

GO GLOBAL TO GO BIG

With business conditions in Singapore expected to remain bleak for the next few years, SMEs are venturing abroad in search of growth **BY VIVIEN SHIAO**

AS THE Singapore economy continues to slow down in the face of global headwinds with little relief in sight, small and medium-sized enterprises (SMEs) are being pushed out of their comfort zones to spread their wings abroad. Many fledgling SMEs are now taking their first steps in venturing overseas while the established ones are headed to further and more unusual markets.

In a speech earlier this year at the Human Capital Singapore Internationalisation Forum, Minister for Trade and Industry Lim Hng Kiang pointed out that it has never been more vital for local businesses to set their sights overseas.

Playing it safe by staying put is no longer an option for local SMEs, with business conditions here expected to remain bleak for the next few years.

The SME Magazine finds out what obstacles hold SMEs back, what they should expect and what are some of the latest initiatives available to equip them for their ventures.

THE TIME IS RIPE

An economic slowdown is not the only reason for SMEs to go overseas. One commonly cited rationale is stiffer competition here.

Sonny Bensily, managing director of design and build engineering company Prime Structures, says: "Due to the low barrier to entry for foreign firms, the Singapore market is getting saturated and has high competition levels among local firms and foreign firms that enter Singapore." He adds that high operating costs and a lack of manpower are also push factors, making it neither sustainable nor economical for SMEs to continue such operations locally.

In the retail space, rental in well-located shopping malls have also "gone up tremendously" since the start of real estate investment trusts (Reits), says Soh Yee How, managing director of

florist chain Xpressflower.com.

Going abroad exposes SMEs to a bigger customer base to tap into, as well as gaining access to resources not available here.

Local companies can look at tie-ups with developed markets such as the US and Western Europe to bring about innovation through technology partnerships that can help them boost capabilities and improve product offerings.

When it comes to manufacturing, Singapore companies can play to the strengths of their neighbours where there is a larger talent pool to scale, says Tan Ee Wei, business development director, Cyclect Group. For instance, manpower costs of manufacturing in a country like Indonesia is a fraction of Singapore's. "This can make products which are designed in Singapore, but manufactured in Indonesia, more competitive."

Ho Meng Kit, CEO of Singapore Business Federation (SBF), observes that internationalisation is now also more accessible and attractive to smaller companies, thanks to e-commerce platforms. "Overseas expansion is no longer limited to physical expansion – smaller players can market products and services overseas without brick-and-mortar shops or end-to-end infrastructure," he says.

CHALLENGES AND FEARS

Opportunities are aplenty out there, but the journey to seek greener pastures is fraught with challenges. The first would be the unfamiliar business and political environments, language barriers, cultural differences and the lack of having the right connections in a foreign land.

Mr Tan says that Cyclect Group – which has operations in many countries such as China, India and Myanmar – is especially concerned about safety, fraud and contract defaults in emerging countries.



While lower-cost manpower is plentiful, one issue that SMEs face is getting the right people to lead operations abroad. Mr Tan explains: "The biggest challenge is finding senior management who are willing to help with sustaining efforts for overseas development. Most prefer the safety and comfort of Singapore. Singapore can be too comfortable for established businessmen."

Likewise, Mr Soh concurs on the need to find the right management personnel. The company to date has ventured only into the Philippines in July 2015, but has plans to look at Myanmar and Indonesia after its operations in Manila are more settled. He explains: "There is one major challenge when expanding abroad: having capable, trusted and like-minded staff to be in charge of the operations."

As for Mr Bensily, his biggest challenge in venturing abroad is the difficulty of securing banking facilities when taking on projects overseas. The company has expanded to Sri Lanka and Indonesia, and is looking to venture into Cambodia, Hong Kong and Myanmar.

Some of his other concerns include not getting paid by overseas clients for work done and exchange rate risk, but he says that they can be mitigated by doing due diligence and currency hedging. He adds: "Singaporean SMEs are used to getting things done within a matter of hours or days. When going abroad, there must be patience as processes may take a longer time to complete. Making the right connections definitely help."

HUNTING AS A PACK

Thankfully, SMEs are not alone in this journey. In recent years, it has been widely advocated that the relevant government agencies, trade associations and chambers, as well as companies – both big and small – join hands to "hunt as a pack" when going abroad. All parties stand to gain with such an approach as the Singapore brand gets further strengthened, and the different companies benefit from each other's diverse expertise and connections.

