



From the Desk
of the
Chief Economist

BANK ISLAM

OPPORTUNITIES FOR BUSINESSES IN THE E-COMMERCE WORLD

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ECONOMIC RESEARCH

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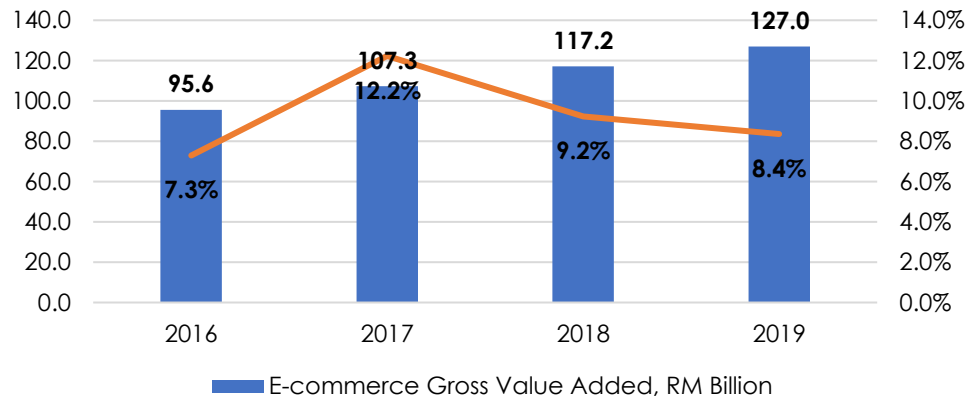
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NOR JANNAH ABDULLAH

RAJA ADIBAH RAJA HASNAN

E-Commerce Gross Value Added To GDP, RM Billion

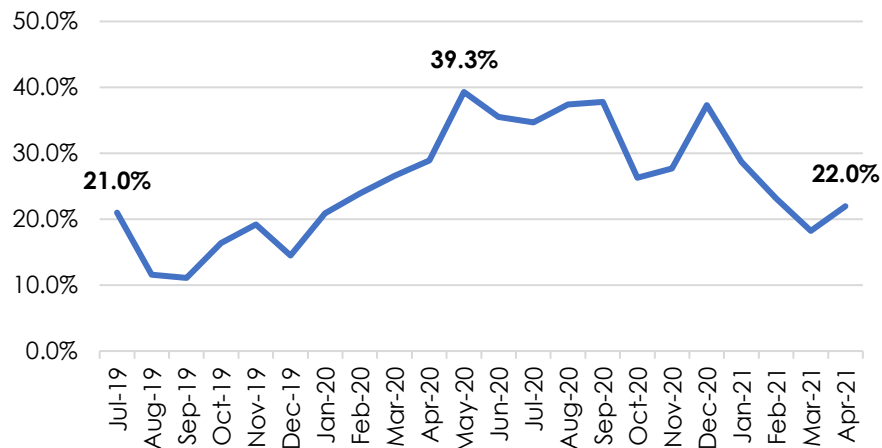


Source: DOSM

- ✓ The commendable growth seen in Malaysia's online retail sales index is a testament to the vibrant e-commerce space in Malaysia.
- ✓ When the pandemic hit the country early last year, the online retail sales index surged by 39.3% year-on-year (y-o-y) in May 2020 (April 2020: 28.9%) following the imposition of the movement control order (MCO) in March last year. This is the highest ever growth recorded based on data available to us.
- ✓ The recent y-o-y growth rate in the online retail sales index has dropped below 30.0% amid a dissipating low base effect. Nevertheless, the latest growth rate in the index during April 2021 was at 22.0% (March 2021: 18.3%), is still considered high than the pre-pandemic levels which usually hovered between 10.0% to 21.0%.

- ✓ Malaysia has been a beneficiary of the e-commerce wave. Even prior to the pandemic outbreak, Malaysia's e-commerce gross value added to GDP stood at RM127.0 billion in 2019 (2018: RM117.2 billion).
- ✓ We opine that the e-commerce gross value added would be higher in 2020 and 2021. The onset of the Covid-19 pandemic has led to a surge in e-commerce transactions in order to limit physical contact and comply with movement restrictions.

Growth In Malaysia's Online Retail Sales Index, y-o-y%

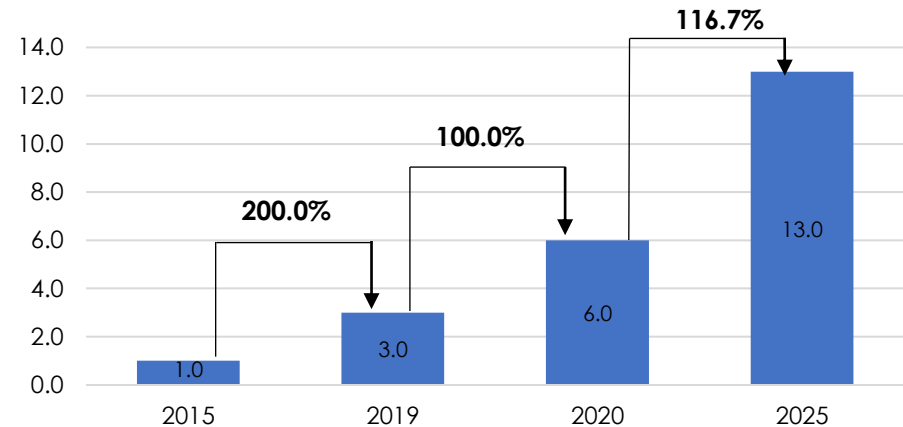


Source: DOSM

HOW BIG ONLINE SALES ARE ON E-COMMERCE PLATFORMS?

