

Franchising

Franchising becomes 'natural progression' for expansion in S'pore

The franchising and licensing industry in the city-state of Singapore is growing at a brisk pace but challenges abound. **Jolene Klassen** reports.

With Singapore's franchise and licensing sector achieving close to S\$80 billion (US\$63 billion) in annual turnover and the industry in Asia expected to reach US\$100 billion over the next few years, it stands to reason that the industry in the republic will continue to grow. As of September 2011, 35 out of about 150 members of the Franchising and Licensing Association of Singapore opened at least one franchised outlet, a 10% increase from the whole of last year.

However, beyond the growing number of concepts and brands, the franchise and licensing industry here is becoming more recognised as a natural means of expansion, observes Bernadette Wong, media relations manager of Creative Eateries Group, which manages restaurants serving western and Asian cuisine in Singapore, Malaysia and Taiwan.

"The industry has seen significant growth in recent years with respect to professionalising franchising as a mode of growth and advancement. Franchising has become almost a phase of natural progression for most companies seeking to expand locally and overseas, and is almost always considered as a growth strategy for local businesses especially in the retail and F&B sectors," she states.

Noting that the franchise industry currently makes up about 18% of domestic retail sales volume, which includes both overseas and local franchises, Wong continues: "While this is not a staggering percentage, I believe

it is set to increase along with the growing spirit of enterprise among young Singaporeans, many of whom are well travelled and familiar with successful international brands."

Stanley Wong, director of Delinatural (Asia) Pte Ltd, the master franchise for New Zealand Natural in Singapore, also notes that franchising is just as important for foreign brands looking to set foot in the local market.

"Foreign brands can make use of Singapore's strong economy and spending power to attract local investors to be franchisees and expand at a faster pace," he continues.

Since bringing the award-winning international ice-cream brand into Singapore over a decade earlier, Delinatural (Asia) now has nine stores, with its products served at various F&B outlets and supermarkets islandwide.

Another boon to taking the franchise and licensing route is that it provides entrepreneurs the opportunity to learn the ins and outs of running a successful business, without having to take on the entire risk that comes with starting a business from the ground up, notes Creative Eateries' media manager.

"Franchisees/licensees would be able to leverage off the franchised brand's clout and existing presence without having to build the brand identity from scratch," she says, adding that the latter's expertise in marketing outreach,



Stanley Wong (right) of Delinatural Asia, master franchisee for New Zealand Natural (above) in Singapore: "Foreign brands can make use of Singapore's strong economy and spending power to attract local investors to be franchisees and expand at faster pace."

design and renovation, understanding customers' expectations, and finding suitable locations for stores, among others, would also be an advantage to such entrepreneurs.

Despite the industry's growth over the past few years, challenges still abound in the sector, just like any other business in Singapore, Creative Eateries' Wong points out.

"The high operating costs of running a business in Singapore is naturally a barrier of entry for potential franchisees who also have to factor in the franchise fees into their operating costs. As the local franchise industry is constituted largely by retail and F&B businesses, the current manpower policies that take



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a conservative view on hiring of foreign manpower may also be seen as a challenge to the success of local franchising [players],” she adds.

With a relatively small local market, Wong also observes that a certain degree of brand cannibalism may come about and Singapore businesses are more likely to meet with success overseas than on their own turf.

Additionally, while the sector creates up to 20,000 jobs for the local retail industry, businesses find that a shortage of manpower also remains a challenge in the city-state, due to a lack of interest from locals to work in the industry, notes Pamela Seak, business development manager at PurpleClay Consulting, a franchise and branding consultancy that provides assistance to local SMEs (small and medium-sized enterprises) on a wide spectrum of franchise-related matters.

“This has also led to problems in meeting quotas and the hiring of foreigners to fill the gap. At the same time, the recent increase in the levy for foreigners has further impacted the business cost of most enterprises,” Seak continues.

Delinatural’s Wong also concurs, adding: “Singapore is a competitive environment. The local labour force is less willing to work in the retail sector and there are limitations and higher costs in employing foreign workers.”

Singapore entrepreneurs still lack the risk-taking appetite that is a key requirement when taking on a franchise or licence, he believes. “The environment and culture here has made Singaporeans less willing to take risks, more so after the baby-boomer period. There are no obvious indications that people are becoming more willing to take risks. Perhaps having a steady economy and job market is a contributing factor for not taking risks,” he elaborates.

Space rentals and the sustainability of venues in terms of finding suitable locations at affordable rates also challenge the industry.

“Due to a highly competitive environment, the market share is being finely divided and at the same time the profit margin is being squeezed with escalating rent and labour costs,” says Delinatural’s Wong.

Aside from the market challenges in the industry, Creative Eateries’ Wong states that finding “a meeting of minds” between both the franchisee and franchiser is also hard to come by.

“In the negotiation stage of a new franchise, franchisees are often very focused on the returns on their franchise investment and tend to neglect the culture factor of the partnership. The cornerstone of a successful franchising partnership is for both franchiser and franchisee to share the same vision and objectives for the brand’s growth. Without this, even partnerships that are bound by watertight agreements may face disputes,” she explains.

Still, the sector’s continued growth may alleviate these challenges, notes PurpleClay’s Seak. “The industry is still growing, due to the attractiveness of proven concepts, which mitigate the threats brought about by manpower shortage and rental increase,” she states.

In order to lower the risk of loss and failure, the franchise consultant advises that before taking on a franchise or licence, it pays to do one’s homework. “Check whether the business is a proven concept. Until the franchise actually commences, no amount of research and survey can accurately forecast the demand and the reception the concept will get in your territory. Practitioners need to get into the action, to verify their acumen and decision to purchase a certain franchise concept,” she says.

Other tricks of the trade are to remain prudent and stick to budgets as best as possible, Seak continues. “Many franchise systems require the franchisees to order supplies — books, raw materials, and so on — from the franchiser. In return, franchisers expanding to newer regions can also leverage on their local partners’ knowledge and expertise, as the latter is usually better versed and knowledgeable on market trends and regulations,” she elaborates.

As a result of the lower risk of loss, tendencies to be over-ambitious and to expand too quickly are some of the common setbacks of taking on a franchise or licence.

“Franchisers may sell the idea that the concept breaks even and profits after a few months, but most concepts will return a sustainable profit stream after 12-24 months. This has caused many candidates to be sold on the concept, but disappointed on the outcome,” Seak discloses.

Fortunately, increased education, sharing platforms and the sector’s maturity continue to ensure the steady uptake of franchise and licensing concepts, paving the way for new entrepreneurs setting out to become new business owners, notes Seak.

“In the early 2000s, most of the franchise concepts were educational and F&B-related — constituting over 80% of franchise offerings in Singapore. Today, there are more diversified concepts such as healthcare, printing services and automotive maintenance,” she states.

Delinatural’s director concludes that while the sector is a “tough market” to prosper in, social and economic stability will continue to lure investments. “For individuals prepared to take the risk, franchising is a worthwhile route to take for a shorter learning curve, wider brand coverage and greater recognition as compared to starting one’s own brand,” he maintains. **ra**

Creative Eateries’ Bernadette Wong: A meeting of minds between both the franchisee and franchiser is hard to come by, without which even partnerships that are bound by watertight agreements may face disputes.

