

# Businesses facing failures of expanding



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Although there are many organizations successfully expanded their companies into foreign market, however, there are also some businesses facing failures of expanding. Timing wrong? Entering into wrong market? Is the decision making so important? In fact, it really does. Before a company expands their business to other foreign countries, the company must take some factors into consideration such as which foreign market to enter to, in what financial situation to enter and on what economic scale (“ Modes of Entry”, n. d.).

Secret Recipe Cakes & Café Sdn. Bhd. or in short called Secret Recipe is a lifestyle cakes and café chain (Secret Recipe, 2012b). The café was established in 1997 and founded by Dato’ Steven Sim. The core product of Secret Recipe is homemade cakes but at the same time the company also provides mouth-watering items such as pastries, hot meals and gourmet coffee (“ Secret Recipe Franchise”, n. d.). In addition of selling foods and cakes, Secret Recipe also provides online ordering system and delivery service for customer convenience (“ Secret Recipe”, 2011).

From the target market perspective, Secret Recipe has carefully chosen the segment audience and provided what the customers expect. It is because, nowadays, western culture and western foods have been adopted by the society regardless of adults or young generation. Besides, Secret Recipe also targets middle and upper class which have better financial background as primary customers since the price is slightly higher than those normal food stalls. (“ Secret Recipe”, 2011).

Today, Secret Recipe is well-established in Malaysia and has been growing rapidly as shown by their businesses throughout seven foreign countries which including Singapore, China, Thailand, Indonesia and Philippines, Brunei and Australia (Yeong, 2011). Apart from those countries, Secret Recipe also plans to expand their business to India and Cambodia end of 2013 (“ Secret Recipe to Expand”, 2011), as well as United Arab Emirates (UAE) and Vietnam (Ramlee, 2012).

## **2. 0 Current Expansion Strategy**

Globalization of market has grown rapidly in these recent years. Therefore, Secret Recipe Café has practiced the franchising and joint venture strategy as their main expansion strategies.

### **2. 1 Franchising**

According to Secret Recipe’s CEO Dato Steven Sim (as cited in Arulampalam, 2006), he believed that franchising is one of the faster ways for his company to grow. By investigating the risks which might be involved, he began franchising Secret Recipe in 2000, three years after he opened his first outlet in the Klang Valley (Arulampalam, 2006). Currently, Secret Recipe has owned 160 outlets all over Malaysia. The similar business strategy is applied in the international market, with 50 of its outlets located in Thailand, Singapore, Indonesia, Philippines, China, Brunei, Pakistan and Australia (iFranchise Malaysia, n. d.), majority of these outlets are incorporated under franchising system.

Furthermore, Dato Steven Sim also has pointed out there is a significant difference in franchising overseas because of the cultural, religious and

lifestyle considerations (Arulampalam, 2006). For example, Thai people like spicy food or India has more vegetarians. Therefore, Secret Recipe has tried to introduce some new recipes whereby it suits to the local people preferences. For example, in China, when the initial Western-style menu just did not go down well with locals, immediately the company introduced Malaysian and Asian fusion dishes in order to overhaul it (Tan, 2011).

In fact, the franchise outlets of Secret Recipe throughout the world is run by the domestic franchisees. However, the success of franchising can be attributed to its franchise support team. Somehow, the company is not only staying with a new outlet for the first few months of its operations, but also retrains all the franchisees when there is an upgrade in standard operations (Arulampalam, 2006). The company regards technical supports as significant strategies in its franchise expansion system, such as research and development, advertising and promotion support, site and design suggestion, field agent visits are all provided by the company to the local franchisees (iFranchise Malaysia, n. d).

Furthermore, in terms of the quality control, Secret Recipe always try to anticipate the actions of franchisees under the company so that there will always be a solution for any unforeseen circumstances. For instances, some franchisees may try to save cost by extending the shelf life of the cakes. In order to maintain the company's objective to provide the most fresh foods and cakes to customers, the company tries to limit the storage space in all Secret Recipe outlets and also make sure all the outlets do not store too many cakes due to over order (Arulampalam, 2006).

