SMU
SINGAPORE MANAGEMENT UNIVERSITY

ASIAN MANAGEMENT INSIGHTS

Managing Covid and Complexities in Myanmar
An interview with Serge Pun

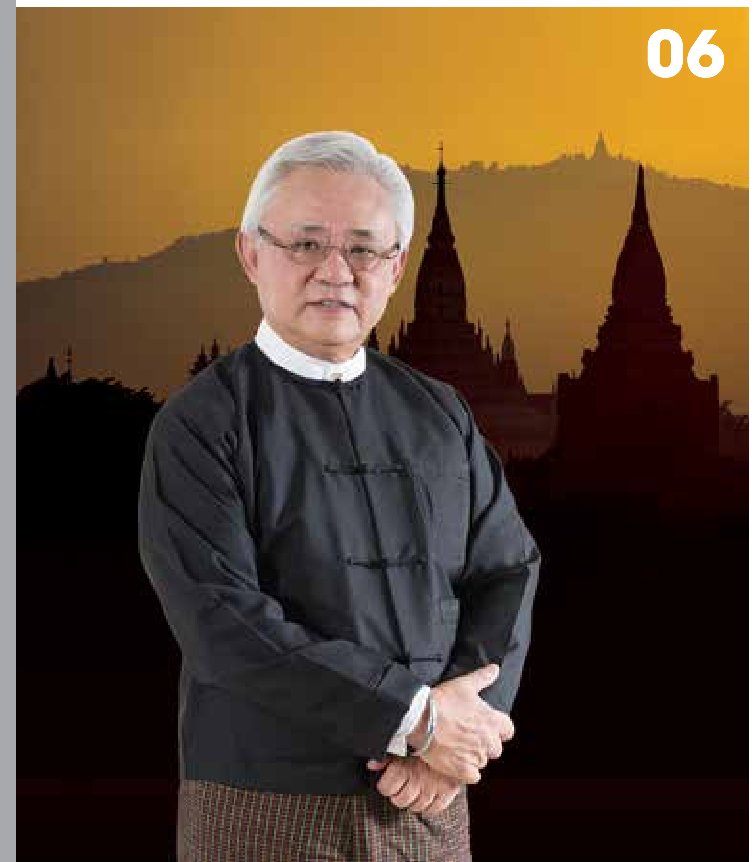
Carlos Ghosn
The rise and fall of an automobile legend

Mediate, not Litigate
To resolve disputes

GLOBAL MOBILITY
Reshaping national policies

VOL.8 S$16.00
ISSN 2315-4284
23
9 772315 428008

CONTENTS

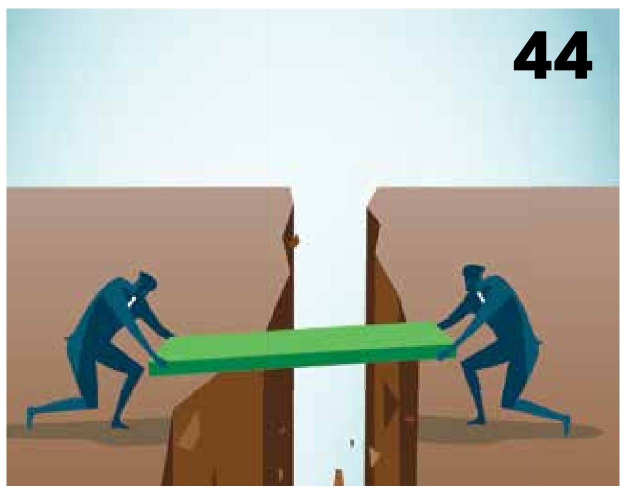


When times are good, everyone wants to be an entrepreneur. But when times are bad, you really require steel to be in the game.

- Serge Pun, Executive Chairman of Yoma Strategic Holdings and First Myanmar Investment

The coronavirus continues to upend lives, businesses, and society, and the playbook for survival will still be a work-in-progress.

- Havovi Joshi, Editor-in-Chief, Asian Management Insights



ASIAN MANAGEMENT INSIGHTS

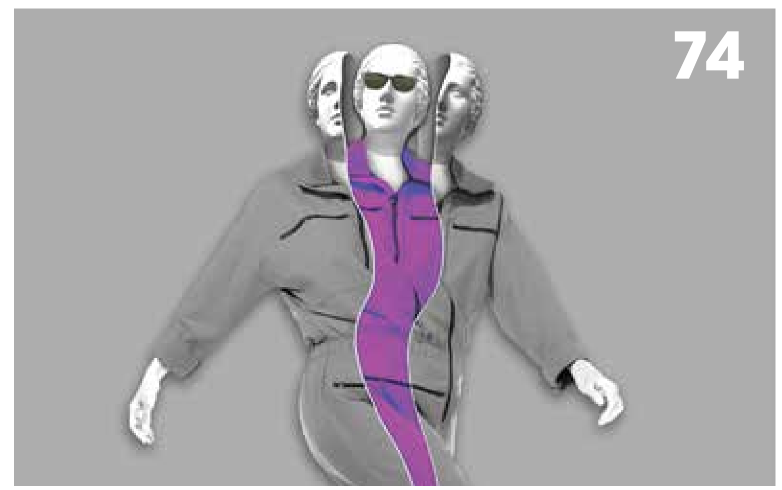
Asian Management Insights (ISSN 2315-4284) is published biannually at a recommended retail price of S$16 by the Centre for Management Practice, Singapore Management University, 81 Victoria Street, Singapore 188065.

We welcome comments and letters to the editor, which should be sent with the writer's name, address, and phone number via email to ami@smu.edu.sg. Letters may be edited for length and clarity, and may be published in any medium and at the Editor's discretion. All letters become the property of Asian Management Insights and will not be returned.

Submissions: We encourage submissions. Proposals for articles should be addressed to ami@smu.edu.sg. Unsolicited manuscripts will be returned only if accompanied by a self-addressed stamped envelope.

Subscriptions: Please email enquiry to ami@smu.edu.sg

For further information, to advertise or request reprints, please contact: ami@smu.edu.sg



FROM THE EDITOR

Navigating the pandemic as it enters its second year

Many countries, enabled by the rapid vaccine rollout, experienced some moments of relief from the Covid-19 pandemic as they embarked on their long and winding transition toward normalcy. However, despite the Herculean effort expended, achieving herd immunity remains a distant goal for many due to the emergence of the highly transmissible and lethal Delta variant and the persistence of vaccine hesitancy. As such, the coronavirus continues to upend lives, businesses, and society, and the playbook for survival will still be a work-in-progress.

In this issue, leading academics, industry leaders, and seasoned observers of business trends give us insights into a range of business issues, particularly at a time when the pandemic continued to unfold across the globe: from pursuing large-scale enterprise-wide change, enabling growth in physical service platform businesses, to resolving business conflicts through mediation.

Serge Pun, Executive Chairman of Yoma Strategic Holdings and First Myanmar Investment, discusses the impact of the double whammy of the pandemic and political complexity in Myanmar. He shares his thoughts on developing the country by collaborating with overseas companies, the role of locals and expatriates, and leadership succession.

Before the Covid-19 pandemic, there were 1.5 billion people travelling internationally and 275 million people who were living outside their countries of origin. However, global mobility came to a grinding halt when the pandemic struck. It will be revived again, says Parag Khanna, and the dramatic shifts in global migration patterns will not only continue to define the story of humanity, but also determine how we deal with management issues, such as the competition for talent and people development.

The rise of physical service platforms has led to the development and exponential growth of an 'on-demand' app ecosystem or the gig economy. But given that the strategic management of digital product and physical service platforms is very different as the latter derives limited benefits from the core tenets of network economics, Prakash Bagri avers that physical service platform companies should temper their profitability expectations. They need to collaborate extensively, and at the same time, watch keenly how they improve service delivery and curate their customer journey.

Who is better at leading enterprise-wide change? A technical expert or a generalist? To answer this question, Steve Burton and Janice Wong zoom in on how experts and generalists differ in the areas where they excel. They found that the complementary skills of both groups would provide the balanced combination of motivation and expertise necessary for successful change.

The growing trend of online transactions has led to the emergence of E-Commerce Intelligence (EI)–a new category of software that enables brand managers to keep track of their stocks and sales in the online space. Yuanto Kusnadi and Gary Pan tell us how firms can leverage EI, and how EI solution providers can sharpen their competitive edge in the promising Southeast Asia market.

According to experts in the luxury market, Rane Xue and Xiaolei Gu, the Covid-19 pandemic has made understanding a specific group of Chinese consumers more important than ever in the world of luxury goods. They highlight the Global Chinese Consumers segment in particular, and opine that it is more than just an intellectual construct; it is a concrete, tangible, and real group of consumers that luxury brands can identify and should engage with.

The Covid-19 crisis raised the adoption of cashless payments manyfold at points-of-sale where cash used to be king. Dennis Ng says these early wins should not be allowed to fade away in vain. He identifies problems in adopting cashless payments, and offers practical recommendations and incentives to promote them successfully.

Binny Bansal, co-founder of Flipkart and xto10x, talks candidly about his entrepreneurial journey in the world of e-commerce and of the need to create an experience for the customer that flows seamlessly across all the various sales channels.

This issue's Case-in-Point by Jochen Reb, Abhijeet Vadera and Cheah Sin Mei looks at the spectacular rise and fall of 'Le Cost Killer', Carlos Ghosn, former CEO and chairman of Nissan, and the importance of observing cultural norms when doing international business.

Cryptocurrency is becoming popular in Asia, with many Asian governments harnessing it to raise payment efficiency and improve financial inclusion. David Lee Kuo Chuen walks us through the rise and challenges of cryptocurrency in this region, and identifies disruption in fintech firms and the adoption of stablecoins as the catalysts for rapid cryptocurrency adoption.

To resolve disputes, a leader's first resort is to mediate, not litigate, say Aloysius Goh and Terence Quek. Unlike arbitration and litigation, they argue, mediation is not premised on a win-loss paradigm. It is designed to be value-creating and relationship-preserving.

And in our final article, Erwan Rambourg says that luxury is back in vogue. He predicts that scale will continue to play an important role as physical stores come under the spotlight again, and while there are some dark clouds on the horizon, the outlook for the luxury sector remains incredibly positive in the long term.

As the pandemic marches on to its second year, and will very likely do so into its third, the guide to help businesses navigate around it will continue to be rewritten again and again, for better or worse.

DR HAVOVI JOSHI
Editor-in-Chief
Asian Management Insights
havovijoshi@smu.edu.sg

MANAGING COVID AND COMPLEXITIES IN MYANMAR

Serge Pun, Executive Chairman, Yoma Strategic Holdings and First Myanmar Investment, talks with Tan Chin Tiong about the opportunities and challenges of doing business in Myanmar.

Given the recent news on Myanmar, which aspects of the country, particularly its business sectors, do you feel need more attention?

We have faced a double whammy–first, we had Covid and then we had political uncertainties. A few months ago, in February 2021, the change in government was the main issue. However, from July onwards, Covid-19 took over and the situation has been dire. This third wave of the pandemic is unprecedented. Many employees, friends, and their families have passed away.

The hospitals are bursting at the seams. We have all kinds of crises, including a shortage of oxygen and medical staff to fight this battle as they themselves get hit by the disease. We are facing very tough times, and expect the situation to worsen. We have taken a number of impromptu, urgent measures, such as converting part of the school we run into an isolation and treatment centre.

We had anticipated tough times since last year because we did not think that the pandemic was going to be resolved in the short term, regardless of what everybody was hoping for. Then when the change in government took place, we were sure that the crisis would be prolonged way beyond what one would expect. In April, we decided to change our approach in facing these challenges, with the end-goal that we must remain standing strong and intact after a year. That meant relooking at all the entities and the group as a whole. The message was very clear–each entity must be able to stand on its own feet. We were not looking at expansion but survival.

The first step we took was to remain financially solvent, which required some painful cost-cutting, including retrenchments. By June, we had a much leaner organisation. Many employees had been put on furlough, with a sizeable number taking up to 80-percent pay cut as they wait for recovery. Many volunteered to be at our service without pay–simply because there also weren't any other opportunities for them. So we were able to slash our expenses dramatically.

On the other hand, we tried our best to increase and augment every possible income stream. Our business is a mixed bag. Some sectors are doing better than before the crisis. For example, our hospital operations, which runs in partnership with OUE Lippo Healthcare Ltd, has never done better business than now. There is not one vacant bed. Even though we have kept our prices low and affordable–in many cases, we do not charge if the patient cannot afford it–the overall revenue has improved dramatically because of the turnover.

In other sectors like financial services, Yoma Bank and Wave Money, for instance, have not done as well as during the pre-crisis period. However, Wave has gained a great deal of traction in market leadership, as it has been the only viable means of transactions for many people who do not have a bank account and have limited or no access to banks. Meanwhile, as expected, our tourism business is negatively affected and is facing severe challenges.

It is very difficult to give an answer on when the situation will improve. For a country to move forward, an effective government and a supportive population are critical. Fortunately or unfortunately, business will go on, as it is a function of market demand. When there is market demand, there will be business. But the type and ownership of businesses would differ, as these are dictated by the political climate, the circumstances of each country, and the systems that it operates.

How should organisations like the Yoma Group collaborate with other overseas firms in developing Myanmar?

We are very proud that we are probably the only group that has been able to attract over 15 international top-tier groups to come into Myanmar as joint venture partners. From Asia, we have Mitsubishi Corporation, Mitsubishi Estate, the Ayala Group, Tokyo Century, Mitsubishi Motors, OUE Health Group, the Lippo Group, SF Express, and Jebsen & Jessen. From Europe, we have JCDecaux. We also have ongoing projects with the Asian Development Bank and the International Finance Corporation (IFC) as equity partners. At Yoma Bank, we have IFC, GIC, and Norfund as equity shareholders. The list goes on, and I am very proud of that.

None of these partners have exited the country, and that is extremely significant. There have been many who have packed up and left, but our partners are all in for the long haul. They recognise the difficulties that we will face in the coming two to three years, hopefully not longer, and they stand firmly committed to our partnership and the businesses that they have invested in.

> We are very proud that we have been able to attract over 15 international top-tier groups to come into Myanmar as joint venture partners.

One area that family firms in Asia are trying to strengthen their performance in is leadership succession. How is leadership succession being planned and implemented across the various companies under your charge?

We started thinking about succession 10 years ago when I said I should be retiring in a decade. I do not think any group can or should rely on one person. It would also not be good if the group collapses should a key person be suddenly incapacitated. So we have always been very conscious about building a team.

During the past year, I have adopted a slightly different, somewhat revolutionary, approach in managing our entities. It is based on the principles from Daniel Coyle's book, *The Culture Code*, and is about managing an entity with a team, tackling the hierarchy, and having a flat top leadership.

That has really taken root. We have seen some early successes in our real estate division, where there is no one person who is the 'mastermind'. It is a collective group that is responsible for all the successes as well as failures of that entity, and no one can push away their responsibility. Everybody on that team is responsible. And that has actually started a movement, a culture where you see great potential being developed and the sense of ownership in a substantial and significant way.

What we did was to take away the silos, in terms of authority and operations. We opened up and made it a flat structure, so that while each member of the leadership team is responsible for a specific area, all members are responsible for the end-result. It is like playing football. There are forwards, defenders, a goalkeeper, but if you lose, the whole team loses. If you win, the whole team wins. This is the way we want to run our entities. It has worked well with the real estate division, and we are trying to expand that to other entities. I believe this thinking will form a very big part of our succession philosophy.

In the conventional way, succession is thought of as 'who's going to be my successor'. However, I think succession should go deeper than that. It should not be about an individual being succeeded by another individual, but about how this organisation will be sustainable going forward.

There are different styles of working between generations. I always feel that I am of the 'old school' and my children are of the 'new school'. 'Old school' does not mean bad practices–it is just the way we do business where 80 percent is about judging character and shaking hands, and 20 percent is about economics and business rationale. For the 'new school', it is the reverse.

I am more likely to make some bets based on personalities, on people whom I think will deliver. While I may be wrong sometimes, I feel that the 'new school' formula may not always work either. You may have all the facts, but still, your partner may dishonour your agreements. In fact, I feel that the 'old school' approach would have more yardage because circumstances can change after you've negotiated something. When that happens, all you have left is character. So I depend on the person because I believe that whatever we anticipate is not always going to be the same as the reality. But this may not go down very well with the more educated, more objective sort of thinking of the youngsters.

In many Southeast Asian countries, there is a tendency to rely on the expertise of expatriates, as there may not be sufficient talent at the outset. Is that the case in Myanmar?

I think the idea of recruiting experienced expatriates (expats) to run an organisation in Myanmar started taking hold in 2012, when the country opened up, not only in terms of politics, but also business. That was when we decided that we were going to invest heavily in human resources to attain the depth and breadth of management brainpower. So in a short span of two years, from 2012 to about 2014, we spent a considerable amount in that area.

We had more than 100 expats and over 150 repatriates working in the group then. There were about 250 people in managerial positions during that period. That was a heavy burden in terms of expenses, but we considered it necessary. By 2018, we started to wind down on that because our key performance indicator (KPI) for the expats when we employed them was that they had to get themselves out of the job in five years! While it may appear to be a disincentive, the truth is that it was not. Expats generally fall into two categories. The first are those who only think of going to work for a fixed period to accomplish something–a contract, a job, or a mandate. They are always thinking of going home one day.

> Our key performance indicator (KPI) for the expats when we employed them was that they had to get themselves out of the job in five years!

This KPI poses no contradiction to them. The second category of expats are those who want a long-term career with you. They are not attached to their home country and have typically been overseas for most of their lives. To them too, this KPI is not a deterrent–I tell them that if you want a promotion, you have to find somebody to replace you or you will be stuck in this job forever.

So by 2018, we started winding down on hiring expats and turning to local expertise. I would not say we have had 100 percent success. Many of our expats failed to groom a successor, and it was not necessarily their fault. However, with the pandemic, and many people having left or wanting to leave because of safety reasons, the transition from expats to local managers was inevitable and we have seen a lot of local talent emerge.

For me, necessity is not only the mother of invention, but also discovery. When you are required to manage an entity with no other choice, potential talent emerges. And some of them have really become the new, bright, promising stars of the future. With the sudden change in government, this shift to local talent has further accelerated, and now we have local leadership in many entities.

This group of up-and-coming young entrepreneurs and business people will be very important for Myanmar in the future. What is your advice for these aspiring entrepreneurs?

I feel that the future of Myanmar lies with the new generation. During my early days of mentoring young entrepreneurs in family businesses, the question that repeatedly came up was, "Uncle, how do I deal with my father who doesn't seem to agree to anything I try and does not give me the authority?" My answer was, "You have no choice but to be patient. Your turn will come. And I just hope that by the time your turn comes, you will not have changed to be exactly what you are opposing today. But you cannot blame your father, as he built the company and is entitled to his ways. For you to think that you have the right to change and overrule the way he wants to do things is wrong. You do not have that right. You're coming into his company, so you just have to be patient."

> It takes a special type of person to see and discern the opportunities, and have the courage and drive to take them on.

I think the pandemic and the sudden change in government have made it even more difficult for these aspiring entrepreneurs. Many of them have lost heart and wish to leave to start something anew, and so they need a lot of mentoring and motivation going forward. They are going to face more challenges than they expect because of the way the system is evolving. On the other hand, a minority of them will actually come out very successful because now is also the time when opportunities abound. However, it takes a special type of person to see and discern the opportunities, and have the courage and drive to take them on. And such people are always in the minority. When times are good, everyone wants to be an entrepreneur. But when times are bad, you really require steel to be in the game.

Serge Pun
is Executive Chairman, Yoma Strategic Holdings and First Myanmar Investment

Tan Chin Tiong
is Professor Emeritus of Marketing and Senior Advisor to the President of Singapore Management University

GLOBAL MOBILITY
Why People Migrate

Implications for a nation's human resources and technology policies.

By Parag Khanna

The global mobility of people and how it has shaped the characteristics and culture of people living in different parts in the world will continue to define our human story. It will also determine how we deal with top-of-mind management issues, such as the competition for talent and people development.

Today, we are faced with a convergence of disruptive factors that will further spur global mobility. Demographic imbalance is one key factor. We do not have a healthy distribution of the old and young across countries; there are either too many or too few of one or the other. There is also the division of humanity into the 'North' and 'South' tiers. The North tier, comprising North America and Eurasia, consists of five billion people living with reasonable prospects, and who can therefore move easily. In the South tier, which is made up of Africa and South America, there are 2.5 billion people who do not have a plan or the means to move from where they are.[1]

Another key factor is climate change, which is leading people to search for new oases where there is not only sustainable living, but also opportunities to drive the circular economy.

Additionally, other factors, such as economic dislocations, technological disruptions, and political upheavals, also shape mobility patterns.

Before the Covid-19 pandemic, there were 1.5 billion people travelling internationally and 275 million people who were living outside their countries of origin.[2] However, global mobility came to a grinding halt when the pandemic struck. In an unprecedented move, governments across the world came together to implement the great lockdown to curb the spread of the coronavirus. The temporary mobility reset saw people moving back to their countries of origin or residence in droves. However, it is anticipated that once international border restrictions are lifted, global mobility will rise again.

> Other factors, such as economic dislocations, technological disruptions, and political upheavals, also shape mobility patterns.

Demographic imbalances

Many studies predict that the global human population will reach a plateau sometime around 2050. However, in much of the developed world, particularly in many countries in the North tier–including those in the OECD grouping, North America, and North Asia–it already feels like the world has reached a population plateau. Japan, Italy, and Germany top the list of the oldest countries in the world, with more than 20 percent of their population aged 65 years and older.[3] An ageing population means that there is a rise in the dependency ratio. What is concerning is that more than 20 countries will have an old-age dependency ratio of 50 percent, with some countries even reaching 70 percent in the next 30 years.[4]

For most of the developed world, with sub-replacement fertility of less than 2.1 babies per woman,[5] which is the critical number for population replacement, population decline is what the future holds. This issue is further exacerbated by the fact that many youths today, especially the millennials (people born between 1981 and 1996), are choosing not to have babies.

The consequences of the generational distortion in the developed world are so severe that in the next few decades, there simply will not be enough qualified workers to cater to the needs of the ageing population. It will also be difficult to fund the surge in healthcare costs, as well as pay for pension benefits and other publicly funded programmes. There is more bad news. As we have seen in Japan, no amount of fiscal stimulus will help an ageing economy, because there are insufficient qualified workers who can benefit from corporate hiring, private consumption, and investment.

Hence, the only solution for these ageing countries is to attract young workers. Among the world population of 8.5 billion people, there are three generations of people who can move with ease. These three generations include the millennials, Generation Z (people born between 1997 and 2012) and Generation Alpha (people born or to be born in the period 2012 to 2025). Together, they constitute a demographic that is less than 40 years of age and represent approximately 60 percent of the world's population.

The only solution for these ageing countries is to attract young workers.

Given that youths influence the future growth of a country, where they go, how they live and what they do will shape the economy and the map of human geography for years to come. It is for this reason that countries like Canada and the U.K. have introduced a pro-youth immigration policy.

Canada's hassle-free points-based immigration policy, the Comprehensive Ranking System (CRS), favours youths. The points for age start to decrease when an individual hits 30 years old. For example, a 29-year-old applicant gets 100 CRS points, compared to an applicant aged 55 who is allotted 39 points.[6] The CRS also targets international tertiary students and provides an easy way for them to become citizens. This immigration policy has drawn thousands of people to move to Canada. In 2018, the net immigration into Canada was 350,000 people, a figure that was higher than net immigration into the United States that same year.[7]

The U.K. offers a reciprocal Youth Mobility Scheme (YMS) Tier 5 visa, which is a temporary migration arrangement with nine countries. The YMS visa allows young migrants, aged 18 to 30 years, to come to the U.K. without a job offer, certification, or sponsor for employment and stay for up to two years.[8] In 2017, 41,652 YMS visas were granted.[9] Recently, in May 2021, the U.K. and India signed a migration partnership to allow young Indian and British professionals to work and live in each other's country for two years.[10] This is the first Young Professional scheme that the U.K. has introduced for a country whose citizens had previously required a visa to enter.

Many Asian countries have followed suit. Japan, a country previously closed to immigration, has more than two million foreigners living there today,[11] the highest number in its history. In Singapore, the government has introduced many tiers of visa to attract qualified youths, such as the Tech.Pass for tech entrepreneurs and EntrePass for entrepreneurs running innovative technology-related businesses.

Additionally, there are as many as 75 countries today that offer a digital nomad visa,[12] and a number of countries in Asia too are jumping on the bandwagon. For example, Thailand has introduced a 'Smart Visa' scheme, while Indonesia has launched a '5-year Digital Nomad Visa' to attract talented youths to work in places like Phuket and Bali respectively.

Climate change

Climate change is another key factor that will accelerate the global mobility of people. Many parts of the world are already experiencing 'climate chaos', where temperatures have

Given that youths influence the future growth of a country, where they go, how they live and what they do will shape the economy and the map of human geography for years to come.

increased by more than 1.5 degrees Celsius above pre-industrial levels, exposing 14 percent of the world's population to severe heatwaves.[13] Droughts are becoming more widespread, affecting farmers from Brazil to India and resulting in crop failure year after year.[14] Sea levels have also risen and at the same time, many coastal megacities have started to sink. Bangkok is one of these sinking cities where the metropolis is sinking by at least two centimetres every year and threatening the livelihood of almost 10 million people.[15]

The world today is besieged by 800 natural disasters annually, and if we do not do anything about greenhouse gas (GHG) emissions, the number of natural disasters will rise to 15,000 by 2039.[16]

Climate change is driving many people to move away from their climate niches, described as a set of climatic conditions under which they can survive. According to the National Academy of Sciences, there are 200 million climate refugees today, and if global temperatures increase by another degree Celsius, another billion people will turn into climate refugees. And in the decades to come, more people will be driven to new climate niches in the higher latitudes, towards the poles where the climatic conditions will become more suited for growing crops and rearing life-stock, and for people to have a sustainable outdoor work environment. However, the mobility of people is dependent on immigration policies–a sensitive area of national sovereignty.

This begs the question: what should countries and companies do to address the issue of climate change?

There are two strategies that are typically adopted–climate mitigation and climate adaptation. Most of the business community today focus on climate mitigation, which explains the large number of sign-ups for science-based targets. These validated targets require companies to follow stringent processes and procedures to deliver the GHG reduction goals necessary to align their business with the latest climate science for limiting warming to below 2 degrees Celsius above pre-industrial levels while pursuing efforts to limit global warming to 1.5 degrees Celsius.

