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BY MINDY TAN

# CHANGING THE GAME

A greater push towards innovation is necessary for the long-term survival of SMEs

**I**N AN increasingly competitive retail environment – customers are becoming more price sensitive even as rents continue to climb – some retailers are going back to basics and relying on the human touch to enhance their customers' buying experience. Triple, which manages the Under Armour franchise in South-east Asia, is one such company. With the strong brand equity associated with Under Armour, Triple decided that finding the right "type" of employee was key, and hired people who are passionate about the brand to work part-time as sales staff.

Some part-timers, for instance, are fitness instructors. But while they are good ambassadors – they are passionate about the brand and represent what it stands for – they are not necessarily familiar with store operations.

Triple CEO Michael Binger says that all the company's training is done in-house and on the retail floor. "This is time intensive and does not allow us to capture all employees, especially new

employees in a timely manner," he says.

Enter Australian startup, arcade, which refers to itself as a new way of thinking about employee engagement. It essentially offers a training platform which provides a unique game experience where staff compete, develop and progress as a player, all by achieving goals related to their workplace.

Says David Cherrie, co-founder of arcade: "Before we founded arcade, we were working in a retail store that was heavily underperforming. We found that our job wasn't motivating, and that our whole team felt as though the company didn't really notice or care about us. We've always been avid video gamers so the idea of making work more exciting to pass the time using game elements seemed like a cool idea."

Says Triple's Mr Binger: "The programme helps us to check on our staff's product, brand and promotion knowledge at any time. It is flexible and can give us important pulse checks." He adds that Triple is potentially looking at rolling out the programme to some of its key wholesale partners.

The pairing is the result of an initiative by DBS Bank which connects small and medium-sized enterprises (SMEs) and startups with experts in various fields. The series of Disrupt@The Bay events are sector specific, tackling sectors ranging from retail to food and beverage, and automotives.

Benny Chan, executive director, SME Banking at DBS Bank, says that the bank found itself at a unique intersection and decided to leverage its position to matchmake companies. "Many of our SME customers told us that they are looking to invest in technology and innovation capabilities to boost their competitiveness, reduce manpower and overhead cost, and to expand into new markets but they do not know how to start. On the other hand, we have also been interacting with many tech startups to explore venture debt financing via our DBS BusinessClass programme.

"DBS is well positioned to facilitate the exchange of knowledge and capabilities to help our traditional customers choose the right technologies, and our startup partners to grow their business."

## CHANGING GEARS

There has been a noticeable shift as companies move up the innovation ladder and advance beyond automation to improve productivity. Open innovation has also been a buzzword – with the rising cost of innovation and declining productivity of research, companies are increasingly seeking to collaborate with other industries to share the cost and risks in the innovation process.

Under the Partnerships for Capability Transformation (PACT) programme for instance, the Economic Development Board (EDB) and

Spring Singapore support the development of partnerships between large companies and SMEs. Large companies benefit by test-bedding new products or processes and upgrading the capabilities of their suppliers, while SMEs benefit from new capability development by co-innovating with the large companies.

And then there are the centres of innovation. Between 2011 and 2015, the Agency for Science, Technology and Research (A\*Star) has undertaken over 7,400 industry projects, which have catalysed more than S\$1 billion in industry R&D investments. Spring has established seven centres of innovation to provide facilities, technology consultancy services and advice for SMEs undertaking technology projects in electronics, supply chain management, environment and water, food, marine and offshore, materials, and precision engineering. As at the end of 2015, more than 2,200 projects have been undertaken since the first centre of innovation was set up in 2006.

Charlie Ang, founding president of The Innovators Institute, an innovation company, and co-founder of The Innovators Network, an open networking platform which inspires innovation, believes that the most critical step involves effecting a mind-shift among SMEs. "If we want to get SMEs to innovate, then we need to help them have that mind-shift first. We want to expose SMEs to the new ideas and technologies available, and (help them) explore and understand both the possibilities and the threats because entrepreneurs/startups are disrupting the world and industries and professions. MNCs are (aware of this and are) fighting back but the whole SME sector is oblivious to what's going on."

He adds: "It's scary because today, they may still be doing well. But I give them another five to 10 years. What I'm telling you today, they will realise it then, but by then it will be too late. A lot of their business models are on their last legs. Startups are trying to put existing incumbents out of business by having something that is more extensive, more intelligent and even cheaper. SMEs are still using industrial-age type of business models which have a few more years to go before they realise 'Wow, what am I looking at? There's no future.'"

Wilson Chew, entrepreneurial & private clients partner at PwC Singapore, agrees. Many Singapore SMEs remain undifferentiated and have, for many decades, thrived under a low-cost economic structure simply because they were price competitive.

