

BOX ARTICLE

Survey on SMEs in 2017

As the Secretariat to the National SME Development Council (NSDC), SME Corp. Malaysia has been conducting twice a year surveys on SMEs since 2009 as part of its surveillance work to monitor the development and assess the performance of SMEs in Malaysia. The surveys are also intended to identify emerging challenges and issues faced by SMEs on the ground. The feedback gathered from the surveys will then enable the Government to formulate comprehensive SME development policies and effective programmes for SMEs. The surveys are conducted through various channels, such as SME Corp. Malaysia state offices, various Government agencies, SME-related associations and through the banking sector in collaboration with Bank Negara Malaysia. The coverage is broad, encompassing SMEs across all economic sectors, regions (including Sabah and Sarawak) and establishment size.

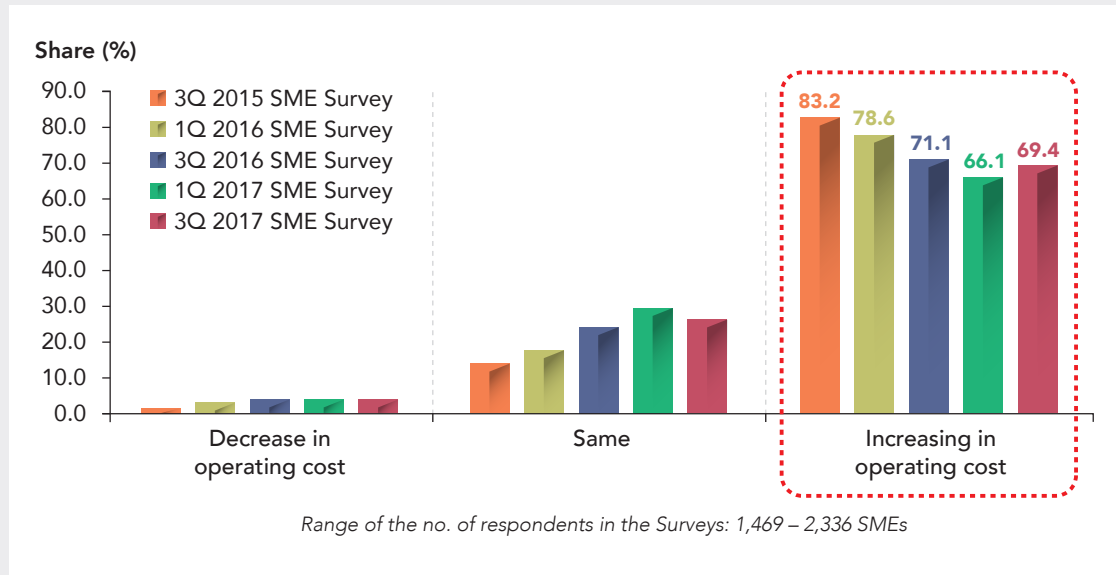
Third Quarter 2017 SME Survey

The Third Quarter 2017 (3Q 2017) SME Survey which involved 1,469 respondents was aimed at gauging the recent SME business performance and outlook as well as identifying challenges faced by SMEs. These include issues on cost of doing business, financing, human capital, export, information and communication technology (ICT) adoption and e-commerce, Industrial Revolution 4.0 (IR 4.0) and other pertinent or relevant issues that may possibly affect SMEs directly or indirectly.

Cost of Doing Business

Findings of the Survey indicated that rising cost of doing business has been the main issue facing SMEs as the Survey respondents continued to experience an increase in their operating cost. The Survey findings revealed that more than two-third (69.4%) of the total respondents cited an average annual increase of 20.0% in their operating cost, which is at a faster rate than in previous quarters (refer to Chart 1).

