

In recent times, we have witnessed the boom-and-bust of fads (which many has termed as sustainable businesses during their boom time) of bubble tea in the early 2000s, coffee buns in the mid-2000s, donuts in the late 2000s, just to name a few. These fads rode the euphoria of customers' demands during their boom time, and came crashing as fast as their rise. Further analysis into some of these concepts which sprouted out during their growth phase, revealed that many of these brands had little or no structures and systems. Their strategy (or tactic) was simply to expand into more locations to ride the demand for their products when they were the "best-seller" of the season. Many franchisees of these concepts burnt their pockets when they invested into these franchises during the peak of the cycle, only to suffer due to its short-lived peak and its subsequent steep decline. Such "black-holes" have eroded the confidence of franchisees and impacted on the franchising industry negatively.



**Moving Ahead**

At the point of writing, our industry sees many yogurt players (our current count stands at 21 yogurt-based concepts in Singapore), as well as the "re-birth" of many bubble-tea concepts and locations across the island. Will these concepts stand the test of time, or will it go down in records to be the first fad of the second decade in the 21st century? Time is the best witness to the verdict.

Franchising brings a set of pros and cons to the table, as new franchisors are attracted to the many advantages which a successful franchise may bring to their brand and operations. Many franchisors – with unstable or untested business concepts – are exploring franchising as their only alternative to expand their reach and customer base. In land-scarce Singapore, along with escalating rental rates and business costs, these franchisors have to embark on the franchising journey much earlier than their initial plans – to achieve economies of scale, higher profit margins, wider business awareness and increase customer database – so as to stay in this competitive game of business and survival.

Franchisees have to stay ahead of the game and be more savvy so as to avoid disappointment and investment loss. While the fundamentals of franchising remain, and potential franchisees are more open to new business concepts and opportunities, they should ask for in-depth questions, request for more information, and analyze their franchisors more carefully. On the other hand, franchisors will do well to establish proper business systems and structures, engagement procedures with the franchisees and stay committed to the franchising journey. It is possible to be young, small and a promising brand, while achieving the same heights as their predecessors who are more established, well-known and with stable operations. The proven brands started young and small too, didn't they?

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**In Franchising,  
It's Wise to Plan  
Before the Plunge**



By Jason Yap

**Here's a cautionary note: there are black sheeps within the franchising community.**

**Unscrupulous franchisees can cause severe damage to the reputation of the franchise business, to the detriment of other Franchisees in the same chain. By the same token, there are unqualified franchisors operating as well who are not taking their business seriously or merely operating it for profit and overseeing quality control measures.**



Further, having attended KPDNKK's launching of the **National Franchise Development Master Plan** held at PWTC on 10th January 2012, the Domestic Trade, Cooperatives and Consumerism Minister Datuk Sri Ismail Sabri Yaakob revealed that there are many unregistered Franchisees in the country. **Until now, the Ministry is facing a dilemma in detecting those Franchisees because it is not compulsory for Franchisees to register under the Franchise Act 1998. So buyers beware.**

There is really no hard and fast rule for selection of a new business venture and it really depends on the presence of a clear mind and access to knowledge if not someone who is readily available to provide relevant advice such as a consultant. In a nutshell, what do you look for when selecting the right franchise for you? Here are some useful thoughts to save you wandering recklessly into the unknown:

## Unveil the System

The Franchise System can be likened to the 'core' or the 'nerve' of a full operating or functional body. Before deliberating on any of the franchise businesses, it is therefore vital to always understand by conducting the necessary due diligence processes on business names (whether they are legal and still existing; trademarked or otherwise), historical data (to see how well the business were since incorporation), compliance check (any form of blacklisting by the MFA), staffing (properly hired staffs, trained staff; or illegal immigrants and unskilled trainees), supply chains (should you order directly from suppliers or from the Franchisor?), all proper documentation (the Franchise Agreement, the Operations Manual, the Translated Agreements et al.). With much certainty, these details eventually back up a smooth running, healthy Franchise System.

## Rallying the Troops

Besides, being vigilant in quality support and training may bring prestige to a small unknown business, not least the ability to consistently give assurance of it in the Franchise business nowadays in times of the ever increasing competition from all angles of the world!

Eye for systems which have regular Franchise meetings included in their System as well as an operational team who regularly visits Franchise operations to offer advice on how

to build the business and maintain quality standards. The operational team will continue to add value to your store by providing workshops in areas like cash flow, customer service, practical/hands-on experience, language training, etc to your employees. Every leader craves to have capable staffs in their business vicinity and such is the main reason for setting this right.

## Beat the Ultra Biz Ego!

In most franchises you may have the opportunity to dialogue with other Franchisees in the system. You should also take the opportunity to compare with a few existing Franchisees in the system (speak to a few) before you make any decision to move ahead. **It becomes very distressing these days that most would-be-Franchisees are not willing to conduct a market research.** So many operate from a "This is my store" or an "I know everything" mentality. They are only concerned with their own situation and are not willing to learn from others who have more experience. In many cases, they think they are Mr Know-It-All. In other cases, they are fearful to consult others for advice or they think they are being an inconvenience to others.

