

CASE STUDY ON COOL STATION

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(A) Case Study Framework

BACKGROUND

In the past year, there has been a mushrooming of bubble tea outlets in Singapore. A Straits Times article on 31 August 2001 reported that there are more than 70 such stores opened islandwide. There are many brands in the market including *Cool Station*, *Quickly*, *Happy Cup*, *Milk Girl*, *Jollibean* etc.

Cool Station was the first to introduce a bubble tea franchise to Singapore in 1999. Its first branch was opened at 175, East Coast Road, by Taiwanese immigrant Mr Cool Chen. Unlike its main competitors, *Cool Station* is a local based franchise. Today, it has 30 franchised outlets and is among the most recognised brands in Singapore.

OBJECTIVES OF RESEARCH

The objectives of the research are as follows:

- To learn about the start-up of a local-based franchise
- To explore the success factors of one franchise and how franchising is used as a business model
- To find out about the future plans and development of the franchise
- To ascertain the opportunities and challenges that face the franchise

METHODOLOGY

The research approach will be based mainly on an in-depth interview with the founder and owner of the franchise, Mr Cool Chen.

Qualitative data from the interview will be complemented by information from secondary sources. They include the franchise's web site (www.cool.com.sg), the 1999 survey on franchise by TDB, newspaper articles, magazines etc.

(B) Case Report

INTRODUCTION

The Bubble Tea Craze

Mar 15 2004: The Straits Times

"You must have seen the loads of students, shoppers, and even tourists streaming across streets holding their little, clear plastic cups brimming with an unidentified liquid and coloured beads, if you are not already one of them. Yep, bubble tea is back, and with a vengeance."

Vengeance is a more than appropriate word. Bubble tea joints have been mushrooming all over the island since the end of last year. And the end of the bubble tea craze is not yet in sight. More than 70 bubble tea outlets have opened island wide. Franchised counters such as Cool Station, Milk Girl Ice Cup, Quickly and Happy Cup have been popping up around town and suburban shopping centres. Some even operate in HDB areas. Among them, Cool Station is the earliest operator and the only franchise based in Singapore.

Cool Station: The Local Brand

June 29, 2001: The Straits Times

"Cool Station started with one shop in April 1999 at East Coast Road. At first, the concept of made-on-the-spot milk tea packaged by a sealer machine was so alien that it sold barely 100 cups a day. But it caught on quickly. Today, business has grown by about 10 times, says owner Chen Tsai Shiang [aka Cool Chen], 43"

In April 1999, Cool Station was the first takeaway bubble-tea outlet to reach Singapore.

In two years' time, Cool Station has grown from the sole outlet in East Coast Road into a 30-outlets franchise chain. Franchise owner Mr Cool Chen proudly declared, "We are, in terms of numbers [of outlets], the number one. Quality wise, Straits Times mentioned that we are [ranked] number one." Not contented with that, Chen outlined his plan, "...we are not only focusing [on the] Singapore market because we strongly believe that once we developed a very good brand, this brand name can go around the world...that will be a Singaporean brand going to the world. We are dreaming of that. That is our mission."

BACKGROUND

Call me Cool

The real and passport name of Cool Station franchiser is Bob Chen. Mr Bob Chen migrated to Singapore from Taiwan in 1984. The beverage industry is not where he struck his riches. He started his business in the electronics industry, acting as an agent for a Taiwanese electronics company. Today, Cool Station shares its corporate office with Mr Chen's main line of business-DOS Electronic. So, how did the name Cool appear on his name card? Chen explained, " I put my name [Cool] there because I use the handphone. When people talk about milk tea this business, they call me Cool and straightaway you know they are talking about what kind of business. If they call Bob Chen, straightaway I know they are talking about electronics."

How it began

Mr Chen was (and still is) in the electronics industry when his family encouraged him to introduce pearl milk tea to Singapore, as they believed that this type of beverage would be very popular in Singapore due to the hot season.

"Because my family is doing this kind of pearl milk tea in Taiwan so they give me strong courage [sic] that this area is always summer, hot season, why don't you introduce this pearl milk tea, this product come to Singapore?"

