



## ASIAN TRADE CENTRE



# CHALLENGES OF SMALL & MEDIUM SIZED ENTERPRISES IN E-COMMERCE IN ASIA

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## USE CASE STUDIES

Small and medium sized enterprises (SME) in Asia face a wide variety of challenges. Despite being the backbone of nearly every economy in the region, accounting for upwards of 97 percent of economic activity, smaller companies often struggle. Many go out of business while others fail to make the leap from small size to greater economic growth.

One extremely promising avenue for smaller firms looking for new opportunities is using e-Commerce as a platform to reach suppliers, vendors, and customers. Firms using e-Commerce do more than simply sell goods online. Especially for smaller firms, e-Commerce can be used for both business-to-business (B2B) and business-to-consumer (B2C) outreach. The costs of doing business online can be significantly lower and the time savings for firms with limited manpower can be even more critical.

However, firms in Asia continue to face a variety of obstacles to growing their businesses. This set of case studies represents a first-cut at looking at some of the key challenges that SME have encountered in e-Commerce. Addressing these issues requires a broad, cross-cutting view of the problem since firms are not just confronting problems of goods trade or payments but an interlocking web of concerns.

This report concludes with a project proposal covering many of the issues experienced by SMEs. These policy recommendations should be included in any future trade agreements covering the sector to encourage the growth and development of small firms in Asia. The proposal urges governments in the region to consider obstacles to SME growth and development in e-commerce caused by blockages in information flows, problems around the movement of goods with a particular emphasis on moving smaller size or value items, hassles in getting or receiving services

since many smaller firms are in the service sectors, and issues related to payments.

## SMES FACE CHALLENGES

The companies involved in the case studies identified multiple challenges. These include the following issues:

- *High fees attached to payment mechanisms.* This includes requiring companies to rent multiple terminals for use on site and high charges for online card payments. In some web platforms, only certain payment systems are allowed, which may be problematic given the government regulations in some countries around payments. Strengthened consumer associations may help to address some of these issues.
- *Time-consuming and lengthy processes to access government assistance.* Consolidate various government assistance programmes into an easier-to-use system for small firms. Productivity grants may be better targeted solely at productivity enhancements for workers rather than tied to hiring practices or linked to replacing workers with technology.
- *Manpower challenges* of all types, including the ability to hire sufficient numbers of qualified staff at reasonable wages. This is a particular problem in Singapore with the tightening access to foreign manpower, but struggles over staffing may be increasing elsewhere in the region as well.
- *Escalating costs.* Again, this issue may be particularly relevant for Singapore, but firms trying to hold or maintain retail space as well as warehouse or factory facilities are



forced to consider and try to adjust to rapidly rising rental costs.

- *Problems of renting.* In addition to rising costs, firms also struggle with short term leases (generally no more than 2-3 years) that make planning for the future very challenging. The costs attached to moving and fitting out new facilities can be high. In Singapore, the lack of an escrow system also means that firms cannot count on using the returned deposit funding to pay the deposit on a new space.
- *Issues with land acquisition.* Smaller firms are likely to struggle as well with buying property, particularly in countries that have complex rules around foreign acquisition of land. Ceilings on foreign equity can be managed, but smaller firms have fewer resources and high legal costs can be insurmountable.
- *Lack of knowledge of online platform options.* It is likely that online platform solutions are available in the region at reasonable cost. However, smaller firms do not have the knowledge to take advantage of these options or do not have the ability to customize existing platforms to meet their specific requirements.
- *Maintenance of web platforms is difficult.* Once a firm creates a viable website for e-Commerce, maintaining the site can be extremely difficult. This issue ties back into manpower problems, but getting staff to keep the site up to date can be too expensive.
- *Classifying service suppliers is a challenge.* For some companies, classifying what services they deliver is difficult. For example, the company profiled below engaged in

property transactions has been classified as different types of service providers depending on the government agency involved—in some areas they are an online provider counted as an Internet company, in others they are a real estate firm.

## PROJECT SPONSORS

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The Asian Trade Centre was launched in Singapore in 2014. It serves as the resource for trade-related activities in Asia. This includes:

- Increasing capacities and knowledge of government and business leaders through training, workshops and seminars;
- Building bridges between government and business to foster the growth of trade in the region;
- Leading world-class research projects; and
- Conducting outreach to the media, business, NGOs and the interested public on trade issues.

The Centre pulls together the best possible team of experts from around the world on any given project to deliver the highest quality product to our partners and stakeholders.

The Asian Trade Centre is the premier independent advocate for growing trade in the Asia Pacific region. Funding comes from corporate partners, governments, foreign aid agencies, and international organizations.



## CASE STUDY: BUYING OR LEASING PROPERTY ONLINE IN SOUTHEAST ASIA

### Company Description

The company was started in Singapore in 2007. Now, with expansion to include Malaysia, Thailand and Indonesia, the company's website is used by more than 10 million people per month to buy or rent property.

