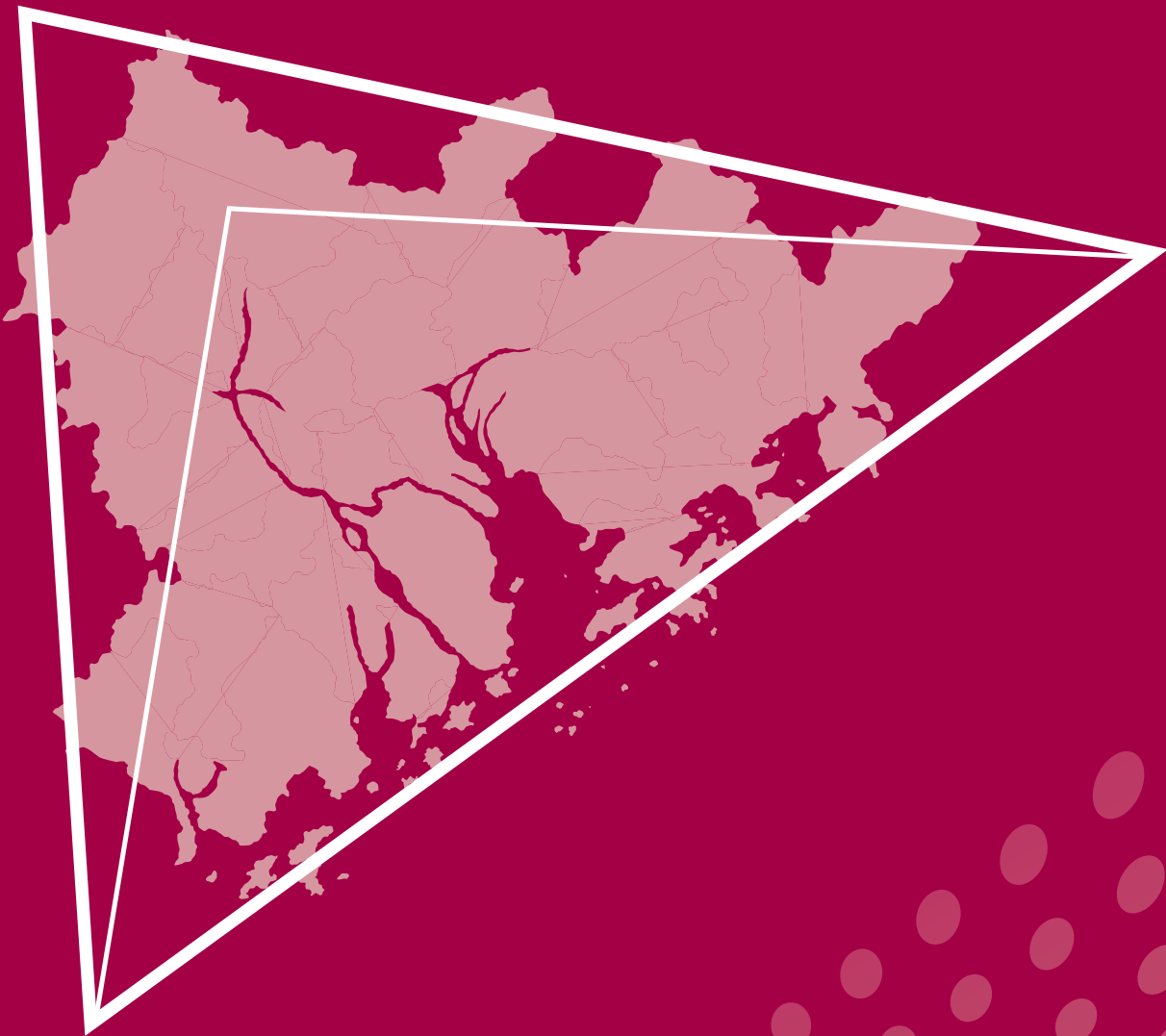
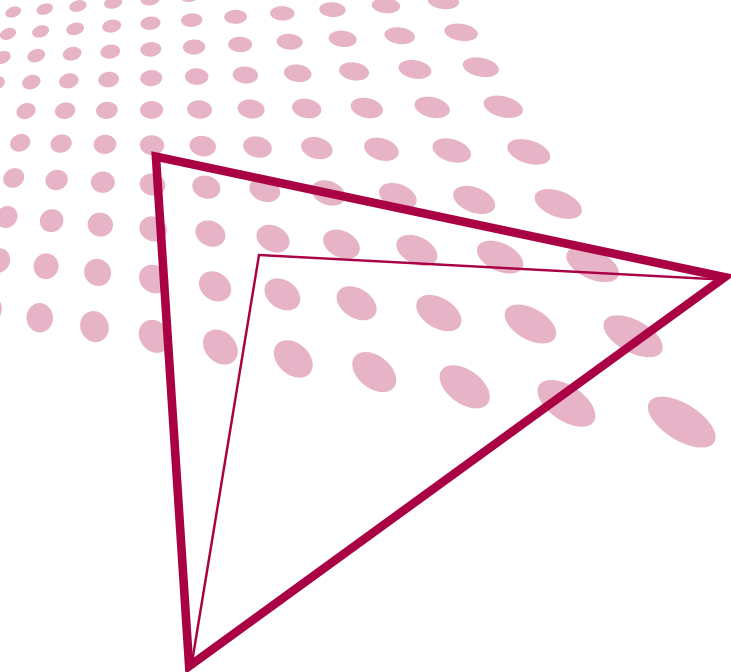


SME ADVISORY KIT



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Introduction

There are approximately 282,000 SMEs in Hong Kong. They comprise more than 98 per cent of Hong Kong's business entities and account for about 48 per cent of private sector employment in Hong Kong.¹ Most Hong Kong SMEs in the manufacturing sector have operations in the Chinese Mainland, particularly within the Pearl River Delta (PRD).

SMEs face particular challenges due to their small size and often limited resources. They tend to get buffeted by changes in markets, by powerful customers, by competitive pressures, and by changes in public policy. SMEs also face strategic, financial, operational, and managerial challenges that are often difficult to overcome.

As a supplement to *Hong Kong Manufacturing SMEs: Preparing for the Future* published by the Federation of Hong Kong Industries, this SME Advisory Kit first sets forth some of the challenges that Hong Kong manufacturing SMEs face. It then outlines some of the strategies that Hong Kong manufacturing SMEs are using to deal with these external challenges. The Advisory Kit also addresses some of the internal challenges that Hong Kong manufacturing SMEs face and some approaches to dealing with these internal challenges. It also includes a list of key sources of information and support available to Hong Kong manufacturing SMEs. The goal is to provide a concise, user-friendly document that Hong Kong's manufacturing SMEs can use to help formulate and evaluate their own strategies to survive and thrive in a rapidly changing and increasingly difficult environment.

We note that no SME will perform all the actions or activities in this kit. Instead, it is designed to be a menu of items and options that the SME must choose from and prioritise based on its own unique situation. However, it is useful for SME managers to understand what options may be available before they decide and act.

¹ "Hong Kong: The Facts – Trade and Industry," Hong Kong SAR Government, www.gov.hk.

Challenges that Affect Hong Kong Manufacturing SMEs _____

Hong Kong manufacturing SMEs, particularly those with operations in the Pearl River Delta, face numerous challenges. These include:

- A difficult global economic environment
- Powerful retail and OEM buyers
- Cost issues due to RMB appreciation, wage increases, rising materials and utility costs, and higher administrative and compliance costs
- Shortages of manufacturing labour and managerial talent
- A tougher competitive environment due in part to improvements among firms from the Chinese Mainland
- Legal and regulatory changes in the Chinese Mainland concerning export processing and export tax rebates, labour legislation, and environmental and safety regulations
- Government policies affecting operations in the Pearl River Delta including policies for economic restructuring, the National Development and Reform Committee's plan for PRD development, the Hong Kong-Guangdong cooperation framework agreement, and Guangdong initiatives for SMEs
- Operational and strategic issues, including challenges in the business basics, differentiation, management scope, finding capable management, financing, and using support programmes

Strategies to Deal with External Challenges _____

There are a number of strategies that Hong Kong manufacturing SMEs may employ in order to deal with the challenges they face. They can broadly be defined as:

- Cost reduction strategies
- Differentiation strategies
- Labour market strategies
- Business model strategies
- Geographic market strategies
- Regulatory and policy-related strategies
- Exit or consolidation strategies

These strategies are not mutually exclusive. In fact, companies will have to make choices in all of these areas and they may choose to keep the status quo in some areas while making changes in others. We do note that the managers interviewed for this project were in general agreement that across the board status quo strategies (i.e. changing nothing) was unlikely to lead to success for most of Hong Kong's manufacturing SMEs.

COST REDUCTION STRATEGIES

Strategies to deal directly with cost increases can include the following:

STRATEGY	EXPLANATION
Improve efficiency within the factories	Improving efficiency within the factories could involve improving factory layouts, optimising process flows, providing additional training for workers, and improving management practices.
<p>How: review current factory operations and identify ways to make operations simpler, faster, and cheaper. The review can be done with input from others including consultants, business mentors, and professional and industry associations. Look at what other factories are doing and adopt the successful practices that are being used in those factories.</p>	
Automate production processes	Automating production processes is a way to reduce the overall labour content and exposure to labour shortages and increasing wage rates. This can only be done if the processes can effectively be automated and if the capital required is not beyond the means of the SMEs.
<p>How: replace labour with automated operations wherever there is an opportunity to do so. Talk to suppliers of machinery and equipment to better understand what processes can be automated and how. Do a cost-benefit analysis to determine the merits of automating individual processes. It is likely that automating production processes that require high volumes of labour will save the most money in the long-run and help ease labour shortages most effectively.</p>	
Improve efficiency in logistics, distribution, and other activities	Improving efficiency in logistics, distribution, and other activities can often reduce total costs more than improvements in manufacturing. A comprehensive approach to cost reduction provides the best opportunity to offset cost increases.
<p>How: for logistics, distribution, and other activities that are performed by the firm, review each activity and eliminate those activities that add no value to the firm and its customers. Talk to providers of logistics, distribution, and other services and ask for their views on how efficiency can be improved. Integrate the various activities where possible so that they can be performed as part of the same process. Benchmark against what other firms are doing to improve efficiency in logistics, distribution, and other activities.</p>	
Outsource business processes	SMEs often face inefficiencies in business processes, such as accounting, payroll, information technology, warehousing, and others due to a lack of scale and specialised resources. Outsourcing such business processes can often lower the costs for SMEs.
<p>How: identify the business processes that can be outsourced. These will usually be processes such as accounting, payroll, and so on, that are not part of the core business and can be done independently by an external specialist provider of such services. Identify the firms that specialise in doing the processes that are to be outsourced. Talk to these firms and obtain advice and quotations from them. Determine which providers of outsourced services offer the best performance at the best price and enter into a contractual relationship with the provider for delivery of the services that are required.</p>	

Relocate to other places in China

As costs rise in the Pearl River Delta, manufacturing SMEs have the option to relocate production to other parts of China in which costs are lower. This can only be done effectively if the relevant supply chains can be extended to the new locations and if the Hong Kong firms can manage farther afield than the PRD.

How: find out where other firms in the same industry are located. Find out what locations in China other firms in the same industry are moving to. Evaluate these locations as possible places in which to do manufacturing taking into account considerations relating to cost, quality, relationships, competition, efficiency, and proximity to customers and suppliers. Consult with key stakeholders, including customers and suppliers, on the issue of relocation before a decision is taken to relocate. Taking all factors into account, choose the location that is best for the business and place manufacturing activities in that location.