However, what is more critical for addressing climate change is a climate adaptation strategy, because even if we stop emitting GHG today, global warming and climate change will continue to affect future generations. Many countries including Singapore have taken steps towards adopting a climate adaptation strategy. For example, PUB, Singapore's national water agency, has diversified the country's water supply sources through the "Four National Taps"–local catchment water, imported water, NEWater (treated reclaimed wastewater), and desalinated water. Additionally, the Singapore government has launched schemes to help companies adopt a climate adaptation strategy. The schemes include incentives and allowances for capability development, financing, and other initiatives for firms to reduce GHG and non-carbon dioxide gases, and adapt their business to a changing climate.[17]

The economic-technological nexus

Economic contraction is another driver for global mobility. During both the Global Financial Crisis (GFC) and the coronavirus pandemic, we saw people moving away from expensive to cheaper geographies.

It is predicted that 47 percent of today's jobs will disappear in the next 25 years, largely due to automation.

When the GFC occurred in 2008, many baby boomers (people born between 1946 and 1964) and Generation X-ers (those born between 1965 and 1980) faced foreclosures and had to move away from the Rust Belt to the cheaper states in the U.S., and from Southern Europe to Northern Europe.[18] Similarly, when Covid-19 struck, many millennials and Generation Z-ers were impacted. Many of them were pushed out of the expensive cities such as New York, Los Angeles, and Chicago[19] because the urban wage premium that they had previously enjoyed was suddenly eroded. And thousands of people moved to the suburbs and exurbs where rents were cheaper.

Another factor that drove people to move out of the cities and urban areas was the widespread availability of broadband and cloud-based applications, which meant that people could literally work from anywhere and remain productive. Given that remote work can be as productive as work from the office, some companies such as Facebook and Shopify have decided to make a permanent shift to remote work. Remote and mobile working is also favoured by the millennials, who by 2025 will represent 75 percent of the global workforce.[20] According to Mercer, millennials desire short-term assignments over those that are longer than a year in duration; they also prefer to travel rather than stay in one place, and favour experiences over rewards.[21]

Machines and technology are another people mobility driver. When jobs disappeared, people moved to places where they could find jobs. It is predicted that 47 percent of today's jobs will disappear in the next 25 years,[22] largely due to automation. The rate of automation will increase as companies look to embracing technologies like robotics, automation, Artificial Intelligence (AI), and algorithms to drive their competitiveness. During the coronavirus pandemic, we saw how quickly companies adopted technological solutions to reduce reliance on humans and build resilience into their business models. It is believed that autonomous vehicles will soon replace truck drivers. Likewise, sensors and visual recognition technology could possibly replace store managers.

As technology becomes more sophisticated, more low-level jobs will be automated. It is only a matter of time before all industries will be digitally overhauled. One estimate suggests that more than 375 million people will have to switch occupations due to AI and automation.[23] Those who are not willing to change occupations or learn new skills will need to move for their livelihood.

Besides automating jobs, technology can enable digital mobility. This will be a major source of growth in the future because it involves technology and policy at both the domestic and international levels. A country leading this trend is Estonia. With the introduction of its enhanced digital nomad visa in 2020, people can go to Estonia and stay as a tourist while continuing to work for a foreign employer or as a gig worker.[24] The digital mobility-enabling scheme contributes to the local economy, as well as protects local jobs.

The implications of global mobility

With all these converging forces of volatility that are before us, it is expected that the global mobility of people will accelerate in the years to come. Not only will people be more mobile physically, but they will also be more mobile digitally.

Several implications will arise from the accelerated mobility of people. First, the war for talent will intensify as countries and companies compete for youth workers, and it will be felt and seen within and across sectors. This war for talent is going to stay with us for a while. It is also critical and urgent enough to be discussed and addressed at the board level. It cannot be limited to the parochial confines of the human resource (HR) department or the domain of the Chief HR Officer. One strategy to win the war for talent is to 'get them while they are young'.[25] What companies can do is to launch early career acceleration programmes like the Microsoft Academy of College Hires (MACH) and SAP Next Talent to get and groom them while they are young.

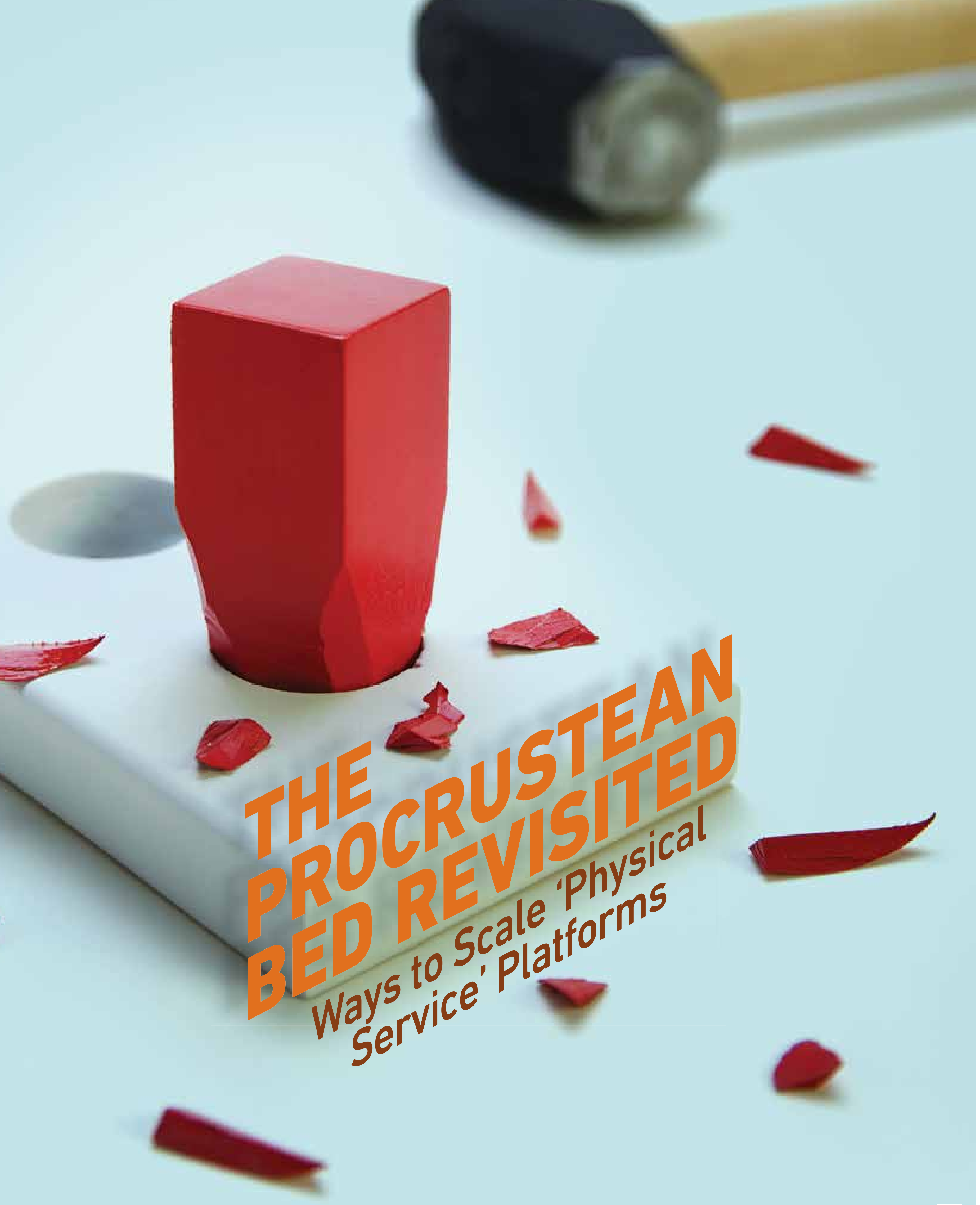
Second, companies need to build new organisational capabilities to augment their climate adaptation strategy. Existing skills might not work. New business models might be needed for responding to climate change.

Finally, companies need to rethink their technology strategy to enable not only efficiency and productivity, but also digital mobility, especially with millennials favouring mobile and remote work. A digitally enabling mobility strategy will also allow companies to reach these young talents regardless of their geographical location.

Parag Khanna
is Founder and Managing Partner of FutureMap, a data and scenario-based strategic advisory firm. His newest book is "MOVE: The Forces Uprooting Us"

References

1 Parag Khanna, "MOVE: The Forces Uprooting Us", New York: Scribner, 2021.
2 Parag Khanna, "The Future of Human Geography" [video], The College Board's AP Human Geography, YouTube, June 17, 2021.
3 Paola Scommegna, "Which Country Has the Oldest Population? It Depends on How You Define 'Old'", Population Reference Bureau, September 25, 2019.
4 Hiroaki Miyamoto and Jiro Honda, "Covid-19: Why a Fiscal Stimulus Won't Work for Every Country", World Economic Forum, August 13, 2020.
5 James Gallagher, "Remarkable Decline in Fertility Rates", BBC, November 9, 2018.
6 Government of Canada, "Comprehensive Ranking System (CRS) Criteria–Express Entry", January 11, 2011.
7 Parag Khanna and Kailash K. Prasad, "How Coronavirus Could Make People Move", Politico, May 13, 2020.
8 Government of the United Kingdom, "Youth Mobility Scheme Visa (T5)".
9 Erica Consterdine, "Youth Mobility Scheme after Brexit Won't Fill Gaps Left by End to Free Movement", The Conversation, July 16, 2018.
10 Government of the United Kingdom, "UK-India Agree Partnership to Boost Work Visas for Indian Nationals", May 4, 2021.
11 Statista, "Number of Registered Foreign Residents Living in Japan from 2010 to 2019", February 8, 2021.
12 James Carter, "Ranked: Cities Best Equipped for Digital Nomads after the Pandemic–Melbourne, Dubai, London and Singapore in Top 10, Shanghai Near Bottom", South China Morning Post, July 14, 2021.
13 Ibid.
14 Parag Khanna, "MOVE: The Forces Uprooting Us", New York: Scribner, 2021.
15 Ron Gluckman, "Bangkok: The Sinking City Faces Severe Climate Challenges", PreventionWeb, June 10, 2019.
16 Ibid.
17 National Climate Change Secretariat of Singapore, "Singapore's Climate Action Plan: Take Action Today, for a Carbon-Efficient Singapore", 2016.
18 Ibid.
19 Parag Khanna, "The Impact of Covid-19 and the Future of Global Mobility", Henley & Partners, 2021.
20 CPA Australia, "Organisations Must Exert Trust as Employees Increasingly Seek Remote Working Opportunities", BBC, 2021.
21 Ibid.
22 Philip Perry, "47% of Jobs Will Vanish in the Next 25 Years, Say Oxford University Researchers", Big Think, December 24, 2016.
23 Parag Khanna, "MOVE: The Forces Uprooting Us", New York: Scribner, 2021.
24 Ministry of Interior of the Republic of Estonia, "Estonia to be One of the First Countries in the World to Create a Digital Nomad Visa", June 10, 2020.
25 Parag Khanna, "MOVE: The Forces Uprooting Us", New York: Scribner, 2021.



THE PROCRUSTEAN BED REVISITED

Ways to Scale 'Physical Service' Platforms

The course of their growth and extension never did run smooth.

By Prakash Bagri

In March 2016, much to the consternation of the investment community, *The New York Times* declared "the end of the on-demand dream", stating, "across a variety of on-demand apps, prices are rising, service is declining, business models are shifting, and in some cases, companies are closing down".[1] The debate on the future of the on-demand gig economy has continued since, particularly focusing on the platforms which drive it, the feasibility of their extensions, and the justification of their valuations. By 2019, a study of 250 platform companies over the past two decades reported that more than 80 percent of them had failed, with their average lifespan edging five years and many collapsing by their third year due to a lack of users or funding, or both.[2]

The excitement around platforms has led to the inevitable rush to 'platformise' everything. The valuations of these digital platforms have often skyrocketed, based on the belief that network benefits will accrue and they will be able to extend themselves across different market opportunities. However, the reality appears to be quite different. Many platform companies have not really succeeded in expanding their offerings, a fact which becomes strikingly apparent in the case of what I refer to as 'physical service platforms'. These are companies that provide physical, human-based services, where if not the full service, at least a part (particularly, the 'last mile' act of the service), is fulfilled by a human being and mostly on site–such as dropping off a parcel at the door, chauffeuring a passenger to a destination, or cleaning the windows of a premises.

Physical service platform delivery is distinct since such services cannot be provided otherwise, either digitally (by a bot) or remotely (by a call-centre agent). The rise of these physical service platforms has led to the development of an 'on-demand' app ecosystem or the gig economy. Uber is the classic example, but there are many more spanning a plethora of offerings, including travel and transportation, food delivery, valet parking, healthcare, and professional services.

The declining cost curve of high-volume, product-based businesses leads to greater profitability for market leaders. This idea took centre stage beginning with the Profit Impact Market Strategy (PIMS) studies of the early 1970s, which led to the famous BCG model or the early versions of the GE strategy model being applied across companies making and selling products. However, when service-based businesses, including physical services, were analysed, we often found rising (instead of falling) cost curves. Unfortunately, with increasing talent requirements, the quasi-normal talent distribution forces service providers to relax the selection criteria, which leads to lower skilled talent being hired, and the consequent lowering of overall service delivery and quality.

> The rise of physical service platforms has led to the development of an 'on-demand' app ecosystem or the gig economy.

Such insights caused many scholars to question whether product-based strategies could be applied wholesale to areas like service marketing and management. It seems that we are back at the same crossroads, trying to force-fit our experiences from product-based platforms to service-based platforms–in a sense, creating a new 'Procrustean bed'.[3]

What I would like to bring to this debate is an analysis of why physical service platforms, despite their huge acceptance, are not doing as well compared to their digital product cousins, and what firms can do to manage the challenges that accompany the efforts to extend and grow them.

Challenges facing physical service platform companies

Unlike their digital counterparts, physical service platforms derive limited benefits from the core tenets of network economics, which include network effects (increasing value by increasing the number of users), platform stickiness, and user loyalty.

RESTRICTED GAINS FROM NETWORK EXTERNALITIES

In a completely digital platform business like Windows or iOS, the cost of delivery is minimised as firms perform more and more deliveries. Even for a platform like Amazon, which involves physical delivery of products, the firm can optimise such deliveries, since the same delivery service extends across different products that can be stored and stocked in the same way. However, when a firm is providing a human-based service, it cannot do any of these things.

Additionally, digital platforms are one-to-many (like YouTube where the same content can be consumed by multiple users at the same time) or many-to-one (like Amazon, where multiple products/vendors can supply to the same user simultaneously). However, physical service networks are essentially one-to-one networks, which means that a particular service personnel like a delivery person or a caregiver can serve only one customer at a time. Consequently, the benefits from network effects are limited.

IMBALANCE BETWEEN USER VALUE AND PLATFORM PERFORMANCE

Given the absence of unit-one costs and limited network effects, physical service platforms are compelled to squeeze service providers to enhance their business results. At some stage, this will no longer be an attractive option for the service providers, especially if they were initially incentivised to come on board. As a result, the firm loses the better service providers, and service quality and consistency begin to suffer. Additionally, it starts to lose the economies of scale in hiring/purchasing, training, and delivering the service. To top it all, the platform also starts charging higher prices, making it a less attractive proposition for customers.

Take Luxe for example. It offered a very interesting proposition when it started in the U.S.: "Fall in love with parking". It became popular as the valet service was quick and economical. However, as the business started growing, the quality of the service began to deteriorate and the cost of providing the service started to rise. There came a point when it flipped over and became unattractive to both car owners and valets. Hence, this logic of squeezing one side or overcharging the other side is not extendable. There is a limit.

PLATFORM LEAKAGE, DISINTERMEDIATION, OR CIRCUMVENTION

It occurs when both sides have established a relationship and developed sufficient trust to bypass the platform and match themselves off-platforms. Disintermediation is perhaps the biggest challenge that physical service platforms face, since it happens with their highest value customers and has serious implications for business results. In the case of a physical goods service provider, say Amazon, there is little reason for customers to go to the actual merchants, because Amazon can provide the levels of assortment and selection that they seek, while receiving and passing on large discounts to them. The vendors also gain from associating with Amazon, since it gives them volumes while taking care of the pain of physical distribution too. However, typically for every physical service delivery platform, the actual service provider and the service consumer can very easily have a side deal with no impact on service, but there will be a significant price impact on both.

Urban Company (formerly 'UrbanClap') is an Indian gig marketplace founded in 2014 that offers home maintenance and repair, along with salon and massage services. The platform has made multiple attempts to foray beyond beauty into wellness by offering personal training, yoga classes, and diet instruction. However, each of these forays has failed. Imagine having found a trainer one is satisfied and wanting to continue with–what is the incentive to maintain the relationship with the platform? In contrast, Amazon's 'subscribe and save' strategy actually helps consumers move many of their fringe purchases like detergent powder or diapers to the platform.

> Disintermediation is perhaps the biggest challenge that physical service platforms face.

LACK OF PLATFORM LOYALTY

Physical service platforms such as Uber and Zomato frequently offer discounts to lure and retain their customers. When they cannot sustain it anymore, or even before that, someone else comes up with a discount. Hence, they are unable to create much customer stickiness. This also lowers loyalty, leading to consumers' multi-homing across competitive platforms.

How digital product platform companies extended their presence

Success in platform extension–whether for physical service or digital product platform providers–does not depend on network effects alone, because networks do not seamlessly transition from one application or use case to another. Instead, a study of digital platforms provides insights on critical factors enabling network extension.

DEVELOPING THE TECHNOLOGY CORE

Google, Amazon, and Apple are examples of companies that have managed to extend across markets; these platform extensions were not just due to the power of their networks, but rather because they created a technology-based core product or competence that offered them access to newer opportunities. When Amazon was a bookseller, it built enormous 'physical + digital distribution' muscle that was the stepping-stone to becoming a marketplace for all products and services.

Google has grown based on a very clear understanding of how to use data to arrive at insights. Google search is not an intellectual evaluation of which website has better content, nor was it based on how often a search term appeared on a webpage (as was the case then). Instead, it was built on proprietary PageRank technology that determined a website's relevance based on the number of pages, along with the importance of the pages, which linked back to the original site. From then on, organising and interpreting data ended up being Google's core capability, which then became platformised as a business model, providing it with the opportunity to create multiple businesses beyond just web-based search to the mobile platform, location-based services, videos, and many other offerings.

Similar to Google, it is this preoccupation with providing an unparalleled user experience through integrated hardware and software that has allowed Apple to constantly push the boundaries of devices and use cases for best results. In the process, Apple has entered multiple new areas, and upended many industries and existing business models to become the most valuable company in the world.

Successful digital platform companies have extended across different markets not just due to their networks but because of the capabilities they built over and above their technology core, which they were then able to use to develop other use cases for existing users who gained value from these new ways to utilise the platform.

COLLABORATING TO SUPPLEMENT CAPABILITIES

In most cases, digital platforms extended into new markets not just by using their existing core, but by further enhancing it with additional capabilities. Amazon built AWS (Amazon Web Services), its hugely successful cloud business, on the foundation of its own requirements for a scalable technology infrastructure. Such additional capabilities may be built over a period of time, but more often than not, they are acquired through partnerships and alliances. Netflix collaborated with the United States Postal Service to home-deliver DVDs, in the process setting up the disruption of the home entertainment industry. Google created the Open Handset Alliance (OHA) and got HTC as a key member to set itself up in the mobile space. Apple partnered with multiple app developers to develop the iPhone user experience, as did Sony when it moved from CE (consumer electronics) devices to gaming with the PlayStation. And when Facebook felt threatened by new photo-sharing and messaging apps, it promptly acquired the leaders, WhatsApp and Instagram.

India's telecom provider Jio is another interesting case study, as it has managed to extend beyond the traditional model of just being a conduit for connectivity through a series of carefully selected investors and strategic partners. Facebook was one of Jio's first investors, and its ownership of WhatsApp and Instagram gave Jio the leverage into consumer apps, where its earlier attempts (like JioMeet and JioChat) had failed. Similarly, Google's entry as a strategic investor gave Jio a play at the device and OS (operating system) layer, while its partnership with Microsoft provided additional inroads into the web services and cloud layer (along with Google Cloud) and enabled it to have a competitive position against Amazon. Jio's collaboration spree did not

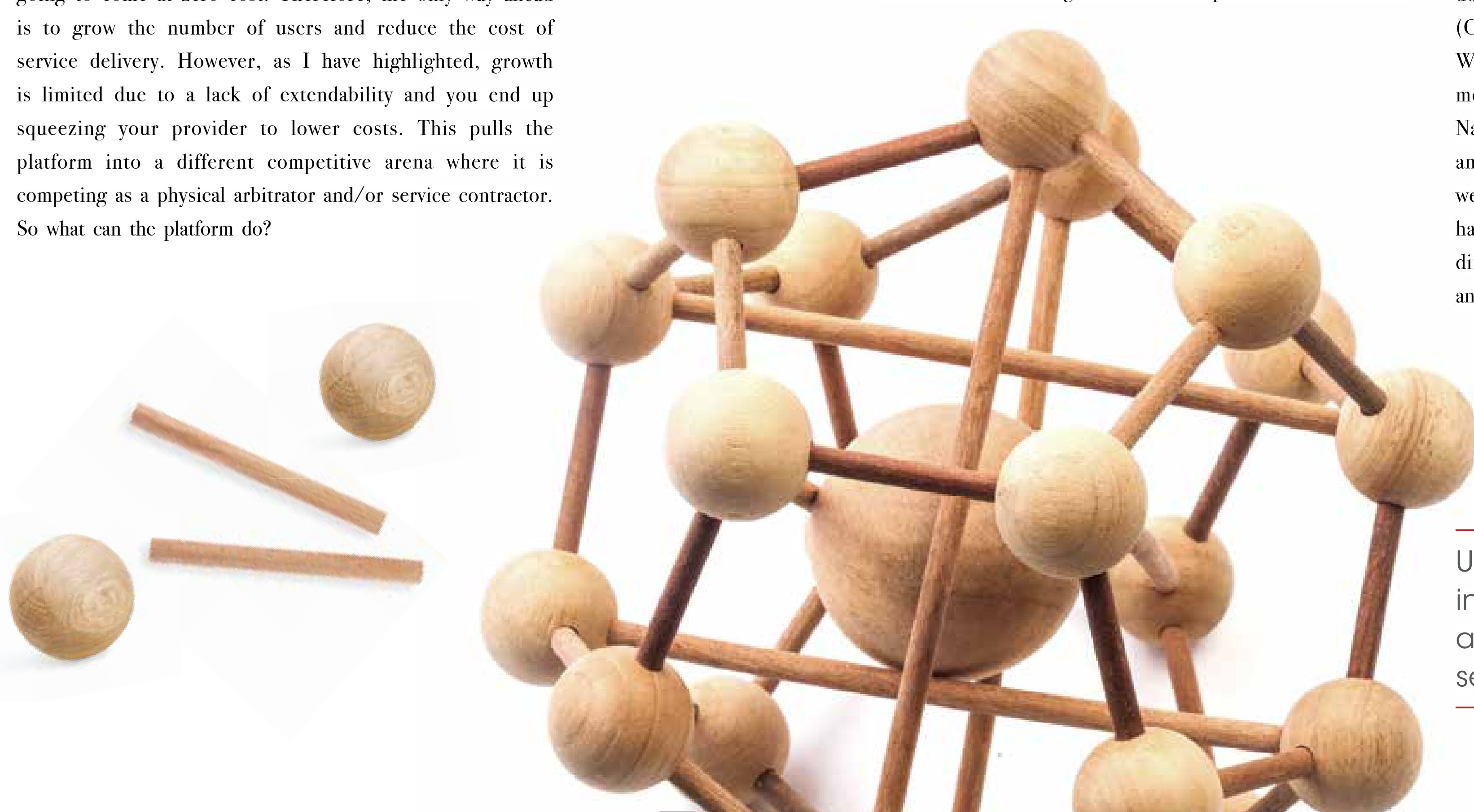
When Facebook felt threatened by new photo-sharing and messaging apps, it promptly acquired the leaders, WhatsApp and Instagram.

stop there. It has gone on to build a similar relationship with Qualcomm, giving it a strategic foothold at the core technology infrastructure level. The slew of investments exceeding US$20 billion has not only helped Jio rid its balance sheet of huge debts that it incurred while developing a comprehensive platform offering, but has also given it the technological heft to extend and take on the might of both Walmart and Amazon in the retail space.

In fact, it would be fair to say that most extensions in the digital platform world emerge from strategic alliances and partnerships. What then behoves the on-demand service delivery platforms to believe that they can seamlessly extend to other functionalities? As the above-mentioned failed experiences have proven, it is not that simple.

What can physical service platforms do?

Given that there is no exponential growth and profit in the physical service platform business, the revenue is never going to come at zero cost. Therefore, the only way ahead is to grow the number of users and reduce the cost of service delivery. However, as I have highlighted, growth is limited due to a lack of extendability and you end up squeezing your provider to lower costs. This pulls the platform into a different competitive arena where it is competing as a physical arbitrator and/or service contractor. So what can the platform do?



INVEST IN CORE TECHNOLOGICAL CAPABILITY

Physical service platform firms need to identify their core competence, and then invest in building it up further. Their energy should not be exhausted on blindly growing the numbers but should instead be channelled towards growing the capability to do so.

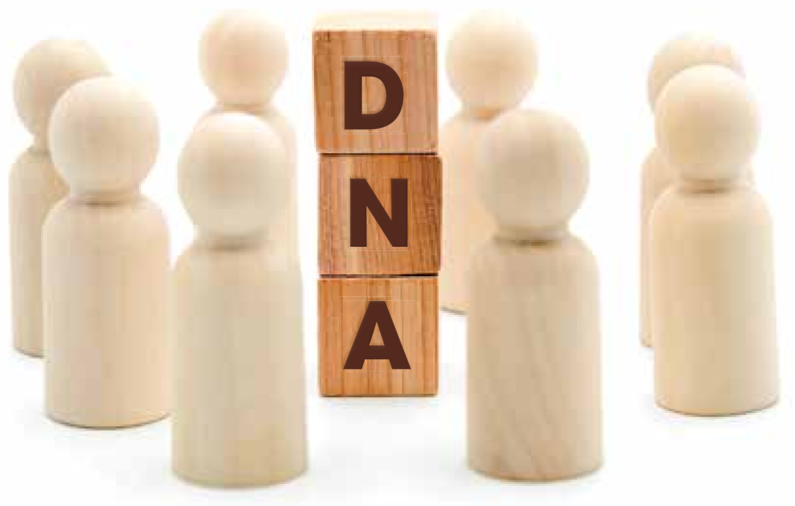
At the core, we have an issue with how to deliver a physical service on a digital platform. Unlike a product, a service is intangible, inseparable, variable, and perishable–qualities which make it difficult to monitor and offer service delivery guarantees. On the flip side, the platform continues to funnel resources into building physical capacity by onboarding and enabling more service partners. What remains equally, if not more important, is for the platform to develop suitable technology tools to train and equip vendors while also monitoring their quality of service delivery. Unfortunately, this is challenging to most firms. For example, even after a decade of operations, Uber has no means of letting riders find out about car and driver quality beyond the superficial ratings.

