

Section IV



MOVING FORWARD

Chapter 8: Potential Growth Areas for SMEs

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Potential Growth Areas for SMEs

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With globalisation and the accompanying liberalised trading environment, trade is expected to expand with participation of new players and markets. While competition is expected to intensify, the more integrated global market also presents new opportunities and greater market access for Malaysian SMEs. Recognising this, the Government, under the 9MP and IMP3, has identified key growth areas for SMEs. This chapter will highlight three of the key areas and the supporting strategies that the Government has put in place.

1. Halal - The Trillion Dollar Industry

USD580 billion	-	Annual global market value for Halal food trade
USD2.1 trillion	-	Annual global market value for entire Halal trade
USD900 million	-	Annual retail sales of Halal meat in the United Kingdom
1.6 billion	-	Present global Muslim population
1 billion	-	Muslim population in Asia
3 billion	-	Estimated global Muslim population in 2010

Source: Third Industrial Master Plan

With estimated figures for trade touching the trillion US Dollar mark, there is staggering potential for Halal products globally. This potential has been recognised by the Government as it prepares Malaysia towards becoming the international Halal Hub by 2010.

Leading the Development of Halal Standards

The Halal Industry Development Corporation (HDC) was incorporated in 2006. Placed under the National Industry Task Force within the Prime Minister's Department, HDC is tasked with realising Malaysia's global Halal Hub ambitions by 2010.

HDC coordinates efforts to review standards, development of local industry, promotion of Malaysian Halal products and services in international markets, as well as support investments in the domestic and international Halal sector. It also provides the vital connection for industry players to tap the Malaysian experience, knowledge and expertise and build their niche in the global Halal market. It has been entrusted to facilitate the growth and participation of Malaysian companies including SMEs in the Halal industry.

HDC is expected to lead the development of Halal standards. This will include managing capacity building for Halal producers and related service providers as well as promoting and marketing the Malaysian Halal brand for goods and services to the world.

Challenges

With the potential of such huge rewards, global competition is fierce. The HDC is leading the way towards establishing a Halal Act in order to create a focused, all encompassing and cohesive framework. This includes an efficient and integrated global distribution channel.



International Certification

In November 2006, HDC tied up with Intertek Group Plc, a global leader in testing, inspecting and auditing, and certification. Intertek certification includes ISO 90000 and global food safety management standards including the British Retail Consortium Food Technical Standard (BRC) and Hazard Analysis & Critical Control Points (HACCP). A total of RM21 million is to be invested in building a centre of excellence for Halal testing and training in Kuala Lumpur within the next year. The training centre will also house state-of-the-art testing laboratories catering to the Halal food industry. The intention is for the institute to assist the industry in innovating Halal products through training and education, and ultimately, to institutionalise global Halal best practices and guidelines.

The tie-up will help HDC to come up with Halal standard guidelines and best practices. Local Halal manufacturers will be able to leverage on Intertek's extensive knowledge and technology making them more competitive in the international arena.

An Opportunity to Take the Lead

Viewed internationally as a progressive Islamic country with competitive business incentives, Malaysia has several advantages to offer and leverage on. Strategically located within the Asia Pacific region, the country has an established industrial base as well as growing agriculture and agro-based industries. Malaysia's current role as Chair of the Organisation of the Islamic Conference (OIC) will provide further support for the country's development as the Halal centre for the world.

The United Nations has cited Malaysia as the best example in the world in terms of justification for the labelling of Halal food when the Codex Alimentarius Commission adopted the Codex general guidelines for the use of the term Halal in Geneva in 1997.

Malaysia is seen as the world's most successful example where a single Halal standard is applied throughout the country and this model has been regarded as the basis for the development of world Halal food industries.

Malaysian certification procedures, and the national MS1500:2004 Halal Standard have already received widespread recognition for promoting excellence in the field of Halal-compliance. This has influenced major global brands to adopt the certification for worldwide distribution of its range of products.

The government has envisaged that by 2008, Malaysia will be the centre for the production and distribution of Halal products, Halal service providers, references on Halal standards and research and development (R&D) for Halal matters.

