

LBD FORUM

LOCAL BUSINESS DEVELOPMENT

Summary

Tiny Ripples – Huge Wave: Creating Greater Competitive Advantage for Local Businesses

18 November 2010 | Empire Hotel and Country Club

Forum Opening Address

“Taking Action to Accelerate the Growth of Bruneian Business”

by **Dr. Grahaeme Henderson**, Managing Director, Brunei Shell Petroleum



- BSP built its economic success by leveraging Bruneian talent, both inside and outside the company- more than 90% of its 3500 staff are Bruneian, and Bruneians fill 60% of all management roles.
- BSP’s investment in long-term contracts with Bruneian companies has increased fivefold from 13% in 2004, to 65% of total contract value in 2009. The actual money expended with local businesses in 2009 was B\$2.2 billion, which is more than three quarters of the total B\$2.8 billion spend.
- BSP has focused investment on local business development - working closely with Government – for more than three decades. Core activities have included intensive training, ring-fencing certain scopes of work exclusively for local contractors, and using bid criteria that favoured fledgling local companies using Bruneian labour.

- BSP has invested heavily in its project management capability which has allowed it to directly control its contracting strategy from international businesses to Bruneian firms through breaking larger contracts into smaller pieces to contract separately to more than 30 Bruneian companies, each working on very separate areas of activity. This has reduced reliance on international firms.
- BSP also awards significantly larger and longer-term contracts (not just on a one-off basis) across various projects to Bruneian companies. It has spent more than B\$380 million with successful local vendors which has allowed local suppliers to invest in equipment, training and more efficient processes.
- The most successful vendors are now starting to build an international presence- a great achievement and particularly important because Brunei is a finite market.
- The top three lessons from the oil and gas industry that applies to all sectors are: 1) focus contracting practices on local business development goals 2) improve cost-competitiveness and efficiency of local businesses and 3) set targets for Bruneianisation, and provide more training and development to deliver.

Session One: Forum Scene Setter “The Brunei Business Environment”

How competitive is Brunei’s regulatory environment? How can Brunei improve its ranking in the World Bank’s ease of doing business index? What opportunities will a relaxation of the regulatory framework generate for SME development and economic growth? What best practices can we learn from beyond our shores – can Singapore’s success be replicated in Brunei?

Opening remarks by **Dr. Tan Kim Song**, Practice Associate Professor of Economics, Singapore Management University and Co-Founder, Frontier Investment and Development Partners, Singapore

Followed by comments and an open forum discussion led by

- **Ms. Fauziah Dato Talib**, Managing Partner, IQ Quest and Member of the APEC Business Advisory Council
- **Hj Shazali Dato Sulaiman**, Partner, KPMG and Chairman of the Brunei International Chamber of Commerce and Industry

Moderator: **Mr. Allen Lai**, Director, Asia Inc Forum



Singapore Perspective:

Dr Tan Kim Song

- Over the years, Singapore has been able to transform itself into a dynamic and highly competitive business hub through deliberate government policies and the principal of efficiency. The business environment caters largely to large enterprises like the MNCs and large government linked companies as they play a major role in the economy. Due to the lack of natural resources, Singapore has no choice but to pursue an export oriented growth strategy.
- MNCs provided the critical ingredient needed for the success of this strategy not only in providing employment, technology and skills but more importantly bringing along the global supply chain of raw materials and the global distribution network. Therefore, attracting MNCs to set up shop in Singapore has always been a key priority. Minister Mentor Lee Kwan Yew once said in the 1960s “for Singapore to survive and to prosper, it always has to be more efficient than its neighbour” – this remains the cornerstone of many policies in Singapore.
- The Global Competitiveness Index compiled by the World Economic Forum measures the overall productivity level of the economy (e.g. infrastructure, production facilities, efficiency and innovativeness). This index has direct implications on return on investments. If the productivity level in the country is high, generally profitability is expected to be high – this is viewed positively by investors who tend to benchmark ROI of one country against others.
- The World Bank Ease of Doing Business on the other hand reflects how easy or how difficult it is for local SME to start a business – it focuses largely on the impact of regulations on the cost of doing business. Many of the indicators look at the very micro level – such as, cost of registering company, enforcing contracts, paying taxes, getting credits, getting construction permits, electricity supply etc.

