



Singapore: Franchise Services

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Summary

Singapore consumers enjoy one of the highest standards of living in the world, with a per capita Gross Domestic Product of over US\$35,000. Despite a small population of 4.84 million, it is home to more than 400 franchise concepts. Foreign franchises are well received in Singapore and the U.S. is by far the largest supplier of foreign franchises in the country. There are American franchises in practically every industry. McDonald's, Starbucks, Ben and Jerrys, Gymboree, New Horizons, Mister Minit, Avis, Hertz, Holiday Inn, Toys R Us, and many others have operations in Singapore. Australian franchises in a variety of industries have some presence in Singapore while Japanese and Taiwanese franchises are mainly in the F&B business.

The Franchising and Licensing Association of Singapore estimates that total sales turnover of franchises in Singapore amounted to US\$3.6 billion in 2005 (latest available data). Foreign franchises (especially from the U.S.) are estimated to account for 70% of franchise sales in the country. However, local franchise concepts have grown rapidly over the past few years and many of the larger ones are franchising abroad in Asia and several have opened outlets in the U.S.

Asset rich Singapore firms and entrepreneurs continue to seek new business concepts to introduce into Singapore and the region. Many are looking to diversify their business and some are seeking investments for their children. However, potential franchisees are now more discerning. Best prospects include F&B concepts and child-related/training franchises.

Singapore is generally a free port and an open economy that maintains one of the most liberal trading regimes in the world. Doing business in Singapore is transparent and the bureaucracy is not oppressive. There are no restrictive trade or investment policies of any consequence outside of a very small number of product areas. Foreign franchisors are not required to take on private or official joint ventures or cede management control to local interests. There are no foreign exchange controls nor are there taxes on capital gains or restrictions on foreign ownership of businesses. However, there is withholding tax of 10% for royalty fees paid out of Singapore. There is no special legislation or specific law governing franchising in Singapore. The franchise agreement is regarded as a commercial contract between the franchisor and the franchisee and is regulated under Singapore's contract law and other related laws.

Singapore was the first country in Asia to sign a Free Trade Agreement with the U.S. and the U.S.-Singapore FTA came into force on January 1, 2004. The Agreement makes Singapore one of the strongest Intellectual Property Rights (IPR) regimes outside of the United States thus giving strong IPR protection to American franchisors doing business in the country.

Singapore is the gateway to Southeast Asia. Its multi-racial society makes the country an ideal location for foreign franchisors to test their concepts and use the reaction to gauge the acceptance of their concepts in Asia. With its strategic location and well developed infrastructure, Singapore serves as the regional showcase and distribution center for products and services from all over the world. Residents from the region travel often to Singapore for business and leisure, making Singapore a good springboard for U.S. franchisors wishing to enter the markets of Asia. There are also opportunities for U.S. franchisors to work with Singapore companies with good connections overseas to enter third countries.

Market Demand

Singapore is an attractive market as franchising has become an established and proven business model in the country. According to the Franchising and Licensing Association of Singapore, there are more than 420 franchise concepts in Singapore. In terms of number, foreign and local concepts account for approximately 50% each but in terms of revenue, foreign concepts account for a larger share because of global brands such as McDonald's and Yum!

According to the Singapore Franchise Industry Survey 2007, 36% of franchisors in Singapore are in the food and beverage industry, followed by retail (26%), education & training (19%), business services (6%), health care (3%) and others (10%). While the number of businesses operating as franchises is increasing, the survey notes that most of the companies own only one franchise concept. Another key finding was that besides good branding, competitive products and services, comprehensive training program and strong systems and processes, having good franchisor-franchisee communication is vitally important for long term franchising success.

