

New threats, new opportunities

Firms in the service industry need to innovate and adopt fresh business models, say observers. **CAI YONG** reports

SINGAPOREAN firms have it easy, given the strength of our regulatory system, said Rajendra Srivastava, provost and deputy president of the Singapore Management University (SMU), at the recent Institute of Service Excellence at SMU (ISES) Global Conference on Service Excellence, now into its fourth year.

Prof Srivastava was speaking on trends that the service industry must deal with as it gears up for the future. "The environment here is very conducive to business. But as we expand out of Singapore and begin to work in other regions, we have to be more adaptive. We cannot expect to get the same kind of environment that we do in Singapore," he observed. "We have to really get out of our comfort zone."

Demographic trends

As businesses look to the future, they must plan according to demographic trends. Singapore, like Japan and China, has an ageing population and that implies a shifting demand for various sectors. Healthcare, in particular, looks set to blossom, while retail may take a hit.

In this regard, Fred Phillips, professor and programme chair in the Department of Technology and Society at the State University of New York at Stony Brook, thinks that Singapore has much to learn from the United States, where scores of abandoned shopping malls tell a cautionary tale.

"We have an ageing population that shops less than young people who are setting up households and arranging their lives. Our ageing population, as they get closer to retirement, has very little savings, and if they are able to retire, will not be spending very much money," Prof Phillips explained.

US retail space has doubled to 47 sq ft per consumer over recent years. Compared to 12 sq ft per consumer in Germany, US retail space certainly seems excessive.

The second effect of an ageing population is a shrinking workforce. Already employers are finding it difficult to staff their operations adequately.



Variety of opinions: (From left) emcee Diana Ser; Yuen Kuan Moon, CEO, Consumer Singapore Group, SingTel; Dr Jeremy Lim, partner and head of Asia Pacific Region, Health and Life Sciences, Oliver Wyman; Keiji Yamada, head of NEC Laboratories Singapore, and senior VP, NEC Asia Pacific Pte Ltd; and Prof Kannan in a panel discussion on the topic 'What Can We Learn About the Future from the Past and Present?' at the ISES Global Conference on Service Excellence 2014

ly. Attracting and retaining hires will be a key challenge for the service industry especially as Singapore cuts back on workforce growth.

The disruptive effects of technology will remain important going forward. The emergence of the "sharing economy", for one, underscores the need for new business models.

Retailers have, for some time, known of the need to adopt a

bricks-and-clicks model, combining physical stores with online shopping services.

The digital upstarts have now entered the hospitality field, with the rise of services such as Airbnb, which allows homeowners to rent their place out to travellers.

PK Kannan, Ralph J Tyser professor of marketing science at the University of Maryland, described it as such:

"Essentially ... you have resources which are not being utilised for a particular amount of time and you're using network and digital services to make it available to others to use it."

These local lodgings offer not only competitive prices, but also an authentic local experience. Luxury hotels, which once prided themselves for uniformity in style and quality of service, must now compete on this

frontier, said Marc Dardenne, chief executive officer at Patina Hotels and Resorts.

'Cost disease'

The need for new business models further arises because of "cost disease". First identified by economist William Baumol, it refers to the fact that productivity growth is slower in certain sectors of the economy than in oth-

ers. "In illustrating this, he famously said that it takes just as long for a string quartet to play a Beethoven sonata as it ever did," Prof Phillips explained.

Baumol and his students validated this with many empirical studies, finding, for example, that the average cast size of Broadway shows has been steadily declining since 1945, but (is) now reaching the limits of how few people can stage a successful Broadway show and still get paid."

Cost disease runs rampant in sectors which are difficult to automate and standardise. As productivity of these sectors grow more slowly than the rest of the economy, their relative cost must also therefore increase, leading to falling profitability.

Prof Phillips suggests that the problem can be circumvented if companies expand into new segments which share significant synergies with their current business. This not only brings in new income sources, but also increases capacity utilisation.

McDonald's McCafe venture provides a positive example. Given the ubiquity of McDonald's restaurants, they are able to capture the cafe market by offering *lattes* and cakes in existing restaurants. Although they have to hire *baristas*, they are now able to produce more value from the land the restaurants occupy, thereby raising productivity.

Coupled with customers that are more demanding than ever before – a by-product of the digital age and its obsession with instant gratification – it is all the more pressing for firms to innovate and adopt new business models, within and outside Singapore.

Minister in the Prime Minister's Office Lim Swee Say believes that Singapore's service industry need not worry. "The advances in technology (are) actually creating a lot more space for us to do things differently, hopefully do things smarter, better. And yet at the same time, the customer's expectations are also evolving very rapidly thereby creating even more opportunities for us to innovate, to capture new markets," Mr Lim noted.
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