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Internationalizing Through Franchising - Singapore's Gambits in the GCC: Mining the Silver around the Gold

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ABSTRACT

Singapore companies are well-known for their systemic and operational efficiencies as well as technological competencies, and the city state's renowned transparent governance adds extra credibility to their methods of business dealings, especially so for government-linked companies. This paper, as part of our series on this topic, looks at how Singapore-based companies attempt to expand beyond the region, and tests the efficacy of the 'Singapore system' exported to emerging economies. It is the first in this series which focuses on Singapore companies who have opened franchises in the Middle East. The research takes on a uniquely 'Arabian allure', as we present evidence from the gambits of Singapore's privately-owned companies setting up franchises in Kuwait and the United Arab Emirates. Our results show that the perceived advantages purported through these Singapore-styled initiatives remains uncertain; as well, we find that socio-political intricacies in the host environments continue to stymie efforts to import competencies and business practices.

Keywords: *Franchising, Middle East*

1. INTRODUCTION

Singapore's aggressive approach to woo foreign MNCs to fuel the city-state's economic development is well documented, and this was in part due to the early recognition that the country needed to be plugged into the global economy. The city-state's lack of resources, small population base and increasingly high cost structure meant that companies intending to expand and grow had to look elsewhere. Regionalization became the key to tap into new and larger markets, generating demand that was previously unavailable. The policy document, Singapore Unlimited (Singapore Economic Development Board, 1995) encapsulated this paradigm shift.

The cut-and-thrust of the regionalization program involved the establishment of 'Singapore-styled' business environments for local and Singapore-based multinational enterprises to expand regionally and redistribute their resource-dependent operations to these sites. The efficacy of this stratagem remains a matter of debate (Yeoh, et al, 2006); and certainly, the Singapore government, practical-minded as it is, must already be looking further afield for ways to create economic space for the city-state and its corporate components. Singapore's aims have expanded, arguably, from regionalization to internationalization; and the latest area of focus for the city-state is the rich, vibrant and expanding region of the Gulf Co-operation Council (GCC).

Already, there is a strong presence of Singapore's government-linked companies (GLCs) amongst the internationalizing firms (Yeoh & How, 2011); of recent, many Promising Local Enterprises (PLEs) have started to take notice of the business opportunities in the GCC region to expand their brand names and enter new markets. It must be noted though, that PLEs tended to be small to mid-sized companies, with a much shorter history than the GLCs. Traditionally, these companies tend to focus on the local market, the goal being to generate brand loyalty and out-performing competition in the local market. Having establishing themselves as a recognizable name, they have since started to regionalize and finally internationalize in a different strategy from their bigger counterparts – franchising.

This preliminary paper continues our research series on Singapore's gambits in the Gulf region, as we turn our sights on this internationalization of Singapore franchises of various stripes into the GCC countries. This paper presents case studies of selected internationalizing-franchising PLEs, paying particular attention to the impact of local socio-political influences, and the successful (or not) transfer of core competencies in question, the closest corollary to the 'Singapore brand name' which the country's internationalization initiatives were predicated upon.

2. THEORETICAL CONSIDERATIONS

Prahalad and Doz (1987), Bartlett and Ghoshal (1989), amongst others, proposed three forms of strategies; global, international and multinational, as well as the integrated transnational strategy. An "international strategy" involves exploiting parent company knowledge and capabilities through worldwide diffusion and adaptation. Firms emphasize professional management and the transfer of technology and know-how to subsidiaries. Top management also relies on tight systems for strategic control and concentration of executive talent to coordinate activities. Conversely, delegating authority to subsidiaries diminishes the benefits of scale from a global strategy and the extension of the home market strategies into subsidiary markets yields suboptimal responsiveness to local pressures and differences.