- Countries that rank high in the Global Competitiveness Index are likely to be viewed very favourably by investors while a country that does well in the World Bank Doing Business Index should be good for local SMEs.
- SMEs account for more than 95% of the registered businesses in Singapore and employ 60% of the workforce and yet contribute less than half the value added in the economy. Foreign MNCs dominate industries like chemicals, electronic and biomed; while SMEs and local companies do better in general manufacturing and services sectors like real estate and business services.
- Over the years, the Singaporean economy continues to see a higher rise in income than other ASEAN countries so the government sees no reason to “fix something that is not broken”. Over time as the structure of the economy change – as you move from labour intensive industry to capital intensive to technology intensive industry – the kind of MNCs that Singapore tries to attract has also changed.
- The basic strategy of relying on MNCs as a main pillar of economic growth through being efficient remains unchanged over the years. Given that most of the key policies were geared towards satisfying the need of the MNCs, there was little time left for SMEs. The SMEs were expected to play a supporting role in this process. Some SMEs have managed to become large, but most SMEs have remained small with little support from the government.
- Meanwhile, the government was also actively promoting of the growth of the so called government linked companies to take up space in the economy which the MNCs did not want to venture into. Many of these government linked companies started out small (often as sub-contractors for the MNCs) – they have strong financial and other support from the government. Today, many of them are among the largest listed companies in the Singapore Stock Exchange – for example, Singapore Telecom, DBS and SIA. The presence of the government linked companies makes it more difficult for many privately owned SMEs to grow since many of these government linked companies compete directly with SMEs.
- Shift in Singapore economy from efficiency driven to innovative driven. There is a limit to how much you can grow your economy if you continue to rely on efficiency. SMEs are often a key source of innovation in an economy. In recent years, productivity growth rate has been dropping. How does Singapore rank so well in the doing business index? One possible reason is because the index reflects how easy it is to start a business and does not necessarily capture the profitability of the SMEs. Regulations are transparent and efficient and there is very little room for corruption in Singapore – all of which make it easy to register and start a business.
- In summary, lessons lie not just in what Singapore has done right, but in what it has done wrong – as these are the lessons that Brunei should try to avoid.

Brunei Perspective:

Fauziah Dato Talib:

- SMEs make up over 90% of total business in Brunei and employ 60% of the workforce. Brunei SMEs face challenges in access to finance and human resources. Brunei, under the leadership of the BEDB and MIPR, has identified prioritised industry sectors for business and investment opportunities including oil and gas, logistics, ICT and infrastructure, halal, green

businesses, aviation and agriculture. The spin-off from existing and future larger projects provides for business opportunities for SMEs within these industries.

- In addition, trade agreements, the bilateral and multilaterals (the AFTA and the TPP, which involves Brunei, Chile, Singapore and now US, Malaysia, Vietnam and Japan) will open up our borders with greater competition from established companies. This is all good news for Brunei's existing and future businesses – these are opportunities for SMEs as competitiveness for local businesses will need to improve. Furthermore, joint ventures between local and foreign companies will be inevitable as they will allow for better positioning in the market. Hence it is imperative for Brunei to have a regulatory environment that supports local business start-ups and SMEs.
- In the Ease of Doing Business, Brunei has improved its ranking by moving up 5 positions to 112 and has been named one of the top 10 reformers. To start a business in Brunei, it takes 105 days and 15 procedures, while it takes Singapore 3 days and 3 procedures. Brunei's improvement was based on the fact that starting a business was made easier by implementing an electronic system in registrar – thereby, cutting down processes and streamlining procedures and making it more transparent. Forming business regulations take leadership – challenges can be daunting in prosperous time; whilst in times of crisis, they get the blame for not reforming sooner.
- In Asia Pacific – APEC has been doing a lot of work to improve the business environment and in 2009 APEC leaders made a commitment in the ease of doing business program and the private sector development initiatives at several working group forums. APEC initiatives in ease of doing business action plan – the aspired target is to make the region 25% cheaper, faster and easier to do business in by 2015 with interim target of a 5% improvement by 2011.

Hj Shazali Sulaiman:

- Brunei is limited by market size, therefore manufacturing base industry will have problems finding a market in Brunei. All the various trade agreements that exist and the APEC target will provide opportunities for businesses to internationalise. Nonetheless, the danger is that foreign companies coming into Brunei could pose a threat to local businesses.
- The International Chambers of Commerce acts as the concierge for foreign investors. When international investors come to Brunei, they will usually seek to see representative from the international chambers and when there are problems in terms of doing business in Brunei, the international chambers will highlight these to the relevant authorities.
- If Brunei wants to be more transparent, various government agencies have to stick to their customer charter. Foreign investors who come to Brunei to set up shop act as the ambassadors and help promote the country – if Brunei does not portray the right image, it can be detrimental to the country. Moving forward, one very critical factor is to have one coordinating agency that coordinates all processes and ensure that everybody “sings the same tune”.

