

Chapter 2

Overview and Trends of SMEs

2.1 Business Operation and Investment

2.1.1 Manufacturing Sector

SMEs in manufacturing sector accounted for 98.8 percent of all enterprises in this sector. They increased from 84,541 in 1994 to 99,568 enterprises in 1999 with an average annual growth of 3.3 percent during the period. The largest proportion of these enterprises was located in the northeastern region. The second and the third proportions were located in Bangkok and the northern region. However, in terms of growth, the biggest increases were in Bangkok (6.2 percent per year) and its vicinity (8.8 percent per year). Food and beverage industry constituted the largest proportion (55.8 percent) of manufacturing sector. Next in order were processed metal (8.8 percent), non-metallic product (5.6 percent), machinery and parts (5.1 percent), wood and wood product except furniture (4.8 percent), and rubber and plastic (4.1 percent) industries.

SMEs with the highest annual growth rate between 1994 and 1999 were processed metal, rubber and plastic, accessory, auto and parts, furniture, publishing and advertising industries.

In 1999, most manufacturing SMEs took a form of corporation or limited company. Most small enterprises were in company form (40 percent) and single proprietorship (36 percent). Over 91 percent of small enterprises had only one office while medium enterprises operated branches. In general, between 50 and 55 percent of manufacturing SMEs produced only one main product in 1994. The proportion increased to between 65 and 78 percent in 1999.

2.1.2 Trade Sector

The number of SMEs in trade sector largely increased between 1994 and 1999, from 271,000 enterprises in 1994 to 329,200

enterprises in 1999 with an annual growth rate of 4.0 percent. Trade sector can be classified into retail and wholesale trades.

Even though the share of SMEs for retail trade slightly decreased from 96.3 percent in 1994 to 95.1 percent in 1999, the absolute number of retail trade enterprises grew 4.2 percent per year. By and large, most retail trades expanded -- petroleum (12 percent), modern trade (8 percent), and specific modern trade (2.8 percent). Only retail trade of recycled products decreased 30.0 percent per year in the same period.

The number of wholesale trade enterprises of agricultural raw materials, household products, intermediate products and machinery jumped from 6,214 enterprises in 1994 to 10,056 enterprises in 1999. The annual growth rate was 13.4 percent with the growth rates of the subgroups ranged from 11 to 20 percent. The share of wholesale SMEs, however, slightly decreased from 95.2 to 94.9 percent.

The concentration of retail trade enterprises was less than that of wholesale trade. Over 20 percent of retail trade enterprises concentrated in the Northeast, followed by the central region. Over 20 percent of wholesale trade enterprises were in the central regions and Bangkok.

Most retail trade enterprises took the form of corporation or partnership. For wholesale trade, the medium enterprises were similar to that of retail trades while the small enterprises had a mixed nature of single proprietor, partnerships and corporation.

Most small retail trade enterprises had one office while medium ones maintained both a head office and branches. Wholesale trade enterprises also ran their businesses the same styles as retail trade enterprises.