Relocate to other places in South or Southeast Asia

Relocating to other countries, mostly probably in South or Southeast Asia can be another option to combat rising costs in China. However, this will only be feasible if the infrastructure, supply chains, labour force, and regulatory environment are suitable. Again, this also requires the Hong Kong firms to manage in a new environment that might not be as accessible as the PRD.

How: take issues of infrastructure, supply chains, labour force, and regulatory environment into account, evaluate whether it makes sense to move manufacturing operations to a location outside of China. Find out where other firms in the same industry are doing manufacturing outside of China. Find out what locations outside of China other firms in the same industry in China are moving to. Evaluate these locations as possible places in which to do manufacturing taking into account considerations outlined above as well as those relating to cost, quality, relationships, competition, efficiency, and proximity to customers and suppliers. Consult with key stakeholders, including customers and suppliers, on the issue of relocation before a decision is taken to relocate. Taking all factors into account, choose the location that is best for the business and place manufacturing activities in that location.

Relocate along with similar firms

Much of the discussion of potential relocation of Hong Kong companies assumes that they move as individual firms. In some industries, it might prove beneficial for groups of firms to move simultaneously in order to ensure a critical mass exists in the new location to attract suitable suppliers.

How: talk to other firms in the same industry to determine whether there is a joint commitment to investigate the option of relocation. If a joint commitment exists then, take issues of infrastructure, supply chains, labour force, and regulatory environment into account, evaluate which relocation option makes the most sense for the group of firms that is considering making the move. Consult with key stakeholders, including customers and suppliers, on the issue of relocation before a decision is taken to relocate. Consult with government authorities to determine what incentives, if any, might be offered in the case in which a number of firms were to move together to a particular location. Take all factors into account, choose the location that is best for the firms that intend to relocate and place manufacturing activities in that location.

DIFFERENTIATION STRATEGIES

Another means of dealing with cost increases is to differentiate in order to gain some pricing flexibility. Approaches to differentiation include:

STRATEGY	EXPLANATION
<p>Improve product quality</p>	<p>Customers are often willing to pay higher prices for demonstrably higher quality products. Depending on the industry, quality may be defined by precision craftsmanship, speed, reliability, product life, fashion or design content, attractive appearance, image, incorporation of more advanced technologies, or customisation. The challenge is to provide higher quality that the customer values, higher quality that can be achieved in a cost effective manner, and higher quality that is difficult to imitate. SMEs often have a hard time developing the capabilities to produce products with demonstrably higher quality than those of competitors.</p>
<p>How: consult with customers and conduct surveys of them to find out what product attributes they value. Find ways to improve the quality of the attributes that are valued. Benchmark against other firms to determine what level of quality is currently being provided by competitors. Aim to exceed that level of quality across those attributes that are valued by customers. Invest consistently in research and development that is targeted at quality improvement.</p>	
<p>Improve services to customers</p>	<p>Improving services to customers can include providing just-in-time inventory management for customers, providing design services, providing rapid turnaround and delivery, and providing reliable supply. To the extent that the firm can distinguish itself from its competitors, it may be able to obtain some pricing flexibility.</p>
<p>How: consult with customers and conduct surveys of them to find out what services they value. Find ways to improve the quality of the services that are valued, or to add services that are valued and not presently being offered. Benchmark against other firms to determine what level of service quality is currently being provided by competitors. Aim to exceed that level of quality for services that are valued by customers. Invest consistently in research and development that is targeted at improving service quality.</p>	

Move from OEM to ODM or OBM production

Moving from OEM to ODM or OBM production can allow manufacturing SMEs to distinguish themselves and obtain better prices. However, ODM requires the firm to invest in design capabilities and OBM production requires the firm to invest in branding, marketing, and distribution. This in turn requires substantial resources and capabilities that most Hong Kong SMEs that started in OEM production do not possess.

How: identify whether the capability presently exists to do ODM or OBM production. Source the capabilities that are needed if they are not presently within the firm. Evaluate the ODM and OBM activities that are likely to add value to the products that the firm sells, or to bring about the development of new products for the firm to sell. Benchmark against competitors who do ODM and OBM production and learn from their activities and from their transition from being OEM manufacturers to ODM and OBM manufacturers.

Tailor strategy to serve particular niches

By definition, SMEs generally cannot supply all types of customers. As a result, it is often better for SMEs to tailor their strategy to serving particular niches, gaining distinctiveness and the ability to differentiate by understanding and serving the needs of customers in the target niches better than competitors.

How: identify the niches that exist in the industry. This can be done by looking at existing firms and markets in the industry, by talking to suppliers and customers, and through critical reflection and independent thinking on possible niches. From these niches, identify a niche that presents customers of the firm value or a niche that would likely attract new customers to the firm. Develop firm strategy around the niche so that manufacturing and customer service activities are directed toward delivering value to the firm's customers.

Supply high value market segments

High value niches, with customers that may be less price sensitive than the mass market, provide particular opportunities for pricing flexibility, but require a firm to develop the capabilities to serve these markets.

How: identify the high value niches that exist in the industry. This can be done by looking at existing firms and markets in the industry, by talking to suppliers and customers, and through critical reflection and independent thinking on possible high value niches. Identify a high value niche that presents customers of the firm value or a high value niche that would likely attract new customers to the firm. Develop firm strategy and operations around the high value niche so that manufacturing and customer service activities are directed toward delivering value to the firm's customers.

LABOUR MARKET STRATEGIES

Obtaining and retaining labour and managerial talent are major challenges for Hong Kong manufacturing SMEs. Labour market strategies may include the following:

STRATEGY	EXPLANATION
<p>Engage in more active recruiting</p>	<p>In the past, many Hong Kong manufacturing SMEs took a relatively passive approach to recruiting, hiring people who came to apply or working through a government employment agency. This approach is unlikely to ensure that the best employees are hired, or that the market is aware that there are employment opportunities with the SME.</p>
<p><i>How: to find potential employees and to make them aware of jobs that are available at the SME; attend job fairs, ask existing employees to recommend new employees, advertise jobs in a wide range of media, appoint professionals in HR and recruiting to assist in finding and appointing the right workers, and visit universities and training institutes and advertise jobs through their student job centres.</i></p>	
<p>Understand that high turnover is costly</p>	<p>High turnover often imposes costs in terms of recruiting, training, inexperience, learning time, and disruption of teams. Often SMEs do not understand the full cost of high turnover, and therefore may understate the value of doing what is necessary to retain workers.</p>
<p><i>How: conduct exit interviews and ask workers who leave the SME why they are leaving and what could have been done to retain them. Ensure that the SME is sufficiently attractive to retain the workers that it wants to keep. Benchmark HR policies and practices against other firms and against the industry as a whole. Conduct regular pay and performance reviews and talk to employees about their terms and conditions, their expectations, and their future career plan. Ensure that avenues for appealing decisions regarding HR matters are in place and that employees have an opportunity to air grievances in an appropriate way and to be heard by senior management if they have cause for concern. Designate a senior staffer as being a workplace counsellor and encourage employees to talk to that person and to communicate ideas and suggestions for workplace improvements. Promote employees who deserve to be promoted.</i></p>	
<p>Increase wages</p>	<p>The overwhelming attraction for employees in the manufacturing sector in China is wages. Thus increasing wages is always one mechanism to obtain workers. This of course is difficult for companies that already operate with low margins. However, some companies have found that they have been able to reduce turnover through higher wages and therefore can offset the higher wages at least in part through productivity gains.</p>
<p><i>How: ensure that the SME is paying its workers sufficiently well in order to retain the workers that it wants to keep. Benchmark pay rates against other firms and against the industry as a whole. Conduct regular pay and performance reviews and talk to employees about their terms and conditions, and their remuneration expectations. Let workers know that productivity increases can lead to wage increases. Increase wages for workers when there is a case to do so, and put the increase in place without delay so that the workers understand that the SME is acting in good faith to ensure that they are paid fairly.</i></p>	

Provide better working environments

Although wages may be the most important worker attractor, increasingly the entire working environment can be decisive in a company's ability to attract and retain workers. Again, while adding cost, improvements in the working environment can be a competitive weapon in the quest to attract and retain employees.

How: consider aspects of the working environment that the SME can improve such as general working conditions, canteen facilities, leisure opportunities, athletic facilities, and other amenities, and determine whether these are likely to be attractive to workers. Let workers know that productivity increases can lead to improvements in the working environment and in non-pecuniary benefits.

Institute effective performance evaluation schemes

Nothing discourages workers more than an ineffective evaluation scheme and nothing encourages workers more than an effective scheme linked to compensation. Managers should ensure that they have good employee evaluation systems in place to help motivate and monitor workers.

How: conduct regular pay and performance reviews and talk to employees about their terms and conditions, their expectations, and their future career plan. Establish performance targets and development goals in consultation with workers and regularly review performance against these. Tie agreed performance targets and development goals to increases in pay and to promotional opportunities. Promote employees when their performance warrants promotion and increase their pay when there is a case to do so.

Shift production to sources of labour

As options for young workers improve in China, especially in the interior, some firms will find it easier to attract and retain labour if they move production closer to the sources of workers. This will be aided by improving infrastructure and perhaps by incentives to move into China's interior, but raises the difficulties associated with moving away from established supply chains and managing at a greater distance from Hong Kong.

How: identify where current workers in the SME are sourced from. Identify where the SME's future workers are likely to be sourced from. Identify the locations from where other firms in the industry source workers. Talk to existing workers about where they prefer to live and work to better understand potential worker movements. Evaluate whether it is feasible and necessary from a cost-benefit standpoint to move production to a location that can provide a steady supply of workers.

Develop managerial talent from the Chinese Mainland

Many Hong Kong manufacturing SMEs prefer to hire managers from Hong Kong. However, the supply of trained Hong Kong managers with manufacturing experience is declining. One obvious potential source of managers is the Chinese Mainland. Here the best approach may be bringing in relatively young managers and developing them within the organisation. The challenge is that it may be difficult to retain such people, who may leave to work for competitors or set up competing companies of their own.

How: advertise for managers in the Chinese Mainland. Identify possible sources of management talent within the Mainland, such as local universities and training centres, let them know that the SME is looking to hire capable managers, and ask them to advertise positions for the SME or to recommend managers to the SME. Put in place mentoring arrangements with senior and experienced managers who work for the SME, as well as training schemes, so that managers joining the SME from the Mainland are given the training and support that they need in order to quickly develop as efficient and effective managers. Provide incentives in the form of pay increases, retention bonuses, or promotion for talent that is sourced from within the Mainland so that these managers have an incentive to remain with the SME.

Bring in managerial talent from elsewhere

In addition to Hong Kong and the Chinese Mainland, Hong Kong SMEs should consider managers from other locations, such as Taiwan, Korea, Singapore, Malaysia, and other places in Southeast Asia. Several of these economies have more of an ongoing manufacturing tradition than Hong Kong and managers from these locations may be less likely to start up competing firms of their own in China.

How: advertise for managers in Taiwan, Korea, Singapore, Malaysia, and other places in Southeast Asia that are likely to have managers with industry experience. Identify possible sources of management talent from those locations and let them know that the SME is looking to hire capable managers. Ask the sources of talent to advertise positions for the SME or to recommend managers to the SME. Establish mechanisms to assist employees from overseas with relocation, and be prepared to reimburse them for costs incurred in moving to their new jobs. Put in place mentoring arrangements with senior and experienced managers who work for the SME, as well as training schemes, so that managers joining the SME from Taiwan, Korea, Singapore, Malaysia, and other places in Southeast Asia are given the training and support that they need in order to quickly develop as efficient and effective managers.

