

# Keeping an eye on market changes

SMEs have to make the transition from being operationally excellent to becoming market responsive and thus more competitive, write **S VISWANATHAN** and **ROHIT BHATNAGAR**

SMALL and medium-sized enterprises (SMEs) have played a vital role in Singapore's economic development, accounting for 99 per cent of all the business establishments, 47 per cent of the value added and 62 per cent of the workforce. When multinational companies use Singapore as a manufacturing or service hub, SMEs in the upstream and downstream industries play effective "feeder roles" in the diverse supply chains of a variety of industries.

If SMEs do not achieve the same levels of operational excellence as the MNCs with whom they seek to develop feeder relationships, their roles will rapidly evaporate and move to more effective locations as vividly illustrated in the past in industries such as textiles and consumer electronics. The competitiveness of SMEs is therefore of crucial importance to the general well-being of Singapore's economy. On an aggregate level, SMEs seem to be following this trajectory and fulfilling their "feeder role" very creditably.

However, in today's environment of relentless competition, past laurels can disappear quickly. Given the relatively higher labour and land costs in Singapore, a strategy focused exclusively on cost leadership is eventually doomed to failure. An additional option is to service niche market segments which provide these small enterprises with possibly better profit margins. For instance, in some markets, firms can compete in the marketplace by providing very high and reliable service levels to their customers. The customers would then use these suppliers as a source of rapid response capability.

In such a scenario, the bulk orders would be fulfilled from the low cost source. However, the Singapore facility could be used to balance demand volatility to better match supply with uneven demand. This practice has been observed by the authors in several collaborative projects with Singapore's oil rig manufacturing industry. Another alternative would be to achieve customisation by enlarging the single point "services basket" that is offered. This enhances the economies of scope and can be frequently observed among providers of third party logistics services in Singapore. If these strategies are to be successful, the company must concurrently continue to be cost-focused.

While most successful SMEs inculcate a strong focus on operations to attain a cost advantage or the capability to service niche markets, a narrow emphasis on operations alone might not be sufficient for long-term survival. Competitors from lower-cost economies will eventually develop the same competencies and deliver greater value to their MNC customers. It is therefore important for the SMEs to continually innovate and revamp their product and service offerings. This implies that they should be willing to take risks and invest in new technologies and capabilities to develop the next generation of products and services.

Some SMEs might see this as being too risky. However, not doing this also might mean that they are eventually jostled out of the marketplace. SMEs therefore need to build their resources and processes to not only hone their current operational capabilities, but also their ability to innovate and create new products and develop markets. They need to make the transition from being strong in operational excellence to also being responsive to market changes. We highlight here two local SMEs which we believe are making the transition.

The first firm is Four Star Industries, a leading mattress manufacturer in Singapore. Four Star initially began its operations producing foam mattresses in 1966 and was a pioneer in operations right from the beginning. It quickly identified that productivity, quality and innovation were the key pillars for its competitiveness. It used only Swiss technology and became a leading manufacturer of pocketed spring mattresses. Faced with fast-changing consumer and distribution channel requirements, the company expanded its range of offerings almost twenty-fold. This initially had a debilitating impact on its operations, specifically its order fulfilment and inventory management. However, the company leveraged its modular product design to adopt a strategy called postponement, which helped it to pool the risk of demand volatility across different products.

