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SHADES OF GREY

Manufacturers no longer need assembly lines and heavy machinery, yet they do not qualify as users of pure office space

BY LEONARD TAY

COLLIERS International contributed a commentary in the January/February 2013 issue of *The SME Magazine* on the growing "grey area" in the industrial real estate market as the manufacturing sector in Singapore evolves. The article described the blurring of lines between the traditional understanding of manufacturing and services, and the growth of technology and specialisation.

The identity of industrial space users in the modern era is no longer associated with just the traditional forms of manufacturing – which comprises assembly lines, heavy machinery and physical tools. Yet, these companies do not qualify as users of pure office space since their business activities contribute (in a telling way) to some major aspects of a product's life cycle, such as design testing. Consequently, the housing of clean and "office-like" functions/activities in industrial premises zoned Business 1 (B1) becomes ambiguous, or sometimes tenuous in the eyes of the authorities.

Fast forward a year, and the Monetary Authority of Singapore (MAS) has acknowledged this evolution of modern industry in Singapore and that "servicisation" has occurred in the manufacturing sector. In its April 2014 *Macroeconomic Review*, the MAS said that the services industry is becoming a bigger share of the economy and gaining importance as an engine of growth. Multinationals, including those in manufacturing, are re-aligning their operations to focus on delivering services, a trend termed "servicisation".

The same report says that in Singapore, "the shift towards a more services-based manufacturing sector is likely to accelerate in the coming years due to the higher profit potential of such activities". It goes on to elaborate that this phenomenon that is occurring in Singapore is also happening around the world.

Citing the *Global Service and Parts Management Benchmark Survey* by Deloitte Research, which polled more than 120 global manufacturers across the world, the MAS reported that services accounted for almost half of their profits, despite only accounting for a quarter of total revenues. In Singapore, a breakdown of global revenues by the largest electronics firms showed that revenues by services-related activities accounted for 48 per cent in 2007, before increasing to 55 per cent in 2013.

However, the most crucial characterisation of how manufacturing has changed in the technological age is the re-prioritising of the value chain. Examples cited in MAS's report described that "upstream in the semiconductor segment, many US multinationals have adopted a fab-less business model focused on 'design-only'", while "downstream in the consumer electronics segment, companies are increasingly generating revenue from software sales that are tied to the consumer electronics devices they produce".

With firms concentrating on the segment in the value chain that they are most specialised and competent in, they start to lose the physical wardrobe of traditional manufacturers, and their space usage takes on a more office-like form – where design, testing, after-sales augmentation and product consultation take place.

And therein lies the dilemma. Industrial real estate in Singapore, specifically B1 space meant for clean industries, has not yet caught up with the servicisation trend. This is especially so according to the industrial usage definitions put in place by the relevant government agencies.

As the manufacturing landscape evolves, the government's planning – as well as land use and activity definitions of what is considered suitable and allowable in industrial premises – need to reflect uses that are traditionally not industrial activities, but nonetheless contribute to some stages of a product's life cycle in today's technology-based platforms.

But the government appears to be reticent. In a recent news article published in *The Business Times*, JTC Corporation chief executive officer Png Cheong Boon was quoted as saying: "We look at (industrial definitions) continuously. But if the new industry's facilities can fit into B1 or B2, I think we would be hesitant to change (these definitions) because once we change it, there are significant implications in terms of land values, etc. What's more important is to make sure we continue to refine what activities can go into B1 and B2 rather than trying to change the zoning."

True, the industrial real estate sector and its manufacturing occupants do not expect radical changes. But manufacturing-related companies would welcome a refinement within the ambit of the B1 and B2 usage definitions that is both a realistic and an accurate representation of the activities of modern manufacturers.

The fact remains that companies with characteristics of modern manufacturing continue to have difficulty in securing industrial space. And as long as many businesses still fall into the ambiguous gap under the official definitions, it suggests that the range of allowable uses remains myopic, in an issue that has dragged on for far too long.

Some might consider it rather ironic that one branch of the government has already explicitly described the inexorable route of servicisation that manufacturing is taking, both globally and locally, but another government arm does not think that there is a necessity to review the industrial B1 usage definitions to accommodate the ubiquitous paradigm shifts in the sector.

However, it is unlikely that a small and medium-sized enterprise (SME), located in a B1 industrial facility would appreciate the irony when a government officer comes knocking at the door of their industrial premises and does not find the traditional forms of manufacturing trade physically in place.

It begs the question of whether a government officer checking for unauthorised use would be able to fully understand and appreciate why a company is set up with computers like an office environment, even when the company representatives explain that they are in the business of contributing to a product's life cycle, and that their role in the entire intricate production process does not require any evidence of large complicated machinery or lines of factory workers.

And in the event that such companies are evicted from their premises, where in Singapore can they go where production companies of the new age would be welcome? Does the government have other alternative real estate options for such companies? Or will their space requirements continue to be ambiguous, with few cost-effective solutions in Singapore's landscape?

The sooner the government takes into account the sweeping changes in the manufacturing sector, the faster reforms in the usage definitions and the industrial real estate market can be enacted; thereafter, reducing the number of manufacturing-related companies that fall afoul of the current "letter of the law".

But it is not just the government that has to take note of this apparent conundrum. SMEs also need to be aware that while the government acknowledges that the face of manufacturing is changing, the application of real estate is not as yet reflective of the dynamic nature of production processes. If SMEs – especially those that are servicing multi-national corporations – are conscious of the fact that their activities are becoming more specialised in line with the descriptions in the MAS report, they could perhaps provide feedback to the government that this is the reality that has to be faced if and when it refines the industrial usage definitions and allowable uses. ■

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