The development of an international Halal standard is likely to become a major focus in the next few years, and the successful promotion of this standard will facilitate potential producers and exporters in gaining control over global markets.

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Halal Certification



There are several steps outlined by Jabatan Kemajuan Islam Malaysia (JAKIM) in obtaining a halal certification namely:

- Document Evaluation - application forms and supporting documents with a detailed analysis on the company's profile with declared ingredients, suppliers details, manufacturing process and procedures etc.;
- Inspection - physical inspection includes an assessment of declared ingredients, storage methods of raw materials and finished products, cold rooms, processing plant manufacturing flows and handling aspects of production, packaging materials, general hygiene, quality control and assurance practices;
- Report Preparation - technical inspectors will write a full report on the status of the application based on its site inspection;
- Evaluation Committee & Recommendation - report will be tabled and evaluated; and
- Issuing of Halal Certificate - once approved JAKIM will issue the Halal certificate and permission to use the Halal logo will be granted. The certificate is valid for two years with renewal of the application to be submitted three months before the expiry date. JAKIM will carry out constant monitoring to ensure conformity to the Halal standards.



For further details, producers and manufacturers can apply online at <http://baheis.islam.gov.my/web/e-halal.nfs>

Efforts have been stepped up to aggressively market the Malaysian Halal logo by promoting the link between Halal and Malaysia.

Malaysia International Halal Showcase

Malaysia International Halal Showcase (MIHAS) is spearheaded by the Malaysian International Trade and Industry Ministry (MITI) and organised by MATRADE with the support of the Ministry of Entrepreneur and Cooperative Development (MECD). The Halal trade exhibition, held annually in Malaysia since 2004, has seen nearly more than 90 exhibitors from 18 countries participating, each year. The exhibitors are from the United States of America, China, South Africa, Australia, Iran, Pakistan, Thailand and Saudi Arabia.

The exhibition goes a long way towards promoting Malaysia as a Halal hub, showcasing the country's holistic approach to Halal offerings which encompasses amongst others food and beverage, pharmaceutical products, Shariah compliant financing and logistic services.

MIHAS 2007, a five-day event, saw confirmed immediate sales arising from the business matching sessions, worth RM213.9 million up 27% from last year's RM168.3 million. Apart from these, there are still deals worth more than RM400 million in the negotiation stage. The United Arab Emirates recorded the highest sales value with more than RM90 million, followed by the UK (RM41 million), Hong Kong (RM36 million) and France (RM20.1 million). The international showcase saw a total of 3,215 business meetings held between international buyers, exceeding the forecasted target of 2,757.

The encouraging response signals the growing interest from the global community and the high sales value from non-muslim countries is a clear indication of the potential of Halal products.

World Halal Forum

World Halal Forum (WHF), an annual Halal forum held in conjunction with MIHAS, brings together individuals from the private sector to deliberate on issues related to the Halal market and the application of Halal standards and accreditation.

The third annual WHF in 2007, brought together 500 of the world's key leaders of the Halal industry from the corporate sector, academics, Non Governmental Organisation (NGOs), Islamic organisations and Government representatives from around the world. The objective was to discuss challenges and business opportunities as well as to share knowledge and expertise. The key topics highlighted during the two-day forum centered around the four foundational segments of the Halal industry:

- Manufacturing - market trends in the global food industry, issues within the Halal market ingredient sector and developing Halal protocols for Multinational Corporations (MNCs);
- Trade & Investment - analysis of trends and analysis in five major Halal markets for Halal products and cluster applications for the Halal industry;
- Standards - Developing an integrated framework for a national Halal industry; and
- Shariah & Science - Islamic finance for the Halal industry.



Creating a Malaysian Brand

As part of the strategy to enhance the development of the Halal industry, a series of programmes and events have been planned to promote Malaysia's position in the Global Halal arena. This involves the development of effective branding, marketing and promotional campaigns for Malaysia's Halal initiatives. The "Halal Malaysia" campaign will run in tandem with branding efforts and the campaign will include food and non-food products, finance, services, travel and tourism.