Singapore's consumers enjoy one of the highest standards of living in the world, with a per capita Gross Domestic Product of over US\$35,000. Average monthly income per household has risen from S\$4,943 (about US\$2,873) in 2000 to S\$6,280 (about US\$4,159) in 2007. Foreign franchise concepts are well received in Singapore and the U.S. is by far the largest supplier of foreign franchise concepts in the country -- you can find a Starbucks at every corner on Orchard Road, a major shopping belt. There are 57 Starbucks stores on the island while Coffee Bean & Tea Leaf has 45 and Spinelli has 28 stores here. To cater to local tastes and demand, some foreign franchisors have introduced local items to their menu.

Franchising of local Singapore brands began in the 1980s with convenience stores. It took off in the early 1990s when the Singapore government started actively promoting franchising as a means of internationalizing smaller companies. The lead government agencies in promoting franchise development are Spring Singapore and IE Singapore. Spring Singapore offers financial assistance to SMEs while IE Singapore helps local companies to franchise abroad. As long as the franchise owner (whether local or foreign) incorporates an office to run the franchise business in Singapore, they can participate in IE Singapore's programs that assist companies to franchise their concepts in third countries.

The Singapore International Franchise Association was established in 1993 to nurture and develop the local franchise industry and was one of the founding members of the World Franchise Council. Realizing the increasing synergy between Franchising, Branding and Technology Licensing, the Association took the initiative to enlarge its membership by changing its name to the Franchise and Licensing Association (Singapore) in 2003. FLA now has 150 members including both local and foreign franchisors. It organizes the annual franchising and licensing show in Singapore with the objective of promoting business growth and expansion through franchising and licensing formats and developing Singapore as a franchise hub. The Association assists all its members, both Singaporean and foreign, in the local market and works closely with the Singapore government agencies to assist its members in marketing their brands overseas.

Over the past few years, local companies have increasingly used the franchising route to expand their businesses within Singapore and overseas. The number of local franchises has increased from 50 in 2000 to over 200 in 2008. Given the small size of the Singapore market, local franchisors generally prefer to run corporate owned outlets in Singapore as they retain better control over their operations. However, they franchise their concepts abroad as it mitigates the risks and lowers their investment overseas.

Market Data

The Franchising and Licensing Association of Singapore estimates that sales turnover of franchises in Singapore accounts for 18% of the total domestic retail sales or S\$5.48 billion (US\$3.6 billion) in 2005 (latest available data). Foreign franchises are estimated to account for 70% of franchise sales in the country. Local franchise concepts have grown rapidly over the past few years and many of the larger ones are franchising abroad in Asia and several have set up outlets in the U.S. They include Breadtalk, OSIM, Old Chang Kee, Charles & Keith, Apex-Pal,

etc. Due to the current economic and financial turmoil, growth in the franchise industry in Singapore will be muted by an expected slowdown in domestic retail sales.

Singapore is the gateway to Southeast Asia. Its multi-racial society makes the country an ideal location for foreign franchisors to test their concepts and use the reaction to gauge the acceptance of their concepts in Asia. With its strategic location and well developed infrastructure, Singapore serves as the regional showcase and distribution center for products and services from all over the world. Residents from the region travel often to Singapore for business and leisure, making Singapore a good springboard for U.S. franchisors wishing to enter the markets of Asia. The country attracts around 10 million visitors annually and has been voted Asia's top convention city by International Congress Convention Association in 2003 and 2005-2007. Tourist arrivals are expected to be boosted with the opening of Singapore's first integrated resort including a casino in late 2009 and the second resort with theme hotels and Universal Studio will open in 2010. The Singapore government aims to increase the number of visitors to 17 million by 2015.

There are opportunities for U.S. franchisors to work with Singapore companies with good connections overseas to enter third countries. For example, CKE Restaurants, Inc's subsidiary, Carl Karcher Enterprises, Inc., signed an agreement in June 2008 with Singapore firms, BreadTalk Group Limited and Aspac F&B International Pte Ltd, granting them franchise rights for the Carl's Jr. brand in the municipalities of Beijing, Shanghai and Tianjin, as well as the provinces of Zhejiang and Jiangsu in China. They are expected to open a minimum of 100 Carl's Jr. outlets in China over the next eight years.