PROVIDE ENTIRE SOLUTION STACK

When the company's energy is spent more on the non-technology, non-platform side, fungibility becomes a big challenge. Take the example of Urban Company again. It started by providing basic massage and salon services, for which it had to bring in one set of partners–masseurs and beauticians–and define the specific delivery criteria. However, when it extended from these to home cleaning services, a completely different set of partners came in, thus requiring a completely different pricing structure and service delivery timeline. Whereas a masseur or beautician can individually take multiple calls per day, home cleaning typically requires a group of personnel who end up taking the entire day to provide a single service. In fact, there is no similarity in delivery across the multiple offerings Urban Company has, and it is not really technology that is driving the business as much as its ability to bring in different service providers. Urban Company should thus invest in identifying the quality parameters and create norms across the different service delivery models. They are not technological capabilities that allow easy transition from one use case to the other.

Instead, like Subway, physical service platforms need to 'productise' their services. Subway produces high volumes of customised sub sandwiches and meals with great variety, yet uses very few raw materials to do so. This is a classic case of mass customisation, which requires product modulation (i.e., breaking down the sub into its key ingredients like bread, fillings, and sauce), process modulation (i.e., breaking down the process of sandwich-making into clear and simple steps), and finally a means of integrating both in a seamless manner. The Subway model does not extend to pasta. However, Singapore's *zi char* (Chinese home-style dishes cooked to order) brand Wok Hey has similarly created a classic mass customisation model using stir-fried noodles and India's Barbeque Nation chain provides a wide range of appetisers through an over-the-table live-grill format. If any of these chains were to extend their offering to a different cuisine (as they have often tried but failed), it would require an entirely different combination of product and process modulation, and their consequent integration.

Urban Company should thus invest in identifying the quality parameters and create norms across the different service delivery models.



Physical service platform companies need to etch the importance of the service design factor onto their DNA, specifically how different elements of one service do not necessarily extend across others.

DELIVER END-TO-END SERVICE

Some may assume that because of its success, Uber's model can be simply forklifted into another domain. It cannot. Instead, what businesses need help with is the polar opposite: not the forklifting, but the unpacking of Uber to identify the two to three most applicable elements from its operating model and growth execution that can generate opportunities in its particular industry.[4] At the same time, there is a need to be logical in terms of deciding what layers can be added. Uber teamed up with Cargo in the U.S. to make it easy for drivers to sell snacks to their passengers, and with Kellogg's in India to provide commuters with breakfast on the go. I did not find it surprising that both efforts failed.

Physical service platform companies need to etch the importance of the service design factor onto their DNA, specifically how different elements of one service do not necessarily extend across others. Ola in India has a fabulous navigation system for its ride-hailing services, but this fell apart when it attempted to branch into food delivery. The same goes for many other gig economy ventures. Each service has a completely different design, which needs to be drawn up holistically. Rather than trying to do it all by themselves, physical service platforms need to start thinking like Alibaba and Tencent. These Chinese giants today are less of individual platforms, but have instead grown into extensive competing ecosystems with their proprietary apps and payment systems, while at the same time partnering with critical applications and service providers. Such ecosystems have their advantages since they ensure quality control while continuously tracking customer movement and behaviour. At the same time, they are able to build Artificial Intelligence and machine learning tools which help increase platform relevance. Although one can question the resulting privacy concerns, the use of advanced technologies provides a phenomenal value-add for the platform by ensuring service delivery across offerings.

ENSURE STICKINESS

Unlike Uber, Ola and other physical service platforms, ecosystems like Alibaba have enabled seamless transition from one service to another, ensuring that each is not a separate customer journey. This calls for placing the customer journey at the core of platform design and making the logic of customer experience (rather than network and access) central to determining platform offerings. The many failed efforts and humongous amount of wasted capital suggest that often, this has not been the case. Physical service platforms are not going to be able to extend into other delivery models unless they keep the customer experience central to their plans. Each service involves not just different vendors, but also different user expectations,

thus creating more complexity. Urban Company cannot hope that just because it has an app that home users love, it will be able to satisfy every home maintenance need with the same level of detail. The requirements for getting sofas upholstered are quite different from those for getting a manicure!

DON'T FORGET THE HUMAN FACTOR

The moment we get into service-led businesses and platforms, we are dealing with marketplaces that require humans to fulfil some specific job requirements. Consequently, various factors that are irrelevant when dealing with inanimate products take on primary importance when dealing with people, and these can have serious implications. Imagine being stranded and missing your flight because the Uber driver cancelled the trip, after making you wait for 30 minutes! Service delivery platforms thus need to plan and provide for this uncertainty while designing their offering.

The future of physical service platforms

Upwork was created in 2014 through the merger of the two largest freelancing websites, Elance.com and oDesk.com. Elance was known for matching creative professionals, and oDesk did the same for technical jobs like software development and programming. Today, despite being the largest freelancer marketplace in the world and having a two-decade-long head start, the company is fighting with hundreds of competitors and still draws more than two-thirds of its projects from creative and software development, areas that correspond to Elance and oDesk's original strengths respectively. Upwork's arduous journey towards broader acceptability and profitability is perhaps a grim testament of the travails of a service platform.

To summarise, physical service platform firms need to temper their expectations. Setting an incorrect goal can lead to a cascading downward spiral, as the recent implosion of WeWork demonstrates. We have long acknowledged that strategic management of a service business is different from that of a product business. The same difference holds and is amplified across digital product and physical service platforms. Decisions regarding service delivery and customer journey are critical, and the overall platform strategy needs to be framed in this context, rather than in general terms. It calls for laboured execution through detailing, capability-building, and extensive collaborations. In the words of the controversial yet popular American pastor John Gray, "Everybody wants the platform but nobody wants the process." The path towards the growth and extension for physical service platforms will remain long and arduous, and such companies would be well-advised to keep in mind the considerations outlined in this article as they draw up their plans.

Prakash Bagri
is Associate Dean – Corporate Engagements and Clinical Associate Professor of Marketing at the Indian School of Business

Endnotes

1. Farhad Manjoo, "The Uber Model, It Turns out, Doesn't Translate", The New York Times, March 23, 2016.
2. Michael A. Cusumano, Annabelle Gawer and David B. Yoffie, "The Business of Platforms: Strategy in the Age of Digital Competition, Innovation, and Power", New York: Harper Business, 2019.
3. A 'Procustean bed' refers to a scheme or pattern into which someone or something is arbitrarily forced.
4. Sameer Patel, "In Defense of the Uber-ization of Everything", TechCrunch, June 20, 2016.

Transforming Businesses with E-Commerce Intelligence

Finding the right E-Commerce Intelligence solution for your firm.

By Yuanto Kusnadi and Gary Pan

2020 had been an extraordinary year as the Covid-19 pandemic struck almost all countries in the world and created an extraordinary impact on businesses worldwide. Singapore and many other Southeast Asian countries were not spared and had to implement lockdowns swiftly. To cope with physical store closures and the increased volume of online transactions, most businesses tried to revamp their business models and set up online stores to capitalise on the rise of the e-commerce wave.

With the growing trend of online transactions, it has become imperative for companies operating in the Fast Moving Consumer Goods (FMCG) industry to track the performance of their brands on the various online platforms. This need has led to the emergence of E-Commerce Intelligence (EI)–a new category of software that enables brand managers to keep track of their stocks and sales in the online space. Over the past year, many start-ups offering data analytics and EI services have emerged and caught the attention of investors and venture capitalists, who are injecting funds to further fuel growth in this sector.[1]

EI software relies on machine learning technologies and offers user-friendly and personalised dashboards for managers to make better-informed decisions about their products, which could then lead to increased sales and profits. EI matters because in today's environment, all companies are focused on being customer-oriented, especially when it comes to online shopping. Having the knowledge of customer preferences and spending patterns at their fingertips enables brand managers in the FMCG industry to implement strategies to drive sales and conversion rates.

For fledgling EI solution providers, Southeast Asia offers a promising market. In this article, we discuss why this is so and elaborate on the market segments they should focus on to sharpen their competitive edge.

We draw insights based on our field research, which includes a case study of an EI solution provider, Digital Commerce Intelligence Pte Ltd (DCI). Our analysis helps make sense of the demand for EI applications from FMCG firms based in Singapore, and more broadly, in Southeast Asia. We highlight the importance of flexible product offerings to reach out to brand managers, especially those from small and medium enterprises (SMEs), if they are to expand their operations. We also highlight that EI solution providers should build their data storytelling capability and thought leadership as strategies to differentiate themselves from their competitors.

The growing need for EI solutions

The projected growth for the e-commerce sector suggests that prospects are good for EI solution providers. In 2020, over two billion e-commerce customers worldwide pushed total retail commerce sales to reach US$4.28 trillion, and it is projected that e-commerce transactions will account for 21.8 percent of total global retail sales by 2024.[2] In Southeast Asia, the e-commerce sector has grown by an impressive 35 percent last year, and is expected to grow by another 14 percent to reach US$45 billion this year.[3]

There is a myriad of reasons for the continued growth of online retail. These include an overall increase in disposable income, the convenience of online shopping, and various marketing strategies such as promotions, and free shipping or delivery above a certain price point. The rise in transaction volume is also due to higher mobile phone and Internet penetration rates across several developing economies, particularly in Southeast Asia.[4] Additionally, retail powerhouses like Walmart and Uniqlo are enhancing their presence online, thereby driving e-commerce demand and sales.[5]

We expect the market for EI software to continue growing at a rapid rate over the next five years due to two key reasons. First, there will be fast growing demand for e-commerce data analytics in Southeast Asia given the rising e-commerce transaction volume. Second, the competition among big brands on digital platforms is expected to intensify, This will also increase their demand for and investment in e-commerce data analytics, as they attempt to gain and sustain an information edge over their rivals. The parallel increase in digital marketing solutions budgets (refer to Figure 1) will drive market growth for EI solution providers. In fact, we argue that EI solution providers have the potential to gain more market share if they continue to invest in real-time analytical capabilities driven by Artificial Intelligence (AI). Being able to offer prompt, accurate, and rich insights is going to be a key value proposition, given how rapidly sales estimates and ratings move in the e-commerce sphere.

CHANGES IN TRADITIONAL VS DIGITAL MARKETING SPEND

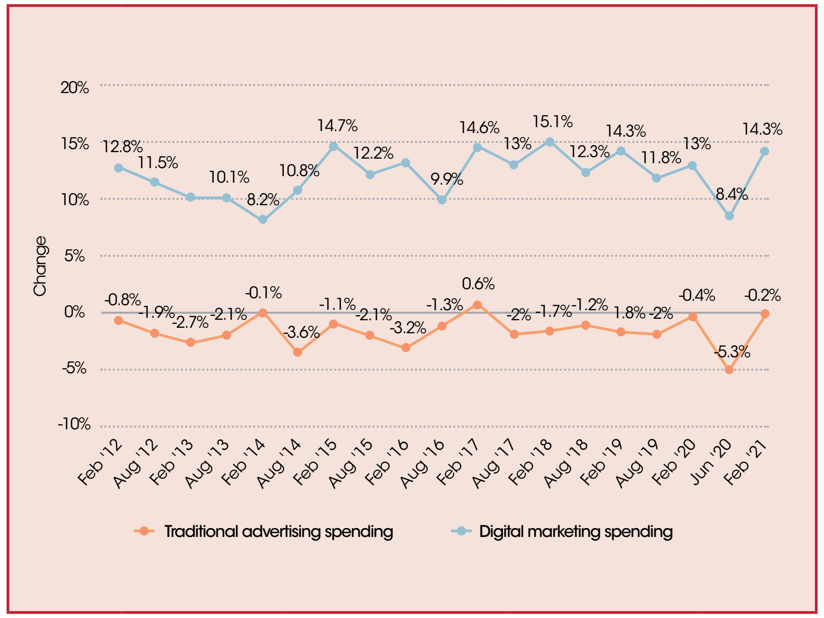


FIGURE 1

Source: A. Guttmann, "Change in Digital Marketing Spending and Traditional Advertising according to CMOs in the United States from 2012 to 2020", Statista, February 2021

Potential market segments

We highlight two specific market segments that EI solution providers should focus on. One is smaller FMCG clients such as local or regional brands; the other is the major players, including global firms, such as Unilever. We arrived at this conclusion from our field studies.

DIGITAL COMMERCE INTELLIGENCE PTE LTD

Compared to larger markets like the U.S. and China, accessibility to market performance data for retailer brands on e-commerce platforms in Southeast Asia like Lazada and Shopee is limited and fragmented. To address this gap, Digital Commerce Intelligence Pte Ltd (DCI), a start-up based in Singapore, built solutions that use advanced data science techniques and AI to provide e-commerce market performance insights and competitive intelligence for consumer goods brands and retailers in Southeast Asia.

DCI currently offers two types of data service offerings to its customers. The first offering is a brand-level key performance indicator (KPI) monitoring tool that consolidates and analyses digital shelf data, turning it into insights and actionable recommendations. This *brand-level tracker* offers real-time monitoring on vital KPIs, stock availability, pricing compliance across all stores, and customer ratings and reviews.

The second offering is an e-commerce category-level competitive intelligence dashboard that gives its customers a holistic view of their market size and potential, allowing them to identify areas of improvement. A *market-level tracker*, it offers features like weekly data refresh, brand category size and market share analytics, sales trends analytics, brand portfolio analytics and price/promo analytics.

Currently, DCI offers these two products on an annual subscription basis at price points that vary according to the customisation of its customers' solutions.

SMALLER CLIENTS NEED BRAND-LEVEL EI SOLUTIONS

We define smaller FMCG companies as those that fulfil either one of the following conditions: revenue of not more than S$100 million or not having more than five best-selling product categories.

For these companies, a brand-level KPI monitoring tool that consolidates and provides an analysis of digital shelf data, turning them into insights and actionable recommendations, would be an appropriate product. Digital shelf data comprises retail data, such as inventory availability. In turn, brand-level KPIs based on such digital shelf data can ensure that the company's products do not go out of stock.

As an example, using this digital shelf data, an FMCG company based in Asia selling beer in the e-commerce space can compare the performance of its product with respect to that of other beers (e.g., Tiger, Heineken, Guinness) on e-commerce platforms like Lazada. The company can then take appropriate actions, such as stocking up more beers on weekends to attract more consumers to buy its products.

In addition, affordability is another factor that firms would consider. The brand manager of a local FMCG firm with online and offline distribution channels, in the business of distributing and selling snacks, such as nuts and dried fruits, commented that smaller firms with relatively few best-selling product categories and a lean marketing team of five simply did not have the budget to purchase feature-rich software that may cost as much as S$25,000 per category or market each year. However, a targeted brand-level tracker (such as the one offered by DCI), which cost about S$8,000, was well within its budget.

Similarly, another firm shared that while a category-level competitive intelligence dashboard would be useful, it too was unable to afford the product due to budget constraints and its small scale. However, it found the brand-level monitoring tool to be more useful at its current business stage. It too had been experiencing excess inventory due to the difficulty of coordinating sales and inventory across its retail, corporate sales, and online channels. This resulted in additional costs from unsold perishable goods and the need to rent warehouse space.

Therefore, the features of a brand-level KPI monitoring tool are more suited to the needs of smaller firms as it is more affordable and can help them achieve greater operational and marketing efficiency. Hence, one recommendation for EI solution providers focusing on smaller players is to build and market brand-level EI software that cater to the latter's needs.

BIGGER PLAYERS NEED A SUITE OF EI SOFTWARE

While there is no ready definition yet of larger FMCG players (e.g., Unilever), we argue that there would be companies that easily have 30 or more product categories under many different segments, such as beauty, personal care, and food.

During our field studies, we interviewed three brand managers from multinational FMCG firms to understand their needs for EI software in terms of value and cost. Not surprisingly, larger players with scale and reach find market-level trackers useful. Market-level trackers provide information such as the market share of a brand in a particular product category (e.g., beer). Additionally, they provide information such as which beer brands are the top sellers each week. This data helps brand managers decide whether they should offer discounts to boost sales and increase their market share.

For instance, one brand manager affirmed the utility of a category-level competitive intelligence dashboard for e-commerce teams as it provided insights into the competition that were not readily shared by e-retailers. Brand-level trackers were less useful because the existing dashboards provided by e-retailers already allowed brands to analyse their own performance across categories and markets.

A key insight from our interviews was that both market-level trackers (e.g., category-level competitive intelligence dashboards) and brand-level ones (e.g., brand-level KPI monitoring tools) were useful but for different reasons. Market-level EI software, such as category-level competitive intelligence dashboards, was more useful for managers in global roles or category managers requiring top-line insights into product performance, while brand-level monitoring tools and solutions were more useful for local brand managers, managers directly handling sales, or those in charge of executional strategies. Such brand-level software could also be enriched if EI solution providers added value by incorporating bolt-on features that work side-by-side with the core systems to provide supplementary functionality. One example would be data integration from e-retailer platforms, such as Lazada and Shopee, so that local brand managers could track whether their performance is better or worse than their competitors on these platforms.

EI solution providers that target larger players should therefore consider the prospects of cross-selling both types of EI software that cater to the needs of different teams in large FMCG firms.

Data storytelling: a compelling must-have

According to technology consulting firm Forrester, satisfaction with analytics dipped 21 percent between 2014 and 2015, despite investments in big data.[6] While 74 percent of firms want to be data-driven, only 29 percent are confident of connecting analytics to action.[7] This presents a gap in the market that is still largely unexplored and open for EI solution providers to exploit in order to offer better value to their clients, and fulfil their need for fast and actionable intelligent insights.

A prominent value proposition based on identified customers' needs would be to offer packaged data that catered to specific job scopes for customers to gain easily understood, readily accessible, and actionable insights. This could help EI solution providers acquire more customers, especially smaller-scale companies that are looking for cost-effective market intelligence solutions.

We argue that compelling, concise, and convenient data storytelling is one way to address their needs. By presenting only the most relevant and contextualised insights to customers based on their roles and needs through data storytelling, EI solution providers can tap on this opportunity and increase customer satisfaction. In turn, their clients also stand to gain from automated data storytelling enabled by AI, as this feature helps reduce workloads while targeting customer needs better.

Data storytelling combines the usage of narrative, visuals, and data to explain, engage, and enlighten customers.[8] A narrative is a vital component of communicating the information and insights that an EI solution firm has to offer. Data storytelling capabilities would facilitate the acquisition of adopters by making a more compelling sales pitch, as potential customers would be able to perceive the immediate value EI solution providers can add to their brands and departments, allowing actionable insights to be communicated more easily within their organisation. When such reports are shared or published, this may even boost 'land-and-expand' selling to adjacent cross-functional departments or sister brands.

EI solution providers can also consider using data storytelling tools to deliver automated, customised reports to clients to surface key insights in an effortless, enjoyable, and digestible manner. Telling a compelling story with the data will help customers remember an EI solution provider's products and they are more likely to believe in the value of these products. For instance, in the case of beers, besides presenting the data on the dashboards, the data storytelling solutions can compile the data into a report that shows the sales of the company's brand with respect to all other beer brands in a week. Additionally, the data could provide interactive stories that show the brand managers what they could change to achieve their desired sales target.

EI solution providers could consider leveraging technologies like natural language generation (NLG), deep learning, and augmented analytics to implement data storytelling tools. For example, NLG is employed by data storytelling company Narrativa to transform data into human knowledge in real time and offer automated products to allow companies to get an immediate response to make data-driven decisions in a timely manner. By blending EI with the data storytelling capabilities that NLG provides, EI solution firms can automate some of the resource-intensive after-sales services they provide on an ad-hoc basis for their clients, such as data exploration and analysis, and report generation. This would also enable these firms to scale successfully by acquiring more customers without hiring more consultants and data analysts.

There are three possible methods to implement such data storytelling products. Firstly, an EI solution provider could act as a middleman and purchase contracts from data storytelling companies for its clients. It also has the option to develop the solution in-house. Alternatively, it could explore potential partnerships or collaborations with data storytelling start-ups.

Based on our estimates, the implementation of self-developed data storytelling products or adoption of the middleman role will not be financially feasible for a start-up like DCI. The contribution margin ratio for a bundled package of a category-level competitive intelligence dashboard and an additional data storytelling tool will be very low, due to the high fixed costs involved in either of the first two options, which will result in a much higher break-even figure. Therefore, we recommend that new and smaller EI solution providers should seek other start-ups that provide such services. This way, both parties stand to benefit from mutual collaboration. A successful partnership

Telling a compelling story with the data will help customers remember an EI solution provider's products and they are more likely to believe in the value of these products.

would allow both companies to gain greater reach and publicity, thus freeing up resources to focus on their own specialty technology and grow their client bases.

The need to establish thought leadership

In addition to data storytelling, thought leadership is the other area that EI solution providers should build up their capabilities in to differentiate themselves from the competition.

Becoming a thought leader is about establishing yourself as an expert in the industry and being recognised as the go-to person for advice.[9] Thought leadership marketing leverages the depth and richness of industry knowledge and experience in answering questions from the audience. Doing so creates a professional image that boosts the credibility of your company. Apart from creating value, 45 percent of decision-makers mentioned that thought leadership compelled them to invite an organisation to bid for a project when it had not been considered previously.[10]

As the business of EI solution providers is highly specialised and technical, the ability to convey thought leadership helps build the brand and enables customers to differentiate them from competitors. Furthermore, it provides a sense of assurance to their target customers that will be beneficial in driving conversions, giving them an advantage when customers are deciding which company to seek for EI advice.

EI solution providers should be active and create their own posts on social media. For example, they can highlight why EI matters for brand managers, or even repost articles related to EI and share it on their LinkedIn pages. However, they must ensure that the content shared is educational, value-adding, and is aligned with the EI solution provider's brand perspective. Content provided has to be engaging to be effective.

Conclusion

The Southeast Asia market for EI solutions is still in its nascent stage. This implies that the market is not only fragmented, but also lacks clear standardisation across the industries. Players are offering variations of the same service. At the same time, customers too have not formed a finalised, complete idea of the products that they are looking for. While having no clear industry leader in this early development stage can be beneficial for fledging providers like DCI, it also means that they must communicate clearly and constantly with potential clients to refine their value propositions and product offerings in order to capture a larger market share.

Within the FMCG space, EI solution providers have a good chance of capturing the growing market in Southeast Asia. They just have to be clear about which market segment (i.e., local, regional, or global players) to target with which blend of offerings (e.g., brand-level tracker only or a suite of brand and market-level monitoring solutions). Along with that, they would need to pay attention to data storytelling and play the long game by building up their thought leadership.

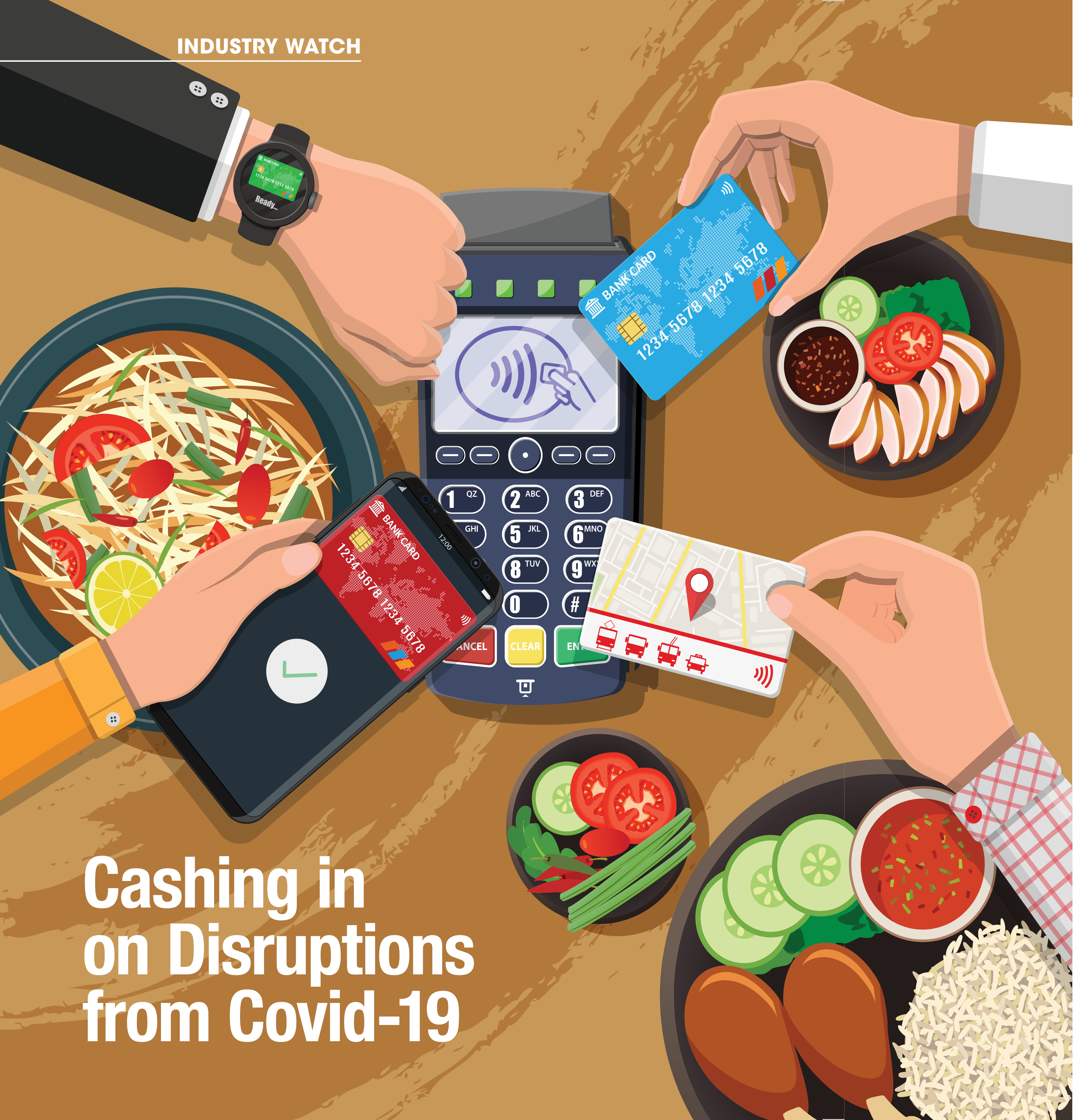
> Becoming a thought leader is about establishing yourself as an expert in the industry and being recognised as the go-to person for advice.