Welch (1990) takes the discussion into franchising as an internationalization strategy, with expansion ethos, network spread and learning curve benefits amongst the raison d'etre for this strategy. Franchising is often seen as 'low risks, less returns', inter alia, for gambits into new markets with established products. Not surprisingly, most of the franchises operate in the retail-food & beverage industries, as these industries are highly fragmented and may not present clear competitors who dominate the market. The fashion industry, in particular, is characterized by a very short product life, fickle consumer preferences, numerous competitors, relatively easy and exit, and a myriad of manufacturing, marketing and retail alternatives. Most franchises have similar *modus operandi*, facing similar issues, from looking for suitable franchisees to transposing the value chain from the home country to the new market. The success of a franchise is contingent on how well the company balances flexibility/adaptability and consistency. For a franchise to be recognizable, certain aspects of branding and identity have to be standardized across all franchise, transcending borders. In each different market, the value chain has to be changed, modified, and adapted to suit local conditions.

In the following sections, we present a sketch of Singapore's gambits in the Gulf region, followed by case studies of Singapore's franchising PLEs with discussions on various issues and challenges faced by these companies, and conclude with our preliminary notes on Singapore's hitherto, lesser known, gambits into the GCC region.

3. SINGAPORE'S GAMBITS IN THE GULF REGION

Statistics and scenarios aside, however, it is clear that the fast-growing cities of the GCC have drawn the world's attention for reasons little to do with energy security (Abouchakra, R., C. et al, 2008); and for a city-state such as Singapore, determined to re-engineer its economic space, it presents new opportunities for Singapore companies to leverage on. The current prominence of the GCC economies in terms of business opportunities in general, and property developments in particular, has been the direct result of a pace of construction nothing short of breakneck, and a scale of investment only describable as overwhelmingly immense. That said, growth opportunities can also be found in a variety of sectors, moving away from the common notion that the region is only a bejewelled gem for oil investors and real estate developers.

Singapore GLCs lead the way into this relatively new frontier of investment and internationalization, but with non-GLCs following close behind, relying for the most part on their own business acumen and strategies, but taking advantage of support from both Singapore governmental entities, such as International Enterprise Singapore, and business groups, such as the Singapore Business Federation. However, there exists a clear distinction between Singapore entrants into the GCC countries, which comprise GLCs on one side of the divide, with policy-based goals jostling for space with corporate ones, and their non-GLC counterparts with less lofty and more practical aspirations on the other. Thus, while the majority of GLCs such as CapitaLand, Jurong International, KeppelCorp, SembCorp and Surbana are involved in property and/or infrastructure development, with the attendant issues of scale, non-GLCs expanding in the region can be further categorized into those also involved in consultancy services like DP Architects and RSP Architects; in lifestyle and entertainment services like Cathay; in food and beverage (F&B) operations like BreadTalk and Pastamania; and in retail-franchise arrangements such as Charles & Keith and OSIM.

The next section presents two case studies of Singaporean companies which have franchised their brands in the Gulf Region, their experiences thereof, and the insights that may be gleaned from their gambits.

4. CASE-STUDIES

Companies intending to open franchises generally need to have easily replicable business models to reduce required “show-hows” and transfer of “know-hows”, ultimately minimizing the lead time in opening outlets. Operations cannot be too complex such that the company spends excessive time and manpower resources in training the franchisee. However, this gives rise to the threat of being imitated by competitors and companies often find themselves having to put up new barriers through differentiation and the tweaking of certain products and services.

4.1 Company A: Food and Beverage

Company A is a Singaporean company who has expanded its chain of restaurant outlets into the Middle East, specifically, in Kuwait, Dubai and Syria. In Kuwait and Dubai, Company A operates its outlets under a master franchising system, one that utilizes a local Master Franchisee to oversee the operations of the entire franchise in the country. For the purposes of this case study, the focus will be on the franchise in Kuwait.

