

Marketing analysis of apex pal international marketing essay



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Apex-Pal International Ltd started in 1996 as a garment trading business. In 1997, it redirected its focus on the fastpaced food and beverage (F&B) industry and started its first F&B chain, Sakae Sushi, which is now the flagship brand of Apex-Pal.

As Mr Douglas Foo, founder and CEO of the homegrown provider of innovative F&B solutions, put it, the meaning behind the company name “Apex-Pal” is to “aim to reach the peak” and to “make friends with everyone”. Bearing this in mind, Mr Foo has developed Sakae Sushi into a successful brand that it is today. Sakae Sushi is a trendy quick service conveyor belt sushi concept that has become synonymous with a fun-filled value for money experience, offering an extensive casual Japanese dining menu of more than 200 items. Since its first outlet in Raffles Place more than 10 years ago, Sakae Sushi has grown to become the leading kaiten-zushi (conveyor-belt sushi) chain in Singapore. Sakae Sushi is Apex-Pal’s flagship brand and has built a strong market presence with 38 outlets in Singapore. Internationally, Sakae Sushi has 20 outlets in six different countries. Sakae Sushi’s green frog logo has become a familiar and welcome sight. Its unique concept of affordably priced premier kaiten (conveyor belt sushi) dining is a first in Singapore when it was introduced. Following that, it continued to bring to the market constant stream of innovations such as interactive menus, tableside hot water dispensers, portable conveyor belts and sushi rice enriched with Vitamin E. As often mentioned, “Rice is a staple. Fish is also a staple. Put together, you have a luxury product.” The ability to charge premium makes kaiten-zushi outlets potentially very lucrative.

Today, Apex-Pal is listed on the Singapore Stock Exchange and has a total of 10 brands (Figure 1) under its portfolio. Some of these brands do not even carry Sushi at all and is not related to the flag ship brand. It has been diversifying its business and is now involved in franchising its brands, food import and distribution, business-to-business supplies and events catering. Its long-term aim is to be a global F&B industry player and the world's number one top brand recall for affordable Japanese dining with the Sakae Sushi chain of restaurants. To achieve this, Apex-Pal have embarked on a path of aggressive international expansion with over 90 outlets spanning Singapore, Indonesia, Thailand, China, Malaysia, Philippines and Vietnam. It also has plans to expand into Russia and other parts of the world.[1]

Apex-Pal chose to focus on its dynamic and innovative style of management in order to distinguish itself from other F&B companies. It consistently offered customers in Singapore a taste of the latest international dining trends. Moreover, management at Apex-Pal had always placed (and still does) strong emphasis on understanding what their patrons wanted and strove to be sensitive to their needs. All these paid off handsomely. Apex-Pal grew into a star on the local restaurant scene, giving it much needed leverage to become a formidable player in the international F&B markets.

Apex-Pal's operations are supported by a central kitchen certified to HACCP (Hazard Analysis Critical Control Point), using technology whenever possible to enhance quality of its products and improve productivity. It has bagged more than 30 awards and accolades over the years, including the CitiBusiness-SPBA Regional Brand Award 2006, Singapore Service Class 2004

and Singapore Innovation Award 2003 (Innovation of the Year) for its portable conveyor belt.

Apex-Pal's strategy is to grow and establish brands that are leaders in both local and global markets. To serve this purpose, new concepts are often created through research and development. Its focus on research and innovation has led to the setting up of its own food research and testing facility in Singapore. Technology can be utilized both in food production and in delivering it to the customers. For example, Apex-Pal uses machines for the production of sushi rice balls to ensure consistency in size and quality.