At the time of the company's launch, there were no similar services offered in Singapore. Buying and leasing property was a print-only business conducted by a large pool of more than 40,000 real estate agents.

Shortly after launch, however, competitors did appear in the online marketplace, including several attached to large, government-linked companies. The firm triumphed however, by offering a suite of services to agents for modest costs.

The business model targets real estate agents, who pay an annual subscription fee for the right to list as many properties as they want on the site. At the beginning, it was difficult to attract clients since the entire model was new. Even with very low annual fees, it was not easy to get agents to participate. For buyers, sellers and renters, the site remains free to use. Individuals contact listed agents to arrange a viewing or proceed with the transaction on the property.

In 2011, Singapore tightened the rules around agents, and required licensing. The number of agents dropped to roughly 31,000, of whom about half are engaged full-time in the market. The fee that the company charges to agents increased over time. Given the annual income for most agents, the fee now corresponds to 4-5 percent of a typical Singaporean agent's income.

In the beginning, the company's staff members pulled together listings manually, particularly from print advertising, to post online. There were many mistakes and the site was not elegant. However, as agents began to get referrals and as the company's efforts to reach out to the pool of agents increased, business increasingly migrated to the website. Now 60-70 percent of all property transactions in Singapore are conducted through the company's platform.

At the outset, nearly the entire user base was expatriates looking to rent. Over the years, the client base has switched to being largely about buying properties, with increasing numbers of local customers. About 10 percent of the users on the site now are overseas customers looking to understand the local market for property.

The company expanded into Indonesia and Thailand, where it became the top online site, and into Malaysia where the company holds the second spot.

The company now uses Amazon webhosting for all its offices. The firm can easily and seamlessly transfer materials between staff members. Using the cloud also allows the company to skip investing in hardware and focus on areas where it has a comparative advantage. The new system allows the company to easily switch off and turn on different services as well as to slow down or speed up parts of the service very easily.

The leadership team groups share information on different apps. This allows non-stop communication between staff members to resolve problems, share market information and so forth.

The firm's financial fortunes really turned around after a second round of investors stepped forward with substantial cash in 2012.



## Challenges

Initially, agents paid the annual listing fee in cash. As the price became more expensive, the company switched to using Paypal, which was a new system. But with hypersensitive fraud triggers in place, the system used to freeze regularly. It took 2-3 years to start to be easier. The company also began using credit cards at banks. But this forced the company to pay high fees for multiple credit card terminals in the office. About three years ago, the company started to accept payment online. This is extremely expensive, given the credit card charges levied. With the composition of the agent pool, many still prefer to pay fees in person rather than online.

The company faced many early difficulties hiring staff. With no brand, no history, and limited funds, it was not easy to get staff to take a job. The company directors received no pay for two years nor took vacation and had an additional two years of very modest salary. Staff were offered stock options, but getting people to join a small start-up enterprise was hard. The talent pool was not deep, particularly since the firm could not afford to be picky.

Over time, the company found hiring staff to be easier. The firm now has 300 staff, with about half in Singapore and the rest in the other markets. Going forward, however, the company expects to have fewer and fewer employees in Singapore. This is because the costs of hiring local staff have gotten to be too high and the company cannot get developers. Restrictions on foreign staff have also been challenging. As a result, the firm is moving staff out of the country. For example the research and development for the firm has relocated to Thailand where the firm can hire creative, talented people at less cost. Over time the company expects to move the headquarters, R&D, and development functions out of Singapore.

The Thai location used to be able to hire foreigners quite easily. But new changes in

Thai law have required the company to increase the capital amount or to establish an R&D centre or manufacturing presence to get foreign worker permits.

Setting up the branch in Malaysia was quite straightforward. Indonesia turned out to be expensive. The primary challenges have been a lack of clarity on a wide range of issues like tax, legal regulations and so forth that have led to continuing problems and mounting expenses for the firm. But given the growth potential of the market, the company expects it to be worthwhile.

It took three months to set up in Indonesia and the company could not be wholly owned. In Thailand, the rules allow only 49 percent ownership (unless the investor is American or the company uses some creative means to cross-sharehold across several firms).

## Government Policies

While the government in Singapore provides a range of potential grants and services, the firm has only taken advantage of some projects on training for the management team. Otherwise, the firm found that the paperwork attached to various schemes is too time-consuming and cumbersome to be worthwhile. For example, it got an award to help with overseas marketing and branding but decided it was faster to just go without the government assistance. Speed to market matters in the industry.

## CASE STUDY: BPO INDUSTRY IN THE PHILIPPINES

### Overview

The company, based in Atlanta, Georgia, provides businesses of all sizes a set of systematic marketing, e-commerce and software development solutions. The firm includes a number of subsidiaries, including a contact centre of 25 employees in Davao



City, Philippines, which is the focus of this case study.