Mr Chen decided to follow their suggestions because of two factors. Firstly, his wife, Mrs Chen, had some free time on hand, so she could help in the running of the business. Secondly, Mr Chen's family sells pearl milk tea back in Taiwan so they could actually provide Mr Chen with the relevant expertise in this line of business.

Mr Chen was able to apply what he had learnt as an agent for electronics in the operation of Cool Station. The concept of marketing is very important for both type of business. Marketing is a social and managerial process by which individuals and groups obtain what they need and want through creating and exchanging products and value with others. In both types of businesses, Mr Chen has to promote the products through sales promotion and public relations. He has to convince the consumers why his brand is superior to other brands.

Building his own brand

What sets Cool Station apart from other competitive brands like Quickly and Happy Cup is that it is wholly franchised (except for the first branch at East Coast Road). Mr Chen is able to develop his own franchise instead of buying a concept from Taiwan because his family are operating in the bubble tea industry over in Taiwan and thus he can get the best in terms of training or ingredients. It would not be so if he actually received the training from a master franchisor.

"Of course, [there is a] difference in position between [us] and other competitors because, probably, other competitors they don't have this kind of relation with Taiwan. They only know this kind of business probably can run in Singapore but they don't have this kind of connection. Our family is doing this so I can easily bring our members to come down to set up everything. So, we can get the best one. If you buy a franchise or franchisor, this kind of concept, probably you can get support only. For example, you will get a master cooker. They will teach you one week or two weeks only. We are in a different situation. We can bring our family members and stay here."

In developing his own brand, Mr Chen can generate the name "Cool Station" which is a translation of (清凉小站) and need not adopt a Chinese-sounding name like Quickly (快可立). "In Taiwan, the emphasis is Chinese. But Singapore we use, we emphasize the English – the Cool Station," he said.

As a master franchisor, Mr Chen can introduce new products. This is not possible if he had bought a concept from Taiwan because he would have to follow the recipes. By having his own brand, he can actually invent new flavors, which is adapted to the local taste buds.

FRANCHISING

The concept

Franchising is an arrangement in which a party (the franchisor) has developed a way of running the business successfully, licenses the rights to operate that business format, under its trademark or name, to the other party (the franchisee). The business arrangement involves a formal legal contract between the franchisor and the franchisee and continual assistance to the franchisee to run the business on a predetermined basis. (William I. Siegel,)

At least 2 levels are involved in the franchise system: the franchisor, who lends the trademark and business system to the franchisee, who pays a royalty and often an initial fee for the right to do business under the franchisor's name and system. (William I. Siegel,)

Beyond contractual arrangement and agreements, successful franchising also involves building and maintaining a strong foundation of relationship and understanding between franchisor and its franchisee. According to the Singapore Franchise Industry Survey 1999, 88% of the franchisors felt that franchising was a feasible option of business expansion compared to starting their own outlets in view of the cost advantages and relatively lower business risks as compared to opening their own outlets due to various factors. These factors include higher productivity, faster expansion, lower capital outlay, minimal increase in employment size, access to good locations, enhanced business image, better motivated personnel, and economies of scale.

The franchising process involves the attaining of the tenure or period of contract, which is a period of validity of the legal contract between the franchisor and the

franchisee, usually set by the franchisor. Such legal contracts can be as short as 3 years or as long as 10 years. The process also involves an initial fee, which is an upfront payment that the franchisee must make to the franchisor to obtain the rights to the business format and trade or service mark or trade name for a specified period. Franchisees also need to make on-going payments, known as royalties or management fees, usually made monthly by the franchisee to the franchisor. The fee is usually based on a percentage of gross sales. However it could be a fixed fee or a variation or both. In return, the franchisor usually provides management services such as joint advertising and promotions, updating of procedures and continuous product development. Some franchisors help subsidize the renovation cost through canvassing for suppliers' support and sponsorship. However such costs are usually borne by the franchisee to convert premises to the image and layout as specified by the franchisor. The size of the territory varies depending on the nature of the business and the contract. Also, franchisors usually specify a certain minimum percentage of goods and services needed by the franchisee to be obtained from them to ensure the quality of goods and services provided.