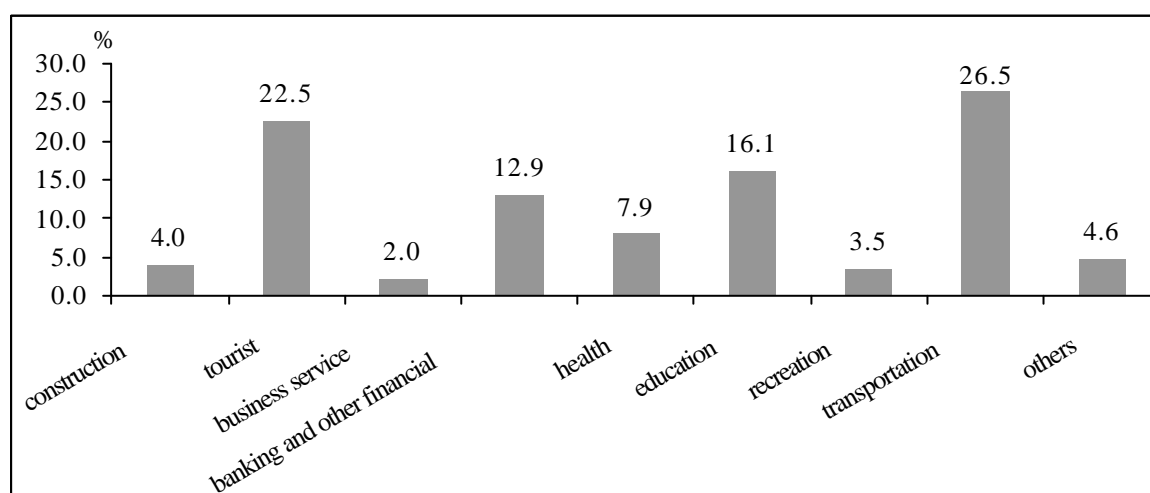
Nowadays, modern trade stores have become popular. During 1998 and 2001 modern trade enterprises expanded 20.4 percent annually because discount stores, convenient stores, other modern stores increased between 30 to 70 percent. On the other hand, the number of department stores and supermarkets contracted more than 20 percent per year. Likewise, traditional retail stores generally decreased 5.6 percent annually because of high competition from hypermarkets and convenient stores.

The value added per store of retail and wholesale SMEs both increased and decreased among various subcategories between 1994 and 1999. However, in general, the value added of retail trade enterprises increased 9.6 percent per year while wholesale trade enterprises saw witnessed a small increasing just 1.8 percent per year. The productivity of retail trade SMEs was roughly equal to that of large enterprises. On the contrary, wholesale trade SMEs' productivity yielded much lower than that of large enterprises. This made it difficult for wholesale trade SMEs to compete with large wholesale enterprises.

2.1.3 Service Sector

There are variety's of SMEs in the service sector. Some directly provide service to the public and others comprised these supporting industries serving larger companies. However, these SMEs can be categories into a groups as shown in Figure 5:

Figure 5: Total Product Value at Market Prices Classified by Service Groups, 2000



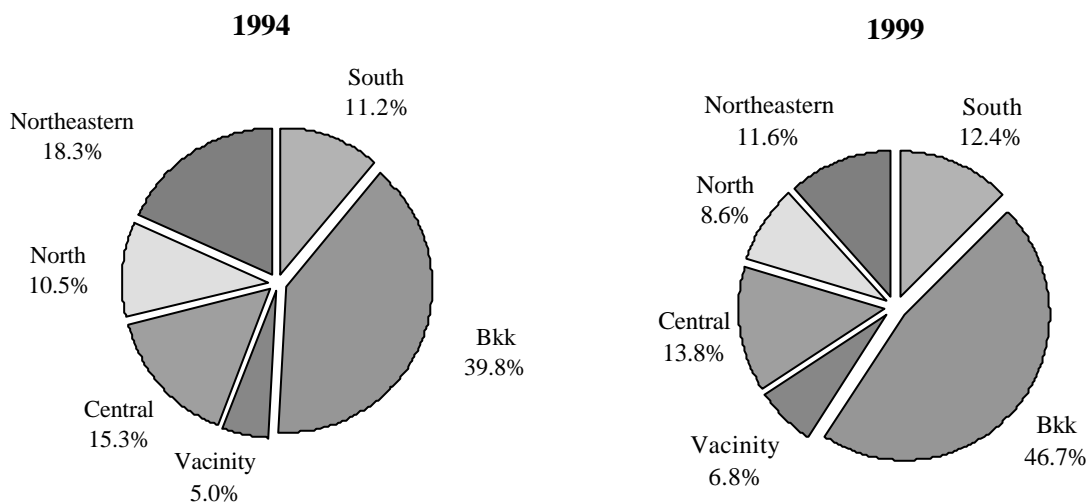
Source : White Paper on Small and Medium Enterprises 2001

Major service groups in terms of contributions to GDP were transportation, tourism, education, and finance.