HalMart

HalMart is Malaysia's first integrated Halal retail outlet and the world's first Halal supermarket. Initiated by Glohex, a consultancy firm specialising in the management of Halal trading and with the support of MECD, Majlis Amanah Rakyat (MARA) and the Small and Medium Industries Development Corporation (SMIDEC), HalMart's prototype Johor Bahru store is scheduled to open in 2007. A further 100 stores will follow within the next two years via franchises and a licensing programme. At the end of 2006, HalMart had confirmed two licensees from Brunei and Indonesia, and in 2007 to open outlets in France and across Europe.

HalMart's prime focus is to act as a platform to promote products produced by local Halal food manufacturers through its international outlets. HalMart will be an invaluable hub for local manufacturers to promote and grow their products. Currently, 211 local entrepreneurs manufacturing 50 different products have signed up to be HalMart suppliers.

Incentives for the Halal Industry

Plans are underway to establish one-stop centres or clusters to monitor and assist Halal SMEs for certification, grants, marketing and investment. A total amount of RM95 million has been allocated for the Halal hub, a quarter of which has been earmarked for the HDC. A further RM50 million will be set aside to establish Halal parks, located in Pasir Mas, Kelantan; Chendering, Terengganu; Gambang, Pahang and Padang Besar, Perlis. In addition, RM20 million will be used for financing through the SME Bank, helping entrepreneurs develop Halal products. HDC is involved in formulating the concept for Halal Parks that will ensure all Parks throughout the country are operating in tandem with the national agenda.

Grants have been set aside to aid SMEs in becoming Halal producers. One such grant is the SMIDEC matching grant for the development and promotion of Halal products where 50% of eligible expenses is borne by the Government. These expenses include product development and formulation, acquisition of machinery and equipment, and any other related costs for compliance to Halal certification. As a further incentive, the Government has allowed an Investment Tax Allowance of 100% on qualifying capital expenditure incurred within a period of five years. The allowance can be offset against 100% of statutory income in each year of assessment.

Halal Parks

In 2006, the buzzword in industrial estates was Halal Park. This was part of a Government-led initiative to promote industrial development and strengthen the country's position as an international Halal Hub by the year 2010.

To ensure that the Halal industry players are able to produce a comprehensive range of products and services at competitive prices, purpose-built factory complexes are being constructed. The Halal Parks will house an anchor tenant and supporting vendors to strengthen the supply chain of Halal products for the export market.

One such example is the Pulau Indah Selangor Halal Hub, which covers an area of 150 acres designated for high-tech and modern factories for manufacturing and processing of Halal products. Kepala Batas, Penang, is home to another soon-to-be operational Halal Park. It will serve as the state's Halal Hub and first Agro-based Industrial Park. The recently opened Park houses factory incubators, a cold room and warehouses.

Taman Pengeluaran Produk Usahawan (TPPU) in Rembau and Serkam are in the process of being set up as collaborative ventures between MECD, Standard and Industrial Research Institute of Malaysia Bhd. (SIRIM) and SMIDEC with the land owners, Malaysian Industrial Estates Bhd. (MIEL) and the Melaka State Government.

In 2007, several states will add to the growing list of 13 Halal Parks in various stages of construction nationwide.

In order to assist SMEs in marketing Halal products, vendor programmes have been set up with Parkson, Nestle, Tesco and Carrefour. Nestle Malaysia in 2006 set up a mentoring programme to assist Halal SMEs in acquiring knowledge and experience in the food industry. Nestle Malaysia has over the past six years trained more than 1,200 SMEs in good Halal manufacturing practices.

Halal Avenues

In conjunction with Visit Malaysia Year 2007, the Taste of Malaysia promotion will be held overseas, in countries like the United Kingdom and France, to introduce Malaysian products to the international market. The food festival allows Malaysian manufacturers and suppliers a chance to meet overseas buyers and other retailers, and will also include business matching sessions where Malaysian SMEs can share



their product knowledge and information with their foreign counterparts towards a better understanding of the market and their requirements. The programmes are organised by the Ministry of Domestic Trade and Consumer Affairs (MDTCA).

The first promotion was held in London in March 2007. Jointly organised with Tesco, the programme saw the participation of 30 Malaysian SMEs showcasing 120 products. Business matching opportunities brought in orders worth RM17.9 million. Tesco has declared a commitment to buy RM1 billion worth of Halal goods from Malaysia over the next five years, to meet increasing customer demand for Halal products, across 15 of its branches in the United Kingdom.

