

An over view of breadtalk group limited marketing essay



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To have an edge in the competitive Food & Beverage (F&B) industry, Breadtalk Group Limited aims to strive for innovation and creating distinctive flavours to the public, and additionally, it has a vision of being an international trend-setting lifestyle brand. With these objectives in line, Breadtalk Group Limited began to introduce new food culture, together with differentiation and quality that allows it to have a distinctive competitive advantage. All these have led on to an expansion of not only the Bakery business, but to food atrium and chains of restaurants.

Breadtalk Group Limited was well-received by Singaporeans as evidently shown by their numerous awards and growing popularity in the Singapore market. Just within a short span of time, it has gained recognition as a lifestyle brand in Singapore and became one of Asia's most promising brands.

Breadtalk gradually expanded to both local and international markets and till date, they have more than 300 Bakery outlets across 13 countries and territories, which includes franchises and 24 retail Bakery outlets islandwide in Singapore. Besides that, it also has 33 food courts and 8 restaurants, which are all supported by 5000 staff worldwide. Breadtalk Group Limited has plans to expand its operations to overseas countries such as Indonesia, Hong Kong, the People's Republic of China, Philippines, Malaysia, Vietnam, Oman, Kuwait, Thailand, Saudi Arabian, India, South Korea and Bahrain.

2) FINANCIAL ANALYSIS

2.1 Business Composition

Using the latest data from the 2009 Annual Report, Bakery business made up of 44.8% of the total revenue as shown in Figure 1. The next most profitable business area would be the food atrium (31.7%), followed by restaurant and franchise. In terms of the profitability, though more than half of the revenue is generated outside of the geographical segment, statistics proved that Singapore's market is the main source of revenue, with a percentage of 47.9% in the total revenue globally.

Figure 1: Breadtalk Group Limited 2009 Annual Report – Revenue Composition

2.2 Overall Group Performance

An analysis was done on Breadtalk Group financial statements and as seen in the latest 2009 annual report, there is generally an upward trend for the overall revenue figures as shown in Figure 2 and in fact, revenue from the past two years rose by 16.1% from the figures shown in year 2008 to approximately S\$246.5 million. As quoted from Breadtalk Group Limited's annual report, this is the ninth consecutive year that the Group has achieved double digit growth.

Figure 2: Overall Revenue in Breadtalk Group Limited ('000)

2.3 Group Overall Revenue Growth

With the Bakery as its first sole business segment, the main bulk of the revenue in Breadtalk Group Limited is undoubtedly the Bakery business, as supported by Figure 3.

Revenue % in Breadtalk Group Ltd

FY2005

FY2006

FY2007

FY2008

FY2009

Bakery

53%

45%

44%

44.7%

44.8%

Franchise

0%

6%

7%

7.5%

7.7%

Food atrium

29%

31%

31%

32.6%

31.7%

Resturant

18%

18%

18%

15.2%

15.8%

Total Revenue %

100%

100%

100%

100%

100%

Figure 3: Breadtalk Group Limited Revenue Growth Percentage

Though overall revenue remains promising, but to further analyse the growth of the revenue trend for the past five years, revenue growth rates fluctuates distinctively in the past five years as shown in Figure 4. Positive growth is shown in year 2006 and 2008, but Breadtalk Group Limited portrays a negative growth in the year 2007 and an ever steeper decline in revenue from year 2008 to the latest financial year 2009. Though overall revenue seems rosy, statistics have proven an unstable revenue growth in Breadtalk Group Limited.

Figure 4: Overall Breadtalk Group Limited Revenue Growth Rate (%)

2. 4 Business Division Revenue Growth

An analysis was done in detailed by breaking down the revenue growth rates. Results clearly proved that the revenue in the Bakery and Restaurant business has been gradually declining in the past five years from 2005 to 2009 as shown in Figure 5, whereas the Food Atrium and Franchise shown positive growth.

Figure 5: Revenue Growth Rates Trend of Business Segments

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2. 5 Group vs. Bakery Revenue Growth

With Bakery contributing to the largest share in the total revenue, a comparison was done in regards to the growth of Bakery growth and Breadtalk Group Limited growth, as seen in Figure 6. It illustrates a strong correlation between the Bakery and the Breadtalk Group Limited's growth, and evidently shows that the Breadtalk Group is reliance on Bakery's growth & revenue.

