

SBF NATIONAL BUSINESS SURVEY

2015/2016

EXECUTIVE SUMMARY

Survey Initiated by:



Research Partner:



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Business sentiments collated during the survey period found that there are pockets of business optimism and confidence in Singapore's economic growth among companies for 2016. 4% are *Very Optimistic* about their outlook for 2016.

However, costs continue to be a concern as more companies (▲ 7%) have concerns about going into the red in 2016.

High wage costs continue to top the list of business concerns for companies, albeit at a lower 70% this year. Improvements in operational processes through automation and productivity investments may have enabled more companies to manage manpower costs more efficiently.

While increasing competition falls out of the top 3 business concerns, the rising prominence of an uncertain global economy has increased to 58% this year, climbing to the second spot of challenges most sensed by companies.

93% of the respondents are facing at least one *Sales Related Issue*. Companies are now more concerned by the slow growth in sales as compared to increasing competition. At 66%, *Slow Growth in Sales* replaced *Increase in Competition* as the top *Sales Related Issue*.

Of concern, more companies are facing delays in projects as well as payments from customers, raising potentially adverse cash flow concerns for these companies, especially when 48% are expecting reductions in their gross margin.

Cost Related Issues have affected 91% of the respondents in 2015 (96% in 2014). High manpower cost continues to be a challenge, though affecting a slightly lower 84% this year. In this aspect, slower turnover growth coupled with improvements in business processes through automation and productivity investments may have helped companies alleviate the issue of *High Labour Costs*.

Domestic property and rental market have generally cooled in recent times but *High Rental Costs* continue to trouble 51% of the companies. Falling oil prices have meant that fewer are now troubled about *High Oil Prices* (▼ 4%). This, combined with a slower global economy has also led to fewer challenges surrounding *High Transport Costs* (▼ 8%) this year.

Majority of the respondents reported higher operating costs per dollar of sales this year, aggravated by increases in areas like manpower and rental. Most companies are experiencing up to 30% increase in this year's *Total Operating Expenditure per Dollar of Sales* (88%). Additionally, a higher 5% reported more than 50% increase in their total operating expenditure (▲ 2%) compared to 2014, suggesting potential concerns.

Looking more in depth into the cost components affecting profitability, *Wages* continue to have the greatest impact, affecting 84% of companies. However, fewer consider the *Foreign Worker Levy* as one of the top cost component (▼ 7%) as more have capped their hiring of foreign staff. Amid lower oil prices and slower global trade volume, it is observed that fewer (▼ 9%) companies have listed *Transportation Costs* as a key component affecting profitability.

At 53%, more companies are facing *Financing Issues* this year. Most companies are most troubled by more expensive bank loans (56%) this year. More companies have also found it hard to renew financing (▲ 3%). An increase in the proportion of companies facing difficulties obtaining new bank financing (▲ 5%) was also observed. The slower economy has likely led to more cautious lending by banks, alongside rising interest rate for approved loans.

Uncertain Economic Environment continues to dominate the minds of companies, with more firms (▲ 11%) indicating it as a key *General Issue*. With a high level of overseas engagement among companies, firms affected by currency fluctuation are also observed to be higher this year at 41%. Comparatively, fewer firms are observed to be challenged by the lack of capable manpower / skillset to improve performance this year (▼ 9%).

With most having already *Increased Cost Efficiency / Productivity* the year before, fewer (61%) companies will continue to focus on improving their company's cost efficiency / productivity in 2016. Encouraging to note, more companies are moving away from trying to sustain their business by cutting costs (i.e. *Source for Cheaper Raw Materials / Final Products*), down 11% to 26%. More instead will be relooking their business models for new ways of doing business (▲ 6%) and also continuing to invest in *Brand Development* (28%) so as to grow their revenue sources.

Despite the uncertain economic environment, the proportion of companies that will be looking to *Slow Down in Overseas Business Activities* as a business strategy has remained relatively constant at 5%, suggesting the importance which most companies place on the overseas market. Fewer are likely to further expand in the destination market (▼ 3%).

Despite rising global economic and geopolitical uncertainties, close to 3 in 5 (59%) are planning to increase their investment for business expansion in 2016 (▼ 11%). Of those investing, most will be doing so in the area of training and upgrading employees (50%). More will also be channelling funds towards improving productivity (*Upgrading Employees, IT Infrastructure and Machinery & Equipment*).

Majority (67%) of the respondents have a presence in overseas markets, though the current global trade slow down and uncertainty might have contributed to the slight decline from the previous year's survey. *Asia* (95%), due to its market proximity and similar culture / language continues to be the top engaged region for companies. Stabilisation and signs of normalcy in economies in *Europe* and the *Americas* have helped in pushing up presence in these two regions as companies take a renewed interest.

Within *Asia*, *Malaysia* (60%) continues to be the Asian country of choice for most companies. Factors like proximity and culture / language similarities have likely encouraged companies to have engagements in *Malaysia*. However, the recent political instability might have caused some companies to reconsider their position (▼ 7%). Greater China moved up to second position in terms of overseas engagement, with 52%. Despite the slowdown in the Chinese economy, its market attractiveness has maintained companies' interest in the country.