How Cool Station does it

The franchising procedure of Cool Station begins with the need for the potential franchisee to locate a premise to set up the franchise. Thereafter, Mr Cool would be informed and he would examine the site and conduct a series of surveys to find out the suitability of the location for the setting up of the franchise. Important determinants to be studied in the surveys include the traffic and crowd flow of the premise and the maintenance and rental fees. Mr Cool will also find out if there are other competitors in the precinct to increase competition for the franchise. After which, Mr Cool will state out his expectations and if the potential franchisee is willing and able to accept his idea, the franchise can subsequently be set up.

Location

According to Mr Cool, the location of the franchisee is of prime importance, and is the main consideration. Important as it is, Cool Station does not conduct independent market research. Instead, Cool Station taps the expertise of more established firms

"We will see the neighbours, whether [the] big shops [are] there or not? Like McDonald's. Before they do [business] there, they will do a lot of survey...we will see...whether this area has a lot of other shops. We will [also] put our shop near, for example, Bread Talk."

Screening Process

The screening process involves the avoidance of competition and overlap of franchises in the same location. Mr Cool will also warn the potential franchisee of the possibility of future franchises being set up in nearby areas so as to prepare them for the intense competition in the near future.

Initial Fee and Royalty fees

The setting up of the franchise involves an initial start-up fee of \$85,000. This upfront payment includes \$5,000 as security deposit. The remaining \$80,000 is a franchise fee that covers the shop renovation, acquiring of the necessary equipment such as the

freezers and training fees. This initial contract lasts for two years. Thereafter, the renewal fee is \$20,000 for every two years. Cool Stations does not charge any royalty fees (taking a percentage of franchisee sales)

Centralized Kitchen and Royalty Fee

Cool Station has a centralized kitchen, which will supply materials to the franchisees on a daily basis. The centralized kitchen ensures uniformity of the quality standard of the beverages sold by Cool Station outlets sold across the island. With the collection of the daily material fees from franchisees, Cool Station does away with the usual monthly royalty fees of normal franchises.

Training

To better equip the new franchisees with the necessary skills and know-how towards the operations and maintenance of the newly set-up franchises, Cool Station provides 3-days training on tea preparation at Cool Station's East Coast Branch. After that, the franchisees will undergo a one-day training, which includes Point-Of-Sale training, use of the cash register and the sealing machine at the corporate headquarters.

"We are on the same ship"

Mr Cool believes the success of Cool Station is dependent on a strong franchisor-franchisee relationship. He recognised a potential conflict of interest between the franchisor and franchisees:

" I come across many franchisors [where] once they have a very good location, they want to open by themselves. That's a problem. A lot of franchisee they are not [willing] to tell the exact location for the shop. Because when they tell the franchisor, the franchisor will reply them, 'Hey, this is a good location. We will open by ourselves. You guys don't touch that!' So we strongly believe that this kind of conflict of interest...we need to keep away from that."

To minimise the conflict of interest, other than the East Coast branch, all Cool Station outlets are owned by the franchisees. Instead of competing with the franchisees, Mr Cool helps his franchisees obtain the desired location. One example is Jurong Point. In contrast, their competitor, Quickly, opened by themselves. According to Mr Cool, this close relationship contributes to the success of Cool Station, "We work like [we are on] the same ship, so they accept us and will tell us their problems and we try to help them solve their problems."

Mr Cool believes in communication of ideas between, the franchisor and his franchisees. The franchisor calls his franchisees every three days. Cool Station also has a marketing executive who visits the different outlets to find out about the problems they face as well as sourcing for areas of improvement. Mr Cool strongly encourages the franchisees to discuss their problems and opinions with him. One of the results of such discussions is the airing of Cool Station's first TV advertisement on the 1st September 2001. The advertisement came about as the franchisees feel the need for Cool Station to have greater exposure to increase its popularity with the population.

