



R.G. Manabat & Co.



# Enabling Filipino SMEs to Go Global: A Guide to Digital Readiness and Cross-Border Expansion

Digital Pilipinas

KPMG R.G. Manabat & Co.

Co-authored by:

ACUBELAW

DOST-Mapua Think and Tinker Laboratory

27 February 2023



R.G. Manabat & Co.



## Introduction

The Philippines is indisputably a small and mid-size enterprise (SME)-driven economy. In 2021, a total of 1,080,810 business enterprises operating in the country were recorded of which 1,076,279 (99.58%) are SMEs and only 4,531 (0.42%) are large corporations. 65% of the country's total employment (5.5 million jobs) are generated by SMEs, while large enterprises contributed 35% (2.9 million jobs) to the country's overall employment.<sup>1</sup> These statistics underpin the importance of ensuring an operating environment where SMEs are encouraged to develop and grow.

SMEs need to strategize, not just on the scalability of their business models in the short-term, but their cross-border expansions and export contributions for the long-term. SMEs account for 25% of the country's total export revenue, with an estimated 60% of all exporters in the country belonging to SMEs. In addition, they also contribute to exports through subcontracting arrangements with large firms, or as suppliers to exporting companies.<sup>2</sup>

However, SMEs are experiencing tight export regulations and costly logistics that hinder their potential to capture more market share locally and globally. Streamlining their operations to comply with cross-border policies requires extensive digital readiness and strong understanding of the different facets of law and regulation for cross-border transactions. The use of character, goodwill or reputation and digital assets as credits for cross-border transactions still need exploratory pilot testing, but could potentially aid SMEs in creating cost-efficient export processes.

The lack of Software as a Service (SaaS) support also creates a roadblock for the digital readiness of many SMEs. This is a significant gap because such tech solutions can expedite the cross-border processes of SMEs and consolidate all the legal documentation needed for them to legitimately conduct business both regionally and internationally.

The challenge today is to ensure the digital readiness of SMEs and making it easier for them - both in a regulatory and procedural standpoint - to expand and grow beyond the Philippines.

---

<sup>1</sup> DTI Philippines. (2021). *MSME Statistics*. Retrieved /msme-statistics/

<sup>2</sup> DTI Philippines. (2021). *MSME Statistics*. Retrieved /msme-statistics/



R.G. Manabat & Co.



## Why digital readiness is a requisite for cross-border expansion

Digitalization has become crucial to SMEs hoping to survive in an increasingly competitive business landscape. The COVID-19 pandemic, for example, showed that the businesses who survived the effects of the lockdowns were the ones that had an online presence, whether through e-commerce platforms, social media, adopted digital solutions or some combination of all three. Even as health and safety restrictions ease, consumers would now be hard pressed to turn away from the convenience and ease offered by digitalization.

That being said, digitalization is even more important when it comes to connecting with a global audience. Having a strong online presence widens many businesses' reach and potential markets to tap into. Cross-border expansion requires extensive understanding of international market penetration and how products of local SMEs could potentially fill in a need or want in a different country.

Having a digital-ready business model has the advantage of access to data and analytics that can provide an understanding on the demand and marketability of the SMEs' products and services abroad. The use of Facebook Metasuite, for example, allows businesses to gain insights on their audience followership and engagements, which includes specific age, gender and geographical demographics. These datasets can inform an SME's cross-border expansion plan, strategy, and feasibility.

Driving conversions from marketing campaigns is another challenge SMEs need to tackle as part of being digital-ready for cross-border expansion. In-depth understanding of the customer journey and user experience (UX) is a big factor in creating a seamless transaction for international buyers, who are using different digital payment channels and shipping couriers. These considerations can only be analyzed if SMEs already have an online presence for a period of time, not just on social media but also on ecommerce websites or platforms like Shopify which have integrated Application Programming Interface (API) tools and other business analytics tools for online stores and retail point-of-sale systems.

Programs educating business owners on the right conversion strategies must be included in cross-border expansion strategies for SMEs. This could mean offering short message service blasts to connect with customers or even educating them on the customer relationship management funnel that takes people from physical stores to buying online. It could even mean helping automate the know-your-customer process to streamline operations while verifying crucial customer information.



R.G. Manabat & Co.



The concept of ‘digitalization’ is such a wide umbrella that carries many different topics under it. It covers everything from enabling quick cashless payments to securing customer details to leveraging search engine algorithms to maximize business exposure. To an SME that previously believed it was just about selling online, the realization can be overwhelming, especially when considering selling cross-border.

However, helping businesses fully digitize and get conversions will make it easier for international market penetration and understanding the cross-border business scene.