In this paper, data constraints permit an analysis of only 5 groups (finance, health, education, transportation, and the rest) of SMEs in the service sector. There were 70,507 service enterprises in 1999 increasing from 65,900 enterprises in 1994 with an annual growth rate of 1.4 percent. In terms of number of enterprises eminent businesses in this sector were hotel and restaurant (26,144 enterprises in 1999). However, in the light of growth rate, service businesses that showed the highest growth rates were real estate (24.0 percent per year) and business services such as computer and internet businesses (24.0 percent per year) with only 4,125 and 9,918 enterprises in 1999, respectively.

SMEs accounted for 99.7 percent of all service enterprises. These enterprises concentrated in Bangkok particularly small enterprises, while medium enterprises were concentrating.

Figure 6: SMEs in Service Sector Classified by Area, 1994 - 1999



Source : White Paper on Small and Medium Enterprises 2001

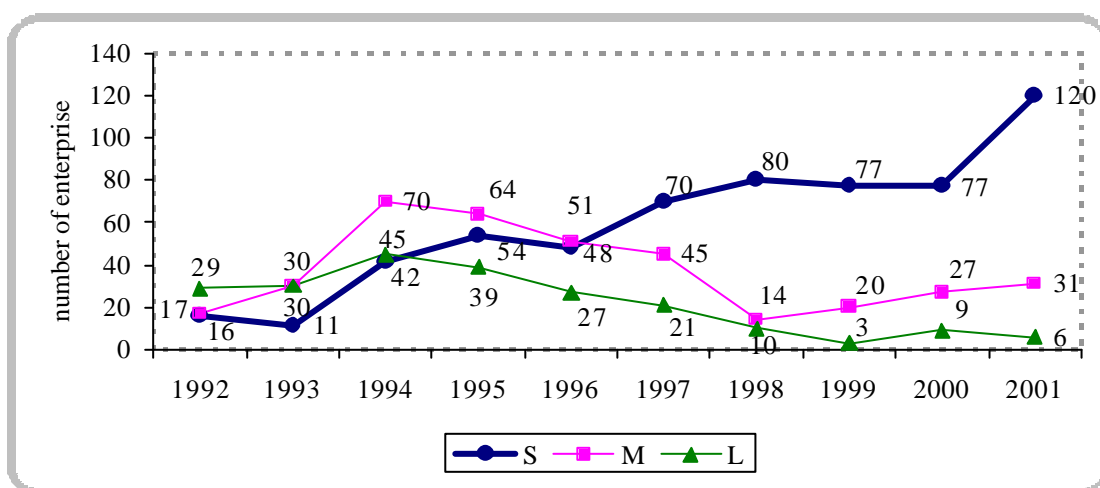
Most SMEs in service sector between 1994 and 1999 were in the form of single proprietor or own account businesses, followed by those in the form of corporation. In 1999, 86.2 percent of SMEs in service sector had only one office but this proportion tended to decrease and had more than one office.

The value of total product or total revenue for SMEs in service sector had the same pattern as the number of enterprises. The real estate business made up the highest value of total revenue. The second place was hotel and restaurant businesses. The economic crisis in 1997 partly accounted for the drop in average revenue from 3.3 million baht in 1994 to 1.0 million baht per enterprise in 1999.

Based on value added and investment volumes medium enterprises had much more advantages over small ones. Based on productivity, however, medium enterprises were not much better than small enterprises. Ninety two percent of SMEs in service sector were owned by Thai citizens.

Supports and promotion of measures provided by the Board of Investment (BOI) to small enterprises tended to increase from 1993 to 2001, while the similar promotional activities targeted to medium enterprises since 1998.

Figure 7 : Trend of Service Enterprises Receiving Supports from BOI



Source : White Paper on Small and Medium Enterprises 2001

In 1996, the size of businesses owned by SMEs in real estate and construction sector were worth nearly 200,000 million baht. These SMEs were seriously affected by the economic crisis in 1997.

Many enterprises had to shut down their businesses. As a result, these real estate businesses' volume dropped to 41,276 million baht in 1999 which was the lowest point for these businesses. The real estate business started to gradually gain a recovery in 2000 with 17 percent of annual growth rate.

Tourism was the only business in service sector which survived the economic crisis. It hit a rock bottom point at 230,921 million baht in 1998 and then increased to 275,363 million baht in 2000 with an annual growth rate of over 7.7 percent.

