

The 4th SME Credit Bureau Conference 2008

Topic : Stay Competitive Despite Increasing Business Costs

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Mr Howard Shaw, Executive Director of Singapore Environmental Council,

Mr Bryan Teh, Executive Director of Association of Small and Medium Enterprises,

Distinguished Guests, Ladies and Gentlemen,

SMEs Drive the Economy :

Today I want to share with you successes of Small and Medium Enterprises and some perspective of how these enterprises have managed to succeed despite increasing competition and rising cost.

I applaud all SMEs as SMEs are an important part of Singapore's economy. SMEs form a strong base of suppliers and partners to retain and draw investments from MNCS and global companies to Singapore, thus, making Singapore a hub for business and investments.

In Singapore, SMEs have been growing at an average of 6% per annum, accounting for 48% of Singapore's GDP, and providing 62% of jobs in Singapore, giving employment to 1.7million people.

Emerging start-ups and SMEs form a seed bed from which new businesses and innovative ideas sprout, creating new value for consumers and customers.

Increasingly, many of our SMEs are expanding their operations globally. They are helping to build the external wing of Singapore's economy creating new wealth and jobs in the process.

Rising Business Costs and Inflation

- Our economy has seen four consecutive years of strong growth. Economic growth last year was a sterling 7.7%. Barring unforeseen setbacks, we should continue to see another year of robust growth of between 4.0-6.0% as forecasted by MTI. But such growth comes with costs, particularly inflation costs. Increasing operating costs, especially with high oil prices and weakening consumer spending due the sub-prime situation in the US are putting pressure on businesses.
- Inflation is a major uncertainty for the global economy as well as Singapore. Locally, our businesses are facing raising rental costs, high cost of manpower, high cost of raw materials due to global inflation and increasing cost of imports. With current trends, we have to brace ourselves for a period of relatively higher inflation globally. Business costs will go up further.
- To stay competitive, apart from managing cost, businesses will have to continue to create value and differentiate themselves.
- In an article in this month's Harvard Business Review, there is discussion on how in the last three years, in rapidly developing countries like China, India, Brazil and Thailand, smart domestic enterprises more than hold their own against foreign competition and MNCs in their markets. It is interesting to note that many of these local enterprises dominate their markets today not because of protectionist economic policies but because of their strategies and execution.
- Our companies, big and small, need to constantly upgrade their capabilities in order to continue delivering products and services that are valued by their customers despite the higher prices and if possible differentiate them from that of their

competitors. Hence, the government's strategy has to be continued investments to upgrade our SMEs.

Strategies that have helped SMEs stay competitive

- In the recent SME 500 Awards in January this year, the successful SMEs have shown higher absolute sales/turnover and profitability despite the challenges faced with competition and increasing business costs. I am also pleased to note that a company that I help lead and remission in the mid 90s is on the list of the SME 500 Awards this year.
- Extensive research of midsize companies worldwide reveals that midsize organizations that are focused on executing well in 4 key areas to survive and thrive in a competitive landscape :
 - Building and strengthening profitable customer relationships to build customer loyalty. – SMEs are not constrained by legacy and are have the flexible in being able to customize product and services to meet customer needs.
 - Developing innovative product and services at faster pace than before.
 - Streamlining business operations to reduce costs.
 - Leveraging relationships with partners and suppliers to create the most profitable and competitive business models as well as expand quickly both in scope and scale.
- I do not have the figures on technology adoption by SMEs here in Singapore, but I would like to touch on the point of technology adoption. Technology is an important factor in supporting enterprises in the strategies I have just highlighted to stay competitive. In the ACE Start-up Enterprises Survey (STEPS) released this month, it was noted that there is strong correlation between use of technology and higher net profit for enterprises. The survey found that start-ups with higher dependence on technology had higher net profit. Conversely, companies with low levels of technology reliance were making losses. The survey did show that there was low

technology adoption amongst Singapore start-ups and many do not plan to drive technology adoption.

I do encourage you to ensure that you do make technology adoption an important part of your business strategy. In today's globalized economy, the magical thing about technology is that it has allowed the greater connections, collapsing distance and enabling greater reach and collaboration. This will also drive the pace of innovation.

- The Singapore government recognises the importance of SMEs. SPRING Singapore, the agency for championing enterprise development, is committed to growing competitive and innovative enterprises.
- When Mr Philip Yeo took over at the helm of SPRING in 2007, he outlined four areas of help that SPRING would focus on. He called them the 3MK factors for growth – Money, Markets, Management and Know-how.

Money

- The annual feedback from SMEs showed that the lack of financing is no longer a key obstacle faced by them. Indeed, the financing environment for SMEs has improved significantly over the last few year, which can attribute to 3 major reasons.
- First, banks and financial institutions have realised that the SME market is an under-served but promising one. Hence, many have come forward to serve this market. Dedicated SME banking units have been established. New financial products tailored to SME needs have been introduced. Banks are also reaching out to their SME clients in more ways than before, organising customer days, SME seminars, partnering with associations. This has led to more competitive financing packages for SMEs.