Yuanto Kusnadi
is Associate Professor of Accounting (Education) at Singapore Management University

Gary Pan
is Professor of Accounting (Education), Associate Dean (Student Matters), and Academic Director of SMU-X at Singapore Management University

References

1. Taylor Soper, "E-Commerce Intelligence Platform Stackline Raises $50M from Goldman Sachs as Online Retail Booms", Geek Wire, November 20, 2020.
2. David Coppola, "E-commerce Worldwide–Statistics & Facts", Statista, July 14, 2021.
3. Ethan Cramer-Flood, "Southeast Asia Ecommerce 2021: Public Health Uncertainty Clouds Outlook", Insider Intelligence, July 6, 2021.
4. Eric Ng, "Uniqlo Parent Fast Retailing to Strengthen Online Sales after Beating Retail Gloom to Report Better-than-Expected First-Half Profit", South China Morning Post, April 9, 2021.
5. Bain & Company, "e-Conomy SEA 2020–Resilient and Racing Ahead: Southeast Asia at Full Velocity", 2020.
6. Brian Hopkins, "Think You Want to be 'Data-Driven'? Insight Is the New Data", Forrester, March 9, 2016.
7. Ibid.
8. Brent Dykes, "10 Ways to Make Your Dashboards More Actionable", Forbes, September 12, 2019.
9. Rebecca Riserbato, "The Content Marketer's Guide to Thought Leadership", November 4, 2019.
10. Alex Rynne, "How to Create Impactful Thought Leadership Marketing", November 13, 2019.



Cashing in on Disruptions from Covid-19

Promoting cashless payments at Singapore's hawker centres.

By Dennis Ng

The Covid-19 pandemic has done for cashless payments what no Singapore government effort could achieve—it has spurred the adoption of cashless payments manyfold at points-of-sale where cash used to be king. The need to reduce physical contact by minimising the use of cash has been a boon to the use of electronic payments (e-payments). As early as March 9, 2020, the World Health Organization made recommendations to decrease the use of cash by emphasising the need to reduce social contact between individuals.[1] There was also an increased use of food delivery apps during the pandemic,[2] where e-payments were the preferred mode of transaction.

In Singapore, there has been a substantial rise in PayNow transactions. Launched in 2017, the PayNow app enables users to transfer funds from one bank account to another in Singapore, simply by using their mobile or personal identification number. In the first 10 months of 2020, the value of PayNow transactions handled by UOB, a Singapore-based bank, grew 220 percent, while the volume of transactions increased by 127 percent compared to pre-Covid-19 levels.[3] At the national level, registrations for PayNow jumped almost 50 percent to 4.9 million by the end of 2020.[4] Registrations for businesses also doubled, meaning that 80 percent of Singapore residents and businesses are currently on this service.[5]

However, it should not be assumed that this trend toward higher adoption of cashless payment would necessarily continue. So how can we consolidate the gains by taking advantage of the situation, as consumers and businesses are now more open to change?

It would be useful to examine first the challenges of introducing high-technology payment applications into settings that tend to be the 'last mile' in a country's cashless journey due to their unique operating environment, which, in this case, are hawker centres. I would also discuss how incentives and habits affect cashless payment adoption, and explore the critical factors required for cashless adoption success from a macro-perspective, with the objective of providing guidance to policymakers as they steer Singapore towards this digital future.

Technology adoption in Singapore

To address the lack of critical mass in adopting cashless payment, the Singapore government put in place more initiatives to promote cashless payments. In 2017, it launched the Smart Nation e-Payment Initiative to fund the infrastructure cost, as players in the small island-city-state did not have the scale to do so. The government also created a common QR (Quick Response) code called SGQR to improve interoperability among several payment types for low-value payments. Under the Smart Nation Initiative, e-Payment is included as a pillar, together with the common QR code and the provision of infrastructure in hawker centres, convenience stores, and other low-value merchant locations.

Factors influencing technology adoption in Singapore's hawker centres

The focus of the 'last mile' in a nation's cashless journey should typically be on merchants whose customers make payments below $100. These merchants usually accept cash as the main mode of payment. The focus therefore is to displace the use of cash. A key component of Singapore's e-Payment Initiative involves encouraging its use in hawker centres. These establishments are open-air complexes that house between 10 and 70 stalls selling a wide variety of affordably priced food and beverages. These food stalls are typically congested workspaces, and they charge around S$4 (US$2.95) per meal. A 2016 KPMG report commissioned by the Singapore central bank pointed out that hawker centres topped the list of places in Singapore where paper money predominated.[6]

From a macro-perspective, there are several critical factors for the adoption of cashless payments to be successful. They include demand and supply, as well as mediating factors.

There must be demand for cashless payment in a country for it to be successful in the long run. Cashless payments must offer additional benefits like convenience, speed, and safety. In the context of hawker centres, there is evidently a need for a convenient payment method, especially when considering the physical environment where each stall has limited space and is typically short-handed. Cashless payments can reduce the need to collect cash and return change while also speeding up payments.

Unfortunately, cash has remained an acceptable and popular mode of payment in Singapore over the years. Automated Teller Machines (ATMs) are ubiquitous, so withdrawing cash is convenient. It was reported that Singaporeans' affection for cash was a formidable barrier to cashless payment adoption and a 2017 PayPal study found that nine out of 10 Singaporeans preferred cash as their first payment choice.[7] Cash is therefore the default mode of payment, while cashless payment is the competing alternative in Singapore.

> Cash is the default mode of payment, while cashless payment is the competing alternative in Singapore.

Additionally, currency fraud is almost unheard of in Singapore, compared to places like China.[8] Moreover, the largest denomination of the Chinese RMB is 100 (S$25)–implying one would need a bagful of cash to make high-ticket purchases–which has led to the popularity of cashless payment platforms like AliPay or WeChat Pay in China. However, in Singapore, the dollar notes are available in various denominations ranging from as low as $2 to as high as $10,000.

Sorting out the supply-and-demand-related issues discussed above is thus the first step to bringing about a cashless society in Singapore. However, there are also operational hurdles that must be overcome to ensure that greater demand translates into higher adoption at hawker centres. The following are some other prominent factors that influence the adoption of cashless payments at Singapore's hawker centres.

TOO MANY DIFFERENT AND DISPARATE SYSTEMS

NETS, EZ-Link, PayNow, PayLah!, Visa, Mastercard, and GrabPay are but some of the several platforms available in Singapore. This becomes an issue because they have to share the small and crowded domestic market, leading to a longer break-even period for investments. The government recognises this problem and has put in place SGQR to minimise overlaps. This would hopefully reduce providers' infrastructure cost, so that they would in turn charge hawkers a lower fee for using their platforms. The disparate systems also pose a challenge to hawkers who have to manage different transactional and settlement processes, and even payment terminals.

INGRAINED HABIT OF USING CASH

Singaporeans have an ingrained habit of using cash at hawker centres, probably because of the small amounts involved. Despite placing posters and decals promoting incentives for going cashless at the hawker centre, customers habitually reach into their pockets for cash and not their smartphones.[9] If not for the Covid-19 situation, Singapore's PayNow would not have experienced a significant bump in adoption.

CONTINUAL NEED FOR SHORT-TERM INCENTIVES

For those who have yet to adopt cashless payments during the pandemic, incentives are necessary to encourage them to change their habits. While it is encouraging that the government funded some small-scale incentives to promote cashless payments, these incentives did not alter the habit of using cash over the long term. Once the promotion period ended, customers reverted to using cash once more.

LACK OF TRAINING FOR HAWKERS

Many hawkers do not know how to operate the cashless payment terminals. This could be due to their basic education levels, lack of English proficiency, and insufficient training on the use of these terminals. Hawker assistants are also not trained to prompt customers to use cashless payments, even when these customers could enjoy incentives when doing so. Studies have shown that nudges at points-of-sale are an effective way to break the cash habit by coaxing or reminding customers to use cashless payments.[10]

FEAR OF HIGHER TAXES

While some merchants are keen to support the government's cashless policy, they still prefer to limit the number of e-payments accepted. This is because they are fearful their revenues would be subjected to audits and they might have to pay higher taxes as a result.

LONG SETTLEMENT PERIOD

Another reason that hawkers do not encourage cashless payments is that they are concerned that they may not be able to collect the money sooner, since settlement occurs two to four days after a transaction. This is a pain point that needs to be addressed, as most hawker stalls are small businesses, so waiting for even four days could strain their cash flow.

> Studies have shown that nudges at points-of-sale are an effective way to break the cash habit by coaxing or reminding customers to use cashless payments.

PRACTICAL LIMITATIONS

Hawkers have also cited practical reasons as obstacles preventing them from adopting e-payments. First, they would have to check whether the transactions are successful. This requires additional time and effort and they are too busy fulfilling orders to do this during peak hours.[11] Second, elderly hawkers and patrons are constantly worried they might press the incorrect button or enter the wrong amount, so they prefer using cash.[12]

What else can be done?

Below are seven key recommendations that could help promote the adoption of cashless payments.

1. Incentives

Consumer incentives for making cashless payments should be offered for longer periods than the common two-week or month-long promotions. Research shows that to break a habit, an incentive must be provided for at least 66 days.[13] Therefore, one recommendation is for incentive providers to entrench the adoption of cashless payments by providing incentives to consumers for a longer period, so that old habits can ultimately be broken.

2. Disincentives

While incentives can help change old habits, these incentives work best when they are also deployed alongside disincentives, which would be 'punishments' for continuing with the old habit of using cash. The government could consider the use of penalties for cash usage. This penalty could be a charge of 30 cents to $1 for every cash withdrawal from the ATM or bank branch. However, care ought to be taken to ensure that those who do not have access to credit or debit cards, or smartphones, are not penalised. This could be done by setting a maximum amount that one could draw in cash before incurring the surcharge.

3. Merchant incentives

Hawkers also need to be incentivised to accept cashless payments. Some countries have implemented tax concessions, which have resulted in the greater use of cashless payments. In South Korea, for example, merchants who accept e-payments enjoy VAT (Value-Added Tax) deductions of two percent with a 5-million-won (US$4,495)-ceiling.[14] This is important because hawkers are small-scale merchants who prefer cash because of cash flow concerns. Moreover, the current practice of accepting cash allows them to be excluded from the formal tax system, thereby providing them with little motivation to support cashless payments. Hence, the government may wish to consider introducing tax incentives to encourage merchants to accept cashless payments.

Additionally, schemes like the Hawkers Go Digital initiative that was launched in June 2020[15] could be further enhanced. Under this initiative, hawkers who opt for SGQR would receive a S$300 bonus for every month in which they chalk up a minimum of 20 cashless transactions. The maximum bonus payable is S$1,500, so there are five months in a year for which they could potentially earn the bonus, provided they meet the stipulated requirement. Perhaps the bonus amount could be raised in tandem with a higher volume of cashless transactions, and the maximum bonus could also be increased to incentivise hawkers to go cashless.

4. Merchant cash flow

Accepting cashless payments requires merchants to wait between two and four days for settlement. This impacts the cash flow of the hawkers, who often use their cash proceeds to buy raw materials for the next day. For hawkers who have adopted SGQR, payments received before 5 pm would be credited into the merchants' bank accounts by 9 pm the same day; for payments made after 5 pm, they would go through by 9 am the following day.[16] The next benchmark to aim for would be to shorten further the waiting time for funds received from cashless payments.

5. Merchant training

Hawkers and their assistants often do not know how to operate the sophisticated cashless terminals. This is likely due to their lower level of education. Therefore, some effort must be invested in training and educating them. This could take the form of formal classroom training which would include how to initiate, settle, and void transactions, as well as simple troubleshooting when problems occur. The recent rollout of 'digital ambassadors' to help hawkers become familiar with digital tools could also be a convenient avenue to provide guidance on basic troubleshooting. As of May 2021, these ambassadors from the Infocomm Media Development Authority (IMDA) SG Digital Office have reached out to more than 10,000 hawkers.[17]

Another area of training required is getting hawkers and their assistants to learn how to nudge customers to use cashless payments at the point-of-sale as this has proven effective in steering consumers away from using cash. Research shows that consumers using cash are 'triggered' by the context of being in hawker centres, which they associate with cash payment, so some form of intervention is required to break the habit.[18]

6. Reminders and assurances

Initial resistance can be expected from consumers, as was the case with the M-Pesa mobile payment pilot in Kenya. A key factor for M-Pesa's eventual success was the extensive use of physical agents on the ground to guide and assure both customers and merchants on how to use the new technology.[19] Similarly, the presence of physical agents in hawker centres can be useful in reminding consumers and providing immediate assistance and assurance to hawkers and merchants alike during the rollout when problems are also likely to arise. For example, each hawker centre could have a 'local onsite mentor' to guide hawkers during the first few months of the rollout.

To make it easier for hawkers to accept payments via SGQR, those using smartphones should be encouraged to download the NETSBiz app. With this app, voice notification can be enabled, so that every time a payment is made, they can hear the message that the amount payable has indeed been paid.[20] This way, they would not need to look at the confirmation screen on the customer's phone. As and when they wish to track their sales progress for the day, they can also check the transaction history through the app.[21]

7. Improvement of implementation support

Overall, implementation must be better organised. There are many loose ends on the ground that need to be tied up for a smoother and more effective implementation. These include using more prominent displays of marketing and promotional materials, improved frequency for the servicing of faulty terminals, and large-scale training for both hawkers and their assistants.

Conclusion

It is important to assess the presence of impediments to using cashless payments in the early stages of the launch or pilot before embarking on a large-scale strategy. Evaluation during the early days of the M-Pesa project illustrated how unmet needs and poor alternatives were obvious in the beginning. There was a significant unbanked segment in the country whose payments needs were not addressed by existing arrangements.

In addition, the government and payment providers may want to avoid investing too many resources into marketing a cashless society project until its need for cashless payments can be ascertained. This is particularly true in Asian countries as they take advantage of new and cost-efficient digital technologies to bypass traditional banking infrastructure. The government should also be prepared to accept a longer adoption timeframe if there are barriers that may slow it down.

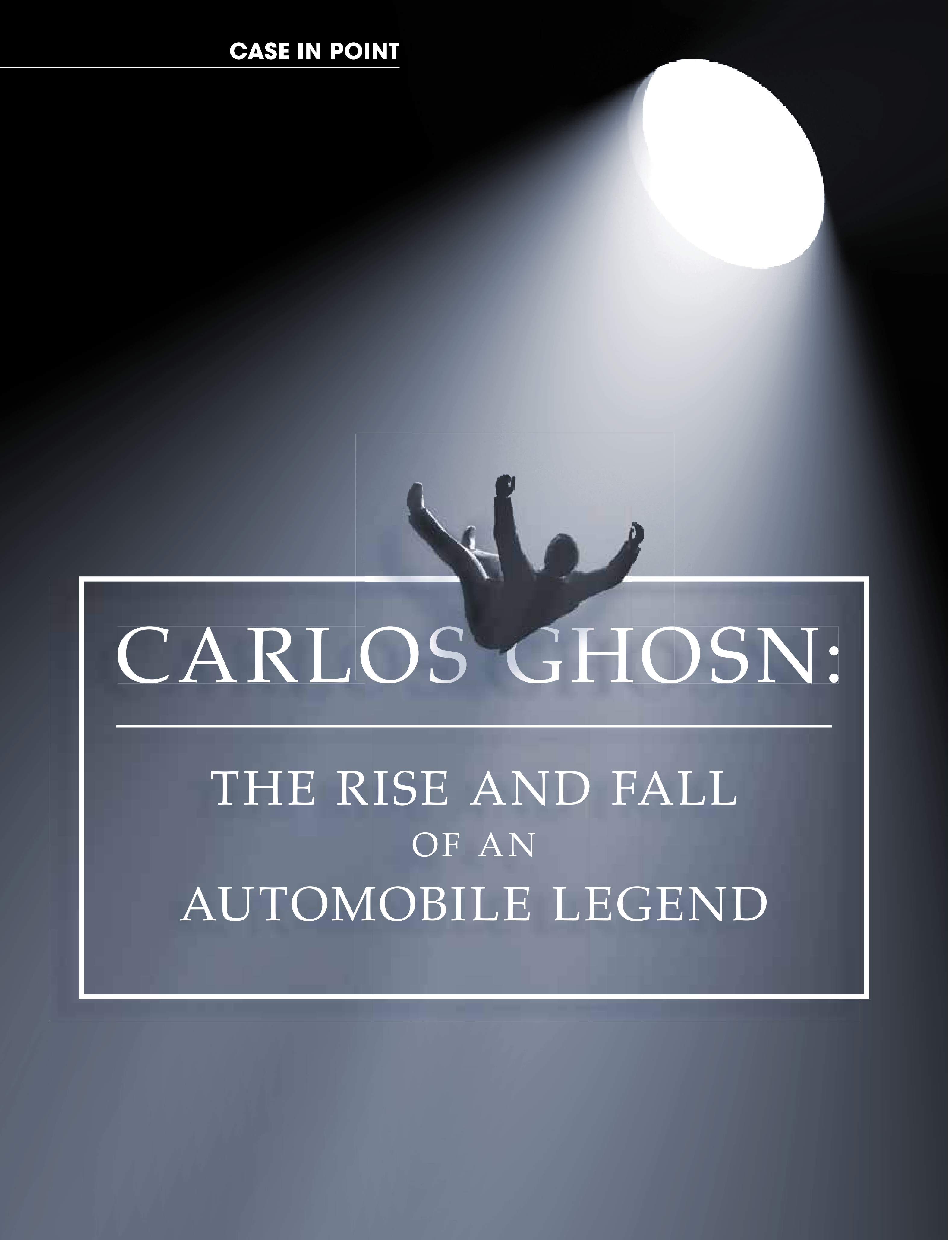
Third, the government may wish to analyse the wider financial landscape to understand how it makes cash convenient, safe, and cheap. It may then have to explore what is to be done, so that e-payments will embody this set of properties (i.e., being convenient, safe, and cheap) while rendering cash less so. Only then can it become more successful in promoting cashless payments.

The Covid-19 pandemic has provided a jumpstart for Singapore to move towards more cashless payments, and these early wins should not be allowed to fade away in vain.

Dr Dennis Ng
is a payments consultant and an adjunct faculty at Singapore Management University, Nanyang Technological University and the National University of Singapore

References

1 Roger Huang, "WHO Encourages Use of Contactless Payments Due to COVID-19", Forbes.com, March 9, 2020.
2 Yuyang Zhao and Fernando Bacao, "What Factors Determining Customer Continuingly Using Food Delivery Apps during 2019 Novel Coronavirus Pandemic Period?", International Journal of Hospitality Management, Vol. 91, October 2020.
3 Jacquelyn Tan, "Covid-19 Is a Game Changer for Digital Payments", The Straits Times, February 10, 2021.
4 Prisca Ang, "Budget Debate: E-payments on the Rise but Singapore Does Not Aim to be a Cashless Society, says Ong Ye Kung", The Straits Times, February 27, 2021.
5 Ibid.
6 KPMG, "Singapore Payments Roadmap: Enabling the Future of Payments 2020 and Beyond", August 2016.
7 Annabeth Leow, "The Future of Money", The Business Times, May 26, 2018.
8 Aaron Klein, "China's Digital Payments Revolution", Brookings Institution, April 2020.
9 Annabeth Leow, "The Future of Money", The Business Times, May 26, 2018.
10 Leo Van Hove, "Could 'Nudges' Steer Us towards a Less-cash Society?", Transforming Payment Systems in Europe, Palgrave MacMillan, 2016.
11 Tan Yin Lin, "Transforming the Hawker Industry into a Digital One: Is It Possible?", Rice, July 21, 2020.
12 Ibid.
13 Phillippa Lally, Coernelia van Jaarsveld, Henry Potts, and Jane Wardle, "How are Habits Formed: Modelling Habit Formation in the Real World", European Journal of Social Psychology, 40, 998-1009, 2010.
14 World Bank, "Electronic Payments Acceptance Incentives: Literature Review and Country Examples", April 2020.
15 Lester Wong, "Government Will Support Hawkers through Their Digitalisation Journey: Iswaran", The Straits Times, June 11, 2020.
16 Ibid.
17 Government of Singapore, "MCI's Response to PQ (Parliamentary Question) on Move towards Complete Paperless Processes and Transactions with Businesses and Public Sector Agencies", May 11, 2021.
18 Tina Venema, Floor Kroese, Bas Verplanken and Denise de Ridder, "The (Bitter) Sweet Taste of Nudge Effectiveness: The Role of Habits in a Portion Size Nudge, a Proof of Concept Study", Appetite, Vol. 151, August 1, 2020.
19 Susie Lonie, "M-Pesa: Finding New Ways to Serve the Unbanked in Kenya", Innovations in Rural and Agricultural Finance, 18(8), 17-19, 2010.
20 NETS, "NETSBiz App", October 2, 2018.
21 Ibid.



CARLOS GHOSN:

THE RISE AND FALL OF AN AUTOMOBILE LEGEND

Was it politics, greed, or hubris that led to Carlos Ghosn's downfall?

By Jochen Reb, Abhijeet Vadera and Cheah Sin Mei

On December 29, 2019, disgraced auto titan Carlos Ghosn (rhymes with 'tone') made an audacious escape from house arrest in Tokyo, where he had been detained on financial impropriety charges. Of all the places imaginable, Ghosn hid in a huge case for musical instruments, which was then loaded onto an aeroplane as cargo. Dubbed as "one of the most brazen and well-orchestrated escape acts in recent history, involving a dizzying array of hotel meet-ups, bullet train travel, fake personas, and the chartering of a private jet",[1] it was a Hollywood caper in line with Ghosn's cavalier personality and gilded lifestyle.

Upon arrival in Lebanon, Ghosn was feted like a hero. He then had an audience with Lebanese President Michel Aoun and subsequently claimed at a press conference that he had suffered "injustice and political persecution" at the hands of the Japanese government. He went to the extent of comparing what he had undergone to the Japanese assault on Pearl Harbour. While the Lebanese press had a field day reporting on his daring getaway, Japanese authorities only discovered Ghosn's flight several days later from Lebanese media reports. Ghosn thus cemented his global notoriety by becoming a fugitive of the law.[2]

The allegations

The Tokyo District Public Prosecutors Office had indicted Ghosn for violating a Japanese financial law, the Financial Instruments and Exchange Act, which was promulgated in 2006. Ghosn was detained on the allegations of misappropriation of company funds for personal use and underreporting his income by more than four billion yen (about US$35 million)–understating his true earnings by half–from 2015 until 2018, according to reports submitted to a bureau of Japan's Ministry of Finance.[3] The chief prosecutor said Ghosn's wrongdoing was more serious than insider trading.[4] Ghosn denied allegations of financial misconduct, claiming he had no intention of making false reports.[5]

A cosmopolitan background

Ghosn was born in Porto Velho, a north-western city in Brazil on March 9, 1954. He spent his early childhood in the cities of Porto Velho and Rio de Janeiro before leaving for Lebanon, his parent's homeland, at the age of six. At that age, he had already developed a keen interest in cars and was reportedly able to differentiate models by the sound of their horns.[6]

In Beirut, Lebanon, he attended the prominent Collège Notre-Dame de Jamhour, a private Jesuit Catholic secondary school, which had several notable alumni, including a number of Lebanese presidents. At 17, he moved to Paris, where he went on to graduate from two prestigious engineering schools–École Polytechnique in 1974 and the École des Mines de Paris in 1978. Both universities were top-notch French institutions famous for producing Nobel Prize winners and senior business executives of large corporations.

Born in Brazil, raised in Lebanon, and educated in France, Ghosn acknowledged that he has been different from others since young. In an interview with a U.S. newspaper, he shared, "Because you are different, you try to integrate, and that pushes you to try to understand the environment in which you find yourself. That tends to develop one's ability to listen, to observe, to compare–qualities that are very useful in managing."[7]

Having lived on four continents, North and South America, Europe, and Asia, Ghosn spoke fluent English, French, Portuguese, Spanish, and Arabic, as well as some Japanese.

Michelin France, Brazil, and North America

Ghosn started his career as a management trainee in 1978 at Michelin, the world's second largest tyre producer, in France. He quickly rose through the ranks to head Michelin's operations in Brazil in 1985 at the age of 30.

There, he reorganised the problem-ridden subsidiary's finances and corporate structure. He eliminated debt by cutting unnecessary investments, reducing inventories, and selling dispensable assets. He brought separate divisions that were operating in silos to work together.

In a mere two years, Ghosn turned Michelin Brazil's books from red to black. It was his first turnaround of several to come. By 1989, Brazil was Michelin's most profitable division in terms of ratio of profit to total sales. Ghosn had successfully reversed the dismal fate of the ailing Brazilian company, and he was ready for more.

He then conquered his next challenge in North America by successfully overseeing Michelin's acquisition of Uniroyal-Goodrich, the main supplier of General Motors and the fourth largest tyre company in the United States. He integrated French and American cultures, and multi-branded the two companies, once again reversing losses into profitability.

In 1996, Michelin underwent a reorganisation, whereby the company was separated by product lines rather than geographical regions. At 42, Ghosn was in charge of the division for passenger and van tyres—the most important product lines in Michelin's business. He was the number two man in Michelin. However, he knew that reaching the summit was unlikely, as that position had always remained within the Michelin family. When a headhunter presented an opportunity for a second-in-command role with the possibility of ascension to the top executive position in the automobile industry, it was an offer he could not refuse.

Renault: The 20-billion plan

A year after Ghosn joined Renault, he launched the 20-billion plan in 1997. It had an ambitious goal to cut the company's costs by 20 billion francs (US$3.5 billion) in three years through slashing the production cost of every car by 10,000 francs (US$1,700). Steep cost reduction was thus a key component of the plan and it was applied in all areas—factory manufacturing, purchasing, research and development (R&D), information technology (IT), and administrative expenses.