The Taste of Malaysia promotion was held at a Carrefour Hypermarket in Paris in June 2007.

Ultimately, with a strong and recognised Halal brand, Malaysia is poised to take the lead in the global Halal industry. Backed by the Government's efforts in putting in place a solid regulatory framework, supportive policies, physical infrastructure as well as grants and tax incentives, SMEs in Malaysia are on track to increase their presence in the domestic and international Halal arena.

2. Franchising - A Malaysian Footprint Across the Globe

Franchising is big business. In many developed economies, franchised services take up a large segment of retail sales which command an impressive 10% of Gross Domestic Product (GDP). Recognising the potential economic contribution from this segment, the Government has been proactive in promoting franchising amongst local entrepreneurs.

The advantages of a franchise are many. Foremost, franchising involves a relatively short learning curve. Good franchises take some unpredictability out of the equation as success can be gauged through existing franchisees, and tried and tested operational systems. Unlike other business growth strategies, franchising provides an opportunity to expand rapidly through the support of other stakeholders in the franchise system. The bringing together of franchisees under one brand also provides an edge in terms of group advertising, buying power and idea sharing that individual businessmen do not have access to.

Currently, there are 321 franchise systems in Malaysia with 197 home-grown franchise brands and 124 foreign franchises.

Accounting for 5% of total retail sales, franchising provides SMEs a golden opportunity to enter the global market. The creation of an internationally recognisable Malaysian brand has been elusive so far and the Government has highlighted franchising in the 9MP, as one of several strategies to promote a globally recognised Malaysian brand.

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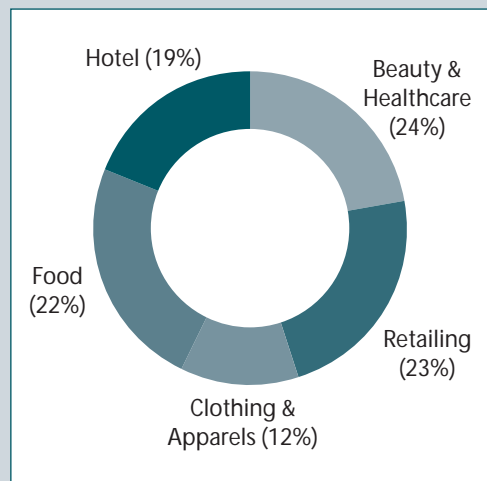
Encouraging home-grown franchises to expand abroad has long been a Government effort. India and China in particular are highlighted as two emerging economies with a large middle class market. Thus far, several home grown franchises, such as food retailer MarryBrown, England Optical and accessory giants Bonia and Vincci, have made some inroads into global markets, particularly in ASEAN (Association of Southeast Asian Nations), China, India and the Middle East.

As part of efforts to promote the Malaysian franchise industry overseas, MATRADE collaborates with the Malaysian Franchise Association and MECD in organising international exhibitions abroad.

In 2006, MATRADE held two franchise exhibitions in Dubai and China involving 11 local franchisers. In 2007, MATRADE organised a "Franchising Middle East" trade show in Dubai in March, and will be organising "Thailand Franchise & Business Opportunity" in Bangkok in July, and "Franchising China" in Shanghai in November.

Further assistance is provided through Perbadanan Nasional Bhd. (PNS), the lead agency in developing the Franchise Development Programme (FDP) under MECD.

Top Five Franchising Sectors in 2006



Source: Ministry of Entrepreneur and Co-operative Development



The Franchise Service Centre



Perbadanan Nasional Bhd. (PNS) operates under the auspices of MECD with an authorised capital of RM1 billion and a paid-up capital of RM751 million. In line with the Government's goal to enhance Bumiputera entrepreneurs, PNS has focused in particular on developing the franchise sector. The 9MP sets a minimum target of 1,000 Bumiputera franchisees and 50 franchisors to be created over the five-year period.

