PHOTO: ISTOCK.COM/JIRAPONG MANUSTRONG

INNOVATION STRATEGIES FOR SINGAPORE SMEs

They include expanding beyond the small domestic market, finding funding, mitigating liquidity risks and looking for M&A solutions

BY **ANDREW HARE**

SMALL and medium-sized enterprises (SMEs) in Singapore are competing in an increasingly challenging business environment. The business world provides many examples of companies that failed to innovate and meet customers' needs: Toys 'R' Us, the children's toy store in the US, closed its doors for good last July after failing to reinvent itself. BlackBerry, a world leader in smartphones and tablets in the early 2000s, faded out after ignoring consumer demands for easier touchscreen displays.

SMEs in Singapore are also not exempt from the call to innovate and keep up with the times. Failure to do so tops the list of risks that these enterprises face in today's challenging business environment, Aon Inpoint's 2019 *SME Insurance Survey* found.

Compared to the manufacturing and construction industries, businesses in the service industry – wholesale and retail trade, information and communications, and professional services – are more concerned about this risk, potentially due to the client-facing nature of the service industries.

The economic importance of the SME segment has been rising over the past years – a trend not necessarily seen in other markets. SMEs account for around two-thirds of all employment and contribute just short of S$200 billion to the Singaporean economy, says the Singapore Department of Statistics.

The government recognises the challenges faced by this key part of its business community and as a result, has focused its national budget on helping SMEs in their quest for innovation and growth.

Under the SMEs' Go Digital programme, these enterprises can look forward to subsidies of up to 70 per cent on the cost of tools supporting cyber security and artificial intelligence. So far, the scheme has helped about 4,000 SMEs in Singapore in basic automation.

The Automation Support Package announced in Budget 2016 will be extended by another two years until March 2021, to give SMEs better access to loans for qualifying technology projects, with the government sharing risks with participating financial institutions and jointly providing up to 70 per cent of the cost.

With the Singapore government playing a critical role in creating a healthy ecosystem where SMEs can thrive, these enterprises have demonstrated increased resilience relative to other countries and regions. However, they still need to think of creative ways to continue innovating and staying relevant in today's disruptive world of business.

For Singapore SMEs, contending with the accelerating speed of change is increasingly difficult, especially within a limited domestic market. With relative proximity to, and the considerable potential market size of countries such as China, Indonesia and Vietnam, overseas expansion is the logical next step for SMEs – particularly those which have already accomplished sustainable scale in their home market.

Aon Inpoint's survey found that around half of the polled firms are considering expanding overseas. More than 60 per cent of companies with a turnover of more than S$10 million already have an international footprint; but only a quarter of the companies with a turnover below S$1 million operate beyond Singapore.

However, internationalisation is hard to achieve for many SMEs. It is difficult for business owners to find time to consider and implement new ideas beyond managing the challenges of day-to-day business, let alone find ways to increase capital. Despite strong governmental support, lack of funding is a major challenge for SMEs to adapt and innovate.

Aon's study shows that more than 60 per cent of SMEs are seeking external financing to power their growth plans and to help with cash flow management as a result of delayed payments from customers.

Lending data shows that the relaxation of restrictions by the Monetary Authority of Singapore has led to an increase in the number of SME lenders; Grab, for example, recently made a foray into the lending business and has helped SMEs with cash flow financing.

However, cash flow and liquidity risks continue to be among the top 10 risks faced by SMEs in Singapore, indicating that more can be done. The impact of a financial loss can be devastating to an SME – so ensuring optimal coverage against property damage or employers' liability, for example, is critical.

Cash flow and liquidity risks can also be mitigated with the help of trade credit insurance, surety and bonds to ensure that SMEs have sufficient balance-sheet and cash-flow protection. SMEs can also look for mergers and acquisitions (M&A) solutions around due diligence and transaction liability insurance.

Leveraging available resources, having a deep appreciation of evolving risks, and acting in timely fashion to mitigate them can make or break business ventures. As SMEs look to innovate and internationalise, they must have the right risk-management process in place to create a thriving and innovative environment as they continue to play an increasingly important role in the new global economy. ■

The writer is managing director, Asia, Aon Inpoint
This article was first published in The Business Times