Risks and Opportunities Facing SMEs in the Post-Crisis Era

Jung Dae Suh
Korea Small Business Institute
APEC SMEs Training Workshop
Taipei, May 24-28 2010
Outline

1. SMEs and Economic Crisis
2. Effects of the Economic Crisis on SMEs
3. Challenges, Risks and Opportunities
4. What should be done?
SMEs Sector

“99 - 88”

Job Creators, Innovators

Dynamic & Sensitive

One of the first & worst to be hit by economic crisis
- reducing development rate, increasing # of bankruptcies, start-ups most vulnerable
Economic Crisis

- The Great Depression
- Asian Financial Crisis
- Recent Economic Crisis
- European Countries’ Crisis
- ???

Financial Market Problems
Crisis hits SMEs & Entrepreneurs

- drastic drop in demand for goods & services
- tightening in credit terms
- increased payment delays on receivables
- increase in reported defaults, insolvencies and bankruptcies
- collapsing business confidence

- ‘gap widening’ & ‘missing middles’
Unattractive to Commercial Banks

- considered more costly and riskier
  - opacity
  - lack of collateral & audited financial statements

- need to improve access to & reduce cost
  - most typical response is loan-guarantee schemes
  - public funds
Challenges, Risks and Opportunities

- main challenges to cope with
  - sudden rises in the prices
  - liquidity & credit related problems
  - a marked decline in the demands
  - variations in the exchange rate
  - inflation

- these challenges carry both risk and opportunity for SMEs
Recent Issues of SMEs & LEs

- Growth & Risk Management
  - market ratios in existing businesses
  - emerging markets
  - new driving force for growth
  - preparation for double dip
  - prices of oil & raw materials
  - exchange rate fluctuations
  - regulations (e.g. environmental protection)
Risks and Opportunities

- increasing regulation, compliance, and competition
  - mistakes in business management
- Top priority is ‘crisis management’
  - cash flow protection
  - strategic reassessment
- situation may prove favorable to some
  - identifying & reacting
  - re-allocation resources & services
Have to be qualified SMEs

- Productivity enhancing through innovation:
  - reduce cost of factor inputs
  - optimize systems and processes
  - improve the quality of products
  - assess potential to expand markets

- Strategic planning:
  - provides a critical advantage in adverse economic environment
  - adaptation & respond to changes
Optimistic Perspectives for SMEs

- lessons learned from the previous crisis
  - problem-solving approach quickly & creatively respond to the market
- many adapt at finding opportunities in crisis
  - many considering starting a new businesses
- characteristics of SMEs
  - efficient, flexible
  - closer to customers
  - more trust b/w workers & managers
Global Challenges

- technology changes
  - the pace is relentless

- interdependence & linkages
  - the extent is increasing rapidly

- competition
  - intensified both in the region and around the world
What should we do?

- SMEs & LEs
  - strengthening competitiveness
  - collaboration
- Government
  - secure access to finance, supporting productivity enhancement, reducing burdens
- APEC
  - effective cooperative actions required