The business service group (i.e., computer and internet businesses) recorded the highest business volume of 25,857 million baht in 1997. After the economic crisis, its volume went down before climbing up to nearly 25,000 million baht in 2000.

The recreation, culture, and sports sub-sector as a whole was affected by the crisis minimally. The growth rate in 1998 dropped by 0.4 percent only and then continually rose to 42,949 million baht in 2000 with an annual growth of 10.7 percent. Not so successful was movie industry with a negative growth rate of 2.9 percent per year during 1994-1999.

Financial service sector consisted of 9,859 SMEs in 1999 increasing from 5,649 enterprises in 1994 (with an average growth rate of 11.8 percent per year). The sector was seriously affected by the crisis as its business volume dropped from 346,263 million baht in 1996 to 157,306 million baht in 2000.

Transportation came out of crisis almost intact. Its business volume continually increased every year although at a little slower pace. Prominent businesses in terms of business volume in this group were marine and road transportation.

2.2 Employment

2.2.1 Manufacturing Sector

SMEs employed 1,928,300 workers in 1999 with an annual growth rate of 3.3 percent. The employment in medium enterprises, in

particular, increased 8.8 percent each year. SMEs in the central region and Bangkok were the most important sources of employment in 1994 and 1999. Accessories, garment, food and beverage, furniture, and rubber and plastic were industries that employed the majority of labor in manufacturing sector. SMEs tended to adjust their employment after the crisis better than large enterprises.

2.2.2 Trade Sector

SMEs' employment share in trade sector was very high (94 percent of total trade enterprises). The total employment in SMEs was 2,471,700 workers in 1999. Employment in small enterprises was greater than that of medium ones for both retail and wholesale trades. Trade SMEs that generated the largest share of employment in the retail trade and wholesale trade sectors were the retail trade of specialized products and the wholesale trade of household products respectively. The growth rates of SMEs' employment between 1994 and 1999 were 8.5 percent per year for retail trade and 14.2 percent per year for wholesale trade.

2.2.3 Service Sector

SMEs in service sector employed 1,477,300 workers in 1999. The employment share in small enterprises was higher than that in medium enterprises. Twenty nine percent of total employment in this sector concentrated in Bangkok and the rest evenly distributed to all regions. Over half of service SMEs' employment was in tourism, hotel, and restaurant groups. However, real estate sub-sector made up the highest growth of employment. By and large, in the context of employment, after the financial crisis SMEs adjusted themselves better than the large enterprises did.

Overall, the productivity of labor (average product per labor) in medium enterprises was higher than that of small enterprises. The medium wholesale enterprises, however, had lower average product than small wholesale enterprises. The productivity measured in terms of value added per worker was also higher in medium enterprises than that in small enterprises.

2.3 Finance

At present, large number of SMEs are facing difficulties accessing formal sources of funding because of limitations related to their characters such as small sizes, lack of fixed assets, lack of systematic accounting, and lack of business plans. Such limitations lead to difficulty in obtaining loans from financial institutions. The eruption of 1997 economic crisis has imposed more financial constraints on SMEs as financial institutions has encountered a problem of non-performing loans (NPLs). Meanwhile, Bank of Thailand has issued more restrictive rules and regulation to prevent reservation of the expected irredeemable loans. Prices of assets used as collateral has reduced. Consequently the financial institutions are more careful on their lending affecting SMEs directly.

In 2001, the Thai Farmers Bank Research Center estimated that the loans needed by SMEs was at least 220,000 million baht while the government financial institutions and commercial banks targeted to provide them a loan of only 166,900 million baht. That means the SMEs were short of 53,100 million baht loan.

In 2001, the specialized financial institutions have targeted to lend 50,500 million baht. The Industrial Finance Corporation of Thailand (IFCT) is the specialized financial institution that has the highest loan target for SMEs. In comparison, the Small Industry Finance Corporation (SIFC) which is about to be converted into SME Development Bank of Thailand provides loans less than a half of those from IFCT. In comparison the commercial banks has set a loan target at 94,800 million baht. Considering their loan target of more than double that of government specialized financial institutions, commercial banks are considered very important sources of loans for SMEs.