Ghosn soon discovered that Renault's corporate culture, similar to Michelin's, was deeply entrenched in silo operations. Again, he implemented cross-functional teams, knocked down internal walls and brought people from different divisions to work together.

Another surprise for Ghosn was Renault's focus on harmonious employer-employee relations at the expense of labour productivity and corporate profitability. The state-controlled company was under the obligation to provide employment to the French people and had a tradition of powerful worker unions. To drive employees' awareness of the importance of productivity, Ghosn benchmarked Renault's factories to Nissan's plant in Sunderland, U.K., which was then the most productive plant in Europe.

Renault's Belgium factory, which employed about 3,200 people, subsequently shut in 1997, leading to labour strikes and political protests.[8] It was then that Ghosn was given the nickname of "*le cost killer*".

By 1999, Renault's finances had gradually returned to glowing health, proving again the effectiveness of Ghosn's plan.

The Renault-Nissan alliance

In 1998, the Daimler-Chrysler cross-border merger resulting in US$155 billion of annual sales, a presence in 34 countries, and 440,000 employees, created a shockwave in the auto industry.[9] The merger inspired Renault's management to seek acquisitions as well.

After a few eliminations, the final candidate came down to Nissan, which Ghosn had dealt with when he was with Michelin in North America. Nissan was desperately pursuing capital injection as it ran the risk of insolvency and was in bad financial shape after several years of deficit. In March 1999, the Renault-Nissan alliance was unveiled. Renault purchased 36.8 percent of Nissan's shares for US$5 billion and formed an alliance with the latter, with each retaining its original brand and corporate identity.[10]

Nissan's glorious days had been during the 1970s. At a time when Europeans dominated the luxury sports car market, the made-in-Japan Datsun 240Z managed to score a triumphant success, particularly in the U.S., due to its good engine performance, attractive styling, and affordability. However, the product line was terminated in the mid-1990s as it had become too expensive to manufacture.

In its domestic market, Nissan was slightly behind Toyota, Japan's leading car brand in the 1980s, but its sales

volume had fallen drastically to half of Toyota's by the end of the 1990s.[11] For 27 consecutive years since the 1970s, Nissan's domestic market share was in decline. By 1999, Nissan was on the brink of collapse after having incurred a loss of US$6 billion (684 billion yen) and a debt of US$20 billion (2.1 trillion yen).[12]

The dire situation at Nissan in 1999 left its management with little choice but to sell one-third of its stake and reluctantly hand over the ruins to a foreigner—Carlos Ghosn. In Japan, foreign top executives were rare, but Ghosn was a gem in the auto industry as he came across as a visionary leader with an impressive track record. Ghosn himself reasoned that Nissan needed someone who did not carry the baggage of the company's history, and who had a degree of credibility that would have been difficult for someone from the inside to achieve.[13]

The Nissan revival plan

In October 1999, Ghosn announced the Nissan Revival Plan (NRP) with three bold commitments—a return to net profitability in the fiscal year 2000, a minimum operating income to sales margin of 4.5 percent by fiscal year 2002, and a reduction of net automotive debt from 1.4 trillion yen to less than 700 billion yen, also by fiscal year 2002. He then declared that he would resign if he failed to achieve these goals.[14]

Armed with his characteristic resolve and self-mastery, Ghosn made short shrift of the implementation of the NRP. Not only did he axe jobs, plants, and suppliers, Ghosn initiated significant structural and corporate cultural changes at Nissan. He broke away with a slew of Japanese corporate traditions by doing away with promotions based on seniority and age, turning lifetime employment into a desired objective from a guarantee, and taking down Nissan's *keiretsu* system—a sophisticated web of parts suppliers that had cross-holdings in Nissan. He was consequently nicknamed "*keiretsu* killer" and further earned the wrath of many after tearing away former affiliates from Nissan's supply chain. Ghosn then switched Nissan's official language from Japanese to English, and brought in European and North American executives to take part for the first time in important global strategy sessions.

In just two years, his targets were not only fully met, they were surpassed. Nissan's operating profit for 2001 was US$3,678 million (489.2 billion yen), 68.5 percent higher than that for the preceding year, and the highest in the company's history. Its operating margin was at a record high of 7.9 percent, far exceeding the initial goal.[15]

In Japan, foreign top executives were rare, but Ghosn was a gem in the auto industry as he came across as a visionary leader with an impressive track record.

The Renault-Nissan-Mitsubishi alliance

In 2016, Mitsubishi Motors Corporation joined the Renault-Nissan alliance. Mitsubishi was struggling financially after admitting to the falsification of fuel efficiency data.[16] Two of Nissan's minicar models were manufactured by Mitsubishi at that time, and Nissan was implicated in the scandal that was estimated to cost both companies US$2.5 billion (270 billion yen).[17] Nissan eventually acquired a 34-percent stake in the struggling car maker and entered into a three-way alliance.

Ghosn was appointed as chair of the alliance's board to oversee the restoration of Mitsubishi's reputation. In 2017, Ghosn stepped down as CEO of Nissan, but retained his chairmanship, in order to focus his work on turning around Mitsubishi and the alliance as a whole.

Since 2015, there had been speculation on the potential merger of Renault and Nissan, but towards the end of 2018, talks between the French and Japanese had stalled.

Celebrity status

Ghosn is the first person in the world to run two Fortune 500 companies at the same time. In 2002, the year that made Nissan proud and Ghosn famous, he was awarded the Japanese Prime Minister's commendation for business reformer, as well as Asia Businessman of the Year by *Fortune* magazine.[18,19] In 2004, he was honoured with the Japan Medal with Blue Ribbon by Japanese Emperor Akihito in recognition of his outstanding achievements. In the same year, he was admitted into the Automotive Hall of Fame as the industry leader of the year.[20] In 2006, he was bestowed with an honorary knighthood from the U.K. for his contribution towards strengthening ties between Britain and Japan. Ghosn continued to bag global awards for another decade.

Inspired by Ghosn's success story, the Japanese published a *manga* (comic) book about his life story and restaurants sold *bento* (lunch boxes) with *sushi* (raw fish slices) arranged to resemble his face. The culturally insulated Japanese had not only come to accept the *gaijin* (foreigner), they adored the charismatic corporate superhero to the extent that his legion of fans turned into a cult.

In a culture that places high value on discretion and humility, did Ghosn get his comeuppance when he committed the unforgiveable sin of nurturing hero worship and taking credit for his success?

What went wrong?

Until his arrest, Ghosn ruled an automotive alliance comprising Nissan, Renault, and Mitsubishi. Did he have too much power as a single person at the apex of the three companies? Had he been too greedy to claim CEO-level pay from all three companies? Would his remuneration have been an issue if there had been no allegations about his personal abuse of funds?

Ghosn had been planning a Nissan-Renault merger before his arrest in Tokyo, a deal that the Japanese carmaker's board opposed and was hatching ways to thwart. Ghosn had hinted to other executives that, after shifting to the new structure, he intended to install himself atop the new entity.[21] Was the scandal and his arrest a "palace coup" to stall the merger?

The culturally insulated Japanese had not only come to accept the *gaijin* (foreigner), they adored the charismatic corporate superhero to the extent that his legion of fans turned into a cult.

His hard-nosed leadership and management styles did not sit well with the Japanese who preferred non-confrontational methods of communication. Much to the chagrin of his sceptics and enemies, he succeeded beyond expectations. Being a *gaijin*, Ghosn was not culturally confined by Japanese practices and was therefore able to carry out antagonistic reforms, something that a Japanese could not do. He was condemned for substituting a meritocratic model for the traditional system of prizing seniority, such that excellent performance would be recognised through hefty bonuses. Given his higher remuneration vis-à-vis that of other Japanese corporate bosses, Ghosn stood out. However, his successful cost-cutting measures helped turn Nissan's finances around and made him famous.[22] Since modesty is expected of the powerful in Japan, could Ghosn's autocratic leadership style and flamboyant living have led to his eventual downfall?

In many a classical Greek tragedy, the term *hamartia* is used to denote a deadly weakness of the protagonist that eventually causes his or her undoing.[23] Among the various weaknesses such characters tend to have, one of the most common is hubris. Was Ghosn a victim of inordinate hubris?

We will never know where Carlos Ghosn went wrong. It may not have been one factor that veered him onto the road to ruin but a combination of factors. Will the resourceful auto king recover his reputation and reinstate his status in the business world? We shall have to wait and see.

Jochen Reb
is Professor of Organisational Behaviour and Human Resources, and Director, Mindfulness Initiative @ SMU, at Singapore Management University

Abhijeet Vadera
is Associate Professor of Organisational Behaviour and Human Resources at Singapore Management University

Dr Cheah Sin Mei
is Senior Case Writer at the Centre for Management Practice at Singapore Management University

References

1 Bob van Voris and Chester Dawson, "Ghosn's Suspected Escape Accomplices Arrested in Boston", Transport Topics, May 20, 2020.
2 May Jeong, "How Carlos Ghosn Escaped Japan, according to the American Ex-Green Beret Who Snuck Him out", Vanity Fair, July 23, 2020.
3 "Arrest Was Result of 'Plot and Treason' by Nissan, Carlos Ghosn Says during Interview", Nikkei Asia, January 30, 2019.
4 Lisa Du and Kaye Wiggins, "Where's Carlos? Ghosn to Face Japan's Legal System: QuickTake", Bloomberg, December 7, 2018.
5 "Ex-Nissan Chief Carlos Ghosn Denies Financial Misconduct Allegations: Media", NDTV.com, November 25, 2018.
6 "Nissan Chairman Carlos Ghosn, The Auto World's 'Cost Killer'", NDTV.com, November 19, 2018.
7 Encyclopedia of World Biography, "Carlos Ghosn Biography".
8 Carlos Ghosn and Philippe Riès, "Shift: Inside Nissan's Historic Revival", translated from the French by John Cullen, New York: DoubleDay, 2005.
9 Ibid.
10 Ibid.
11 Ibid.
12 Ibid.
13 Ibid.
14 Ibid.
15 Ibid.
16 Nissan Motor Corporation, "Company, Development, Heritage–2010s".
17 Yoko Kubota and Sean McLain, "Nissan to Take $2.2 Billion Stake in Scandal-Hit Mitsubishi Motors", The Wall Street Journal, May 12, 2016.
18 Prime Minister of Japan and His Cabinet, "Awards Ceremony to Present the Prime Minister's Commendations for Business Reformers and New Venture Entrepreneurs", October 16, 2002.
19 Alex Taylor III, "Awards", Fortune, February 18, 2002.
20 Automotive Hall of Fame, "Carlos Ghosn".
21 Akito Tanaka and Masayasu Ito, "Ghosn's Fall from Grace: How Nissan's Savior Became a Threat", Nikkei Asia, November 23, 2018.
22 Ian Buruma, "Carlos Ghosn Was Too Big Not to Fail in Japan", The New York Times, February 5, 2020.
23 "Fatal Flaw", Poets & Writers, May 4, 2017.

Mediate, Not Litigate, to Resolve Disputes

A leader's first resort.

By Aloysius Goh and Terence Quek

A Singapore-based food company sees its products listed at a price lower than the agreed rate on an e-commerce site. The listing was posted by a company that is partly owned by the Singapore company's distributor for Thailand. The Singapore company threatens to terminate its supply to the distributor if the price is not adjusted within two days. The distributor refuses and claims the website is owned by its client, so it has no control over the listed pricing.

If you were one of the parties above, how would you resolve the dispute?

Why choose mediation for commercial disputes

For a growing number of businesses around the world, turning to mediation to resolve commercial disputes like the one above is now the norm.

Mediation is essentially a facilitated negotiation process. When businesses have a dispute they cannot resolve on their own, they seek a neutral third party to help confidentially. This mediator has no power to impose a binding outcome on the parties. Rather, his or her responsibility is to facilitate the negotiation and use problem-solving skills to guide the parties towards a mutually agreed solution through a face-saving and pragmatic process.

In many jurisdictions, including Singapore, parties are required to attempt mediation first before courts hear the matter. Refusing to engage in mediation without proper reason may lead to cost sanctions by the judge. This opt-out initiative was first introduced in Singapore in 2007, so that the court's resources can be devoted to matters where there is a genuine dispute on the law.

As awareness of mediation grew over time, businesses are now choosing mediation of their own accord. For them, the motivators are cost, speed, and relationship preservation.

COST

Mediation costs a fraction of what is charged for arbitration or litigation. For a dispute of S$100,000, the total mediation fees can be less than S$1,500 for each side. This compares extremely favourably with the lowest estimate of S$13,537.50 provided by the fee calculator on the Singapore International Arbitration Centre (SIAC) website.[1] For disputes over S$1,000,000, the cost savings of using mediation over arbitration or litigation easily exceed S$200,000.

SPEED

Most mediations end within a day. Setting up and completing a mediation can be done in less than a week through private mediation centres. This is significantly faster even when compared to emergency arbitration proceedings, which take two weeks for an interim award and 90 days for a final award.[2] Through mediation, parties can obtain specific remedies for disputes involving the delivery of perishables or the repair of equipment before more damage and loss are suffered.

> Mediation costs a fraction of what is charged for arbitration or litigation.

RELATIONSHIPS

Mediators are trained to help restore trust between the parties. Instead of determining right or wrong, they support the achievement of deals that build a future that is attractive to all sides. Unlike arbitration and litigation, mediation is not premised on a win-loss paradigm. It is designed to be value-creating and relationship-preserving.

Success rates

But is mediation really effective? The good news is that it is, and increasingly so.

The settlement rate at the Singapore Mediation Centre is about 70 percent. Amongst private full-time mediators, the rate is even higher at around 85 percent. In nearly nine out of 10 instances, parties who were unable to negotiate a deal on their own managed to do so with the help of a neutral third party (refer to Box 1 for how mediation outcomes are upheld in Singapore). This was not always the case. Settlement rates had been around 50 percent in the 1990s–similar to that for many jurisdictions now which are just starting to introduce mediation as a dispute resolution pathway. One of the main drivers for the higher settlement rates today is the increased sophistication in mediation practice.

In 2014, the Singapore International Mediation Institute (SIMI) was launched with the support of the Singapore government to establish clear professional standards for those seeking to practise as mediators. To be certified, mediators need to complete at least 40 hours of training, pass a practical and written test, and conduct at least 20 mediations in three years. Client testimonials are also needed to show satisfaction with the mediator's services. It is a high bar designed to provide assurance for users.

> Mediation is not premised on a win-loss paradigm. It is designed to be value-creating and relationship-preserving.

Expected growth of mediation in Asia

Aside from Singapore's championing of mediation on the world stage, there are a few other underlying socio-economic factors driving the use of mediation in Asia.

The global pandemic has disrupted nearly all businesses. All over Asia, the near-term landscape for the aviation, shipping, hospitality, food and beverage, and construction sectors remains mired in uncertainty. Mediation has become widely accepted as a sensible way to help parties overcome the hurdles created by this *force majeure.*

Notwithstanding the pandemic's impact on businesses, Asia continues to attract the largest share of foreign capital injection. China, India, and Southeast Asia are the three regions with the fastest growing middle class in the world. Increased wealth is also set to raise education levels, thus leading to greater sophistication in dispute resolution.

Asia's young educated business leaders will be more inclined to entrust the solutioning of their commercial disputes to neutrals who are familiar with their operating environments. They will want their conflicts resolved faster and in ways that they have more control over. They will not just seek vindication but the practical and sustainable results which only mediation can offer. The long-drawn procedural methods of the courts will make it an increasingly less attractive pathway for dispute resolution.

UPHOLDING MEDIATED OUTCOMES

Despite the well-publicised advantages, some businesses are still reluctant when asked to mediate. One traditional concern has been the uncertainty about how one can be sure that the other side will perform his or her side of the obligations in a mediated settlement agreement (MSA). In Singapore, there are clear laws and protocols that uphold the outcome from mediation.

Local Mediation Legislation–the Mediation Act

In Singapore, parties who settle their disputes with the help of a certified mediator can apply to have their MSAs converted into a court order.[3] Parties can thereby avoid re-commencing litigation if the MSA is breached.

Hybrid Arbitration-Mediation-Arbitration Protocols

When the dispute involves overseas parties or the performance of obligations laid down in the settlement agreement lies in another jurisdiction, the SIAC has an Arbitration-Mediation-Arbitration (AMA) Protocol that allows the MSA to be converted into an arbitral award. Parties can rely on the New York Convention on Arbitration to enforce the MSA as an arbitral award in nearly 160 jurisdictions. This offers parties a useful layer of protection where performance of the MSA obligations is valid over an extended period of time. Since the Protocol's launch in 2014, there have been 27 AMA matters and settlement rates have been high. What is more impressive, however, is that of the matters settled at the mediation stage, none has needed to be converted into an arbitral award, thereby saving further costs for the parties. The main reason for there being no take-up for the conversion of the MSA into an arbitral award is that the mediations have been successful in repairing the relationship between the parties. When there is sufficient trust between the parties, they do not see the need to convert the MSA into an arbitral award.

International Treaties-the Singapore Convention on Mediation

To assuage the concerns of users about the enforceability of the MSA, there is now the UNCITRAL (United Nations Commission on International Trade Law) Convention on Enforcement of International Settlement Agreements Resulting from Mediation. Also known as the "Singapore Convention on Mediation" in recognition of where the treaty was signed,[4] the Singapore Convention "establishes a harmonised international legal framework for the right to invoke settlement agreements as well as for their enforcement". In principle, you can mediate and settle the dispute in Singapore and have the MSA enforced in other countries if that is where the obligations of the MSA are to be performed. The Singapore Convention only came into force on 12 September 2020 and early signs have been promising. Amongst its 54 signatories are the U.S., China, India, and South Korea. In total, the current signatories make up more than half the global economy and more than 60 percent of the world's population.

BOX 1

There is also the impact of technology and the resulting interconnectedness. Asia has one of the highest Internet usage rates and negative sentiments can spread rapidly. Relationship and reputation preservation will thus become a priority when managing disputes. The confidentiality of mediation and the speed of resolution will become more attractive to the generations who place significant value on how well-'liked' they are in the virtual world.

> If mediation is not included in your current contract, it does not prevent you from attempting it before going for arbitration.

Mediation as a strategic business and leadership tool

Seasoned business leaders accept that commercial disputes are part and parcel of doing business. For those who are not comfortable with the costs and uncertainty of arbitration and litigation, mediation is a worthwhile pursuit that is within easy reach. Similarly, those who are concerned about their reputation or who wish to preserve the goodwill that took a long time to build would do well to acquaint themselves with mediation. In any case, after a case is filed in court, the judge will more likely than not direct parties to attempt mediation first.

Learning about mediation will not only raise the chances of a successful mediation but the skills acquired can be used to resolve intra-organisational disagreements and facilitate smooth change management in these turbulent times.

Just as having a certified mediator to conduct the mediation process can greatly increase the chances of resolving a dispute, having the skills, knowledge, and attitude of a mediator can help a business leader become a better negotiator, communicator, and relationship-builder. It may even save situations from deteriorating to the point where last resorts are needed.

Getting into the game

With mediation offering obvious advantages and increasingly viewed as the norm when resolving disputes, the question for business leaders should not be whether to use mediation over arbitration or litigation, but how to avoid becoming part of the about 30 percent whose mediations are unsuccessful.

So how can business leaders get positive results through mediation?

There are some simple steps that can be taken. First, recognise that mediation is always your legal right. In fact, the dispute resolution clause in many new contracts provides for mediation. However, older templates continue to stipulate arbitration only. This is because when such clauses were first inserted in these contracts, arbitration was truly a faster, cheaper, and more confidential means of resolving disputes than going to court. Mediation then was not a mature process and success rates were low. However, presently, arbitration costs have risen. In jurisdictions like Singapore, arbitration is not only more expensive but also can be slower than litigation. Mediation, in contrast, has become a faster, more affordable, and more successful resolution method. If mediation is not included in your current contract, it does not prevent you from attempting it before going for arbitration. You can agree with the other side to amend the original dispute clause and add a mediation clause. Alternatively, if your dispute is with a foreign party, you can agree to use the AMA protocol.

Second, consider commencing the mediation process early. One of the common reasons cited for not doing so is the fear of giving the other side the wrong impression. Seeking mediation is viewed as a willingness to compromise because you have a weak case and are afraid of the cost and consequences of a full legal battle. However, the costly and protracted nature of court proceedings means it is likely that even if you have a strong case, the legal victory may be hollow. The other side may have bankrupted itself during the trial or the legal costs may have exceeded the amount won. If the matter is complex, it is also likely that a party may simply not survive to witness the outcome. In India, one of the still unresolved matters in court dates back to 1960! The original aggrieved parties involved in the suit have long passed on and they are now represented by their grandchildren. In contrast, savvy negotiators know how to use the strength of their case to get an even better deal via mediation rather than through the courts. When you mediate early, you avoid unnecessary expenses.

Third, choose your mediator and case manager wisely. Mediation is a diverse and dynamic field. Pick a mediator who has the right level of conflict resolution experience. The mediator is a process leader who shepherds everyone towards the resolution. He or she should be a person whom you can trust to understand the context of the dispute.

If you and the other side cannot agree on a specific individual to serve as the mediator, seek help from a mediation centre. Inform the case manager of the criteria that you each have for the selection of a mediator. These include language, technical expertise, and any other conditions you think will be useful. If you do not provide such information, some mediation centres resort to an opaque roster system and your case may be referred to a mediator without the relevant technical knowledge for your matter. This sets your mediation up for failure and may cause the dispute to become aggravated. The point is, even if you had no specific criteria in mind but need the case manager to break the impasse with the other side on the selection of the mediator, find out how the case manager will go about selecting the mediator and whether you can reject whom the case manager selects.

Last and most important, prepare well for the mediation. A mediation is different from a negotiation or a litigation. In a mediation, there is a neutral person present to help you communicate some of the difficult messages that you had been unsuccessful in getting through. Think about how you want to leverage on this neutral. What are the messages you need help transmitting? The neutral person is not a judge. How can you explain the reasoning for your claims while refraining from making personal attacks on the other side? How can the mediator help you to achieve a settlement that is better than what you can get in court? A good case manager or mediator will offer to explain the process to you in a pre-mediation meeting. Make sure that the attendees of the mediation are present for this meeting and clarify any questions they may have (refer to Box 2 for how business leaders can prepare for mediation).

PLAYING FOR THE GREAT WIN

Before going into a mediation, business leaders should consider the following questions as part of their preparation.

What are your interests?
In litigation, the outcome is often monetary compensation. In mediation, most mediators view money as a means, not an end. They will ask questions like "What does the money mean to you?", "What can you see yourself doing with it?", or "How will you want to spend it?".

A contractor who has lost his job may not have the money to compensate you such that you can engage another contractor to repair the damage done to your wall. But he may have the skills to repair the damage.

Come for the mediation prepared with the knowledge of what the amount you are seeking means to you and what the other side can offer you that is of equivalent or greater value if he or she cannot pay.

Do you have a clear and specific back-up plan?
In mediation, we call it knowing your BATNA, i.e., your best alternative to a negotiated agreement. If the mediation fails, what is the best outcome you can achieve on your own? When you know the BATNA and its likelihood, you will have a clearer idea whether to accept the deal proposed by the other side.

For instance, your BATNA in a S$300,000 dispute may be to go to court because the evidence is in your favour. You may have to spend S$100,000 in legal fees (even after factoring in that the other side paid part of it because they lost). So the only upside is receiving S$200,000 after a 12- to 24-month delay depending on whether the matter is appealed. Is this a better deal than receiving S$180,000 in three months?

Why is what you are seeking fair?
You want to come across as being reasonable to the mediator and the other side. Fairness is not determined by your personal sense of right or wrong. One of the most frequently cited defences for demanding aggravated damages is, "It's a matter of principle". For mediators to help persuade the other side to give you what you are seeking, they need stronger reasoning. Is what you are proposing consistent with market practice? Is it close to what the law prescribes for similar precedents? For your claims to be legitimate, help the mediator understand why you believe they are reasonable.

BOX 2

There are also many good mediation courses available. These range from hour-long introductory sessions to 80-hour advanced certification courses. If the stakes are sufficiently high and if there are a number of disputes confronting your organisation internally and externally, it would be sensible to send your senior managers for a course.

Achieving mutually agreeable outcomes

Back to our earlier case of the dispute between the food company and its overseas distributor–through mediation, it was discovered that the crux of the dispute was not the low price listed on the e-commerce site. Instead, the Thai distributor was offended that the Singapore company had issued it a lawyer's letter of demand. As they had been dealing with each other for more than 10 years, the Thai distributor expected a first attempt at friendly negotiation. That the Singapore company's young CEO made no offer to negotiate was viewed as a deliberate snub to the Thai distributor's 70-year-old founder. At the same time, the new CEO perceived the Thai distributor's flouting of the contract as a thinly-veiled challenge to his leadership. Through mediation, the mediator was able to defuse the matter. Not only did both parties work out a feasible timeline for the correct price to be listed, they also saved face in the process. The mediation ended with conversations about distributing more of the Singapore company's products in Thailand.