This is exceptionally dangerous given the fact the Bakery's revenue fluctuates. Thus, it is essential for Breadtalk Group Limited to retain consistency in the Bakery's sales and revenue in the long run, as this will inevitably affect the revenue growth, constituting to the decreasing growth rates as time goes by.

Figure 6: Bakery & Group's Revenue Growth Rates Trend

3) STRATEGIC ISSUE

In summary, Breadtalk Group performed exceptionally well in the past few years as it enjoys double digit growth for consecutively nine years. Certainly, the revenue growth that the group enjoys made the company appear extremely attractive to investors. However, paying greater details to the past 5 years' statements would generate an important highlight - the fluctuating growths rates that the group suffers from is a signal of the group's weaker performance, especially during 2007 and 2009. The fluctuating growth rates begs the question if the group is able to deliver consistently year on year for its investors.

Based on Breadtalk group's current business model, its Bakery business contributes the largest percentage to the group's overall revenue. Moreover, the main bulk of the business is concentrated on its performance in Singapore. Hence, it appears that the Bakery business in Singapore is the main driver for the group's revenue and there are great expectations on Bakery business to perform exceptionally as the group's overall performance is also heavily reliant on it.

According to Euromonitor, baked goods registers 3% current value growth to attain S\$319 million retail sales in 2010. Artisanal players like, Four Leaves and Begawan Solo, lead the baked goods industry with 53% market shares in 2009. With the improving economic situation, consumers with more disposable income would be more willing to spend on the more expensive Artisanal player's products. The marginal percentage growth paints a slightly pessimistic outlook for baked goods industry players like Breadtalk bakery.

The Singapore baked goods industry had grown extremely competitive over the years; with a large number of Breadtalk wannabe sprouting out all over the island, hoping to mimic their success. Inevitable, this affected Breadtalk bakery business, causing it to underperform and producing inconsistent growth over the years. The growth for its bakery business showed signs of significantly slowing down over the years.

Since the Bakery business is contributing considerably to the group's revenue, the business' slowed growth will impact the group's revenue and growth to decline. This leads to the strategic issue if Bakery's business in

Singapore will ensure consistent growth so as to ensure positive rate of overall group growth and performance.

4) INDUSTRY ANALYSIS: PORTER'S FIVE FORCES

The Porter's Five Forces framework was used to analyze the long run prospects for profitability in the bakery industry. Highlighting the key issues in the external environment would allow us to understand and assess BreadTalk's position within its bakery business more accurately.

4.1 Intensity of Rivalry

On the whole, the bakery industry is heavily driven by its intense competition. BreadTalk have direct competitors ranging from huge bakery franchise brands to individual bakery outlets. Competitors include Bengawan Solo, Four Leaves, Prima Deli Bakery and also bakeries that can be found at various shopping malls, hotels and neighbourhoods. These competitors offer similar products but at highly competitive prices. Furthermore, prices offered by the individual bakery outlets located at neighbourhoods are usually much lower than that of larger bakeries chains.

In general, BreadTalk bakery faces competitors which relies on innovation and utilizes wide product offerings to attract the mass market. Additionally, a large portion of the competitors are family and established businesses. Although they are not publicly listed, each of them adopts their own unique commercial strategy.

4. 2 Threat of New Entrants

The low barriers to entry resulted in a relatively high threat of new entrants. Especially in the bakery industry where equipment costs are low and there are not much requirements for research and development in order to operate the business, the initial capital outlay can be considered much lower compared to other industries. Although there is a difference in products among different bakeries, a large portion still retails similar product or are able to imitate each other's products quickly.

4. 3 Bargaining Power of Buyers

Buyers are entitled to enjoy huge bargaining power as they suffer low switching cost in the bakery industry. In addition, the demand for food is highly price elastic on the whole, therefore most of the consumers will be sensitive to any price adjustments and there would be not much hesitation for them vary their tastes and preferences accordingly. Particularly during times of high inflation, the general mass market would more often than not, switch to the more affordable alternatives.

