

# BOX ARTICLE

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## **Findings from 2019 SME Survey**



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**T**hroughout the years, SME Corp. Malaysia being the Secretariat to the National Entrepreneur and SME Development Council (NESDC) has been conducting surveys on SMEs as part of the organisation's role to monitor SMEs business performance and identify emerging issues in the current economic environment. Directed towards understanding a holistic SME ecosystem, the surveys which were conducted in collaboration with Bank Negara Malaysia, various Government agencies and business associations were comprehensive covering both qualitative and quantitative parameters.



### **Profile of the Survey Respondents**

With a total sample size of 1,346 respondents nationwide, the Survey was well represented in terms of economic sectors, geographical spread and size of establishment. Majority of the respondents were from services sector (62.3%), followed by manufacturing (31.2%),

construction (4.5%) and the remaining 1.9% from agriculture sector. In terms of the business size, bulk of respondents were microenterprises and small-sized firms (83.3%), while medium-sized firms accounted for 16.7%. Looking at the region, respondents were equally distributed across states with Selangor and Kuala Lumpur contributed the highest portion at 18.4%. About three-quarter of respondents (75.4%) were men-owned SMEs while women-owned SMEs constituted about 24.6%. In terms of legal set-up, respondents were mostly operated as private limited companies (58.4%) and sole proprietors (31.9%).

As part of ongoing efforts by SME Corp. Malaysia to gain better understanding of the business needs, the Survey findings being conducted during the period of April to May 2019 provided insights on various aspects such as the business performance, cost of doing business, human capital, financing, exports as well as adoption of information and communications technology (ICT).

## Business Performance

Comparing the performance in 1Q 2019 against 4Q 2018, SMEs continued to grow with increasing sales and profit. Majority of the respondents highlighted that their businesses recorded higher sales (55.4%) and profit margin (46.0%), particularly SMEs in the agriculture and services sectors, as well as among small-sized firms. Of the 55.4% respondents who experienced higher sales in 1Q 2019, majority enjoyed up to 5% increase. The share of total respondents citing higher orders and bookings too was much higher in the 1Q 2019 (48.7%) in comparison with the one recorded in the previous 3Q 2018 SME Survey (34.0%). Meanwhile, a total of 43.2% of the respondents have increased their selling price during the quarter. The price increase was more prominent among microenterprises and small-sized SMEs. In terms of exports sales and production, most of the respondents said that the performance was similar as in the previous quarter (4Q 2018) (refer to Table 1).

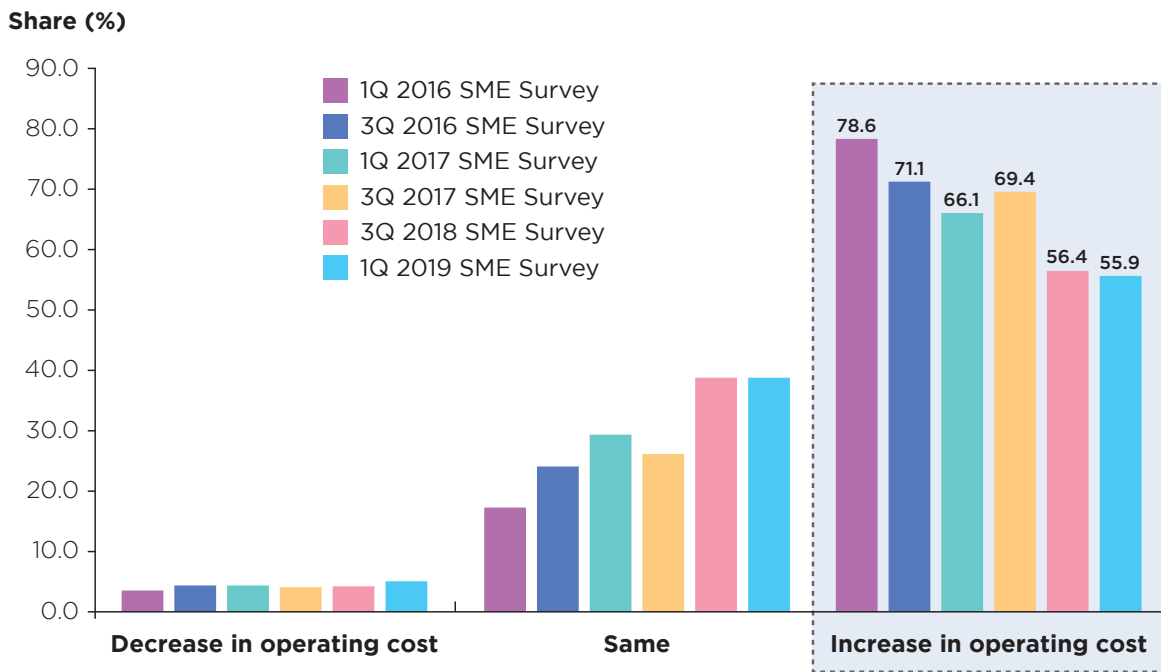
**Table 1:** Comparison of Business Performance across Quarters