The Small Industry Credit Guarantee Corporation (SICGC) has provide the total of 2,506 million baht worth guarantee loans for SMEs despite of its target of only 1,600 million baht. Most of the credit guarantees were for SMEs in food and beverage sectors. About financial consultation, the SMEs and People Financial Advisory Center (SFAC) has provided SMEs with consulting services worth 25,451 million bath. Most of the consultation were for manufacturing

SMEs. The most frequent consulting issue were on sources of fund, followed by the problem of NPLs.

To assist SMEs in mobilizing fund, an alternative security market has been set up. The market is called “Market for Alternative Investment (MAI)” or. “New Stock Market”.It is intended to provide SMEs entrepreneurs with an access to long-term loans, through sales of security to the public. In 2001, 4 securities from 3 companies have been registered in MAI. It is anticipated that more SMEs companies will register in the future. However, there are still many problems with MAI. For example, the registration eligibility criterion requires that a company’s registered capital must be less than 200 million baht. Thus, whenever a company exceeds the limit, it has to move to the Stock Exchange of Thailand (SET). There are also problems about high cost of registration, lack of entrepreneurs’ knowledge and understanding of MAI. In addition, big investors are not interested in MAI as they perceive that high risk is involved in investing in MAI. These problems have been recognized by MAI and solutions are under way including adjusting the eligibility standard, and better public relations, etc.

In addition to the development of MAI, the government had established 2 funds in accord with its measure to support private sector investment, including SMEs Venture Capital Fund and Thailand Recovery Fund. Both funds are aimed at mobilizing financial resources for SMEs. Past experience indicates that the SMEs Venture Capital Fund that has One Asset Management Limited as a manager fund is not so successful. It was found that, in the first year of operation(July 2001 to June 2002) the investment was only 134 million baht or only 25% of its targeted investment.

2.4 Marketing

2.4.1 Domestic Market

(1) Manufacturing Sector

Within the manufacturing sector, direct sales and e-commerce have increased its presence, in particular, provide details, prices,

pictures and more information of products on producer's web sites. Therefore, it is very convenient for customers to make any selection for their desires.

The market on which SMEs should focus is Niche Market. They should also provide clients with new and innovative products and services in accord with consumer's tastes. Although Niche is not a large market, it has low competition such as markets for environmentally safe and recycled products.

(2) Trade Sector

The market for the trade sector is mostly domestic. The value of the trade had continually increased from 878,454 million baht in 1994 to 1,385,127 million baht in 1999. During 1994-1999, retail trades had expanded more than wholesale trades because of the huge expansion of modern retail trade enterprises, in particular, discount stores and convenient stores.

Considering market shares by the size of enterprises, for retail trades, the leader changed from SMEs to large enterprises. On the other hand, considering the share by style of organization (traditional/modern), the share of the modern retail traders rapidly jumped from 32.9 percent in 1999 to 40.5 percent in 2001.

For the wholesale, during 1994-1999, the SMEs' market share slightly increased from 58.5 percent in 1994 to 59.4 percent in 1999. Nonetheless, the average income of the SMEs decreased—by 13.6 percent per year for medium enterprises and 4.4 percent per year for small enterprises. The main reasons include the turn of retail stores to buy from discount stores.

Considering market shares by size of enterprises in the wholesale sub-sector, SMEs played a key role in the market of agricultural products, foods, beverages and tobaccos. It should be noted that, for the intermediate goods that is non-agricultural products, scraps and unusable products, the major market share changed hand from large enterprises to SMEs.

(3) Service Sector

Generally, domestic markets is the main source of income of the services sub-sector. In 1997, the sub-sector was, like other businesses, affected by the economic crisis, especially, the real estate sector and

related businesses, such as construction materials, subcontractors and financial institutions. Nevertheless, the statistical data such as number of registered condominiums, number of new housing in Bangkok and vicinity have indicated that some segments of the real estate sector have recovered since 2000 due to the consumers demand as well as the government's measure aimed at promoting real-estate business.

