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A recipe for success: Asia's F&B franchising

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A Recipe for Success

Navigating to win in the Asian food and beverage franchise space.

By Koh Kek Sin

Asian food and beverage (F&B) brands are exploding in popularity all over the world. Since 1999, Asian fast food restaurants have grown by 500 percent globally, making it the single fastest-growing food category, outstripping the growth of the next four, i.e. Middle Eastern, Chicken, Pizza, and Latin.¹ At the same time, there is a huge opportunity for F&B franchising in Asia Pacific—over the past decade, the sector has flourished with the entry and expansion of both international and Asian brands, and in 2016, the restaurant industry in this region was estimated to be worth some US\$1.5 trillion.² Going forward, there is more space for growth with the continuing rise of the middle class in Asia. However, one must be careful not to treat Asia in a homogeneous way, as consumer expectations and preferences, and a brand's business model, could vary significantly between developed nations, such as Japan, Korea and Singapore, and the developing countries in the region.

Franchising has been a preferred route for entry and expansion in the F&B sector, and an increasing number of Asian brands have evolved into franchised chains across the region and beyond. This includes many Singaporean brands, such as BreadTalk, Old Chang Kee, Ya Kun Kaya Toast and Mr Bean, as well as brands originating from other parts of Asia, like Ippudo (Japan), Paris Baguette (Korea), Jollibee (Philippines), and The Pizza Company (Thailand). Many international brands too have entered and expanded their footprint in Asia through a franchise network.

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The benefits of franchising are many. The franchisee has the advantage and confidence in buying into a proven business model, with established systems and processes, compelling consumer proposition and potential for attractive investment returns. The franchisee also benefits from the franchisor's brand equity and ongoing development, and has the opportunity to learn core business competencies and knowhow associated with the brand and the franchise. Long-term business relationships and success may be developed through franchise agreements, which normally span a decade or more. On the other hand, the franchisor benefits from the local knowledge and network of its franchisees and the ability to expand its brand while staying light on capital. Franchising can thus be an ideal model to reduce risks when entering new, unfamiliar markets.

Asia offers many opportunities for F&B brands, but not all franchises have been able to establish a viable and sustainable business in the region. There are a number of aspects of F&B franchising that have to be considered when navigating the landscape in Asia.

Innovation and localisation

Successful brands have been sensitive to the need to innovate—and in particular, innovate by adapting to local trends and taste preferences. A case in point is a global QSR (quick service restaurant) brand that has enjoyed exceptional growth over the years from its localisation strategy, which has enabled it to establish an unrivalled presence across Asia. It first arrived in Asia with a single core product offering and subsequently developed and launched a spicier and crispier extension. This was followed by more creative flavours, which were developed based on local and regional taste profiles. These new flavours resonated with consumers, attracting a new group of customers while increasing the visit frequency of existing ones, resulting in a new and significant revenue growth layer for the brand.

While a brand's core product has to be executed consistently across its network of outlets to maintain brand equity, supplementing it with innovative local variants can increase the brand's relevance and top-of-mind recall to its target consumer groups. Another example is the Singaporean multinational F&B corporation, BreadTalk. In line with its motto of staying 'fresh and relevant', BreadTalk launches new localised and customised products, often coinciding with the change in seasons, festivals, and events. In China, BreadTalk offered panda-shaped products to raise funds for the victims of the Sichuan earthquake, and rocket-

shaped products to celebrate the country's first astronaut in space.³

And innovation goes beyond just food, encompassing the entire customer journey. Service and other experiential innovation—such as signature branded service, ambience and packaging design—can help generate more 'talkability' and increase brand recall, leading to greater brand usage and growing revenues. Additionally, as we know, the digital space is becoming more critical in attracting and engaging consumers. Hence, tech innovation in brand communication, consumer engagement and guest experience are critical in building brand relevance and vibrancy that translate into greater brand loyalty and higher revenues.

Holistic brand experience

Established global brands have a brand story to tell and a personality to project which consumers can relate to when they use the brand. For instance, Starbucks' culture and values can be felt through its consumer touch points, and it comes through in its clear and focused brand communications. This has enabled the brand to establish its identity and what it stands for, and build a strong relationship with its customers over a period of almost five decades. It would come as no surprise that by clearly defining what the brand stands for and bringing it to life with a holistic brand experience, the brand is able to establish an emotional connection with its customers, enhancing competitive advantage and building strong brand loyalty.

An example of an Asian experiential brand that is often quoted is HaiDiLao, the Sichuan hotpot chain, which is well known for its standout customer service. One can expect to be pampered and well looked after from the time one joins the queue to get in! From complimentary manicures, chair massages and shoe shines to car washes, HaiDiLao goes the extra mile to provide an unparalleled and memorable experience that people spread by word-of-mouth.⁴ While these add-on services may appear unrelated to enjoying

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a meal *per se*, they certainly make an impact on a customer's willingness to return, as the overall visit experience is a highly enjoyable and memorable one.

Many brands in Asia have the opportunity and capacity to offer a more holistic brand experience to consumers and, in return, such brands will benefit from a growing and more loyal customer base.

Relationship, relationship, relationship

In Asia, relationship and trust matter a lot. The key is to establish a strong bond between the franchisor and the franchisee based on a common understanding and vision for the brand that leads to success for both parties. The franchisee must have the interests of the brand at heart, to nurture and develop the brand; while the franchisor must have the interests of the franchisee at heart, to support and build the brand together.

As a franchisor, it is helpful to view your relationship with the franchisee as a partnership—your franchisee's

success is your success. In fact, it may be likened to a marriage: choose your partner wisely, and once the knot is tied (agreements signed), it is about understanding each other better, meeting each other's needs in a give-and-take relationship (mutual support) for a stronger marriage (franchise) that will bear fruit (profits) and multiply (more outlets)!