THE CHALLENGES

Dealing with the price war

Besides Cool Station, names such as Quickly and Happy Cup are gradually becoming household names; in fact there are more than 30 different brands of bubble tea in Singapore located in places ranging from the city area to HDB estates. As such, Cool Station is facing a lot of competition in this industry. For instance, rival chain Quickly has around 19 chains in Singapore as of 7th September 2001 and is planning to open more in the months to come.

Perhaps the difference that is most obvious to most consumers would be the price. In fact, the price for the bubble tea has dropped significantly. Way back in 1993 when bubble tea was first introduced in Singapore, a 300cc cup of Bubble Tea would cost you around \$4.50 to \$5.50. Now, you can get a similar beverage at a counter for around \$2 to \$3 dollars. However, between the counter chains, the price war continued. For instance, in some outlets such as the one in Kopitiam at Hougang Point, bubble tea is going for as low as 99 cents.

However, Mr. Chen is not affected by these aggressive price undercutting as he believes that in an affluent society such as Singapore, the determining factor that will ensure the survival of a bubble tea chain would be the quality of the product itself.

"I think that much depends on quality. Because we understand for other product, in China they are selling at very cheap price. And the reason is everybody challenges the price and I can give you some examples. For example, the people after they set up their business they buy one get one free and even sell very cheap price. Three days they have very good business. After that come to the normal price, nobody patron their shop. Three days and then they close down. So that kind of price war, no one can survive but some of the good name they still there because they maintain the quality there and they have the new product."

As such, all the ingredients that Cool Station uses in its centralized kitchen are imported from Taiwan where bubble tea is very popular.

Extending its life cycle

Another concern that is probably on the mind of bubble tea chain owners would probably be whether this phenomenal increase in the popularity of bubble tea for the past year would continue or whether the bubble would eventually burst and leave bubble tea as just another passing fad. Mr Cool recognised that consumer taste change: "...in the food business, the people like it for a certain period and after a few years, they may change to other food."

Mr Cool, however, thinks that the market for bubble tea in Singapore is far from being saturated. He raised the point that in Taiwan, where there are hot and cold seasons, bubble tea has managed to survive for around a decade. In Singapore, where it is hot and humid the whole year round, he expects there will be a continual demand for

bubble tea and thus the product life-cycle will be much longer. Moreover, Cool Station has taken steps to extend the product life:

" ...we believe we need to develop new products. Some of our competitors, they are short of this kind of connection [with product developers in Taiwan]. They are quite scared. They don't know how to go for tomorrow. In Taiwan, we [already] have a number of solutions (new products). And we will be bringing [them] to the existing shops."

And Mr Cool believes that his franchise's connection with Taiwan puts Cool Station in a more advantageous position than most of its competitors.

Local Expansion

The expansion of Cool Station poses a few challenges for the management at Cool Station. Locally, there is expected to be a manpower shortage as the rapid expansion of the franchise means that more training and more coordination required. For a franchise where as many as 3 new outlets can be opened in a day, finding and training people to handle this kind of procedure can be quite difficult as trainers would need to be trained themselves before they can carry out their duties.

Also, it is Cool Station's policy that the outlets of its franchisees do not have an overlapping target market in terms of location. While it makes no business sense for different outlets to compete for the same group of customers, the rapid expansion locally would probably mean that soon, there will be no available places for new franchisees to open their own outlets if the company follows its policy strictly.

In order to encourage franchisees to look away from the city areas, Cool Station has gained approval from the Productivity and Standards Board (PSB) to enrol its potential franchisees who wish to open outlets in Housing Development Board (HDB) areas in the Retail 21 programme. The PSB was set up in April 1996 and its mission is to raise productivity so as to enhance Singapore's competitiveness and economic growth for a better quality of life for our people. To execute its mission, PSB adopts two broad thrusts -- developing world-class industries and creating a favourable environment for productivity improvement and innovation. The specific areas of focus are: small and medium-sized enterprises (SMEs), productivity and innovation, and standardisation and metrology.

