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## Reset, remodel, reward

As the manufacturing economy 'resets' to knowledge and service, firms who unlock their workforce's creative potential will be the winners, says author Richard Florida

BY ROBERT JEFFERY

Will 2011 mark the painful birth of a new economic era? Leading business author Richard Florida certainly believes so – and he has history on his side. Recessions have caused seismic economic shifts before. In the 1870s, the Long Depression sealed the transition from an agricultural to industrial economy and ushered in industrial growth. In the 1930s, a new consumer-driven economy emerged from the agony of the Great Depression. Florida believes we are now on the brink of a third 'reset' of the global economy, as science, knowledge and service replace consumer goods as the drivers of growth.

"The housing, energy, consumption bundle was the powerhouse of the industrial economy. Now we're in an economy of information, technology, science and knowledge, where we need more skill development. Things that used to signify wealth and security – home ownership, new cars, luxury goods – will be replaced by more experiential consumption like travel, recreation, self-improvement and so on," says Florida, director of the Rotman School of Management's Martin Prosperity Institute and author of *The Great Reset*. If he is right, the implications for business and government are profound.

The U.S. Bureau of Labor Statistics predicts the country will lose 1.2 million manufacturing jobs by 2018 – but employment in professional occupations and services will rise by 17% and 14% respectively. And the service sector accounted for 78.3% of U.S. private sector GDP in 2009.

Some technology giants have anticipated this shift. Hewlett-Packard bought EDS for US\$13.9bn (€10.8bn) in 2008; services now account for 28% of its revenue. IBM, once synonymous with PCs, sold its PC manufacturing operation in 2005, and is now the world's largest IT services company.

The shift from a manufacturing-based economy started a while back, but not every company has adjusted its strategies accordingly, even though the effect on the engineering and automotive industries has been obvious and dramatic. Florida says "design-intensive industries, including goods-producing ones like fashion and furniture" will

be next: "They face even fiercer competition from rapid copycatting, mass production and distribution. These industries will have to excel at constructing powerful, authentic experiences, differentiating their products from knock-offs and building strong brands."

This resetting is, Florida says, a vindication of management guru Peter Drucker, who believed that companies gained a competitive edge by investing in a "community" of human capital, not automation or faster machines. With the internet levelling the global playing field, service is even more of a differentiator, a trend which will force the service sector to reinvent itself.

For Florida, the low-pay, low-added value model, where firms treated staff "as not only liabilities, but as enemies" needs to give way to something more creative where businesses can generate added value. Hotel chains like Mandarin Oriental are the service business of the future, he says.

The service sector can learn from manufacturing: "We made manufacturing work more efficient. We organized workers in teams. We had them contribute to productivity and engage in quality circles. The better service companies are suggesting service work can be more efficient. As they engage in continuous improvement, as they work in teams and make suggestions, they make more pay."

For this urban – and distinctly urbane – theorist, the lessons of the economic crisis are clear: "Companies that fared well during the recession focused on improving their productivity by getting the most out of their employees, particularly their problem-solving and creative abilities. These companies also re-focused and improved on their competencies: they did not take on new ventures outside their competitive advantages."

And if he was a CEO, what he would do next? "I'd be striving for the win-win, where my firm could be more productive and harness more of the creative potential of my workforce. I would be building the reward systems and necessary institutional mechanisms to do so. Great resets give us the opportunity to remake ourselves in the wake of a crisis." ●



*"Companies that fare well get the most out of employees' problem-solving and creative abilities"*

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