

## Big Challenges, Small Businesses

With the emergence of new global economic trends, SMBs face a whole new set of key business challenges today. How should business owners react?



### TRENDS AND EVOLUTION

Once upon a time, they had a dream. This dream has seen owners of Small- and -Medium Businesses (SMBs) capitalising on the economic climate of shortened product life cycles and extending their reach via technology innovations and strategic alliances. It has also taken advantage of its diversity and its status as a dynamic and flexible stratum of the economy. This has witnessed the big boys having their hands full with the countless bands of anonymous Small Medium industry counterparts intruding into their market conquests for a share of, and threatening to make them eat, humble, pie.

However, this dream has diminished with the current economic downturn presenting a new challenge – the call for SMBs to remain competitive and productive with particular emphasis on return on investment (ROI) has never been greater, as well as the demand for new cost-cutting measures to streamline operations.

### KEY BUSINESS CHALLENGES FOR SMBs – OLD AND NEW

According to a study in the millennium on SMBs by Arthur Andersen<sup>1</sup>, a 60 percent majority of SMB owners considered “finding and retaining qualified workers” as the most significant challenge to the growth and survival of their business. 35 percent of SMB owners ranked the ever-changing “governmental regulations” which affected their business practices at second, 29 percent ranked “economic uncertainty” concerns third, 28 percent ranked “keeping in touch with technology” a close fourth, and 27 percent concluded the list of key challenges with their concerns for “access to adequate capital”.

On managing their limited resources, a recent survey in 2009 found top marketing concerns in SMBs to be “funding new projects” (24 percent), “growing their business with limited resources” (15 percent) and “increasing awareness” (15 percent).<sup>2</sup>

<sup>1</sup> “The Challenges Facing Small Businesses”, Isabel M Isidro, 2000  
<http://www.powerhomebiz.com/vol11/challenges.htm>

<sup>2</sup> *Marketers and SMBs disconnect over online tactics*, Bredin Business Information, 2009

## THE FINAL SOLUTION TO THE EMPLOYEE PROBLEM



Albeit the fact that the recession has shrunk the global economy and employment has dipped into abysmal levels, experts and national governments still recognise that there was a greater demand than ever in SMBs for more resources – to the extent that SMBs might actually grow in terms of employment despite tough times. According to a study by New York-based Access Markets (AMI) Partners in Mar 2009, about 10 percent of SMBs in India are still planning additional hires.<sup>3</sup> In another UPS Asia Business

Monitor, it was found that 63 per cent of Asian SMBs said that they will keep their workforce and about 20 per cent even intend to increase staffing.<sup>4</sup>

More so in these tough times, SMBs can take a leaf out from the books of the big boys in recognising the importance of retaining instead of retrenchment, as in the case of top Singaporean media companies Mediacorp and Singapore Press Holdings (SPH). Top-down reductions in salaries were introduced in SPH and for Mediacorp, a reduction in wages was compensated for a shorter work week. This prevented the layoffs and enabled the organisations to retain their top talents.

However, SMBs play a totally different ball game in terms of resources – for example, level of wages and benefits offered to employees. SMBs are also unable to provide the same depth of knowledge or experience for employees to make a transition in terms of job mobility. The lack of skilled employees will see additional costs for SMB owners in terms of money and time spent in recruitment and training. Hence, the challenge for SMBs to hire and retain skilled workers witnesses a greater challenge, especially more so currently with the reduction in resources due to the economic downturn. Moreover, together with the number of SMBs venturing into the rising China markets, the additional element of the cultural factor makes an employee the hottest SMB commodity more than ever.

## WINNING THEM OVER AND KEEPING THEM

SMB owners can retain and attract skilled workers by: giving them the chance to learn leadership skills, letting employees feel passionate about their jobs, keeping the challenges coming and not making the job routine and giving employees that sense of personal pride by not treating their jobs as “just a job”. In addition, by rewarding top performers, providing mentors for young talent to learn the ropes and business culture and by treating all employees fairly, SMBs can show employees that their talent is valued.

In a 2008 employment study<sup>5</sup>, findings shown that top organisations are 62 percent more likely to employ assessment and test-building software to support placement efforts. The key for SMBs is to recognise the state of their current talent base and access the gap against defined competency and industry benchmarks. In order to build and maintain a competitive position, operation metrics for pre- and post-hire must be in place, together with accurate knowledge to attract, retain and develop talents who will exert that impact on efficiency and productivity ratios for the SMB.