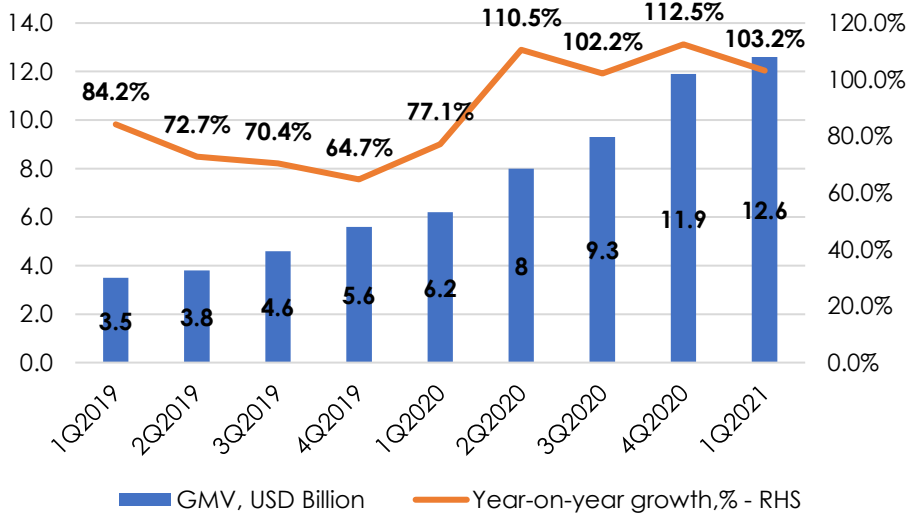
- ✓ Malaysia's gross merchandise value (GMV) in the e-commerce sector is expected to have doubled to USD6.0 billion in 2020 from USD3.0 billion in 2019, according to the E-economy SEA 2020 report by Google, Temasek and Bain & Company.
- ✓ GMV measures the value of merchandise sold or the number of transactions handled over a specified period of time on an online platform. It is a metric that is most commonly used in the e-commerce industry.

Malaysia's E-commerce Gross Merchandise Value, USD Billion



Source: E-economy SEA 2020 Report

Shopee's Group GMV, USD Billion



Source: SEA Group's Financial Statements

- ✓ The main drivers of Malaysia's e-commerce GMV are none other than online market platforms namely, Shopee and Lazada which are well known for conducting their own sales campaigns such as the "11.11 Singles' Day Sale" and the "12.12 Birthday Sale".
- ✓ Shopee's GMV which is attributable to Malaysia is not disclosed in its publicly available financial statements.
- ✓ Notwithstanding this, Shopee's strong presence in ASEAN can be seen through its growth in GMV standing over 100.0% y-o-y since 2Q2020. Therefore, this is enough to show that online market platforms are meaningful enough to boost Malaysia's digital economy.

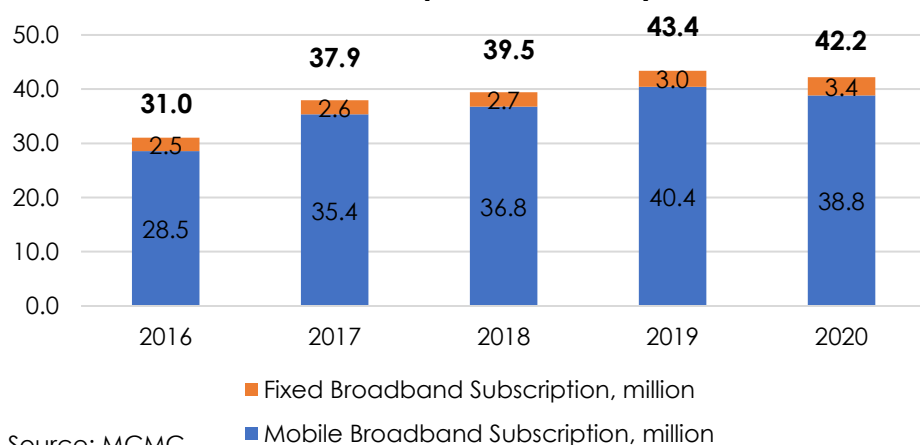
E-Commerce Adoption By States



Broadband Penetration Rates

Type Of Broadband	4Q2019	1Q2020	2Q2020	3Q2020	4Q2020
Fixed Broadband per 100 premises	32.8%	33.8%	34.5%	35.6%	37.2%
Mobile Broadband per 100 premises	123.7%	118.5%	116.7%	117.4%	118.7%