2. 0 Singapore Food & Beverage Industry

The Food and Beverage Industry generate some S\$5. 04 billion dollars for the Singapore economy. There are 5, 244 establishments and in total, they hire 79, 342 of Singapore's workforce. As of 2007, the major bulk of an establishment's cost is food & beverage purchases (33. 0%), remuneration of employees (27. 8%) and rental of premises (16. 6%)[2]Restaurants made the largest contribution to the F&B sector's operating receipts (S\$1. 89 billion) with a profitability ratio of 5. 3%.[3]Food caterers have the highest profitability ratio of 19. 0%[4]

According to a recent survey by Euromonitor, more than 50 % of the Singaporeans eat out at least once a week. Singapore is placed 5th highest (US\$49, 433) on the rank of countries by GDP at purchasing power parity from the International Monetary Fund (2009). Statistics show that the average Singaporean consumer spends 12. 5% of his/hers monthly income on non-cooked food and 15% on cooked food provided by the food service

sector. In addition, 10 million tourists visit Singapore yearly. It has been estimated that on the average, F&B accounts for approximately 14% of the expenditure of tourists while in Singapore.[5] Thus, the demand for F&B products in Singapore therefore far exceeds the population of 4 million people.

Based on the above information, Apex-Pal should continue to focus its resources on Singapore's F&B industry. There is huge potential for growth in the F&B industry due to the expected increase in tourism and population. Moreover, by staying focused in the Singapore F&B business, Apex-Pal can achieve a high level of economy of scale, clear corporate identity and fast organizational learning.

3.0 Problems and future challenges

Looking at Apex-Pal financial results from 2005 to 2009 (see Figure 2), Apex-Pal had been achieving increasing net income until 2006, when it recorded its highest profit after tax ever of S\$5.081 million. The company's sales have been consistently increasing over the years to S\$93.804 million in 2008. This is a sign of the company's growth in the opening of more outlets in recent years in both local and global markets.

Although Apex-Pal's sales are increasing over the years leading up to 2008, the year 2007 saw Apex-Pal's net income drop to S\$2.261 million and in 2008, even though sales increased by 11.9% from 2007 to S\$93.55 million, it actually reported a loss of S\$3.748 million.[6] The loss can be attributable to the economic downturn coupled with escalating operational expenditure. In 2009 where the economy started to pick up, the revenue fell compared to

2008. The increase in profit for 2009 was due to an aggressive reduction in operating cost and other expenses. Therefore, herein lies the problem of how to bring up sales and profit in order to sustain long term growth of Apex -Pal without cost cutting. Ultimately, Apex-Pal has to rely on sales in order to be profitable because there is a limit to the amount of cost which Apex-Pal can cut.

Figure 2 Apex-Pal Income Statements 2005-2009 (Selected Portion)

Source: Factiva

Figure

Figure 3

According to a survey on F&B establishments in Singapore conducted by the Singapore Department of Statistics in 2008 (Figure 3), the profitability ratio (profit margin) for restaurants stood at 5.3%. The profit margin for Apex-Pal in 2008 is calculated to be at -4.04%, which is some way off the industry average. Comparing Apex-Pal's Profitability and Management Effectiveness ratios (see Figure 4) to the world wide restaurant industry, most of its ratios are below world average. While the economic downturn affected the industry as a whole, it seemed to hit Apex-Pal to a larger extent than most of the F&B establishments. This underperformance on Apex-Pal's part is a problem it should tackle.

Figure 2 Selected performance ratios of Apex-Pal

Source: Factiva

Apex-Pal currently holds 10 brands in its portfolio. Each of these brands offers separate and stand alone products and has different establishments, operations and alignments from the others. Few value added activities existed among the brands, leading to little synergy and integration. Although Sakae dominance in Singapore is likely to remain, the presence of other brands is not prominent. Therefore, the challenge is for Apex-Pal to create more value adding activities among its brands, increasing brand recognitions and driving up sales of all brands.

4. 0 Methodology and scope

The methodology used in formulating the strategies is secondary research. Annual reports, company websites and internet sources are carefully considered when formulating the strategies. Chapters from ‘ Strategy Process, Content, Context’ form the theoretical backbone of the strategies.

The strategies suggested in this report are targeted at Apex-Pal’s business activities in Singapore F&B market. The strategies aim to bring up revenue, asset turnover and profit margin. The strategies mainly involve restructuring and transfer of activities among business units, creating complementary products and services and consolidation of brands.

