Oldtown expansion strategies

The OldTown Group’s (OldTown) was established in 1999 by Executive Directors, Mr. Goh Ching Mun and Mr. Tan Say Yap, who formulated OldTown own blend of 3-in-1 instant white coffee. (OldTown, 2012) OldTown commenced their business as a classic coffee shop of 3 in 1 instants white coffee in Ipoh, Malaysia under ‘ Old Town White Coffee’ brand name since 2005. At the following years, OldTown is divided into two segments of food services which are fast moving consumer goods (FMCG) and food and beverage (F&B). At the end of year 2011, Old Town has 196 café outlets in different countries such as Malaysia, Singapore, Indonesia and China. These 196 café outlets are comprised of 79 fully owned café outlets, 18 partially owned café outlets, 96 franchised outlets and 3 licensed outlets. Besides, Old Town has manufactured the beverage products and exported to worldwide countries such as Hong Kong, Singapore, Taiwan, USA, and Canada. (“ OldTown Annual Report”, 2011) According to OldTown (2012), the latest updated information showed that OldTown has expanded to 205 café outlets.

The goal of OldTown is “ to let everyone enjoy every slip of authentic Malaysian Ipoh White Coffee, anytime, anywhere”. (OldTown, 2012) Therefore, OldTown will continue to launch the high quality products to customers for collective vision of creating “ to be Asia Pacific’s Leading White Coffee producer in providing high quality product to customers globally”. (OldTown, 2012) The mission of OldTown is to promote their Unique Malaysian Taste- the authentic Ipoh White Coffee and continue White Coffee Legacy through continuous improvement and innovation that exceeds customer expectations. (OldTown, 2012) On the other hand, according to the OldTown (2012), the core values consist of “ consistency, continuity and growth, originality and creativity, respect diversities and traditions, as well as ethics and integrity”. Besides, they adopt integrated business strategies and focus on five key components. The first component is to build up strong brand equity and keep customer loyalty by strengthening and promoting OLDTOWN brand name. Second component is to continue in expansion of café network through franchise programmed locally and internationally and rely on establishment of their fully owned outlets. Third component is to strengthen the position as an operator of a major café chain. Fourth component is to continue in development of a new and innovative product. Last component is to establish high standards of the quality products and services consistently to exceed the benchmark standard of quality and customers’ expectations. (“ OldTown Annual Report”, 2011)

2. 0 Current expansion strategy

OldTown adopts different expansion strategies such as franchise, licensed, partially-owned and fully-owned strategies in different countries which include Malaysia, Singapore, China and Indonesia. (“ OldTown Annual Report,” 2011). OldTown more focus in adopting franchise strategies since this strategy brings more successes to expand café network either locally and internationally in spite of fully relying on the establishment of fully-owned outlets. (“ OldTown Annual Report,” 2011)

OldTown is implementing export of the products to other countries. Exporting allows OldTown to gain competitive advantages which are increasing the products sales performance, market shares as well as profitability (Piercy, Kaleka and Katsikeas, 1998). OldTown exports the beverages products also can expose the brand name and attract more customers from different regions. On top of that, exporting also allows OldTown to expand the customers' base in global market. (Kaleka, 2011).

On the other hand, exporting requires high transport fees. The cost of shipping may be a serious issue for OldTown. Shipping costs can make exporting uneconomical especially when the products are export in high volume. Furthermore, OldTown is depending on the fluctuation of transportation costs. The transport or shipping fees keep on increasing nowadays in exporting goods due to economic downturn, inflation and financial crisis. Ultimately, OldTown should be more concerns about this issue since this could be a drawback for export sales.

According to Combs's study (2004), in franchising strategy, an agreement is held by two independent parties whereby franchisor grants the right to franchisee to run the business in return of annual loyalty in monetary form (as cited in Miles, Aaron, Jeremy, Kelly and Di Wu, 2011). In other words, franchising is a legal regulation activity and requires compliance with federal and state franchise laws. According to the Buckles's study (2011), franchising allows the franchisors to gain opportunity to entry the new markets by attracting the potential franchisees.