PNS Franchisor And Master Franchise Schemes:

- **Investment in Mezzanine Franchise Scheme**
For existing Bumiputera-owned franchise businesses seeking financial assistance for expansion purposes;
- **Smart Partnership Franchise Scheme**
Enables *Usahawan Menengah Bumiputera* (UMB) to own equity in non-Bumiputera companies, as well as allowing non-Bumiputera companies to partner with PNS in financing their business;
- **Budding Franchise Scheme**
For new Bumiputera owned franchisors and master franchisees or existing businesses that have the potential to be converted into franchise businesses;
- **Pre-Franchise Scheme**
Assists new Bumiputera franchisors by providing financial assistance to potential franchisors and master franchisees; and
- **Franchisor Financing Scheme**
Provides financial assistance to franchisors/master franchisees for business expansion both locally and internationally.



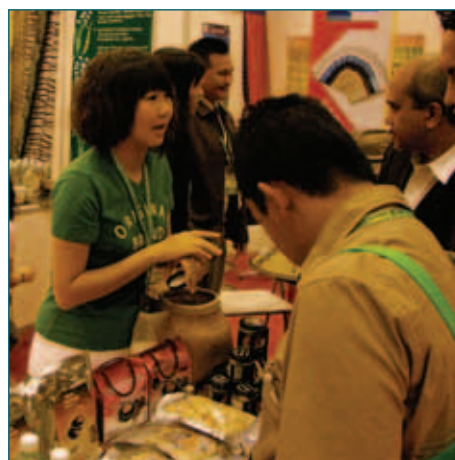
PNS Franchisee Schemes And Programmes:

- **Term Loan Franchisee Financing Scheme** - financing for Bumiputera Franchisee start-ups and business expansion;
- **Franchise Executive Scheme** - encourages Bumiputera employees in public and private sectors to venture into the franchise business with preference given to those opting for voluntary separation or early retirement;
- **Youth Franchise Scheme** - offers start-up financing for Bumiputera youth venturing into the franchise business;
- **Graduate Franchise Programme** - aims to develop and nurture competent and high-calibre Bumiputera entrepreneurs amongst graduates, by providing training and mentorship, assistance in obtaining financing and monitoring the business to ensure they remain competitive; and
- **Woman Franchise Programme** - aims to develop confident and competitive women entrepreneurs by providing comprehensive training and courses as well as providing advisory and support.

For more information, please contact:

Franchise Service Centre
Level 9B, Menara Dato' Onn,
PWTC, 45 Jalan Tun Ismail,
50480 Kuala Lumpur

Toll Free: 1 800 88 5300
Tel: 03-2698 6670 • Fax: 03-2698 6617
www.pns.com.my



As part of efforts in providing a total franchise solution, PNS has collaborated with SME Bank to assist would be franchisepreneurs in financing and other related products.

SME Bank Finance and Support Services for Franchises

For entrepreneurs keen to participate in the franchise business - from start-ups to those with franchisable or established businesses, financing can be obtained from SME Bank's dedicated financing product "SME Franchise". SME Franchise offers financing ranging from RM500,000 to RM10 million, and focuses on a holistic approach from evaluation, expansion through to the long term sustainability of franchisors and franchisees. In addition, the following advisory services are also offered to the borrowers:

- Business Plan Evaluation;
- Expert Endorsement;
- Industry & Technical Expertise;
- Financial Analysis;
- Intellectual Property & Trademark protection;
- Market Opportunity Identification;
- Branding & Marketing Management;
- Performance Review/Growth Monitoring; and
- Business Rehabilitation/Recovery.

(For more information please log onto www.smebank.com.my)

To help prepare future franchisors and franchisees, training programmes are provided by PNS covering financing, selecting strategic locations and marketing. The Pre-Franchise Scheme introduced in 2006 provides grooming and a helping hand to entrepreneurs with products suitable for franchising or alternatively creating new entrepreneurs by giving them a franchise owned by PNS.

Available Options for Franchising



1901

1901 Hot Dogs is a popular Malaysian fast-food franchise that sells authentic American style hot dogs. Established in 1997, 1901 currently has 70 outlets in Malaysia and Singapore. 1901 offers three types of business models to entrepreneurs, namely, pushcart, mobile kiosk and snack cafe.