5. 0 Framework of the strategies

Apex-Pal is mainly involved in the F&B industry. Thus, it is possible to create greater synergy among its brands. Besides generating greater revenue and streamlining its operation in the F&B industry, synergy will also add more value to its brands meanwhile protecting the integrity of its global expansion strategy and business model. The whole portfolio held by Apex-Pal should

worth more the sum of its parts. To achieve this, Apex-Pal should align products, integrate activities and leverage resources. Three business units have been identified for the Apex-Pal group because there is a dedicated management team for each business unit, i. e. Nouvelle Events, Innotech (provision of IT services) and Restaurant Management & Food Production. Each business unit should focus on its own core competency to establish its brand recognition and positioning in the F&B industry. Below is a simplified diagram for the framework.

The Sakae brand (includes Sakae Sushi, Sakae Izakaya and Sakae Teppanyaki) has been the crown jewel of the Apex-Pal group. Therefore, more resources should be invested in the Sakae brand. Sakae has to control the entire value chain by integrating vertically so that there will be more room for leveraging and synergy between business units. Meanwhile, Sakae has to explore the possibility of providing complementary service both within its business unit and with other business unit. For example, within its business unit, the sale of one food product has to bring up the sale of another food product. This is synonymous to the sale of one KFC meal will contribute to the sale of Pepsi. At inter business unit level, Sakae has to collaborate closely with other units to bring about more value creation. Apex-Pal also has to consolidate its weaker brands in the Restaurant Management and Food Production business unit and market them collectively. The impact will be greater than marketing them individually. Besides, there is bigger possibility of creating complementary services. Lastly, some functions performed by different business units have to be concentrated to a single business unit that can do them best while allowing other business units to

tap into its power. The resulted simplicity will allow business units to diversify horizontally in the F&B industry and enable them to focus more on business relating to their core competencies.

The main strategies suggested for Apex-Pal will revolve around sharing and linking value adding activities (synergy) among business units while maintaining sufficient responsiveness to the Singapore F&B market.

6. 0 Proposed Strategies

6. 1 value creation through Nouvelle Events and Sakae

Nouvelle Events

Set up in 2001, Nouvelle Events aims to be Singapore's Best Food & Beverage Consultant. Today, it remains as the only specialist caterer in Singapore that can offer a unique kaiten (conveyor belt) sushi experience. This is made possible by an award-winning patented portable conveyor belt that can transplant the kaiten experience virtually into any venue, be it a corporate function room or the garden in one's backyard.

As the Innovative Food People, the Nouvelle team of dedicated chefs and creative consultants spares no effort in making any private or corporate party as well as product launches exciting and enjoyable for their guests. Besides offering excellent buffet fare, 'live' stations can be set up to serve up appetizing local or international favourites prepared instantly by our chefs. It also manages a central kitchen that supports the Sakae chain of restaurants and distributes air-flown Norwegian salmon and sushi to major hotels and restaurants every month.[7]

Strategy

Nouvelle's core competency is in generating creative ideas and designs for catering services and functions. Currently, Nouvelle branches into other areas which should be undertaken by Sakae brands. Such areas include kitchen staff training, marketing management and restaurant management. Under such circumstance, the core competency of Nouvelle may be diluted and a lot works and roles are repeated within the Apex-Pal group. Nouvelle has its own team of chefs, personnel and professionals taking care of catering, distributing, consultancy and logistic service. This is an unnecessary expense of resources and leads to high cost of operation. On the other hand, the Sakae brand within Restaurant and Food Production business unit has its own team of chefs and managers taking care of the restaurant business. Although this gives greater specialization, there is no collaboration and complementation between the two brands. The diagram on next page illustrates this point.

Sakae can better make use of those functions performed by Nouvelle to integrate vertically. Nouvelle should transfer over business in central kitchen, distribution of ingredients (e. g. salmon and sushi), and culinary aspects such as kitchen staff training to Sakae. This will allow Sakae to achieve vertical integration and control of the value chain. Meanwhile, Nouvelle should concentrate greatly on its core competency of food consultancy and diversify horizontally into the F&B consulting. In this way, there will be greater opportunity for synergy creation.

When Sakae has control over the kitchen staff training, central kitchen and supply and distribution, it will have greater control over its quality standard, product consistency and product differentiation. Sakae can centrally train its kitchen staff and choose its supply of ingredients to meet the distinctiveness and uniqueness of the Sakae brand. It will also be able to anticipate and respond promptly and accurately to the changing trends and needs of the consumers because it now has greater control over its value chain. At the same time, Sakae can leverage on its brand name of providing fresh and high quality food to market its business to business distribution of ingredients. In this way, higher brand recognition is achieved.