Besides, the importance of selection towards the franchisee also has been stressed out by Dato Steven Sim previously. For the Secret Recipe franchising system, the company would like to find those with passion for the business rather than those who are profit-oriented. It is mainly because the company need someone who will be able to follow the concept and have the belief in the existing systems implemented within the company. Therefore, identifying the right and suitable franchisee might be taken some time.

(Arulampalam, 2006)

### 2. 1. 1 Franchising in China

A report has shown that China has risen consistently on per capital disposable income, which mean people has greater of purchasing power will provide a better market potential for the investors (Klako Group, 2007).

Secret Recipe is using franchising model to expand its business to China.

Initially, the company was invited by Carrefour to start its business in China.

After precise planning, Secret Recipe set up its first franchise in Shanghai and built own manufacturing facilities In Suzhou. The company has invested US\$1 million in the manufacturing facilities, and invests another US\$1 million in the outlets.

As stated by Klako Group (2007), the new regulations have been established in China, franchisors are welcomed by the Chinese government, whereby more and more investors actively expand business to China because less capital required and easier for company to comply with the local rules and regulations. Secret Recipe can enjoy low investment to expand into China using franchise model. It is relatively costly and complex for the company to

have wholly-owned outlets in this country, so that franchise system resolves the problem and ensure Secret Recipe enter the market smoothly.

Language is one of the key factors to determine a company's success in a foreign country. Most of the Chinese people speak Mandarin and they understand Chinese language. Therefore, Secret Recipe incorporated Chinese or Mandarin into the local advertisements and other relevant activities to popularize the brand image and reputation of Secret Recipe in China. Initially, there was no Chinese knowing about Secret Recipe, thus the company tried to customize its offering menu to meet local preference (Malaysian Franchise Association, 2008). Secret Recipe is aware that pork is the most common meat consumed by Chinese, as a result, offerings menu have been modified and pork foods are provided in China in which it is actually prohibited in Malaysia. Localization deemed to be the successful factor for Secret Recipe to survive in China market (“ International Marketing”, n. d.).

## **2. 2 Joint Venture**

In order to expand the business throughout the world, it is not enough to pursue one strategy. Therefore, apart from franchising strategy, Secret Recipe have also pursued joint venture approach as one of their expansion strategies. For example, joint venture agreements are practiced in Australia, Indonesia and Singapore whereby the local managers will take over the running of the business (Tan, 2011).

In other words, the decision making power will be partly belonged to the company's joint venture partners. This is because the counterparties are

more familiar with the local preference and culture whereby it can help them to come out with the localization products that suit the local resident tastes and preferences. In fact, Secret Recipe's joint venture partner, Secret Recipe Australia is directed by Mr. Low, an Australian resident. Mr. Low has steered a vastly different career path to form the Secret Recipe Australia joint venture with his equity partner, Alex Lee and Dato Steven Sim. According to Mr. Low, the main challenge in Melbourne is not so much on the competition, but the need to acclimatise themselves to local taste and local expectations (as cited in "The way to winning leadership," 2010).

Other than that, Dato Steven Sim has commented that the Melbourne is a vibrant cosmopolitan melting pot of different race, cultures and traditions whereby the Melbournians are discerning and knowledgeable when it comes to Asian foods ("Secret Recipe Cakes", n. d). Hence, Secret Recipe caters to Australian culture with its own chicken parmigiana and even has an Irish lamb shank, which has been an award-winner. Moreover, the outlets in Australia have followed the local culture and cater for breakfast which is a totally new concept that contrast to the shops in other franchising outlets. ("The way to winning leadership," 2010)

Furthermore, Indonesia and Singapore are culturally similar with Malaysia which the company has no worries to authorize its joint venture partners in managing the branches in these two countries. Meanwhile, to show respect to the local culture and religious factors, non-halal foods are prohibited in outlets in Indonesia and Singapore, which the local manager strictly monitors the processes of food production.

### **3. 0 Future expansion strategy**

#### **3. 1 Recommendations on Franchising**

Nowadays, franchising has become more and more popular among entrepreneurs because it is a relatively easy way to obtain resources and open new businesses without great effort in comparison to other methods. Franchising is regarded as a useful entry mode to gain first-mover advantage in totally new market. It can be a premium because the first product usually shapes the preference of customers (Michael, 2003). For instances, Secret Recipe has identified three particular areas as potential candidates to be new business location to achieve first-mover advantage. The three areas are Vietnam, India and West Asia respectively, they were verified by the company as Master Franchise Opportunity (Secret Recipe, 2012).