Indicators	Percentage share of total respondents (%)					
	Decreased		Same		Increased	
	3Q 2018 vs 2Q 2018	1Q 2019 vs 4Q 2018	3Q 2018 vs 2Q 2018	1Q 2019 vs 4Q 2018	3Q 2018 vs 2Q 2018	1Q 2019 vs 4Q 2018
Sales Turnover	21.6	25.9	33.5	18.6	44.9	55.4
Pre-tax Profit	20.3	22.8	41.0	31.2	38.6	46.0
New Orders / Bookings	15.7	14.3	50.2	37.1	34.0	48.7
Average Selling Price	15.1	14.2	46.5	42.6	38.3	43.2
Production	18.9	13.9	31.6	47.8	49.4	38.3

## Cost of Doing Business and Cash Flow

As in past surveys, high cost of doing business continued to be one of the key challenges faced by SMEs. Findings of the Survey indicated that respondents continued to face an increase in operating cost, but to a much lesser extent (refer to Chart 1). During the quarter under review, more than half of the respondents (55.9%) experienced on average an increase in operating cost of 5% year-on-year. In the 1Q 2019, SMEs in agriculture and manufacturing sectors, as well microenterprises and small-sized firms were more affected by the rising operating cost. Factors that led to the rising cost were mainly due to higher raw materials & other input costs (62.4%) and electricity bill & charges (37.8%).

**Chart 1:** Operating cost of SMEs (%)



Also, revised policy introduced by the Government, that is the new Minimum Wage for employees in Malaysia has been standardised and raised to RM1,100 nationwide effective 1 January 2019. Following this revision, the Survey findings revealed that a total of 35.8% of respondents indicated that they were affected as some or all of their workers were being paid below the new Minimum Wage, with majority 86.3% were expecting an increase in the range of 1 - 10% in labour cost.

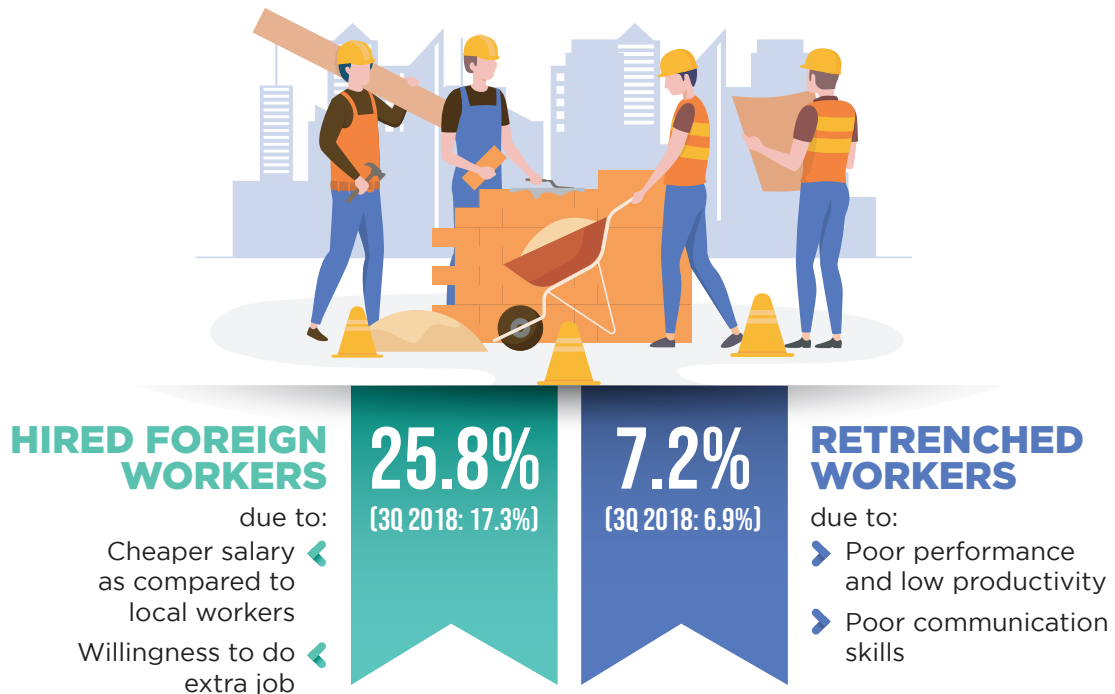
Relating to the cost issue, more than one-third (34.6%) of the respondents faced cash flow or liquidity problem, particularly among microenterprises and SMEs in the manufacturing and construction sectors. Key factors that had highly affected their cash flow were the high cost of doing business and late payment by customers. With regards to late payment, a total