<sup>3</sup> “10% Of India SMBs Look To Increase Staff Amidst Recession”, SearchSMBAsia, 2009  
<http://www.searchmbasia.com/content/10-india-smbs-look-increase-staff-amidst-recession>

<sup>4</sup> “UPS Asia Business Monitor 2009”, UPS, 2009 [http://www.iadvisory.com.sg/upload/upspc\\_27may09.html](http://www.iadvisory.com.sg/upload/upspc_27may09.html)

<sup>5</sup> “Assessments: Hiring, developing and retaining an optimum workforce”, Aberdeen Group Research Study, 2008  
[http://www.aberdeens.com/launch/report/research\\_previews/5932-RP-hire-retaining-workforce.asp](http://www.aberdeens.com/launch/report/research_previews/5932-RP-hire-retaining-workforce.asp)

## THE GOVERNMENT ROLE



Globalisation has affected SMBs drastically, especially those in the manufacturing sectors. For instance, multi-national treaties like the Kyoto Environmental Treaty have driven the costs of imported goods to an all-time low. SMBs depend on their government as negotiators to enforce strong legislation to compete effectively in foreign markets. Owners should actively monitor and seek to influence the priorities of these negotiators to protect their business' vested interests. SMBs can always look to their government for support and should actively lobby for win-win opportunities, as in the case of the Singapore infocomm Technology Federation (SiTF) in Singapore lobbying for the government to place greater focus on market creation and continue to promote Singapore as an IT hub.<sup>6</sup>

Governments are expected to play a critical role in supporting struggling Asian SMBs – not only to endure the current crisis, but also to strategically position them when the economy rebounds. Some of the SMB leaders' main concerns on governmental support are: better access to capital, financing or loans for SMBs, education and training, and research and development.<sup>7</sup>

In a recent event led by the Malaysia's Small and Medium Industries Development Corporation (SMIDEC), nine recommendations were suggested on how governments could help.<sup>8</sup> The key points included: increasing capital investment and lending to SMBs in the ICT sector, reserving a percentage of government procurement in ICT for SMBs, as well as helping universities and other educational institutions in providing SMBs with the necessary tools and activities for research and development initiatives.

A most recent form of support by the government for businesses occurred also in Singapore; where the government introduced an initiative worth \$20.5 billion to boost business competitiveness and job security in a recessionary environment.<sup>9</sup> Others in the region include Phillipines – where a planned increase in IT spending by the government has led SMBs to look towards the public sector for lucrative business opportunities.<sup>10</sup>

## OVERCOMING ECONOMIC UNCERTAINTY

The banks and other financial institutions are tightening their pursestrings cautiously, and this credit crunch has led to a low level of consumer confidence and an overall pessimistic economic outlook. Together with a business climate becoming increasingly volatile, SMBs face changes – unpredicted and unplanned – due to environmental influencers. However, there are three key words that will help the SMB owner manage economic uncertainty, and they lie within the “financial planning”, “budgeting” and “forecasting” business framework.

<sup>6</sup> “SiTF urges Singapore government to support businesses”, ZDNet Asia, 2009, <http://www.zdnetasia.com/techguide/smb/0,3800010798,62050077,00.htm>

<sup>7</sup> “UPS Asia Business Monitor 2009”, UPS, 2009 [http://www.iadvisory.com.sg/upload/upspc\\_27may09.html](http://www.iadvisory.com.sg/upload/upspc_27may09.html)

<sup>8</sup> “Govts urged to help SMEs through downturn”, ZDNetAsia, 2009 <http://www.zdnetasia.com/news/business/0,39044229,62054771,00.htm>

<sup>9</sup> “New Singapore Budget focuses on job retention”, ZDNet Asia, 2009, <http://www.zdnetasia.com/techguide/smb/0,3800010798,62050285,00.htm>

<sup>10</sup> “Government IT spend bright spot in Phillipines”, ZDNetAsia, 2009 <http://www.zdnetasia.com/news/business/0,39044229,62054015,00.htm>



In a recent 2008 “Financial Planning and Budgeting” study, findings revealed that “the need to improve agility to adapt plans and budgets as conditions change” was ranked a high second by 37 percent of respondents.<sup>11</sup> The ability to forecast accurately will enable SMBs to differentiate between opportunity and cost. The penchant for SMB owners to reduce expenses heavily in current tough economic times may see a potential “missed” or “lost” opportunity. In order to prevent this,

the study also provided solutions which include: developing and automating budget and forecasting workflow processes that can re-forecast as the market changes, creating “what-if” scenarios and performing change analysis, and tracking actual performance against budget or forecasting, complete with multi-dimensional reporting and appropriate drill-down to detail.

In another report based on an industry roundtable hosted by Microsoft<sup>12</sup>, three main solutions were identified that can assist SMBs in overcoming economic uncertainty include: managing cash flow efficiently, maintaining core competency and understanding and retaining customers.

## RIDING THE VIRTUAL WAVE

SMBs are traditionally laggards of technology due to the high costs of keeping abreast with advances relative to their industry competitors. However, with initiatives like the Singapore government’s iN2015 – a 10-year blueprint that encourages all organisations to integrate information technology into every aspect of their business, it is no wonder that more global SMBs are riding the virtualisation wave as represented by a reported US\$12.5 million invested by SMBs in the 10 nations of South East Asia<sup>13</sup> and a whopping US 11.6 billion by SMB retailers in Asia excluding Japan<sup>14</sup> on technological infrastructure closing 2007.