Currently, Vietnam is an ideal country for Secret Recipe expands into. It is because Vietnam is an emerging market with high economic growth rate. In addition, a composition of young and dynamic population has created great demand of fusion foods and comfortable dining environment, resulting in more and more foreign capital and local SME (Small and Medium Enterprise) actively seek for franchise opportunities in Vietnam. High willingness to come into Vietnam is due to its attractive profitability, as shown by estimated value of food and beverage sector amount to USD\$33. 7 billion in 2011 (Trinh, 2012).

For instances, US Baskin-Robbins ice cream has created a franchise relationship with a local franchisee company in Vietnam in the late 2011, initially with intention to testing the market. However, it is surprisingly unexpected that the ice cream supplies were sold out within 10 days from <https://assignbuster.com/businesses-facing-failures-of-expanding/>



the first day of opening. Such amazing sales record has proven that the taste and preference of Vietnamese consumers are following the globally trendy changing and innovation to a significant extent (“ Vietnam to see”, 2012).

With similar nature of business as Baskin-Robbins in dessert foods, it is very encouraging for Secret Recipe to explore this market by licensing a franchising partner to be franchise master in Vietnam. Another advantageous factor for the company is that both Malaysia and Vietnam are Asian countries. Hence, culture issues can be adapted more easily if compared to franchisors from other foreign countries (Hamid, 2010).

On the other hand, economically fast-growing India is another potential destination which Secret Recipe’s franchising model should be going to. Many famous global food and beverage companies such as McDonald’s, Baskin Robbins and Subway have already entered into the Indian market one after another (“ The Future Is Bright”, n. d.). Local franchise partners understand the local market more properly and may provide more information about the local tastes and dining cultures (Star Property, 2011). According to Chatterjee and Singh (2011), McDonald’s in India show absolute respect to the local culture by removing unsuitable foods such as beefs or pork items from the menu, and promoting an entirely beef-free menu. It is seemed to be appropriate that Secret Recipe adapts franchising model as expansion strategy in India because franchisees have more knowledge in monitoring the food materials used and ensure no violation of cultural taboos. Nevertheless, India has a unique culture that was found around 40% of the Indian population are vegetarians based on religious factors. The best example for Secret Recipe to refer is that Baskin Robbins interestingly offers

100% vegetarian ice cream in India and promotes it heavily (Lingam, 2010). Secret Recipe can develop various categories of vegetarian foods in Asian fusions. Special offerings need to be developed with the assists and advice of local franchisees and chefs. This market is definitely bright in prospective future.

### **3. 2 Recommendations on Joint Venture**

Joint venture is particularly useful when the company is not familiar with the cultures and norms of countries in which the company intend to enter into. By the understanding of local culture, Australia's Secret Recipe outlets has provided unique chicken parmigiana and Irish lamb shank which are not available in other nations' outlet. Secret recipe determines to be different, therefore Asian classics, popular western foods and fusion food are all offered instead of to be just Asian or just Western. This practice of joint venture is particularly inspiring because localization managed to establish preferences and word of mouth among customers.

Since the company has successfully experienced on expanding its business to the countries which their cultures are different with Malaysia like Australia, the company can consider expanding its business to Japan.

Japan is one of the countries that are influenced mostly by Westernization in terms of economics, fashion, food, and others. Recently, the teens and young adults are always interested in western culture (Kumar, 2012). In addition, Café culture has also been bought from western, but the local Japanese prefer socializing in the Café than for the coffee. This is due to Japanese usually live in small apartments and houses that the people have

less entertainment. Thus, the people choose to hang out with friends in Café (Evans, n. d.).

As the Café culture popular and high acceptance of other cultures for Japanese, it is very suitable for Secret Recipe to expand its business in Japan in order to improve and develop the company's foreign business. However, the company has to identify the most applicable modes of market expansion to develop the business in Japan. In our point of view, we suggest that the company has to combine two modes of international expansion strategies.