The majority of the contact centre's clients are internationally recognized insurance companies and well-established broker dealers. It has built a growing reputation as an organization capable of handling complex markets for companies soliciting financial services. Current projects include marketing next-generation 401(k) handled by technology instead of teams of analysts and negotiating federal employee benefits across various United States federal agencies.

As the contact centre matures, it is looking to support organizations that are already familiar with the benefits of an outsourced solution. These organizations may already maintain both internal and external contact centres but seek a competitive advantage by working with an outsourced team as highly trained as their internal staff.

## Advantages

There are a number of strengths setting the organization apart from other telemarketing operations. The contact centre handles company-specific financial products, meaning that rather than simply reading from a script, all employees must have an in-depth understanding of the concepts behind each product relative to the current coverage maintained by prospective customers. These specific services stand in contrast to other contact centres based in the Philippines, which deal mainly with simpler tasks revolving around customer service instead of outsourced sales. Statistically, only 17% of contact centers categorize themselves as "sales" centers. The team in Davao, Philippines, is quickly becoming a relevant player in the sales center space.

As a corollary to this, the company places a premium on the English-language skills of their employees. The company conducts a one-hour daily language and sales training

session for all employees of the contact centre regardless of the length of employment. This has resulted in a workforce that is highly proficient in English with little discernible accent. Their development team develops customized computer software, which assist the call team by combing the Internet for information to use in contact-lists.

The firm director has also built a strong brand due to his positive reputation among his employees. He pays all salaries on time, offers tuition assistance and supports several local charities in Davao. His employees also actively participate and share their time and talents with outreach throughout Mindanao.

The contact centre's location in Davao City has also proven to be an advantage. The city does not suffer the same kind of overpopulation, rolling brown-outs or typhoons which can affect business operations in other areas of the Philippines.

## Ongoing Business Issues

- The company has struggled connect with the right individuals who are already familiar with the benefits of outsourcing.
- The company does not have access to traditional forms of financing available to domestic companies in the Philippines necessary to expand to these targeted sectors.
- Land use regulations have proven to be a further impediment. It is often unclear as to what a foreign organization can and cannot own.
- There have been issues with the quality and cost of equipment in the Philippines. The company has had to import computer equipment from the US and Korea on several occasions.
- Owing to its headquarters in Atlanta, they have had trouble connecting with businesses and accountants



with the same outsourcing ambitions in the Asia-Pacific. Most business organizations in Atlanta are focused on the city or the state itself, making it difficult for the firm to acquire some of connections that would be useful in expanding business in Asia.

- It has been extremely difficult for the firm to bring employees to the United States for short-term (i.e. six weeks) training sessions. Such visas are routinely denied with no reasons given.

## CASE STUDY: DESIGNING AN ONLINE PERSONAL ASSISTANT

### Firm Overview

This case study tracks a very new company that has been working for the past 18 months on building an online personal assistant. The product should be available for testing by selected companies in another 3 months or so.

The firm was officially incorporated in Singapore in 2014 and currently has four staff members—two full time and two part time staff. The company director is a Malaysian citizen and Singaporean permanent resident with a long history of working in various large international Internet companies. The firm does not yet have office space, but has been running the business out of a local coffee shop to minimize expenses.

The firm's application will allow small business users to easily and automatically set up meetings, appointments, viewings, or any other future meeting via email. The user will simply email the online personal assistant (currently called "Evie") information about the contact and leave it to Evie to actually set up a convenient time for a meeting and schedule it in the user's

calendar. Like a real assistant, Evie will send out reminder notices about the scheduled meeting as it draws closer as well as handle changes and requests to reschedule or cancel.

The user will activate the system through an app on a mobile device. This gives the software access to the company (or individual's) calendar. After the initial set up, however, the user will connect to Evie through email. The user will pay a modest monthly fee for the service.

The primary audience for this application are small business owners and employees who do not have sufficient staff to handle routine personal assistant tasks such as meeting scheduling for businesses like real estate agents or tax and insurance advisors.

### Start-Up Funding

The project has been paid for thus far by the company director's personal savings and a first-round grant from Singapore's Media Development Authority (MDA). The SGD\$50,000 award was given as part of the government's interactive digital media programme and covered the firm's expenses for 6 months.

Using the grant was quite easy, but for various reasons, it took nearly 4 full months from the initial application stage until the funding was transferred to the firm. In a rapidly changing environment, time and speed are critical for companies and delays are a problem.

As the company refines the programme to get it ready for market testing, the company is returning to MDA for a second round of funding. The firm may also be eligible for seed money from Spring, the government agency tasked with assisting small businesses.

Finally, the company is taking advantage of the reimbursement programmes available for purchasing hardware items like laptops



that cover up to 60% of the costs or allow a 4x tax credit. These programs are administered through the Internal Revenue Authority of Singapore (IRAS). The agency also runs an R&D funding programme that might be of use to the company in the future.

