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Compendium on Methodologies for SMEs Internationalization – Malaysia’s Contribution

Purpose: Information
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MALAYSIA'S CONTRIBUTION

**COMPENDIUM ON METHODOLOGIES
FOR SMEs INTERNATIONALIZATION**

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A. Executive Summary

The National SMEs Development Council (NSDC) together with SME Corporation and MATRADE have developed the strategy to enhance the ability of SMEs to export. There are six High Impact Projects (HIP) placed under the NSDC and Go-Ex Program is one of the High Impact Projects.

To achieve the status of high income nation, the Go-Ex program, as part of the Export Acceleration Program, was introduced to expedite the process of developing export-ready SMEs. The Go-Ex Program was developed as part of the Government's initiative to guide and enhance the growth of Malaysian Small and Medium Enterprises (SMEs), with Malaysia External Trade Development Corporation (MATRADE) being appointed as the implementing agency. The Government is assertive that participation from local SMEs in this program will develop and nurture them to be more resilient and competitive in the global market.

B. Methodology

(i) Go-Ex Program

The Go-Ex Program provides end-to-end export facilitation through structured planning and technical advisory, with the aim to address challenges faced by SMEs attempting to penetrate new markets overseas, such as the upfront costs and lack of detailed knowledge about the new markets.

The Go-Ex Program aims to:

- a) Identify, develop and nurture local SMEs to become more competitive internationally;
- b) Provide access to the relevant international business network; *and*
- c) Increase export and new business opportunities through extended presence in existing and new markets.

Monitoring and Evaluation (M&E) template is used to update and record progress of the Go-Ex companies. The template is used as a tool to monitor SME performance and its progress towards program completion status.

The selection processes into the Program are:

- a) Application and Screening Process
SMEs with interest to participate in the program will be required to fill in the Application and Export Readiness Assessment Forms. The completed forms are to be submitted to MATRADE.
- b) Selection Process
Selections are based on criteria including:
 - SMEs as defined by the National SME Development Council (NSDC):
 - Manufacturing
Sales turnover \leq RM50 million or full-time employees \leq 200 workers
 - Services and Other Sectors
Sales turnover $<$ RM20 million or full-time employees $<$ 75 workers

(ii) SME Competitive Rating for Enhancement (SCORE)

SME Competitive Rating for Enhancement (SCORE) is a diagnostic tool and used to rate and enhance competitiveness of SMEs based on their performance and capabilities. SMEs with SCORE between 3 – 5 stars are companies with semi to fully automated production; comply with standards and certification; and therefore is ready to export.

The functions for SCORE are to:

- a) Identify strengths and weaknesses of SMEs in order to recommend measures for improvements;
- b) Facilitate linkages of potential SMEs with large companies/MNCs; *and*
- c) Link export-ready companies to MATRADE.

The characteristics of SCORE are as follows:

Rating	Characteristics	Assistance Given
0–2 Star	<ul style="list-style-type: none">• Very basic with manual/semi-automated processes	Integrated, hand-holding assistance
3 Star	<ul style="list-style-type: none">• Able to implement quality system• Undertakes product and process improvements• Intellectual Property registered• Ready for export compliance certification	Recommend measures for improvements Link with LSIs/MNCs/MATRADE
4 Star	<ul style="list-style-type: none">• High level of automation• Invest in process/product improvements• Most likely exporting• With certification for export	
5Star	<ul style="list-style-type: none">• Good branding/packaging• Currently exporting with compliance to export requirements	

SCORE Parameters

The capability and performance are measured based on seven parameters that vary across sectors. The SCORE Parameters are:

i) Business Performance:

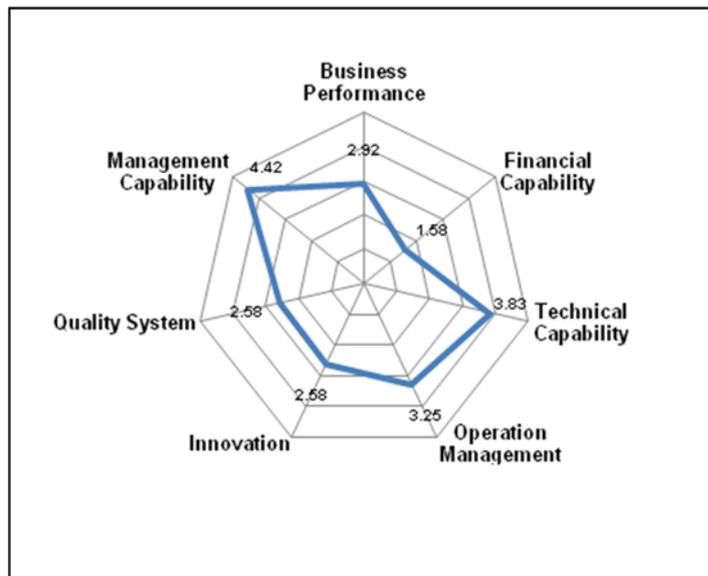
- Business performance can be expressed in non-financial and financial terms.
- Financial and marketplace performance is performance relative to measures of cost, revenue, and market position, including asset utilization, asset growth, and market share.
- Customer-focused performance is performance relative to measures and indicators of customers’ perceptions, reactions, and behaviors.

