

BOX ARTICLE

Surveys on SMEs in 2016 and 2017

SME Corp. Malaysia as the Secretariat to the National SME Development Council (NSDC) since 2009 has been conducting surveys on SMEs as part of the surveillance work. The objective is to monitor the development of SMEs such as their business performance and current issues on the ground in the increasingly challenging business environment. The feedback from the surveys will enable the Government to formulate comprehensive SME development policies and effective programmes for SMEs. Through collaboration with Bank Negara Malaysia (BNM) and full support from SME Corp. Malaysia state offices, various Government agencies and SME-related associations, the surveys cover SMEs across all economic sectors, regions (including East Malaysia) and establishment sizes.

Third Quarter 2016

The Third Quarter 2016 (3Q 2016) SME survey covering 1,868 respondents highlighted that the business performance of SMEs was sustained with slightly more respondents experiencing higher sales and profits as compared to the previous quarter. The gradual improvement is also reflected in the near-term outlook despite the challenging economic condition, as 41.5% expected their business to remain stable in the next six months i.e. outlook for the month of October 2016 till March 2017, while 29.2% cited improving outlook, particularly microenterprises and those from the manufacturing sector. Nevertheless, detailed findings showed that majority of respondents continued to face rising cost pressure, as about 71.1% of the respondents faced an increase in their operating cost, by an average annual increase of 10.0%. Among the critical factors that led to rising in operating cost were higher raw materials and input costs, higher electricity bill and higher cost of imports due to Ringgit Malaysia depreciation.

On top of experiencing the cost-pressure problem, about 43.7% of respondents faced cash flow issue, mainly microenterprises and those from the manufacturing and agriculture sectors. Given that, 43.8% of respondents applied for business loans, higher than the 36.3% loan application recorded previously. In addition, during the quarter under review, SMEs continued to have access to financing with a high approval rate of 90.0%. In order for SMEs to remain competitive in the challenging business environment, respondents continued to undertake productivity enhancement and cost cutting measures, such as reducing their operating cost, intensifying promotional activities and introducing new products and services.

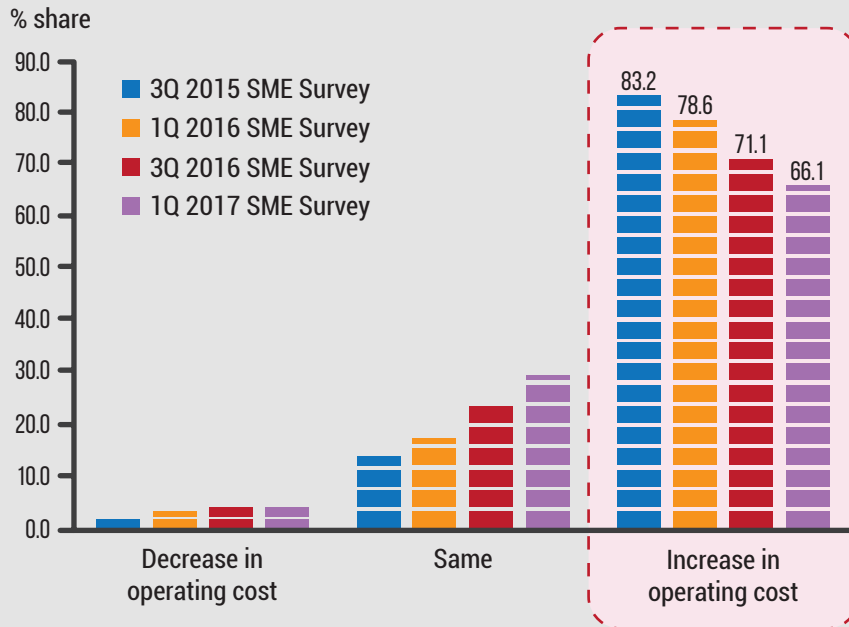
First Quarter 2017

The First Quarter 2017 (1Q 2017) SME Survey covering 2,236 respondents gauged the recent SME business performance and outlook, issues on financing and exports. In addition, the survey also covered emerging issues and impact on SMEs, such as on supply chain and business linkages, human capital, rising costs, ICT adoption and e-commerce, BNM measures on conversion of exports proceeds, awareness of the Competition Act 2010 and other pertinent issues that may affect SMEs directly or indirectly.