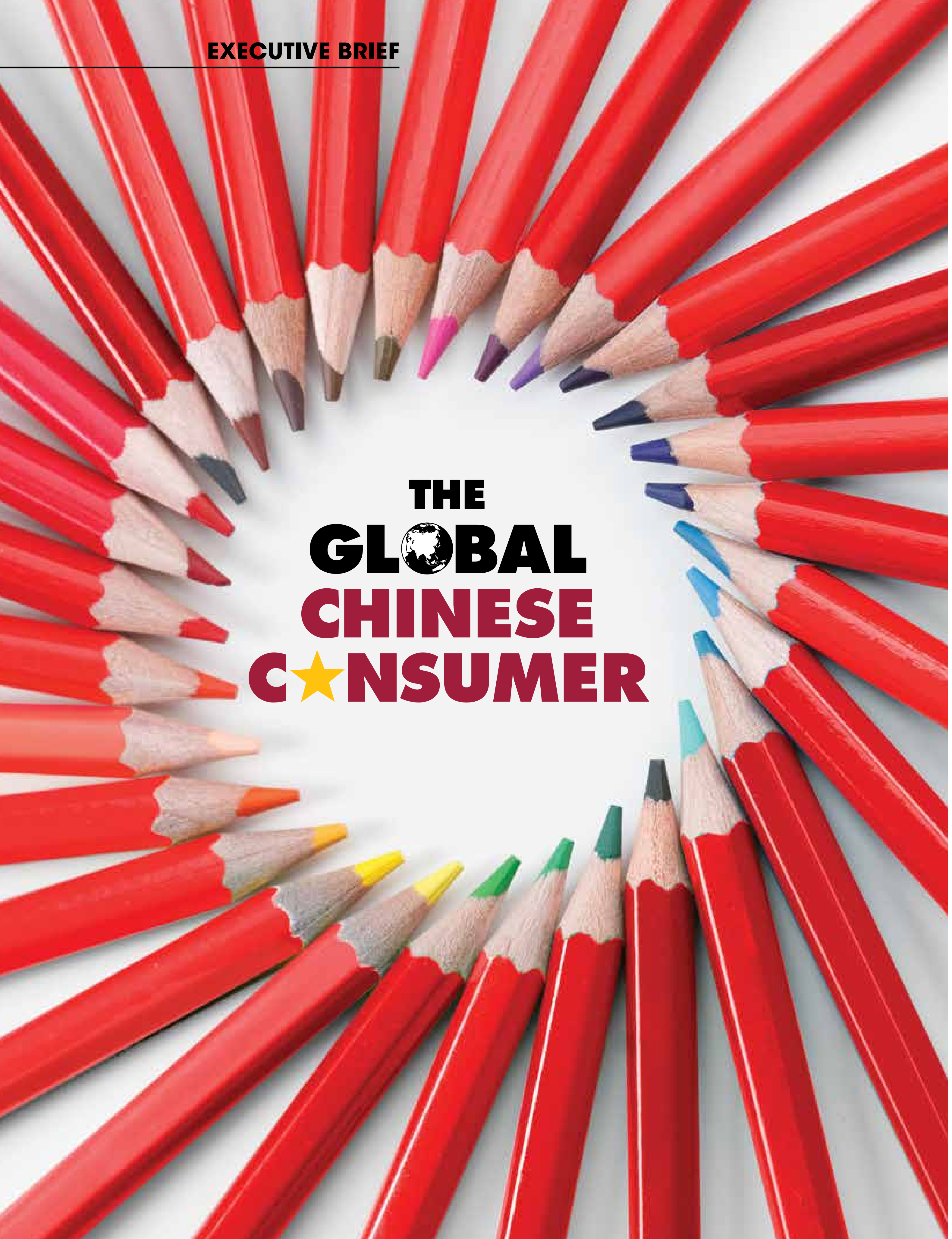
Mutually agreeable outcomes like the above are common in commercial mediation. When business leaders make mediation their first resort when they encounter disputes, they set themselves and their organisations up for success. In the modern economy, savvy business leaders will be those who know how to harness the power of mediation to achieve outcomes which create value for both internal and external stakeholders.

Aloysius Goh
is Founder and Chief Executive Officer at Sage Mediation Pte Ltd and an IMI-certified mediator

Terence Quek
is former chief executive officer at Emergenetics APAC and a SIMI-accredited mediator

References

1 SIAC, "Estimate Your Fee" Online Calculator.
2 SIAC, "SIAC Arbitration Rules 2016 (Schedule 1)", August 1, 2016.
3 Government of Singapore, "Mediation Act 2017", Singapore Statutes Online, 2017.
4 UNCITRAL, "United Nations Convention on International Settlement Agreements Resulting from Mediation (New York, 2018) (the 'Singapore Convention on Mediation')", United Nations, December 20, 2018.



THE GLOBAL CHINESE CONSUMER

At the forefront of growth in the luxury goods market.

By Rane Xue and Xiaolei Gu

The market share of personal luxury consumption by Chinese consumers has been on an incredible growth trajectory. In 2019, according to Bain & Company, Mainland China as a market grew by 26 percent at constant exchange rates to reach €30 billion (US$35 billion) in sales, accounting for around 10 percent of the total personal luxury consumption globally at €281 billion (US$332 billion). The true contribution from Chinese consumers becomes even more apparent when we look at personal luxury consumption according to nationality. They accounted for 35 percent of the total value of luxury goods sold in the world,[1] which also meant that among all the personal luxury goods purchases made by Chinese consumers, close to 70 percent happened outside China.

The picture becomes even more complicated when we probe further. According to Morgan Stanley, among the Chinese luxury goods purchases that were made outside China, close to 40 percent were overseas self-purchases and 20 percent were overseas *daigou*,[2] where the latter refers to surrogate shopping performed on behalf of those living in China.

The Covid-19 pandemic has made understanding Chinese consumers more important than ever in the world of luxury goods, with their purchases reshoring back to China which is expected to make the China market the biggest luxury market in the next two years. On one hand, this raised a question for brands on how they are able to identify and engage with the ones who are the main driver of luxury repatriation, and develop new perspectives on consumer understanding. On the other hand, brands still need to keep a watchful eye on future consumption patterns when people start to travel again.

A new perspective on Chinese consumers

We have come up with a new way to look at Chinese consumers who are going beyond their home market for their purchases by using an anthropological and cultural approach (refer to Figure 1). In our analysis, Chinese consumers can be organised into the following four groups based on their footprint, and more importantly, their global mindset.

UNDERSTANDING CHINESE CONSUMERS

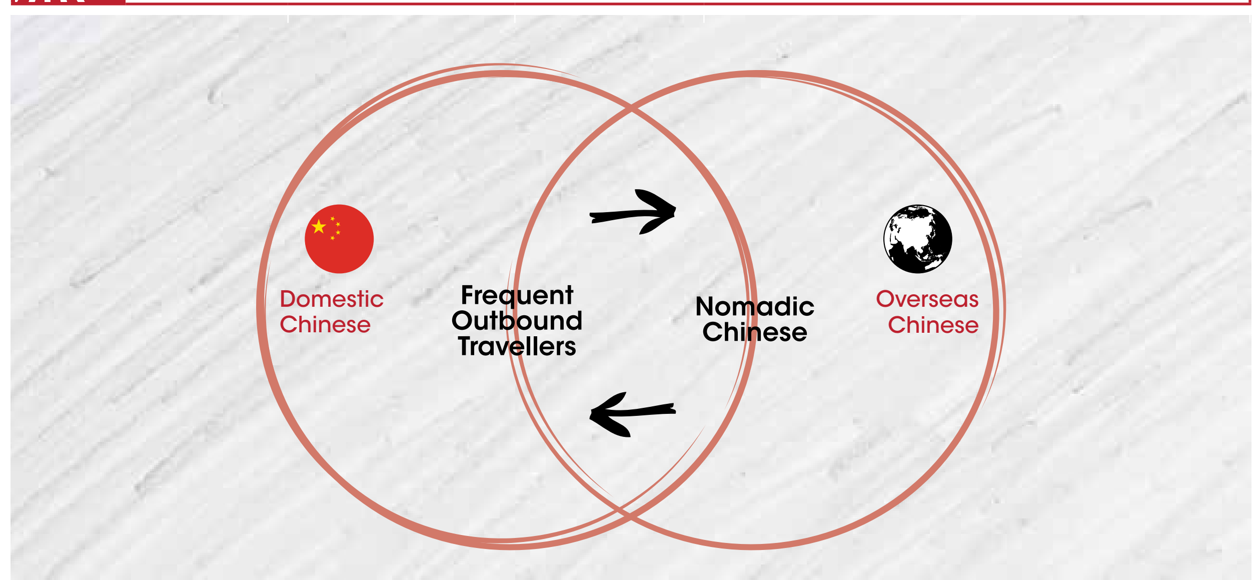


FIGURE 1

DOMESTIC CHINESE

The *Domestic Chinese* segment makes up the 1.4-billion-strong market that is critical to every industry. The majority of Chinese consumers live in China and they travel predominantly within the geographical confines of the country. They are usually studied from a generational perspective, using socioeconomic status and the regional/city-tier approach, among other classic frameworks adopted for consumer studies.

FREQUENT OUTBOUND TRAVELLERS

At the same time, about nine percent of these *Domestic Chinese* consumers own a passport that allows them to travel internationally. Approximately 15 to 20 percent of them are *Frequent Outbound Travellers*, meaning that they travel at least once a year outside Mainland China. If we look at China's outbound travel market in 2019, according to Ctrip, the largest online travel agency (OTA) in China, the majority of outbound travel destinations were within Asia (79 percent), followed by Europe (8 percent), Americas (6.8 percent), Oceania (3.5 percent), and Africa and Antarctica (2.7 percent).[3]

NOMADIC CHINESE

Nomadic Chinese is a new concept, and as a demographic, it is increasingly apparent among the younger generation. While countless Chinese have migrated over the years, here we are specifically referring to immigrants who left China after the year 2000. Many choose to move around and live in different parts of the world for a couple of years for education, work, or sometimes just to experience the world (like taking a gap year).

Unlike the earlier generations of immigrants who might have left the country to escape poverty or obtain a better quality of life, the drive and motivations of these *Nomadic Chinese* are different. They possess greater purchasing power and have made a conscious choice to embrace new cultures, lifestyles, and mindsets. Another significant difference about this group as compared to older-generation immigrants is that they remain deeply connected to China. They take great pride in being Chinese and are very active participants in China's highly developed digital ecosystem.

OVERSEAS CHINESE

This group comprises the older generations of people who decided to emigrate from China before 2000 and their descendants. Their reasons for emigrating overseas are different from those of the *Nomadic Chinese*. Additionally, their economic status, consumer behaviour patterns, and level of connections with China are different. Their descendants, who are at least second or third-generation Chinese and still share Chinese roots, are usually much more integrated with the local societies they are now living in.

Global Chinese Consumers matter

Of the above four groups, the ones we find the most interesting and would like to dive deeper into, are the two groups in the middle–the *Frequent Outbound Travellers* and the *Nomadic Chinese*. We call them *Global Chinese Consumers*. We see them being Chinese at heart, but international in terms of mindset and footprint. This is something quite important for luxury brands to take note of, because as China continues to drive its multilateral relationships, these groups of people, who act as a bridge between China and the rest of the world, will continue to grow in size and influence. Luxury brands that want to grow their brand desirability internationally need to develop and grow their brand equity based on a universal set of values, and we believe *Global Chinese Consumers* is the most important segment that these brands should focus on.

> *Global Chinese Consumers* will choose to enjoy the best of what China and the rest of the world have to offer.

Once Covid-19 restrictions are lifted, *Nomadic Chinese* and the *Frequent Outbound Travellers* (i.e., business travellers) will be the first ones back in the air. This is not only because of their affluence, but also because they have the need (for education, work, family reunions, etc.) and more importantly, the ability. They will choose to enjoy the best of what China and the rest of the world have to offer. Given the size of these market segments and the speed at which they learn and evolve in their consumption behaviour, we expect the interactions across these two groups to become more and more dynamic.

There are several reasons why the luxury industry simply cannot ignore *Global Chinese Consumers*. The first, and most obvious one, is that they have the purchasing power. Being able to travel frequently is a luxury in itself. They are more affluent than the other two groups of Chinese consumers, who are either residing only in China or overseas respectively.

Second, these consumers have developed a global mindset. Travel has influenced their personal and professional development, and challenged them to see the world through a different lens. We believe that one of the key drivers for China's rapid development, besides its economic growth, is that more and more Chinese are travelling frequently. Constant exposure to new experiences, cultures, and ideas helps them to keep evolving and redefining themselves.

The third key reason is that *Global Chinese Consumers* show greater maturity in their appreciation of luxury goods (refer to Figure 2). We find that the value drivers of luxury consumption have evolved from aiming to display their social status to demonstrating their taste and expertise in fashion. At this stage, while style, quality, and experiences are essential for Chinese luxury consumers, we also see a growing number seeking luxury for self-realisation and even value creation.

SOPHISTICATION CONTINUUM OF GLOBAL CHINESE CONSUMERS

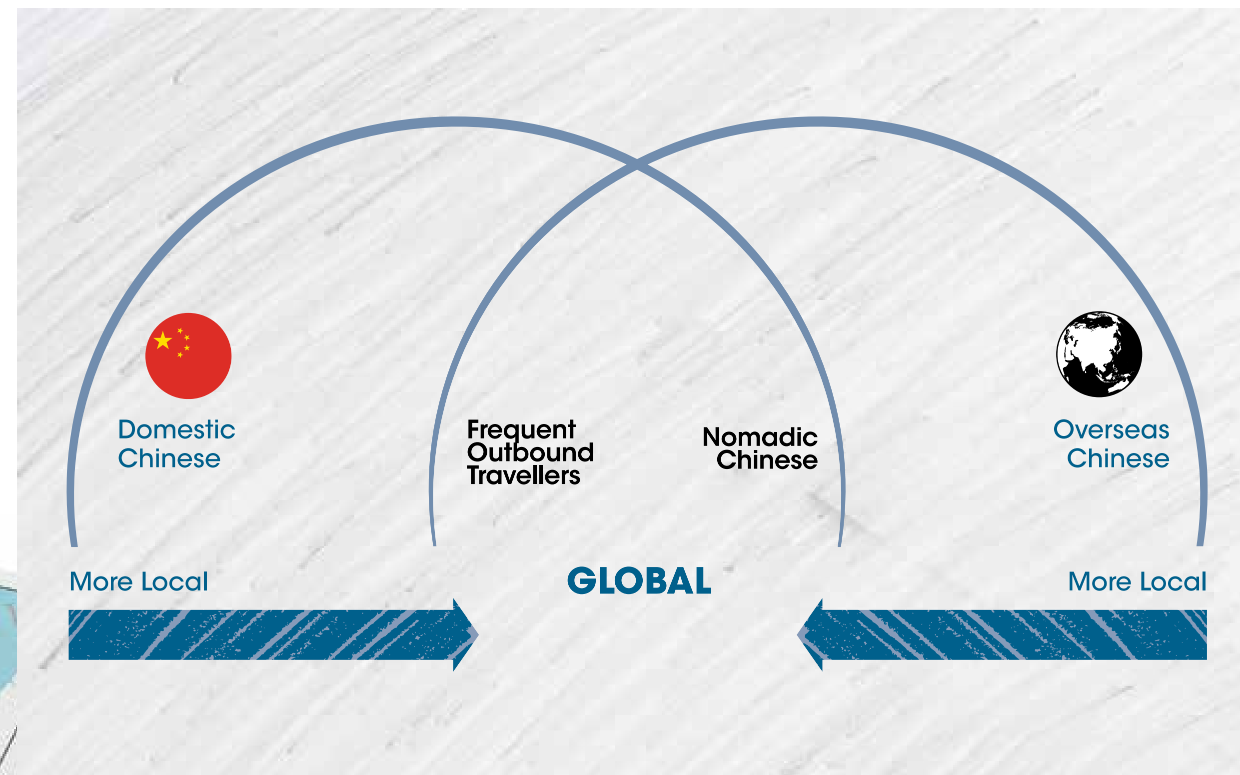


FIGURE 2

Finally, and perhaps the most important reason, *Global Chinese Consumers* are trendsetters and agents who are driving change in China's society, prompting it to start embracing some of the radical ideas and choices of the younger generation. For example, this group has helped galvanise support and understanding of unconventional groups such as the LGBT (Lesbian, Gay, Bisexual and Transgender) community and their rights in the country. Therefore, it is important for a brand to capture these consumers, as they will exert a halo effect in their social circles. In addition, to understand the future of luxury in China, we believe it is critical to understand what drives these *Global Chinese Consumers,* as they are the innovators and early adopters who set the trend for others to follow.

While we do not deliberately focus on age, it is not surprising that *Global Chinese Consumers* tend to be younger. In fact, as McKinsey & Company notes, Chinese youths tend to understand "luxury as a form of social capital that helps mark them apart, and achieve personal and social goals", and that China's "young luxury consumers are more interested in aspiration than heritage". Its report further highlights that "[the] imperative for global brands is to become the leading form of social capital to appeal to these consumers".[4]

What Global Chinese Consumers are thinking

Global Chinese Consumers have been exposed to new experiences and ideas during their movement globally. As a result, they have been developing a global citizenship mindset, and will be the forerunners in welcoming, embracing and eventually paying for brands that are driving progressive social values.

There are three key concepts we will touch upon here to further dissect the mindset of the *Global Chinese Consumer*–individuality, diversity and inclusion, and sustainability. We start with individuality because luxury consumption revolves around individual taste and personal pleasure. On the Hofstede's continuum of individualism-collectivism, Chinese consumers are ranked high on collectivism while their counterparts in the Western world tend to score higher on individualism. However, from a *Global Chinese Consumer* perspective, there is a lot more fluidity regarding the degree of individualism. Their understanding and perception are not fixed; instead, it is rather dynamic in response to different cultural contexts and where they are located. While they appreciate individualism in the Western context, they can also understand why collectivism is particularly important in Chinese society. We believe they will be the ones to work towards a connected future–that is, China *with* the world as opposed to China *versus* the world in terms of culture, ideologies, and ways of thinking–and drive change through their collective efforts.

> The *Global Chinese Consumer* is more than just an intellectual construct; it is a concrete, tangible, and real group of consumers that luxury brands can identify and try to engage.

Next is the concept of diversity and inclusion. Today, this idea and ideal have gone beyond just corporate communication speak, and lie at the core of many brands, especially in the luxury sector. For instance, the inclusive plus-sized fashion market is on track to rise and clock US$32 billion in sales in 2020, and the demand for gender-fluid fashion too is increasing, especially among the younger consumers. In the West, the youths expect the luxury brands to be the flagbearers of inclusive and progressive thinking on culture, race, size, or gender. In fact, these changes about diversity and inclusion have arrived on China's shores, even though there are questions about how this would play out given its more homogeneous culture, and to a more limited extent, physique type. For instance, Shanghai lingerie brand NEIWAI's (内外 or 'Inside and Out') "*No Body is Nobody*" advertisement campaign that featured women of different body shapes, rather than the usual size 0 models, represents a shift in the consumer mindset and concept of individuality.[5] This campaign highlighted real beauty as seen in all the different shapes and forms of Chinese women. Evidently, this concept is becoming closer to the heart of luxury brand-building in the Chinese context as well. And from our point of view, true diversity and inclusion is about considering multiple perspectives and embracing different ideas and possibilities, because this is how we will be working, living, and thriving together. It is fair to say that those people who travel and see the world, and interact with different cultures and mindsets, are able to develop such diversity and inclusion-oriented attitudes.

Finally, we come to sustainability, which is such an important and evolving trend. The *Bain & Company 2019 Luxury Goods Worldwide Market Study* states: "social responsibility remains top of mind for luxury customers and encompasses more than just environmental impact".[6] In fact, 80 percent of the respondents in this study expressed a preference for socially responsible brands, especially the millennials. Additionally, 60 percent of luxury customers believed that luxury brands should be more 'activist' and become more engaged in sustainability issues than other industries.

Between 2016 and 2019, online searches for sustainable fashion have tripled. In addition, 75 percent of the millennial respondents in a 2019 U.S.-based consumer survey reported that they considered sustainability first when making a luxury purchase.[7] This includes China, where consumers are fast catching up and becoming more aware of sustainability issues as they think about how they can contribute to making a better world. Having gained economic might, its people have become more aware and are thinking about how they can plan for the next generation. Their sustainability mindset would be further developed and strengthened over the next few decades. Culturally speaking, and even historically, the Chinese have always appreciated that people and nature need to coexist in harmony. Therefore, we are confident that sustainability is something that the Chinese will learn to appreciate deeply, and they will increasingly expect luxury brands to facilitate and enable their efforts towards building it.

What lies ahead?

We believe that *Global Chinese Consumers* should be a priority for luxury brands, not only because of the consumption power they possess and demonstrate, but because they are the most sophisticated among Chinese consumers in general. They will be the first ones to truly identify with what the luxury brands embody and the type of values these brands want to deliver to the world, not just to a specific market only.

The *Global Chinese Consumer* is more than just an intellectual construct; it is a concrete, tangible, and real group of consumers that luxury brands can identify and try to engage. This requires businesses to think harder. They need to figure out how to organise themselves differently and the specific ways that they can reach this segment, using data and insights obtained about the Chinese digital ecosystem. China is very specific in its digital behaviour, and more recently, the Chinese digital ecosystem landscape has evolved with the emergence of super apps, which provide an end-to-end solution to consumers for a variety of their needs within one single ecosystem. The apps may come from ecosystems tied to Tencent and Alibaba in China. They may also be individual ones such as TikTok (known as Douyin in China) and Amazon (refer to Figure 3). They encompass a deep integration of social commerce with social media, enabling users to not only connect with one another but also post content, make calls, read news, play games, shop, share discounts with their social circles, make bookings, perform mobile payments, hail cabs, or rent bikes/cars–all on the same platform.[8] These comprehensive platforms with advanced features accumulate a large number of users. For instance, WeChat has more than 902 million active users and Weibo has close to 400 million users, and as they occupy much of Chinese consumers' screen time, the amount of consumer data captured on these platforms is massive, signalling a sizeable opportunity for brands.[9]

But this is not only about identifying a Chinese digital ecosystem and looking into formulating a data strategy for it. We also need to consider whether we have culturally relevant content and services for these *Global Chinese Consumers* that are consistent, regardless of where they are and how engaged they are along their journeys. To achieve this, luxury brands must develop a deep understanding of this specific consumer segment, who are Chinese at heart and global in terms of footprint. They then need to leverage these insights, and have organisational teams that work transversely and cross-functionally instead of in silos; most modern organisations are organised by end-markets. They must put these consumers at the heart of what they do, so that they are able to follow the latter, whether they are in China, on the road, or overseas.

In the current context of Covid-19 when international travel is put on hold, *Global Chinese Consumers* remain a priority for luxury brands even when they are not travelling, regardless of where they are physically located and which market they belong to at this moment. The key challenge for us as brand owners now is how we distinguish them from domestic consumers so that we are able to create targeted services and messages that address their nomadic aspiration. When the travel restrictions are lifted, *Global Chinese Consumers* will be the first ones to be back on the road to pursue their dreams and inspirations. We believe that they are going to be the driving force to shape the future of luxury in Asia, and perhaps even around the globe.

GLOBAL CHINESE CONSUMERS MOVE BETWEEN TWO DIGITAL ECOSYSTEMS

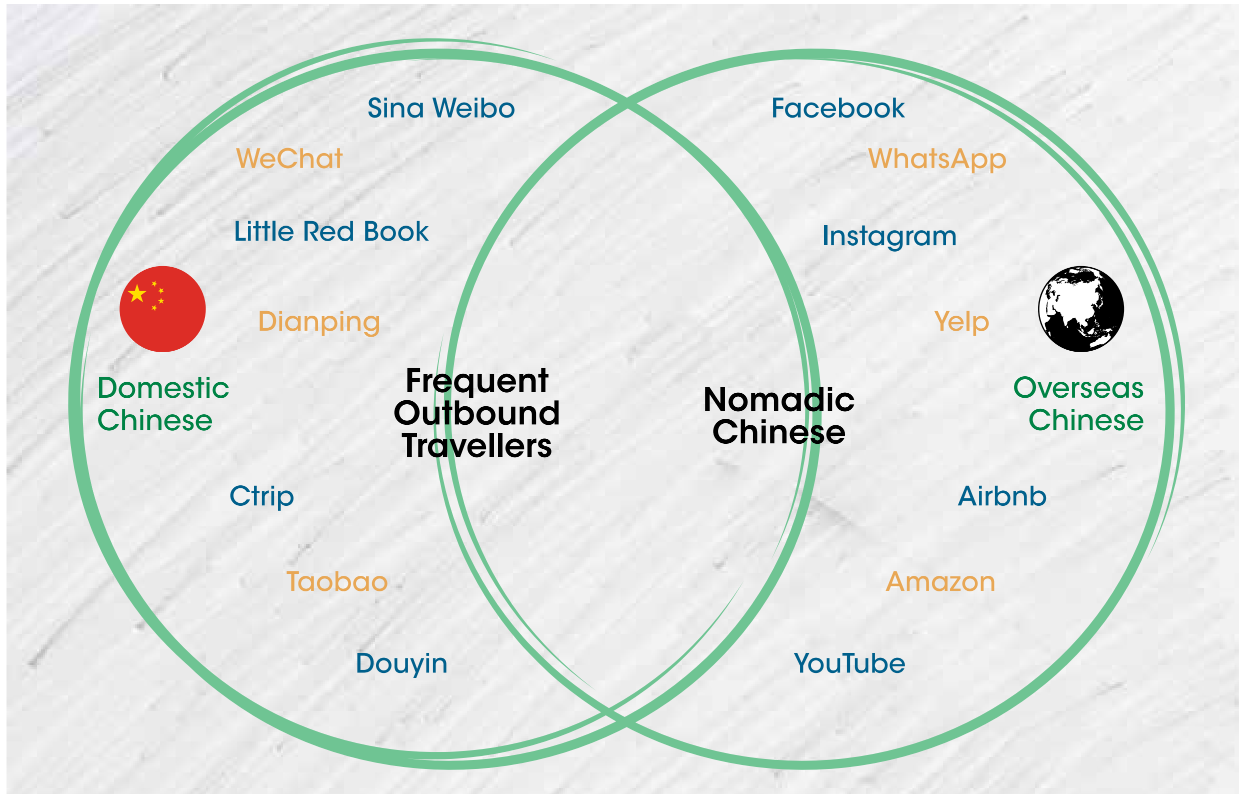


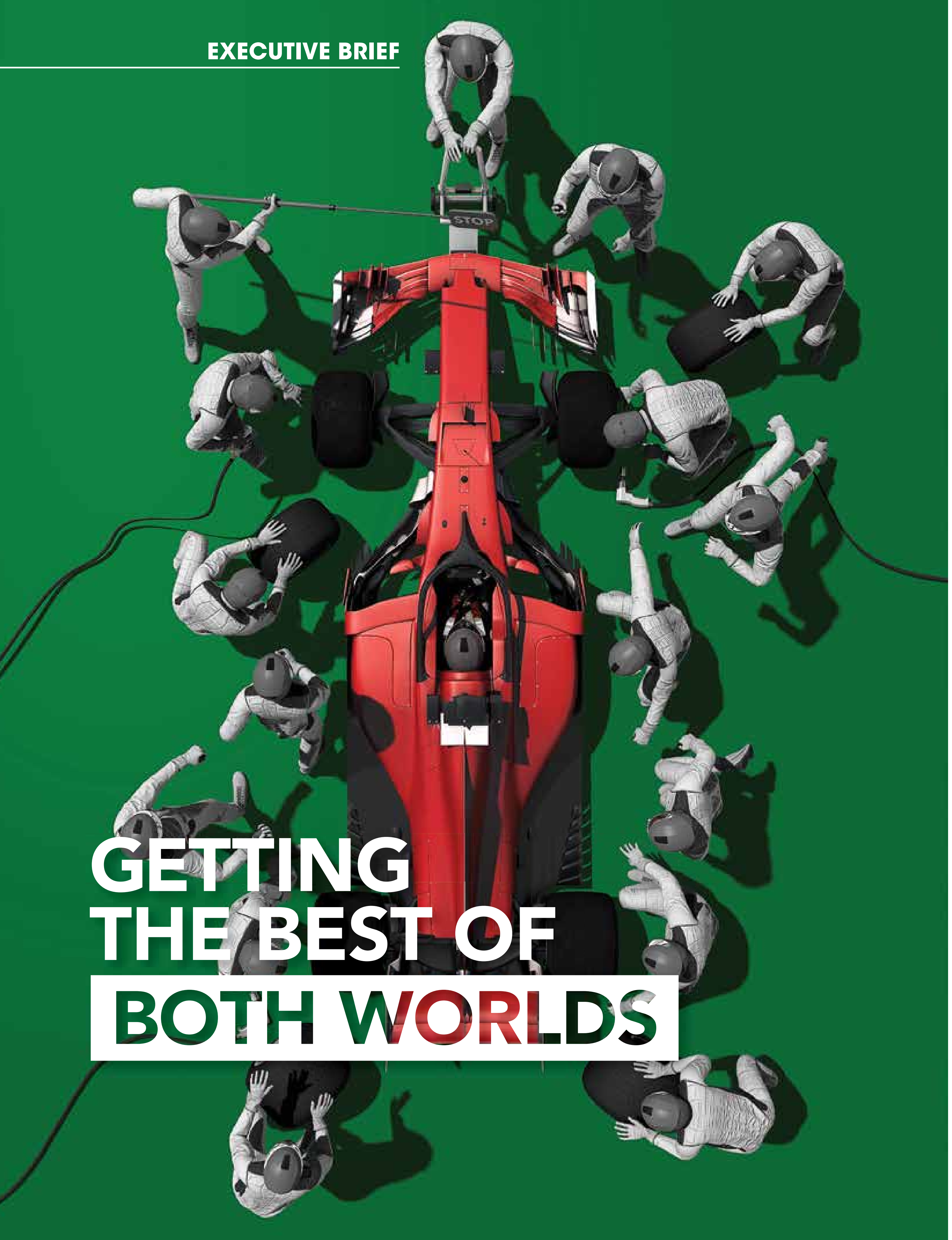
FIGURE 3

Rane Xue
is Senior Vice President (Global Chinese Consumer) at Moët Hennessy

Xiaolei Gu
is Innovation Director at Fabernovel China

References

1. Claudia D'Arpizio, Federica Levato, Filippo Prete and Joëlle de Montgolfier, "Eight Themes that are Rewriting the Future of Luxury Goods", Bain & Company, February 5, 2020.
2. Morgan Stanley, "Mapping the New Normal: Consumers and China's Stay Home Economy", July 2020.
3. Fabernovel, "Trip.com X Fabernovel–2019 Chinese Outbound Travel Market Review", March 2020.
4. McKinsey, "China Luxury Report 2019", April 2019.
5. NEIWAI, "No Body Is Nobody", YouTube, February 29, 2020.
6. Claudia D'Arpizio, Federica Levato, Filippo Prete and Joëlle de Montgolfier, "Eight Themes that are Rewriting the Future of Luxury Goods", Bain & Company, 5 February 2020.
7. McKinsey, "The State of Fashion 2020", February 2020.
8. Maddie Raedts, "How China's Digital Ecosystems are Shaping Western Social Media's Future", Forbes, March 8, 2021.
9. Shake To Win, "The Digital Ecosystem in China Vs the West", August 29, 2019.