4. 4 Bargaining Power of Suppliers

Suppliers generally have relatively low bargaining power in the bakery industry as there are a large number of existent suppliers. The suppliers are unable to mark up their products significantly as most of the customers usually purchase in huge quantity. Moreover, due to the fact that raw materials like flour, eggs and wheat do not differ largely in quality across suppliers, this further restrains the bargaining power of the suppliers.

4. 5 Threat of Substitute Products

Product substitutes are a strong threat in the bakery industry as their prices can be comparatively lower and customers face low switching costs for satisfying the same needs. Any light takeaway snacks would potentially be a substitute product. Substitutes may range from snack joints such as Old Chang Kee and Jollibean, to traditional coffee outlets such as Ya Kun Kaya Toast.

4. 6 Evaluation of Industry Analysis

With buyers having strong positions, coupled with strong threats from substitute products, low entry barriers and intense rivalry among competitors, the bakery industry in Singapore is viewed unattractive with low profit potential.

5) CONCLUSION OF STRATEGIC ISSUE

Even though the bakery line was the founding business unit for BreadTalk Group and still contributes to 51 percent of its revenue today, BreadTalk faces strong competition and easy imitation of its products by competitors. To overcome these difficulties, BreadTalk has banked on continual product innovation and revamping of its existing outlets to draw in customers. Nevertheless, consumer preferences and their corresponding reaction to 'fad' items are difficult to gauge.

Therefore, it is vital to evaluate the feasibility of future expansion plans for its Bakery sector and we will be evaluating this based on several criteria such as profitability, cost, return on investments and sustainability.

Continue Expansion

Slowed Expansion

Profitability

High

Medium

Cost

High

Low

Return on Investment

Decreasing

Increasing

Sustainability

Low

Medium

Table 1: Evaluation of Strategic Issue

Based on the baked goods industry statistics, if BreadTalk Group were to continue their expansion plans, they would be able to obtain increasing market share from the S\$319 million industry. However, the expansion plans would incur increasing high costs, from rental of prime locations to manpower resources. From analysis of the group's past years' financial reports, operating new outlets had only been contributing to decreasing <https://assignbuster.com/an-over-view-of-breadtalk-group-limited-marketing-essay/>

return on investments and this would result in low sustainability of the outlets in the long run.

Instead, if BreadTalk Group can streamline its Singapore retail operations such as down-sizing or closing outlets that under-perform, it could potentially increase their return on investments from the operations. This measure is recommended as it allows Breadtalk to utilize their existing resources more effectively on profitable outlets, resulting in lower operating costs and improve overall profitability.

However, there is a limit to the Group's ability to sustain a high and consistent growth rate in its bakery business. The Group can focus on raising its operational efficiency, service quality and brand equity for its bakery business. However, the Group should gradually increase its focus on diversifying into its overseas operations as its main growth driver, either through its overseas franchise programme, joint ventures or direct investment in selected countries.

To address this concern, the Group's corporate level strategy would be analyzed in detail to better understand the issues facing the Group's continued expansion and growth.

6) COMPANY ANALYSIS

6.1 Corporate Level Strategy: Related Diversification

BreadTalk Group's corporate level strategy is characterized by an increasing level of diversification. In 2003, it diversified into the restaurant and food

atria businesses. As such, it currently has three separate units as mentioned earlier, namely bakery, restaurants and food ateria.

For the purpose of analysis, BreadTalk Group's extensive franchise network internationally shall be regarded as a form of geographical diversification. BreadTalk Group utilizes related diversification as a mean to achieve economies of scope and increased market power, through the following factors:

6. 2 Leveraging on Core Competencies and Partners through Franchising

With regards to its bakery line, BreadTalk Group was able to expand quickly through franchising. As at December 2009, of the 259 bakeries, 105 are owned and 154 are franchised, with the company planning to increase this to 1000 stores by 2012. Around 54% of the new outlets will be in China with the rest distributed across rest of Asia. Chairman George Quek is optimistic about the bakery business and is convinced the vast size of China's market will provide great returns. Indeed, sales have increased from S\$50. 2 million in 2003 to \$178 million in 2009, with profits increasing from S\$0. 9 million to S\$8. 4 million. The key drivers behind Breadtalk's first quarter growth in 2009 were the China and Hong Kong markets. Revenue growth in china was 34% and 104. 3% in Hong Kong.