Chart 1: Operating Cost of SMEs (%)



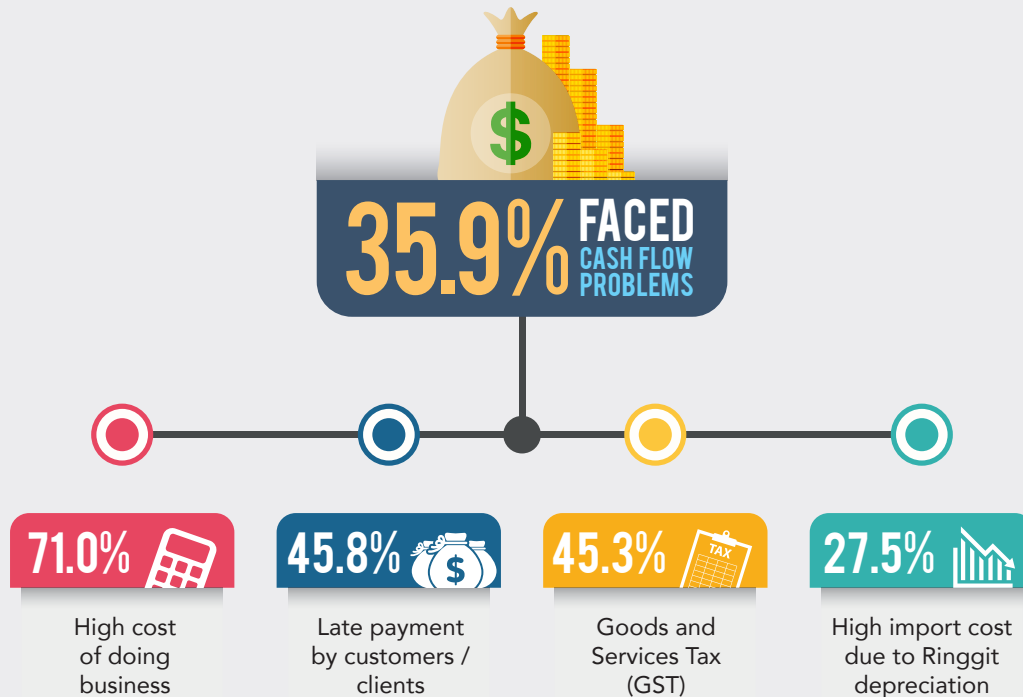
Source: Quarterly SME Surveys, SME Corp. Malaysia

Respondents most affected were those in manufacturing and construction sectors as well as small-sized firms. The cost hike was mainly due to higher cost of raw material and other inputs, higher electricity bill and charges as well as higher fuel and gas for transportation. In order to alleviate the rising cost of doing business, respondents specified that in the near term, they would undertake a few measures or business strategies, such as reducing operating costs, intensifying promotional activities as well as introducing new products and services.

Cash Flow and Payment Issues

Cash flow or liquidity issue has been among the main concern for SMEs. As SMEs are strapped for cash, this issue is amongst the biggest obstacle to business growth. With the challenging business environment facing SMEs, about 35.9% of the respondents experienced cash flow problem, particularly microenterprises and SMEs in services and construction sectors (refer to Chart 2). According to the Survey findings, the cash flow problem can be attributable to a few factors, such as high cost of doing business, late payment by customers and clients and Goods and Services Tax (GST). Late payment is an increasing problem that affect SMEs' cash flow. In the 1Q 2017 SME Survey, about 42.3% of SMEs reported late payment as a factor contributed to cash flow problem while in the 3Q 2017 SME Survey, that figure rose to about 45.8%. As SMEs rely heavily on cash flow from operations, late payment can affect their ability to effectively operate and grow their businesses.

Chart 2: Factors affecting Cash Flow Problem (%)