You need to have the right attitude in order to run a Franchise smoothly. The ability to **ASK** means giving yourself an opportunity to compete on a level playing field in the same industry and it is the same approach wherever you are.

## Accounting – Taking It All In

As with any industry, it has taken many years for expertise to develop in the franchising sector. Unfortunately there are many accountants and lawyers who provide very poor advice to Franchisees. In fact, some are actually learning about franchising at the Franchisee's expense. Accountants and bookkeepers who provide ongoing services to Franchisees need to understand the Franchise and retail sector. Accountants can easily charge high fees and process purchases and payments for Franchisees without providing adequate advice and explanations of whether more money is going out than coming in. Many accountants also do not show how they are performing against set KPIs (Key Performance Indicators), especially where they have no experience in the retail and franchising sector. To help service providers like accountants and bookkeepers, a good Franchisor will have in place recommended systems to measure sales, profit and loss, cost of goods, and so on.



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You don't need to be an accountant, but you need to start taking some interest in the difference between money coming in and money going out. You need to be able to manage your Key Performance Indicators. In a Franchise business your rent is fixed, and if a Franchisee takes up the operating cost benefits that are available through insurance and other services, then you need to control your labour and your costs of goods. And if these two get out of control, you are only killing profitability in your own hands.

Even if you have low rent and a high turnover, you can still be losing money. There are a number of Franchisees across all Franchise systems who do not understand retailing and who have no idea of what they are doing. A good business leader should be one who knows best in his/her business.

**A Franchise Afterthought**

Everything may look rosy and exciting at the beginning, but there may come a time when the Franchisee feels like he has made a mistake. After purchasing the new outlet, there are Franchisees who have developed cold feet a week out from the store opening or even wearing a stunned expression as if the end of world has cometh.

For many Franchisees, everything may have seemed exciting during the interview process, the site selection and the training period - all but the time when reality kicks in. Some have actually worked in other Franchisees' stores, loved the business and enjoyed the whole process, but once they get the ball rolling, the fear factor starts to surface.

My advice to you is: Know thyself. Decide now whether you can handle this and always be prepared!

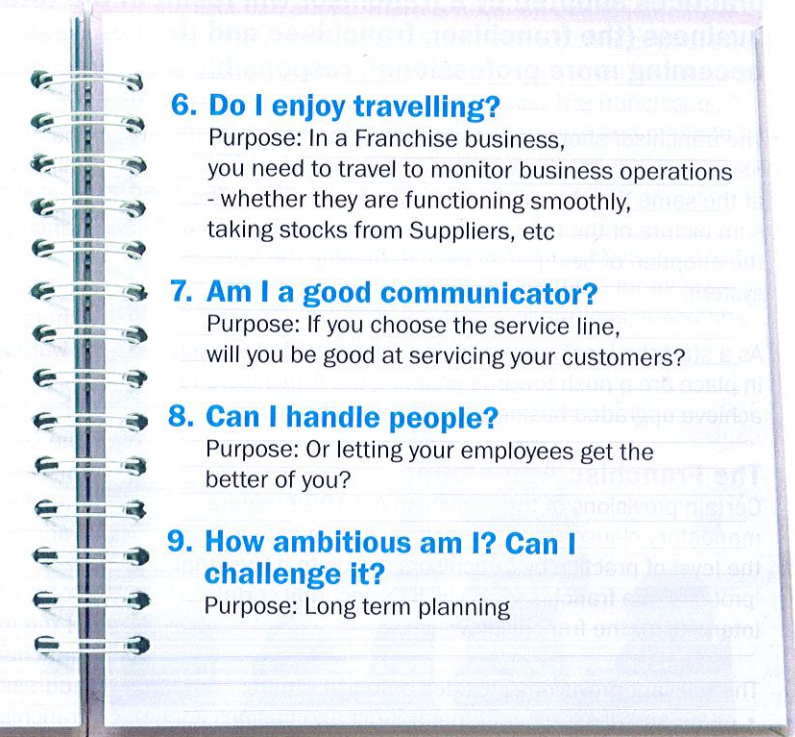
**Self-Examination for You!**

If you are interested in a Franchise, first you need to ask yourself these questions:

- 1. Is Franchising for me?**  
Purpose: To ascertain your business direction
- 2. What is/are my interest(s)?**  
Purpose: Clear sense of what you want to trade
- 3 What am I particularly passionate about in this business?**  
Purpose: What drives you - The passion or just monetary returns?
- 4. How much investment capital do I have?**  
Purpose: Take measurement of your means
- 5. Am I a social person?**  
Purpose: Discover "self"



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- 6. Do I enjoy travelling?**  
Purpose: In a Franchise business, you need to travel to monitor business operations - whether they are functioning smoothly, taking stocks from Suppliers, etc
- 7. Am I a good communicator?**  
Purpose: If you choose the service line, will you be good at servicing your customers?
- 8. Can I handle people?**  
Purpose: Or letting your employees get the better of you?
- 9. How ambitious am I? Can I challenge it?**  
Purpose: Long term planning

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