On the other hand, Nouvelle should be a leading brand in Singapore for catering and food consultancy. It should be the business unit that brings in catering customers for Apex-Pal group meanwhile responding accurately to the needs of various customers, especially the sophisticated corporate and government customers. To create greater opportunity for synergy with Restaurant Management & Food Production unit, it should expand its business to related areas such as designing and developing healthy diet for the menu of restaurants. Nouvelle should diversify horizontally through internal growth because it is currently the market leader and other competitors are offering homogenous services. Thus, there is nothing worthy for Nouvelle to acquire.

Synergy between the two business units is created when both brands tap into the expertise of each other to add value to their services. For example, if Sakae needs a design of meal that needs specific amount of various nutrients, it can forward its requirements to Nouvelle which will then design

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the meal and choose the ingredients according to the specifications.

Conversely, Sakae can supply its culinary expertise to Nouvelle as well.

When performing catering services or food consulting, Nouvelle can pass its ideas and requirements to Sakae which will then provide its culinary expertise to prepare and deliver the food. Therefore, having Nouvelle to diversify horizontally and Sakae to integrate vertically will complement their deficiencies through linking value added activities.

Nouvelle and Sakae should also leverage on brand name of each other to grow and generate higher revenue. This can be done by including the distinctive strength from each other into their own marketing campaign. The diagram below illustrates the abovementioned strategy.

In the abovementioned strategy, Nouvelle and Sakae can focus on their own core competency to achieve brand identity while complementing each other by sharing and linking value adding activities. Nouvelle is able to gain a strong foothold in the food and catering industry and position itself as premier food consultants. Sakae is able to provide high quality food. The two business units are able to help each other to create value by provide pooling their expertise, thus overall resulting in higher quality of food and service. It also gives greater leverage on brand names when coming to attracting new business.

Limitations

The first limitation is managing change. Nouvelle will transfer its non competent business to Sakae and expand horizontally in the food and catering business. Sakae will accept Nouvelle's transfer and expand

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vertically. This is similar to a focus radical change because this is a strategic change in which fundamental alterations are made to the organization system and to a lesser extent, the business system. Having, transfer most of their business and assets to Sakae, Nouvelle most likely will experience a drop in revenue even though there is a horizontal diversification because the payback period can be more than a year. It is possible that there will some degree of political resistance coming from Nouvelle's management, especially when its compensation is tied to Nouvelle's performance. There may also be psychological resistance coming from the general employees because of uncertainty and ambiguity that accompany the change. Employee may be disillusioned with the future of Apex-Pal.

To counter these resistances, aligning every stakeholder's interest to Apex-Pal's interest is crucial. At the management level, managers should be supportive and optimistic with the restructure and they have to share with the employee the highly possible benefits that can be achieved. Perhaps, additional bonus can be accorded to Nouvelle's management for the period of restructure. Reshuffling the management position is not advisable because Nouvelle needs expertise to diversify horizontally. New management may not be familiar with Nouvelle and may result in more confusion and damage the staff morale. Motivating the staff and getting them to understand and support the restructuring are crucial to eliminating resistance.

Another possible drawback for the abovementioned strategy is that it may lose some responsiveness to the local market because of more meetings, extra complexity, potential conflict of interests and additional bureaucracy.

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In order to counter the potential loss in responsiveness, a high level of collaboration between the two brands is required. One brand has to precisely communicate the details that it wants and the other brand has to understand them. Operation and communication process have to be streamlined. This requires the staff in both business units to deeply understand their strategies and operations. Also, each business unit can have a dedicated management team to take care of functions that must be specifically designed for the business unit, e. g. marketing, communication and public relations. However, the potential loss in responsiveness may not be severe because this creation of synergy is actually tailored to the local market and food industry.

The last drawback is that leveraging on each other's brand name is beneficial when they are both doing well. If one brand fails to perform satisfactorily, it can affect the other brand which is leveraging on it.

Generating synergy among brands is like a double edged sword. It will produce augmented benefits if both brands are performing. However, if one brand fails it can affect the others. To counter this, high level management has to make strategic adjustment accordingly and stop the leverage when the situation requires.