- Second, government agencies such as SPRING and IE Singapore have worked closely in partnership with MAS and private sector partners to catalyse new financing schemes relevant to SMEs and expand existing ones to address financing gaps. Today, we have a spectrum of financing instruments catering to SMEs at different growth stages, from the start-up stage to internationalisation stage.
- Examples include the equity financing for innovative start-ups through *Business Angels Scheme and Start-up Enterprise Development Scheme*, and *IE Singapore's Internationalisation Finance Scheme*. SPRING launched the Loan Insurance Scheme III or LIS3 in July 2007. With further enhancements and lowered premium rates LIS 3 is expected to catalyse a projected total of \$3billion of private sector loans over the next four years.
- Third, the buoyant economic outlook and good business performance have also made SMEs more credit-worthy. SMEs who are able to communicate their credit-worthiness to financial institutions usually find it easier to get financing.
- SMEs can upgrade their financial capabilities and learn to present their business propositions to financial institutions in terms that are attractive yet realistic, highlighting strengths, financial projections, major risks and mitigating factors that will gain them credibility before lenders. With more information and clearer understanding, banks will be better able to assess the risk profile of SMEs and extend more competitive rates to credit-worthy companies.
- The Infocredit D&B's SME Credit Bureau lends a great helping hand in this aspect. By joining the Bureau, credit-worthy SMEs may find it easier to secure financing for their businesses as lenders will have access to relevant and objective credit-related information on them, which allows them to make more informed decisions when assessing them and even offer better interest rates to them.

Markets

- Not confined to the local market, more and more SMEs are casting their net beyond Singapore to capture conventional overseas markets as well as emerging global markets. IE Singapore's programmes such as BuySingapore, International Business Fellowship Programme (IBF), and International Partners (iPartners) Programme have helped to facilitate their access to global markets and networking with global MNC and SME customers, and will continue to do so.
- To support SMEs in their globalisation quest, SPRING launched the **Export Technical Assistance Centre (or ETAC)** in 2006. This has been warmly received by many local companies as the answer to their need for the latest information on standards, technical and compliance requirements that will help them export overseas. It also connects exporters with relevant experts to provide technical assistance to upgrade their processes to meet overseas market requirements. To-date, the ETAC has helped 170 companies.
- Companies that have a strong brand and a well-planned brand strategy will find themselves in a better position to differentiate themselves from competitors, preserve their margins, compete on non-price attributes, grow their businesses and venture into new markets. Hence, SPRING and IE Singapore jointly launched the **BrandPact** in 2005. More than 3,500 companies have benefited from various BrandPact initiatives which included training workshops and use of brand assessment tools. Examples of local companies that have benefited from embarking on BrandPact include BYSI, Grenidea® Technologies, and Aalst Chocolate.
- With ideas and innovation driving value creation in a competitive global economy, businesses increasingly need IP strategy to gain and sustain comparative market advantage. Like the MNCs, more and more SMEs are also leveraging on their IP to grow and compete in international markets. Local examples include the Trek 2000's

which invented the ThumbDrive™, and Stikfas, a home-grown toy manufacturer that has made a name for itself internationally.

- To help SMEs develop capabilities to manage their IP, SPRING and IPOS launched a \$9 million Intellectual Property Management (IPM) for SMEs Programme in 2007. This programme is specially tailored to SMEs' needs, and supports SMEs' IP management journey in two phases – a diagnostic phase to tool to identify existing and potential IP in the company and possible areas of capability development, and an implementation phase for building IP management capabilities in the company. To-date, over 30 SMEs have embarked on this programme.

Management

- Good businesses need visionary, committed and competent leaders and managers, who continually look to the future, rally the troops and build up the internal capacities needed to grow the business to its fullest potential. For promising companies, the need for world class managers becomes even more imperative, as they are on the threshold of significant growth opportunities.
- SPRING launched the \$60 million Business Leaders Initiative early this year as a comprehensive effort to develop present and future SME business leaders.
- Under this initiative, SMEs seeking to enhance their general management knowledge and skills can do so by signing up for customised Executive MBA programmes and Executive Development Courses in the local universities, under the Advanced Management Programme (AMP). To-date, the AMP has helped 46 SME leaders.

- SMEs can also send their young promising executives for part-time or full-time MBAs in our local universities under SPRING's Management Development Scholarship.
- Companies should take advantage of these programmes to develop their talent pool, attract new talent and ready them for leadership positions in the near future.

Know-how

- Regardless of how SMEs want to grow, through cost efficiency and productivity improvement, globalisation or product and service innovation, technology innovation would be a key enabler. Smart adoption of niche technologies will help SMEs to enhance their capabilities to offer more cost-effective and competitive solutions for their customers and differentiate themselves from global competitors.
- To help SMEs gain technological & innovation know-how, SPRING launched the \$150 million Technology Innovation Programme (TIP) in Aug 2006. This programme aims to provide SMEs with funding and expertise support to develop new products, processes and services and adopt new technologies in their business operations.
- Several Centres of Innovation (COI) have also been set up at our polytechnics and A*STAR research institutes to provide industry clusters with focused technology support. Currently, COIs has been set-up for Food and Marine & Off-shore, Precision Engineering, Environment and Water Technology. I understand from SPRING that there will be more COIs for other industries, so keep a lookout for them as your potential partners.

Conclusion

- Despite a landscape of increasing business costs and global competition, many of our local SMEs have shown themselves to be able to hold their own and differentiate their product and services to address market opportunities.
- I have outlined some of the strategies that SMEs have adopted to stay competitive and the various programmes that are available to support SMEs stay execute on these strategies. This morning, I read in the Today papers that SMEs are daunted by the administrative processes or red tape involved in participating in these programmes. While we continue to work with the various agencies to make their programmes more “friendly” for SMEs to participate, I encourage you to look beyond this. You must leverage the relevant programmes to help you continue to upgrade your business capabilities and deliver value and grow your businesses.

Thank You. I wish you a successful conference.