For future ventures, respondents are looking into the Mekong region, *Myanmar, Vietnam, Cambodia* and *Laos*. The ASEAN Economic Community 2015 has also encouraged continued interest in the *Philippines* and *Thailand*.

Distribution of turnover generated overseas has remained similar to that of 2014, with 35% reliant on overseas markets for the bulk (>70%) of their revenue.

Looking at the challenges faced overseas, competition from established companies in the destination market continues to be the key concern (47%). More are also tested by the *Unclear Rules & Regulations* (▲ 6%), *Compliance Issues* (▲ 4%) and *Bureaucracy* (▲ 2%) in their destination countries. Encouragingly fewer are constrained by the *Lack of Overseas Business Knowledge & Information* (▼ 9%) and the *Lack of Business Contacts* (▼ 2%).

About three-quarters (76%) of companies are somewhat aware of AEC, a significant increase from 2014. With general awareness up, focus could be more on helping companies have an in-depth understanding so as to be able to identify potential areas of business opportunities.

The Government has been pushing out measures to re-engineer the Singapore economy for productivity led growth. After the few years of restructuring, companies have begun to adjust and cope with the changes. Fewer companies find the pace of restructuring to be *Too Fast* this year (▼ 6%).

Of the 66% of companies affected by the economic restructuring and who have current strategies or in the planning stages of adopting restructuring measures, slightly more than half (52%) will be looking to *Streamline Operations / Processes*. 41% will be investing in employee training to boost productivity, the second most adopted measure for this year.

In line with the overall business strategies where more companies will be looking to undertake in 2016, there was a minor increase in the proportion of companies that either have or are looking to *Restructure Business / Operations* (▲ 3% to 40%).

With reference to Budget 2015, 73% are aware of at least one initiative. However, more are unsure of the usefulness of the current Budget.

The level of awareness is highest for *SkillsFuture Earn & Learn* (50%), *Enhanced Subsidies for Mid-Career Singaporeans* (47%) and *SkillsFuture Leadership Development Initiatives* (43%). On the other hand, few see relevance in the *Increase in Co-Investment Cap of Start-up Enterprise Development Scheme (SEEDS)* (39%), *Top-Up & Increase in Co-Investment Cap of Business Angel Scheme (BAS)* (39%) and *Extension of the Angel Investors Tax Deduction (AITD) Scheme* (38%).

Among the various initiatives, *SkillsFuture Leadership Development* has interested the highest proportion of companies (59%), followed by the *SkillsFuture Earn & Learn Programme* with 58%.

For the 71% that are facing challenges when applying for Government assistance schemes, more have highlighted the inapplicability of schemes as the main issue (49%). About 3 in 10 (31%) also mentioned that they lacked the bandwidth to apply for Government assistance schemes.

For Budget 2016, most have continued to ask for assistance in the areas of reducing business costs (56%). Though, the call for such measures has fallen over the years as the Government has introduced new initiative / enhancements to existing schemes.

More companies are also hoping that Budget 2016 will help them invest in the training and development of their PMET employees (29%, up 12% from 2014). In addition, calls for greater assistance in the areas of *Financing* (▲ 10%) and capability building (▲ 9%) were also observed. Schemes catering to more business / industry-centric foreign worker policies (25%), R&D and Innovation (23%) and *Overseas Business Expansion* (23%) were also on the wish list.

Among the companies that feedback in the area of reducing business costs, about 3 in 10 hope for schemes in Budget 2016 to help in reducing *Land / Rental Related* costs. In the areas of the training and development of PMETs, *Greater Funding / Incentives / Subsidies / Tax Rebates* would be helpful to more than half (55%). This is also true in the area of capabilities building.

Companies see training & development, manpower and culture as the 3 pillars in improving productivity. *Training & Skills Development* remains the key area that companies would like assistance in.

CSR aims to embrace responsibility for corporate actions to encourage a positive impact on the environment and stakeholders including consumers, employees, investors, communities and others. Companies now have a wider understanding of Corporate Social Responsibility.

While most continue to associate CSR with *Environmental Awareness Programmes* (59%) and *Corporate Philanthropy / Donations* (51%), more are now associating CSR with *Fair Employment, Sustainable Development* and *Anti-Corruption Policies*.

More companies have a formalised CSR / Corporate Sustainability Policy in place (41%, up 9%). Of the 41% that have a formalised CSR / Corporate Sustainability Policy, slightly more than half (53%) have direct management support in the shaping of CSR agenda.

More companies now have a *Dedicated CSR-focused Officer / CSR Department* (▲ 3%), suggesting more companies are seeing the importance of having CSR / Corporate Sustainability Policy in place, as a way to relate to changing customer expectations.

In terms of the assistance that companies are hoping for, 74% of companies hope for *Funding / Incentives Schemes* to help them with their CSR Implementation. More companies are also looking for *Online CSR Information / Resources* to assist them in their CSR implementation, suggesting a potential lack of a one-stop platform for those engaging in implementation.