Share wealth with management talent

Providing senior managers with some stake in the business, such as rewards linked to company performance or even an ownership share, can provide motivation and may make it easier to retain key personnel.

How: find ways to align the goals of the managers with those of the SME. Put performance related pay increase or bonus systems in place. Give share options to managers as part of their overall remuneration. Provide greater rewards to managers who create greater value for shareholders thereby establishing a clear link between rewards for management performance and increases in shareholder wealth.

BUSINESS MODEL STRATEGIES

Changes in business models involve changing the activity mix of the company in order to focus on activities in which the company can build competitive advantages and leave other activities behind. Examples of such strategies include:

STRATEGY	EXPLANATION
Shift from manufacturing to outsourcing production	If the Hong Kong manufacturing SMEs believe that others, such as firms from the Chinese Mainland, will have an unassailable cost advantage, or that they will not be able to obtain suitable margins through manufacturing, they may shift from manufacturing to outsourcing production to others. In such cases, the Hong Kong SME would use its knowledge of markets and contacts with customers to sell its outsourced production.
<p>How: talk to firms from the Chinese Mainland and elsewhere that might provide outsourced production activities and determine the scope and cost of such activities. Choose a firm that offers the best price-to-performance ratio that fits customer needs. Enter into a contract with that firm to do manufacturing. Ensure that proper legal advice is taken in entering the contract and that non-compete provisions are made. Maintain close contact with customers and markets into which the products are sold. Invest in the relationships with customers, suppliers, and other key stakeholders to ensure that the relationships are good and sound and put systems in place to monitor the supplier(s) and the quality of the relationships with customers. Identify the best possible alternative use for the equipment and facilities that were being used for production; this may involve the sale of these items.</p>	
Become a trader or agent for other companies	The extreme case of outsourcing would be manufacturing SMEs transforming themselves into traders or agents for other companies. Again, they would use their market knowledge and customer relations to sell the traded goods.
<p>How: identify firms that the SME might represent in the capacity of trader or agent and talk to them about the potential for the SME to act in this role(s). Maintain close contact with customers and markets into which the products are sold. Identify the best possible alternative use for the equipment and facilities that were being used for production; this may involve the sale of these items.</p>	
Become a subcontractor	The opposite approach would be to become a subcontractor for a larger company, letting the larger company deal with powerful buyers, export-related regulations, and other administrative matters.
<p>How: identify firms for which the SME could do subcontracted work. Approach these firms to see whether there is potential for the SME to be a subcontractor to them. Disinvest in processes and activities that are surplus to needs as a firm that specialised in subcontracting and establish new processes that might be needed to communicate and coordinate most effectively with the larger client company.</p>	

Forward integrating into retailing or sell direct to end customers

While most Hong Kong manufacturing SMEs sell to OEM customers, and thus have little contact with end consumers, others have forward integrated into retailing. The advantage is that such companies are less beholden to powerful retail chains and can set their own prices. However, retailing requires skills and expertise that is likely to be beyond the capability of most manufacturing SMEs to master, particularly since most SMEs have had little direct contact with end consumers.

How: identify whether the capability presently exists within the firm to forward integrate into retailing. Source the capabilities that are needed if they are not presently within the firm. Decide whether the retail operations will sell only products that are manufactured by the SME or whether products manufactured by other firms also will be sold. Decide on the geographic market for the launch of the retailing business. Find retail locations in that market and lease or buy the retail premises. Fit-out the premises to form a sales outlet. Benchmark against competitors who engage in retailing and learn from their activities.

GEOGRAPHIC MARKET STRATEGIES

Most Hong Kong manufacturing SMEs produce on an OEM basis for eventual sale in one or a small number of markets in Member Economies of the Organisation for Economic Cooperation and Development (OECD). The downturn in these markets has meant that some companies have had to seek ways of reaching end consumers in other markets. The choices here are as follows:

STRATEGY

EXPLANATION

New OECD markets

Diversification to new OECD markets is helped by the fact that OECD markets in aggregate are still by far the world's largest markets, accounting for well over half of global consumption. Such diversification is hindered at present by the fact that the global downturn has hit all the major OECD markets. In addition, serving new OECD markets often requires firms to compete against already relatively well-entrenched competitors and supply chains.

How: conduct research on OECD markets to identify those that the SME could sell into. Do some research into customer preferences and buying patterns in the different OECD markets. Rank the markets in terms of attractiveness to the SME. Evaluate the competitive environment and determine how best to compete. Investigate the regulatory and other requirements that must be met to sell products in new attractive OECD markets. Establish customer relationships in the new OECD markets or otherwise develop distribution channels in those markets.

The Chinese Mainland

The Chinese Mainland is clearly the world's major growth market at present. However, China only accounts for less than six per cent of global consumption today. In addition, China's relatively low per capita income means that the Chinese market has a different segment structure and often different consumer requirements than the markets that usually absorb the goods of Hong Kong's manufacturing SMEs. Hong Kong firms have to compete with firms from the Mainland without the advantage that the Hong Kong firms often have in international markets, that is knowledge of international tastes and requirements. All of these make selling in the Chinese Mainland a potentially rewarding, but difficult undertaking.

How: *in order to serve the Chinese Mainland market, Hong Kong manufacturing SMEs must develop their own distribution networks or find others that can distribute for them. The SME will need to understand specific customer needs in China. This understanding can be obtained by researching customer preferences and buying patterns in China. Investigate the regulatory and other requirements that must be met to sell products in China's domestic market.*

Other developing country markets

Other developing markets, including those in South Asia, Southeast Asia, Latin America, the Middle East, and Africa, are expected to grow faster than OECD markets over the next several years. Diversifying markets to include such countries is another potential avenue for sales growth. The challenge here is that these markets tend to have obstacles in logistics, distribution, and sales systems that have to be overcome for them to be viable markets for Hong Kong SMEs.

How: *conduct research on other developing country markets to identify those that the SME could sell into. Research customer preferences and buying patterns in the various markets. Rank the markets in terms of attractiveness to the SME. Evaluate the competitive environment and determine how best to compete. In order to serve markets in other developing countries, Hong Kong manufacturing SMEs must develop their own distribution networks or find others that can distribute for them. The SME will need to understand specific customer needs in the markets that it intends entering. This understanding can be obtained by researching customer preferences and buying patterns in those markets. The regulatory and other requirements that must be met to sell products in the markets must also be understood and met before business can be done in those markets.*

REGULATORY AND POLICY-RELATED STRATEGIES

Hong Kong SMEs operating in the Chinese Mainland need to have strategies to deal with the regulatory and policy environment in China. These include:

Strategy	Explanation
<p>Strategies to deal with environmental and product safety regulations</p>	<p>Hong Kong manufacturing SMEs have little choice but to ensure that they are in full compliance with environmental and product safety standards. This is necessary to operate in Hong Kong and the Chinese Mainland and will be necessary in many cases to satisfy customers as well. Companies that believe adhering to such standards puts them at an untenable competitive disadvantage will have to consider outsourcing some operations.</p>
<p><i>How: identify the environmental and product safety standards that the firm and its customers need to comply with and ensure compliance with the standards. In the case of customers, ask them what standards they seek compliance with. Monitor changes to environmental and product safety standards and ensure ongoing compliance.</i></p>	
<p>Strategies to deal with administrative requirements</p>	<p>The administrative burden on Hong Kong manufacturing SMEs operating in the Pearl River Delta region is increasing. This is unlikely to change anytime soon. In fact, if anything the administrative burden is likely to increase. Hong Kong companies will have to carefully budget for the administrative costs and may find that outsourcing some record keeping and related functions will be cost effective.</p>
<p><i>How: list all of the administrative requirements of the firm and identify those that could and should be outsourced and those that need to be performed in-house. Ensure that appropriate systems are in place to deal efficiently with the administrative tasks that the SME will itself take care of. Outsource administrative tasks when the benefits of doing so outweigh the corresponding costs. Identify potential administrative requirements and, as part of an overall operating plan, have a plan in place to incorporate them into the current activity structure of the firm or to outsource them.</i></p>	

Strategies to deal with policies to restructure or upgrade local economies

Hong Kong companies often view themselves as potential victims of policies designed to upgrade the economy of the Pearl River Delta. While such policies may cause disruption to many companies, they are unlikely to be reversed. Hong Kong manufacturing SMEs need to determine if there are ways to actually benefit from such policies by entering favoured industries, by engaging in favoured activities (such as branding or research and development), and need to avail themselves of financial, technological, and other support that may be provided as part of the upgrading policies. If none of this is possible, the Hong Kong manufacturing SMEs may have to consider relocating to an area where their industry is supported.

How: search for government policies that relate to the upgrading on the PRD economy. Read the policies and any available commentary on them by recognised authorities or subject matter experts and determine whether the policies are “good” or “bad” for the SME. Seek clarification from the government or the relevant administrative authority of any policy that is not understood. Plan to develop the business so that the SME can benefit from the policies when possible and minimise costs that are likely to be imposed on the SME when possible. Note that government policies change and that new policies are introduced from time to time and that SMEs should monitor government policies on an ongoing basis.

Strategies to leverage policies in support of SMEs

Both the Hong Kong and Guangdong Governments have enacted a range of policies to support SMEs. Hong Kong manufacturing SMEs should ensure that they are knowledgeable about such programmes and can use the programmes where appropriate to their benefit.

How: search for government policies in support of SMEs by visiting government and industry websites. Evaluate which policies apply to the SME. Apply to the governments for support and assistance in accordance with relevant policies. Note that government policies change and that new policies are introduced from time to time and that SMEs should monitor government policies on an ongoing basis.

Relationship management strategies

Many owners and managers of Hong Kong manufacturing SMEs operating in the PRD do not spend sufficient time to get to know local officials as well as their Mainland competitors. An active strategy of government relations will help Hong Kong SMEs better understand rules and regulations and how they are likely to be enforced.

How: spend more time in Mainland China dealing with government officials. Spend time socialising with officials after hours. Identify activities that benefit the SME and the local communities in which the SME operates and focus on performing those activities. Consider employing a public relations firm or a consultant with the necessary skills to liaise with government officials on behalf of the SME so as to highlight the positive things that the SME is presently doing and plans on doing into the future.

EXIT OR CONSOLIDATION STRATEGIES

Given the severity of the forces influencing Hong Kong manufacturing SMEs, we expect that there will be significant consolidation and / or exit in some sectors. Approaches include:

STRATEGY	EXPLANATION
<p>Sell out or shut down</p>	<p>Hong Kong SMEs that find their position untenable and prospects bleak may choose to exit by selling out (if a buyer can be found) or simply shutting down. While a last resort, such options must be assessed from time to time. The key here would be working with new owners or local governments to ensure an orderly transfer or closure and minimising the losses incurred during the exit process.</p>
<p>How: find potential buyers for the business and offer the business to them on acceptable terms and conditions. A business broker could be appointed to help with the sale of the business by finding prospective buyers and by pitching the business to them. A qualified business broker will also have experience in the administrative procedures that need to be followed when selling a business. Be prepared to work in the business for a period following sale so that the buyer has an opportunity to learn about the business. Make sure that staff, customers, and suppliers are informed about the sale and that appropriate introductions are made to the new owner(s). If the decision is taken to shut down the business, sell or otherwise dispose of the assets in an orderly fashion with a view to obtaining the best value from them. Pay off all outstanding debts or contact creditors to organise a restructuring of the debt(s) if needed. Make sure that staff, customers, and suppliers are informed about the close of the business and that this information is communicated to them in an appropriate way.</p>	
<p>Change lines of business completely</p>	<p>For some firms, exit in one sector may be the first step to developing new businesses in other sectors. The key here is to ensure that there is a market for the new product or service, that the company can develop some distinct competitive advantages, and that it has or can obtain the resources to make the entry work.</p>
<p>How: identify new products or services that the SME can offer and determine which is likely to be most profitable for the SME. Determine whether the new product(s) and/or service(s) can be offered in conjunction with existing products and services or whether existing lines of business should be discontinued. Identify the capabilities that are required to succeed in providing the new products and services and check that the SME possesses these capabilities. If it does not possess the capabilities, then they will need to be brought into the business.</p>	

Consolidate the sector by acquiring other firms or by investing to beat them in the market place and grow organically

There is likely to be significant consolidation in industries currently populated by Hong Kong manufacturing SMEs. Some companies may choose to take the initiative to consolidate their sector, at least in part, by acquiring competitors or by investing to grow by beating them in the marketplace. This approach would require the resources to make the acquisitions or investments necessary. Sectors that are in a state of flux may be ripe for such moves for the right company.