Franchising has allowed Breadtalk to derive best practices where operating standards and recipes were supplied to BreadTalk franchisees, directly leveraging on its existing core competencies of innovative products. Under

the franchising guidelines, BreadTalk's management team would provide support services in site selection, store equipment, design and layouts.

These core competencies provided a viable basis for synergy among its bakery line and international franchises because they enhanced the competitive strengths of these overseas outlets. By combining the expertise of experienced food industry players in these foreign markets, BreadTalk Group was able to develop local adaption in its products while lowering its costs through trading off a lower level of control over processes and activities through franchises.

For instance, the Group decided to franchise Carl's Junior in China, through leveraging on its partners and coupled with its own experience and track record. There are plans to open 100 outlets of the popular American burger brand over the next eight years after the first outlet was opened in Raffles City Shanghai in September 2009. In China, Carl's Junior is operated by Star Food F&B Management Co. Ltd, a joint venture between BreadTalk Group and Aspc F&B International Pte Ltd, the current Carl's Junior franchisee in Singapore and Malaysia. The entry into China is part of the strategic plan to accelerate franchise development in international markets and grow the system as a whole. The strength of the restaurant's brand matched with Aspac's operating experience with Carl's Junior in Singapore and Malaysia, along with BreadTalk Group's local market knowledge and operating expertise, will definitely be a strong combination of competencies not easily substitutable in the foreign markets.

A breakthrough was also made in the Middle East when BreadTalk Group signed a Master Franchise Agreement in 2009 with Pan Arabian Gourment of Bahrain, allowing them to sub-franchise Breadtalk outlets to 12 countries in the Middle East, including Syria, Egypt and Lebanon. This is a first for the BreadTalk Group and the decision was derived from their need to leverage on a partner with strong network and established presence in the region, for more effective penetration into the market. Pan Arabian Gourmet has businesses in a diverse scope of industries in the Middle East, such as leisure, aviation, retail and real estate. Their wealth experience will help anchor the BreadTalk brand in the region.

6. 3 Strong Overseas Expansion Strategy

Aside from using franchise, Breadtalk acquire Topwin Investing Holding Pte Ltd to have immediate expertise and knowledge of the F&B industry in China. By leveraging on Topwin's experience also means that Breadtalk was able to operate its own bakeries in Shanghai and Beijing as well as to increase its presence in China's Foodcourt business with the opening of new food courts in locations such as Chongqing and Shanghai. For example, it decided against franchising Breadtalk bakeries and subsidiaries, but instead, opted for a direct operation pattern in China. With the knowledge obtained, Breadtalk group set up Shanghai Breadtalk Co, incurring approximately RMB2million cost. Other forms of strategies used in China include franchise and joint venture, which was identified under Corporate Level Strategy. The accurate decisions made during its planning process resulted in China market contributing 35% towards the group's revenue in 2009.

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6.4 Sharing Related Activities among Business Divisions

Cost savings were derived from BreadTalk Group's ability to utilize the same suppliers across franchise outlets. The Group's procurement department negotiates food contracts both for BreadTalk's own operations and for their franchisees. Such bulk orders give the Group the advantage to negotiate for and lock in the best prices without compromising on quality. During the year of 2009, the Group managed to negotiate favourable food contracts to curb against rising commodity prices, which has helped in improving profit margins as well as maintain their retail prices for the past two years.

Also, an Enterprise Resource Planning (ERP) system was implemented during 2009 as part of the Group's efforts to streamline processes and improve reporting. Integration between the supply chain and financial modules will allow for more effective monitoring of inventory purchases and consumption.

The ERP system is planned to be outfitted with recipe costing in 2010, so as to enable it to monitor and assess production efficiency of the central kitchen with regards to yields and consumption of raw ingredients. The ERP system as such is expected to allow for more effective management and control of food costs.

6.5 Low Level of Vertical Integration

As mentioned earlier, bulk orders of food contracts across different business units would inadvertently increase the Group's bargaining power with respect to suppliers. This may explain the low level of vertical integration to secure supplies and overcome cost fluctuations, since they are able to obtain the raw ingredients at favourable prices.