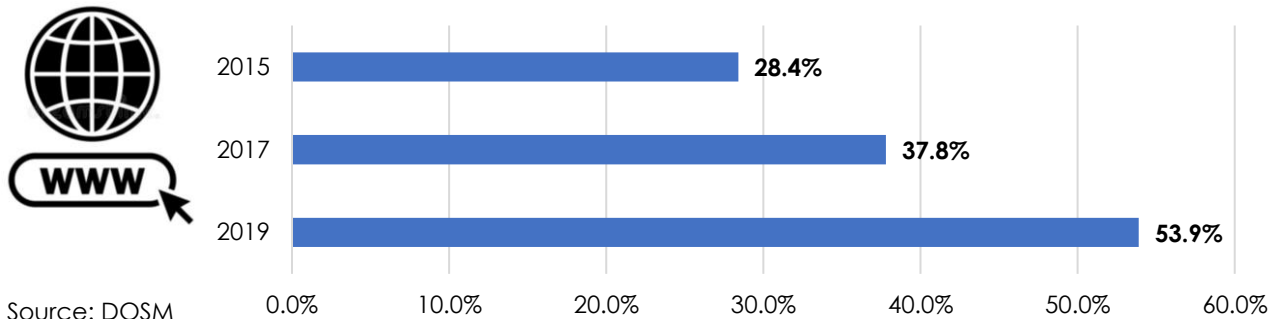
Broadband Subscriptions In Malaysia, million



- ✓ The Malaysian Communications and Multimedia Commission's (MCMC) e-commerce survey in 2018 found that 51.2% of Malaysians have used e-commerce platforms to actively shop and sell online.
- ✓ Wilayah Persekutuan Putrajaya topped the list of e-commerce adoption at 70.5%, followed by Wilayah Persekutuan Labuan and Perlis at 60.5% and 44.5% respectively.
- ✓ A main factor for the reasonable adoption of e-commerce by Malaysians is the robust broadband penetration rate which has been gradually increasing particularly for fixed broadband which reached 37.2% in 4Q2020 (4Q2019: 32.8%).
- ✓ The higher reliance on internet services amid the pandemic, especially for work from home arrangements has driven mobile-to-fixed broadband substitution, This is seen through the broadband subscriptions which increased to 3.4 million in 2020 (2019: 3.0 million) while mobile broadband subscriptions dropped to 38.8 million last year (2019: 40.4 million).
- ✓ The reason being for such substitution is due to fixed broadband offering higher capacity and more stable speeds and reliability than mobile broadband, particularly for bandwidth-intensive activities such as online meetings.

- ✓ Asia IoT Business Platform found that only about **one in three businesses** in Malaysia have implemented digital transformation strategies, **while less than one in four businesses** have a dedicated digital strategy team.
- ✓ Nevertheless, web presence in Malaysian businesses has been steadily rising. A survey done by the Department of Statistics Malaysia (DOSM) found that the percentage of business establishments with a web presence reached 53.9% in 2019 compared to 28.4% in 2015.

Web Presence Among Business Establishments In Malaysia, %



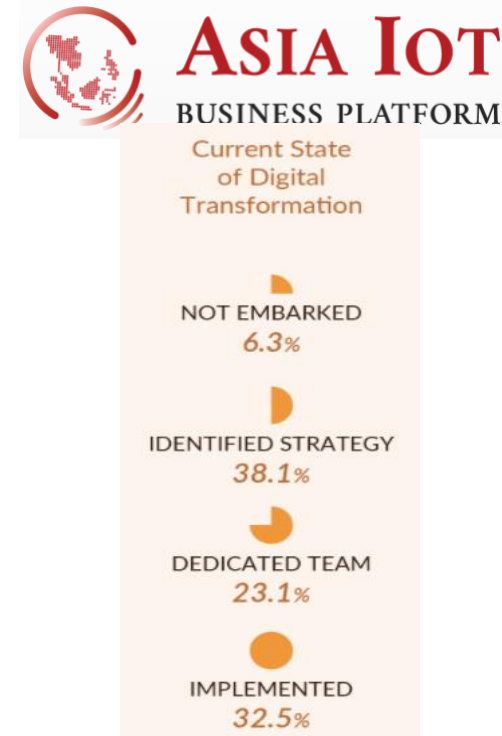
Source: DOSM

- ✓ Under the types of web presence, 59.9% of business establishments surveyed by DOSM use social media due to the relatively low setup costs while 41.0% of businesses surveyed use their own websites. Interestingly, only 15.0% of establishments surveyed use e-market places such as Lazada and Shopee. As such, the participation of businesses on e-market places is still low despite the high GMVs recorded in Malaysia.

Type Of Web Presence Used By Businesses

Type Of Web Presence	Percentage Usage By Businesses
Social media	59.9%
Website owned by establishment	41.0%
E-Marketplace	15.0%
Presence on another entity's website	11.6%