Firstly, before penetrating the Japan's market, the company should use joint venture strategy because it combines the resources of two companies and the local company has a deeper understanding on the newest trend of local market. It is recommended that Secret Recipe should find a local company that is mainly selling coffee and it owns a great reputation on its coffee in local. This is because Japan is the third largest consumer in the world (" Ten Trivial Facts", n. d.). Once Secret Recipe and the local company chosen set up a venture Café, they can sell both strong products which are coffee and cakes. This joint venture strategy has been practiced successfully by Starbucks and the local retailer and restaurateur, Sazaby Inc. in Japan on October 25, 1995. The venture partnership which is called Starbucks Coffee Japan, Ltd has combined the strengths of both companies and it has provided the consumer a brand new special coffee experience. Another success factor for this venture company is due to the demand for coffee in Japan has grown intensively in the past five years. In 2001, Starbucks has doubled the numbers of outlets in Japan to 289 and the stores are expected to be opened more (Starbuck Coffee, n. d.).

By referring the strategy used by Starbucks, Secret Recipe should choose Doutor Coffee as its venture partner. The reason is that Doutor Coffee is one of the largest coffee chains in Japan and most recent Doutor Coffee has opened more than 1000 coffee shops in Japan (Lewis, 2003). From the number of outlets, we can see that Doutor Coffee is enjoying a great reputation for its coffee in Japan. Other than that, Doutor Coffee has deep understanding of Japanese tastes and trends and it may help Secret Recipe to penetrate the market in the future. If both companies form a venture company, both parties can offer combine respective strengths to establish competitiveness. Hence, in order to make sure success is achieved in Japan, Secret Recipe has to slightly modify its menu. For instances, the company can set coffees and cakes as packages to attract the customers in the starting stage. By the helping of Doutor Coffee, those coffee lovers are given opportunities to taste the cakes of Secret Recipe and assess quality of the company's cake. Meanwhile, other Asian classics and fusion foods are provided as usual. It is very useful for Secret Recipe to gain awareness from locals. Apart from this, due to the Japanese prefer to have a comfortable place to socialize, it should put more effort on improving the environment of Café to match the preferences of Japanese.

Then, once the venture Café has been established and stabilized in Japan, Secret Recipe can consider applying franchise and licensing strategies to expand business in Japan. Since the company has wide experience on doing franchising and licensing businesses in overseas, the company can apply the same methods to do so in Japan.

## 4.0 Conclusion

In summary, Secret Recipe is a well known Malaysia franchise company and successfully established its own brand name throughout Malaysia and Asia in the short period of ten years. With the realization that Secret Recipe has performed so well in the recent years, the company put much effort in term of innovation, differentiation, research and development, consistency are the pertinent factor to evolve the company. According to Steven Sim, it is not easy to build a sustain business in other countries and numbers of challenge is waiting (Kam, 2009). However, the challenges do not influence Steve Sim moving forward. On the contrary, Steve Sim applies different strategies to adopt and built Secret Recipe in foreign country. For example, when Secret Recipe steps in China, changes have been made on menu based on the four seasons in China, such as adding more meats during winter time. Besides China, through the master franchise agreement with Cambodia and South India, Secret Recipe can introduce few Malaysian dishes such as “ nasi lemak” and “ mee goreng” in its menu abroad (Ramlee, 2012).

Undoubtedly, franchising is a best method for a company to expand abroad but there are several drawbacks come along with this kind of a business operation as well. According to Kam (2012), in Singapore for instances, when Steven Sim expanded his brand to this country in year 2000, Secret Recipe does not attract much attention, meanwhile, it was competing with established food restaurants from United States and Hong Kong. With the different strategies in mind, Secret Recipe seeks to surpass its own accomplishments and to be recognized as a leader in the industry. Besides, Secret Recipe has earned numerous awards that proved the company’s

quality such as SMB Brand Building Award 2005, Most Competitive Company Award 2003 and so forth (Secret Recipe, a lifestyle café chain, n. d.).

It is not an easy way for an entrepreneur to start up a business in foreign country especially different culture from home country. However, Steven Sim has proved his foresight and belief are realizable. With the company's continuous effort in this field, Secret Recipe will be able to contend with other large international food chains and become internationally well-known brand in the near future.