

VENTURING OVERSEAS

Internationalisation is practically a must for SMEs given that the size of the local market is unable to support most businesses **BY MINDY TAN**

FOR Pamela Phua, founder of Freshen Group which sells packaged double-boiled soups, the enhancements made to the various grant and support schemes to encourage small and medium-sized enterprises (SMEs) to venture overseas could not have come at a better time. “Freshen Food Home-Style Soups were developed with international markets in mind, which is why we endeavoured to achieve shelf-stability from the start of research and development,” says Ms Phua.

Freshen has been working with Singapore Polytechnic’s Food Innovation & Resource Centre (FIRC) since 2013 to create these packaged soups, complete with ingredients, in a ready-to-serve format with no monosodium glutamate and preservatives.

“Freshen Group’s goals are two-pronged. Locally, we will be doing more consumer outreach to build brand awareness and product understanding as the concept is still new to Singapore consumers. Internationally, we are currently sourcing for overseas opportunities and partners to bring this home-grown brand to a global platform.”

Internationalisation is practically a must for SMEs, given that the size of the local market is unable to support most businesses.

Says Nitin Pangarkar, associate professor of strategy and policy at the National University of Singapore Business School: “It is indeed a good idea to encourage SMEs to internationalise. The Singapore market is too small for many players. More importantly, successful internationalisation is the acid test of whether a company is really skilled – can it compete with others outside its home ground?”

A study conducted by Prof Pangarkar in 2008 found that despite the several constraints faced by SMEs – including but not limited to shortage of managerial resources, lack of information necessary for exploiting international opportunities, and absence of specialist executives to manage international operations – the benefits from internationalisation outweigh the costs.

Interestingly, respondents to his study indicated that learning new knowledge was a key benefit of internationalisation. “The additional learning gained from internationalisation, for instance, may be useful for developing new products and technologies,” suggests Prof Pangarkar in his paper which was based on survey responses from 94 SMEs.

“I think SMEs should try their hardest to internationalise. Many will be surprised to find that they are quite good – sometimes, SMEs have unfounded fears about their competitiveness. They will also learn new knowledge and get new ideas, which might improve their competitiveness in Singapore,” he says.

GIVING BUSINESSES A LEG UP

As part of efforts to sweeten the deal for companies looking to go overseas, Budget 2015 introduced a host of enhancements to the grants and schemes in IE Singapore’s (IE) arsenal. These include:

- Increasing the grant support level for SMEs for all activities under



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IE’s Market Readiness Assistance (MRA) and Global Company Partnership (GCP) schemes to 70 per cent. The MRA supports specific activities focused on helping companies new to internationalisation while GCP provides customised support for companies to entrench themselves in overseas markets.

- Enhancing the MRA grant to include overseas promotional activities
- Enhancing the Internationalisation Finance Scheme to extend financing to mergers and acquisitions (M&As)
- Enhancing the scope of qualifying expenditure under the Double Tax Deduction for internationalisation scheme
- Introducing a new International Growth Scheme which allows qualifying Singapore companies to enjoy a concessionary tax rate of 10 per cent for a period not exceeding five years

Together, the enhancements to IE’s schemes are expected to provide S\$240 million over the next five years and catalyse up to S\$100 million worth of incremental loans over the next year, says IE.

In 2012, a total of 15,523 companies were helped through IE’s GCP and MRA schemes. In 2014, this figure ballooned to 28,000 companies, of which 80 per cent were SMEs. A total of 342 overseas projects were facilitated last year, compared with 233 in 2012.

“As we grow into the next phase, we feel that local enterprises play an important role in our economy. They provide a lot of jobs for Singaporeans (and) add a lot of value to our GDP (gross domestic product), so having a deep pool of local companies that have a lot of competence, competitiveness on the global stage, and that have resilience is a very important part of our strategy,” says IE Singapore’s chief executive officer, Teo Eng Cheong.

But the chance to obtain such grants should not be the sole reason for SMEs to embark on overseas ventures, cautions Lennon Lee, corporate tax advisory partner at PwC Singapore. “It is important to understand that government assistance grants are meant to help SMEs who already want to internationalise by defraying some of the preliminary costs of doing so. The grants are not meant to push SMEs to test the international waters if they are not ready to do so,” he says.

Indeed, SMEs should consider two factors – opportunity and readiness – before taking the plunge, says Prof Pangarkar. “Opportunity could be more salient because of a lack of competition or possible obsolescence down the road. There are, of course, the usual aspects of growth and profits in opportunity,” he adds.