Q & A session

Q: Role of the private sector in Singapore in terms of the institutions such as Singapore Business Federation (the umbrella organisation for all the chambers)

The SBF works closely with the government to coordinate some of the activities that can help businesses grow. Also, they undertake work in the areas of marketing, branding and market penetration. Getting everyone to contribute in the private sector is not easy to achieve – SMEs need a stronger foundation and strong regulatory framework to support it. If it cannot survive in its own local market, it may not be able to survive in the regional market?

Session Two: Brand Building for SMEs: What are the top strategies that work?

Is branding only relevant for big corporations? How can small enterprises brand their company, products and services differently and cost-effectively?

Presentation by **Dr. Wilson Chew**, Group Principal Consultant and CEO, StrategiCom and author of “*Transforming Your Business Into A Brand – The 10 Rules Of Branding*”, followed by an open forum discussion

Moderator: **Mr. Andrew Dy**, General Manager, Asia Inc Forum



- The fundamental difference between a business and a brand: a business is driven by opportunities – it will do whatever brings in revenue, regardless of the negative consequences this may have on the brand; while a brand is driven by vision – it sets its mind on a specific goal and works towards achieving it.
- A brand essentially is an idea you own in the minds of customers. If you don't have that singular idea, you probably cannot build a brand. If you can build your idea strong enough you will realise that essentially brands do not exist in the real world – they exist only in the minds of people. If you start a business and become profitable, then what?

- To understand branding, you need to understand the roots of branding. Branding dates back more than 4000 years ago – cattle owners used branding (the marking the back of their cows with a hot iron that sported the owner's initials) to differentiate their cows from other owner's cows to prevent theft and disputes. Today, the concept is the same, if you want to know who made a watch you go to the back of the watch, if you want to know the airline, you go to the back of the airline, the car at the back as well etc. Today cows come in the form of banks, petroleum companies, oil and gas manufacturing equipment, insurance firms etc and the reality is that really anything can be branded.

- 10 rules to how SMEs can develop brands branding:

1) You are dealing with perception and nothing more

Blind taste test conducted in Singapore in 1980s between Pepsi and Coca-Cola found that 95% of the thousands of people preferred the taste of Pepsi to Coca-Cola. But subsequently 95% of them went to the supermarket to buy Coca-Cola with the coupon given.

2) To be a strong brand, you have to be the first

Being human beings and the way the world works, we will always remember the first – which is a concept of perceived risk that if you buy from the number one brand, it must be good. Therefore, if you want your customers and clients to remember your brand, you have to be first in something.

3) Create a new category

Evolution is one of the ways that new categories are created – for example, the evolution of the boom box to the mp3 player. Brands that have created new generation products out of evolution have been successful in keeping their brands strong. The other way is through divergence, which looks at creating extensions out of that product.

4) Narrow your focus

SMEs face resource constraints – therefore specialisation becomes an advantage. SMEs should focus on their unique value proposition and core competencies. When a company becomes successful, there is a tendency to lose focus and extend business into every area.

5) Differentiation

If your customers cannot tell you apart from your competitors, they will buy on price. When there is parity between brands, the cheapest one wins. Being different is all about being unique.

6) Brands are built with Public Relations

Brands are born and built with a blaze of publicity. SMEs need to use press and independent media to develop credibility in the minds of customers. Advertising has a role, but it is only good for strong brands that are already in the market as a means to keep their brand alive.

7) The power of a great name

A name goes a long way – names can make or break a brand. A good brand name should be short, unique, memorable, easy to pronounce and English sounding.

8) Be absolutely consistent

When a brand is not consistent, it becomes diluted very easily. When a company grows they tend to broaden the scope of the brand, which is usually the first step in destroying the brand's consistency. The effect of inconsistency takes time to manifest. SMEs need to look at

the extended businesses that it already has to see whether these extensions have benefited the company in growing its brand.

9) Make enemies, not friends

You need to have enemies to ensure that your brand becomes successful – as this will reduce the likelihood of other brands securing a foothold in the market. You need to beat your enemies in the market place, but at the same time you also need them to help you grow. When you pick an enemy, it is good to pick the leading brand and then position yourself opposite them.