However, since the company currently has no customers or revenue, it can be tough to qualify for government assistance. Banks are also unlikely to give loans at this stage, since the company director does not have a long track record of successful startup businesses.

The company will be looking for venture capitalist firms to invest in the product as soon as the early testing phase is completed and the product is closer to launch.

## An Internet Company

As an early Internet company, the firm needs to have inexpensive, reliable providers available for all data hosting and storage needs. If the firm had to provide its own data servers, the cost would be prohibitive. The company is currently using a smaller data center based in Singapore and the United States.

The company will also need the ability to use personal data from customers and, potentially, to transfer information across borders. The final app could be used by customers all over the world.

## Payments Issues

Because the product is not yet available for launch, the firm has not yet had to handle payments issues. However, it has already begun to think about how to get users to pay for the service. Paypal is the primary payments system available in the region, with limited alternative options. Paypal charges 3-4% in commission, which could rapidly become a problem in a small revenue stream.

Another payment issue looming for the firm are the charges by mobile phone platforms for the app. The company may have to turn over up to 30% of its revenue to the app store for sales made through the app store.

## CASE STUDY: BUILDING AND SELLING TABLES ONLINE

### Firm Overview

The company is a small and medium enterprise (SME), of approximately 10 staff in total, running two primary operations in Singapore: a small factory and a retail store that sells a range of products. The company was registered in 2006 and the brand was formally established in 2011.

The items in the retail store include three primary types of tables directly manufactured by the company in Singapore, as well as assorted chairs and other accessories like lighting that are imported from other sources across Asia. The other items are primarily included in the store to enhance the buying experience for the customer and to complement the product offerings by the company. None of these items are branded products, but the company is frequently the only Singapore distributor of the items.

The company specializes in building three types of tables in a variety of configurations. One type is created solely for the domestic market in Singapore. These tables are generally made of a single massive slab of a wood called suar, imported from Indonesia, and finished according to customer orders. The company does not export these items because they do not believe they will be competitive in major markets, although they have a stable volume of sales in the domestic market.

The remaining types of table are distinctive. The table top is created out of handmade patterned cement tiles imported from Vietnam and placed on either wood or





aluminum bases. Generally speaking, the tables with wooden bases are not exported anywhere. In part this is because quality is difficult to guarantee without problems of the wood cracking or splitting in different environmental conditions in the destination markets.

The majority of the business for the company is making and selling a handmade tiled table in a powder coated aluminum base of either black, white or red that comes in several standard sizes with legs designed for use as an end table or with longer legs for use as a dining table. The frame is resistant to water, corrosion, UV damage, and is completely recyclable. The tables are finished with sealer that allows the entire product to remain outdoors, if desired.

## The E-commerce Platform

The firm created a high-quality e-commerce platform with considerable help from Singapore government grants. The money hired experts to design and build the website with many unique features. For example, the company's tiled tables are available with many options of tiles. The website allows customers to design a custom tabletop and to select different types of tiles, sizes of tabletop, and arrange the tiles in different designs.

However, once the company received the completed website, the firm faced challenges. The single biggest obstacle to effective use of the e-commerce platform has been a lack of manpower at the firm to maintain the website. Some of the features do not work as intended and certain information provided on the site is now outdated. The company's limited employees are so stretched with building tables, maintaining the retail site, and handling deliveries that there are no staff remaining to ensure the web platform works effectively.

The company does not need a full-time staff member to manage the website and has

looked into hiring someone 10-15 days per month for the task. But with market rates for such work at \$500-800 per day from content-management or web-management companies, the cost is out of reach for the company.

Hiring additional staff for any open posts has proven extremely vexing. The company has basically given up on trying to hire non-Singaporean staff, as it cannot get the work permits for foreign staff that it needs. But hiring local staff is also challenging since most Singaporeans are not interested in working in a factory or working retail. The salaries the firm can offer do not appear to attract sufficient local workers to come to the firm's locations. Absent manpower constraints, the company believes it could easily double sales within 3 months.

## Government Policies

As a small and medium enterprise (SME), the company receives multiple benefits from the government. One government agency, Spring Singapore, exists solely to encourage SME development. The company has taken advantage of different types of programs. The company has used Productivity and Innovation Credit (PIC) schemes for the website, for some office equipment as well as some factory equipment like a router.

The company also received a Design Business Integration Grant (IBIG). As a recognized Singapore designer, the company got an award for \$70,000 towards building the website and a brand study. The company hired an approved Singaporean company to design the website. The firm also invested an additional \$30,000 to finish the project. The government reimbursed some of the costs for this additional investment using a different productivity grant.

The company website, then, was built for \$100,000 with costs split between the design award, productivity grants and the company's own investment. However, the



costs of maintaining the website have shifted back to the firm.