While its initial entry into Kuwait was through a Joint Venture (JV) with a local partner (*K)*, the JV was subsequently closed down as the roles and responsibilities of each partner in the JV Company was not always clearly defined and understood, resulting in conflicting opinions over who was actually running the JV. Subsequently, under mutual agreement, *K* was made the master franchisee of the brand in Kuwait. Under the franchising agreement, *K* bears the cost of opening new outlets and operating expenses incurred as well as keep all revenue earned from operations in the Middle East. A fixed franchise fee is paid annually to Company A. The franchising option exposes Company A to relatively lower risk than a JV or wholly-owned subsidiary would. Although the returns come through as a fix sum, the gain from brand awareness is constitutes substantial intangible value.

Company A had expected to encounter difficulties upon entering a new region; its parent company has had experience with franchising other brands, but this would be its first venture into the F&B industry. Somewhat expectedly, initial outlets faced difficulties such as low customer flow, poorly trained staff and locals had a tendency to avoided unfamiliar brands. It was only after making changes to operations and service standards that Company A was then finally prepared to start competing against fast food incumbents who were mostly other international franchises. Another 3 outlets opened around the city, intentionally clustered in a small area to allow for better control and achieve savings in distribution costs. This was also in line with the location strategy in Singapore, where outlets first opened in the city to allow better brand recognition.

Subsequent discussions led *K* and Company A to open outlets in Dubai, under a similar agreement. *K* currently runs 7 outlets in Kuwait and 4 in Dubai, and seems poised for further expansion in the two countries.

Company A’s entry into the Middle East as a PLE has gained noticeable attention from various Singapore agencies, who have started using it as a success story to encourage more Singaporean companies to consider doing business in the region. From this case, two things are apparent: it cannot be overstated how choosing the right local partner is essential and for survival, companies need the impetus to remain adaptable.

4.2 Company B: Retail (Footwear)

Company B is a Singapore Company which owns several footwear brands which it retails in its 55 outlets across 14 countries. While the company undertakes direct retailing in Singapore, it has expanded into the Middle East via franchising. Among the two brands under the company’s wing, the brand retailing women’s footwear has taken off well in the Middle East, expanding into Dubai, Qatar, Saudi Arabia and Syria. The men’s brand of footwear has followed suit overseas, partly due to the sharing of outlet space between the two retail brands. In this study, the focus will be on the women’s retail brand.

The company started its foray into the Middle East in 2002 by franchising the *ladies* retail brand in Dubai, carefully selecting one of Dubai’s biggest shopping mall, at that time, as the location of its first outlet. The local franchisee in Dubai was highly recommended to the company, as the franchisee had a list of other global brands under its franchise belt and was a formidable industry player in the retail franchise segment. Two more outlets in central Dubai followed in quick succession, whilst the company expanded into the Saudi and Qatari markets.

The company had good franchisee partners who understood the local business environment well. As important, location is always central to franchising decisions, especially with the characteristically high concentration of retail space per capita. The partners delivered with the right retail playground. To be sure, adjustments had to be made. Differences in the profile of women across the three locations saw the company having to adjust to the different needs; for instance, in Saudi Arabia where women are discouraged from removing their shoes in public, house visits to close sales were norms while more bags, rather than footwear, were being sold in the retail outlets. In marked contrast, Dubai's top products were footwear.

Company B fights to remain relevant to the Middle Eastern market by introducing new styles every 2 months. The company's choice of location remains very targeted and strategic, and even though expansion in the United Arab Emirates has halted temporarily, after the opening of the 3 stores in Dubai, these stores in Dubai consistently generate the most revenue in the region and, significantly, for the Group. And, as post-crises Dubai moves into recovery, the company is hopeful that customers will spend, and in Dubai's context, splurge.

4.3 Insights, Issues & Challenges

Similar to our research on the internationalization of Singapore GLCs into the GCC, research on the PLE's efforts to build overseas franchise reveals a somewhat disturbing, but not altogether unexpected, reliance on local (GCC) franchisee partners and equally Singaporean third-party organizations such as IE Singapore to shield firms from the region's reportedly rocky socio-political forces.

