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The AI Gap

Why Southeast Asia's 73 Million SMBs
Are Still Operating Without AI

A look at what 2024–2025 taught us about AI —

and what it means for small businesses

in Southeast Asia.

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You're Not the Only One

Southeast Asia is home to over **73 million** micro, small, and medium enterprises. In Thailand alone, there are 3.2 million—representing 99.6% of all businesses in the country and employing 12.8 million people, roughly 70% of the entire workforce.¹ Indonesia accounts for another 65 million. The Philippines, Vietnam, and Malaysia each add over a million more.²

The vast majority of these are micro-enterprises: solo operators, family businesses, market stalls. But layered above them are hundreds of thousands of **small and medium businesses**—restaurants, hotels, retail shops, clinics, and service firms with teams of 2 to 50 people. These are the businesses that drive local economies. They employ millions. They create the communities people actually live in.

And almost none of them have meaningful technology support.

73M+

MSMEs across ASEAN

3.2M

Thai MSMEs— 99.6% of all firms

12.8M

Workers employed by Thai MSMEs

85%+

Regional employment driven by MSMEs

This paper focuses on that layer—the small and medium businesses that have real operational complexity but lack the staff, budget, or expertise to address it with technology. They are not startups. They are not enterprises. They are the businesses that make up the overwhelming majority of every economy in the region, and they have been largely invisible to the technology industry.

If you run one of these businesses, you already know the pattern. You work 60-hour weeks. You wear every hat—owner, manager, marketer, HR, accountant, customer service. Across the region, the majority of SMB owners report lacking the staff to act on growth opportunities they can clearly see.³ Not because they lack ambition or ideas. Because they lack capacity.

The problem isn't that SMB owners don't know what to do. It's that there's no one left to do it.

This is not a personal failure. It is a structural one. The global technology industry—from enterprise software to AI platforms—was built to serve large organizations with dedicated IT teams, integration budgets, and months of implementation runway. The 73 million businesses that actually make up Southeast Asia's economy were never part of that design.

Until now, that gap was inconvenient. In 2026, with AI reshaping every industry, it is becoming existential.

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What's Been Tried (And Why It Hasn't Worked)

It would be unfair to say no one has tried to solve this. Over the past decade, multiple approaches have emerged to help small businesses adopt technology. Each has fallen short—not because the technology was bad, but because the approach was designed for a different customer.

Enterprise Software

The first wave was enterprise SaaS—CRM systems, ERP platforms, marketing automation suites. These tools were powerful, proven, and completely impractical for a 15-person restaurant or a 30-room hotel. They required dedicated IT staff to configure. They cost tens of thousands of dollars per year. Implementation timelines stretched into months. And they assumed a level of organizational structure—departments, workflows, approval chains—that simply does not exist in a business where the owner is also the manager, the marketer, and the bookkeeper.

Generic AI Tools

Then came the consumer AI wave—ChatGPT, Gemini, and dozens of AI-powered apps promising to transform how small businesses operate. And in some ways, they did. For the first time, a business owner could generate marketing copy, draft customer responses, or analyze data without specialized skills.

But there was a catch. These tools don't know your business. They don't know your menu, your pricing, your customer base, your competitive landscape. Every interaction starts from zero. And critically, they still require the owner to operate them—to prompt, to review, to edit, to publish, to repeat. The tool helps. But the owner is still doing the work. Most SMBs who adopt generic AI tools stop using them within 90 days.⁴

Freelancers and Agencies

Outsourcing to freelancers or digital agencies offered another path. The appeal was obvious—someone else handles the marketing, the social media, the bookkeeping. But the economics rarely work for SMBs. Quality freelancers are expensive. Affordable ones are inconsistent. Agency retainers eat into thin margins. And every time a freelancer moves on, the knowledge walks out the door. There is no compounding—each new hire starts from scratch.

Government Programs

Across ASEAN, governments have launched digital transformation programs for SMBs—training workshops, technology vouchers, subsidized software licenses. Singapore’s 2025 budget allocated SG\$150 million for an Enterprise Compute Initiative to help businesses access AI tools.⁵ Thailand, Indonesia, and Malaysia have each invested in smart city and digital economy programs. These initiatives are well-intentioned and sometimes helpful.

But they share a common limitation: they provide information and access, not execution. A business owner can attend a workshop on AI. They can receive a voucher for a software subscription. What they cannot do—because they are already working 60-hour weeks—is implement, configure, maintain, and optimize that technology on top of running their business.

The gap was never information or technology. It was always execution capacity. SMBs don’t need more tools. They need someone to run them.

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The Billion-Dollar Lesson of 2024–2025

The world just ran the largest AI experiment in history. The results are in. And they contain a lesson that every small business owner in Southeast Asia should understand—because it changes the calculus entirely.