6. 6 Evaluation of Corporate Level Strategy

BreadTalk's diversification plans are characterized by fast growth, but with a priority on profitability. Their approach to scale up is conservative and at a measure pace, without placing profitability at the expense of growth.

7) CORE COMPETENCY

It is crucial to evaluate the core competency in order for Breadtalk to understand which of its factors are valuable towards Breadtalk's long term success. Majority of the corporate strategy is able to derive positive benefits due to the presence of the core competency in the company. At the same time, core competencies allow us to understand the capability of Breadtalk and will be used to evaluate the feasibility of the recommendations made in the future. These factors are identified are rare, cannot be imitated and non-substituable. These core competencies can help Breadtalk Group to obtain competitive advantage and to create a higher value for its consumers.

7. 1 Strong Human Resources & Management

7. 1. 1 Strong Management

Mr George Quek, the founder and managing director of Breadtalk group, had more than 30 years experience in the F&B industry and was successful in not only building the Breaktalk brand name, but also in his strong ability to plan strategically for new business opportunities and geographical platforms for Breadtalk group to venture into.

7. 1. 2 Strong expertise

Mr Goh Tong Pak, a deputy director for MOE school appraisal branch was made CEO of Breadtalk group in 2008 to strategize on systems and talent

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development within the group and to oversee Breadtalk's entire operations in the region[i]. This help in proving that top managers who are identified will also be transferred between different business units to capitalize on employee's expertise. This is especially in the case where all of Breadtalk business units are related to F&B industry, it allows knowledge to be shared across all segments easily.

7. 2 Strong Branding (Breadtalk)

7. 2. 1 Unique Concept in Retail Outlets

Breadtalk group was able to conceptualize retail outlets to draw interest for customers and to provide unique customer experience. For example, Breadtalk bakery business was the first in Singapore's bakery industry to adopt the concept of sleek, transparent glass in its ' see-through' kitchens to enable public viewing of the baking procedures and the expertise of the bakers.

By being the first in the industry to have a different bakery concept will help consumers to strongly associate this store concept to Breadtalk. Therefore, competitors who try to imitate Breadtalk's style will have less impact as consumers perceived that to be Breadtalk's signature concept.

7. 2. 2 Consistent Branding

Breadtalk was able to create a retail shopping environment which captures the customer's interest will not only increase customers experience but also add a new dimension to its brand image by portraying a consistent image. Brand image was also standardized across all Breadtalk outlets to promote

Breadtalk to portray professionalism and strong unity. For example, employee uniforms and equipments used such as bread tongs and trays were all standardized to provide consistent customer touchpoints and service consistency.

Breadtalk tries to connect with its customers by repositioning itself to represent family and friendship and hence, revamp all outlets to project the new concept of being fresh, clean and lively. The use of “ Happy Chef” characters not only enables customers to create positive impression of the brand and employees, but a secondary benefit also serves as a tribute to Breadtalk’s chefs and create higher job satisfaction.

7. 2. 3 Public Relations

Breadtalk also tries to strengthen the brand equity through its socially responsible actions. One example was the creation of Panda bear shaped bun with 4 different expressions to symbolise the terror of the 7. 8 magnitude earthquake. The bun was sold in Breadtalk bakery outlets where all proceeds raised were donated to Chinese Embassy and Red Cross Society’s ‘ China Earthquake Appeal Fund’ for the people in Sichuan.

Breadtalk’s strong branding is also supported and evident in its awards won throughout the years. The awards are sufficient to illustrate the popularity of Breadtalk among consumers and the ability to correctly strategize its operations.

Figure 7: Breadtalk Group’s awards throughout the years

7.3 Strong Innovation

7.3.1 Innovative Product Offerings

Breadtalk's group, being in an F&B industry, relies on fad and risks changing consumer preference. Therefore, it is important that Breadtalk is able to innovate pro-actively in order to maintain the hype in its products to the consumers. One example of the strong innovation is evident in Breadtalk bakery's production of different bread (in both ingredients and appearance) constantly. At present, Breadtalk produces 10 new flavours every 4 months where they further generate interest in these new products by inventing creative and fun-sounding names for their buns such as Mr Hokkaido and Spring in the City.