OldTown chooses master franchise as its form of franchising is due to franchising is the most popular mode of entry into distant and cultural dissimilar market in Asia. Franchise model also provides scale to the company. OldTown currently owns 85 franchised café outlets and one licensed cafe outlet in Malaysia. Revenues from these franchised outlets are earned through the initial franchise fees (RM 80k), the sales of Old town's produces, the royalties (5% of revenues) and the A&P fees (3% of revenues). (Oldtown Berhad, 2011). OldTown is required to work with well-experiencing franchise lawyer to successfully establish the franchisee strategy.

In order to reduce the business risks, OldTown internationalizes the business by expanding the café outlets to the close countries (Aliouche and Schlentrich, 2011). Previously, OldTown is expanded from Malaysia to Singapore which is physically close to the home country. Singapore has the similar cultures with Malaysia. Cultural factors might increase the risk to the developing corporation in foreign market in accordance to Brouthers's study (2002) (as cited in Aliouche and Schlentrich, 2011). The franchisors normally prefer to expand the businesses that have geographical and cultural similarities to the host country (Aliouche and Schlentrich, 2011). According to Aliouche and Schlentrich (2011), the corporation will then move gradually to the distant ones after successfully internationalize to the close country, as OldTown has. OldTown has successfully standing in Singapore with the good reputation of the products and services. After that, OldTown targeted the China and the Indonesia market.

OldTown White Coffee is definitely successful in locals where it earns Industry Excellence Award in Malaysia which organized by Ministry of International Trade and Industry (MITI) as at 24th March 2011. Besides that, at the same year and date, OldTown also received Product Excellent Award organized by MITI, Putra Brand Award 2011 and 2012 (people choice special mention) in 2011 and 2012, and so forth (" Old Town Annual repor," 2011). All these recent evidences had showed that OldTown is quite successful in locally.

Based on the evidence from the study (William and James, 2009), franchising and fully-owned strategies could help in reducing costs of finding and monitoring the outlet manager. In the words of Bradach (1997), the fully-owned strategy aids in standardization; franchising gives a strong motive to locals' managers (franchisee) and they are motivated to keep on improving the café outlets to make it as profitable as possible (as cited in William and James, 2009). In other words, OldTown does not need to oversee the franchisee closely in protecting the franchisor's image and reputation. In short, franchising allowed OldTown (franchisor) to expand and minimize the monitoring cost (William & James, 2009).

Besides, franchising strategy also helps to expand number of OldTown customer with faster pace (Edwards, 2011). OldTown grants the right to franchisee to operate in different countries. Therefore, by expanding the café outlet in other geographical areas, this also helps OldTown to raise the customer awareness. In addition, OldTown always emphasize on brand equity. Hence, OldTown is promoting the brand name ' OLDTOWN' through the expansion strategies. These strategies might help OldTown to gain the customers loyalty and successfully build up the brand equity, not only in Malaysia but also in other countries for instance, Singapore.

Aside from these, franchising also helps OldTown to enhance competitiveness in food and beverage industry (Holmes, 2003; Joseph, 2011). Franchising spreads the risk through other people investment in different locations. Franchisee normally is the one who responsible for the loan, debt and so on, and hence, OldTown basically can minimize risk in expanding the businesses. OldTown has better expansion networks for the café outlets since 2005, from a small, humble coffee café to 196 café outlets chain. Thus, OldTown generally could obtain the advantage of loyalties and raise the brand recognition through the ease of this type expansion strategy (Chris, 2011).