The Investment

Corporate AI investment reached **\$252.3 billion** in 2024, with private investment climbing 44.5% year over year.⁶ Worldwide AI spending was forecast at **\$1.5 trillion** in 2025.⁷ The four largest technology companies alone—Microsoft, Alphabet, Amazon, and Meta—committed a combined **\$320 billion** in capital expenditure on AI technologies and infrastructure in 2025.⁸

These are not speculative numbers. This money was spent. Data centers were built. Teams were hired. Consulting firms were engaged. The largest and best-resourced companies on the planet went all-in on AI.

The Scorecard

Metric	Finding	Source
AI project failure rate	80%+ — double the rate of non-AI IT projects	RAND Corporation ⁹
Companies abandoning most AI initiatives	42% in 2025, up from 17% in 2024	S&P; Global ¹⁰
GenAI pilots failing to deliver measurable P&L; impact	95% stalled or showed no measurable return	MIT NANDA ¹¹
AI projects reaching production	Only 48% made it past pilot stage	Gartner ¹²
Proof-of-concepts scrapped	Average org abandoned 46% before production	S&P; Global ¹⁰
GenAI projects abandoned after POC	At least 30% by end of 2025	Gartner ¹³

Read those numbers again. These were not small companies guessing. These were Fortune 500 corporations with chief information officers, dedicated AI teams, consulting firms on retainer, and billions in budget. And the majority of them could not make AI deliver measurable value.

Why They Failed

The Informatica CDO Insights 2025 survey identified the top obstacles: **data quality and readiness** (43%), **lack of technical maturity** (43%), and **shortage of skills** (35%).¹⁴ These are precisely the resources that small businesses have even less of.

What the Winners Did Differently

But not everyone failed. MIT's research revealed a striking pattern: companies that **purchased AI from specialized providers and built partnerships succeeded roughly 67% of the time**, while those that tried to build internally succeeded only one-third as often.¹¹ McKinsey's 2025 survey confirmed this—organizations reporting significant financial returns were twice as likely to have redesigned workflows before selecting technology.¹⁵

The lesson from 2024–2025 is not that AI doesn't work. AI clearly works. The lesson is: don't try to become an AI company. Partner with one.

The Implication for SMBs

If the best-resourced companies on the planet—with unlimited budgets, dedicated teams, and years of preparation—could not reliably make AI work by doing it themselves, then the answer for a 15-person restaurant or a 30-room hotel is certainly not “figure out ChatGPT.” The data points in one direction: **partnership with specialists who have already solved the execution problem.**

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What AI Actually Does Well in 2026—And What It Doesn't

With hundreds of billions invested and lessons learned, what can we say with confidence about what AI is genuinely good at today? And equally important—where does it still fall short? An honest assessment is essential, because the gap between marketing claims and operational reality is where most SMBs get burned.

Where AI Delivers Real Value

- **Content generation.** Marketing copy, social media posts, product descriptions, email campaigns, blog articles. AI can produce first-draft content at a quality and speed that would have required a dedicated copywriter just two years ago.
- **Customer response.** Answering inquiries, handling reservations, responding to reviews, managing FAQs. AI can operate 24/7, in multiple languages—a particular advantage in Southeast Asia's linguistically diverse markets.
- **Data analysis and pattern detection.** Spotting trends in sales data, identifying seasonal patterns, flagging anomalies in expenses, tracking competitor pricing. AI processes data at a scale and speed no human team can match.
- **Process automation.** Scheduling, invoicing, inventory alerts, follow-up sequences, report generation. Repetitive tasks that consume hours of an owner's week can be automated reliably.
- **Multilingual communication.** Translating and localizing content across Thai, English, Chinese, Japanese, and other languages common in SEA tourism and commerce—without hiring multilingual staff.

Where AI Still Falls Short

- **Judgment calls.** Deciding whether to extend credit to a regular customer. Handling a sensitive complaint that could escalate. Knowing when a staff member needs support versus accountability. These require human understanding that AI does not have.
- **Relationship building.** The handshake with a supplier. The conversation with a loyal customer. The negotiation with a landlord. Relationships are built on trust, presence, and cultural context—none of which AI can replicate.
- **Cultural nuance.** Particularly in Southeast Asia, where business norms vary significantly across Thailand, Vietnam, Indonesia, and the Philippines. AI can translate language. It

cannot navigate the unspoken rules of local business culture.

- **Strategic vision.** Where to take the business next. Whether to open a second location. Which market segment to pursue. Strategy requires intuition, experience, and appetite for risk—qualities that remain distinctly human.