Cost of Doing Business

Chart 1: Operating Cost of SMEs (%)



Source: SME Corp. Malaysia Quarterly Surveys

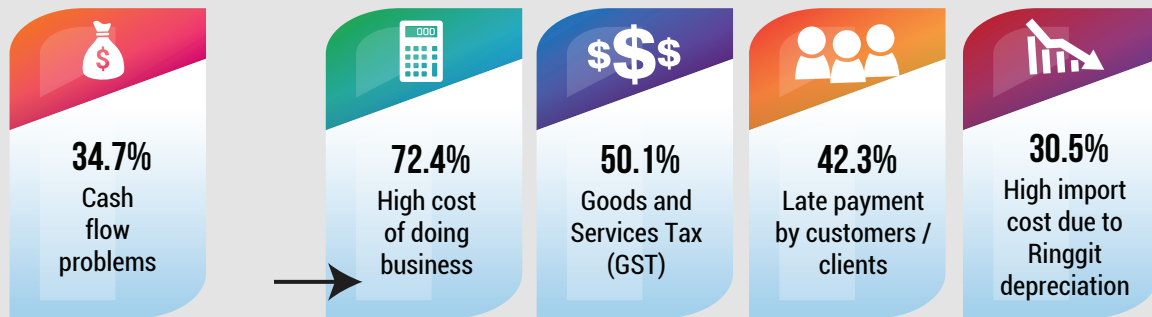
The series of cost which rose recently have influenced the business operation of SMEs. It was shown that about two-third of the respondents cited that the current rising cost led to an increase in operating cost of their firms, with an average annual increase of 10.0% (refer to Chart 1). However, the percentage share of respondents that cited increases in operating cost were much lesser as compared to the findings in the previous SME Surveys, particularly those respondents in the construction and agriculture sectors and small-sized firms. The higher operating cost was mainly due to higher raw material and other input costs, higher fuel and gas for transportation and higher electricity bill. Following the rising cost of doing business, most SMEs intend to take cost-cutting and other initiatives, such as intensifying promotional activity and introducing new products and services in the near term as part of their business strategy.

Cash Flow and Payment Issues

With the continued challenging business environment, about 34.7% of the respondents cited facing cash flow or liquidity problem, particularly among microenterprises and SMEs in the manufacturing and construction sectors (refer to Chart 2). Respondents cited that the high cost of doing business and the implementation of Goods and Services Tax (GST) have partly contributed to their cash flow problem. Also, late payment by customers and clients have slightly affected their business performance. During the quarter under review, about 10.3% of the respondents indicated facing payment problem by their paymaster or debtors, who were mostly SMEs themselves.



Chart 2: Cash Flow Issue (%)



Source: 1Q 2017 SME Survey, SME Corp. Malaysia

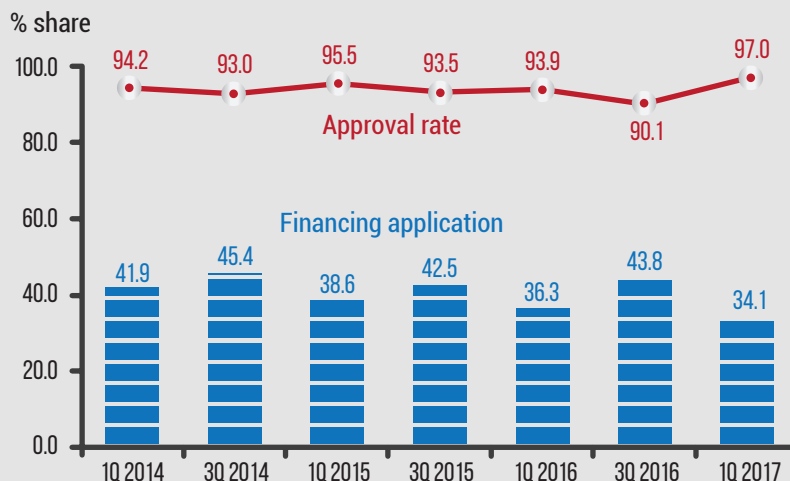
Furthermore, with regards to payment term, about 57.5% of respondents cited that their suppliers only allow for cash on delivery while some (41.3%) stated that their suppliers gave such a short credit period. As a result of late payment among some SMEs throughout the supply chains, this has led to some SMEs facing cash flow problem while some may have difficulties in running their day-to-day business and restrict plan for future investment. However, majority of SMEs are resilient and remain in business.

Supply Chain

Looking at the supply chain perspective, survey findings indicated that only 10.4% of SMEs supplied to large foreign firms or multinational corporations (MNCs) in Malaysia, thus indicating the weak linkage between SMEs and the big players. SMEs that supply to the big players were mainly among the medium-sized SMEs and those in manufacturing sector. More than half of the SMEs (53.9%) supplied directly to MNCs while about 34.1% supplied indirectly through another local SME. Having said that, there are still big potential and opportunities for SMEs to supply local SME products and services to MNCs.