“Readiness implies whether the company has the management skills to handle the complexity created by an international operation. In some

cases, a company can cultivate its readiness (management skills) as it develops, but these tend to be the exception rather than the norm.”

LAYING THE GROUNDWORK

“On top of accessing overseas market potential, SMEs should study the corporate regulatory and tax environments before jumping into business deals in new markets. Very often, when a company internationalises, there will be compliance and legal costs to note as well as risks to be managed,” says Chiu Wu Hong, head of enterprise incentive advisory at KPMG in Singapore. Specifically, companies should be aware of regulatory issues such as taxation, customs and labour laws.

Often, an important consideration is the type of business set-up (ie representative office, branch, company, partnership, sole proprietorship etc) most suitable to the SME’s immediate requirements and short-term business objectives notes PwC’s Mr Lee.

“SMEs should also find out about operational issues such as the ease of hiring employees, salary benchmarks, availability of suitable office or factory space, the market potential and barriers to entry for new entrants,” he says.

Understanding the tax implications on profit repatriation and personal tax exposure on staff working in overseas locations are other key areas that SMEs should be aware of before they venture into a country. For instance, service fees received by a Singapore SME from its subsidiary/branch in Malaysia are not subject to withholding tax as long as the services are proved by the SME outside Malaysia and the fees are charged at arm’s length, notes Mr Lee.

In comparison, if the same service fees are charged by the SME to its Indonesian subsidiary, the payment is likely to attract withholding tax before the fees can be repatriated from Indonesia to Singapore unless treaty exemption is available. If the tax cannot be fully offset against the SME’s Singapore tax bill (ie by way of foreign tax credit), it will add to the cost of doing business overseas.

It is also wise to plant roots in the country as that allows for a more in-depth understanding of the market and allows the company to keep their ear close to the ground.

Says EY’s Vikram Chakravarty, Asia-Pacific leader, capital transformation: “If Singaporean SMEs want to excel internationally, they need to have local market knowledge and target markets with close proximity to enable this. SMEs need to go beyond appointing a distributor or original equipment manufacturer, instead have a presence locally and invest in the market. They need to be prepared to be bold and possibly consider M&A as a form of market entry.”

To further support companies – especially SMEs – to grow via strategic acquisitions, the M&A scheme has been extended till March 31, 2020. In addition, the tax allowance for acquisition costs was increased from 5 per cent to 25 per cent of the value of the acquisition, capped at S\$5 million. Companies would be able to claim M&A benefits for acquisitions that result in at least 20 per cent shareholding in the target company, down from the previous threshold of 50 per cent shareholding.

Another way in which the government is encouraging internationalisation through M&As is via the extension of the scope of the Internationalisation Finance Scheme (IFS).

A LACK OF TALENT

Despite the carrots being dangled, the level of commitment required – especially on the manpower front – is precisely what keeps some SMEs from venturing overseas, given the already tight labour market in Singapore.

“Many SMEs could already be facing a shortage of management talent in Singapore, and are unable to send staff from Singapore or attract the right talent overseas to help to manage the business operations there,” points out PwC’s Mr Lee.

But having workers on the ground is crucial. “For example, a retail or F&B SME may not be fully aware of customer preferences in an overseas location and thus would hesitate to set up outlets there. For a manufacturing SME hoping to set up an overseas factory, it may be unfamiliar with issues relating to customs regulations and duties, value-added taxes or GST, or labour laws,” says Mr Lee.

As part of efforts to develop a pipeline of mobile workers, IE’s Young Talent Programme matches firms with undergraduates who can be groomed for international roles. The Young Talent Programme (YTP) comprises two components – a market immersion opportunity through overseas exchanges and internships or a mid-term IE-Industry scholarship. The YTP Market Immersion will be extended to students from polytechnics and institutes of technical education from the third quarter of 2015.

Outside of government agencies, professional services organisations have network firms in many overseas locations and have the experience and knowledge to help SMEs as they venture into new markets. This would complement the efforts of IE Singapore and its overseas offices to maximise the chances of success for Singapore SMEs as they venture abroad with suitable tried-and-tested strategies.

Adds Mr Lee: “Attending trade fairs and forums where business owners share their experience on successfully venturing overseas in specific markets would also help to provide direction and guidance for SMEs that want to internationalise.” ■