GETTING THE BEST OF BOTH WORLDS

Pair a technical expert with a generalist for successful change management.

By Steven Burton and Janice Wong

Organisations globally are experiencing an accelerated pace of change, driven by a combination of digital disruption and future-of-work pressure, and further intensified by the dynamics associated with the drawn-out Covid-19 pandemic. The situation is leading to the fast-tracking of digital transformation efforts, the formation of new sets of rules and structures for the future-of-work reality, and perhaps even new business models.

Confronting this urgent need for change is the fact that large-scale organisational change efforts historically fail at roughly twice the rate that they succeed.[1] This presents a rather gloomy outlook and a formidable obstacle to executives fighting for the future of their business. It is therefore imperative for business leaders to look beyond generally accepted change processes, and focus on executives within their firms who can be tasked with detailed-level strategic planning and the implementation of these initiatives. A possible reflex response to this may be to rely heavily on technology or technical experts to deliver the goods. However, we argue that this approach may be unwise since it may bring about unintended or even adverse outcomes.

Leading enterprise-wide change: Who is better?

We introduce a working framework to organise our thinking around leading enterprise-wide change. In addition to intrinsic motivation, there are three capabilities consequential to managing large-scale organisational change, namely technical, operational, and organisational capabilities. We argue that while having an inherent desire to deal with the complexities of an extensive change effort is necessary, it is not sufficient to ensure success. Change leaders also need to demonstrate their ability to execute the wide range of tasks involved.

Technical capabilities are a necessary component. In the case of digital transformation, for example, change leaders would require a high level of digital technology understanding. Change leaders need to have *operational* capabilities, such as adjusting how work is done, and appreciating which processes need to be developed, removed, or updated. This component would need change leaders to have adequate system-level operational skills to facilitate the smooth transition from current to revised operating norms. Finally, and most importantly, the success of change initiatives relies on individuals, and by extension, organisations. Successful change leaders must have well-developed *organisational* capabilities, ranging from sufficient knowledge of the organisation's structure and culture to the requisite communications and political mastery to manage resistance. They need to have the ability to harness what is needed in the organisation to implement properly the new ways of working.

We zero in on one key characteristic of change leaders, and ask: who are likely to be more successful in leading organisation-wide change efforts–experts or generalists? By generalists, we refer to business managers who have accumulated experience and knowledge over a broader range of positions not specific to a specialised domain (e.g., information technology [IT], engineering operations, or supply chain management). In other words, these managers are not the technical experts in the area they are leading. An example would be a finance-trained leader who has led non-finance departments and is now running the technical division of an engineering company. Conversely, an expert leader would be someone who is technically trained and proficient, has led specialised units, and built his or her career within a specific domain.

From our experience and research (refer to Box 1), we have seen that in many cases, existing technical leaders are tasked with planning and delivering the change and transformation initiatives set out by senior executives, with limited regard for their intrinsic motivation to deliver.

RESEARCH ON CHANGE LEADERS

The research project compared core area technical experts to generalists as change leaders in non-core areas of their firm. Tenure-track faculty (experts) and non-faculty administrative staff (generalists) from mid- and large-sized higher education institutions were surveyed regarding their change attributes. The surveys focused on change in the education domains of their institutes, rather than the research areas. The study sought to conclude whether differences existed between these two groups when they lead non-core-area (education) changes in four areas: recognition of the need for change, motivation to lead change, perception of skills needed to lead change, and perception of empowerment to lead change.

BOX 1

Source: Steven Burton, "An Exploratory Comparative Study of Experts and Generalists as Change Management Leaders in Non-Core Areas of Organizations", Singapore Management University, 2018

It is common to see a senior IT manager being put in charge of enterprise-level digital transformation, or key human resource (HR) managers tasked to lead enterprise-level future-of-work transformation. This arrangement is not ideal because we found that experts highly preferred tasks associated with their technical domain. Additionally, when placed in leadership positions, experts reported that they were more than twice as likely to prefer reverting to their technical roles to remaining in leadership positions. Generalists however were found to prefer leading change initiatives at the same or higher levels of intensity, compared to that of their other responsibilities.[2] In a nutshell, experts, while ideal for strictly technical change initiatives, may find it challenging to transfer or project their experience to enterprise-wide change efforts that will demand their willingness to build and be comfortable with cross-functional and multi-disciplinary teams.

Furthermore, even though both experts and generalists may have the organisational capabilities to lead change initiatives, there is a critical distinction between them. Experts demonstrated strength when communicating about and dealing with technical matters in the midst of their expert colleagues.[3] Their comfort in expert-matter communications would also be expected to influence or perhaps dominate their interactions with non-expert stakeholders. Generalists, on the other hand, with their broader multifunctional background, would be expected to have the experience and knowledge to exhibit wider organisational capabilities in influencing, communicating and advancing a change initiative throughout the many functional and organisational areas that would be impacted. With large-scale change initiatives impacting an extensive range of functions and departments within an organisation, success relies upon a leader's ability to effectively coordinate, motivate, and influence across the impacted areas. The comfort, willingness, and effectiveness in engaging and mediating across the organisation is critical. Certainly, there would be instances of experts intrinsically motivated to lead change, or generalists with sufficient technical skills. We argue that they are, however, the exception, not the norm.

Our discussion thus far suggests that experts often face difficulty seeing change-related implications broadly or in the longer term when these fall outside their area of expertise. Like Abraham Maslow's adage: "If all you have is a hammer, everything looks like a nail", expert change leaders have a preoccupation with technical issues. There is therefore a likelihood that the resultant 'expert myopia' may derail organisational change initiatives.

We believe this issue of 'expert myopia' may become increasingly salient when organisations embark on digital transformation and future-of-work job redesign, among many other large-scale change efforts launched to deal with disruptions caused and exacerbated by the pandemic. The reflex to rely solely on technical experts to lead such enterprise-wide initiatives may not bring about the intended transformation. We provide a vignette below of how an enterprise-wide digital transformation project at an Asia-based service organisation that relied heavily on expert leadership for its envisioning and execution did not succeed.

'Expert myopia' thwarting technology-led digital transformation

The firm was a small to mid-sized organisation, approximately 500-strong, that developed and delivered customised human capital training and development programmes globally. It was a relatively young organisation, which had devoted its energy and resources to building and delivering core service offerings. Technological and operational matters had received less attention, and this was beginning to affect its competitiveness and ability to grow.

At the outset, there was a consensus among the executive leadership that substantive technology, automation, and compatibility upgrades were needed throughout the organisation. However, the firm's chief executive had relied almost exclusively on technology experts to lead the design of the transformation. Under the experts' leadership, vision-setting focused heavily on an idealised technological future and new capabilities the technology could generate. As a result, minimal consideration was given to other factors like process updates, stakeholder impacts, and organisational design requirements. The dominant focus on a technological solution clearly demonstrated the inherent motivation of expert leadership around technical concerns. The IT experts wanted the IT solution to work but paid scant attention to other important aspects.

WHY VARIOUS CHANGES FAILED TO EMBED

Due to an expert-dominated vision design process, challenges were encountered during the execution of the initiative. The lack of upfront engagement to address factors involving people, processes, and organisational design meant that additional post-design adaptations were necessary to boost the chances of success. However, the tendency to defer to technical experts extended to selecting a senior IT leader to implement the project. The expert, however, exhibited behaviour consistent with high intrinsic interest and capabilities in technical matters, such that there was a disproportionate focus on technological components of the initiative. Leadership focus on the initiative's complexities around processes, and organisational design and politics was much less prevalent. The result was a largely misunderstood initiative where stakeholders were directed along a narrow tech-focused path.

In the end, the effort failed to gain acceptance, with considerable confusion amongst stakeholders on how to accomplish the transformation, and how it would realistically benefit them, their group, or the organisation. Rather than a solution that led them towards a unified vision of the entire organisation, stakeholders viewed the efforts as a technology implementation project with challenging schedules, a lack of guidance in defining and reworking processes, and insufficient resources for the extra work required. The limited engagement across the organisation on the why's, and the subsequent execution revolving around the technically-driven how's, led to resistance. What we had was an elegant but inoperable solution.

THE PROBLEM OF 'EXPERT MYOPIA'

It is clear to us that the 'expert myopia' we observed was largely responsible for the failure of the initiative. During both the visioning and implementation stages, technical experts were tasked with leadership roles. Also, the output from both stages showed characteristics of a dominant expert focus. During the visioning stage, capabilities and features were evaluated extensively and almost exclusively by the technical leader and members of the IT team. User input was minimal–there was greater interaction with technology suppliers than with internal groups impacted by the changes. As a result, a technically elegant solution that showed great potential emerged.

However, the planning had been undertaken without a sufficiently deep and detailed understanding of the organisation's current processes and tools. Also absent was a clear, detailed picture of how the new technologies mapped to the needs of the business, as well as its existing processes and tools. From this, we note potential deficiencies in intrinsic motivation beyond technical matters, and change management capabilities beyond technical design. Most likely, it was a combination of the two, both of which we had identified as potential gaps to be plugged.

During the implementation phase, compounding the potential challenges associated with being an expert in a change leadership position was the fact that the nominated leader was also a new hire. The new leader's inability to build up sufficient institutional knowledge and political equity was an additional limiting factor that hampered his capability to lead the change effort effectively. Additionally, as the change journey was guided largely by technical considerations, a gap in communication skills quickly surfaced, since excessive expert jargon hindered the understanding of those affected outside the IT team. The expert leader did try to look beyond technical components early in the project, but as the change efforts moved along, interest became more cursory.

How to select change leaders

One likely major reason that large-scale organisational change efforts fail is that there has been insufficient thought and effort in selecting the appropriate point person or team for planning and managing enterprise change efforts. Taking into account the importance of intrinsic motivation and the three capabilities we discussed earlier, we suggest using the following four criteria below to zero in on the right change leader profile during the selection process.

1. AUTHENTIC DESIRE FOR LEADING CHANGE

Assess prospective change leaders for their inherent passion, both for leading change in general and for the specific change initiatives to be implemented. High-visibility transformation projects would be expected to draw interest due to heightened professional exposure, so digging and assessing for genuine intrinsic motivation for leading change and taking charge of the specific change initiative are vital. Ask the candidate about the "why", not only the "how". Explore why the change is personally important to them. Look for related change examples in their past where they played a substantive role, digging into the details of their contributions in the areas of process, communications, and interpersonal management. If the "why" is strong enough, the "how" should work itself out.

An example of a change leader lacking authentic desire for leading change can be seen in one of our recent projects to restructure the sales and marketing functions of an organisation. The aim was to centralise a basket of activities for enhanced knowledge sharing, create a more fluid customer experience, and integrate automation into the related processes. The senior leader tasked with making the proposed change adopted a detached approach after the strategic envisioning stage. A consultant was then brought in for the bulk of the detailed work including conducting interviews, designing organisation structures, and communicating plans to the team. Concerns and resistance from the team were pushed down to the line managers, with the overall change leaders mostly observing from a distance. His interest in the end-result was sincere; however, authentic interest in detailed engagement was lacking. The project was eventually abandoned.

2. EXTENSIVE SKILLS COVERAGE

Ensure that the change leaders demonstrate a sound understanding of each of the three capabilities outlined above, i.e., technical, operational, and organisational. Screening at a sufficient level of detail for each skill, preferably with prior demonstrated experience from potential candidates, would help ensure that gaps in capabilities will not be a stumbling block to the initiative. From our experience, it is rather common to check for technical skills, and in many cases, the most rigour is applied to this dimension. Having said that, it would be remiss to pay less attention to operational and organisational competencies. Operational challenges are regularly discussed during the selection process as a necessary component of change projects; however, a basic grasp of the topic is not sufficient to address the component changes required in a large-scale change initiative.

This was clearly demonstrated in a sales automation project in which we were involved. The change leader was clear from the outset that processes would need to be mapped and updated, so that the change could be implemented effectively. However, when working through the details, the inability of the change leader or his delegates to guide the team knowledgeably through the process-mapping and definition steps highlighted their weakness in this area. The front-line team became confused and uncertain about how to proceed. This created a sizeable hurdle to moving forward that was misinterpreted by the change leader as resistance. Had the change leader, or a strong process associate, been involved, this could likely have been avoided.

3. ORGANISATIONAL CAPABILITIES

Strong organisational skills are often the most important of the three capabilities required. This is because of the difficulties involved in getting individuals to adopt new ways and tools for their work, in addition to the political nature associated with changes in organisational design and processes. Large-scale change efforts can be threatened by an individual or a group's resistance to new tools, methods, processes, and organisational structures. There are many organisational landmines along the path of change projects, so having the capabilities to navigate them will be critical in ensuring success.

One example would be the ongoing power struggles brought about by organisational design changes. There will likely be perceived, and perhaps actual, winners and losers that emerge from some of these struggles. If not addressed and managed appropriately, the change could be impacted or derailed by resistance from those who 'lost out' because of the change. In particular, look out for informal leaders as potential candidates. They could be staff who may not have the rank or title but possess the influence, communicative ability, and social networks in an organisation. How do you find them? Just ask. Check in with employees casually who their go-to person is when making sense of changes in the organisation, when adapting to a new

Assess prospective change leaders for their inherent passion, both for leading change in general and for the specific change initiatives to be implemented.

culture, or when needing to be connected to someone else in the organisation. The same names are likely to surface again and again.

4. THE POSSIBILITY OF IMPLEMENTING A HYBRID TEAM STRUCTURE

It would be rare to find a single leader with all the above prerequisites. To address this, we propose adopting a diversified co-leadership model where an expert and a generalist are paired up. Their complementary skills would provide the combination of motivation and expertise necessary for success. No doubt, such a leadership arrangement would require more coordination and communication, but ultimately, this is the responsibility of the sponsoring executive tasked with preparing the organisation for the future.

For example, we contend that in the Asia-based service organisation case, if a co-leader had been appointed–one who was not an expert but a generalist skilled in process mapping and definition, organisational design and change, and interpersonal communication and effectiveness, he or she would have been a good complement for the selected expert leaders. This would be a proposition we would like to test in our future research.

Where it is not possible to appoint a co-leader, the expert leader or sponsor should work hard to identify the blind spots caused by 'expert myopia' and take active steps to mitigate the problem. Had the appointed expert leaders been further developed and guided in institutional change management capabilities, they would have had an opportunity to develop their interest and capabilities, and be appropriately evaluated in these areas. As a result, their organisations would have benefited in such instances. Alternatively, more weight should be given to project team leads to enable a concerted plan to address the challenges in other important organisational aspects of change, such as business impact, internal communication, and people management.

To conclude, large-scale, enterprise-wide change initiatives are necessary for the growth and future competitiveness of firms. However, there exists a dismal track record of failures for these projects. Based on the intrinsic motivation, willingness to commit, and capability differences observed, we see a need for executives to exercise intentionality in selecting change leaders to roll out large-scale initiatives. Defaulting to existing technical heads, while seemingly convenient and initially efficient, may unintentionally handicap the likelihood of the project's success. An intentional and rigorous effort upfront in planning for and selecting the right leaders is one early step that organisations can take to prepare a solid foundation for a successful outcome. It is also noteworthy that while capabilities and skills can be picked up and honed, an authentic desire to be a change-maker comes not from a job description but from the heart, so discern for that during the selection process.

Dr Steven Burton
is a global higher education professional who has worked at top institutions in the U.S., Europe, Middle East, and Asia. His research explores experts and generalists as change leaders in organisations

Dr Janice Wong
is a communications professional with a multinational company based in Switzerland. Her research interests focus on internal communication and organisational change

References

[1] John P. Kotter, "Leading Change", Boston: Harvard Business School Press, 1996.

[2] Ibid.

[3] Michael D. Mumford, Michelle A. Marks, Mary Shane Connelly, Stephen J. Zaccaro, and Roni Reiter-Palmon, "Development of Leadership Skills: Experience and Timing", The Leadership Quarterly, 11, 87–114, 2000.

An interview with Binny Bansal.

Binny Bansal, co-founder of Flipkart, and co-founder and executive chairman of xto10x, talks about his entrepreneurial journey in the world of e-commerce.

What sparked your decision to become an entrepreneur and launch Flipkart in 2007, which is now India's leading e-commerce marketplace?

I come from a middle-class family in India, where both parents were holding government jobs. No one in the immediate family had ever been a businessperson. I studied computer science at the Indian Institute of Technology (IIT), Delhi. When I was graduating from college, I was one of the few in my cohort who decided to stay in India and not pursue a masters or doctorate programme overseas. I felt that I had wasted enough time in college and more education was not going to help me. So I finished college in mid-2005 and started working in a company called Sarnoff.

In January 2007, I joined Amazon India as a software engineer. That was where I started working closely with my co-founder Sachin; we were in the same team. However, there wasn't much work, and I soon got bored. I was then reading about start-ups on several blogs and got really inspired by those stories. That was when I thought about trying to do something on my own, rather than take up another job. Sachin had similar thoughts. He comes from a business family and has an entrepreneurial background. We both wanted to do something meaningful, and that was how we decided to start something together.

We recognised that we were two 25-year-old software engineers who had no money and it was highly unlikely that anyone was going to give us any. So we decided to first start a comparison-shopping site. It was supposed to be a site that compared a product, say a mobile phone, across multiple e-commerce sites. We thought it would only require us to write some code that we could work on from home, attract some users, and get the business going.

But when we started working on our plan, we realised that there were no good e-commerce companies in India, so there was nothing to compare. That was when we decided to go build a good e-commerce company ourselves. We were foolish enough to believe that we could do it, as we had no idea what building an e-commerce company would entail. The adage "ignorance is bliss" was pretty apt!

How did you go about turning the idea into reality?

In the beginning, there were three of us and we worked on setting up the Flipkart e-commerce site to sell books. However, when the time came to quit our jobs, one dropped out, as he could not quite 'pull the trigger'. That was a bit of a setback, but Sachin and I got over it quickly, as we felt very confident in what we wanted to do. We went ahead and quit our jobs the following week. It was mostly the two of us for some time. We had one or two mentors helping us a little, but at that time, the ecosystem in India was at a nascent stage and there were very few people to whom we could turn to for advice.

The two of us did everything. Coding was the easy part, and so was building the website and the backend. The hardest parts were convincing book distributors to become our partners and allow us to list their inventories on the website. We spoke to about 40 to 50 distributors across Bangalore, going to each of their offices repeatedly. Finally, after four or five months of banging on their doors, two of them agreed to partner with us. That was how we launched the website in September 2007–with a catalogue of 50,000 books from two partner distributors.

However, while we had built a good product, we had no idea how to attract users. We did not have the money to do paid marketing, and so we kept trying to work out different ways of doing it. That was when we got a lot of help from a couple of our seniors from IIT Delhi. They had figured out a way to do search engine optimisation–when someone searched for something on Google, your website showed up. We got in touch with them and they were kind enough to help us learn how to apply it to Flipkart.

I remember very vividly the day when Sachin and I were sitting at a coffee shop with a couple of friends, and we got a notification that an order had come in. At that time, there were no apps, so we had built a rudimentary SMS-based notification service to inform us whenever an order came. We would typically get around three to four orders each week, usually from friends. That day, however, we received three orders within an hour. We were convinced that something was wrong, and somebody was messing with us! We went back to our apartment and dug through the logs and the code. That was when we saw that these were genuine orders. We dug a little more to see where all these customers were coming from, and found that they were all directed to Flipkart from Google search. That was a pivotal moment when we went overnight from three to four orders a week to more than 100 orders a week.

Starting out with an idea, building something that is useful for customers, and then systematically finding a set of customers who pay you to use it is just the first step. That is termed ‘zero to one’. Then there is the growth phase, what I like to call the ‘xto10x’ phase, where even though the idea is working and the product-market fit is good, the business needs to grow 10 times and then 100 times, and you have to keep doing it over and over again until it becomes a sizeable business.

That stage has many added complexities that you need to solve, many more different problems than what was managed in the ‘zero to one’ phase. By now, the team size is much bigger, so communication breaks down and not everybody knows everything. So how do you define and distribute work? How do you measure performance? How do you communicate and keep everybody on the same page? Managing finances too becomes a challenge, as different people need to make different financial decisions. For example, who is allowed to make which decisions? How do you then measure financial performance at every stage and at every level in the company? How do you ensure financial discipline? As a founder, one needs to learn all these things and grow as a manager and leader, while focusing on growing the business. Hence I had a multivariate problem on my hands.

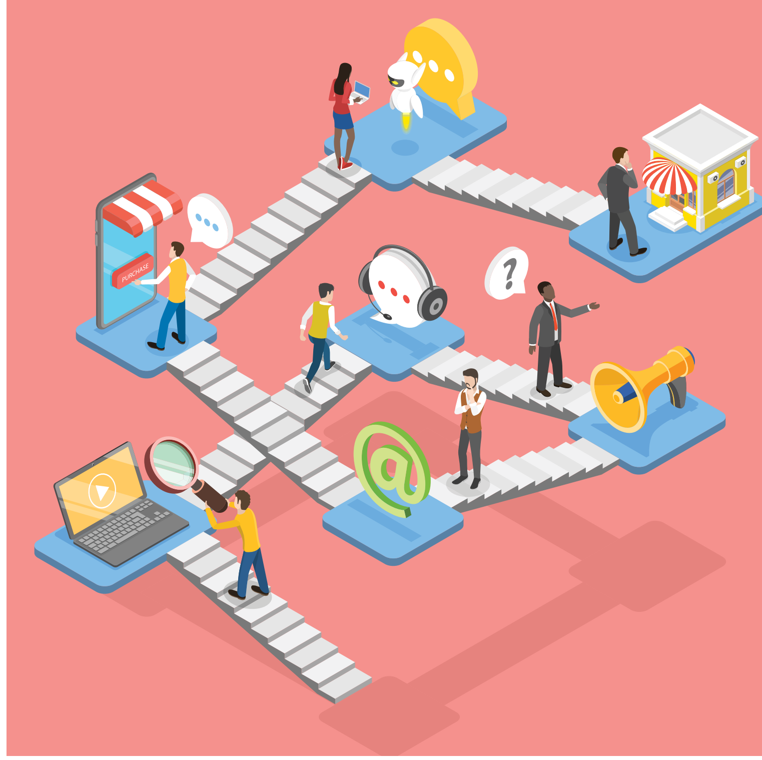
How mature is the tech start-up ecosystem in India today, and what challenges lie ahead? How has the Covid-19 pandemic impacted it? What start-up trends do you see going forward?

When we started back in 2007, there were about 30 to 40 million people online on their desktops with no mobile Internet. There were about eight to 10 very small venture capital firms, with very little venture capital funding.