How: *identify other SMEs in the industry that could be acquired. Identify the criteria on which to rank other SMEs. Rank them in order of preference for acquisition. Talk to the management of the SMEs that rank highest as potential acquisition targets to determine whether there is a chance to buy the SME and on what terms. Figure out where the funds to do an acquisition would come from. If the money is to be borrowed, talk to one or more banks about the steps required to obtain a loan. If organic growth is the goal, figure out what type of growth is needed and how this growth will be fuelled. Invest in assets that will help achieve organic growth.*

Strategies to Deal with Internal Management Challenges _____

The vast majority of SMEs that are started around the world fail. The main reasons for these failures are not challenges posed by the external environment, but rather shortcomings in internal strategies, management, and operations. In many cases, these shortcomings are due to limited resources, stretched management personnel, and incomplete strategies or business plans. Some of the main internal challenges SMEs face are:

- Selecting businesses in which to compete
- Formulating compelling strategies or business plans
- Understanding customers
- Understanding competitors
- Developing clear competitive advantages
- Financing operations and financial management
- Administering the firm
- Keeping up to date on market, technological, and managerial developments
- Marketing and selling to existing and potential customers
- Reducing dependence on individual customers and suppliers
- Additional challenges

SELECTING BUSINESSES

SMEs sometimes get into new businesses because of an apparent opportunity without thinking through exactly how they will succeed in the business, or in fact whether it is possible to succeed in the business. The following are steps that can be taken to select businesses in which to compete:

STRATEGY	EXPLANATION
Link to the knowledge and skill set of the SME owners and managers	For SMEs, the advice is to “do what you know”. Since the firm often depends on the knowledge and skill set of a small number of personnel, it is important to understand what this knowledge and skill set is and in what businesses they may be leveraged.
<i>How: figure out who knows what in the business and find ways to benefit from this combined pool of knowledge. List the things that are known, the things that are not known but can be researched and found out, and the things that are not known (yet are important) for which external advice will need to be obtained.</i>	
Understand the ease of entry	Easy entry in terms of minimal capital costs, licence restrictions, and special qualifications or approvals may mean that it is easy for the SME to enter, but it also means that other SMEs can enter as well. The best situation is an industry that is difficult to enter in general, but in which the SME has particular knowledge, skills, resources, or relationships that make it easier for the particular firm to enter.
<i>How: figure out which businesses the SME has specialist skills in or knowledge of and can easily enter. Determine which of these businesses have barriers to entry that are relatively high for other firms. Estimate entry costs and potential competitive responses. Identify target customers and discuss entry with them.</i>	



Understand where the firm can be unique

A good business to enter will be one in which there is something distinctive about the firm that gives it a unique advantage in terms of creating value for customers while beating the competitors.

How: list the areas in which the firm is distinct or unique. Talk to customers, suppliers, and other stakeholders and ask them what they like about the SME and in what way it is different to other SMEs they have knowledge of. Benchmark against competing SMEs to determine points of difference. Ask customers whether they value these points of difference and optimise on those points of difference that customers indicate they value the most.

Focus on industries where the SME has a “good idea”

Some SMEs are founded around a good business idea that is particularly useful in a particular industry. The SME should determine what its good ideas are and in which industries these ideas can be leveraged.

How: list the ideas that come to mind. Determine which of the ideas customers value most. Figure out how the different ideas can be applied by the SME to leverage value from its customers. Understand the extent to which the idea is new, valuable to customers, difficult to imitate, and easy to build upon.

Focus on industries where there are unmet market needs

The best opportunities generally are found where there are unmet market needs that the SME can meet. It is important to identify exactly what these needs are and how the company will meet them.

How: survey customers about their needs and ask them whether these needs are presently being met. For needs that are not currently being met, identify what needs to be done to close the gap and meet the needs. Prepare a business plan that will enable the SME to implement a strategy to meet the unmet market needs.

FORMULATING COMPELLING STRATEGIES OR BUSINESS PLANS

Many SMEs do not have a clear strategy. Instead, they jump from opportunity to opportunity. While this may lead to success for a short period of time, such success rarely persists. There are several key steps in formulating compelling strategies or business plans:

STRATEGY

EXPLANATION

Develop a clear vision

Without a clear vision, the company has no clear direction or reason for being. The vision should include the purpose of the firm, the scope of its business, how it wants to position itself, and what its core advantages are intended to be.

How: consult with owners and senior managers and decide on a vision for the SME. Look at other company visions to get a feel for what others aspire to do; both in the same industry and in other industries. Put the vision in written form and communicate it to firm stakeholders.

Identify clear target markets and customers

SMEs by definition cannot serve everyone. SMEs have to carefully choose their target markets and customers. They need to choose whom to serve and not to serve and then tailor their business plans accordingly.

How: identify the markets in which the SME could operate. Choose the best market(s) from among these and focus on those markets. For customers, identify what type(s) of customer the SME should do business with, and why, and focus on attracting those customers. Do a customer profitability analysis by looking at existing customers to determine which customer relationships are profitable for the firm and which are not when all activities involved in managing the customer relationship are taken into account. Customers that are not profitable for the SME should either be dropped or the relationship with them should be reconfigured so that the customer consumes fewer resources of the firm or pays more money for the product and/ or services provided by the SME, or both.

Identify what customer needs are to be met

The firm must create value for its customers if it is going to succeed. Firms must be very specific about the value they wish to create for their customers.

How: ask present customers what value they derive from the products and services provided by the SME. Also ask them what the SME could do to add more value. This can be done through direct questioning or via a survey. Do the same for prospective customers that the SME would like to attract. Consider the feedback and determine what the SME can and should do to meet present and future customer needs and invest as needed to make this happen.

Determine what the firm can be best in

It is not enough to create value for customers. The firm must develop ways to beat the competitors in the process. This requires the firm to determine what it can do better than the competitors.

How: rank competing firms in terms of various product and service dimensions. Figure out how the SME is positioned against its competitors. Survey or otherwise study the competition and determine what competing firms do well (note that this can be done by asking customers of the SME and customers who buy from competing firms). Determine which factors are key to the long-term success of the business; which factors will make the SME more competitive now and into the future. Analyse whether the SME has the capabilities to beat its competitors in the key product and service areas. If the SME lacks necessary capabilities, identify how these can be brought into the firm. Remember that the competitive environment is not stable and that the competitors need to be regularly monitored so that changes in the competitive environment can be quickly assessed and responded to.

Set clear goals for the company

Clear goals provide a focus for action throughout the firm, a motivator for employees and management, a means of determining compensation, and a means of measuring the firm's achievements. Clear goals streamline management significantly.

How: with reference to the vision that has been set for the SME, consult with owners and senior managers and decide on goals for the SME. Goals can be set for the short, medium, and long term. Put the goals in written form and communicate them to firm stakeholders, particularly to those who will play a direct role in achieving the various goals. At the end of an appropriate period of time, assess how the SME is tracking in terms of achieving its goals. Take remedial action when needed to get the SME back on track to achieving its goals. Mark successful outcomes so that the things that have been done well can be capitalised on in the pursuit of future goals.



Identify the key functional policies necessary to carry out the strategy

One key to good strategy is internal consistency. All of the functional policies of the firm (production, marketing, financing, administration, etc) should be consistent with the overall strategy.

How: review the SMEs policies to ensure that all required policies are in place and are consistent with firm strategy and with other policies. Revise policies that are at odds with firm strategy or inconsistent with other policies and practices of the SME.

Think through different alternatives to get where the company needs to go

Too often SME managers seize upon their first solution to a problem without thinking through different alternatives before reaching a conclusion. The firm should think through multiple options before making major strategic decisions.

How: spend time reflecting on the alternatives to problems. Identify a range of possible alternatives and discuss these with key members of the management team. Following full consideration of each alternative and the implications of choosing it and choose the best alternative. Encourage this process as a means to thinking more deeply about the firm, its response to issues, and its future direction.

Identify and arrange the resources necessary to carry out the strategy

Too often SMEs embark on a strategy without an adequate sense of the human, financial, and other resources that are required to successfully implement the strategy.

How: take an inventory of the resources that the SME has. Identify the resources required to implement the firm's strategy. Match the available resources against those required to implement the firm strategy. Close gaps where they exist by bringing the resources into the firm.

Implement the strategy

The best strategy in the world will not be effective unless it is implemented properly. This requires a phased approach with clear milestones along the way. It also requires clear communication and a sense of shared purpose within the company.

How: break the SMEs strategy down into parts that can be separately implemented. Identify the activities that will need to be performed in order to properly implement the strategy. Set timelines for the implementation of strategy. Identify who in the firm will be responsible for implementing each part of the strategy. Clearly communicate what is required of each person who will play a role in implementing the strategy. Assess outcomes against plans and expectations.

Understand when to change strategy

Strategies usually evolve over time. Companies must constantly check to see if their strategy is suitable to the external environment and when changes may be necessary. When a strategy is no longer yielding strong performance, and there are no improvements in sight, it is time to reconsider the strategy.

How: establish mechanisms for monitoring the external environment and the competitive environment in which the SME operates. Plan to review strategy at regular intervals against environmental changes. Decide whether the strategy is achieving what was intended when the strategy was set. If this is not happening, revisit the strategy with a view to changing it or dumping it in favour of a new strategy.

UNDERSTANDING CUSTOMERS

Many SMEs are “order fillers” that act in response to specific customer orders without understanding the full requirements of the customer. This makes it difficult for the SMEs to differentiate themselves or to offer specific services that might enhance their value to customers.

STRATEGY	EXPLANATION
Use the “order” as starting point	The firm should think beyond the details of the order to understand the customer’s business and how the order fits into it.
<i>How: consider each order individually and think about what it communicates to the SME regarding the needs of the customer. Maintain regular contact with the customer to better understand their needs. Ask the customer what they want, what they value, what they don’t value, what they are prepared to pay for, where their business is headed, and so on, to obtain better insight into the customer’s needs.</i>	
Think about new ways to create value for the customer	An understanding of stated and unstated customer requirements or benefits can provide a basis for a longer term and more even handed relationship than is the norm. New ways of creating value could include performing additional functions such as design, managing logistics and inventories, or other activities.
<i>How: maintain regular contact with the customer to better understand their needs. Ask the customer what they want, what they value, what they don’t value, what they are prepared to pay for, where their business is headed, and so on, to obtain better insight into the customer’s needs.</i>	
Explore ways of expanding business with existing customers	Existing customers are always the easiest to sell to. Understanding customer requirements is the best way to explore whether there is a potential to expand share in the existing product lines, sell to or support the customers in new product lines, or develop business with similar potential customers.
<i>How: maintain regular contact with the customer to better understand their needs. Ask the customer what their requirements are and how they plan on developing their business. Clearly communicate all new product and service developments by the SME to existing customers in a timely way to ensure that existing customers remain aware of what the SME does and can do for them. Consider developing new products and services in partnership with existing customers who express an interest in them.</i>	
Anticipate developments within customer companies	Understanding customers and their requirements provides an early warning system for new generations of products, new market initiatives, or new technology introductions by customers. Staying ahead of the curve could allow for expanded business opportunities.
<i>How: maintain regular contact with the customer to better understand their needs. Ask the customer where their business is headed to get better insight into the customer’s present and future needs. Talk to customers about industry developments. Attend trade fairs and exhibitions to keep track of developments at an industry level that may spark changes in customer outlook or customer behaviour.</i>	

Reassess the attractiveness of customers

Many SMEs hang on to unprofitable customers that drain the SMEs resources and distract them from taking advantage of other opportunities. SMEs should periodically reassess the attractiveness of their customers and take steps to focus on the profitable customers.