Not investing in building strong relationships can lead to break-ups, which are costly for both partners. For instance, a few years back, there was one such incident that involved a global brand and its Asian franchisee. Due to a lack of cultural sensitivity and mutual understanding, the relationship, which started off well, ultimately broke down. It was an acrimonious parting of ways that led to the Asian franchisee establishing its own highly successful local brand.

Aligning expectations and building deeper mutual understanding and trust over time will help secure long-term success in a franchisor-franchisee relationship.





In family businesses, the family matters

Many large businesses and diversified conglomerates in Asia are managed and controlled by prominent families. While both family-run and corporate entity franchisees can be equally entrepreneurial and successful, business philosophies may differ and there is a definite personal dimension in Asian family businesses that is absent from a typical corporate environment. With family-run groups, it is especially important to have a strong relationship with the head of the family and her/his trusted family members. It is these relationships, often fostered at a more personal level, which will keep the partnership going during challenging times of volatility and uncertainty. Strong relationships and franchises have survived through the Asian economic crisis, SARS, avian flu, global financial crisis and the like!

There is hierarchy in any organisation but the concentration of authority is perhaps more pronounced in family-run businesses. When there are differences in views, the ability to resolve issues and re-establish business alignment will depend on the level of relationship that has been established with key members of the family, and in particular, the head of the family.

Another point worth noting is that multigenerational family businesses are intimately connected with, and often play a prominent and high profile role in, their local and wider business communities. Hence, family-run franchisees generally take great pride in having the privilege of managing well-known brands and are highly motivated to portray the brand in a good light, to make it successful and beneficial for their local communities.

Recipe for success

Based on a number of proven F&B franchise models, there appears to be six key ingredients that make a recipe (not a guarantee) for success. Although these ingredients are listed in no particular order of importance (they are all important), the first four mentioned form the foundation for success.



Consumer value proposition

The brand offering must be a compelling one that is focused, differentiated and relevant to the market and target consumers. Avoid offering a 'me-too' proposition. Take the emotion out of the equation and answer these questions objectively: "Why would consumers want to use (experience) this brand?" and "Why would they want to keep coming back?"



Profitability

The economic model must generate returns for the franchisee. If it is unattractive, it will be an uphill task to establish a sustainable and scalable business. It is about sharing the wealth to generate more wealth, and an optimal balance has to be struck for both partners to prosper.



Franchisor-franchisee relationship

The franchise is a partnership, built upon a shared vision for the brand and shared values for a long-term, win-win relationship. Establish trust and a joint commitment to develop the brand and make it successful. Non-renewal of contracts and break-ups can be very costly.



Culture and values

Establish the values and behavioural expectations that will unify the organisation and bring the brand personality to life across the franchise system. Make an emotional connection with team members and customers.



CONSUMER VALUE PROPOSITION: A QUESTION THAT IS OFTEN ASKED, "WILL MEXICAN CUISINE BECOME MAINSTREAM IN ASIA?"

Before bringing an F&B brand into a market, franchisors and franchisees first and foremost need to assess the strengths of the brand's consumer value proposition. When a fast food chain serving Mexican food first entered Singapore some 19 years ago, the company was faced with the challenge of developing a relevant and compelling proposition.

One of the questions that could be used as a test is, "Why would someone want to use (experience) this brand?" Another way to assess the relevance of a brand is to ask people, "When you go out for a meal, what types of food or places do you think of, as your options?" Most Singaporeans responded with Chinese, Japanese and Korean food, or curry, noodles, and rice, or chicken, burgers and pizza. Mexican cuisine did not appear to be top of mind.

When the brand was launched, it had a very high level of trial but did not generate significant repeat visits. This pointed to a concept with high novelty factor, but perhaps insufficient 'craveability' and relevance to generate adequate revenues

for a sustainable business model in the local market. It appeared to have only generated a niche following.

In evaluating F&B business opportunities, novelty alone is not enough. Look for strong and broad consumer appeal—concepts that consumers keep at the top of their mind and food which they love to eat and crave for repeatedly.

Since then, the Singapore F&B scene has evolved significantly, with consumers having greater exposure to more international brands, and higher levels of taste sophistication and expectations. Today we can ask the same (right) questions, and re-evaluate whether Mexican food has a strong potential to resonate with consumers in Singapore. With changing taste preferences and more familiarity with Mexican cuisine, perhaps a Mexican fast food chain may have a higher probability of establishing a successful and sustainable business model than it did 19 years ago.





Consistency in brand experience

Consistent execution across all customer touch points reinforces the brand experience, builds loyalty and generates more business. Apply a mindset and approach that “every visit is a unique and independent opportunity to delight your guest”. Execute the brand experience holistically.



Innovation

Make innovation a differentiator and competitive advantage that enhances the value proposition being offered to consumers. Innovate to generate ‘talkability’ and to stay top-of-mind. Innovation that cuts across the entire customer journey, not just of the food itself, will make the brand exciting and keep it relevant. Leverage on technology.

A bright future

As the world gets smaller with more people travelling and experiencing different cultures, more opportunities will open up for Asian brands to expand beyond the region. In fact, there are Asian concepts already serving up ramen, sushi, dumplings, bubble tea and other tasty Asian fare across the globe. Japanese, Korean, Chinese, Indian and Thai cuisines, in particular, could potentially have a stronger resonance with consumers globally. There appears to be an

accelerating trend towards offering authentic Asian cuisine and any remaining ‘poor imitations’ that exist today will no longer do for the future. The future is bright and the potential is huge for Asian F&B concepts that are innovative and able to offer a strong and compelling consumer value proposition. Perhaps it is no longer just about navigating to win in Asia, but across the globe.

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