SMB owners should take note of this technological trend and invest prudently as in the footsteps of the following Asian SMBs.

## LOSING COSTS WITHOUT LOSING EDGE

For Ueno Fine Chemicals, one of Thailand’s leading SMBs and manufacturer of sugar alcohol, embracing and investing in IT also meant streamlining business processes and increasing productivity for its expanding operations. Its implementation of the Lawson M3 Enterprise Management System saw the integration of its financial management, customer order management, procurement, manufacturing and planning activities.

For service-oriented SMBs, whether dealing in furniture, machinery, chemicals or F&B, its success depends on the adaptability and flexibility to demands from the supply chain. In order to differentiate from competitors while improving operating efficiencies, communications with suppliers and cost control, access to real-time information about the availability, level, and delivery of inventory is a must-

<sup>11</sup> “Financial Planning, Budgeting and Forecasting: Managing in Difficult Economic Times”, Aberdeen Group Research Study, 2008, [http://www.aberdeen.com/launch/report/research\\_previews/5919-RP-planning-budgeting-forecasting.asp](http://www.aberdeen.com/launch/report/research_previews/5919-RP-planning-budgeting-forecasting.asp)

<sup>12</sup> “Top SMBs find ways to prosper in economic uncertainty”, Erin Bell, 2009, <http://www.connectitnews.com/usa/story.cfm?item=2958>

<sup>13</sup> “SMB Spending To Soar In South East Asia”, Jeff Kelly, SearchSMBAsia, 2007 <http://smb.blogs.techtarget.com/2007/05/10/smb-spending-to-soar-%E2%80%A6-in-southeast-asia/>

<sup>14</sup> “Asian SMB Retailers To Spend US11B On IT”, Isabella Chan, ZDNetAsia, 2007 <http://blog.arnora.com/post/2007/03/21/Asian-SMB-retailers-to-spend-US11B-on-IT>



have. Other service offerings such as providing online inquiries and convenience in transactions are value-added elements for customers.

Singapore Cruise Centre is one SMB which took on the SAP Business All-in-One solution to integrate both its front- and back-office processes to ensure smooth operations.<sup>15</sup> And for the International School of Bangkok, it implemented the INSIDE Contactless technology into its operations to become one of the world's first completely cashless campuses.<sup>16</sup> Not only have the usual long queues during lunch times in the canteens disappeared, but also, the administrative burden, costs and congestion have been eliminated as with cash from its operations.

These examples only portray a fraction of the infinite capabilities and potential of virtualisation for SMBs. Other examples of technology include e-procurement, online portals to increase online presence, as well as supply chain management solutions – all of which ensure saving time and operating costs while optimising marketing efforts and in turn, profits.

## MANAGING CASH FLOW

In any business, access to cash is integral for success, and this can mean making or breaking the business, which is also the reason why access to capital remains one of the key concerns of SMB owners. A hypothetical situation for a SMB would be a typical business transaction worth \$1 million, with production costs standing at \$100,000. However, the costs have to be borne upfront by the SMB, and the customer can only pay months later. The business will go bust while waiting for that amount to arrive.

Industry experts have suggested various ways by which SMBs can better manage cash flow.<sup>17</sup> They include: a regular forecast and monitoring of finances, sales and expenses, leasing expensive office infrastructure instead of purchasing, maintain a tight system of payables and receivables, and establishing a cash reserve or backup finances – all of which points towards a sound system of accounting in the SMB.

<sup>15</sup> "How Singapore Cruise Centre did it", SAP, 2008,  
<http://www.searchsmbasia.com/content/how-singapore-cruise-centre-did-it>

<sup>16</sup> "Bangkok International School deploys cashless contactless payments", SMBAsia, 2008,  
<http://www.searchsmbasia.com/content/bangkok-international-school-deploys-cashless-contactless-payments>

<sup>17</sup> "10 tricks to keeping your cash flow healthy", Jenny McCune, 2000,  
[http://www.bankrate.com/bnm/news/biz/Cashflow\\_banking/20000310.asp](http://www.bankrate.com/bnm/news/biz/Cashflow_banking/20000310.asp)

## HEROES EMERGE IN ANARCHICAL TIMES



Rather than imposing drastic measures like jumping on the layoff bandwagon, the key for SMB owners is to recognise these challenges and answer that call for counter measures accordingly, towards keeping their establishments lean, but optimised, and mean enough to take on the rocky roads ahead. Cutting overheads in every way may seem like the only right thing to do, but “attack” is also “the best form of defence”. SMBs should continue their constant quest for opportunities and take advantage of them in a timely fashion. As the world looks forward to that silver lining in cloudy times, it is time to take a pro-active stance towards sound investments in IT to increase business efficiencies depending on the type of industry the SMB is in and emerge victorious from the current economic rubble.

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