How: identify what type(s) of customer the SME should do business with, and why, and focus on attracting those customers. Do a customer profitability analysis by looking at existing customers to determine which customer relationships are profitable for the firm and which are not when all activities involved in managing the customer relationship are taken into account. Customers that are not profitable for the SME should either be dropped or the relationship with them should be reconfigured so that the customer consumes fewer resources of the firm or pays more money for the product and/ or services provided by the SME, or both.

UNDERSTANDING COMPETITORS

SMEs often do not have the resources to undertake detailed competitor analysis. Even if this is the case, it is essential that SMEs understand their competitors well enough to be able to develop strategies to beat them in the marketplace:

STRATEGY

EXPLANATION

Learn about competitors from multiple sources

SMEs should try to learn what they can about competitors from customers, suppliers, industry experts, and publicly available information sources.

How: talk to customers, suppliers, and industry experts about the SME's competitors and ask what the competitors do well, what they don't do well, and how the SME compares to the competition. Visit competitor websites to get information about who they are and what they are doing and plan to do. Visit industry trade fairs and exhibitions to observe how competing firms position themselves in public forums. Obtain copies of the marketing materials that competing firms use. Sign up to receive newsletters or other correspondence that is put out by competing firms.

Assess the different types of competitors

Hong Kong manufacturing SMEs face competition from firms from the Chinese Mainland, Taiwan, Japan, Korea, South Asia, and Southeast Asia, and from other Hong Kong firms. These different types of firms all have their own sets of competitive advantages and disadvantages.

How: identify the list of firms that compete with the SME. It may not be necessary to track every competitor individually; they can be tracked in groups. Classify them by geography and itemise the differences between different firms from different locations. Map out the set of competitive advantages and disadvantages for each competitor group. Compare the SME against each competitor group to better understand the strengths and weaknesses of the SME against different types of competitors.

Reverse engineer competitor strategies

Firms should try to understand the competitors' strategies in some details, particularly with respect to target markets, advantages and disadvantages, and intended competitive positions.

How: identify the list of firms that compete with the SME. Choose a reasonable set to assess. Talk to customers, suppliers, and industry experts about the competing firms and obtain as much information as possible about them and their strategies. For each competitor analysed, identify their strategy, target markets, customers, competitive advantages and disadvantages, and intended competitive positions. Map out the set of competitive advantages and disadvantages for each competitor analysed. Compare the SME against each competitor analysed to better understand the strengths and weaknesses of the SME against different types of competitors.

Reverse engineer competitor cost positions

Many Hong Kong SMEs believe their Mainland competitors have a significant cost advantage, but few have actually estimated the magnitude of this potential advantage and therefore what actual costs competitors may have.

How: talk to customers, suppliers, and industry experts about the competing firms and obtain as much information as possible about their cost structure and their pricing. Independently research via the Internet and through direct contact with the company if appropriate the price and cost information related to competitors. Reverse engineer prices and costs to the extent possible so as to better understand the financial dynamics of competing firms. Assess the known cost and price information for competitors, and the implied profit margins, against those being achieved by the SME to determine whether the SME is competitive on cost and price. Use the SME's own cost structure as a benchmark and estimate the differences.

Track competitor initiatives and build competitor profiles

Tracking important initiatives by competitors allows the firm to better understand competitors' strategies, trajectories, strengths, weaknesses, and any creative steps they take.

How: a competitor database can be kept to organise information on competitors. Visit competitor websites to get information about who they are and what they are doing and plan to do. Obtain copies of the marketing and promotional materials that competing firms send out to customers. Sign up to receive newsletters or other correspondence that is put out by competing firms. Get input from customers, suppliers, and industry experts.

Do not underestimate competitors

SMEs often underestimate their competitors and tend to believe that competitors have unfair advantages. Competitors are usually smarter than most managers give them credit for and while unfair advantages are often a fact of life that just has to be dealt with, SME managers all over the world tend to overstate the unfair advantages of their competitors.

How: work to understand the SMEs competitors and their managers. Attend forums that competitors will also likely attend. Try to meet them and get to know them. Assume that competitors are well managed and will make smart competitive moves unless there is evidence to the contrary.

DEVELOPING CLEAR COMPETITIVE ADVANTAGES

SMEs often do not have a strategy to develop clear competitive advantages. Beating the competitors requires the development of clear competitive advantages. The key is that the firm needs to identify, create, and leverage advantages if it is going to succeed. These advantages can come from several sources:

STRATEGY	EXPLANATION
Superior vision	Superior vision allows the firm to identify and serve opportunities that other competitors may not realise exist, or to do so in new ways.
<p>How: invest time in thinking about the future of the industry and the opportunities that are likely to arise. Talk to customers, suppliers, and industry experts about the future of the industry and consult with them about the role that the SME is likely to play in the industry in the future. Spend time reflecting on how the SME is currently positioned and where it needs to be positioned to remain competitive into the future.</p>	
Superior knowledge	Superior knowledge of customer requirements, technological solutions, production processes, distribution channels, sources of supply, and government regulations and policies can all be sources of advantage.
<p>How: maintain regular contact with customers and ask them about their needs and their requirements. Gather information via industry surveys, through online research, and via attendance at industry events, to develop superior knowledge of the industry and its component parts. Subscribe to industry journals and join industry associations. Talk to industry experts about industry developments and about likely changes in customer profiles and needs.</p>	
Superior resources	Superior human resources, financial resources, locations, brands, reputation, and relationships can all be important sources of advantage.
<p>How: talk to industry sources to find out what resources, people, consultants and other, are recognised as being the best in the industry. Use the best recruitment firms and other reputable channels to hire the best people to work in the business. Ensure close ties with investors and banks so that funds are available as needed to grow and develop the business. Talk to real estate experts to figure out the best location(s) for the business. Invest time and money in developing relationships with key stakeholders. Protect the firm's reputation at all costs.</p>	
Superior capabilities	Superior research, design, production, marketing, sales, and administration capabilities can be key sources of advantage.
<p>How: hire the best consultants and the best people to do research, design, production, marketing, sales, and administration work. Invest in the best systems and software platforms to aid this work. Emphasise quality of work over all else. Hold staff accountable for their performance and reward superior performance so that it becomes the benchmark for the firm rather than being merely aspirational.</p>	
Combinations of advantages	The most sustainable advantages are systemic advantages that result from combinations of advantages in vision, knowledge, resources, and capabilities.
<p>How: identify and list the various advantages that the SME possesses. Identify ways in which the advantages can be linked to strengthen them through combination and put in place systems that create and reinforce these linkages.</p>	

MARKETING AND SELLING TO EXISTING AND POTENTIAL CUSTOMERS

Many SMEs have relatively haphazard marketing and sales processes. A better focus on marketing and selling can improve performance in most SMEs:

STRATEGY	EXPLANATION
Focus marketing on firm advantages	Marketing must be based on reality. It should focus on how the SME creates value for its customers and on the SME's advantages versus competitors.
<i>How: identify the SME's advantages. Determine which of these will most appeal to customers. Work with marketing experts to develop marketing and promotional materials that will highlight the SMEs advantages and make it clear how and why the SME is better than the competitors.</i>	
Focus on high-value issues of customers	Customers have their own strategies and imperatives (expanding sales, cutting costs, etc). Marketing should focus on what the SME can do to help the customers carry out their strategies and meet their imperatives.
<i>How: ask customers about their strategies and their imperatives. Work to understand the customers by meeting with them, talking to them, surveying them, and researching them. Respond to the messages received from customers and the knowledge that is obtained about their needs and their requirements by crafting marketing materials and messages that "speak" to those issues.</i>	
Understand the 80/20 rule	For most SMEs, 80 per cent of sales come from 20 per cent of customers. This means the focus should be on identifying customers that can be part of the 80 per cent.
<i>How: identify which customers are currently part of the 80 per cent and which customers have the potential to become part of the 80 per cent. Focus on these customers. Ask them what can be done to increase sales to them or to add value to the relationship in ways that are remunerative to the SME.</i>	
Estimate the cost of acquiring and serving particular customers	Too many SMEs chase sales that are expensive to acquire and retain. Customers that are too expensive to acquire and retain should receive less sales effort.
<i>How: identify the customers that are easy to acquire and retain and those that are difficult to acquire and retain. Talk to sales staff and customer relationship managers to determine what makes a "good" versus "bad" customer in terms of time, effort, and payback. Focus on attracting profitable customers that are easy to acquire and retain. Customers that are not profitable for the SME should not be pursued.</i>	
Understand the value of "post-sales marketing"	The majority of sales of most SMEs come from repeat orders. Following up after delivery to ensure customer satisfaction and to get information on future requirements is a good way to expand business with new customers.
<i>How: put in place a system for automatic order follow-up. Ask for customer feedback on their experience in dealing with the SME. Provide for feedback mechanisms online, or via email contact, and make it clear how feedback can be sent to the SME and how it will be dealt with. Always "close the loop" with customers by responding to their feedback and any issues that they raise. Emphasise a mission of "continuous improvement" with your customers and let them know that they are valued by the SME.</i>	

Use a range of marketing tools

SMEs should not rely on a single marketing tool, but should use a variety of means, such as word of mouth, trade fairs, advertising in trade publications, cold calls, referrals, and other means.

How: consult with professional marketers to learn what marketing tools are available to the SME and at what cost. Commence wide-ranging marketing activities using all of the marketing tools that are available and that pass the “benefit exceeds cost” test.

Ensure that payment and credit terms are well understood and due diligence is performed on customers

Agreement on payment and credit terms should be part of every sale. Due diligence on the creditworthiness and trustworthiness of customers is also extremely useful to the sales process.

How: make payment and credit terms an explicit part of the sale agreement. Ensure that customers agree to the terms by signing an acknowledgment of them. Do background checks on customers to ensure that they have a good credit history. Talk to other firms and to industry sources to obtain information that is available to identify customers that don't pay or renege on previously agreed terms of sale.

FINANCING OPERATIONS AND FINANCIAL MANAGEMENT

SMEs often have a difficult time obtaining financing for start-up, expansion, and working capital. In addition, many SMEs have rudimentary financial management that can cause problems. The following are some steps that can be taken to improve firm finances:

STRATEGY	EXPLANATION
Develop strong relationships with banks	Outside of family funds and retained earnings, banks are the main source of finance for SMEs. Developing strong banking relations may be critical to receiving bank support in difficult times.
	How: maintain regular contact with the banks that the SME deals with. Form a relationship with one or more bankers at each bank. Take them to lunch or otherwise socialise with them. Talk to them about the SME's needs and about future plans. Ask for their advice on the development and growth of the SME. Talk to banks that the SME does not presently have a relationship with. Identify ways in which the SME might work with those banks in the future and put in place contingency plans to move the SME's business to one or more new bank(s) if the relationship with the present bank(s) deteriorate.
Establish credit lines	Even though there is an expense to establishing credit lines, establishing them in advance of need is always preferable to waiting until the need arises when terms may be more difficult.
	How: talk to a range of banks, including those that the SME presently deals with as well as at least one other strong and reputable bank that the SME does not presently deal with, about putting credit facilities in place. Explain the SME's needs and future plans to the bank and identify why the credit line might be needed. Negotiate with the bank for the best possible terms on establishing a credit facility.

