Rising labour costs leave SMEs bruised, survey shows

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Some of them may be forced to shut down or relocate.

Labour accounts for more than a third of small and medium enterprises' total business costs, which rose by an average of 29 per cent between 2008 and 2011.

According to a new survey of 195 SMEs, commissioned by the Singapore Business Federation's SME Committee, labour costs also escalated most sharply over the three years. Rentals and energy-related costs such as utilities and transportation were the other top risers.

Sharing these findings at the 18th Singapore Economic Roundtable organised by the Institute of Policy Studies, Nanyang Technological University assistant professor of economics Leong Kaiwen said that 66 per cent of SMEs polled have had their profits significantly eroded. This proportion was over 80 per cent in the manufacturing, wholesale and retail trade and transportation sectors.

About 13 per cent of the SMEs say the rising costs of doing business in Singapore may drive them to relocate abroad, while a further 7 per cent think they may have to close down.

Mr Leong found inflation to be the primary driver of wage increases, noting a strong co-movement between nominal income and inflation, especially after 2009. Survey respondents said that as the cost of living rises, workers expect to be paid a higher wage. Wage increases thus may not be driven by improved productivity. He found foreign worker levy hikes to be a secondary driver of ongoing wage increases.

Home-Fix DIY managing director Low Cheong Kee said that the rise in basic wages does not fully capture the rise in other labour cost components such as overtime pay, compensation for work on a public holiday and other incentives.

Unlike other retailers who are still grappling with a shortage of manpower, Home-Fix has been able to hire more older Singaporean employees. "The nature of our business is that our retail staff don't have to be pretty and well-groomed and young. So we were able to restructure the job to let them come in on a part-time basis," said Mr Low. However, taking on more elderly workers also raises the costs of insuring them.

Home-Fix's medical, insurance and hospitalisation costs rose 83.6 per cent between 2008 and 2011. Statutory fees, such as foreign worker levies, rose 48.8 per cent. Training costs did fall 20 per cent, thanks to government subsidies, but the absolute quantum was lower. Over this time, its headcount grew slightly.

Mr Leong said retail rental rates, though relatively stable in recent years, may not capture the full burden of related charges on retailers either. "Landlords tend to have more bargaining power than retailers when settling rental contracts. Often, to renew the lease, there is mandatory renovation involved for which they are required to hire the landlord's contractors," he said.

"Businesses are very stressed," said Mr Low, who is also one of the Association of Small and Medium Enterprises' vice-presidents. "Many of the SMEs have very thin margins to begin with. They have limited resources and the market is small. These thin margins do not allow us to build reserves to invest and grow."

He can see the need for improved productivity and thinks not all SMEs will make it through the current economic restructuring. "The smaller mom-and-pop local suppliers, you can see that some of them really need to fold. Their business model has not changed at all after so many years and they are just supplying one product, it's not sustainable," he said.

But among SMEs which show promise, pushing up productivity is no easy task despite help from the government, he added.

Still, higher costs here have forced higher efficiency. "It is true that some of the companies similar to ours overseas are not as efficient, for example, in inventory management. In Singapore, it is really critical for us to be able to measure the conversion rate, measure inventory, cut down on excess inventory. Overseas operations tend not to have to watch their costs so carefully," Mr Low said.

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