Today, there are probably more than 50 unicorns, and we will soon hit 100. We also probably have more than 100 venture capital firms and a huge number of start-ups across all areas, not just e-commerce. Software is a big area for Indian start-ups including educational technology (edtech) and financial technology (fintech). We are also seeing a few success stories in blockchain and cryptocurrencies. There is so much more information and help available for founders, and much better access to leadership and senior talent. Additionally, there is a big market, with more than 400 to 500 million people in India online, so start-ups today are going from zero to hundreds of millions of users, or tens of millions of dollars of revenue very, very quickly. I think this speaks to the quality of the founders. I would conclude that the ecosystem is quite mature from a founder and capital perspective, with many angels and global funds looking to invest.

I think the biggest challenge in the tech start-up ecosystem today is talent. Opportunities are growing rapidly for entrepreneurs and capital is available, but talent is not growing at the same pace. People learn from experience. After you spend two to three years in a typical start-up, you begin to understand what it takes and learn from the mistakes that you need to make. Today, every start-up is fighting others in the talent war for the same software and product engineers.

As a founder, one needs to grow as a manager and leader, while focusing on growing the business.



Creating an experience for the customer that flows seamlessly across all the channels will be the Holy Grail for all retailers.

With the pandemic, edtech and healthcare technology (healthtech) have done very well. Gaming too has emerged and grown in a big way, as has e-commerce. Another area that I believe will play out in the longer term is remote work. I think many people are now comfortable with remote work, so we will see more people working from anywhere in the world for any company in another part of the world. That will really transform the way the hiring and talent equation works for global companies. It will be a big positive for South Asia because we have a lot of talent who can find better opportunities because of this trend. I think it would be very good for the economy.

With omnichannel retailing gaining ground, we see companies such as Amazon and Walmart rapidly investing in building competencies in each other’s domain. Every retailer is trying to be present at all the places where the customers are. I believe this omnichannel view of distribution is definitely the future. Creating an experience for the customer that flows seamlessly across all the channels will be the Holy Grail for all retailers. I also feel that social commerce is becoming more interesting, and while it is early days for social commerce innovation, we will see more of that happening.

What led you to co-found xto10x in 2018? What are its objectives?

During my Flipkart journey, we did not have many advisors or mentors available to seek help from, and we ended up learning the hard way, making all sorts of mistakes in all areas. I felt that if we had just known a little bit more, we would have saved so much time and money.

At the same time, while building Flipkart, I had started doing a lot of angel investing and mentoring other entrepreneurs. Over the six-year period from 2012 to 2018, I probably invested in and mentored over 50 start-ups, and I had started seeing some of the same patterns repeat themselves, like founders were making the same mistakes that other founders or I had made. Also, given the number of start-ups emerging, I realised that what I was doing was simply not enough. Hence, the main intention for xto10x was to build something that could help thousands of start-ups scale their businesses.

Our mission is very simple. We say that scaling is very hard, and our company xto10x makes it a little easier. My personal ambition over the next three to five years is to help other entrepreneurs succeed. That is what inspires me; I learn more from them than they do from me, and I love learning new things.

Who are some of the greatest influences in your life?

My parents have been a big influence. They gave me a lot more independence than other Indian parents would, letting me make my own choices and decisions. That probably enabled me to be more of a risk-taker than others because, from early on, I was encouraged to think and decide for myself.

Another influence was basketball. I grew up watching basketball and I would wake up at 5 am to watch the game. At that time, Chicago Bulls, with Michael Jordan as its star player, was on a winning spree. I grew up watching him win three or four of those six championship titles, so that was another big influence–the mental aspect of winning.

Do you have any advice for the young and aspiring cohort of entrepreneurs?

I think it is super hard to start a company, get it off the ground, and make it successful. So do not be too hard on yourself if things are not going your way. I also believe that being persistent is very important. As I said, we talked to some 50 different distributors, and visited each of them three or four times. Even then, only two of them decided to come on board. This degree of persistence was required repeatedly during different parts of my journey.

The other thing that is very important is to focus on solving a few problems at a time, pick a few priorities and do them really well. This is important, particularly at the early stages. For example, Flipkart's competitors covered various categories–fashion, books, electronics, and everything possible–because they wanted the maximum amount of revenue in the short term. However, we said we would only sell books to start with, and we stuck with that for at least three years, until we became leaders and a well-known brand. Customers started trusting us, and we had a good leadership team. Only when we had all of that in place, and substantial funding, did we decide to venture into the next category–electronics. This focused approach really helped us, and I have seen that happen in most successful journeys. Begin small, and do it really well. Then expand and layer other offerings.

ASIA EMBRACES DIGITAL CURRENCY AND CRYPTOCURRENCY

By David Lee Kuo Chuen

A decade ago, everyone was sceptical about cryptocurrency. Today, Asian governments are harnessing its technology to raise payment efficiency and improve financial inclusion. Initially, the technology was advocated and harnessed by 'cypherpunks', that is, individuals who advocate the use of cryptography and other strong encryption technologies to promote social and political change. At that time, being a cypherpunk meant standing on the opposite side of the government; today, I see cypherpunks, otherwise more appropriately known as cryptopunks, working closely with governments.

The rise and challenges of cryptocurrency

In 2014, China moved ahead with its adoption of the quick response (QR) code for digital devices. It was a major innovation that disrupted the Chinese banking sector because it meant that there was no need for the point-of-sale (POS) system anymore. With QR codes and digital devices, organisations could transact with customers even in remote villages. Today, China is also incorporating the unspent transaction output (UTXO), which refers to the amount of digital currency marked as spendable after a person has executed a cryptocurrency transaction, into its digital currency implementation. This move was taken straight from Bitcoin's playbook.

Southeast Asian economies, such as Singapore, Thailand, and Cambodia, have also been progressing rapidly on the financial innovation front. Thailand's central bank is developing a retail central bank digital currency (CBDC). Cambodia was the first country in the region to introduce a 'government-authorised digital currency', which is different from a CBDC as its digital currency is not a liability on the central bank balance sheet, and cannot be separated from its payment systems as far as the government is concerned. In fact, Cambodia has started its blockchain payment system called Bakong, which is an augmented form of CBDC using Bitcoin technology minus the energy-intensive Proof of Work.[1]

Among regulators, the U.S. Securities and Exchange Commission is the most innovative, and it is looking into establishing a safe harbour for cryptocurrency. However, most global financial centres have legacy issues involving regulations. So, although governments will take more time to deal with them, they should all be catching up. Interestingly, while it would be expected that the developed economies would take full advantage of these currency innovations to race ahead, it is the developing economies with infrastructural challenges, which have not plugged fully into the global financial system, that possess greater flexibility to promote cryptocurrencies. Hence, while the Philippines and Indonesia have major challenges in setting up their communication infrastructure, they should be able to catch up once they resolve these issues.

India also has its fair share of problems in terms of regulation. It needs to protect its sovereignty, especially with regard to its currency, and is concerned about taxation and capital management issues. Therefore, India is doing the right thing in the first stage by guarding against the money laundering and tax evasion that come along with cryptocurrency. But India is moving very fast too and there has been a 180-degree change in its attitude towards cryptocurrency, with the Reserve Bank of India announcing that it may launch its first CBDC trial programme by December 2021.

All governments are worried not only about protecting their citizens' privacy, but also about criminals making use of the data the authorities have stored centrally, like health certificates. However, regulation can only do so much. Governments need to be 'trust-less' in the sense that once they are in the virtual realm, there is always a danger that data can be accessed, thereby putting their citizens at risk. Hence, they need to dive in with innovative cyber technologies despite knowing the cybersecurity risks.

Other challenges include interoperability issues when dealing with multi-country CBDC. If real-time gross settlement and the automatic current system are done away with, as in the case of retail CBDC, then the movement of currency will be a lot faster than before. As a result, there is a danger that rapid withdrawals of capital from a country can affect exchange rates. National debt would multiply manifold, and companies would never be able to repay their debt if their borrowings are in foreign currency. And it will take place much faster than before because everything is programmable and capable of bypassing the traditional payment system. These are all issues that Asian governments need to look closely into so that we do not have a repeat of the 1997 Asian Financial Crisis.

The way forward

The market structure has gone through tremendous changes in just the last decade. While it was expected that governments would legitimise cryptocurrency, the speed at which this has transpired has amazed everybody. The question we are now constantly hearing is when would there be mass adoption of CBDC and cryptocurrency.

There are several reasons for the rapid development of cryptocurrency. First, about a decade back, when we talked about fintechs and their mission of promoting financial inclusion (a key driver of cryptocurrency), we were looking at the disruption of financial firms. Fintechs were small, but within a few years, they have grown into giants. Moreover, many of them have moved away from their original mission and are showing a lot more rent-seeking behaviour–very much like traditional financial firms, not only in terms of their profit outlook, but also in how they cater to the needs of shareholders and their board of directors.

Another catalyst for the rapid adoption of cryptocurrency is stablecoins, which are a form of cryptocurrency that attempts to peg its market value to an external reference, say a currency like the U.S. dollar or the price of a commodity like gold. A decade back, even those in the crypto community were not very bullish on stablecoins because cryptocurrency was all about replacing fiat currency. But this has now changed, and stablecoins have become more attractive as they attempt to provide the instant processing and security of cryptocurrency payments, along with the volatility-free stable valuations of fiat currencies. Cambodia, for instance, has a stablecoin for the U.S. dollar and another stablecoin for its own local currency, the riel, even though it is known more as a payment system than a stablecoin. In another instance, Libra (now called Diem), a blockchain-based payment system created by Facebook, has made many governments feel vulnerable.

Because of such developments, about 70 percent of central banks have plans to issue CBDC, or are doing research on ways to retail it.[2] The line between cryptocurrency on a public blockchain and stablecoins or tokenised fiat currency on a private blockchain built by the government is blurring. The development of CBDC is moving towards crypto token designs that cross borders, enable managed anonymity for privacy protection, and have eWallets from the retail giants, bypassing the traditional banking systems linked to the Real Time Gross Settlement System administered by governments and Automated Clearing Houses administered by the banks. Even Singapore's Government Technology Agency, GovTech, uses public blockchain such as Ethereum for its OpenCerts and TradeTrust projects.

Meanwhile, the crypto community is becoming increasingly entrenched in the metaverse, which is a fully realised digital world that exists beyond the one in which we live. This development caters to the younger generation who live in a very tight space. It is like living in the film *The Matrix* or *Ready Player One*, where people plug into the virtual space, or put on their augmented reality (AR), virtual reality (VR), or extended reality (XR) goggles, and live in the space where they can roam freely, admiring their own paintings and playing games with their friends. Even Facebook has launched a metaverse space. Metaverse will be the catalyst for CBDC and cryptocurrency, as well as Non-Fungible Tokens (NFTs) with DeFi (decentralised finance geared toward disrupting financial intermediaries).

Despite these innovations, I believe the direction of development in cryptocurrency is still towards financial inclusion–including more people, increasing the marginal propensity to consume, and enabling sustainable growth. But the key players have changed and governments are taking the lead. I believe all governments will eventually catch up, even those that are currently grappling with more legacy issues and have less flexibility. At this moment, mankind is at a critical juncture, where governments and people alike are looking into the ethics of cryptocurrency and its related offerings, and the fintech giants and start-ups replacing those resisting the metaverse revolution.

Dr David Lee Kuo Chuen

is a professor at the Singapore University of Social Sciences and Shanghai University of Finance and Economics, and an adjunct professor at the National University of Singapore. Dr Lee is also Chairman of Global Fintech Institute and Vice President of the Economic Society of Singapore

Endnotes

1. Proof of Work requires one member of the network to prove to others that a certain amount of a specific computational effort has been expended, hence preventing anybody from gaming the system.
2. Christian Barontini and Henry Holden, "Proceeding with Caution–A Survey on Central Bank Digital Currency", Bank for International Settlements, January 2019.

LUXURY BACK IN VOGUE

Not just a rebound, it is set to flourish in the coming decade.

By Erwan Rambourg

The luxury rebound following the Covid-19 pandemic has been more impressive than most would have thought. Scale continues to play an important role, physical stores are back, and while there are some clouds on the horizon, the outlook for the luxury sector remains incredibly positive for the long term. My optimistic outlook for the long term is predicated on the power of three consumer segments that will move the needle for the luxury sector–women, Chinese shoppers, and youth. In addition, the rapid speed of scaling-up and mergers and acquisitions (M&A) should provide a great boost to a post-Covid luxury world.

Three cohorts of consumers and local clientele are powering purchases

FEMALE CONSUMERS

Women are already the key decision-makers for most households. With greater financial autonomy and higher employment participation rates, female spending power will grow. As women get married later and have fewer children, their higher disposable income will support increased luxury spending. There is societal change around gender inequality, and initiatives are under way to improve the economic position of women. They are thus in a position to influence spending in jewellery, cosmetics, handbags, accessories, and much more.

CHINESE SHOPPERS

While observers are nervous following the comments from the central Chinese government around the need for social harmony and "common prosperity",[1] I have little doubt that Mainland China will remain one of the biggest drivers of luxury growth over the next decade.

Four main trends are associated with this projected growth. First, wealth creation will continue to fuel the spending power of the next generation of Chinese shoppers. I anticipate that the number of potential luxury clients will be close to doubling over the next five years. Second, the bulk of growth should come from China itself with four good reasons to shop at HOME: *Harmonisation* of prices, the rapid development of *Omnichannel* buying, the government's *Monitoring* of consumer spending, and increased *Education* about where to purchase genuine luxury products. In the short term, Covid-19 is the accelerator of repatriation of growth to the mainland and Chinese citizens will continue to buy mostly locally over the next 12 months. Third, China's luxury market is becoming one of the most profitable in the world after having been margin-dilutive for years. And finally, the adoption of luxury in other Asian markets is reaching a ceiling, as seen in Japan and Taiwan; getting mature, like in South Korea; or is too small to move the needle for now, as observed in India and Indonesia.

THE YOUTH

Luxury buyers start young for many reasons, but the essential one is human nature and the desire to buy your place in society. In China, the U.S., and the emerging markets, the modal age of such buyers is lower than in Japan or Europe. In the West, youth demographics are increasingly diverse. The young generation of luxury buyers–including, most notably, people of colour–around the world has transformed the luxury industry and will continue to do so, particularly in certain areas. For instance, casualisation, which is a more relaxed way of dressing up, is not a fad–it is a generational shift. Social media is another area, where widespread information and the search for authenticity will put pressure on brands to have thoughtful, genuine messages. And most importantly, there is now a focus on values. With climate-themed protests, and environmental, social, and governance (ESG) issues becoming mainstream, and a diverse generation that cares more about these matters, brands need to behave better and respect the planet, and be more mindful of cultural differences and sensitivities. Younger generations are clearly purpose-driven and expecting the companies they buy from to start 'getting woke'.

LOCAL CLIENTELE

Apart from these three consumer segments that will likely continue to drive growth for the next decade, the magnitude of the rebound in terms of luxury sales over the past year can also be attributed to a counter-intuitive buoyancy of local clientele, notably in the United States.

A combination of strong equity markets, a lively secondary home market, stimulus packages, and the benefits of 'staycationing' has caused consumers to spend a lot more on luxury items as they cut back on trips, fancy hotels, and restaurants, so that they end up having greater means to spend on 'stuff'. The Biden campaign's 'K-shape' recovery rhetoric from late 2019 has begun materialising in the real economy: those who struggled pre-Covid are struggling more now unfortunately; those who were well-off pre-Covid have even greater means today. The U.S. has often been regarded as an emerging market for luxury goods. It finally appears to be catching up. If wealth were the sole deciding factor, the U.S. would already be a more significant market for luxury. Yet, after 9/11 and the 2008 Global Financial Crisis, it appears that American consumers held back on luxury purchases. One reading is that Americans may have lost confidence, given how the world had developed;[2] another reading is they may have seen such behaviour as inappropriate or even vulgar. However, I observed that this so-called 'guilt factor' has evaporated somewhat with a notably younger and more diverse American clientele engaged in what some have called a 'survival trade', i.e., "I have survived this period of stress, so it's okay to reward myself".

Outside of the U.S., the luxury purchases of local clientele in Europe too have rebounded with a magnitude that was also difficult to anticipate. Part of the explanation is that consumers likely have greater means, having been stuck at home for so long. Yet, the success of some brands with local European clientele for the past 12 months can also be clearly attributed to the fact that sales associates in Europe, who might have been relying on Chinese, Korean, Japanese, American, or Russian tourists, have finally started to zero in on locals anew, having seen a growing interest from them. Maybe they had been ignored for too long, and appreciated the renewed engagement. This is a healthy development, as many brands had become complacent, relying excessively on tourists and not leveraging the clientele base they had in their own markets. It also shows that while the future of the luxury market will be largely influenced by Chinese consumers, there are many other nationalities that can still be tapped on, even those markets that you thought were mature or saturated.

Luxury buyers start young for many reasons, but the essential one is human nature and the desire to buy your place in society.

Impetus from scale, and mergers and acquisitions

Scale and M&A are key themes in a post-Covid luxury world, and the speed of change has been no less than overwhelming. In an era dominated by a 'buy less, buy better' attitude, leading brands in the industry, such as Louis Vuitton (handbags), Cartier (jewellery), and Rolex (watches), have dramatically increased their leadership. Separately, as the post-Covid rebound has been fuelled by the important contribution of first-time purchasers, it is clear that they want to buy essentially the most iconic brands in the space, and within those, the most iconic ranges–the so-called 'signature' or 'hero' products.

Scale in the luxury sector confers VAST advantages related to *Voice, Authority, Synergies, and Talent*.

Scale in the luxury sector confers VAST advantages related to *Voice*, *Authority*, *Synergies*, *and Talent*, so it is no wonder that the major players will strive to grow even bigger. M&A is a function of the benefits of scale and will be influenced by increased cash on hand, the importance of hedging, and personnel dynamics. Over the past six months alone, there has been a multiplication of deals being announced in the luxury sector. Moncler has bought Stone Island, Exor has taken stakes in Christian Louboutin and Chinese luxury brand Shang Xia, Zegna has listed via a SPAC (Special Purpose Acquisition Company), and Cartier-owner Richemont has taken over the high-end leather goods brand, Delvaux. More notably, market leader LVMH has gone after other opportunities by taking a stake in rosé wine producer Chateau D'Esclans, Jay-Z's Champagne and Virgil Abloh's Off-White venture, and has also raised its stake in the Tod's Group. LVMH should remain the main luxury aggregator, but you can expect other groups to contribute to the industry consolidation as well. No one is a forced seller in the luxury market, but in a period when valuation multiples are still high and money remains cheap, sellers may want to start looking at their options.

Luxury items are highly prized, so purchasing them for the first time via online channels might be counter-intuitive for many consumers.

The future of physical stores

While the world has gone online during the Covid-19 crisis, e-commerce has its limitations as a contributor to luxury brand sales. Unlike Nespresso capsules, cosmetics, or Nike footwear, luxury items are highly prized, so purchasing them for the first time via online channels might be counter-intuitive for many consumers. Separately, many luxury brands might aspire to eventually control their distribution as strictly as Louis Vuitton does, meaning that third party, wholesale websites could come under pressure.

I am a firm believer that brick-and-mortar is still the future of luxury. But you will need to give consumers a good reason to get up from their sofas, leave their homes, go out, and browse products in a physical store. As long as your main aim is not just to sell, you should do well as a brand by offering consumers a unique experience and a place to spend time and socialise, learn, and be entertained. This requires managers to change the way they consider their network and how they measure success, moving from like-for-like metrics to a measure of 'net promoter score' or NPS, which quantifies the difference between the percentage of consumers who have positive impressions versus the percentage of those with negative ones. As such, it is an indication of whether consumers will recommend your brand to their peers or advise them not to visit your stores. In other words, the store is not the key vehicle to sell; rather, it is the key vehicle to influence, build memories and emotions, and attract people to come back. This puts tremendous pressure on brands to get up to speed. While managers attempt to figure out what their network eventually needs to look like, pop-up stores are a good means to try out some new concepts and test the water to address new consumer aspirations.

As luxury moves from being a recruitment to a repeat purchase business over time, there will be the potential for substitutes to arise.

What is in store for the medium term

Some doubts have started to creep in following a very strong rebound of sales in the sector since the summer of 2020. For instance, there are doubts about whether the U.S. and China rebounds can last. It is true that the surge in sales in the U.S. has been dumbfounding and many brands seem to have been taken by surprise. What goes up must come down, right? I am not so sure. This is because first-time purchasers might come back and more importantly, influence others to purchase luxury items for the first time, accelerating the thought that these types of purchases are completely socially acceptable.

In Mainland China, fear revolves around the 'common prosperity' messaging from the authorities, which are aiming for a more balanced distribution of wealth. On paper, that would mean curbs on very wealthy individuals, though they are unlikely to be the key contributors to sales at Louis Vuitton and others as Chinese luxury consumption is essentially fuelled by middle-class consumers rather than high net worth individuals. In reality, it is likely to translate into a further acceleration of the middle-class expansion as the authorities look to redistribute wealth, which is unlikely a negative.

Another fear is that, as the luxury market moves from first-time purchasers to repeat purchasers, there may be substitutes emerging: affordable luxury, travel, hospitality, and many other subsectors offering premium products or experiences. In theory, affordable luxury should have great growth potential as brands in the sector tap into the quick expansion of middle-class clientele. In practice, at least for the key handbag and accessories segment, growth is likely to be difficult as consumers would rather wait to save up for premium European brands that carry a higher return on their investment. In theory, travel might also be a threat to luxury. Indeed, as 'staycationing' has enabled consumers to save up and purchase products, theoretically, as the world opens up, this could reverse and luxury could suffer. I use the word 'theoretically', because even though long-haul travel has not picked up much yet, domestic travel in both the U.S. and Mainland China has rebounded dramatically, and there has been no real impact so far on the luxury sales momentum in both markets. It seems that for wealthy individuals, spending on luxury items, or trips, hotels, and Michelin-starred restaurants is not an either-or choice.

Sustainability should be the most disruptive trend of the next decade. Ethical transparency, production traceability, and environmental sustainability are not mere buzzwords for the young generation. It is the biggest threat for the sector. If tackled well, it could become a huge opportunity for the sector and enable it to stand out.

Whether it is lab-grown diamonds, faux fur, or second-hand apparel, the next decade will be very disruptive for a sector that had arguably become complacent while enjoying a decade of strong growth. Existing luxury companies need to have alternatives such as these emerging categories in mind, and possibly invest in them as a hedge for when they affect their current businesses. A genuine transformation of processes is needed, as the next generation of consumers will not be so gullible. They will be asking questions.

A substantial amount of growth potential remains to be harnessed. The question is whether the industry will be brave enough to self-disrupt. Sometimes change only comes when managers don't have a choice. In 2020, a common joke was, "Who took care of your digital transformation? Your CTO? Your CEO? No, Covid-19!" External shocks can hold a silver lining–as long as brands remember whom they are selling to. Events like the pandemic can be catalysts for change that has long been needed, so that companies do not become irrelevant. The next decade will be positively influenced by the sector's shift from complacency.

This article is based on the author's latest book "Future Luxe: What's Ahead for the Business of Luxury", Figure 1 Publishing, 2020.

Erwan Rambourg

is Managing Director and Global Head of Consumer & Retail Research for a multinational bank, and the author of "The Bling Dynasty: Why the Reign of Chinese Luxury Shoppers has only just Begun" (2014) and "Future Luxe: What's Ahead for the Business of Luxury" (2020)

References

1. Frank Tang, "China's Economic Buzzwords Explained, from 'Common Prosperity' to 'Dual Circulation'", South China Morning Post, September 12, 2021.
2. Pamela N. Danziger, "American Affluents Plan to Pull Back on Luxury Spending–Are Luxury Brands Ready for This?", Forbes, May 24, 2018.

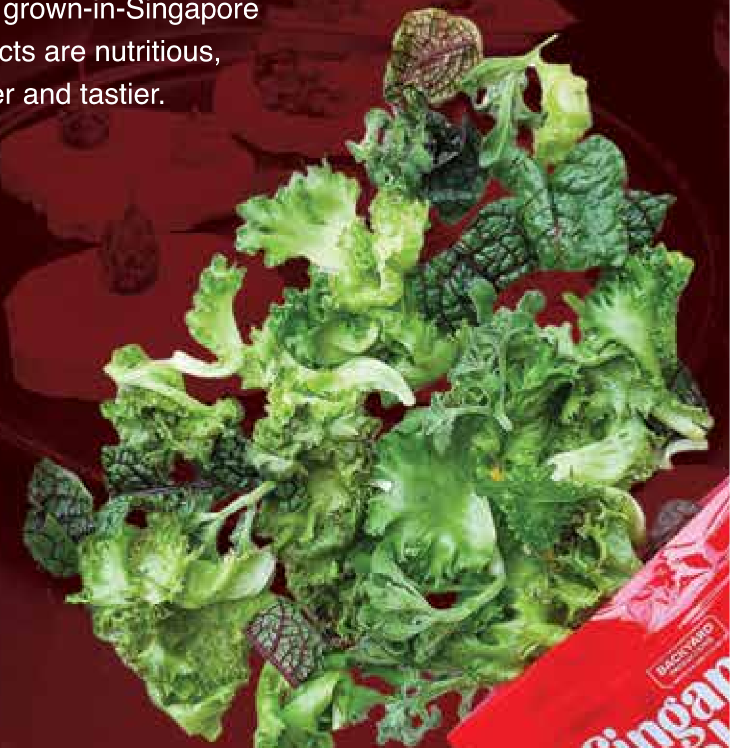
BACKYARD PRODUCTIONS
BRINGING LOCAL FARMS TO THE TABLE

We bring the best of local farms to the forefront of the F&B industry

From fish to veggies and everything in between

SINGAPORE'S URBAN FARMING REVOLUTION

Backyard Productions is a movement initiated by food distributor FoodXervices Inc (www.foodxervices.com) to motivate F&B establishments in Singapore to support local produce. It aims to revolutionise the way food is eaten and grown in Singapore. Besides making the nation's food supply more sustainable and improving food security, Backyard Productions is also a new brand that champions home-grown produce to make them more easily available to F&B partners. Curated from farms that embrace modern technology, these grown-in-Singapore products are nutritious, fresher and tastier.



THE ORIGINAL SINGAPORE SALAD

Home-Grown Produce, Ready to Eat.

Taste the difference!
Developed by Backyard Productions, the Singapore Salad is a collection of carefully curated salad mixes featuring the best selection of home-grown produce by each farm partner.

*Now available for purchase on www.foodxervices.com

Find out more and join the revolution!

Backyardproductions.sg