Another sub-sector that has recovered since 1999 is IT businesses. After contracting by -39.1 percent in 1998, the growth of market value increased to 35.4 and 39.8 percent in 1999 and 2000. The items that played the most important roles were PC & Workstation, Data Communication and IT services and package software.

For tourism and related businesses, Thai consumers turned to favor domestic travelling. This may be a result of the government campaign for domestic travelling and of the baht devaluation. As a result, the number of tourists increased about 7.09 percent in 2001 with total income of 222,692 million baht in 2001.

In hotel businesses, the domestic clients include not only individual Thai tourists but also groups attending conferences and seminars. After the financial crisis, regulations and measures have been purposely slacken in order to distribute more income to local areas. For example, the seminars of government agencies are allowed to be held in provinces instead of bangkok, resulting in booming hotel businesses among provincial towns across the country.

2.4.2 International Market

(1) Manufacturing Sector

In the manufacturing sector, agro-industry have good prospects in marketing opportunity by leaping at the rate of 13.6 % in year 2002 while manufactured products increased by 2.9 Percent. On the contrary, mining and fuel products experienced a negative growth rate of -8.7 percent. In this sector, the share of export oriented SMEs remains low (less than 17 percent of their products) compared to large enterprises.

The first 7 manufacturing exports ranked by export values and size of industry are computers and accessories, integrated circuits, clothing and textile, gems and jewelry, radios and telephones, canned seafood and processed food, and plastic grains.

However, in year 2002 the top three products with highest growth rates were jewelry and ornaments (17 percent), canned seafood and processed food (7.9 percent) and garments (4 percent). On the other hand, integrated circuit export dropped dramatically by 13.6 percent.

Major importers of manufacturing products include EU (21.2 percent) and Japan (19.4 percent).

(2) Service Sector

During the past 6 years (1996-2000), trade balance of the service sector had continued to record surplus which were generated mostly from tourism. For transportation sector, although the balance is continually in surplus, it is found that only transportation of passengers, that has recorded surplus balance. Income from this section mostly came from air transportation, particularly.

The loyalty and patent sector has been in deficit continuously because of the needs to import technology from abroad. This deficit was 36,109 million baht in 2002 indicating an upward trend from the past. Another sector that continuously has deficit balance is insurance because of the free trade policy of this sector which results in high competition between Thai and Overseas insurance firms.

The major source of foreign currency in the services sub-sectors is tourism (54 percent of service income value) followed by transportation (24 percent). On the other hand, the service sub-sectors that are major source of overseas expenditure are other services such as advertisement, payment for know-how, movie file rentals, etc. which account for 35 percent of total overseas expenditures, followed by tourism and transportation.

Compared with large enterprises, exports of the SMEs service sector has several disadvantages, for example, lack of information, inadequate technology transfer, as well as difficulty in reaching

overseas markets while large services enterprises have better market networks overseas.

2.5 Information Technology and Innovation

Utilization of information technology (IT) can help increase business productivity and capacity for business competition. However, at present, Thai SME entrepreneurs have still relied heavily on the use of foreign technology in their production, marketing, and managing systems. The investment on technological researches and development is rare.

In production as well as service sectors, SME entrepreneurs use IT and advanced electronics media in marketing, communication, e-commerce and grouping of SME business in specialized manners. For example, a number of SME entrepreneurs collectively create Portal Web which is mostly seen in hotel business. In trade sector, in addition to e-commerce, there are other uses of IT such as in retailing system or chart system. However, compared to the large businesses, SME entrepreneurs use too little IT due to limitation in the areas of budget and personnel.

Most SMEs entrepreneurs tend to focus their IT application in the area of marketing, sales, and networking. There is still little application of IT in research and development and product design. For innovation, the number of patent registered in 2000 and 2001 has been doubled.

The government has played an important role in invention and transfer of technology by providing financial support and legal patent protection. The agents who provide the SME support include National Science and Technology Development Agency (NSTDA), Thailand Institute of Scientific and Technological Research (TISTR), Thailand Research Fund (TRF), Innovation Development Fund (IDF) and Department of Intellectual Property