Business Financing

Chart 3: Financing Demand and Approval Rate (%)



Source: SME Corp. Malaysia Quarterly Surveys

During the quarter under review, SMEs continued to have access to financing with a high approval rate of 97.0% by financial institutions (refer to Chart 3). The financing approval was mainly backed by collateral with properties and fixed deposit as the main assets required. In addition, the findings also showed that majority of the respondents needed financing for the purpose of their working capital (53.7%) and business expansion (38.8%). Of those approvals, interestingly about 26.7% of them are first-time borrowers. Nevertheless, the demand for loans has slowed down to 34.1% from 43.8% of total respondents recorded previously.

Human Capital

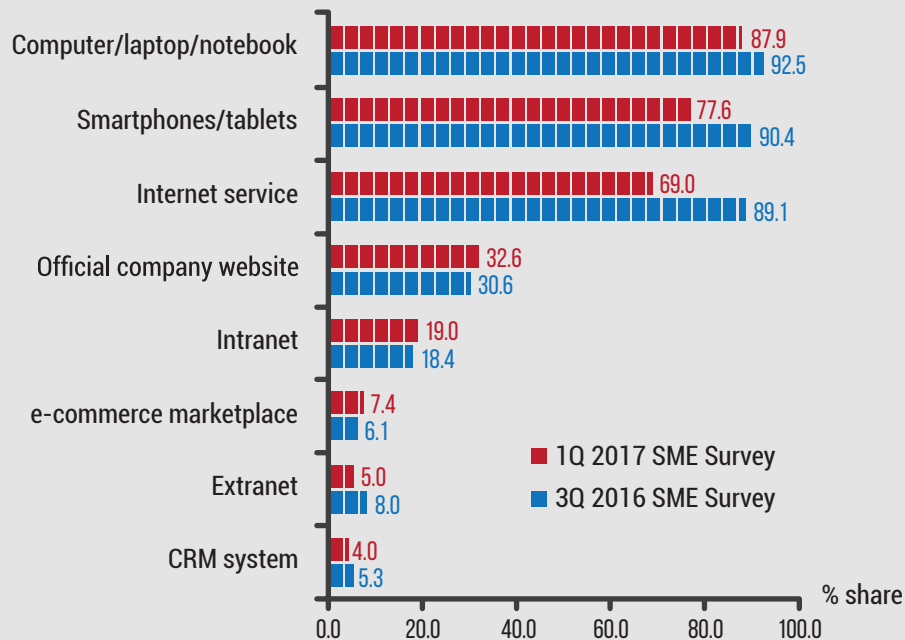
The SME survey findings also indicated that a total of 17.4% of the respondents hired foreign workers, particularly in the manufacturing and agriculture sectors and medium-sized firms, which was lower than 24.2% recorded previously. Albeit hiring foreign workers is relatively low, about 45.9% of the respondents who hired foreign workers cited that they had intention to reduce their dependency on foreign workers. A close look at the survey findings also revealed the fact that SMEs preferred foreign workers than local workers. Only 5.7% of the respondents retrenched workers which are mainly local workers. On average, SMEs retrenched two workers from their firms in the past six months. The retrenchment was partly due to workers' poor performance and low productivity as well as a part of reducing costs. Of those respondents who retrenched their workers, about 46.1% of them intend to hire temporary or contract workers.

ICT Adoption

Focusing on the utilisation of ICT among SMEs, majority of the respondents used computers, smartphones and the internet in their daily business operation. SMEs have now adopted existing technology and tried to realign their businesses to the new technology, acknowledging the importance of ICT. Findings from the survey also indicated that 7.4% of the respondents, particularly those in the services sector and the microenterprises utilised e-commerce marketplace (refer to Chart 4). The higher utilisation of e-commerce marketplace showed that SMEs are more technology savvy and embraced the idea of digital economy to their business.

Meanwhile, about 27.2% of the respondents have participated in online business, whereby 20.0% of their total business sales were from online sales. Most of the respondents who were selling products and services online used social media platforms (85.4%), such as Facebook and Instagram. The involvement of SMEs in online business indicated that they wanted to reach out better to wider market and business opportunities. Interestingly, of those involved in online business, about 15.6% of them export their products and services online. SMEs that leverage on ICT have greater potential to increase their efficiency and productivity, thus enable them to elevate their business to the next level.