One of the projects undertaken by the PSB is the setting aside of \$16 million for the Retail 21 Fund which is a 10 year blueprint to help domestic shopkeepers upgrade, franchise, retrain and even an option to leave the business. The program that Cool Station has gotten approval for is the one that urge shopkeepers to join franchises, which can help them cut cost and gain management know-how. Up to half the cost or a maximum subsidy of \$20,000, would be given to those who are willing to be part of a business chain. These efforts are targeted at small HBD shopkeepers, who make up 96% of the 17,000 retailers in Singapore. Through this, Cool Station will probably be able to penetrate the HBD estates and thus open up more opportunity to expand the franchise locally.

THE FUTURE

Beyond Singapore

"...we are not only focusing [on the] Singapore market. We strongly believe that once we develop a very good brand, this brand name can go around the world...I believe that [it] will be a brand going to the world . We are dreaming of that. That is our mission."

Besides his effort to expand Cool Station locally, Mr. Chen is actually planning to establish Cool Station as an international label. In fact, a master franchiser has been appointed in Indonesia and Cool Station flew staff over there to help them set up their centralized kitchen. Also, businessmen from Malaysia, Philippines, Australia, Germany, United Kingdom and United States have approached Cool Station to enquire about acquiring the overseas master franchisor rights.

In tandem with its move towards overseas expansion is a more professional approach to management of the franchise. The PSB has many programmes to assist local enterprises. One initiative is the Franchise Development Assistance Programme to help local enterprises develop and implement their franchise system. Cool Station is in the programme, and PSB has identified three main areas for improvement: operations manual, marketing kit and legal contracts. Cool Station is tapping on the expertise of PSB and improving on the three areas. After the work is completed in four to six months' time, Cool Station will join PSB-held exhibition to promote the made-in-Singapore brand around the world, and hopefully will fulfil its "mission".

(C) Case Analysis

FRANCHISING CONCEPT

Cool Station uses the franchising concept to develop its business. It is a suitable business model for Cool Station because it started as a 'side business' for Mr Cool Chen whose main business involves import of electronics from Taiwan. A franchisor start-up has less need for a large corporate administrative staff. The main advantages of franchisor start-ups are 1) built-in sources of capital through franchise fees and 2) self-financed incremental growth (because cost of opening additional outlets are borne by franchisee). The capital outlay for a franchisor is greatly reduced as a result, and expansion can take place at a faster pace.

The advantages must be measured against the disadvantages. A problem of any franchisor is the difficulty of raising outside capital until the concept is proven. Fortunately for Cool Station, the popularity of bubble tea is so clearly evident that potential franchisees are actively approaching the franchisor. Another disadvantage is conflicts between franchisor and franchisees are more frequent than conflicts between corporate headquarters and company-owned outlets. Cool Station circumvents this by 1) franchising all its outlets to prevent competition between franchisor and franchisees and 2) maintaining constant communications with the franchisees. The downside of full franchising is that profit shared will be lower than if outlets are company owned.

The issue of control of operation is an unresolved one. Firms like Starbucks own all of their outlets as they believe they can better maintain the quality of their products. On the other hand, every single McDonald's outlet is a franchised outlet (in USA) because they believe the concept gives the operators a sense of ownership and hence greater accountability. For Cool Station, it has followed the footsteps of McDonald's.

GOVERNMENT ASSISTANCE

The management of Cool Station is undergoing necessary changes. While Mr Cool Chen is an experienced businessman, he admits that he currently lacks the expertise to run a franchise in a systematic manner. He is tapping the expertise of PSB to improve its franchising system. Currently, PSB is assisting Cool Station in the development of its 1) operation manual 2) marketing kit and 3) legal contracts. Besides providing assistance in developing a franchise's internal operations, PSB has other programmes to help local franchises. For example, its Franchise 21 Assistance Programme encourages HDB businesses to join a franchise by providing grant of up to 50% or \$20,000 of start-up cost.

The case of Cool Station illustrates how franchise start-ups should take advantage of the initiatives by the PSB to expand their business.