of 27.6% of the respondents faced payment problem by their paymaster or debtors, who majority were SMEs. Given the increasingly challenging business environment, respondents planned to undertake various initiatives in the near-term such as reducing the operating cost, develop employee skills and develop new products & services in order to remain competitive.

## Human Capital

SMEs' dependency on foreign workers gradually increased over time, with higher percentage of respondents (25.8%) hired foreign workers during the quarter under review, particularly mid-skilled and low-skilled workers (3Q 2018: 17.3%) (refer to Chart 2). Foreign workers were hired due to cheaper salary as compared to local workers and their willingness to do extra job. Looking at the retrenchment aspect, 7.2% of total respondents particularly small-sized firms and SMEs in the manufacturing sector had retrenched workers. Findings showed that workers were retrenched due to their poor performance & low productivity (76.3%) and poor communication skills (26.8%).

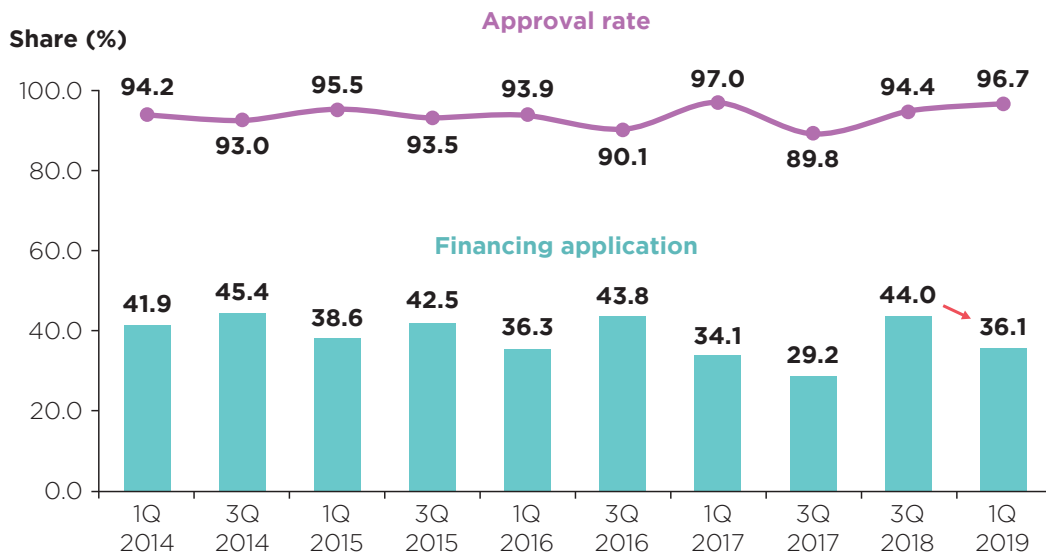
**Chart 2:** Issue on Human Capital



## Business Financing

SMEs continued to have access to financing in the 1Q 2019 but the demand for loans has slowed down. Only 36.1% of the respondents indicated seeking for new or additional financing, which was lower than 44.0% recorded in the 3Q 2018 (refer to Chart 3). In addition, findings also revealed that respondents needed financing mainly for the purpose of working capital including purchase of raw materials, inventory, salary, rental and other costs (64.9%) as well as financing to address cash flow constraints (32.0%). Of those applied for financing, about 96.7% were approved and 27.8% of those approvals were made up of first-time borrowers. For those whom the banks had rejected their applications, the main reasons cited were business is too young and insufficient sales, income or cash flow.

**Chart 3:** Financing Application and Approval Rate (%)



A close look at the survey showed that few respondents (8.8%) did face difficulty in maintaining their current financing facility with financial institutions in the last six months. Among the difficulties that they experienced were FIs requested for higher collateral (58.8%), request for additional guarantor (32.4%) and delay in loan approval or disbursement (23.5%).



## Exports

Focusing on exports intensity, a total of 16.6% respondents export their products and services overseas, mainly among small- and medium-sized firms and SMEs in the manufacturing sector. Of total respondents who penetrated into international market, an average of 20% of their products or services were sold abroad while first-time exporters accounted for 13.5%. These exporters focused their exports activity mainly in ASEAN region and China. They cited that they have very much enjoyed the benefits gained from their exports activity which include increased sales and profits (88.3%), opportunity to expand existing operation (49.3%) and managed to overcome domestic market growth constraints (41.3%).