The single biggest impediment to company growth has been insufficient manpower and an inability to hire qualified, committed staff. Most of the 10 employees in the company are recipients of one sort of government program or another, particularly for training in an attempt to increase their work performance. The time required to manage all the programs, however, can be significant.

## **SME CASE STUDY: SELLING WINE ON AN E-COMMERCE PLATFORM**

### **Firm Overview**

The company is a small enterprise selling wine in Singapore through personal sales as well as via the Internet. The firm originally started as a division of another small company, but was split off to become an independent enterprise in 2011.

The company sells a small but carefully curated collection of mostly wine products. The items are imported and stored in a bonded warehouse facility until they are sold to customers. When items are sold, the company notifies the bond store via email. The logistics provider handles all the necessary paperwork with customs and the revenue authorities for automatic transfer of funds for taxes. The company can collect the bottles within 3-4 hours of sale for delivery to the customer.

More than half of the company's sales come from the online presence. The company spent considerable time and effort creating a seamless customer experience online, including a payments system that allows consumers to click only one page to complete a purchase.

### **Government Policies**

The interface with the Singapore government overall has been extremely good. The company can import products with just four pieces of information: product descriptions, size of product unit, alcohol content, and the unit price. The connectivity between agencies like customs and IRAS (revenue) is excellent. Everything the company needs can be done online.

The Singapore government provides significant benefits to small companies. The firm would benefit from many of the grants provided to enhance productivity, including funding for website development. However, the company has not been able to qualify for any government assistance since schemes all require the employment of at least three Singaporean staff.

The company has tried to hire local staff, but has not been able to find good workers who are able to do the job and interact well with the largely expatriate clientele of the company. The main task needed is delivery staff and locals have not been particularly keen on the job. The other task that could be handled by additional staff is the placement of bar coding on each bottle. Without additional workers, this job cannot be done.

### **E-Commerce Challenges**

When it came to building the website, the company founder essentially created it by putting together different modules. It was quite expensive, particularly for a smaller company. The company fit together various modules by developers in the Ukraine, China and Singapore to fit the firm's needs.

What was especially important was to build in back office support into the system. As a result, the placement of orders triggers changes in the accounting software, ensures the proper transfer of GST tax and excise duty payments, enables payments between the customer and the company's bank



accounts and works with the webhosting software. The website now, however, works so well that the company is exploring ways to license the web design and links to other firms in Singapore.

The process of finding a bank that would handle settlements of the account was quite challenging. The company ended up turning to a new vendor in Singapore. The company also works a foreign bank since it was the only one that would allow a link on the website to automate payments at a reasonable cost to the company.

Handling foreign exchange processing and transfers between the bank and the company's credit card has been difficult. The company uses American Express because the rate they charge for processing payments is lower than any other provider. Credit card companies in general charge up to 4% to offset the risks of fraud in online transactions. But this is a significant sum to a small business.

The process of being a licensed vendor for different entities can be so complicated and time consuming that the firm has dropped out of some potential contracts. The vendor forms often need to be completed annually.

### Additional Issues

One challenge in Singapore is that there are few economies of scale available. It is not possible to buy whole containers of wine products from one producer or vendor, as it would result in too much inventory for such a small, increasingly competitive market.

## CASE STUDY: SELLING BAMBOO CLOTHING

### Key Insights

- For fashion industry which is heavily driven by SMEs and self-owned brand designers, the biggest

challenges for Singaporean market players like the company are: insufficient access to market information, lack of networking, and an inability to build a brand within a limited budget.

- For local SMEs based on a tiny market like Singapore, it is critical to expand their footprint overseas and to participate in international sourcing and marketing. There is a huge gap that can be filled by leveraging E-commerce channels.
- Although E-commerce can address some of the aforementioned challenges, the barriers for Singaporean SMEs to adopt E-commerce can be attributed to both internal and external factors. Internally many SME owners lack time and human resources, while they have concerns over costs and returns on investment. In addition, the low coverage of government support and the failure of existing e-commerce platforms to provide cost-effective solutions are additional external constraints on growth.

### Background of the Company

The company is an eco-chic bamboo basics clothing brand founded by a Singaporean. The company director was a former magazine editor of several local women's publications. After five years of covering the fashion industry and writing about "what women want," she left publishing industry and dedicated herself to researching suitable sustainable fabrics and toying with reusable packaging ideas. In late 2009, the company was established and began making low-key appearances at boutiques in Singapore and Bangkok.

The company director designs the clothing. Another local SME helps to create the patterns for each item. The patterns and a sample item are shipped to a supplier in China. The supplier sources the fabric in the



desired colors, sews the clothing, applies the tags and labels and ships the finished goods back to Singapore. The firm sells the items online, and in several local boutique stores.