By the same token, there might have a few of risks that could be faced by OldTown in adopting the franchising. The main disadvantage for OldTown in using franchise strategy is that it can be considered quite costly for the potential franchisee. Once it is implemented, franchise's fee charge and ongoing royalties would cut the profits of franchisees (Sim, 2008). Besides the initial fee for agreement, original franchise fees, annual royalties, as well as a percentage of franchise's business revenue, franchisees also required to pay the extra monthly fees for the franchisor (Adrian, 2010). As part of the continuing franchise agreement, on-going fees are needed to pay to the franchisor for the support, training and development which are provided by the franchisor. In the long term, it will become a restriction to the amount of profit for the franchisee. Besides, the franchisor also may charge additional fees for services provided to the franchisee, such as the cost of advertising (Ward, 2012). Besides that, franchising also will cause the lose control right problem when the new franchisees become part of the franchise system. Sometimes, the franchisees are forced to make their own decisions in the uncertainty situation, and they might need to change the policies without make the earlier notification to the franchisor. In fact, franchisor only owns limited power to control the franchise branch and how the business runs.

Furthermore, the established rules and the part of the franchise agreement, for instance, the ways of the business operation are already set up by the franchisor, it is rarely for a new franchisee to operate the business outside of these borders (Adrian, 2010). Hence, the franchisee will likely to follow the majority practices of OldTown to run the business. As a result, franchising limits the creativity of the franchisee (Sim, 2008). By adopting franchising, the issue of communications gap may arise between the OldTown and franchisee. Franchisees must follow the correct directions in order to maintain the brand’s image, the high level of service and so forth. If the franchisor and franchisee did not communicate well, franchisee may have misunderstanding and run the business without the proper direction. Moreover, if the franchisee unable to run the business with good quality or proper funding, it could curtail success and it will create a very unfavourable business environment as well. The actions and decisions of franchisees are very important because these will definite affect the OldTown’s reputation, image, profession, as well as customer preference. The franchisee would rely on the brand of the business to bring a bunch of customers but OldTown is the one who need to undertake the risk. If the franchisee harms the OldTown image by serving the poor quality foods and services to the customers, it will knock on the effect of the own business. Ultimately, this could potentially damage the sales and overall profits (Adrian, 2010).

According to the “ OldTown Annual Report” (2011), the OldTown products such as beverages are more focused on the market segment which comprising professionals, managers, businessman in the age group between 30 to 50 years old. Most of the people concern with healthy conscious nowadays, Old Town also introduced healthier choices of beverage products into the marketplace, such as ” 2 in 1 No Sugar Added” and “ 3 in 1 with

Natural Cane Sugar” coffee products. However, due to different countries have different needs, OldTown cannot oversee and control all the businesses includes the franchise outlets.

Last but not least, franchise outlets need to invest in various promotion tools such as advertising, promotional and marketing campaigns to increase the OldTown’s brand image as well as to enhance its brand equity value in the marketplace. These promoting activities will need a huge amount of money in order to attract the customer and retain the old customers.

3. 0 Future Expansion Strategy

There are some recommendations for OldTown’s future expansion strategies. OldTown can continue the current strategies (franchising and exporting) and the new recommend strategies (joint venture and strategic alliances).

3. 1 Franchising

OldTown is using the franchising as the entry mode strategy to achieve the rapid and low-cost market expansion, either in locally or internationally. Franchising allows OldTown to get the inflow of franchise fees to expand its markets. All of the premises, equipment and all other working capital that are needed to establish a franchise unit are invested by the franchisee. Besides, OldTown also able to receive the royalty fees from the franchisees. (OldTown, 2012)

OldTown is relieved of many of the costs and risks through this entry mode. OldTown can achieve global presence quickly and reduce the risk and cost of doing business via franchising, as McDonald’s has. Thus, this strategy should be continued by OldTown since it had good achievements with this entry mode. (OldTown, 2012)

Furthermore, OldTown would establish as master franchisee in other markets. Master franchising depend the quality of the local partner to success in another nation. Thus, OldTown should find the right local partner and sell the master franchising rights. For instance, McDonald’s, KFC and others are established a master franchisee in particular country or region. (Daszkowski, 2012) Master franchisee of OldTown will oversee the management and reduce the quality control challenge in other new markets. Other than that, master franchisee also can monitor the performance of the franchisees.