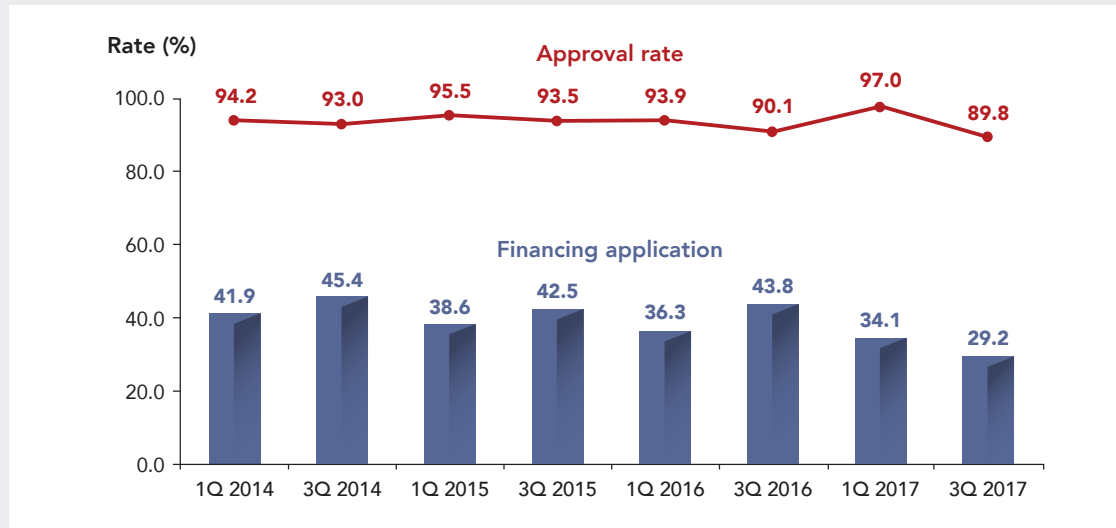
Source: 3Q 2017 SME Survey, SME Corp. Malaysia

During the third quarter 2017, about 13.4% of the respondents faced payment problem by the principal, paymaster or debtor, who were mostly SMEs themselves. In addition, with regards to payment term, about 52.8% of respondents cited that their suppliers only allow for cash on delivery while some (26.5%) stated that their suppliers gave such a short credit period.

Business Financing

SMEs continued to have access to financing with about 89.8% approval rate, lower than 97.0% approval rate recorded in the previous quarter. Of those approved, about 18.5% of them made up of first-time borrowers. Nevertheless, with the current high cost of doing business and the increase in cash flow problem, the demand for loan from financial institutions has gradually decreased (refer to Chart 3). The slowdown in the loan application was also due to existing outstanding financing facilities owned by respondents. During the quarter under review, about 48.3% of total respondents have outstanding financing facilities for their businesses. Of which, about 52.7% did not apply for any new or additional financing from financial institutions. The result indicated that SMEs were reluctant to further widen the debt exposure of their businesses. For loan applicants whom have been rejected by the banks, the main reasons given were business is too young (27.3%), no or poor financial track record (24.2%) and difficult to evaluate the application (24.2%).

Chart 3: Financing Demand and Approval Rate (%)



Source: Quarterly SME Surveys, SME Corp. Malaysia

Human Capital

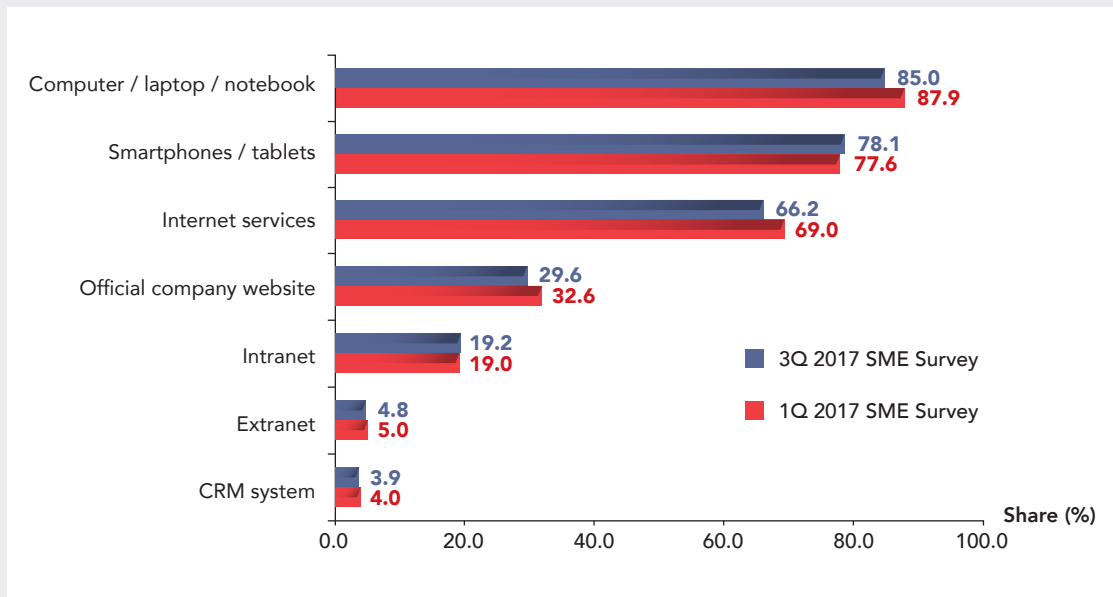
When it comes to hiring of labour, majority of the respondents (82.8%), particularly microenterprises and those in the services sector preferred local workers. From the total respondents of the Survey, only about 17.2% of them hired foreign workers, mainly SMEs in manufacturing, construction and agriculture sectors and small and medium-sized firms, which was slightly lower than 17.4% recorded previously. Although hiring of foreign workers was relatively low, about 35.7% of the respondents who hired foreign workers had no intention to reduce dependency on them. Detailed findings also showed that SMEs had retrenched mostly local workers, especially low-skilled and semi-skilled local workers partly due to their poor performance and low productivity and as part of cost-cutting measure. On retrenchment, of those respondents who retrenched their workers, about 54.8% of them intend to hire temporary or contract workers.