In 2006, PNS acquired a substantial share holding in the franchisor company, Nineteen O One Sdn Bhd. With this cash injection, plans are in place to extend the brand's presence to include Saudi Arabia, Thailand, Indonesia, United Arab Emirates and Egypt by 2008 and increase its overseas sales by 20%.

Gloria Jean's Coffees

PNS Francais Sdn Bhd (PNSF) acquired the Gloria Jean's Coffees Master Franchisee rights for Malaysia and Brunei in December 2006. The franchise agreement calls for the opening of 30 Gloria Jean's stores in Malaysia over a five year period. Entrepreneurs can become part of the Gloria Jean's Coffees franchise through the PNS Franchisee Schemes and Programmes.

Malaysian Kitchen

The Malaysian Kitchen Programme is a national initiative, aimed at adding value to the tourism and agriculture sectors by looking at opportunities to expand the food industry abroad. As part of MECD's Glokal Entrepreneur Programme, the Malaysian Kitchen franchise serves to promote Malaysian cuisine by establishing Malaysian restaurants in major cities around the world and at the same time develop Malaysian entrepreneurs.

MECD has been entrusted with implementing the programme through its subsidiary PNSF. With the Malaysian Kitchen Programme PNSF, plays a key role in providing a head start for franchisees through smart partnerships and networking for logistics, supply chain, advertising and promotions and any Government linked issues.



A total of RM130 million has been allocated by the Government via EXIM Bank. Further support is provided via a training package, which includes on site training, standard operating manuals, branding guidelines and two to three trainers to assist in set-up and operations. Ingredients in the form of ready-made pastes for the cuisine available on the menu, are also made available under the programme. Malaysian Kitchen started operations in December 2006 in Daikanyama, Tokyo Japan.

Two additional branches are slated for opening in 2007 in London and New York. Other potential locations that have been identified include Jeddah, Melbourne, Sydney, Mumbai and Manchester.



Forest'secret

Forest'secret is a local franchise for health, wellness and personal-care products using herbal ingredients found in the rainforest such as betel (*sireh*), centella asiatica (*pegaga*), labisia pumila (*kacip fatimah*), eurycoma longifolia jack (*tongkat ali*), cloves, ginger and nutmeg. Forest'secret carries 68 products which are divided into three categories - body and skin care, aromatherapy and spa kits, and health food and drinks. With the opening of its first retail outlet at the Curve, Petaling Jaya in 2007, Forest'secret aims to promote herbal-based products through a premium retail brand.

Forest'secret aims to be the "herbal hub", providing an effective platform for entrepreneurs to market their products internationally. To achieve this, PNSF assists entrepreneurs and manufacturers with product development and enhancement and skill development that include product packaging, labelling and branding.

(For more information, please log onto www.forestsecret.com)



For more information about the programmes, please contact:

Ministry of Entrepreneur and Cooperative Development, Malaysia

Tel: +603 8880 5294 • Fax: +603.8880 5316
www.mecd.gov.my

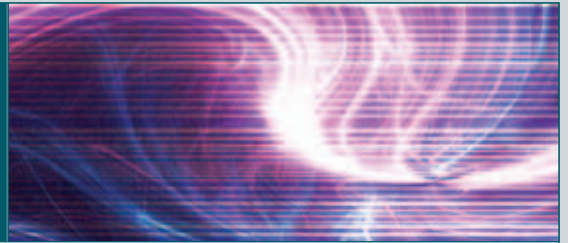
For more information about the Business Concept, please contact:

PNS Francais Sdn Bhd

Tel : 03 2698 6670 • Fax: 03 2698 3300
 Email: jommalaysia@gmail.com
www.pns.com.my

Plans are underway to develop and conduct a certified Professional Franchiser Manager Programme which has the support of the Franchise Council Australia. The programme will provide training for franchisors and franchisees from Malaysia as well as regional countries. The aim is to position Malaysia as a national and regional hub for franchise management and having it accredited will allow for the ultimate goal of local franchises going global.

SME Success Story

A Global Malaysian Brand

Credited as being one of Malaysia's most successful franchises, Smart Reader Worldwide® started off as a kindergarten in 1987, founded by a husband and wife team, Dr Richard Ong and Dr K H Wang.

