

Outsourced service sector caught in bind

Rising costs, tough tender pricing make it hard for many firms to raise wages

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EMAS' Mr Ng: Where service buyers extend contracts at the same price, providers suffer - ST PHOTO: JOSEPH NAIR

[SINGAPORE] The recent wage hike recommendation by the National Wages Council (NWC) has drawn much cheers, and deservedly so in the interest of the Republic's low-wage workers. But are companies in low-wage sectors like cleaning, landscaping, security and laundry services able to fulfil their dual roles as employers and outsourced service providers amid the current business environment?

As it is, overall business costs in these industries have been on the rise, and are expected to continue surging this year. Major players from the respective industries estimate that overall business costs could go up by 5 per cent in landscaping, 10 per cent in security, and up to 25 per cent in laundry.

With labour costs constituting about 40 per cent of overall business costs in the laundry sector, and a further 70 to 80 per cent in the cleaning, landscaping and security sectors, the moral obligation to raise wages is a challenging one to meet, especially when service providers face difficulties in passing on enough increases in costs to stay viable.

To make matters worse, existing cost challenges caused by the tight labour market - driven by the foreign worker levies and dependency ratio ceilings, as well as the lack of Singaporean workers - have exacerbated service providers' inability to pass on costs. This has further crippled their abilities as employers to increase salaries for low-wage workers.

Nevertheless, it seems that some service providers have no choice but to absorb their own cost increases. Landscape Industry Association of Singapore (LIAS) chairman John Tan said that there has been "little or no increase in prices in the past two years" due to competitive pricing and the fear of losing tenders.

On top of that, Environmental Management Association of Singapore (EMAS) president Milton Ng said there are many instances where service buyers exercise their rights to extend expiring contracts by another year - at the same price - upon seeing new tenders that are usually priced 20 to 30 per cent higher.

This has been observed in the landscaping industry as well, said Mr Tan.

"In instances like these, service providers suffer and cleaners cannot expect salary increments for another year," said Mr Ng. Furthermore, Nature Landscapes' assistant director Jacqueline Allan said multi-year contracts that typically last between two to four years do not allow service providers the leeway to make claims for escalating costs that result from levy hikes or policy changes. This problem is consistently seen across the other outsourced services as well, where contract durations typically range from one to three years. Bigger contracts with higher capital expenditure can even last from five to seven years in the cleaning sector. To be fair, however, the picture pertaining to the passing on of costs is not completely bleak.

Between Laundry Network and Zero Spot Laundry Service, prices have risen between 3 and 20 per cent, while Association of Certified Security Agencies (ACSA) president Robert Wiener said prices in the security sector should have risen by 6-12 per cent in the past few years.

There was also a marked increase in tender prices for cleaning contracts, which rose by 20 to 40 per cent in the past few years, according to EMAS's Mr Ng.

Yet, he said that these figures give no reason for optimism, as the main national agenda of increasing the real income of low-wage workers has not been achieved.

Mr Ng said: "This increase is not sustainable because local wages have been suppressed all these years. With inflation, the lower-wage workers are still struggling to make ends meet."

The solution, as it may seem to NWC, lies in encouraging a culture of "best-sourcing". Along with its wage recommendation three weeks ago, NWC called on buyers of outsourced services to incorporate its wage guidelines into their contracts and to factor in annual wage adjustments as well.

However, not all the service providers BT spoke to were convinced that this would be efficacious.

Security firm Soverus' chief executive Paul Lim said: "As long as there are other competitors willing to adopt cut-throat pricing, clients will always be inclined to use the cheapest quote."

"Unfortunately, our industry is sometimes its worst enemy," added ACSA's Mr Wiener, who thinks that the service buyers whom these firms attract will realise in time to come that there is an inevitable trade-off between costs and reliability.

To that, Nature Landscapes' Ms Allan suggested that future tender evaluation criteria could include degree of mechanism, skill level and competency, work performance and safety performance.

Cleaning firm LS 2 Services' general manager Dennis Tan cited examples of a few firms from the private sector that already adopt "best-sourcing" and guessing that the practice could become a norm in Singapore perhaps two to three years down the road.

Nonetheless, despite the cost pressures that they continue to face, Laundry Network's chief executive TP Chan, Zero Spot Laundry Service chief executive Alex Teo and Soverus' Mr Lim shared that they still intend to raise the wages of their low-wage workers by at least \$60 this year as recommended by NWC.

Mr Lim said: "In fact, I'll do better than that!"