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Venturing overseas, keeping business in the family

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Commune's venture into China breathes new life into parent company Koda

A quick check of Singapore-based furniture manufacturer and exporter Koda's 2018 annual report paints an optimistic picture: sales are up almost six percent (US\$52.4m v US\$49.5m) year-on-year while net profit jumped by an impressive 40 percent (US\$5.67m v US\$4.05m).

Recovering Original Equipment Manufacturing (OEM) and Original Design Manufacturing (ODM) orders from its main market in America helped padded numbers, but a large chunk of top line growth came from its seven-year-old retail brand, Commune, which saw a 30-percent growth over the past year with most of that coming from its 50 stores in China.

That success followed an initial learning curve.

“The major thing we learnt about doing business in China was product specification,” Commune CEO **Joshua Koh** tells *Perspectives@SMU*. “In Singapore, the dining room and living room are usually fairly small, so Commune's TV units are 1.8 metres long [to fit those dimensions]. In China, although the houses are also pretty small they have very big living rooms. When we first entered the market our products were under-scaled.

“We found out because the numbers weren't as good as we'd hoped and we also got feedback from our dealers. They told us that customers mentioned that the TV units were too small, or that the sofas were too small. That continuous feedback loop came to us and we developed bigger units to cater to the market.”

Expanding overseas, building a legacy

Commune's stores outside of Singapore operate on an exclusive authorised dealership model whereby the company works with a single partner in each city. Koh learnt early on it was not necessary for brands to run retail operations in China because “the market works on the basis of brands and factories going to exhibitions, showcasing their products to dealerships, and these dealerships in individual cities will take on your brands”.

“I feel that that way of running it is an efficient way of doing things,” Koh explains. “Brands can scale quickly because they are not hindered by [the lack of] resources, capital expenditure, rental risks etc. You pass all that to the next stop on the value chain, which is the retailers. On our end, we focus on product development, brand development, and advertising and marketing for the entire market.”

Koh believes plans are on track to expand the Commune brand to 100 stores in China by 2020. While conceding that growth is tied to individual partners “having the confidence to open a second and third outlet”, he points to multiple Chinese cities – Shanghai, Suzhou, and Chongqing among others – where more than one Commune store has opened. Additionally, there are plans to launch sub-brands of Commune in segments above and below the current mid- to upper-market niche it occupies.

With locations in the Philippines, Australia, Malaysia and its home market of Singapore, Commune's store count is closing in on 60 and rising. Stores in Hong Kong and India are scheduled to open soon while other regional markets are in various stages of development, boding well for the future.

Ironically, this push into the unfamiliar – and risky – retail business came from Koh's grandfather, 86-year-old Koda founder and Non-Executive Chairman Koh Teng Kwee. The younger Koh elaborates:

“He pushed us to open the retail part of business. Originally we were risk-averse because of the high cost of rental and advertising. These are intangible assets and investments. We were skeptical but my granddad drove that.”

“My dad [Koda Managing Director James Koh] saw his vision. There was the fear factor but they decided to go ahead but in a small scale. When we first started Commune it was just one shop in Singapore. We then saw the potential and demand, and we realised our products fit the Asian consumers well in terms of sizing and design. Also, our export customer base in Asia had similar tastes, so we thought, ‘Why not start something that can create a longer legacy?’”

Wealth into the fourth generation

Commune's development has helped Koda recover from the 2008 Great Financial Crisis. From a net loss of US\$1.7 million in 2014 to the US\$5.67 million profit it recorded this year, things are looking up for Koh and his brother Julian, Head of Design at Koda, and cousin Gan Shee Wen, VP of Sales and Marketing. As third-generation leaders of a family business, the trio is giving lie to the Chinese adage ‘wealth does not go beyond the third generation’ (富不过三代).

“From young, we weren't spoiled,” says Koh, referring to the Koda factory as his ‘day care centre’. “I was given money to work. I had to get a certain number of A's in school so I can get monetary reward. That instilled in me a culture of needing to work hard to get paid.

“Even our remunerations as officers of Commune are not overly high – it's pegged to market. It's always about the business. That's what separates us from your stereotypical third-generation business owner.”

As the business grows, the founding family has brought in professionals to help manage the business although hiring externally for the top job is not something on the cards for the time being. Will Koh's children be looking to become fourth-generation business owners?

“When I go to Vietnam I take them to the factory,” says Koh of his two sons. “I would like them to take over the business one day. When they are in secondary school I'll probably talk to them.

“That said, I don't want to force it on them. A lot of problems come when you force the next generation to take over the business. We see lots of business families selling out because they were forced into it in the first place, and they don't have any passion for it.

He concludes: “I would expose them to the business but it's up to them to take over the business or become a professional, a lawyer or doctor.”

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