COMPETITION

Mr. Cool is cynical about price-based competition, and believes that quality will win over the consumers. However, this low price may still induce some of the older generation or the less well-off to try it out. Thus, profits of Cool Station will be cut into, at least in the short-term. And whether the cheaper bubble tea is of lower quality is debatable. Cool Station may be forced to re-price its products in the future.

Another concern that is probably on the minds of bubble tea chain owners would probably be whether this phenomenal increase in the popularity of bubble tea for the past year would continue or would the bubble eventually burst and leave bubble tea as just another passing fad. Most of us would remember the Portuguese Egg Tarts craze back in 1998. Many people believed it would eventually survive and become confectionery staples. However, the demand for these egg tarts decreased drastically and soon many suppliers had to reduce or even stop their production. It is likely that there will be a shake-out in the bubble tea industry. Whether Cool Station survives depend on its ability to adapt to consumer preferences.

REGIONALISATION

Expansion to the global market marks another set of challenges for Cool Station. The diverse cultural and social differences between the different countries will mean that there are different sets of consumers' tastes to cater for. In countries like Australia, demand may vary according to the seasons and thus turnover may not be as predictable as in Singapore. The appointment of a master franchise overseas is an efficient way of exploring the regional markets without excessive exposure and risks.

However, appointing a master franchisor presents a problem of ensuring that the master franchisor would conform to the policies of the parent company. Hence, the operation manuals need to be professional and detailed, and may need to be amended to cater to the working of the different markets. Moreover, new legal issues need to be tackled. The pressing need to create a more systematic franchise is exacerbated by the drive to expand overseas.

Cool Station is working closely with PSB to introduce a more systematic franchise system to the bubble tea chain that started as family business. Cool Station has come a long way since it first started and has established itself locally as a key player in the business. It has embarked on a journey to be an international brand. We wait in anticipation for its arrival at the destination.

(D) Appendices

1: List Of Branches of Quickly & Happy Cup

Quickly Outlets

1. Lucky Plaza
2. Marina Square
3. Bukit Panjang Plaza
4. Rivervale Mall
5. Parklane Shopping Mall
6. IMM
7. Yishun 10 Complex
8. Capitol Centre
9. The Arcade
10. Central S'pore Joint Social Service Centre
11. Crown Prince Shopping Centre
12. Market Street Car Park
13. C K Tangs
14. Clementi Ave 3
15. Harbourside Ind Bldg
16. NTUC Hougang Mall
17. Bukit Timah Plaza
18. Jurong Point Shopping Centre
19. Golden Shoe Carpark
20. Jurong East Entertainment Centre

Happy Cup Outlets

1. Ang Mo Kio Blk 710A
2. Bedok Central Blk 212
3. Bukit Batok West Mall
4. Bukit Merah Blk 166
5. Clementi Central Blk 451
6. Holland Village
7. Hougang Blk 205
8. International Plaza
9. Lido
10. Lucky Plaza
11. Raffles Place Hitachi Tower
12. Raffles Place 35 Robinson Road
13. Raffles Place 126 Robinson Road
14. Toa Payoh Blk 190

2: QUESTIONNAIRE

The Beginning

- Please tell us about your background and how you became an entrepreneur
- When and how was Cool Station founded? What was your initial start-up capital?

Operations

- Can you tell us about the franchising procedure?
- How do you select potential franchisees?
- How do you train the franchisees and assist them in their starting-up? How do you support your franchisees?
- What do you expect of your franchisees?
- How do you predict the taste of the market?

Management

- What functions do the company HQ perform?
- What is your current organisation structure? How are decision made in the company?
- As the franchisees grow, will there be changes to the management of the company?

Success factors

- Do you have a measurement of your growth and success? If you do, how do you go about doing it?
- Can you reveal some figures that reflect the revenue/ profit trend?
- What is the difference between a home-grown franchise chain like Cool Station and an imported franchise like Happy Cup and Quickly?
- What is your competitive edge over your rivals?
- What other factors have contributed to your growth?

The Future

- Do you think the industry has reached a saturation point or is there room for more opportunities?
- Do you foresee any challenges ahead for the franchise?