ICT Adoption

Information and communication technology (ICT) can be defined as technologies that provide access to information through telecommunications, which includes internet, wireless networks, cell phones and other communication medium. Although there is no single or universal definition of ICT, the term is generally accepted to mean all devices, networking components, applications and systems that allow people and organisations to interact in the digital world. In recent years, adoption of ICT among SMEs has increased tremendously. Based on the 3Q 2017 SME Survey, majority of the respondents (85.0%) utilised computers in their daily business operations, followed by usage of smartphones or tablets (78.1%) and internet (66.2%) (refer to Chart 4). In line with the rapid ICT adoption, the Survey also saw a discernible increase in the participation of SMEs in online business. During the quarter under review, about 28.0% of SMEs involved in online business, slightly higher than 27.2% recorded in the previous quarter, with 30.0% of their total business sales were from online sales. Of those involved in

online business, 26.5% of them utilised e-commerce marketplace, such as LAZADA.com and Alibaba.com for their online businesses (1Q 2017: 24.5%). The high utilisation of e-commerce marketplace showed that SMEs are more receptive towards e-commerce and have embraced the idea of digital economy. Interestingly, of those involved in online business, about 17.8% of them export their products and services online, whereby percentage of online export sales to total online sales was 20.0%. Likewise, Survey findings also showed that, of those export their products and services online, 15.0% of their total business sales were from online export sales.

Chart 4: ICT Adoption among SMEs (%)



Source: 3Q 2017 and 1Q 2017 SME Surveys, SME Corp. Malaysia

Export Market

Focusing on the export activity of SMEs, the Survey findings showed that about 14.7% (1Q 2017: 13.8%) of the respondents export their products and services to foreign markets, mainly to ASEAN, China and the United States. On average, 20.0% of the total products or services were sold abroad. Interestingly, of those respondents who were exporting to the international markets, about 22.2% of them being the first-time exporters, much higher than 17.2% recorded in the previous Survey. Moving forward, almost one-third of the non-exporters intend to penetrate markets abroad, as opposed to only 19.4% recorded in the first quarter of 2017. This finding revealed that the respondents are very much interested to widen their market access by undertaking various initiatives to further boost their export, such as building networking with people in the targeted market, diversifying into new export markets and participating in international trade promotional activities. Nevertheless, there are still some constraints facing SMEs in going abroad, such as inadequate information on the targeted market, higher operating cost expected as well as inadequate knowledge on global demand for products or services (refer to Chart 5).