The innovation is made both locally and globally. For example, during the revamp of Breadtalk bakery stores, the group hosted consultation with top chefs and food consultants from France, Japan, Spain and Taiwan to produce over 100 new product offerings. However, Breadtalk was also sensitive to local trends and happenings, such as during Formula 1 2008 in Singapore, Breadtalk tries to sync its product offerings by producing Flosss 1 and Ferraberri to commemorate the event. The ability to have this creative flair to react and create constant interest in customers helped to set Breadtalk apart from its competitors.

7.4 Evaluation of Core Competency

The core competency revolves around the management, branding and innovation and these can be used to tackle many future challenges. For example, the support of the management can direct and guide the company

towards a new strategy. The strong branding of Breadtalk indicates that it is possible for the brand to undergo new brand extension (different retail operations under the same name). The strong innovation indicates the companies capability in strong consumer understanding which can proved essential in any future plans made.

8) SWOT

To have a better understanding of the key issues and trends that Breadtalk Group faces, this section will provide a SWOT analysis which can help in determining the challenges that need to be addressed by the company.

8.1 Strengths

Breadtalk group are able to have some internal strengths in which are beneficial to the company. Some strength includes:

Strong “ Breadtalk” brand name

Ability to obtain economies of scale

Strong human resources

Strong R&D team to add innovation to product offerings

Strong franchise relationships

Majority of the strengths are sustainable since they are rare, costly to imitate and non-substitutable. At the same time, they can be easily transferrable when Breadtalk group venture into other types of F&B business. Strengths that are sustainable will be discussed further under “ Core Competence”.

One point to mention in this segment is Breadtalk's ability to obtain economies of scale. As Breadtalk's operations requires a significant amount of raw materials across different business units and franchises, the bulk purchase would significantly increase Breadtalk's bargaining power with suppliers and allow them to obtain these raw materials at favourable prices.

8. 2 Weakness

Breadtalk group faces some weakness such as the following factors:

Over-reliance on bakery sector

Over-reliance on Singapore region

Product offerings are easily imitated

F&B business rely on fad and changing consumer preferences

Limited control in supplies since flour is obtained from third party sources

Franchise division requiring high cost involvement, and constant need for franchise license to be renewed

As illustrated, 45% of Breadtalk group's revenue is generated from the bakery industry and 49% of the Breadtalk group's revenue is generated from Singapore. The heavy reliance on a single division and geographical location is dangerous because risk is heavily contained in a single segment. This is especially in the case where F&B industry, including bakery business is heavily reliant on fad and changing consumer preference. However, in recent years, Breadtalk tries to diversify this risk by franchising other brands.

Although this solves the immediate issue to spread out the risk, the franchise division is a high cost structure where Breadtalk is required to make royalty payment and provide licence fee. Franchise is also not a long term solution in terms of company expansion as the decision to branch out into other factors depends on the franchiser. This means that franchise benefits Breadtalk in terms of revenue structure, but the control over the possible expansion, business structure and marketing mix is minimal to Breadtalk.

8. 3 Opportunities

Some opportunities which are present to the current macro-environment include:

Increasing growth for F&B industry

Rising household income and affluence in Asia

Possibility of cross-collaborations across businesses

Chance of tapping into 2nd tier countries which are emerging

Frost & Sullivan[ii], an analyst firm, estimates that the F&B industry for Asia will grow at 10-15% for the next few years. Another research done by Deutsche Bank Research[iii] shows that the middle class in Asia rose significantly over the past decade, highlighting China's middle class to rise from 2% in 1995 to 24% in 2006.

The growing affluence in Asia also means that these consumers have higher spending power and more willingness to spend on essentials such as eating better tasting food. This provides Breadtalk group the opportunity to expand

and grow in the F&B industry in the region and to possibly venture into other forms of F&B businesses. The current strategy for Breadtalk to have multinational diversification also provides Breadtalk the platform to engage in cross-collaborations across businesses so that Breadtalk has the expertise and knowledge to enter different F&B segments easier.

Another opportunity in which Breadtalk group can consider to leverage on is to tap on 2nd tier countries which are emerging and to promote premium commodities into their lifestyles.

8. 4 Threats

Some threats which may pose as a risk to