Consider SME support programmes

SME support programmes can be sources of loans at low rates. SME managers should be aware of these programmes and the potential benefits of using them.

How: search government and industry websites for information on SME support programmes. Talk to industry groups and industry experts to find out what SME support programmes are available, whether the SME qualifies for support, and how to apply for support.

Use asset-backed financing when necessary

Selling receivables, and borrowing against assets like land, plant and equipment, and receivables may be used as sources of finance.

How: talk to banks and other credit providers about how to put asset-backed financing arrangements in place. Consider whether the interest to be paid on such schemes, as well as other costs, justify the use of this type of finance versus other financing options that are available.

Institute strong cash management policies

Weak cash management is the most common reason that SMEs fail. Companies should know their cash position on a daily basis.

How: check cash bank balances regularly. Prepare regular cash flow statements and monitor cash inflows and outflows. Prepare cash forecasts that identify future cash needs and prepare a plan that explains how these cash needs will be met. Ensure that proper authorisation is required before cash commitments are made.

Keep enough cash in the business

In most cases, the primary source of income for the SME owner is the SME's profit. Enough profit, however, needs to be retained in the company to see it through difficult times.

How: prepare regular cash flow statements and monitor cash inflows and outflows. Prepare cash forecasts that identify future cash needs and prepare a plan that explains how these cash needs will be met. Keep sufficient cash in the bank to meet forecast cash needs.

Institute a minimum balance policy

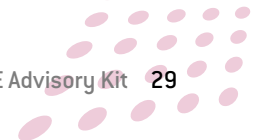
SMEs should institute policies that require a minimum cash balance that allows them to meet their obligations for several months.

How: for a three month period (or longer) identify and forecast all cash commitments. Keep that amount in the bank as a minimum cash balance.

Assess creditworthiness of customers carefully

Before selling on credit, a careful assessment of customer creditworthiness should take place. Otherwise cash sales should be considered.

How: ask the customer for references. Ask the customer to provide evidence of ability to pay – this may include bank statements or commitments that are endorsed or underwritten by the bank or another credit worthy third party. Check with credit agencies to see if the customer has a track record of not paying or not paying on time. Check with regulatory agencies to confirm that the customer is a company in good standing. Look at customer financial statements, and at other information in the public domain to find evidence of financial strength and an indication of solvency.



<p>Pursue payment aggressively</p>	<p>Non-payment by customers can threaten the survival of the SME. Strategies for identification and collection of debts should be in place to minimise the problem.</p>
<p>How: impose firm time limits for payment by customers. Maintain a schedule of aged debtors and chase outstanding debts as soon as the agreed time for payment is exceeded. Offer discounts to customers for early payment of amounts they owe. Impose penalties on customers for late payment.</p>	
<p>Take advantage of terms on payables</p>	<p>Stretch payables to the extent possible under contracts and seek early payment discounts to optimise cash positions.</p>
<p>How: pay suppliers only when payment is due. Do not make early cash payments, unless there are discounts. Approach suppliers and request that a longer time period for payment of credit items be granted to the SME.</p>	
<p>Understand key financial ratios and reports and use them as management tools</p>	<p>Track cash flows, interest coverage ratios, profitability ratios, etc on an ongoing basis to monitor performance.</p>
<p>How: identify the financial metrics that are important to the SME in terms of monitoring short-term and long-term performance, as well as compliance with regulations and with restrictive covenants imposed by banks and others. Regularly and systematically gather the information that is required to calculate and produce these metrics. Set aside time to review, analyse, and interpret the financial metrics and to deliberate on what they mean to the SME and how the SME might need to react or respond in the case of poor numbers.</p>	
<p>“Stress test” financial position</p>	<p>SME managers should “stress test” the firm’s financial position by projecting what the cash position would be if the market had a significant downturn, if a major customer took their business elsewhere, if commodity prices suddenly rise, or if labour rates or other costs were to suddenly shoot up. The firm should seek to ensure that its financial position would be sound even in the face of such stress.</p>
<p>How: identify the variables that could change over a short period of time and prepare a financial model that shows the impact on the SME of calibrated changes in each variable. Also, model the interaction effects assuming simultaneous change in several, and perhaps all, of the variables. Determine what the financial needs of the SME would be in the event that such changes took place. Put mechanisms in place to cover any financial shortfall that is projected to arise under the different scenarios.</p>	

ADMINISTERING AND MANAGING THE FIRM

Many SMEs have a difficult time administering and managing the firm. This is usually due to a shortage of managerial and office support talent coupled with expanding administration and management tasks. High priority areas include:

STRATEGY	EXPLANATION
Ensure legal and regulatory compliance	Know the relevant laws and regulations and set up an early warning system to monitor changes in laws and regulations. Use outside professionals when necessary to advise on legal and regulatory matters.
<p>How: talk to regulators, legal professionals, and other advisors to understand the legal and regulatory obligations that apply to the SME. Regularly visit relevant websites to obtain up-to-date information. Attend briefings and seminars by regulators, industry associations, professional groups, and other organisations that are designed to give updates on regulatory and compliance matters. Establish an internal checklist of things that need to be done to ensure compliance. Appoint a compliance officer to monitor compliance.</p>	
Implement suitable workplace safety regulations to minimise on-the-job risks	Accidents in the workplace can harm a firm's reputation as well as its productivity. A firm that is seen to be caring about its employees is likely to have a more loyal and supportive workforce and is likely to have fewer safety issues.
<p>How: SMEs should ensure that workers are well trained in the safe use of machinery, and that machinery and vehicles are properly maintained. SMEs also should ensure that there is a culture that encourages safety in the workplace.</p>	
Provide ongoing training for staff consistent with the needs of the business	Staff training is crucial across the board. Employees will usually not become more productive without some form of training. Investments in training can be seen as investments in productivity improvement.
<p>How: ask employees what training they think is needed. Review employee skill sets and match them against job requirements to identify any gaps in skill or ability. Identify training that will close the gaps. Talk to providers of training programmes such as the Hong Kong Productivity Council, the Hong Kong Management Association, and the Vocational Training Council about the programmes that they offer. Join their mailing lists and visit their websites to obtain information and updates about training programmes. Provide on-the-job training in the form of mentoring from more experienced or senior staff. Establish a "learning culture" within the organisation that encourages learning.</p>	

Seek cost-reducing business processes

Bookkeeping, accounting, payroll, simple IT functions, and other processes can often be outsourced inexpensively. If not, ensure that in-house personnel can take on these functions in a cost-effective manner.

How: identify the business processes that can and should be done in-house and those that can be outsourced. For in-house processes, ensure that the staff given the responsibility for administering the process are trained and are doing the work in the most efficient and effective manner. Outsourced processes usually will be processes that are not part of the core business and can be done by a professional services firm. Identify the firms that specialise in doing the processes that are to be outsourced. Talk to these firms and obtain advice and quotations from them. Determine which providers of outsourced services offer the best performance at the best price and enter into a contractual relationship with the provider for delivery of the services that are required.

Develop strong human resources policies

Dealing with employees is one of the most important functions of the firm. SMEs should attempt to ensure that their HR practices are attractive to workers. In a competitive market, workers who feel that they are well treated and respected, who are fairly paid, who receive workplace training and on-the-job support, and who can see a future with the company are less likely to leave to seek opportunities elsewhere.

How: benchmark the SME's HR policies and practices against other firms and against the industry as a whole. Conduct regular pay and performance reviews and talk to employees about their terms and conditions, their expectations, and their future career plans. Ensure that the SME's HR policies are clearly understood by all employees. Ensure that avenues for appealing HR practices and decisions regarding HR matters are in place and that employees have an opportunity to air grievances in an appropriate way and to be heard by senior management if they have cause for concern. Designate a senior staffer as being a workplace counsellor and encourage employees to talk to that person. Ask the employees what types of training and on-the-job support they need or would like and consider providing it. Promote employees when their performance warrants promotion.

Use IT effectively

Computers and IT systems can be a huge benefit in administering the SME. Ensure that someone in the firm has the necessary skills to use IT to support the firm across its administration tasks. SMEs should also have computer security, data control, off-site storage, disaster recovery, and data location (where they want their data stored) policies.

How: put someone who is senior and has the appropriate training in charge of overseeing and managing the development and use of IT. Conduct regular reviews of the SME's computer and IT needs and consult with users about what they need from the firm's computer and IT systems. Visit industry association forums and trade fairs, and talk to suppliers of computer and IT systems to better understand what computer and IT systems are available to the SME and how the technology is changing. Prepare a checklist of the various computer- and IT- related tasks that need to be performed, such as data backup, and regularly perform a check to ensure that all tasks have been completed.

Set up strong sales procedures

Often SMEs have rather haphazard sales procedures. The firm should set forth clear sales procedures that identify how much discretion sales people have in making sales, what credit checks of customers may be necessary, what practices are not acceptable from sales staff, and how sales are to be logged into company accounts and systems.

How: establish clear written procedures relating to the sales and marketing function and ensure that those procedures are understood by all employees involved in sales and marketing. The procedures may be developed in consultation with professional advisors, industry and trade associations, staff, and professional bodies for sales and marketing professionals. The procedures should be sufficiently flexible to allow for management discretion in exceptional cases and should be reviewed in response to exceptional cases that arise as well as changes in market and customer dynamics.

Set up strong purchasing procedures

SMEs should have procedures that govern arrangements with suppliers, quotation requirements, acceptance procedures, and payment processes. The payment system should ensure payments are made in a timely manner, against valid invoices, and without overpayment or duplicate payments.

How: establish clear written procedures relating to the purchasing and payment function and ensure that those procedures are understood by all employees involved in purchasing and in making payments to suppliers. The procedures may be developed in consultation with professional advisors, industry and trade associations, staff, and professional bodies for purchasing and accounts professionals. The procedures should be sufficiently flexible to allow for management discretion in exceptional cases and should be reviewed in response to exceptional cases that arise as well as changes in market and supplier dynamics.

Set up strong monitoring and control functions

SMEs often do not have strong monitoring and control functions. As a result, they often recognise problems only when it is too late. Inventory control, cash control, fraud prevention, risk management, and internal reporting procedures are all crucial to firm success.

How: establish clear written procedures for internal control and ensure that those procedures are understood by all employees. The procedures may be developed in consultation with professional advisors, industry and trade associations, staff, and professional bodies that are focused on internal control issues. The procedures should be reviewed in response to exceptional cases that arise as well as changes in the SME and the environment in which it operates.