The strategy that these PLEs took to enter had obvious limitations. Some are immediately apparent, such as the possibility of conflicting goals causing friction between partners, threatening to derail the project itself, and some initially less so, until some years further on, when Singaporean companies find themselves with limited relevance due to 'local partners' learning from their processes and expertise.

The former, in the wake of the global financial crisis, have already emerged, with the primarily business concerns of local partners finding areas of disconnect with their Singapore counterparts, amidst financial aftershocks. However, the PLEs have remained relatively resilient, with some restructuring their business models after initial efforts to enter the GCC markets proved futile. Another careful consideration that most PLEs make is not to spread themselves to thin, with aggressive expansion plans and entry with more than a couple of outlets. The successful examples have shown a common trend – strategic and deliberate selection of location, in line with the "L" in Dunning's paradigm.

The transfer of core competencies by the PLEs to their operations in the Gulf region appear to have been relatively successful, as compared to their bigger counterparts, the GLCs, who have seen mixed results. Through keeping consistent the core value chain activities, these PLEs find it easier to obtain similar operating performances in the home country. However, some supporting activities such as marketing strategies, especially, cannot be imported in its entirety into their GCC operations, and have to be localized in the host country. The over-reliance on simply replicating the formula used in the home country without enough consideration to local conditions is often a crucial mistake that firms make and later on pay the heavy price of pulling out or restructuring. These observations dovetail neatly with those expressed in our interviews with representatives from both IE Singapore and the Singapore Business Federation, issues which, we note from our past research, appear endemic to Singapore companies in other regions, but which are all the more amplified in complex environments such as those of the GCC economies.

Intuitively, and interestingly, we find that companies with a more international focus had fewer issues with the new socio-political environments of the Gulf region – presumably due to said more international focus, as opposed to a preoccupation with domestic issues, creating a greater flexibility in operations. This often translates to an equivalent willingness to adapt and thus arise the theorized necessity for 'new viewpoints' – for companies to leave behind preconceptions and realize the greater need to enact change in response to challenges in new business environments, to build new wings to their business with expertise, but not expectations. It is interesting, to say the least, that Singapore PLEs, should seem to find less trouble in taking a pro-active, international, and adaptive approach to business in the GCC countries.

5. CONCLUSION

In much of the western businesses, franchising has already established itself as a tested and proven method mode of expansion, more apparent in the fast food and retail industries, led by bigwigs such as McDonalds, Burger King, 7-Eleven etc. The trend is catching on fast in Singapore and other parts of Asia, the network to support players in the franchising process growing larger. The opportunity stares directly at small local companies, and many see it as their golden ticket to internationalize their once obscure brands.

In particular, the Singapore's PLEs entering the GCC region follows close behind the proliferation of GLCs there. However, it is not always a sugar-coated route of entry for these companies. The amount of risk and effort taken by the franchisor that goes on behind is often understated, and concealed behind smiling service staff and bright shop fronts. Companies that do not have the tenacity and determination often fall short of their own expectations. The success factor is simple in name, but in practice, it almost always revolves around an endless search for a competent and amicable franchisee partner, one that respects the franchise agreement and is willing to work the "Singapore" way. This is further compounded by the geographical distance that even technology finds hard to bridge.

The careful art of balancing the localizing of services and products while staying faithful to the brand's mission and vision has to be picked up through experience. The line to be drawn between what can be altered, and what has to be consistent is often chalked-drawn, with the limitations often erased and redefined. Official commitment to these ventures remains, in the willingness of the Singapore's PLEs to adapt their business models. Easily, an insensitive marketing campaign or a non-compliant franchisee could bring down the brand; it is rare that second chances are given to foreign brands.

As the media continues to play up the Middle East as dangerous and mercenary, those who are able to see beyond the misconceptions, and misrepresentations, may find themselves looking at a wealth of untapped potential. The 'desert storm' will pass. We envisage more businesses to enter (or re-enter) the region, putting aside preconceived notions to strike out, mining the small pots of silver lining the big cave of liquid gold.

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