10) Know when to launch a second brand

One of the biggest mistakes that a company can make is to think that its brand can stand for everything under the sun. When companies become successful in one category, they may start to extend their brands into other products or services which can be a very costly mistake. When a company thinks about rolling a new product or service especially in a new category, it should consider creating a new brand name.

Q&A Session

Q) Branding fitting into being an employer of choice re. attracting and retaining talents?

If you have a strong brand and a strong story, talent will generally gravitate towards you. Young people want to work for leading brands. Brands are not exclusive for large companies – not only for a company like G4S, which is the second largest employer in the world. SMEs must learn to embrace innovation and new ways of doing things – find and choose your segment and specialise in your segment. If you are agile and flexible, you can grow your brand much faster and will naturally be able to attract talents.

Q) Which are the most important of the 10 branding rules for Brunei SMEs ?

Focus, consistency and develop your next generation production through the concept of evolution and divergence.

Q) Looking at SMME (Small Medium Micro Enterprises), what is the factor that has to be in place before undertaking branding for the organisation?

One needs to focus on one differentiated idea. Split, cut and dissect that product which will bring value to the client in your chosen market. Differentiated idea must first be there and then identify markets that you can manage – find your chosen markets and bring your unique proposition to that market and continue to build a category. If you want to build a brand, don't market your brand but market your category and continue to promote that category. Once the category is accepted, your brand will be automatically accepted.

Session Three: “Tapping into Growth Opportunities: It’s Time to Grow Your Business – Isn’t it?”

Is an economic downturn the time to look for growth opportunities? How do we best manage the risk associated with growth? How can financial institutions best provide guidance and support to businesses in order to survive and thrive during difficult times?

An open forum discussion led by:

- **Dr. Roger Lawrey**, Dean, Faculty of Business, Economics and Policy Studies, Universiti Brunei Darussalam
- **Mr. Pierre Imhof**, General Manager, Baiduri Bank
- **Lt. Col. Hj Mahmud Yahkop**, Founder and Managing Director, AMRTUR Corporation
- **Ms. Anyati Abdullah Orcullo**, Manager, Anyati’s Boutique & Atelier

Moderator: **Mr. Gary Young**, Learning and Development Manager, Joffren Omar Company



Macroeconomic overview of Brunei:

Dr Roger Lawrey:

The Brunei economy’s oil and gas exports stood at B\$14.6 billion, which is about 98% of exports. The money that comes in accrues to BSP, BLNG, Total and the Bruneian government. In 2008, the Brunei government received \$8.8 billion from royalties, dividends and corporate income tax (being, 92% of government revenues). The government expenditure in that same year was \$5.6 billion – which was spent on staff, development etc. – leaving a surplus of \$4 billion dollars. The amount spent on the income received such as on groceries, cars, house etc amounted to a GDP of \$20.4 billion in 2008. Some money was spent overseas, and we import as well etc so not all the money re-circulates in the economy – more than \$3 billion dollars is spent on imports largely on machinery, transport goods, manufactures and food. Therefore, there is clearly a \$3 billion dollar potential market for local SMEs and local companies. The government employs about 50,000 people while the oil and gas employs about 5,000 – leaving the balance of over 100,000 people being employed in the private sector/SMEs.

The current economic downturn is caused largely by the government's regulation on private debt, which has affected the retail sector. When the debt is paid off, consumers will be in a better position. There are opportunities for SMEs in the supply chain and to capture expenditure from the major national projects and initiatives that is under the pipeline such as in agriculture and aquaculture, tourism and construction etc.

Perspectives from Local SMEs:

AMRTUR:

- The business environment in Brunei is unique and conducive and there is no lack of opportunities. We have the time, the space and the opportunities, but not many of these are being taken up by our locals. For example, in over 80 years of our oil and gas industry, there is not an institution that specialises in the oil and gas industry training and education centres.
- Even though Brunei has capable human resources, many big organisations here are still managed by expatriates. Locals need to address the current issues on national HR development – capacity to develop Bruneians with the right skills and employ them in the appropriate sector in executing and managing local businesses.
- In the beginning, we had to struggle to deliver our first contract to BSP – who had the criteria of having 50% local. At that time, we had to do everything by ourselves – technical hands on, know how without help from the government or anyone. Today, AMRTUR has developed the first in the world in efficient solutions for the oil and gas industry, which was been achieved through a focus on nurturing advance technology. This has led to the successful growth of the company.
- Locals need to have “out of the box thinking”, to build capabilities in meeting time frames, to network and to choose the right business. In this sense, perhaps having a local business development council that acts as a platform to help guide SMEs in the right direction would be beneficial for local businesses.
- Locals, especially aspiring entrepreneurs, need to have the right attitude and dreams. 95% of failures come from people who make excuses.