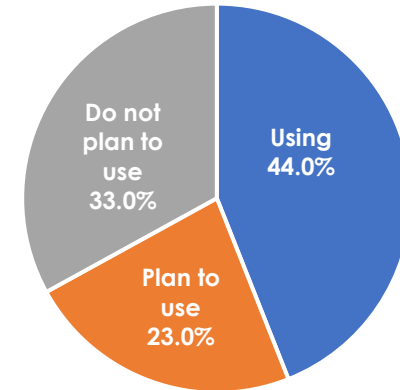
Source: DOSM



Source: Asia IoT Business Platform

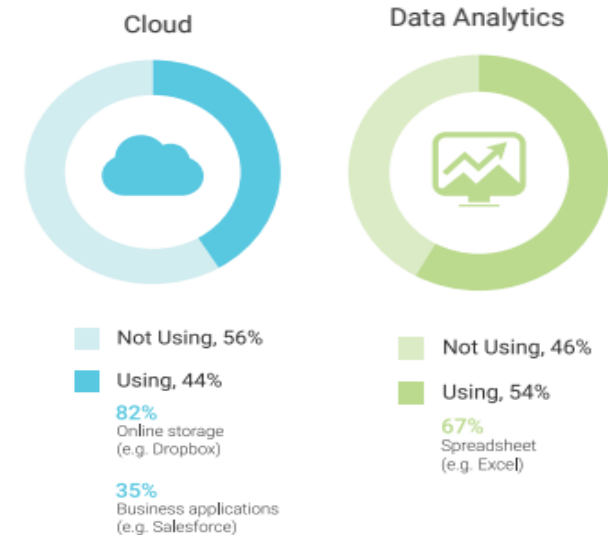
- ✓ E-commerce usage by SMEs is somewhat low with only 44.0% of SMEs utilizing e-commerce based on a survey done by SME Corp and Huawei Technologies. Even with 44.0% of SMEs are reported to be using e-commerce via tools such as cloud computing, the transaction is not actual e-commerce as they are only using social media to market their products but later offline to complete the transaction.
- ✓ Looking at ICT tools such as cloud computing, only 44.0% of SMEs use cloud computing but 82.0% of them are mainly using cloud storage such as Dropbox to store personal documents, pictures and videos rather than using enterprise application systems such as Salesforce.
- ✓ Meanwhile, 54.0% of the SMEs in the same survey by SME Corp and Huawei said they are using some form of data analytics, but this turned out to be just excel spreadsheets instead of an analytics solution.
- ✓ Such findings jive well with DOSM's 'Usage Of ICT & E-Commerce By Establishment' report which revealed that only 46.0% and 6.3% of business establishments use cloud computing and data analytics respectively.
- ✓ In general, digital adoption by SMEs is most concentrated in front-end computing devices and connectivity and least prevalent in back-end business processes such as inventory management and order fulfillment software according to Khazanah Research Institute.
- ✓ Therefore, we can infer that a knowledge gap in fully applying technological tools in business management among SMEs exists.

E-Commerce Usage By SMEs



Sources: Malaysia Digital SME Study 2018, SME Corp. Malaysia & Huawei Technologies (M) Sdn. Bhd.

Usage Of ICT Tools By SMEs



Sources: Malaysia Digital SME Study 2018, SME Corp. Malaysia & Huawei Technologies (M) Sdn. Bhd.

PLATFORMS TO ACCELERATE ADOPTION OF E-COMMERCE AMONGST BUSINESSES

Malaysia Digital Economy Blueprint

Thrust 4: Build agile and competent digital talent

Target:
Develop professional digital talent including 20,000 cyber security knowledge workers and 30,000 data professionals by 2025.

Source: Malaysia Digital Economy Blueprint



Small Entrepreneur Digitalisation Empowerment Programme

Allocation:
RM100.0 million for SMEs
RM200.0 million for Micro SMEs

Purposes:

- 1) Allow SMEs to obtain matching grants of up to RM5,000 to purchase or subscribe for digital platforms.
- 2) Onboarding initiatives for the Shop Malaysia Online and Go-eCommerce events.

Source: Pemulih Package

- ✓ The 4th thrust under the third chapter of the Malaysia Digital Economy Blueprint aims to develop and upskill the workforce's digital skills in areas such as cyber security, content creation, data analytics, system integration, artificial intelligence and other relevant professional skills.
- ✓ Upskilling programmes for digital skills will be undertaken either by local universities, or through online masterclasses. Training carried out for workers by companies will be eligible for tax deduction.
- ✓ This could therefore address the knowledge gap in applying technological tools such as cloud computing and data analytics mentioned in the previous page.
- ✓ On a broader basis, businesses especially SMEs can benefit from the Small Entrepreneur Digitalisation Empowerment Programme under the Pemulih Package.
- ✓ Other organisations such as Malaysia External Trade Development Corporation (MATRADE) has also launched the eTRADE Programme 2.0 aimed at accelerating exports via sustained participation in cross-border e-commerce channels among SMEs.

Schemes Under Matrade's eTRADE Programme 2.0

Financial Scheme

Amount: RM5,000
Purpose: Onboarding any cross-border e-commerce platform or multiple platforms.

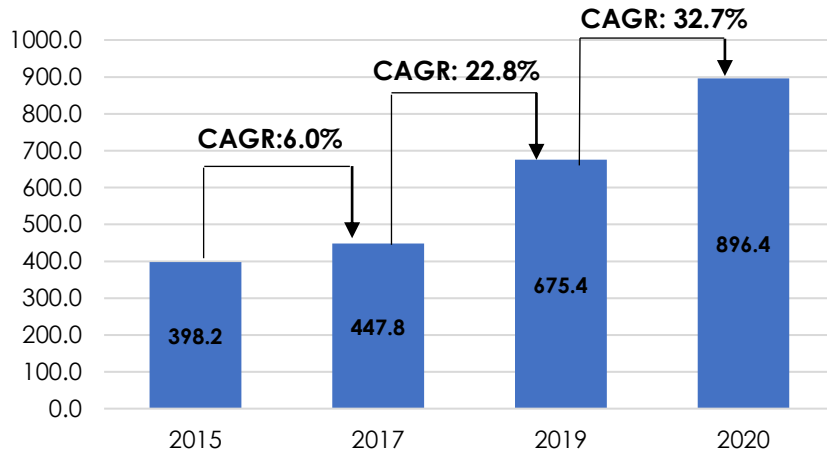
Source: MATRADE

Digital Marketing & Training Scheme

Amount: RM20,000
Purpose: Undertaking any digital marketing activities and/or attending e-commerce training.

