

franchise focus

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RFA The Romanian Franchise Association is the voluntary self regulating governing body for franchising in Romania.

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One Stop Shop Franchising in Singapore

Pushendra Sharma (Managing Director, Mantraa Ventures Pte. Ltd., Singapore)



In this article, Pushendra explains factors that make the retail landscape in Singapore so promising; also highlighting some of the key considerations that make a franchise model successful.

The “Little Red Dot” is an epithet for the great nation of Singapore. But by no means is this little red dot, ‘little’, especially in the evolving world of retail and franchising.

Singapore’s retail industry has seen massive growth either through direct expansion via company owned stores or through franchising. Since the year 2005, operating revenue has grown from \$21 billion to \$31 billion and the contribution of Singapore’s retail sector to the Gross Domestic Product has been quite steadily growing as well.

Adding impetus to this retail phenomenon is the Singapore governments policies related to foreign investments, which combined with investments through government linked corporations have strengthened Singapore’s open, heavily trade dependent economy. The World Bank’s “Doing Business 2011” report ranked Singapore as the number one country for ease of business. Moreover, the Government of Singapore is not only strongly committed to maintaining a free market, but also takes a leadership role in planning Singapore’s economic development across all sectors, including retail. With its easy policies for setting up a company and its attractive tourism related initiatives, Singapore provides an ideal hub for growing international brands.

Moreover, there has been a fall in real estate rental rates across prime shopping centres in Singapore, eg. along the famous Orchard road. According to CBRE’s retail real estate report in Q1-Q2 2012, rentals for prime retail spaces dropped to US\$455 (S\$574) per square foot per year from US\$470 (S\$591.87) in the previous year. This improved affordability has prompted many international consumer brands to set up brick and mortar stores in Singapore, which was hitherto considered to be a rather expensive undertaking. Some of these international brands include H&M, Abercrombie & Fitch and Dean & DeLuca – the establishment of which generated huge excitement in Singapore – with locals & tourists alike.

Speaking of tourists, Singapore is considered to be an Asian hotspot – a veritable melting pot for cultures and concepts. The local Singaporeans, expatriates as well as a large floating population of tourists contribute to this melting pot – and the mindset of “Trying something new”. This urge for experiencing new things has given rise to a large number of concepts adapted very quickly from other countries and brought successfully into Singapore via Franchising. Everything from Taiwanese bubble tea and Manhattan style pizza’s to Singaporean cosmetics and Italian apparel stores have been successfully franchised.

Franchising is defined as “*a continuing relationship in which a franchisor provides a licensed privilege to the franchisee to do business and offers assistance in organizing, training, merchandising, marketing and managing in return for a monetary consideration.*” Franchising is a good way for a brand to rapidly

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expand on its success – without having to commit too much resource. For a franchisee as well, franchising represents an exciting proposition – to run a proven business model in new territories, while getting access to the best in class capabilities for organizing, marketing and managing it. The franchisee can also take the “Master Franchise” for brands, whereby they can drive the expansion further across the region through sub-franchising, which is a tried a tested strategy.

Over the years, Singapore has become the retail head quarters for various brands offering various franchising opportunities within the Asia Pacific region. To adopt a Franchising route, can be an extremely effective and profitable way to grow a business. Although, franchising is unique and distinct from other business processes, some of the key elements that are needed to make a franchising model successful are:

1. Passion / Business Acumen:

- a. It is important for the prospective franchisee to have a passion for the retail concept, brand and the necessary business acumen to be able to grow the business.

2. Brand Equity / Concept:

- a. Generally, the brand and/or concept should be a tried and tested model, something that shows promise, is part of a growing trend, irrespective of the type of sector.

3. Expenses: Upfront Cost, Operating Expenses:

- a. Prospective franchisees need to fully understand all the associated costs, which will help determine the ROI (Return on Investment).

4. Support offered by the Parent Company/Franchisor:

- a. For prospective franchisees, it is important to know what kind of support is offered by the franchisor – eg. Assistance in sourcing real estate, providing market/location analysis and turnkey design services etc.

5. Restrictions on suppliers/vendors:

- a. It is important to understand whether there are any restrictions on appointing a particular vendor and/or supplier. Usually, the parent company provides a list of designated and/or preferred vendors and suppliers for its franchisees.

6. Sub-Franchise Terms:

- a. The sub-franchise terms needs to be fully understood, if necessary in consultation with a legal and/or franchise expert.

7. Training and Customer Service:

- a. For prospective franchisees, it is important to know what kind of training and support the franchisor will provide on an ongoing basis for all its partners and staff.

8. Territorial protection:

- a. It is important to understand whether there are any territory protection regulations, where one franchisee cannot open a store in another territory during sub-franchising.

9. Non Competing Clause:

- a. This is important clause to understand at the time of leasing. For example, mall owners typically have non-competing clauses in their leases, where brands with similar product offerings cannot co-exist in the same mall. In such a situation, the expansion of a brand/store through a franchise model can be hampered.

10. Location/Site Selection/Design:

- a. Location is perhaps the single most important aspect for any successful retail venture. The site selection and location analysis should be carried out with the use of experts to determine the market readiness of the brand/concept and suitability of the location. The implementation of the design needs to be handled efficiently as well.

These are some of the key aspects that a prospective franchisee must consider before taking up a franchise, regardless of the concept. Competition is always considered to be healthy and both international and local retail concept create variety, add flavour of choice and keeps the brands relevant.

In the last several years, we have seen some exciting trends, taking shape within the franchising realm in Singapore, eg. Gong Cha, Swensens, Gelatissimo and many others. Some Singaporean brands too have successfully ventured into international markets, eg. Charles & Keith, Crystal Jade, Sakae Sushi, Bread Talk, Thai Express etc. Since these brands are now established names in the business, they prefer to adopt a franchising route, thereby unlocking their brand value with suitable partners.

Through the franchising model, we will continue to see various concepts evolving, which will further anchor Singapore position as one of Asia’s most vibrant and exciting destinations within the retail and franchising industry in Asia in the years to come.

As Fred DeLuca, founder of Subway Restaurants had once said, “The world doesn’t stand still and we don’t deserve to be where we are unless we stay ahead of things and take the necessary steps to remain competitive.” And franchising provides a great opportunity to brands to remain relevant and competitive while expanding their footprint in an ever changing retail environment.



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