## Why digital identities are crucial for cross-border regulations

Having a strong online presence for SMEs can imply digital readiness for cross-border expansion, however, many businesses in the e-commerce space still need to establish their respective digital identities, which are more than just the numbers of likes, follows or engagements in their social media channels.

As cross-border transactions entail more regulatory processes, SMEs need to establish accountability and trust in their business. This can start with something as simple as registering their business with the government, which the Philippine government has urged online sellers to do in the interest of consumer protection.<sup>3</sup>

The need for a formalized system of tracking and registering online businesses came about after a wave of complaints from consumers who were scammed in their transactions. It became clear that these online businesses could not be tracked down because they had so little transparency.

The issue is more than just transparency. Unregistered businesses are unable to benefit from support such as business loans offered by banks and other financial agencies. They are also unable to apply for grants, incentives, and subsidies which government and non-government organizations offer as part of their programs and initiatives to help SMEs. In the case of piloting a new measure for credit scoring through the use of character, corporate goodwill or reputation, and digital assets as components of credentials, it would be difficult for businesses without established digital identities to participate in what could potentially be a solution to increase their capital for cross-border opportunities.

---

<sup>3</sup> Department of Trade and Industry. (2020, June 19). *Registration of online business, key to consumer protection – trade chief* | Department of Trade and Industry Philippines. DTI. Retrieved November 24, 2022, from <https://www.dti.gov.ph/archives/news-archives/online-business-key-to-consumer-protection/>



R.G. Manabat & Co.



The sheer number of unregistered online businesses also makes it difficult for the government to collect data on the performances of SMEs in the country and how to best strategize for market penetration in different global regions.

Having a complete database of SMEs is an important tool to help the government craft its SME programs and policies. Establishing digital identities and injecting transparency and accountability into the digital SME landscape are key steps in bringing businesses and regulators together on the global stage.

## Becoming globally competitive

One of the biggest benefits of going cross-border is that businesses now have a much wider audience they can reach. It is not uncommon these days for a buyer to order something from thousands of miles away and have it delivered right to their doorstep in just a few quick business days.

With the world becoming smaller, competition among businesses heats up, demanding SMEs to be globally competitive.

There is a litany of pain points preventing SMEs from being globally competitive. First is that the exporting process involves too much bureaucratic red tape: businesses need to register with the DTI, Bureau of Internal Revenue, and the Bureau of Customs. They will also need to prepare documents such as invoices, a packing list, bill of lading, etc. For specific types of exporters, the Philippines requires additional registration with different agencies. For instance, coffee exporters need to register with the Export Marketing Bureau. The onus is on the sellers to research the complete list of agencies they must report to and all these complex layers, costly registration and reportorial requirements, and different agencies involved can turn SMEs off from exporting entirely.

For SMEs to have a truly global mindset, creating an easier exporting process can guarantee a place for SMEs to compete on the world stage. SMEs will also need guidance in mapping out their exporting strategy.

## Expediting cross-border regulatory process through SaaS

It is no surprise that SMEs are not the only entities who require digital-readiness for cross-border opportunities. Government agencies in charge of supporting SMEs like the Department of Trade and Industry (DTI) also need a strong technology system to expedite the legal processes and documentations needed for cross-border expansion.



R.G. Manabat & Co.



Although DTI has existing onboarding systems for businesses and consumers in their online platform, there is still a gap when it comes to a consolidated platform of all the legal requirements, cross-border policy compliances and other streamlined processes to expedite the export journey for SMEs.

Software as a Service (SaaS) businesses, among other tech solutions, can expedite and consolidate all the necessary legal requirements for cross-border expansion required by different government agencies and international institutions. By creating an online platform, legal documents and other paperwork can be accessed and uploaded quickly through the cloud, which all regulating bodies can review at once to expedite approval for SME exports and reduce, if not altogether prevent, delays in the approval processes. If there are specific regulations imposed by the countries who will import these products, the platform can consolidate the additional requirements needed.

## In pursuit of SME growth

SMEs today operate in times of unprecedented opportunity. Aside from the rise of e-commerce, technologies such as blockchain can transform how business is done. Blockchain can empower SMEs to create communities, grow organic retention rates, and keep acquisition costs down.

This is because blockchain, which does not need a central body to oversee its operations, enables safe and efficient peer-to-peer transactions anywhere in the world. Such technology encourages cross-border transactions, because of its borderless principle in doing business.

This is just the tip of the iceberg when it comes to the massive potential SMEs have in front of them. That is why it is especially important that SMEs and concerned regulators and policymakers take note of the accelerated adoption of tech such as e-wallets or blockchain. If done correctly, the parties involved can work hand-in-hand to make doing business easier—something that is sure to greatly benefit society in the long run.