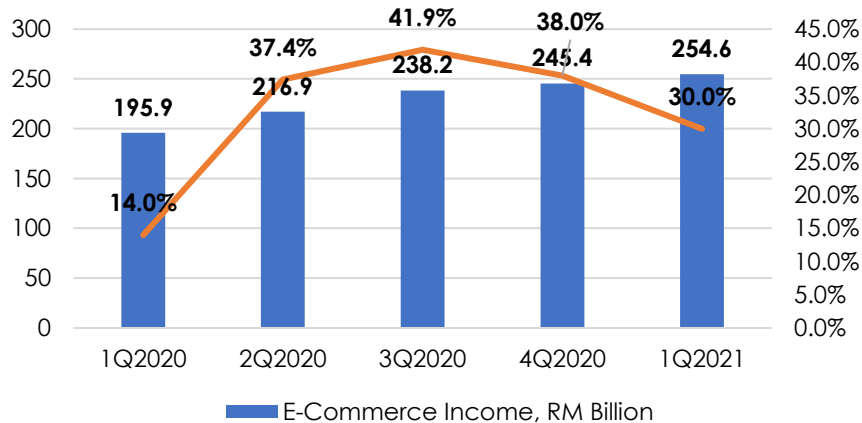
HAS E-COMMERCE BEEN PROFITABLE FOR BUSINESSES IN MALAYSIA

E-Commerce Income In Malaysia, RM Billion



Source: DOSM

Quarterly E-Commerce Income, RM Billion

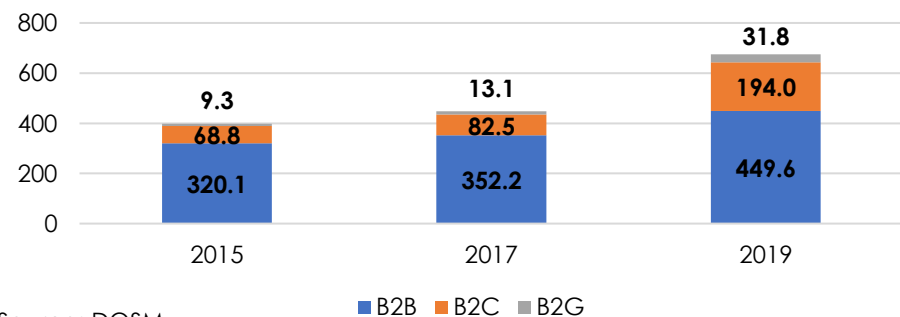


Source: DOSM

— E-Commerce Income, RM Billion
— Year-on-year growth, % - RHS

- ✓ In terms of profitability, the income derived by businesses from e-commerce in Malaysia has been gradually rising.
- ✓ In 2020, the e-commerce income of businesses in Malaysia reached RM896.4 billion, which was 32.7% y-o-y higher than the RM675.4 billion income recorded in 2019. Back in 2015, the e-commerce income of businesses only stood at RM398.2 billion.
- ✓ As for 1Q2021, the e-commerce income was 30.0% y-o-y higher at RM254.6 billion (1Q2020: RM195.9 billion), signalling that e-commerce activities have not slowed down.
- ✓ Breaking down the e-commerce income by types of segments, such as business-to-business (B2B), business-to-customer (B2C) and business-to-government (B2G), the B2B segment obtained the largest income in terms of absolute value in 2019 at RM449.6 billion.
- ✓ Meanwhile, the B2G segment recorded the largest growth in e-commerce income at 142.8% y-o-y in 2019 followed by B2C (135.2%) and B2B (27.7%). Henceforth, the growth potential especially for B2G and B2C e-commerce remains large especially with the inception of the Malaysia Digital Economy Blueprint.