In fact, there are many laws and regulations implied on franchising. Different nations have different requirements in this mode of entry. The franchisor shall satisfy the ‘ 2+1’ requirement in order to develop a franchise in China. The requirement means the franchisor need to own two outlets of the franchise business for more than one year. (Philip, 2010). Franchising is a new business concept in Kazakhstan and is not leveraged to its full extent. It is an opportunity for the OldTown to franchising the brand to this country. The Kazakhstani entrepreneurs find it easier to work with Russian franchisors instead of other countries franchisors. This is due to both Kazakhstan and Russian share the same language and similar tastes, ultimately reduce the localization costs in setting new franchise. (Parshina, 2009) This would be a threat for OldTown to expand its franchise into Kazakhstan. OldTown should able to justify the benefits, risks and costs before enter the particular nation.

3. 2 Exporting

OldTown is pursuing the exporting as the one of the mode of entry to expand to other countries. OldTown is success to expand its brand through this strategy and OldTown is encouraged to continue this mode of entry. OldTown commenced the first export of ‘ OLDTOWN’ brand of 3-in-1 instant coffee mix to Singapore in 2001. The following years, OldTown success to expand the export markets to over 13 countries. (OldTown, 2012) Exporting allows OldTown to increase sales and profits by fully utilize the use of existing capacities. Besides, exporting also allows OldTown to gain new knowledge and experience about the foreign countries technologies, marketing techniques and foreign competitors. (Tekle, 2007)

In Malaysia, OldTown distributed the coffee mix through major hypermarkets and supermarkets (OldTown, 2012). OldTown may consider using this type distribution channel in other countries. However, OldTown needs to handle all the logistic of the transaction and spend extra costs to export the products since the transport costs are high. (Delaney, 2012) Besides the transport costs, OldTown also need to pay attention on the costs from high tariff barriers which set by the particular nation. (Hill, 2011)

Additionally, OldTown obtained the HALAL certification from the Islamic Religious Department of Perak for the Group’s beverages in 2002. The beverages of OldTown are complied with the Islamic Law. (OldTown, 2012) This certificate also provides extra opportunity for OldTown to export the coffee mix to Islamic countries.

3. 3 Joint ventures

OldTown can use joint ventures to enter a foreign market other than using franchising market entry mode in expanding the business. Joint venture is the establishment of a firm that is jointly owned by two or more otherwise independent firms (Johnson, 2000). OldTown can joint venture with Chatime in Australia in penetrating their first new market in Western country. Chatime had operated in Australia since 2009 and now has over 30 stores Australia-wide (CHATIME Autralia, 2011). Moreover, Chatime are growing fast in term of opening one new store each month on average (CHATIME Autralia, 2011). Based on Chatime's record in successful penetration to foreign market, OldTown can penetrate to Australia by joint venture with Chatime.

Joint ventures will help OldTown in getting local partner's knowledge regards the host country competitive condition, language, cultures, political systems, and business systems. If OldTown expands their business without further exploring to the particular country history, competitive condition, political systems, business systems and cultures, OldTown will face lots of barrier to entry to the new market. This will also cause OldTown to have a wrong timing of entry or loss the opportunity chance in penetrating to the particular foreign market. (Hill & Hernandez-Requejo, 2011) In addition, joint venture is good to be practiced by OldTown due to the costs and risks of opening a foreign market are shared. It can help OldTown in reducing the necessary costs such as initial capital requirement, transportation costs, advertising costs, operational costs, and extra cost charge by the certain local government for set up a new business in country. Therefore, by having a partner in reducing the costs, OldTown will face lesser risks for setting up the business in new market at foreign country. (Hill & Hernandez-Requejo, 2011)

Other than that, joint venture also allows OldTown to learn about a new market environment. If OldTown can success to become an insider in the country, it may help OldTown to increase the level of commitment and exposure in future. This will help OldTown to improve the image and reputation. Besides, OldTown also can penetrate to other foreign market in future with easier way and reduce lots of entry barriers. (Keegen & Green, 2011) From this point of view, by joint venture with Chatime, it will help OldTown in building up their brand name.