Chart 4: ICT Adoption among SMEs (%)

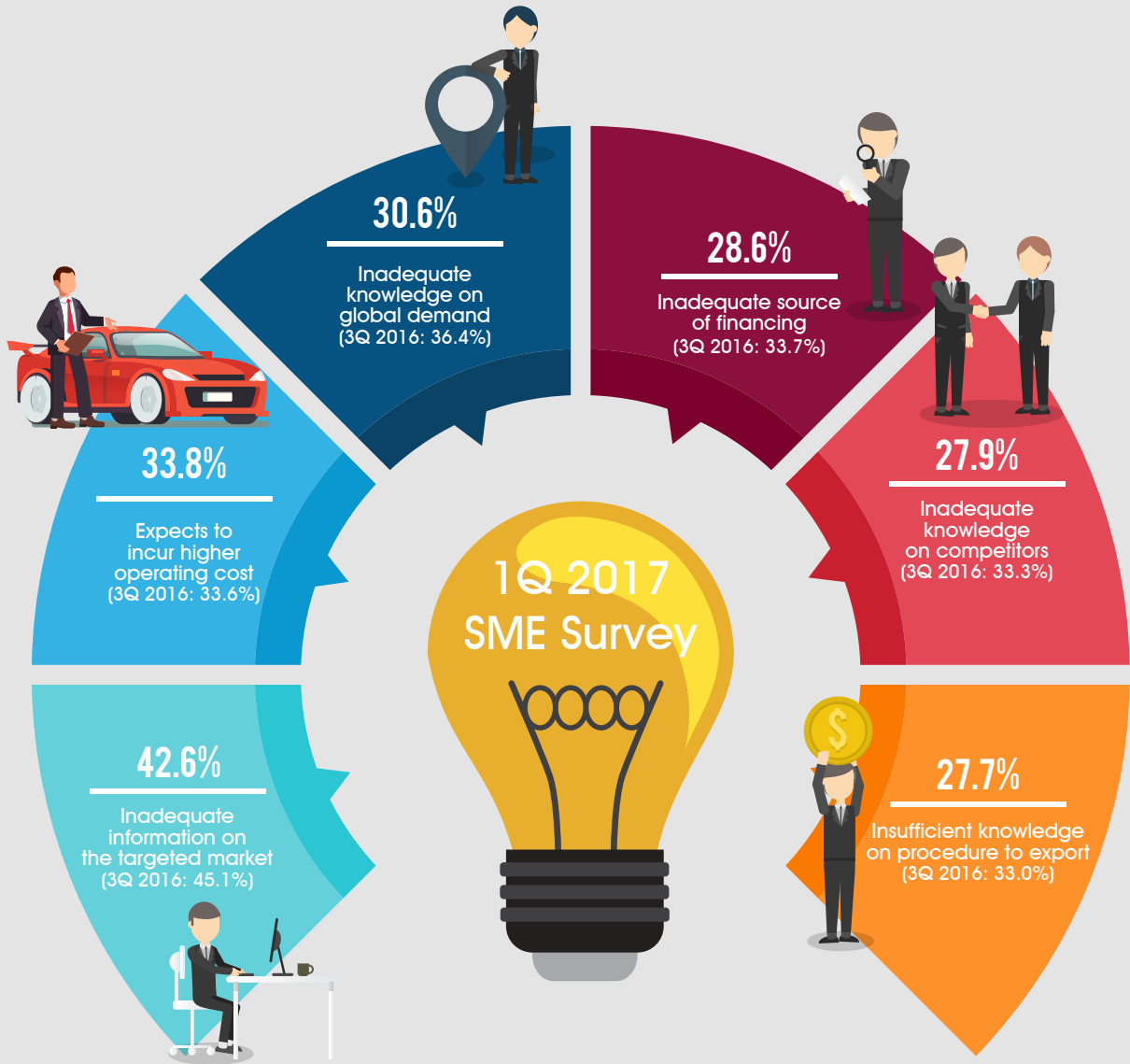
Source: 1Q 2017 and 3Q 2016 SME Survey, SME corp. Malaysia

Export Market

With regard to exports activity among respondents, about 13.8% of the respondents have penetrated into the international markets, of which 17.2% of them being first-time exporters. Most exports activity was concentrated mainly in ASEAN and China, with an average of 20.0% of these exporters' total products or services were sold abroad. Going forward, almost one-fifth of the non-exporters (19.4%) plan to penetrate into the international market. This finding showed that SMEs are interested in boosting their business by exporting. In fact, SMEs also undertook various measures to increase their exports, such as diversifying into new markets, building networking with people in the targeted export market as well as participating in international trade promotional activities.

Focusing on the challenges in exporting, SMEs still had concerns on market intelligence inadequacy, higher operating costs and inadequate source of financing (refer to Chart 5). With regard to financing, survey findings cited that only 13.7% of the total respondents use trade financing facilities for both exports and imports, which is much lower than 17.5% recorded in the third quarter of 2016. The top three trade financing products are Bankers Acceptance, Letter of Credit and Trust Receipt. SMEs need to be made more aware of the benefits offered by trade financing facilities in order to encourage them to go for exports.

Chart 5: Constraints in Exporting (%)



Source: 1Q 2017 and 3Q 2016 SME Survey, SME Corp. Malaysia