**Chart 4:** Assistance Needed to Penetrate Export Market (%)



Meanwhile, respondents also undertook various initiatives to further boost their export such as diversifying into new markets; build networking with people in the targeted export market and customising its products or services according to international standards and regulations. In addition, exports training on export access, trade documentation, product packaging and international marketing were being ranked as the top assistance needed to penetrate export market (refer to Chart 4). Looking ahead, an optimistic outlook from 15.4% of the current non-exporters had plan to venture abroad. Considering the issues faced in exporting, respondents highlighted that inadequate information on the targeted market (42.3%); higher operating costs (37.4%) and inadequate knowledge on competitors & distribution channels (33.1%) were the main concerns for exports.

## ICT Adoption and e-Commerce

Survey findings revealed that ICT usage among SMEs currently came predominantly from personal devices and basic internet connection. Majority 86.6% of the respondents utilised computers and laptops, 72.4% used smartphones and tablets, 69.9% had access to internet services, while a smaller number of 33.6% had official company website in running their daily business operations. Given the significant shift in the digital environment, a total of 35.3% of respondents involved in online business, particularly microenterprises & SMEs in manufacturing sector. Interesting to note that an average of 15.0% of total business sales were generated from online sales. SMEs mainly utilised social media platform namely Facebook (82.5%), WhatsApp (61.5%) and Instagram (54.3%) to do online business. Nevertheless, the online e-commerce marketplace platform have increasingly being adopted by small business whereby of those respondents involved in online business, 18.7% showcased their products or services in Shoppee and 14.9% utilised Lazada.

Moving on to the Industrial Revolution 4.0 (IR4.0) which is slowly becoming a positive trend these days, more SMEs are aware of the IR4.0 (1Q 2019: 23.6% vs 3Q 2018: 19.5%). With huge opportunities that come with having a strong technology foundation, the implementation of IR4.0 can be seen as essential business tools to expand SMEs' businesses through innovative strategies. As high as 70.8% expected an increase in productivity and efficiency through IR4.0 applications while 56.0% believed that IR4.0 will help in terms of having better planning and controlling in manufacturing & logistics. Despite the fact that SMEs have greater potential to increase their efficiency and productivity with adoption of IR4.0, lesser number of SMEs (56.9%) were ready for the implementation as compared to the one recorded in the 3Q 2018 (67.3%). The Survey findings also highlighted factors that hinder the successful implementation of IR4.0. Insufficient knowledgeable and skilled employees; high investment costs and lack of funding / support from the Government were cited as the top three key challenges of implementing IR4.0 (refer to Chart 5).

**Chart 5:** Challenges Hindering the Implementation of IR4.0 (%)