The first Smart Reader Kids® centre, a franchised pre-school programme, was established in 1999 to complement the pre-school programme. Smart Reader® Worldwide has since developed two further franchised programmes namely, Smart Reader Kids Junior® (SRKJ) and English for Adults & Youths® (EFAY).

In less than 10 years, Smart Reader® Worldwide grew to 225 franchised centres nationwide and 135 franchised centres overseas. In addition to that, there are more than 600 reading consultants and tuition centres subscribed to the Smart Reader® Worldwide English programmes in Malaysia.

To keep up with market demands and to ensure quality, the organisation's R&D department is constantly reviewing the syllabus and content of its programmes. In addition, the company organised the International Conference on Early Childhood Education in 2006, the first of its kind in Malaysia.

Dr Ong cited funding as one of the potential problem areas for the franchisor and franchisees alike. The company was entirely self-funded during the initial stages due to inaccessibility of



loans. However, with Government loan schemes such as PROSPER and also via agencies such as the Credit Guarantee Corporation, he says the landscape has changed for the better and there is now much more help available for the expansion of the franchise industry.

The success of the Smart Reader® franchise programmes has now expanded beyond Malaysia. Participation in MATRADE exhibitions overseas, has enabled the company to meet trade commissionaires from all over the world in order to understand local requirements, helping its push into foreign markets.

Smart Reader has also won numerous awards, such as the Enterprise 50 Award 2006, Franchise of the Year 2006 and two time winner of Home-grown Franchise of the Year (2002 & 2006).

Present across Malaysia and in the Philippines, China, Thailand, Brunei and the Middle East, Smart Reader® Worldwide is on its way towards establishing a truly global Malaysian brand.

3. ICT – Creating an Enabling Environment

The rapid rate of technological change is something SMEs can no longer ignore in order to strengthen their competitiveness. A survey by the Small and Medium Sized Industries (SMI) Association of Malaysia showed that only 30% of SMEs in Malaysia embraced basic Information and Communications Technology (ICT). High priority has been given towards strengthening technological capabilities and capacities of SMEs in order to assist them in establishing technological leadership. In the process, it is the aim of the Government to create a greater number of local technology based companies.

ICT Opportunities

Alongside the obvious advantage of ICT for increased efficiency, SMEs are also encouraged to explore ICT opportunities as a business model. As businesses turn more and more towards technology, SMEs should capitalise on the opportunity to be an enabler rather than consumer.

To hasten this process, closer collaboration with specialised Government research institutions and universities has been highlighted. Better ties will help overcome R&D constraints of SMEs. To speed up collaboration, a database on new technologies, processes, system designs and software will be set up for better promotion and dissemination of research from institutions and universities. A special dedicated fund will be set up to encourage SMEs to apply and undertake the commercialisation of potentially viable R&D results. The Government's focus in R&D is already bearing fruit with intensity growing from 3.19% to 3.38% in one short year. The registered number of patents has also increased exponentially, doubling in number from 91 in 2004 to 160 in 2006.



SMEs are also encouraged to tap into Shared Services and Outsourcing (SSO) opportunities by MNCs and Government linked corporations (GLC) in order to ease technological transfers and skill development.

Malaysia is seen as an emerging contender to challenge traditional shared services and outsourcing hubs such as India and China

Malaysia has several advantages in order to attract the SSO business, one of which is a large pool of multi-lingual and skilled knowledge workers, complimented by technically competent supporting industries. In a recent survey undertaken by Deloitte Touche Tohmatsu (The Asian Advantage in the Outsourcing Revolution 2005), Malaysia was ranked number one in customer support and back office processing services, second in supply chain management and third in IT support. The survey placed Malaysia as an emerging contender to challenge traditional hubs such as India and China. In an earlier survey by A.T. Kearney (2004), Malaysia was ranked third, behind China and India, as an attractive destination for outsourcing activities.

