first integrated solar energy financing platform across UOB's key Southeast Asian markets. It provides financing solutions to attract solar developers, contractors and supports the 'green' agenda of homeowners, businesses and regional governments, in building a sustainable ecosystem and partnership.

U-Energy Programme: Driving Energy Efficiency with financial / non-financial benefits: 1. Cost savings from lower energy consumption; 2. Enhance capital value of the building after the energy efficient retrofit; 3. Help companies meet their ESG objectives and sustainability reporting; 4. Improve the company's branding and ability to attract talents preferring employers that adopt good ESG practices.

Support from the government and UOB (2/2)

Digitalisation support

Malaysia Digital X-port Grant (MDXG) by MDEC: Support for Malaysian technology companies that have demonstrated export readiness and are seeking to expand their global market presence. Stimulate high-value digital exports that lead to the development and commercialisation of market-driven, disruptive, innovative, and sustainable products or services for the global market.

Malaysia Digital Catalyst Grant (MDCG) by MDEC (for SMEs): Grant to promote sectors that align with the National 4th IR policy. Purpose of co-creation, problem-solving, development and commercialisation of innovative solutions with an end-user partner.

Digital Content Grant (DCG) by MDEC (for SMEs): Support for local creative content companies in developing, producing, and marketing their digital content in animation, digital games, digital comic and creative technology content.

Business Accelerator Programme (BAP 3.0) by SME Corp (for SMEs): Enhance the capabilities of SMEs through business advisory services and financial support. This programme supports a wide range of capability building initiatives to assist SMEs to grow and expand their businesses locally and globally.

CIP SPARK by Cradle for (Tech and Non-Tech SMEs): Grant of up to MYR 150,000 to cover the development and pre commercialisation of for technology start-ups. It is a funding in the form of a conditional grant to assist early-stage entrepreneurs to develop and commercialise their product.

CIP SPRINT by Cradle (for Tech SMEs): Grant of up to MYR 600,000 to cover the commercialisation of tech and covers SMEs. It is a funding in the form of a conditional grant to assist entrepreneurs to fund their technology based business venture.

Industry4WRD Intervention Fund by MIDA (for SME): For all SMEs which have completed the government-funded Industry4WRD Readiness Assessment (RA) programme, for manufacturing and related services sectors to embrace Industry 4.0.

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