DEALING WITH BUSINESS RISKS EFFECTIVELY

Business risk is a common concern for SMEs. SPRINGnews asked Mr Tay Woon Teck, Managing Director of RSM Ethos, for his insights on how to manage risk to ensure long-term financial success

What are some of the key business risks that Singapore SMEs face?

Most SMEs have to deal with challenges in liquidity and cash flows. Often, however, they lack the tools to manage their capital, transactions and currency risks, resulting in late payments or the inability to pay staff and suppliers. If SMEs are forced to reduce their costs to manage these challenges, this may lead to skimping on the quality of their work or on the materials they use, which can lead to bigger problems – such as failing to meet customer requirements and breach of contract.

Many SMEs also do not have contingency plans in place to deal with unforeseen crisis situations, such as disruptions to a supply chain. Certain companies, such as those involved in precision engineering, rely heavily on outsourced service providers to produce high-quality materials and high-specification tools. But what happens if these outsourced service providers fail to deliver products that meet the end user's requirements? This could affect customers' confidence in a company, and lead to loss of business opportunities and profits.

How do SMEs commonly deal with business risks and pitfalls? Are there any trends you've observed in the way they respond?

Most SMEs in Singapore prefer to work in silos. They don't really consider the benefits of forming partnerships or alliances to share profits, and more importantly, spread their business risks, to boost their resources and capabilities. Instead, many fall back on borrowing money or attracting more investment to cover their costs and risks.

Are there any industries in particular that are more susceptible to project financing risks?

Construction companies involved in long-term, high-cost and complex projects are the most vulnerable. These companies, especially SMEs, often lack the skills, resources and capabilities to serve the full life cycle of such projects. Such companies need to have sufficient upfront capital to fund the planning, construction, operation and maintenance of a large-scale infrastructure project over a specified period. But as a result of poor planning and overestimating resources, many construction companies run out of capital halfway through a project, which can lead to liquidity problems and legal disputes if they are unable to complete the project.

How would you advise SMEs that might be struggling to manage their project financing risks?

Building strategic alliances or partnerships can help SMEs gain a collaborative advantage. Many small companies do not realise the power of economic grouping – that is, working with other companies to minimise volatility and risks, and maximise new opportunities. By leveraging their collective strength and combined resources, SME alliances are better positioned to take on bigger projects, effectively meet customer requirements and specifications, and reduce their costs, risks and financial uncertainties.

Could you provide an example of a company that employs this strategy to gain more business opportunities and reduce costs?

Take the merger between Jurong International Holdings Pte Ltd and Surbana International Consultants Holdings in June this year. Both companies decided to work together to be able to meet the growing infrastructure needs of Asia more effectively, and become an Asian powerhouse in urbanisation and infrastructure consultancy by leveraging one another's strengths and resources. Now, Surbana Jurong Pte Ltd, the new merged entity, plans to break into new growth sectors and markets, especially in China.

Singapore SMEs can learn from this example, and band together to maximise opportunities and reduce their risks. For instance, local traditional print media firms should form strategic alliances with digital publishing companies to broaden their portfolio and offer a combination of services such as traditional and digital print, e-delivery, creative solutions and consultancy, to be able to compete more effectively with multinational digital publishers.

Singapore food and beverage SMEs should embrace the central kitchen concept to maximise space and efficiency, and reduce capital costs. Adopting this concept collectively means SMEs could share the capital expenditure to hire manpower, rent a space, as well as purchase food processing and packaging equipment.

What measures should SMEs put in place to minimise business risks, particularly in project financing, to ensure long-term financial success?

Before taking on a new project, SMEs should first analyse and understand the risks involved. Second, match those risks with your company's in-house capabilities and build a team of partners to ensure a project will be completed on schedule and on budget.

SMEs should also put in place financial systems and processes to ensure their business continues to grow. For instance, they should calculate every month the amount of cash the business has on hand and how long it will last if the company's income dries up. Then, create a contingency plan to avoid cash flow crunches by reserving at least three to six months of operating costs. Essentially, the key to minimising business risks is to foresee and prepare for them. But first, you need to be really clear on the risks affecting your company – and knowing that means you're already halfway there. ■