E-Commerce Income Performance By Segments, RM Billion

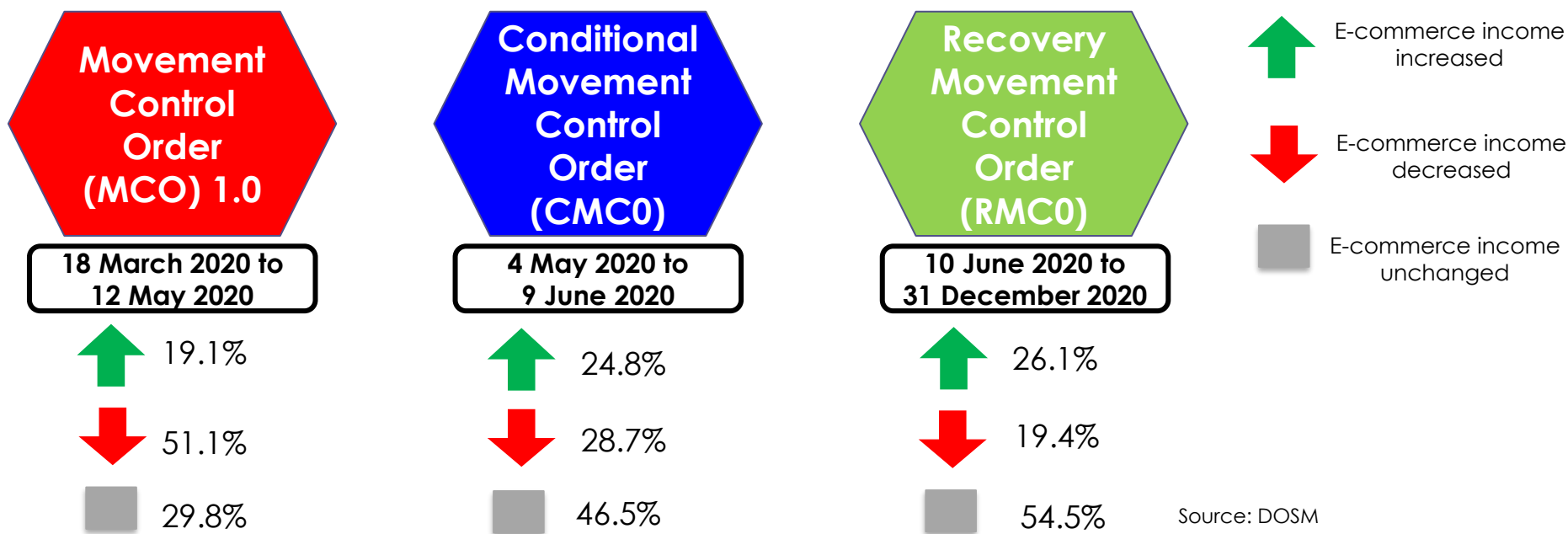


Source: DOSM

■ B2B ■ B2C ■ B2G

HAS E-COMMERCE BEEN PROFITABLE FOR BUSINESSES IN MALAYSIA (CONT'D)

Effect on E-Commerce Income during Movement Control Phases In 2020

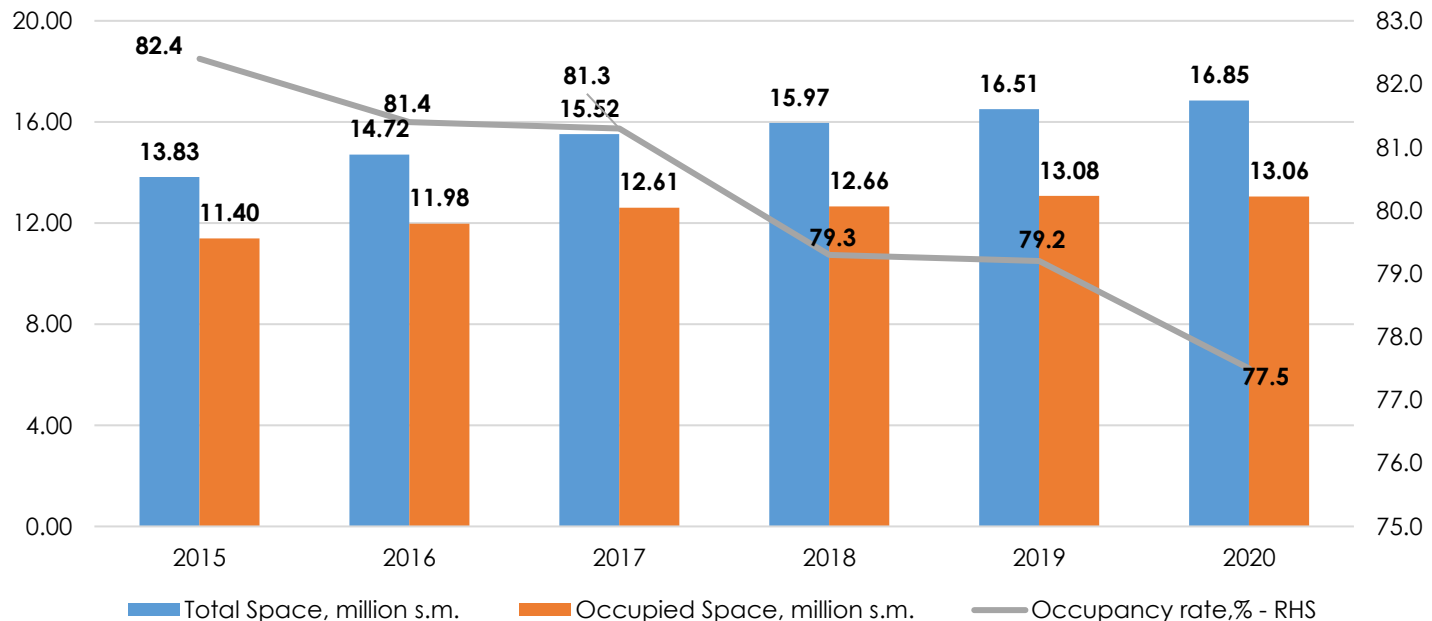


- ✓ Although DOSM reported that there were business establishments experiencing a decline in their e-commerce income in 2020, it is noteworthy to highlight that the percentage of business establishments seeing an increase in e-commerce income were actually on an uptrend from the MCO to the RMCO last year.
- ✓ For example, the percentage of businesses surveyed by DOSM which recorded higher e-commerce income during the MCO was at 19.1% followed by 24.8% during the CMCO and increased further to 26.1% when the RMCO was implemented.
- ✓ In contrast, the percentage of business establishments seeing a decline in e-commerce income were actually on a downtrend from the MCO to the RMCO. For the example, percentage of businesses recording a decline in e-commerce income during the MCO was at 51.1% followed by 28.7% during CMCO and later only at 19.4% when the RMCO was in place.
- ✓ The reason why many businesses saw lower e-commerce income during the MCO was mainly due to setup costs for e-commerce infrastructure. Generally, businesses will have to bear losses at the early stages of investment before reaching a break-even point and subsequently recording profit.
- ✓ In short, reaping profits via e-commerce is possible provided that the right initial capex plan is made.