6. 2 Value creation through Sakae and Kohi Ten

Kohi Ten

Kohi Ten is the first Japanese siphon bar café to be opened in Singapore. It aims to inject Tokyo café culture in Singapore and capture the hearts of coffee lovers here with its new concept. Kohi Ten serves to fill a niche market for freshly brewed gourmet coffee. Believing to gain first mover advantage,

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Apex-Pal expected demand to grow as similar concepts are already quitted established in other countries such as Hong Kong and Japan. Kohi Ten sets itself apart from conventional coffee joints and local coffee shops with its own of its kind siphon-brew coffee bar imported from Japan.[8]The brand leverages on the word ‘ kohi’, which in Japanese, means ‘ specialized drink’ and thus signifies a special occasion. This is in contrast to the western perception of coffee drinking, which is mostly considered to be an everyday affair.

The brand’s distinctive selling point is its brewing method that is unlike other common coffee brewing methods. Kohi Ten adopts a method called ‘ siphoned brewing’ which gives its coffee a clean, crisp and rich flavor. In addition, it uses coffee beans from Japan’s oldest and largest fresh coffee supplier Ueshima Coffee Co., Ltd, (UCC). Similar to the other brands under Apex-Pal, Kohi Ten adopts a classic Japanese design to offer its customers a Japanese coffee drinking culture. The specially trained baristas and Kohi Ten’s open concept offers its customers a firsthand look at how their coffee is brewed.

In Singapore, the coffee establishment industry is not short of major players. Starbucks alone has more than 60 outlets island-wide, while Coffee Bean and The Coffee Connoisseur have 48 and 31 outlets respectively. It could be said that the coffee market in Singapore is close to saturated, making it very difficult for Kohi Ten to sustain its business in the coffee making industry. Even with its key distinctive selling point, Kohi Ten faces the problem of public unawareness of its brand. With only one outlet throughout the island

(located at Cuppage Terrace), the brand alone is unable to establish a strong enough presence to increase its brand awareness.

As seen from the chart obtained from the department of statistics in Singapore, the earnings to expenditure ratio (others), and the profitability ratio (others), is relatively low when compared to fast food outlets and caterers. Earnings to expenditure ratio measure the ratio of operating surplus to operating expenditures.

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With only one outlet in Singapore as mentioned, it is extremely difficult for Kohi Ten to establish economies of scale in terms of its production and imports, which further increases operating expenses for the brand. Coupled with having low levels of brand awareness, a low margin level would ultimately contribute to possible net losses for the brand.

To increase its profitability, Kohi Ten offers coffee at prices that are comparable to those offered in other coffee houses in Singapore. However, setting products at a higher price would eventually erode the demand for its product offerings. This strategy would prove to be inadequate as it does not have the economies of scale required to reduce its overall costs when faced with low sales volumes and increasing expenditure levels. Thus, the key goal of Kohi Ten is to be able to establish itself and build its brand awareness, thus, increasing sales, profitability and future sustainability of this brand.

Strategy

As Apex-Pal's flagship brand, the Sakae brand name has well established itself as a brand associated with Japanese dining and sushi. Our proposal is to integrate Kohi Ten and Sakae horizontally by leveraging on the Sakae brand name to increase Kohi Ten's brand awareness. Through this strategy, we hope to achieve synergy through aligning the company's position and integration of activities.

A possible way in which Kohi Ten would be able to leverage on the Sakae brand name would be to increase its competitive position. Currently, Sakae offers its customers various promotions based on location and time. Such offers include lunch time buffets for the busy executives and dinner specials for those dining out in the evening. What we propose would be to incorporate Kohi Ten's menu during one of the hours in their Sakae. To further cater to lunch time executives as well as a tea-time offering, Sakae could offer a tea-time special from 2pm to 4pm where they could offer customers with coffee and treats from Kohi Ten's menu. Kohi Ten offers sweets and coffee in its menu which would be appropriate for a tea-time snack.

