

SBF National Business Survey 2014/15 Executive Summary

SBF members polled during the survey period September through November 2014 indicated that the global and Singapore economic outlook was positive, although the latter was slightly subdued. Curbs on foreign labour and a tight labour market were the likely contributory factors for the muted local outlook.

Mirroring the generally positive outlook in both the global and domestic market, a higher 56% of SBF members are expecting to be profitable in 2015. However, one in ten expects to be in the red, due to rising business costs.

High Labour Costs (83%) has once again emerged as the top challenge for SBF members in the next six to twelve months. The roll-out of the final phase of the Dependency Ratio Ceiling (DRC) for foreign workers and an ever tightening labour market are putting a strain on labour supply and raising labour costs.

Although fewer SBF members are seeing increasing competition as a key challenge in the next six to twelve months, it continues to rank within the top three challenges faced by members. Higher operating costs in part heightened by labour costs may be causing Singapore businesses to be less competitive in the international arena.

Amongst *Sales Related* challenges, the increasingly competitive business landscape remains the top concern for SBF members (62%).

High Labour Costs (86%) are again the top *Cost Related* concerns of SBF members. Other than higher foreign worker levies, the imposed quota and resulting tightening of the workforce have led to further increases in the labour cost. This is followed by 49% citing *High Rental Costs* as a key issue.

Operational costs in the current business environment have been consistently rising resulting in 97% reporting increases in their *Total Operating Expenditure per Dollar of Sales*. There is little respite for companies in the short term as there is only so much a company can do to reduce costs by managing overheads. Gains from productivity improvements and realignment of operational processes generally take a longer period for results to show.

Wages (91%), *Rental of Premises* (54%) and *Foreign Worker Levy* (48%) are the cost components that have the greatest impact on SBF members' cost competitiveness.

Financing Issues faced by SBF members have remained largely unchanged, with the tightening of access to credit (48%) and higher interest rates (47%) being the top 2 challenges.

Uncertain economic conditions continue to top the *General Issues* faced by SBF members. However, manpower related issues in the form of *Foreign Staff Issues* (▲7%) and the lack of manpower capabilities (▲11%) are a growing concern amongst more SBF members.

The majority (71%) of SBF members will continue to improve their cost efficiency as well as productivity in 2015, making it the key strategy for the year ahead. Other than introducing measures to streamline processes and improve productivity, 47% of SBF members will consider providing customers with a more diverse range of products/ services.

More companies are adopting a strategy of focusing on differentiated and niche product/ service ranges rather than spreading their resources too thinly. This was consistent with the result of the SME Development Survey (SMEDS) 2014. We observed that almost a quarter of SBF members will be reviewing their current business model.

Slightly more than two fifths (42%) of SBF members will explore ways to retain current staff as well as to fill existing staff positions. In light of the tight labour market, a key concern for respondents is the ability to retain their current talent and the replacement of those they have lost. Fewer (▼6%) will be looking to *Source for Cheaper Raw Materials/ Final Products*.

Majority (70%) of SBF members have strong consistent plans to increase investments for business expansion in 2015. To boost productivity, 54% will be looking to expand the capabilities of their employees. More will consider procurement of new machinery and equipment next year.

With a small domestic market, it is encouraging to see more SBF members exploring new business opportunities overseas. 72% indicated that they have overseas presence, up 10% over the previous year. *Asia* (97%) continues to be the region of choice; followed by *Europe* (18%) and *Middle East* (17%).

As a result of the slowdown of the European and Americas economy in 2012 and 2013, the number of SBF members with presence in these two markets stayed depressed in 2014. *Malaysia* (67%) remained the choice destination amongst SMEs. This year, *Indonesia* (53%) has replaced *China* (including *Hong Kong*) (52%) as the second highest destination that SBF members are currently engaged in.

Of the 72% of SBF members that have overseas engagement, more (▲8%) are generating up to 50% in turnover from abroad. While more are going overseas, the competitive landscape overseas meant that fewer are able to grow their overseas revenue.

When operating abroad, competition from established players in the market is the top concern for SBF members. This is followed by *Unclear Rules & Regulations* and *Lack of Overseas Business Knowledge & Information*, both at 33%. Companies that did not have sufficient knowledge of the business environment rose by 8% this year.

59% of SBF members felt that the pace of restructuring is just nice for their businesses. However, about a third (31%) shared that the current pace of restructuring is too fast for them.

91% of the SBF members commented that they are affected by the economic restructuring, with 79% reacting by adopting various measures, such as investing in staff productivity and streamlining processes. Of concern, 12% have done nothing to overcome the impact of economic restructuring.

In response to the economic restructuring, nearly half of the respondents (47%) have / are intending to invest in staff productivity/ upskill staff. 46% will also be relooking at their processes, while 1 in 10 is considering relocating their operations, either locally or overseas.

With tighter foreign workforce policies, most companies are expecting changes in the local / foreign ratio make up of their staff composition in 2015. Overall, the employment of local staff will see a net increase of 33%, while deployment of part-time / contract staff will also go up by a net increase of

17%. However, there will likely be an overall net decrease of 14% in the foreign workforce in the coming years.

Amongst the schemes introduced and enhanced in 2014, 88% are aware of the PIC scheme and its changes. Equally popular are the other two productivity related schemes - *Extension of Tax Deduction on Qualifying R&D Expenditure* (43%) and *ICT for Productivity & Growth Programme* (39%).

With enhancements made to the existing schemes, more have found this year's Budget to be more useful (▲ 14%) and more in line with the needs of their businesses. In general, the reformed measures in Budget 2014 have delivered more specific assistance to businesses, hence benefiting the companies and enabling them to better cope with the restructuring.

SBF members also shared their Budget 2015 wish list. *Reducing business costs* (62%) remained the top concern for most SBF members, while 34% wish Foreign Worker Policies to be more granular. Amongst SBF members that have asked for Budget 2015 to help reduce business costs, the key area was Rental Related issues (30%). 13% have also cited that they would like to see a reduction in government (compliance) costs.

Of note, more than half of the members chose *Training & Skills Development* (56%) as the key area for productivity improvement. Other than improving the skills of workers, close to half of the members have also shared that retaining workers (44%) is a key drive to improving overall productivity in the company.