KEEPING UP TO DATE ON MARKET, TECHNOLOGICAL, AND MANAGEMENT DEVELOPMENTS

Many SME owners and managers are so busy managing their companies that they do not keep up to date on market, technological, and management developments. Doing so is crucial for companies to be able to compete effectively. SMEs cannot afford to lose customers to their competitors on the basis of slow response times or lack of current knowledge. Steps that can be taken include:

STRATEGY	EXPLANATION
<p>Keep up to date on market developments</p>	<p>SMEs often are not up to date with developments in the markets in which they operate. Being out of touch with the market(s) creates an environment in which it is hard to form proper views and to exercise proper judgement on matters relating to the business. Putting a structure and systems in place that monitor market developments and feed them back into a management system for alert and potential action is worthwhile.</p>
<p><i>How: meetings with customers and potential customers, the general business press, trade publications, and active participation in industry associations can aid in this area. The Hong Kong Trade Development Council also provides periodic market updates for major markets and industries.</i></p>	
<p>Keep up to date on technological developments</p>	<p>SMEs often are not up to date with technological developments that relate to their industry and that might help their business. Having the right technology in place will make the business more efficient and effective.</p>
<p><i>How: customers, trade press, industry associations, consultants, and organisations like the Hong Kong Productivity Council are potential sources of information on technological developments. These organisations may work with the SME to help it keep up to date on technologies that can help it prosper and grow.</i></p>	
<p>Keep up to date on management developments</p>	<p>SMEs often are not up to date with management developments that relate to their industry and that might help their business. Having the right management practices in place will make the business more efficient and effective.</p>
<p><i>How: industry associations, chambers of commerce, business schools, and organisations like the Hong Kong Management Association are potential sources of information on management developments relevant to SMEs. These organisations may be prepared to help the SME adopt new management practices by teaching it about the management practices or by consulting it on what new management practices are available and how they might be used to improve its business performance.</i></p>	

REDUCING DEPENDENCE ON INDIVIDUAL CUSTOMERS AND SUPPLIERS

Many SMEs rely on individual customers for a disproportionate part of their business. While this is natural in a start-up, overreliance on a single customer puts the SME at the mercy of that customer and makes any downturns in that customer's business difficult to deal with. Many SMEs also rely on a small number of suppliers so that disruption of inputs from a single supplier can create enormous difficulties.

STRATEGY	EXPLANATION
Diversify customer base	Companies cannot rest once they get a single customer, even if that customer takes up the existing capacity of the SME. The concentration of risk in one customer is highly undesirable.
<i>How: the SME should continue to search for new customers to diversify risk and reduce bargaining power of the single customer.</i>	
Seek guarantees	If a customer demands exclusivity, the SME should seek financial guarantees to offset the associated risks.
<i>How: talk to the customer and explain the opportunity cost to the SME and the risk to the SME that arises when it has a single customer, or a single customer for a particular line of business. Ask the customer to guarantee a volume of business, or to give other guarantees that offset this cost and risk.</i>	
Identify multiple suppliers	Even if the SME's present suppliers are satisfactory, additional suppliers should be identified for overflow capacity, to keep pressure on existing suppliers, and so that a new supplier can take over supply in the case of a disruption to supply.
<i>How: talk to industry and trade associations and do desktop research to identify the range of available suppliers. Find out which suppliers competitors use. Talk to the suppliers that are identified about supplying the SME. Try to put an agreement in place that can be triggered in the event of need. Solicit quotes from multiple suppliers. Use online auctions if possible to attract new suppliers.</i>	

ADDITIONAL CHALLENGES

There are several other challenges that SMEs face. Approaches to dealing with some of these challenges include:

STRATEGY	EXPLANATION
Enhance firm reputation and goodwill	A reputation for reliability, high product standards, fair dealing, and willingness to be flexible when necessary can be a key competitive advantage for the firm. Avoiding situations that might damage reputation and goodwill is also crucial.
<i>How: be ever mindful and aware of the potential for both professional and personal conduct on the part of owners and managers to adversely impact on the reputation of the business. Adopt a zero tolerance approach to illegal, unethical, unfair, immoral, and otherwise inappropriate actions and behaviour. Ensure that clear directives, guidelines, and policy manuals exist to guide the firm and its staff.</i>	
Seek outside advice when necessary	While professional services may be expensive, SMEs need to be able to call on lawyers, accountants, consultants, IT specialists, and others when necessary.
<i>How: talk to professional advisors to find out what they can do for the SME – the SME can ask the professionals to provide services only if the SME is aware of what services are available. Form a relationship with respected professionals in each of the fields that the SME requires. Be honest about the limits to internal knowledge in the SME and seek advice from professionals when direction and guidance is needed.</i>	
Manage government relations carefully	Government relations are particularly important in the Chinese Mainland. SME owners and managers operating in China should find ways of interacting with officials on a regular basis to build up dialogue and understanding.
<i>How: spend more time dealing with government officials, particularly in the Chinese Mainland. Spend time socialising with officials after hours. Consider employing a public relations firm or a consultant with the necessary skills to liaise with government officials on behalf of the SME so as to highlight the positive things that the SME is presently doing and plans on doing into the future.</i>	
Develop long-term relations with key customers and suppliers	Long-term relationships allow for better understanding and the potential for developing true partnerships with selected customers and suppliers.
<i>How: maintain regular contact with customers and suppliers to better understand their needs and to better communicate what the SME can do for them or with them. Spend more time socialising with customers and suppliers after hours. Ask customers and suppliers what their requirements are and how they plan on developing their business. Clearly communicate all new product and service developments by the SME, as well as the requirements and business direction of the SME, to existing customers and suppliers in a timely way to ensure that they remain aware of what the SME does and can do for and with them. Consider developing new products and services, or otherwise innovating what the SME does, in partnership with existing customers and suppliers.</i>	

Do forward-looking risk analysis

SME managers often claim to be too busy to do proper risk analysis. However, SME managers need to determine what could go wrong in the external and internal environments and prepare for the potential for such events to occur. Risk assessment should focus on the likelihood and potential magnitude of disruption caused by risk events. Contingency plans then should be made for the most important risks. Ongoing risk assessment and contingency planning is often the difference between survival and death for SMEs.

How: identify the risks that the SME is exposed to and prepare a model or other plan that shows the likely impact on the SME if the risk materialises. Determine what the needs of the SME would be in the event that a risky event happened. Put mechanisms in place to cover any financial or other resource shortfalls that are projected to arise under the different risk based scenarios. Review the risk framework regularly to ensure that all present risks have been considered.

Plan for succession

Succession planning can be difficult for SMEs, particularly if the founder has no relative ready and willing to take on the task. Without a succession plan, there is a risk that the business will collapse if something unexpected happens to the present senior manager in the business.

How: identify possible successors and talk to them about whether or not they have an interest in taking over the management of the business at some point. It is best to think about succession planning early, to groom potential successors, to consider turning over management to professional managers if there is no ready successor, or to identify potential buyers if the owner-operator wishes to sell out. Once a successor is identified, a plan to communicate this fact to the staff, customers, suppliers, and significant others, should be developed.

Questions that Hong Kong SMEs Must Answer

The challenges and strategies available to Hong Kong manufacturing SMEs lead to many questions that they need to be able to answer about their business:

- Which strategy or strategies will the SME use to deal with cost pressures?
- Which strategy or strategies will the SME use to differentiate itself to gain some pricing flexibility?
- Which strategy or strategies will the SME use to deal with labour market pressures?
- Which strategy or strategies will the SME use for its business model development?
- Which geographic markets will the SME focus on?
- Which strategy or strategies will the SME use to deal with regulatory and policy-related issues?
- If exit or consolidation strategies are appropriate, which strategy or strategies will the SME use?

In order to answer these questions, the SME will have to answer several other questions about their business and business environment. These include:

- What is the competitive balance among Hong Kong firms, between Hong Kong and Mainland Chinese firms, between Hong Kong and foreign firms operating in China, and between Hong Kong firms operating in PRD and firms operating in other locations?
- What are the sources of advantage and disadvantage for each type of firm? What are the specific sources of advantage and disadvantage for the individual SME?
- What is the specific cost structure of their own business in the PRD (or wherever they are located) versus other places today, and how is the comparison evolving?
- Does the sector in which the SME competes have a future in Southern China, or should new locations be sought urgently?
- What are the customer segments that are available to the firm and what are the customer requirements in the different segments?
- For companies operating in the Chinese Mainland, how is their sector perceived by the Municipal, Guangdong, and Chinese Governments? Does it get favourable, unfavourable, or neutral attention?
- To what extent are environmental or product safety regulations important in the sector?
- What new business models or activities might be open to the firm?
- Which of the external issues is most pressing for their business?
- Does the firm have a clear strategy targeting specific types of customers, with plans to satisfy their needs, with specific competitive advantages, and with the resources necessary to carry out the strategy?
- Does the firm have a clear view of what it can and will do better than competitors?
- Does the firm have the managerial, administrative, and operational capability to carry out the strategy effectively? If not, how can these capabilities be obtained?
- Does the firm have sound financial, marketing and sales, administrative, control, and risk management processes in place?
- Who will manage the firm into the future?
- When might it be necessary or beneficial to engage in collective action with respect to supply chain development, relocation, or other issues?

It will be very difficult for Hong Kong's manufacturing SMEs to survive and thrive if they do not have good answers to these questions.

Sources of Assistance for SMEs

There is a wide range of support programmes available to Hong Kong manufacturing SMEs. SME managers should be aware of such programmes and the benefits that they may bring. The following is a selection of programmes:

Programmes for SMEs by Hong Kong Government Departments and Supporting Units

ORGANISATION	PROGRAMME
CreateHK	<p>Design-Business Collaboration Scheme (DBCS) http://www.designsmart.gov.hk/eng/DBCS.asp</p> <p>The DBCS aims to support SMEs in utilising design and transforming design activity in ways that enable the exploitation and deployment of intellectual property including patent, copyright, trademark, and industrial design. SMEs are required to partner with a Hong Kong based design company or academic institution. Funding support is limited to HK\$100,000 for each SME in support of four projects at most. Funding is in the form of a matching grant at 50 per cent of the approved project cost or HK\$100,000, whichever is lower.</p>
CreateHK	<p>The Design Smart Initiative http://www.designsmart.gov.hk/eng/TipsForApp.asp</p> <p>The Design Smart Initiative was set up by the Government to strengthen the support given to design and innovation in business, to instil into our industries high value-added, high intellectual property and creativity content, and ultimately to turn Hong Kong into a focal point of design excellence in the region. The Initiative includes a Design Support Programme and an InnoCentre. Four schemes make up the initiative. The Design-Business Collaboration Scheme (DBCS) aims at promoting collaborations between design and Small and Medium Sized Enterprises (SMEs). The Design Research Scheme (DRS) aims at supporting worthwhile research in design or branding-related areas. The General Support Scheme (GSS) aims at promoting and honouring design excellence in Hong Kong. The Professional Continuing Education Scheme (PCES) aims to develop professional continuing education courses in design.</p>
Hong Kong Export Credit Insurance Corporation (ECIC)	<p>http://www.ec-link.com.hk/leclink.html?lang=en</p> <p>ECIC offers insurance protection to exporters of goods and services who trade with overseas buyers on credit terms. In February 2009 the insurance upper limit was raised from HK\$15 billion to HK\$30 billion. This measure will provide more protection for Hong Kong exporters. The ECIC will provide a waiver of policy fee until the end of 2010. Under this measure, the annual fee of HK\$1,500 for policy with commencement date on or before 1 December 2010 will be waived.</p>
Hong Kong Intellectual Property Department (HKIPD)	<p>Intellectual Capital Management Service http://www.ipd.gov.hk/eng/icm.htm</p> <p>The Intellectual Capital Management (ICM) service offers a set of simple management tools which are designed to allow enterprises to tap into areas of knowledge and expertise that are already within a firm but which may not have been effectively leveraged. There are tools to help SMEs better understand competitive pressures from outside and to identify their needs for improved knowledge and expertise. The ICM programme is free of charge and it aims to minimise the time that small firms need to invest in order to participate with services being provided to the firm at their premises.</p>