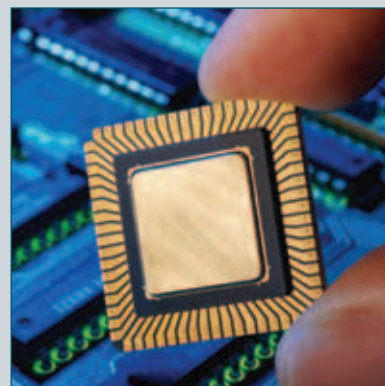
Shared Services and Outsourcing

Apart from a multi-lingual educated workforce, low cost of doing business, affordable quality of living and world class infrastructure, the Government offers several incentives to promote SSO, including:

- Pioneer status - 100% exemption from taxable statutory income;
- Freedom of ownership;
- Unrestricted employment of foreign knowledge workers;
- Globally competitive telecommunications tariffs;
- Intellectual Property and Cyber laws; and
- Tax exemption on SSO revenue.

Supportive Infrastructure

As further commitment to the ICT sector, the Government has put in place several enabling 'soft' infrastructure. This includes comprehensive cyber laws as well as several incentives, both financial and non-financial, for Multimedia Super Corridor (MSC) status companies. The Multimedia Development Corporation (MDeC) has been tasked to act as a one-stop implementation agency.



Incentives for MSC status companies

- Pioneer status - 100% exemption from taxable statutory income for five years;
- 100% investment tax allowance;
- Eligibility for R&D grant;
- Freedom to source capital and borrow funds globally;
- Duty-free importation of IT/ multimedia equipment;
- No censorship of the internet;
- Intellectual property protection and comprehensive framework of cyber laws; and
- Competitive telecommunication tariffs and services guarantee.

Further tax incentives are also offered, through the Malaysian Industrial Development Authority (MIDA), to encourage international ICT companies to set up their operational headquarters in Malaysia. These include a 10-year full tax exemption on business income, interest income on foreign currency lending and royalties received from R&D work.

Human Capital

Sufficient skilled knowledge workers are imperative for ICT SMEs to thrive. To meet these needs, existing programmes on skills upgrading and acquisition of core competencies and specialised knowledge will be enhanced.

Training modules will be re-oriented to reflect changing market requirements and technological advancements. Programmes will include on-site training such as Technology Park Malaysia's (TPM) hands on training course for lab technicians specialising in biotechnology.

Recognising that training and the inculcation of an ICT mind set should start at an earlier stage, the Ministry of Science, Technology and Innovation (MOSTI) is working with the Ministry of Education (MOE) to explore how best to incorporate an ICT element into the national curriculum.

As a further catalyst towards boosting human capital development the new National Brain Gain Programme has been put in place. The main objective of the programme is to encourage the return of Malaysian talents working abroad as well as to entice foreign talents to team up in R&D via collaborative networks. The programme focuses on a few priority areas, including ICT.

Nurturing Innovative and Resilient ICT-based SMEs

In order to generate growth driven by technology and innovation, a critical mass of innovative SMEs is required. This will be nurtured through mergers and acquisitions (M&A), consolidation and strategic collaborations with MNCs.

Public and private research institutes such as MIMOS, TPM, SIRIM and universities will establish more incubation and business start-up centres to act as catalysts for growth. The Technology Incubator Programme will be enhanced through a greater emphasis on nurturing services such as financial and risk management as well as Intellectual Property management. Mentoring services will also be made available through MOSTI.

Bearing Fruit

A change in mindset is slowly occurring amongst SMEs. The benefits of e-commerce and how it opens up markets and business prospects are slowly being appreciated by the SME fraternity. The programmes implemented by the Government are beginning to bear fruit.

In 2006, through MDeC's Technopreneur Development Start-up Programme, there were 18 New ICY SMEs with 62 Qualified Companies for MSC Malaysia Status processing. In addition, 19 new companies qualified for MSC Global Companies development and 25 companies highlighted as viable candidates for MSC Malaysia Status.



While Malaysia is recognised internationally as a competitive regional player, the external environment has become increasingly competitive. Neighbouring countries in particular have continued to enhance their skills and services. Malaysian SMEs therefore need to adjust and reposition themselves to meet this increased competition and be ready to take advantage of new areas of growth created by trade and globalisation. In recognition of the challenges ahead, assistance and support are being provided by the Government through the various schemes, programmes and incentives. It will now depend on the SMEs to seize these opportunities.