The cost of rent for retail space is too high to justify opening a store directly. Local department stores can charge up to 45% of the profits plus require a small company to supply the full-time staff member needed to run the store-within-a-store space. Even rental for the warehouse has been difficult to manage. The company shared space with several other small firms but is now looking for a new option as the lease is expiring with a large rent increase on the horizon.

The firm has three sales channels, namely online selling, local stores and wholesales. Currently there are eight stocklists in Singapore, two in Dubai and one in Australia. It also has existence in Malaysia, Bangkok, Philippines via local distributors.

The company used to have two part-time staff, but the director now runs the firm directly with the help of a part-time accountant.

The company aspires to be an international brand. In the short run, the firm expects more investment to improve marketing, branding, SCO and to create more retail space. In the long run, the company hopes to hire in-house pattern designers and to have more collections. The company also plans to explore EU and US market in the forthcoming years.

## Issues

The company has its own website for online display and shopping. The firm also uses social media like Facebook, Twitter, Instagram, Tumblr to interact with potential customers.

The company used to be registered with Shopify, which provides basic and customized service with one of the cheapest membership charges among all similar E-commerce platforms. However for mini-size

enterprise like the firm, it could not afford to hire staff to take care of affairs such as site update, maintenance and customer service. Singapore does not have a local E-commerce platform targeting the fashion industry.

The company tried using Alibaba for sourcing, but stopped over concerns about insufficiently satisfactory due diligence on registered members.

The company director is responsible for delivery from the warehouse to local stocklists or to logistic companies.

All the payment issues and settlement (including deposits) are dealt through online bank transfer.

## Government Policy

The company applied for a PIC (Productivity and Innovation Credit) grant. The company did not think it was eligible for other programs by the SME agency in Singapore because the government favored technically-oriented firms. In addition, the length of time for application processing has been a problem.

Other government initiatives like Blueprint (a multi-faceted tradeshow for both regional and international brands in the region initiated by IE Singapore) helps to push forward design industry in Singapore, but the company does not benefit from the scheme due to its focus on basic and necessary patterns for its products.

## CASE STUDY: SELLING ANTIQUE FURNITURE IN ASIA

### Firm Overview

The company is a small, family-run business in Singapore that imports antiques from Asia for the past 14 years. Company staff members personally select every item,



largely from several locations in China. Furniture is then turned over to craftsmen in the region to repair and restore.

Because antiques are unique items, the company buys inventory whenever and wherever they find it, even if the time horizons necessary for a sale may be long. For example, the firm may only sell a handful of large sized cabinets in Singapore in a year. But if a supply of such items is available in the market, the company will buy them all if the price and condition warrant. Items may be stored in the company's warehouse space in China for long stretches.

The company then ships items out to Singapore in containers multiple times per year. The packing and shipment is outsourced to another small firm in China. Once the items arrive in Singapore, the container is sent to the company's local warehouse for unpacking and fumigation. After two days, staff and an outsourced company unload the items into the warehouse and an outsourced logistics provider collects the container.

Most of the company's sales are made from the warehouse. The firm generally meets clients at the showroom and then proceeds to the warehouse for the final sale of items, since clients prefer to buy after they see a wide range of options. The warehouse is open by appointment only to help cut down on staffing costs.

Nearly the whole of the company's client base are expatriates. With the switch in financial packages from large multinational firms from overseas contracts to increasing numbers of clients on local packages, the firm has struggled to achieve higher growth in the past few years.

The firm has a website, but it is largely informational and not designed for sales. This is because the costs associated with selling online would be significant. As it is, the firm sets aside \$3,000 every year for a professional photographer to come take

photos of representative items from the firm's inventory. These photos will be used in various marketing campaigns throughout the year. If the company were to switch to online selling of goods, it would have to employ a good photographer and ensure sufficient physical space to take pictures on a regular basis, since every item the firm sells is unique and would require multiple, high quality photos before a customer would think of buying online. The manpower needed to maintain the website would also be significant.

## Challenges

The firm faces two particular challenges related to the uncertain nature of contracts in Singapore. First, furniture retailing requires a certain amount of space to properly display items. Such space is extremely costly in Singapore. In addition, when the company renews its lease, rent has jumped by up to 100 percent. Such changes make it hard to plan for the future.

The company would like to purchase warehouse and/or retail space to avoid having to renegotiate leases every two years or face the prospect of an expensive move and refit of new space. But the second challenge makes long-term leases or purchase difficult: because the firm is headed by non-citizens, it is not clear whether the permanent residency permits or employment passes of the owners and staff will be renewed. Recent changes in foreign staffing allowed in Singapore have made planning for the long-term even more difficult.

Another challenge with rent in Singapore for SMEs is the lack of an escrow system to manage rental deposits. Under an escrow system, the landlords would work with escrow companies to hold rent deposits until the lease period expires. Then the landlord could claim back specific damages to be certified by the escrow company and the rest of the deposit could be returned to the firm. Singapore does not have such a



system in place now, leaving smaller firms at the mercy of potentially unscrupulous landlords who retain the full amount of the deposit. This is particularly a problem for smaller firms who need the cash from the deposit (often up to 3 months of rent) to become the deposit for new premises.