ORGANISATION	PROGRAMME
<p>Hong Kong Productivity Council (HKPC)</p>	<p>TURN service platform http://www.hkpc.org/turn/services.html</p> <p>“TURN” – “Transform, Upgrade and Relocate for New Horizon” – launched in June 2008 aims to provide a basis for collaboration on information dissemination and resource pooling, and to provide assistance to enterprises in need of business transformation and upgrading.</p> <p>To date the TURN project has conducted a feasibility study to explore the investment environment of new industrial zones in the Mainland with a view to providing useful information for Hong Kong manufacturers interested in relocating their operations from Hong Kong or the PRD to other locations in mainland China, and updated manufacturers on the latest Mainland policies, TURN opportunities, and SME success stories.</p> <p>TURN offers:</p> <ol style="list-style-type: none"> 1 Field Evaluation – where consultants visit a factory to evaluate the manufacturing operation and to provide suggestions for improvement. 2 One-stop Support – where the latest information on new services and supporting plans provided by governments in Hong Kong and in Mainland China is provided, and where information about policies affecting SMEs is given. 3 Promotion – this involves arranging seminars as well as tours for groups to Hong Kong and to the PRD so as to inform firms of processing trade policies, to showcase successful cases of business transformation, and to offer advice on other business opportunities. 4 Support Centre in Shenzhen – where firms can find out about the latest services offered to SMEs.
<p>HKPC</p>	<p>Industry Support Services http://www.hkpc.org/index.php?option=com_content&view=article&id=18&Itemid=56&lang=en</p> <p>The HKPC provides one-stop services to a wide range of Hong Kong industries including the toy, machinery & tooling, electronics, electrical appliances, automotive components, watch & clock, jewellery, medical & healthcare device, textiles and apparel, logistics & supply chain management, and creative industries. HKPC provides professional services to help enhance the value-added content of their products and services. HKPC monitors industry needs and trends, disseminates industry news such as market and technology trends, and assesses the performance of Hong Kong industries. In addition, HKPC works with industrialists, trade associations, R&D institutions, and governments to enhance the competitiveness of the industries.</p>
<p>HKPC</p>	<p>Domestic Sales Alliance for Hong Kong and Guangdong Jewellery http://www.hkpc.org/index.php?option=com_content&view=article&catid=62%3Asubsidaries&id=2103%3Amainland8&Itemid=220&lang=en</p> <p>The HKPC, together with three industrial associations in Hong Kong, has established a ‘Domestic Sales Alliance for Hong Kong and Guangdong Jewellery’ with the PRD city of Panyu to provide one-stop assistance to Hong Kong Jewellery manufacturers to develop their domestic sales business.</p>
<p>HKPC</p>	<p>CP3 http://www.cleanerproduction.hk/en/main.asp</p> <p>The five-year Cleaner Production Partnership Programme launched in April 2008 is a major platform for HKPC to promote cleaner production and low carbon practices to manufacturers in the PRD. The objective of this five-year Programme is to encourage and facilitate Hong Kong-owned factories in the PRD region to improve energy efficiency and reduce air pollutant emissions through the adoption of cleaner production technologies and practices.</p>

ORGANISATION	PROGRAMME
Hong Kong Trade Development Council (HKTDC)	<p>Powering SMEs Development Programme http://www.hktdc.com/info/milsbrien/Small-Business-Resources.htm</p> <p>This joint programme was launched by HKTDC and Standard Chartered Bank (Hong Kong) Limited in 2008. Through a series of seminars and workshops, the programme aims to expand the touch points for SMEs and equip them with the right gears to explore new market opportunities.</p>
HKTDC	<p>Business Advisory Services and China Business Advisory Service http://www.hktdc.com/info/mila/sbrien/1X04VVIX/1/Small-Business-Resources/HKTDC-Business-Advisory-Services.htm</p> <p>This service offers individual consultations to businesses to provide them with professional and practical information related to doing business worldwide. There is a particular focus on doing business in Mainland China, including marketing strategies, government regulations, customs, intellectual property rights, and taxation. The China Business Advisory Service is offered with the support of the China Ministry of Commerce and the Guangdong Trade and Economic Cooperation Department, as well as a number of Chinese enterprises and professionals in Hong Kong.</p>
HKTDC	<p>Small Business Resources http://www.hktdc.com/info/milsbrien/Small-Business-Resources.htm</p> <p>The HKTDC website aggregates external links and suppliers that are useful to SMEs, covering areas such as certification, SME finance, import/export procedure, trade regulations, vocational training, business tools, and how to set up business in Hong Kong, among others.</p>
HKTDC	<p>Business Matching Service http://businessmatching.hktdc.com/main.jsp</p> <p>The HKTDC offers customised services to help businesses find potential business partners and to open the domestic market in Mainland China. The HKTDC's business matching specialists will for a fee identify potential partners from a proprietary database of 600,000 buyers and suppliers.</p>
HKTDC	<p>Online Promotion Platform http://www.hktdc.com/sourcing</p> <p>This service enables businesses to promote their products and services on the online platform provided by the HKTDC so as to contact potential buyers around the world.</p>
HKTDC	<p>Market Intelligence http://www.hktdc.com/info/mililen/Market-News.htm</p> <p>The HKTDC has a webpage that is dedicated to providing market intelligence to SMEs and other businesses. The service gives the latest news and analysis about global trade, policies, opportunities, and developments in different economies and markets with a view to inspiring business ideas.</p>
HKTDC	<p>Guides to Doing Business http://www.gov.hk/en/business/businessmainland/businessinfochina/ http://www.hktdc.com/info/milbgus/en/ http://www.hktdc.com/info/milbgeulen/Guide-To-Doing-Business-With-EU.htm http://www.hktdc.com/info/milbgem/en/Guide-To-Emerging-Markets</p> <p>These guides provide market overviews, summaries of key rules and regulations, and other information useful to penetrating markets around the world.</p>

ORGANISATION	PROGRAMME
Trade and Industry Department (TID)	<p>Directory of Hong Kong Trade and Industrial Organisations http://www.tid.gov.hk/english/aboutus/publications/industrialsupp/hktio.html</p> <p>The HKTID also maintains a directory of Hong Kong trade and industrial organisations which contains information of over 300 organisations in the trade and industry sectors in Hong Kong, including chambers of commerce, trade and industrial associations, government funded organisations, and professional bodies.</p>
TID	<p>Special Loan Guarantee Scheme http://www.smefund.tid.gov.hk/eng/leng_main.html?content=/eng/spgs.htm</p> <p>The Special Loan Guarantee Scheme (SpGS) aims to help enterprises secure loans from participating lending institutions (PLIs) for meeting general business needs to tide them over during liquidity problems during the global financial crisis. The Government acts as the guarantor for the loan. Applications for the Scheme will be taken up to 31 December 2010. The Government will provide a guarantee of up to 80 per cent of the approved loan. The maximum loan amount for each enterprise is HK\$12 million. The maximum guarantee period for each loan is 60 months.</p>
TID	<p>SME Loan Guarantee Scheme http://www.smefund.tid.gov.hk/eng/leng_main.html?content=/eng/sgs.htm</p> <p>The SME Loan Guarantee Scheme (SGS) aims to help SMEs registered in Hong Kong secure loans from participating lending institutions (PLIs) for acquiring business installations and equipment and meeting working capital needs of general business uses. The overall objective is to assist SMEs to enhance productivity and competitiveness. The amount of guarantee for an SME is 50 per cent of the approved loan, subject to a maximum amount of HK\$6 million. The guarantee can be used to secure loans for either business installations and equipment or working capital, or a combination of both.</p>
TID	<p>SME Development Fund http://www.smefund.tid.gov.hk/eng/leng_main.html?content=/eng/sdf.html</p> <p>The SME Development Fund (SDF) aims at providing financial support to projects carried out by non-profit-distributing organisations operating as support organisations, trade and industrial organisations, professional bodies or research institutes to enhance the competitiveness of Hong Kong's SMEs in general or SMEs in specific sectors. Applicants shall either be a statutory organisation, or a registered organisation under the laws of Hong Kong Special Administrative Region. Projects in receipt of other public funding are not eligible for funding. The maximum amount of the grant for each project is HK\$2 million or 90 per cent of total project expenditure, whichever is lower. Applicants are generally required to contribute some money to their projects</p>
TID	<p>SME Export Marketing Fund http://www.smefund.tid.gov.hk/eng/leng_main.html?content=/eng/emf.html</p> <p>The SME Export Marketing Fund (EMF) aims at helping SMEs registered in Hong Kong expand their businesses through participation in export promotion activities. The fund subsidises participation by SMEs in export promotion activities held either inside or outside of Hong Kong including attendance at trade fairs. Successful applicants will receive 50 per cent of the fundable items of approved export promotion activities or HK\$50,000, whichever is less.</p>
TID	<p>Support and Consultation Centre for SMEs (SUCCESS) http://www.success.tid.gov.hk/index.html</p> <p>SUCCESS provides SMEs with a comprehensive range of business information, advice and facilities. It is intended to be a first stop for SMEs looking for free business information and practical consultation services. The Centre collaborates with a range of professional bodies, industrial and trade organisations, private enterprises, and government departments to obtain comprehensive business information that can be shared with SMEs. SUCCESS provides a free "Meet-the-Advisors" Business Advisory Service that enables SMEs to consult with experts and obtain their free opinions on business issues. SUCCESS publishes a journal in Chinese entitled "SME Pulse" which profiles successful SMEs and their owners and also gives updates on Government support measures and services for SMEs.</p>

ORGANISATION	PROGRAMME
TID	<p>SME Mentorship Programme http://www.success.tid.gov.hk/english/con_ser/sme_men_pro/sme_men_pro.html</p> <p>The SME Mentorship Programme provides opportunities for SME entrepreneurs who are in the early stages of business to learn from more established and experienced entrepreneurs, as well as senior executives, and other professionals. Mentors provide one-on-one free counselling to mentees.</p>
Vocational Training Council (VTC) and Federation of Hong Kong Industries (FHKI)	<p>Careers China http://careerschina.vtc.edu.hk/</p> <p>This is a collaborative project between VTC and the Federation of Hong Kong Industries to provide learning support for VTC students in the Mainland with a view to creating employment opportunities in the SME sector as well as providing training to workers already working in the sector.</p>
Innovation and Technology Commission (ITC)	<p>Innovation and Technology Fund (ITF) http://www.itf.gov.hk/en/about.asp</p> <p>The ITF provides for a Small Entrepreneur Research Assistance Programme (SERAP) to offer pre-venture capital stage financing to support technology entrepreneurs and small enterprises to carry out research and development work for starting new businesses and conducting market validation. Funding of up to HK\$4 million is provided on a matching basis and applicant companies retain all rights to intellectual property that may arise from the project.</p>
Various Departments	<p>Other Hong Kong Government Funding Schemes</p> <p>Apart from the funding schemes catered for the SMEs, the Government also offers a range of support services to encourage design, innovation and technology adoption in business sector. Information on these schemes can be found at:</p> <p>http://www.gov.hk/en/business/supportenterprises/funding/</p>

Other Sources of Information and Support for SMEs

Federation of Hong Kong Industries
<http://www.industryhk.org>

The Chinese Manufacturers' Association of Hong Kong
<http://www.cma.org.hk>

The Hong Kong General Chamber of Commerce
<http://www.chamber.org.hk>

SME ToolKit®
<http://www.smetoolkit.org/smetoolkit/en>

This is a special website set up by the International Finance Corporation of the World Bank that provides a wide range of information, educational materials, templates, and checklists to help SMEs plan and manage their businesses. Several country-specific sites can also be accessed through the main IFC site.

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