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Grab's experiences show that scaling a business should be guided by a spirit of entrepreneurship that seeks to add value, says one observer from SMU.

A Grab motorbike helmet is displayed during Grab's fifth anniversary news conference in Singapore June 6, 2017. (File Photo: REUTERS/Edgar Su)

SINGAPORE: Look around us. From retail stores to mobile apps, from products to services, what we see is largely the result of intense competition and the market expansion of businesses.

One dominant player can be quickly replaced by another – and one single big player can become one of many in an industry just as quickly.

Most businesses, small and big, are at some point or another ought to think about market expansion – whether driven by the intention of the founders, or because of pressure from stakeholders looking for higher returns on their investments.

The scalability prospect of a start-up determines what kind of investors they attract.

Scaling will see a company meet with friction – as competition with existing competitors or new ones buoyed by the same prospect of market grab intensifies. But customers rejoice because competition lowers prices for products and services.

Striking the right balance when it comes to scaling a business is challenging. If founders expand too quickly, they may burn all of their cash away, making them less able to react to market demands. Competitors may come in and scoop up most if not all of their business.

If founders expand too slowly, they might be able to keep their cash, but risk being relegated to playing catch up with market trend and competitors. At the end, they might fold anyways because they won't have enough revenues to pay for operating expenses.

TWO STORIES

Case in point, Uber versus Grab.

Uber was the definition of a wealthy start-up, armed with what seemed like an inexhaustible cash war chest. It muscled its way into every market it entered. It hired the best lawyer money could buy to fight off lawsuits after lawsuits.

It heavily subsidised drivers and passengers just to increase market share and drive out smaller competitors.

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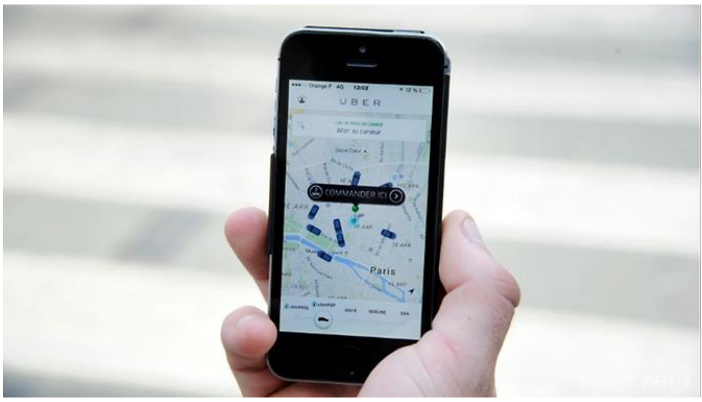
Then, as if someone came to the party, switched on the lights and turned off the sound system, Uber began to retreat market after market, selling away operations to its largest competitors.



Uber app (Photo: AFP/Thomas Oliva)

Grab, on the other hand, started off as an app to help taxi drivers earn extra money by providing the same kind of digital service Uber had provided to its private car drivers.

Grab touted itself as the startup that wanted to empower taxi drivers, and give them the ability to earn more money by becoming more efficient and responsive to demand.

Quickly though, Grab realised that it couldn’t scale unless it expanded into private cars.

Supported by billions of cash investments, Grab competed head to head with Uber in this space within Southeast Asia. It wasn’t an easy task as Uber clearly had more money.

Grab’s advantage was its ability to adapt to the needs of local Southeast Asian customers. Grab offered cash payment in developing countries, whereas Uber initially only allowed credit card payment.

Grab and Uber bled so much cash that it was just a matter of time before one of them folded. It’s almost like an international game of chicken as fierce competition between these two rivals heated up – the attitude was "let’s see who blinks first".

But SoftBank – a key investor for both companies – didn’t want to see the bloodbath continue.

Perhaps Grab was lucky as Uber was facing other legal and PR problems back home in the US – a series of events that ended with the resignation of Uber founder CEO Travis Kalanick. Perhaps Grab is just better executing strategy in a Southeast Asian market.

It could be all of the above. But make no mistake - as of today, in Southeast Asia, Grab is the new ruler in town.

GRAND AMBITIONS

Grab’s problem with scaling doesn’t stop with the exit of Uber, because Grab as a company needs to grow even more. It is now offering anything from food delivery to bike-sharing and it has grand ambitions of becoming Southeast Asia’s one-stop shop “super app”.

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File photo of a GrabFood delivery. (Photo: Grab)

But you see, with each new product line, Grab or companies like Grab (Go-Jek in Indonesia offers massage service, mobile phone credit top-up, groceries shopping for instance) would face more competition.

The companies that dare challenge giants like Grab will have some comparative advantage – whether huge financial resources, or know-how in a specific product line.

Just look at GrabFood, FoodPanda and Deliveroo and the slew of promotions and discounts in food delivery apps in Singapore.

All these lead consumers to develop expectations that prices will remain artificially depressed but that's a fallacy because as soon as competition disappears, prices will go up. It might bring in new players into the market, starting a new cycle of competition no doubt.

But the question is – what kind of competition and market scaling strategy in retail works best?

There isn't an easy answer but competing in an all-out war and burning through investment cash is a dangerous risk-all game to play that doesn't guarantee success.

The upside is that healthy competition can bring consumers benefit and keep large enterprises on their toes. Not long time ago, few dare imagine competing with Walmart – it was a retail behemoth.

Now, Walmart is worth US$500 billion, while Amazon is worth over US$1 trillion, making Jeff Bezos, Amazon's CEO and founder, the wealthiest person in modern history.

Amazon CEO Jeff Bezos discusses his company's new Fire smartphone at a news conference in Seattle, Washington June 18, 2014. REUTERS/Jason Redmond

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In explaining Amazon's success, we might point to the fact that running a retail business is extremely challenging. We might also point to the disruptions to retail, the massive changes in the way people shop, and the proliferation of mobile phones which have revolutionised shopping and made shops rethink their e-commerce strategy.

Being the first to market is not a competitive advantage either. As the executive director of the SMU Lien Centre for Social Innovation, I have heard countless pitches by young founders who say their idea is “the first in the market, and that’s why we will succeed”.

Really? Look up Friendster and MySpace, and see what happened to them. These were the original social networking sites before Facebook became the dominant player.

What’s needed in ensuring scaling is sustainable and healthy is to infuse expansion with innovation and an entrepreneurial spirit that value adds to the industry a company enters, to weather the storm of competition for the long term.

Overspending on promotions and discounts to gain market share seems like a cheap easy option to acquire consumers, but without careful and thoughtful strategies, companies run the risk of bank accounts drying up, and consumers leaving, forcing entrepreneurs to cut back and rethink their business models.

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