Chart 5: Constraints for SMEs to Export (%)



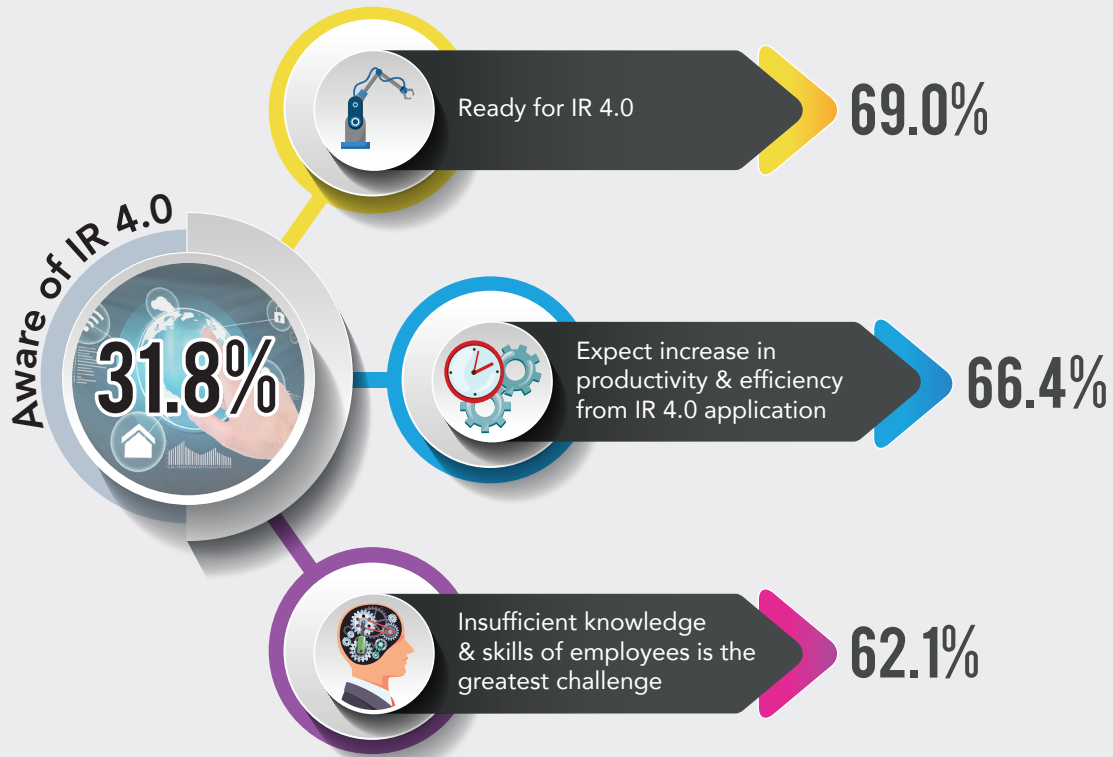
Source: 3Q 2017 and 1Q 2017 SME Surveys, SME Corp. Malaysia

Industrial Revolution 4.0

In the era of Fourth Industrial Revolution or Industrial Revolution 4.0 (IR 4.0), SMEs need to accelerate their automation and digitalisation initiatives to continue remain relevant and competitive. In the 3Q 2017 SME Survey which looks at the status of awareness and readiness of SMEs towards IR 4.0, findings revealed that about 31.8% of the respondents, particularly SMEs in the manufacturing as well as small and medium-sized firms are aware of the IR 4.0. Of which, about 69.0% of them are ready for the IR 4.0, mainly microenterprises and SMEs in the manufacturing sector. In addition, of those who are aware of the IR 4.0, 66.4% of them are expecting that productivity and efficiency will increase with the adoption of the IR 4.0. Meanwhile, 62.1% of those who are aware also cited that insufficient knowledge and skills of employees is the greatest challenge for the successful implementation of the IR 4.0 (refer to Chart 6).

Based on the findings, there are still a lot of initiatives to be undertaken by the Government for SMEs to embrace IR 4.0 and to stay competitive, amidst the challenging business environment. On the other hand, SMEs need to continue exploring existing and new technologies in aligning their businesses towards IR 4.0.

Chart 6: Issues on IR 4.0 (%)



Source: 3Q 2017 SME Survey, SME Corp. Malaysia