LACKLUSTRE RETAIL SPACE TO PROMPT FURTHER UTILISATION OF E-COMMERCE IN BUSINESS

- ✓ In the last one year, many brick-and-mortar retailers took their businesses online to mitigate the negative impact the lockdowns had on them and to adapt to the shift in consumer behaviour.
- ✓ This has led to a drop in malls' footfall traffic due to the mobility restrictions in an effort to contain the spread of the pandemic.
- ✓ During 2020, the existing supply of space for shopping complexes reached 16.85 million square metres (s.m.) (2019: 16.51 million s.m.). Meanwhile, the occupied space of shopping complexes dropped to 13.06 million s.m. in 2020 (2019: 13.08 million s.m.)
- ✓ With that, the average occupancy rate (AOR) of shopping complexes was lower at 77.5% in 2020 (2019: 79.2%).
- ✓ Even on a quarterly basis, the AOR of shopping complexes in 1Q2021 stood at 77.6% compared to 79.4% in the same quarter last year.
- ✓ As mentioned earlier, Malaysia's strong broadband penetration rate of above 100.0% has enabled consumers to easily switch from offline to online purchases during the pandemic.
- ✓ Overall, businesses that continue to rely heavily on brick-and-mortar platforms will continue to face pressure amid the highly volatile environment brought by the pandemic..

Annual Occupancy of Shopping Complexes



Source: NAPIC

OUTLOOK FOR BUSINESSES IN THE E-COMMERCE REALM

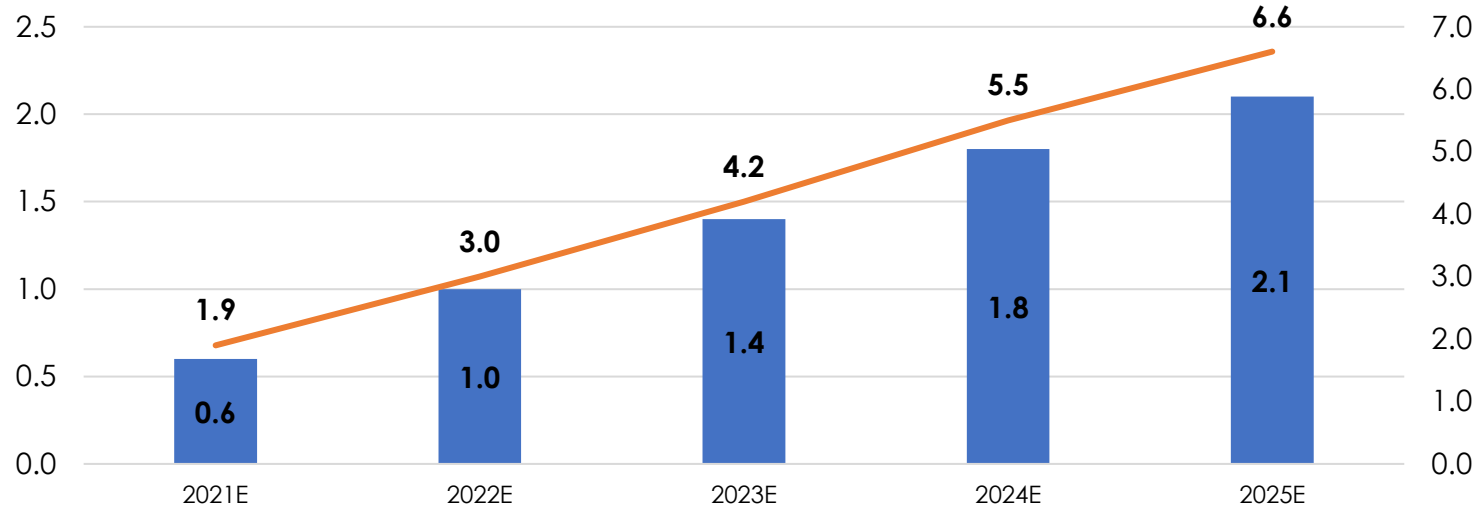
- ✓ Infrastructure wise, the proliferation of e-commerce in Malaysia will be supported by the MyDIGITAL initiative whereby RM15.0 billion will be invested over a period of 10 years for the implementation of 5G nationwide.
- ✓ The nation is estimated to have 2.1 million mobile 5G subscriptions by 2025, with an estimated penetration of 6.6 mobile 5G subscriptions per 100 people.
- ✓ 5G-related economic activities are estimated to contribute an additional RM12.7 billion to the GDP between 2021 and 2025.
- ✓ Therefore, there should be no excuses from businesses in relation to a lack of digital infrastructure.