Like most firms, the company faces other manpower related obstacles to doing business in Singapore. The jobs required, including unpacking containers, delivery and retail sales, are generally not viewed favorably by potential local staff. But the company cannot hire foreigners easily to do these positions. Therefore, the company makes do by getting its own staff, including company directors, to make deliveries and shift items in the warehouse. This is a very inefficient use of limited resources.

Another challenge faced by the company is difficulties with money. The firm has not applied for loans (government or otherwise). But it does struggle with getting its bank to work with the credit card providers. The firm uses American Express, particularly to pay vendors in China. The foreign exchange rates are much better than the banks provide and the fees charged for use are lower. However, the bank/credit card interface is not always seamless.

For onsite sales, firm has had to pay for expensive credit card terminals—each local bank may require a different terminal to be used. The fees charged for use of cards varies, although AmEx is the lowest at 1.4%.

### **Government Policies**

Setting up the company was very easy. Payment of taxes is also quite simple.

The company has not taken advantage of the funding available for small and medium enterprises. Mostly this is because the company cannot hire enough Singaporean staff to qualify for the various credits, particularly programs to improve productivity.

The charges related to getting goods out of the port in Singapore can vary. It is not clear whether this is a result of government policy or decisions by local firms or logistics providers. The bills provided by the logistics providers are very opaque, making it difficult to determine what, exactly, is being charged. Shipping bills can vary between container loads and even more between shipments from different countries. As an example, one recent shipment came in from Thailand using the same freight forwarder but cost 40% more. The company has no idea why the bills showed such variation in costs.

The company has benefited from the use of the APEC Business Travel Card (ABTC), since it provides the company staff with greater flexibility in travel plans. The card helps speed up the immigration process and can help staff avoid the need to get visas in advance (or at all).

## **PUTTING IT ALL TOGETHER**

Given the variety of issues and challenges thrown up by the firms interviewed for this case study project, the Asian Trade Centre believes that effective e-Commerce requires a holistic approach. This includes a focus on diverse elements like information flows, goods, services and payment issues that are not normally considered together.

Yet as the case studies make clear, without careful thought, smaller firms frequently face obstacles to the smooth and efficient operation of their businesses. Many of these challenges could be relatively easily addressed by government policymakers. Making changes in policies across a range of areas could unleash substantial economic growth for some of the smallest firms in Asia.



## ASIAN TRADE CENTRE'S PROPOSAL: ENCOURAGING SMALL AND MEDIUM ENTERPRISES IN E-COMMERCE

Economic growth increasingly takes place through a new mechanism for organizing production and distribution of goods and services. Firms are now using global and regional value chains or supply chains to manage ever-larger shares of their business or to directly access end-user consumers of goods and services. This new model is different from simply using middlemen, sourcing inputs or raw materials from different locations or selling the final products in different markets. Instead, the barriers of entry to global trade have been dramatically decreased, empowering SMEs to participate in global supply chains. This includes not just goods but also services.

Many people believe that global supply chains are simply the extension of what has gone on before—except that the level of distribution has shifted downward, ie, the dispersion of production of parts and components rather than just final products. This does not fully capture the extent to which chains are a new phenomenon. It is not just that parts and components are themselves sourced, produced and distributed in a geographically fragmented manner, but that the entire approach to the production of goods and services and accessing customers has been fundamentally broken apart and put back together in a new way. Lead firms, especially, can literally use the world as their “oyster” precisely placing only the step (or steps) of their processes in one space and rely on some other physical space to complete some other aspect of the process.

In this world, small and medium sized enterprises (SMEs) stand to benefit from opportunities that were never available in the past. SMEs in developing and emerging

economies account for anything between about one half to two-thirds or more of jobs. SMEs can use the Internet to bypass lead firms and directly access and sell to consumers in global markets. Creating the right enabling environment to easily allow SMEs to plug into value chains and consumer markets is critical.

There are multiple ways to think about encouraging the development and growth of SMEs. This project focuses attention on using e-commerce as a pathway to SME participation in global value chains and accessing global consumers. After all, if better policies are in place to support e-commerce for small companies, they will have more opportunities overall.

Four aspects of e-commerce seem particularly key for SMEs:

- *Information.* Small and medium sized companies need to know about opportunities and need to be able to move and interpret information quickly and easily between suppliers, lead firms, customers and so forth.
- *Smooth flow of goods with minimum roadblocks.* Any impediment to the movement of goods—and particularly small size shipments or smaller value shipments—can be devastating to smaller firms. Delays cost time and money.
- *Ease in moving services.* In many Asian economies, the bulk of SMEs are service providers. Research has shown that up 90 per cent of Malaysian SMEs are service providers, and in Hong Kong the number is 94 per cent. Such firms must be encouraged to participate in global and regional value chains.
- *Financing and payments.* SMEs have a particularly strong need for trade financing, since they do not have deep balance sheets. In addition, smaller firms need the ability to



easily and cheaply access payments systems for their goods and services.