Best Prospects

Singapore is an attractive market for franchisors. F&B concepts, child-related and training franchises continue to find good interest here.

Key Suppliers

The U.S. is the largest supplier of foreign franchise concepts in Singapore and will continue to be the market leader. There are American franchises in practically every industry. McDonald's, Starbucks, Ben and Jerrys, Gymboree, New Horizon, Mister Minit, Avis, Hertz, Holiday Inn, Toys R Us, and many others have operations in Singapore. More recent U.S. franchises that have entered the Singapore market include On-line Trading Academy, Comfort Keepers, Maui Wowi, and Contours Express.

Australian franchises in a variety of industries have some presence in Singapore. The concepts include Action International, Cartridge World, Dome, Expense Reduction, Howards Storage World, I Can Read System, New Zealand National Ice Cream, Olio Dome, and Video EZY. Japanese and Taiwanese franchises are mainly in the F&B business (e.g., Ajisen Japanese Restaurant, Beard Papa, Mos Burger, Charmy Food Industrial, Shihlin Taiwan Street Snacks).

Franchising of local brands began in the 1980s with convenience stores such as Econ Minimart. By the 1990s, there were more than 30 established local franchises and today with the Singapore Government's active support, the number of Singapore franchise concepts has grown to over 200 in a variety of industries. Many are in the F&B business such as Bakerzin, Bee Cheng Hiang, Breadtalk, Fish & Co, Komala's Fast Food Restaurants, Sakae Sushi. A comprehensive list of franchises in Singapore can be found in the Asia Pacific Franchise Directory and the Franchising and Licensing Association (Singapore) website, www.flasingapore.org

Prospective Buyers

According to a report prepared by Price Waterhouse Coopers, franchising first began in Singapore in the 1970s when major companies such as Shell, Esso, Singer and Bata operated under licensing systems that bore similar characteristics to present day franchise operations. The 1980s saw Singapore based companies acquiring rights of international franchises such as KFC, McDonald's, Pizza Hut. In the 1990s, there was greater interest in franchising as the Singapore government supported the business model.

Today, asset rich firms and entrepreneurs continue to seek new business concepts to introduce into Singapore and the region. Many are looking to diversify their business and some are seeking investments for their children. However, potential franchisees are now more discerning. The success of selling a franchise in Singapore is based on a number of factors including brand name, up-front costs and royalties, the concept's uniqueness and the flexibility of the franchise agreement. U.S. franchisors should note that real estate in Singapore is very expensive and getting good locations can be a challenge for those in the retail and F&B business.

Market Entry Strategies

There are three general methods of franchise systems in Singapore: direct franchising, master franchising and regional franchising. In direct franchising, the franchisor grants the franchise rights directly to individual franchisees. Direct franchising is generally used by local Singapore franchisors. Most local franchisors operate more than one outlet in Singapore and in most cases, the outlets are directly franchised. Foreign franchisors normally practice master franchising where a foreign firm grants the Singapore investor the rights to operate within the entire country. Regional franchising is also commonly practiced by foreign franchisors in Singapore. The method of entry for foreign franchises ranges from appointing direct franchisees such as Subway to establishing their own corporate office in Singapore such as MacDonald's and Starbucks.

There is no special legislation or specific law in Singapore governing franchising. The franchise agreement is regarded as a commercial contract between the franchisor and the franchisee and is regulated under Singapore's contract law and other related laws such as the Competition Act and Unfair Contract Terms Act Cap.396. Mercantile laws in Singapore are based on English laws. The contract sets the terms of agreement between the franchisor and franchisee. The parties involved draw up a satisfactory contract that determines the conduct of both parties during the contract period including the terms of cancellation. The agreement may be governed by any law of the parties' choice and the parties may choose to have disputes resolved by court proceedings, arbitration or mediation. Franchising disputes are not common in Singapore and are usually solved amicably between parties before making it to the courts or to arbitration. The franchisee can operate as a sole proprietor, partnership or company and the franchise establishment is treated like any other business organization for tax purposes and may enjoy applicable investment incentives.