The Trap

The most common mistake SMBs make with AI in 2026 is buying tools and attempting to become their own technology department. The owner downloads an AI app, spends a weekend learning it, uses it enthusiastically for two weeks, and then stops—because running the business leaves no time to also run the technology.

This pattern is so widespread it has become predictable. MIT's research found that over 90% of employees secretly use personal AI tools like ChatGPT at work—often with higher ROI than official enterprise deployments.¹⁶ Individual use works. Organizational use stalls. The difference is not the technology. It is the execution.

The right question for an SMB owner in 2026 is not “*What AI tool should I use?*” It is “*Who can run AI for my business?*”

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The Road Ahead for SMBs in Southeast Asia

Despite the challenges, the outlook for AI adoption among Southeast Asian SMBs is not bleak—it is urgent. The technology is ready. The economics are improving. And the competitive pressure is mounting across the entire region.

The Opportunity Is Real

Boston Consulting Group projects that AI and generative AI will contribute approximately **\$120 billion** to Southeast Asia's GDP by 2027.¹⁷ Google's e-Conomy SEA 2024 report found that Singapore, the Philippines, and Malaysia rank among the top 10 globally for AI-related searches and demand—indicating active interest well beyond experimentation.¹⁸

Country by country, the momentum is building. Thailand's AI market is projected to grow at 28.55% annually, with AI adoption expected to unlock 2.6 trillion baht in economic benefits for Thai businesses by 2030.¹⁹ Indonesia—home to 65 million MSMEs—has received a US\$1.7 billion investment from Microsoft to transform its digital infrastructure, with a goal of training 840,000 Indonesians in cloud and AI technologies.²⁰ Vietnam is integrating AI into its fast-growing e-commerce ecosystem, with SMBs automating pricing, inventory, and customer service at pace.²⁰ Singapore continues to lead in policy sophistication and capital concentration, while the Philippines and Malaysia are investing in AI infrastructure and workforce development.²¹

Sentiment Is Positive, But Adoption Lags Behind

Public sentiment across the region is encouraging. In Thailand, 77% of people believe AI will do more good than harm—among the highest rates in the region.²² Across ASEAN, 78% of SMB leaders at companies already using AI say the technology will be a game changer for their business, and three in four plan to increase their AI investment over the next year.²³

Yet the gap between intention and implementation remains wide. AI adoption rates among Thai SMBs hover around 39%. Indonesia and Vietnam are slightly ahead, but nowhere in the region has adoption translated to the scale the opportunity demands.²² Across ASEAN, the top three barriers remain consistent: **cost, talent, and governance**.²⁴ These are not problems that individual business owners can solve alone.

A Question of Survival

Professor Jochen Wirtz of the National University of Singapore put it starkly: businesses that fall behind on AI adoption will be “moved into a franchise business or will be pushed out of the market

by bigger players who do it.”²⁵

This is not alarmism. It is the logical outcome of a technology that makes well-equipped businesses dramatically more efficient while leaving others behind. The question facing 73 million MSMEs across Southeast Asia is not whether AI will transform their industries. That is already happening. The question is whether they will be part of that transformation—or displaced by it.

The question is not whether AI will transform small business in Southeast Asia. It is who will ensure the 73 million SMBs that drive these economies are not left behind.

What's Missing

The pattern is now clear. SMBs across Southeast Asia need AI to remain competitive. They cannot implement it themselves. Enterprise solutions are too expensive and too complex. Generic tools help but do not execute. Government programs provide access but not capacity.

What is missing is a model designed specifically for small businesses—one that provides not just technology, but the **team to run it**. Not another tool for the owner to learn. Not another app to download and abandon. A team that understands the business, operates within it, and delivers results the owner can see without becoming a technology expert.

That model is the subject of our companion paper.

This paper is the first in a two-part series by KAANDUU.

In our companion paper—*AI Teams, Not AI Tools: A New Operating Model for SMBs*—we introduce a framework designed specifically for businesses that need AI to work, but cannot afford to figure it out alone.

It covers what an AI team actually looks like, how it maps to real business challenges across growth, operations, and risk, and how to know if it's right for your business.

Download free at kaanduu.com

About the Author

Aaron Sipper is the Founder and Chief Architect of KAANDUU. He has spent three decades building technology businesses around the world—from data communications to telecommunications to enterprise AI, from startups to some of the largest technology companies on the planet. KAANDUU is built on a simple conviction: the businesses that power Southeast Asia's economies deserve the same AI capability that has, until now, been reserved for the biggest players.

About KAANDUU

KAANDUU builds AI teams for small and medium businesses in Southeast Asia. Rather than selling tools that owners must learn to operate, KAANDUU provides coordinated AI capabilities that function as team members—handling execution across growth, operations, and risk so owners can focus on what they do best: leading their business.

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