"Furthermore, many companies represented globally recognised products (as trading firms) which yielded handsome margins. But Singapore today is no longer a cost-competitive economy. Additionally, there is the ability to source for almost anything online with the proliferation of the Internet of Things," says Dr Chew.

He is of the view that there must be a

greater push from the government towards SME innovation efforts. “This ecosystem is now cornering Singapore SMEs. It has made innovation an inevitable choice. Our SMEs must innovate or face very serious consequences. But innovative efforts can be resource taxing and hence, government support for companies towards establishing product and service differentiation is most timely, meaningful and valuable,” says Dr Chew.

At the Enterprise 50 dinner in November last year, Minister for Trade and Industry S Iswaran also stressed that businesses need to be aware of the big trends that are disrupting industries. In particular, he highlighted three – the sharing economy, disintermediation through technology, and rise of open innovation.

It is important to be alert to these new models and have an open mindset to innovation and collaboration he said, while developing one’s staff and systems in support of this effort.

In January, the National Research Foundation announced that the government has committed S\$19 billion to research, innovation and enterprise from 2016 to 2020. This is an increase from S\$16.1 billion for the previous five-year plan.

## BREAKING IT DOWN

According to Innovators Institute’s Mr Ang, SMEs are still stuck at the process innovation level – at this stage, they are doing the exact same thing just with fewer resources. Meanwhile, a few have moved on to the product/service innovation level where they look at their product offering and make it stand out from the competition.

“Most companies are still stuck at that base level. That’s important, and absolutely necessary,” says Mr Ang. “But, it is a hygiene factor. By doing that, you’re just surviving. To really stand out, you need to move up to the product/service innovation level.” Startups he says, are at the business model innovation phase. Given that they are starting tabula rasa, they are able to think outside the box instead of being held back by tradition.

“How would you plan your business, looking at all the technology available out there, rather than (holding onto the mindset that) I’ve been doing this for the past 20 years? Startups are starting with a clean sheet of paper, with absolutely nothing, just an idea. They are saying let’s test it out and ultimately inventing a new business model. SMEs are always saying they have no time. That is a symptom of them being focused on the wrong thing.

“They’re fighting at the base level where hiring labour and talent is so important. Startups have no problem with talent – what they do is serve 10 times the number of customers that a SME can serve but with maybe one-tenth of the resource. They can be 100 times more efficient so talent is not an issue.”

He goes on to hypothesise that within this decade, the six platform technologies – cloud computing, robotics, 3D manufacturing, Internet of Things, Big Data and smart algorithms – will reach tipping point. This will create the perfect storm for innovation, new “digital blue oceans” and an explosion of novel business models.



PHOTO: LAURA NG

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– **Charlie Ang** (above), **founding president, The Innovators Institute**

## BRIGHT SPARKS

It is of course not all doom and gloom. Some businesses have moved on to the second tier of innovation. According to DP Information’s *SME Development Survey 2015*, more SMEs are seeing the value in innovation with more than half of the survey respondents focused on process innovation. The survey, which is conducted on a yearly basis, also found that 34 per cent of respondents are looking at product or service improvement. Over 25 per cent are looking to develop their own niche products or build their own brands.

Mr Ang says that a lot has been done to educate businesses as to why they need to innovate, and the time is now right to move into the “how” phase. “There are SME owners who will say, ‘I did it before, I spent a few hundred thousand dollars, and it failed, I won’t do it again.’ They have the capabilities operationally but they don’t have the capabilities to invent new products, to decide what kinds of new business models to experiment with. How do you experiment and turn it into a business and let it run on its own? That part of it is very tough!”

This is where platforms such as Disrupt@The Bay and The Ideas Collider hope to play a

part. The Ideas Collider, which is organised on a monthly basis, aims to get management leaders and professionals from different industries and organisations to form a community and congregate every month for half a day. Their audience? Anyone involved in change management, growth, transformation and innovation.

“Later down the line, we have to find a philosophy or management theory SMEs can adopt for innovation,” says Mr Ang. “Big companies can take a portfolio approach. They can invest 2 or 5 per cent of their revenue into innovation initiatives. Some companies already have R&D or product development units and use that as a hotbed to incubate new ideas. From 100 ideas you get 80 concepts, and eventually you may have a US\$2 million business. Whereas startups have an idea, raise money, and try to survive,” he says with a laugh.

“SMEs have traditionally not been innovators. They look at what’s needed in the market and create a standard product. Somebody does it, they copy it. There’s nothing innovative. But moving forward, if this group is not innovative, a lot of them are not going to survive.” ■