5G Contribution To GDP

Year	GDP Without 5G (RM million)	GDP With 5G (RM million)	5G Contribution to GDP (RM million)
2021E	1,573,458	1,573,774	316
2022E	1,652,962	1,654,125	1,163
2023E	1,736,649	1,738,909	2,260
2024E	1,824,751	1,828,393	3,642
2025E	1,917,467	1,922,770	5,303
Total 5G Contribution to GDP from 2021 to 2025 (RM million)			12,684

Source: MCMC

5G Subscription And Penetration

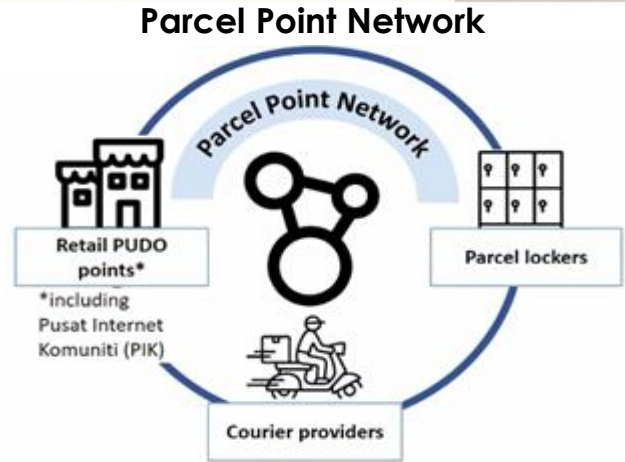


Source: MCMC

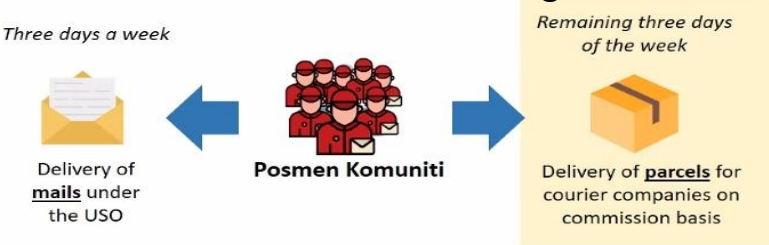
■ Number of 5G subscriptions, million — 5G penetration per 100 people - RHS

OUTLOOK FOR BUSINESSES IN THE E-COMMERCE REALM (CONT'D)

- ✓ Another essential component in supporting e-commerce activities is logistics infrastructure particularly courier services.
- ✓ To enhance the overall courier ecosystem, MCMC has introduced PAKEJ (National Courier Accelerator Plan), an action plan to improve courier and postal services in Malaysia.
- ✓ One of its major initiatives include proposing a collaboration of e-commerce players, marketplace, couriers and parcel locker providers to offer inter-operable platforms by opening up access to Pickup and Drop off points (PUDO) to all courier players under the Parcel Point Network.
- ✓ More importantly, it will be more convenient for customers who are not at home to receive their parcels since the PUDOs are mostly located in strategic locations.



Universal Service Obligation



Benefits of the Posmen Komuniti Sharing and Collaboration Programme



- Optimising cost of delivery and expansion of network coverage
- Improving the economic earnings of Posmen Komuniti which have been faced with declining mail volumes
- Enable additional services such as mobile reload/bill payment to improve livelihoods of Posmen Komuniti

Source: MCMC

- ✓ To improve delivery to the last mile especially in rural areas, PAKEJ recommended a Universal Service Obligation (USO) whereby the delivery personnel can deliver packages on behalf of other companies that have no access to certain areas. The arrangement will also enable the delivery person to earn additional income for taking additional jobs to deliver parcels on behalf of other companies.
- ✓ Such plans will be greatly beneficial for businesses and SMEs in remote areas that require posting of goods under their e-commerce business.
- ✓ The abovementioned initiatives could support a projected e-commerce growth from 14 parcels per capita in 2020 to 30 parcels per capita by 2025.

- ✓ **E-commerce is going to be mainstream.** E-commerce will define the survival of a business as consumers have become accustomed to the e-commerce platform. This is especially true when the society would have to come to terms with the Covid-19 whereby humans would need to coexist with the virus.
- ✓ **Digitalisation is a key feature to remain competitive.** Therefore, businesses must be cognisant on how they should seek help to upgrade their business operation, sales and market segmentation by ensuring that technology will be embedded in every aspect of their business. If Malaysian businesses do not accelerate its efforts towards becoming a digital nation, we may lose out on opportunities in terms of attracting foreign investments into the country.
- ✓ **Ample of assistance granted by various bodies.** As for SMEs, they should explore what assistance are provided by the relevant government agencies that can assist them in transforming their business in the most efficient and cost-effective manner.
- ✓ **Digital inclusion will be wider with better infrastructure.** With digital connectivity being one of the emphasis of the National Digital Economy Blueprint, more businesses including entrepreneurs will have access to information technology-related resources and skills which will help steer business transformation especially in rural areas.
- ✓ **Economies of scale will be higher under digitalized efforts.** As the adoption of e-commerce will aid processes to be more efficient, there is no doubt that output of industries can be produced at a faster rate without compromising standards and quality. Therefore, Malaysia will be at the forefront of meeting industrial needs.
- ✓ **Wider range of economic activities can be captured via a digital economy.** A country could leverage on more resources via the digital economy regardless of sector as systems will become more seamless.

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An aerial photograph of a city skyline at sunset, with a prominent pink bar at the bottom. The sky is filled with soft, golden light and scattered clouds. The city features numerous high-rise buildings, including a very tall, slender skyscraper on the left. A highway with traffic is visible in the foreground, winding through the city. The overall mood is warm and serene.

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