Firms increasingly need to efficiently network with one another and ensure that citizens are able to enjoy the benefits of global trade and workers are able to increase productivity and efficiency. Failure to create the appropriate infrastructure to enable e-commerce by SMEs will cripple the ability of some countries, industries and firms to participate and compete across the region.

E-Commerce is creating new industries, altering traditional ones, and changing the international trade landscape. To capture this growth, it is necessary to put in place a policy framework to facilitate e-Commerce, looking at all the components of the e-Commerce value chain and addressing the unique policy aspects that are necessary to facilitate the seamless flow of data, payments, and goods across borders, without impeding the development of innovative, new services that the Internet is expected to generate in the near future.

Traditional trade negotiations around these issues can be problematic. E-Commerce often falls in between specific policy areas. To best serve the needs and interests of smaller firms, governments must adopt a holistic view to addressing diverse issues with clear focus and purpose.

## FOUR POLICY RECOMMENDATIONS

### 1. Support Information Flows

Developing policies to enable data and information to flow across borders is critical to e-Commerce growth. Digital information and services, the infrastructure that supports them, and their free movement are backbones of e-Commerce. Without a clear mechanism to connect SMEs to lead firms, suppliers, best-in-class partners and service providers, and consumers, smaller companies will be left behind.

Especially key are the following provisions in any upcoming trade agreement:

- Facilitate the flow of information without disruption
- Support cross-border data transactions
- Avoid data or server localization rules that require companies to keep data onshore

### 2. Facilitate Flow of Goods

Small firms are especially damaged by high costs caused by inefficient movement of goods across borders. While larger companies might be able to absorb, for example, a higher tariff, tariff barriers may prove insurmountable for smaller players. Delays in the movement of goods also result in expensive charges to SMEs. Excessive paperwork or problems in paperwork can keep smaller companies from trying to move goods at all. Problems at the borders are magnified for SMEs, including time lost and expenses that mount.

For e-Commerce goods to move seamlessly from seller to buyer, retailers and consumers must have access to efficient, reliable logistics. The Internet allows buyers and sellers to communicate over vast distances, but without an efficient way to fulfill these commercial transactions i.e. get a product to the buyer, these connections are of little value. As the Internet has globalized commerce, transportation networks must also be supported to service this new global demand.

Complex customs procedures are a major impediment to the growth of e-Commerce. A small company cannot withstand the risk or costs associated with issues like customs holds, late deliveries, or inefficient return procedures.

Therefore, SMEs require the following types of e-commerce rules to facilitate trade in goods:





- Facilitate and integrate rules around transportation services to include all modes of transport (air, land, sea and multi-modal services)
- Encourage cross-border transport for consumer products
- Swiftly implement the provisions of the World Trade Organization's agreement on trade facilitation including the submission of relevant documents online
- Review existing rules and customs procedures with an eye towards reducing barriers to small size or smaller value shipments
- Recognize that returns are a critical aspect of e-Commerce and put in place policies such as HS Code categories for more seamless returns without charging duties and taxes.

### 3. Facilitation of Services

Services are a critical conduit for SMEs to plug into global and regional value chains. As most economies in the region are dominated by smaller size firms, particularly in services, it is extremely important to think about how best to connect together this dynamic aspect of the economy.

The advent of the Internet and new technology have introduced innovative business operating models and services unheard of a mere decade ago. To encourage innovation and transformation, governments must offer an open and competitive policy environment for the incubation of new services. An open and competitive regulatory regime encourages the investment and innovation needed to offer the range of services that meet the

diverse consumer and merchant needs. More specifically, a new trade agreement for services SMEs in e-commerce should:

- Allow for new services to be opened to international trade
- Encourage supporting services growth and development, particularly in areas like logistics

### 4. Financing and payments

SMEs do not generally have deep balance sheets. As a result, delays in payments cannot be sustained. But many banking services currently provided do not cater to the specific needs of smaller firms and are particularly challenged by the demands of cross-border trade in goods and services. Hence, SMEs in e-commerce need to have better access to trade finance using tools geared towards their specific needs.

Smaller firms also need swift and accurate methods of receiving payments. Delays in processing, or an ability to collect can mean bankruptcy for SMEs in short order.

To assist SMEs with finance and payment needs, an e-commerce chapter should:

- Encourage the development of trade financing systems aimed at smaller firms
- Support the growth of e-payments systems, such as debit and credit cards, mobile phone payments and online payments services and online banking
- Allow the use of e-payment systems across borders

*The Asian Trade Centre is an independent enterprise based in Singapore that brings together government and business to create better trade policy.*

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