Anyati:

- A business is a pure joy and fulfillment and, in industry that thrives on change, it is very easy for a person to be left behind. As an entrepreneur with a passion to fill in the gaps and create various kinds of services, hawse have built businesses in various places from laundry to dry cleaning, fashion, advertising and event management. All of these are the result of the never ending curiosity ... of how, why and what ifs.
- Setbacks will always exist – therefore, it is the entrepreneur's role to move forward and overcome those setbacks. Business, however, as it may turn out will always provide ample opportunities to grow. How to progress when faced by a bad economy? For small enterprises the factors may be more internal – growth depends on machinery and human resource; therefore, it is important to have a critical look into these factors. In a bad time, it is important to increase productivity of employees and to deliver quality service to customers through basic practices such as: providing training, teaching new skills and providing a conducive environment for growth.

- There are two types of employees – the assets and liabilities. One should not hesitate to retain assets and remove liabilities. As an entrepreneur, one must learn to delegate most of the workload to employees so you can focus on some of the important aspects and needs of the company. Delegating is key to accomplishing something quickly.
- An entrepreneur has to be ready to assume different roles as required (such as driver, PR, secretary, designer, cook etc) and to continually invest in people. Never underestimate the value of networking – from networking you learn new things or even business opportunities. The right information can save you a lot of time and money in decision making. Through experience, some businesses fail because of the wrong partnerships with the wrong person.

Perspective from the financial sector:

Piere Imhof

- Whatever the constraints in the country; for example, regulatory difficulties; there is a way for the dynamic entrepreneur who has the right idea at the right time at the right place to succeed in business. An SME will be successful as long as it works well and has the right people to do the business.
- How can financial institutions help? Brunei is a small country where the financial markets are not as organised as the financial markets in Singapore or Hong Kong. For SMEs there are limited accesses to financial resources – there is no stock exchange, no capital market, no bond market, no insurance market, few investment funds etc – so most of the times SMEs may rely on personal funds or get financial and capital resources they need from either family or to borrow from the banks. Bankers are adverse to risk so they will often look at a business cautiously.
- In Brunei, banks are extremely liquid – banks ready to lend and are much more flexible when considering projects by SMEs as compared to banks in many other countries. 90% of Baiduri Bank's corporate client or corporate portfolio (in volumes) is made of SMEs. There are some businesses which are successful and profitable and there are others which are not.
- Entrepreneurs need to understand that the bank is a partner, and not just somebody who is lending money for the sake of getting the maximum return. The last thing a bank would like to see is its client's failing – banks are often willing to help find solutions (eg, in restructuring) as long as it is convinced that the business is viable and has potential.

Q&A Session

Q) Challenges faced in business

AMRTUR was only able to establish the right working facility after 5 years. In Brunei- there are only two good paymasters – one is the government and second, BSP. BSP pays within 45 days, while the government can at best pay within 3 months. The business began with a vision but had very limited knowledge of the oil and gas industry – it took 2 years to fully understand the industry through various methods. With the first contract the dilemma started – there was no workforce and no training available in Brunei; hence the company started an in-house training program (which included pre Employment assessment training) and hence began developing capabilities while at the same time continuously investing into R&D. Entrepreneurs must avoid making excuses whether

difficulties faced are in government procedures or any other factors – if you want to do something you have to do it yourself and do not expect anyone to do it for you.

Q) On interest rate in brunei

Interest rates for SMEs in Brunei are often higher than in Singapore. Reasons: 1) the cost of funds is higher 2) the banks in Brunei cannot benefit from the economy of scale, therefore the cost of operations is higher 3) the interest includes the remuneration of risk – a number of SMEs are successful but there the rate of default among SMEs is higher in Brunei than in the region. Nonetheless, recently the rates have gone down quite significantly for a number of Short term and Medium term loans because of the competitive environment.

Q) On risk

Risk should always be mitigated from the beginning. One has to ensure that whatever one does is not beyond one's capability, if it isn't (be it in finance, manpower/human resources or performance delivery) then risk is not well managed. A business has to ensure that it can confidently deliver 80-90%, while the 10-20% is left for contingencies.