It is not mandatory to register trademarks in Singapore but it is advisable to do so. Trademark application can be filed with the Intellectual Property Office of Singapore (www.ipos.gov.sg) and it usually takes four to six months to process and accept the application. Singapore, like many countries, allows priority claims in trade mark applications. If an applicant has a corresponding application filed earlier in a [Paris Convention country](#) or a [World Trade Organization member country](#) (other than Singapore), the applicant may claim priority from this first-filed application, provided the Singapore registration is filed within six months from the date of the first filing. When a priority is claimed, the filing date in Singapore dates back to the date of the first filing. Similarly, an application which is first filed in Singapore can be used to claim priority in a corresponding application filed in a [Paris Convention country](#) or a [World Trade Organization member country](#), provided that the corresponding application is filed within six months from the date of the first-filed Singapore application.

U.S. franchisors interested to enter the Singapore and Asian markets might want to consider participating at Franchising and Licensing Asia, a major franchise show in Asia (<http://www.franchiselicenceasia.com/>). It is the leading regional franchise show with more than 200 exhibiting companies that attracts nearly 10,000 visitors from more than 43 countries annually. U.S. franchisors have also used franchise agents and consultants to assist them in finding investors and helping them to adapt the franchise model to fit the market. Other market entry avenues include participation in franchise trade missions led by the International Franchise Association and U.S. Department of Commerce.

Market Access Issues & Obstacles

Singapore is generally a free port and an open economy that maintains one of the most liberal trading regimes in the world. Doing business in Singapore is transparent and bureaucracy is not oppressive. There are no restrictive trade

or investment policies of any consequence outside of a very small number of product areas. Foreign franchisors are not required to take on private or official joint ventures or cede management control to local interests. Singapore Government policies in fact encourage local firms to acquire master franchises from foreign firms. There are no foreign exchange controls nor are there taxes on capital gains or restrictions on foreign ownership of businesses.

Singapore franchisees are allowed to make royalty payments to a U.S. franchisor without having to comply with any formalities. However, there is withholding tax of 10% for royalty fees paid out of Singapore. It is the Singapore franchisee's duty to hold back the tax and remit it to the Singapore Inland Revenue Authority. Information on withholding tax can be found at <http://www.iras.gov.sg/irasHome/page01.aspx?id=758>.

There are certain types of franchises that are more regulated than others, e.g., F&B business. The Ministry of Environment and the Primary Production Department are the Government's regulatory agencies which enforce high standards of hygiene and sanitation. The food factories are licensed by the Ministry of Environment to ensure that they adhere to good manufacturing practices.

Singapore is the first country in Asia to sign a Free Trade Agreement (USSFTA) with the U.S. and the Agreement went into force on January 1, 2004. This agreement makes Singapore one of the strongest Intellectual Property Rights (IPR) regimes outside of the United States thus giving strong IPR protection to American firms doing business in Singapore. The USSFTA includes state-of-the-art protection for trademarks, including government involvement in resolving dispute between trademarks and Internet domain names; extended terms for copyright protection; strong anti-circumvention provision to prohibit tampering with technologies that are designed to prevent piracy. The USSFTA also includes special provisions dealing with electronic commerce, competition policy and state enterprises, and customs cooperation. In addition, the agreement contains provisions for transparency and dispute settlement. Information on the USSFTA can be found at http://www.ustr.gov/Trade_Agreements/Bilateral/Singapore_FTA/Final_Texts/Section_Index.html

Trade Events

Franchising and Licensing Asia 2009
October 15-17, 2009
<http://www.franchiseliicenseasia.com/>

Resources & Contacts

www.flasingapore.org
www.iesingapore.gov.sg
www.ipos.gov.sg
http://www.export.gov/market_research/index.asp

For More Information

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