- ii) Financial Capability:
- Aggregate measures for financial return may include those of return on investment (ROI), operating margins, profitability, or profitability by market segment or customer group. Measures on financial viability may include those for liquidity, debt-to-equity ratio; days cash on hand, asset utilization, and cash flow.
 - Capital Intensity - indicates the amount of fixed assets allocated to each worker. If this trend is positive it indicates that the company had invested in fixed assets in order to improve performance, particularly in infrastructure, new machines, and technology.
 - Capital Productivity - Capital productivity reflects how efficient the fixed assets of a company were utilized to generate more value added to the products or services.
 - Labor Cost Competitiveness - This is defined as labor cost per employee. If the trend is positive, i.e., increasing, the company must ensure that growth in labor per employee is commensurate with higher value-added growth.
- iii) Management Capability:
- Describes how effectively the management team puts into practice its combined competencies to deliver business results.
 - A high functioning management team will effectively harness its different abilities, preferences and strengths to meet the changing demands of the operating environment and achieve its outcomes.
- iv) Production Capacity:
- Volume of products that can be generated by a production plant or enterprise in a given period by using current resources.
- v) Technical Capability:
- Deals with workforce capability and capacity; how the company assesses workforce capability and capacity needs, including the skills, competencies, certifications, and staffing levels needed to build a workforce environment conducive to high performance.
- vi) Quality System:
- Work processes are usually documented in standard operating procedure (SOP) manual which is one subject addressed in this particular area.
 - Work processes - The company's most important internal value-creation processes. They may include product design, production, and delivery, customer support, supply-chain management, business, and support processes. They are the processes that involve the majority of the company's workforce.
 - To improve process performance and reduce variability, the company may implement a Lean Enterprise System, Six Sigma methodology, use standards from the International Organization for Standardization (ISO; e.g., 9000 or 14000), Plan-Do-Check-Act (PDCA) methodology, decision sciences, or employ other process improvement tools.

vii) Innovation:

- Innovation is defined as making meaningful change to improve the company's products, services, programs, processes, operations, and business model, with the purpose of creating new value for stakeholders. Innovation should lead the company to new dimensions of performance. Innovation requires a supportive environment, a process for identifying strategic opportunities, and the pursuit of intelligent risks.

Example of Radar Diagram for 3-Star firm



Analysis:
Weak in financial capability

Assistance:
Require financial management training

C. Success Stories

i) Tropica Beauty Sdn Bhd

- Tropica Beauty Sdn Bhd was incorporated in 2010. Tropica initially marketed locally produced virgin coconut oil to individual producers, local farmers and wholesalers, as well as marketing the refined products under the brand Tropica. The company experienced steady growth until 2015 and expanded into its own manufacturing.
- Tropica distribution network covers the whole of Malaysia and the company continues to expand their product offering by including varieties of innovative and multi-purpose health and beauty products, which were approved by the National Pharmaceutical Regulatory Agency. In May 2016, after receiving overwhelming response from businesses and retailers at the Natural and Organic Products Europe Trade Exhibition in London, Tropica established a branch in the United Kingdom. Tropica UK is responsible for global branding and marketing to the EU.
- With the support under Go-Ex Program, Tropica has been able to identify a market consultant who has linked the company with a branding expert, market development freelancers and a brand ambassador. Tropica have also hired a market linker based in the United Kingdom to penetrate new markets in Europe.

ii) Hernan Corporation Sdn Bhd

- Incorporated in 1996, Hernan Corporation is an exporter of quality Malaysian food and frozen durian products. Over the years, it has grown by leaps and bound with its exports business spreading to Australia, New Zealand, China, Hong Kong, France, Netherlands and the United States. Hernan's manufacturing factory is certified with Halal and GMP.
- Through the brand "*Hernan Food*" manufacturing entities and its subsidiaries, initial export of frozen durians has expanded to production of a range of quality durian dessert and baked goods, which are available for purchase in many hypermarket overseas countries including Hong Kong, China, Australia, UK, Canada, United States of America, Singapore and South Korea.
- Under the Go-Ex program, Hernan has managed to put a stronger footprint in Hong Kong and the US with the support of international branding of Hernan's "*Musang King Snowy Mooncake*". This helps to strengthen Hernan's branding in both markets. Hernan will continue to expand its coverage by targeting new markets such as Indonesia, Japan and the Middle East.

iii) TSK Beverages (M) Sdn Bhd

- TSK Beverages (M) Sdn Bhd incorporated in 2001 focused on the import of F&B raw materials for local distribution. From then on, TSK enhanced its activities as a juice concentrate manufacturer solely for export market. In 2008, the company started to export their first consignment to Mauritius and until today, this destination is TSK's premier distribution area. As of today, TSK has distribution networks in the Indian Ocean, Middle East and Pacific Ocean.
- TSK Beverages (M) Sdn Bhd is an ISO9001:2008 and JAKIM Halal certified company with full of innovative and dedicated staffs. To ensure TSK customer satisfaction, the company sources premium raw materials and fruit purees to maintaining ultimate product freshness all year round.
- In 2016, TSK was selected into the Go-Ex Program and made the pathway to access into more markets successfully. The Go-Ex Program, through the appointed market linker, has helped TSK to identify potential buyers in several countries without being physically present there.