This strategy offers benefits for both brands. For Kohi Ten, they could leverage on Sakae's brand name to create awareness for its own brand. With over 40 outlets of Sakae Sushi, Sakae Teppanyaki and Sakae Izakaya island-wide, the Sakae brand name is well establish and well known throughout Singapore. Customers who are used to dining in Sakae outlets would be

aware of the existence of Kohi Ten and their product offerings, thus, increasing Kohi Ten's brand awareness.

For Sakae, the introduction of Kohi Ten's menu would help to add to its product offerings, and further draw customers in to dine in the Sakae outlets. This increase in variety provides consumers with a wider range of dining choices to choose from apart from Sakae's existing menu. Such integration would add value for Sakae as they could then focus on their core competency, which is providing fresh quality sushi and a casual Japanese dining experience, rather than having to consistently come up with product offerings to cater to its promotional time slots.

Apex-Pal mentioned that they are heavily focused on marketing efforts on their Sakae brand. This intensive marketing effort has clearly been illustrated with the continued promotional offerings that Sakae always carry.

Furthermore, Sakae's main strategy is to associate its brand with sushi and Japanese dining, something which Kohi Ten could potentially leverage on. With Sakae's strong brand position and recognition, along with its extensive marketing team, resources could be allocated to Kohi Ten to strengthen its marketing team as well as the sharing of marketing expertise.

Kohi Ten could potentially benefit from Sakae's expertise in their marketing activities, possibly seeing greater levels of brand awareness and increased in sales in the near future. It is imperative that Kohi Ten's brand awareness is further elevated such that it would be able to sustain the brand in the long run. Furthermore, as with the other coffee houses, Kohi Ten has to be able to increase their number of outlets and achieve economies of scale in order to

reduce overall running expenses, but at the same time, sustain a healthy stream of customers to ensure sustainable profit levels. In addition to improved marketing efforts, Sakae would also be able to share its expertise in food preparation and quality control, hence, improving the level of quality of the menu items offered in Kohi Ten.

Limitations

Such a strategy could pose certain problems for Apex-Pal. Integrating Kohi Ten into Sakae's menu could potentially erode the brand value of Sakae in terms of their product offerings. Sakae has been known to provide mostly sushi and sashimi in their menu, along with other Japanese main courses such as hot pots and Japanese grilled foods. Having items such as coffee and desserts from Kohi Ten's menu could possibly erode Sakae's perceived specialty in providing high quality Japanese main courses.

In addition, if more brands such as The Pasta Shop and Crepes and Cream were to be integrated into this strategy, further erosion of Sakae's brand could result. Thus, there is a limit to the number of brands that could possibly be integrated into Sakae.

Diverting marketing efforts into Apex-Pal's smaller brands like Kohi Ten may lead to an eventual decline in marketing efforts required to further elevate the Sakae brand name in Singapore. As cited by CEO Douglas Foo, it is still important for Sakae to establish itself in Singapore in light of the rising competition with rising number other Japanese food establishments in the country. (CITE HERE)

6.3 Value creation through consolidation of brands

Having too many brands under Apex-Pal's portfolio may pose challenges for the company in terms of management and resource allocation. Currently, Kohi Ten and The Pasta Shop only have 1 outlet each, whereas Crepes and Cream stands at about 7 island wide. The main concern for these standalone brands is their ability to garner brand recognition, capture a reasonable amount of sales to ensure sustainability, as well as keep running costs low enough to ensure a profitable operation.

Our strategy involved consolidating these standalone brands and their outlets under one major brand, and establishing a large dining establishment where these brands could be set up in. Similar to the concept that has been adopted by the more popular Kopitiam (which has been hugely successful) and the more up market Marche and Shokudo, Apex-Pal could bring together these brands and create a 'food market' concept where each of the individual brands would come under one roof to provide customers with a wide range of products to satisfy their palette.

The food market concept not only offers a reduction in overall running costs (because the overheads are spread out amongst the stalls of each brand), but also a reduction in logistical costs. Food preparation from the central kitchen, as well as the delivery of the food products are further streamlined instead of having many distribution lines to each individual outlet. In addition to the reduction in costs as mentioned above, these standalone brands could further leverage on the Sakae brand to increase their brand recognition. By having a Sakae Sushi outlet in the market, customers who visit the market

for sushi not only have the opportunity to satisfy their craving for sushi, but are also