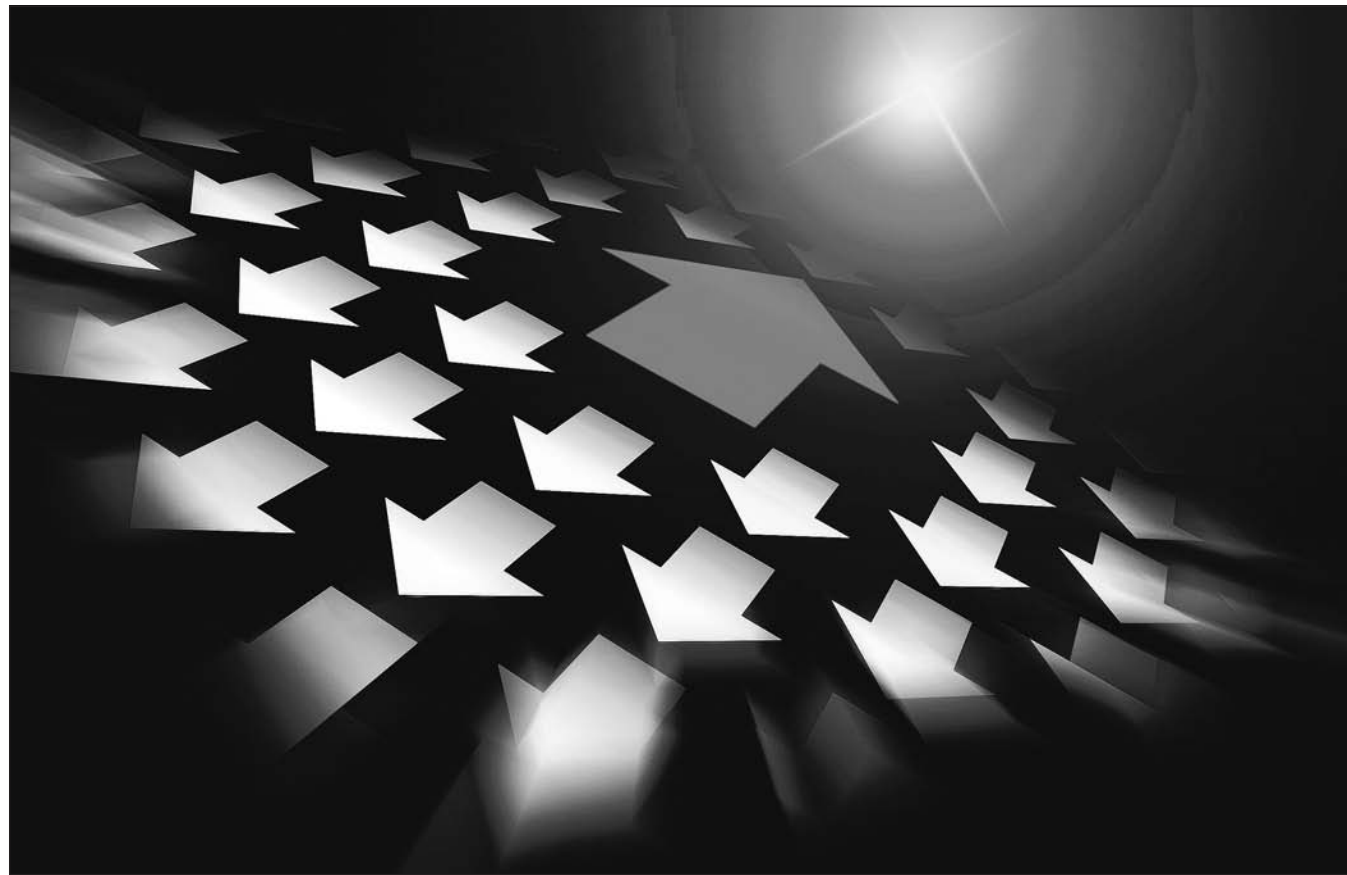
While finished products inventory was held for a few fast-moving models, under the postponement strategy, the large numbers of slow-moving models were assembled quickly from a common pool of modular components after the receipt of an order. Four Star found that it can now capitalise on this position to unleash the full power of its modular design by offering an even larger number of mattress varieties. The company is now utilising this new operations capability to offer wider and more customised solutions to its customers: what it terms "sleeping solutions" rather than purely manufacturing and marketing mattresses.

The other example of a Singapore SME which has made the transition from being operationally excellent to becoming market responsive and thus more competitive is Gan Hup Lee (GHL), a company involved in blending, packaging and distribution of rice. GHL was established in 1949 as a small provision store retailing rice. To overcome the severe competitive pressures that existed in the rice retail trade, GHL evolved to become one of the large B2B suppliers of quality rice to food stalls and fine restaurants. It focused on identifying good sources of fine rice in the international market, and by understanding the flavours and quality of different rice grains well, was able to come up with the right blend for dishes such as briyani and chicken rice.

In recent years, GHL has sharpened its focus on quality systems. It is one of the few companies in Singapore that has invested heavily in high-tech rice grain quality testing machines. GHL's operational capability has broadened its market opportunities and enabled it to enter the high value added consumer retail market by introducing traditional Singaporean recipes such as chicken rice packed in ready to cook sachets. The company is now trying to develop an overseas market for its quick-cooking flavoured rice products among Asians living in Europe and Australia.

The message from the companies described above is that by taking a strategic view of operations, SMEs not only can overcome the typical disadvantages that they confront in a high cost economy like Singapore, but also firmly set themselves on the path to sustainable competitiveness.

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