Although joint venture may cause the company do not have the tight control over subsidiaries that it might need to realize the experience curve or location economies. But, due to OldTown’s management team is led by professionals and founders who have more than 20 years experience in the particular industry, it is believed that OldTown management team is more than capable and passionate to anchor OldTown towards more successes in the future. (Kenanga Research, 2012)

3. 4 Strategic alliances

The changes in political, economic, social cultural and technological environments make strategic alliances have the relative importance for a company to choose as an entry mode to foreign countries (Keegen & Green, 2011). China businesses are stable and growing (OSK Research, 2012). OldTown intends to replicate the popularity of its coffee brand from Hong Kong to China with promoting the OldTown brand (OSK Research, 2012).

OldTown found that the F&B business in China is well carrying by having average spend per customer of 40-50% higher than the businesses in Malaysia (OSK Research, 2012).

Other than that, demands of OldTown FMCG products remain tough. In addition, with the new added menu such as soup, OldTown found that China prospects seem capable at this point in time for penetration (OSK Research, 2012). OldTown believe that its business in China have to expand more rapidly than its competitors to ensure its company foundation can be strongly build (OSK Research, 2012).

OldTown is setting up a new food processing centre as part of its expansion in penetrating Chinese food and beverage market in China (Ho, 2012). OldTown can use strategic alliances as their entry mode in penetrating to China, forming a strategic alliance with Secret Recipe in China. Secret Recipe had successfully established its brand name in China by virtue of its fine quality cakes, fusion food and distinctive service (Secret Recipe, 2012). This strategic alliance also allow OldTown in gaining extra knowledge from Secret Recipe regards the culture, political, and economic system in China without carry out a costly detailed research in China (Keegen & Green, 2011).

There are several advantages of using strategic alliance as the entry mode for OldTown in penetrating to foreign country. The advantages are sharing benefits of alliance as well as control performance of assigned tasks, long-term strategies is formed between two companies, and retain national and ideological identities when competing in markets not covered by alliance. (Hill & Hernandez-Requejo, 2011)

4. 0 Conclusion

There must be reason when local coffee shop like OldTown able to success in highly competitive market. OldTown do not bond itself in its current expansion strategy, like franchise, fully-owned outlets and export the products. Meanwhile, depending on 1 expansion strategy is less flexible and too risky. OldTown current strategies had lots of advantages as well as drawbacks. Firstly, Franchising is a popular mode of entry to local and the foreign market. OldTown master franchise because of high revenues get from initial franchise fees, royalties, sales and A&P fees. Next, export the products could gain competitive advantages by exposing their brand name and attract more customers from different regions by raising customer awareness, expand the customers' base in global market.

While, both franchising and fully-owned strategies, has advantage OldTown in reducing costs, attract for recruitment and attract potential franchisee. In the other side, Franchising also bring drawbacks like franchisee has limited freedom and creativity was limited by franchisor. There may be communications gap between franchisor and franchisees in decisions making and it could ruined the name of franchisors. Normally, company will be choosing to expand to close countries first because of the similarity in terms of geographically and culturally. OldTown needs to have product creativity to fulfill different country needs, and customer in different segments.

It is good to continue the franchising and exporting strategy for OldTown since both strategies bring lots of positive outcomes, gains and profits. Both strategies had relieved many of the costs and risks, both strategies should be continued by OldTown since it had good achievements with this entry mode. Between Joint Venture and Strategic alliances is the potential of OldTown to expand to foreign countries, Joint venture could reduce the barrier to entry, reducing the necessary costs such as extra cost charge by the certain local government, in the mean time, increase the level of exposure of OldTown in that particular country. Strategic alliances enable OldTown to have long term strategy business in other country.

Business nowadays is not only need to focus on customer and service, OldTown needs to follow the latest business trend and be flexible in showing high adaptability to changes. Besides, OldTown has seen the importance of contributions to the community, environment and its investors, as well as the business ethical for its well name or reputations.