When it comes to venturing overseas, one of the first agencies that comes to mind for SMEs is International Enterprise (IE) Singapore. Tan Li Lin, group director, customer services group, says that the organisation has been adapting its help for SMEs based on their different stages of internationalisation. She explains: "Those new to overseas expansion often require different types of help from those deepening their global presence."

For SMEs new to going abroad, there is the broad-based Market Readiness Assistance (MRA) programme that provides market knowledge and business networking through seminars and workshops. These provide information on entering and setting up shop in different overseas markets, be it South-east Asian countries, India or less typical ones such as Iran. The grant was also developed to offer basic financing support for SMEs in overseas set-up, in-market promotions and finding business partners.

Going forward, IE Singapore will continue to focus on addressing key market knowledge and capability gaps, such as through in-market workshops. These workshops entail classroom sessions, site visits and business meetings designed and customised to the needs of companies in certain sectors. SMEs are also connected to potential local business partners.

The organisation organised a workshop in the Philippines on the country's booming consumer sector in April this year. More recently, IE Singapore concluded a workshop in West Africa, focused on construction and building materials.

Mr Soh from Xpressflower.com attended the workshop on the Philippines earlier this year. He says: "Although we started off on our own in July 2015, my trip with IE Singapore helped link us to the correct people to speak to in the retail industry such as

PHOTO: ISTOCKPHOTO



“OVERSEAS EXPANSION IS NO LONGER LIMITED TO PHYSICAL EXPANSION – SMALLER PLAYERS CAN MARKET PRODUCTS AND SERVICES OVERSEAS WITHOUT BRICK-AND-MORTAR SHOPS OR END-TO-END INFRASTRUCTURE.”

– Ho Meng Kit (above), CEO, Singapore Business Federation

the shopping mall operators, local franchise and retailers’ organisations. The trip, in fact, helped us realise the need for a physical presence there.”

IE Singapore also works through the trade associations and chambers to help industry clusters go overseas through its Local Enterprise and Association Development (LEAD) programme and the International Marketing Activities Programme (iMAP). For example, it worked with the Singapore Food Manufacturers’ Association and identified e-commerce giant Alibaba’s Tmall as a partner for food companies to access China’s consumer market through e-commerce.

The associations are also not resting on their laurels and have been actively finding ways to support their members in their overseas bids. To help local companies, the SBF regularly conducts market insight seminars, training, workshops, study trips, business missions and networking sessions to help businesses acquire knowledge and build capacity.

Mr Ho adds that the SBF is also being proactive in its approach by engaging with the Ministry of Trade and Industry to gather feedback from businesses on free trade agreements (FTAs) that the government is working on, such as the Asean Economic Community (AEC) 2025 blueprint.

TRENDS

According to the *SBF National Business Survey 2015*, regional economies such as Malaysia, Indonesia and China remain top markets for local companies, while emerging economies such as Myanmar, Cambodia and Vietnam are fast gaining attention as markets that they intend to venture into.

This is also a trend observed by Ms Tan of IE Singapore, who adds that South-east Asia, China and India are key drivers of global growth. “Besides proximity, these markets are urbanising rapidly and have a large middle class population,” she says. “These form the demand markets of our companies.”

When it comes to China in particular, Mr Ho observes that the One Belt, One Road initiative and the Chongqing Connectivity Initiative have increased businesses’ interest in working with Chinese companies.

Singapore businesses are also venturing into far-flung markets such as Latin America, the Caribbean and Africa with the recent signing of FTAs and memorandum of understanding (MOUs). “These regions have a large and young population combined with a rising middle-class, offering great potential and opportunities,” notes Mr Ho.

While SMEs need to be mindful about risks and do their due diligence, Mrs Tan highlights that companies need to understand that having one foot in the door does not guarantee an immediate rise in sales or profits. Some markets such as India and Africa are more diverse than others, and require more time and patience to cultivate.

Mr Ho points out that for companies to successfully venture overseas, a deep understanding of the local business environment and collaboration with bigger companies or local partners may sometimes be the only way to gain a foothold in highly regulated markets.

Ultimately, SMEs need an open and “can-do” mindset instead of relying on any one scheme or policy, he says, adding: “They should view existing government support as a supplement to their internationalisation efforts – rather than as a determinant of their overseas successes.” ■