

SECTOR BRIEFING

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# Singapore Downstream F&B

Mass-market F&B set to sizzle



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- 04** **Executive Summary**
- 06** **Mass-market F&B in Singapore**
  - Eating: A Cultural and Social Activity
  - Singapore's F&B Business Landscape
  - Growth Opportunities Aplenty
- 14** **Millennials-led Consumption Trends**
- 20** **Secret Sauce: Strategies to Thrive in F&B**
  - Start-ups
  - Mid-sized F&B Players
  - Regional F&B Groups
- 29** **The Next Leap: Leveraging Ecommerce**
- 34** **The F&B Evolution And Real Estate**
- 37** **The Way Forth**

# Executive Summary

According to Euromonitor, Singapore's F&B foodservice market is worth about S\$8.3bn and is expected to grow by 2.1% CAGR by 2023 led by cafés/bars, limited service restaurants, and street stalls/kiosks. From 2008-2018, the F&B food service sector grew by 2.4% CAGR driven by the abovementioned formats, whereas the full-service restaurants expanded by a much slower 0.8% CAGR over the same period and is projected to grow at an even slower 0.4% over the next five years.

Mass-market F&B leads Singapore's F&B growth, driven by more transactions

The F&B foodservice sector is expected to be driven by higher F&B spent per transaction, and growth in number of transactions, accounting for 1.2ppts of Euromonitor's 5-year 2.1% growth projection. This underscores our belief that the mass-market segment (defined by per head spend of S\$20 or less) remains a highly viable segment with an estimated total market size of S\$6.2bn (75% of Singapore's F&B market). Thus, operators in the slowing higher-end full-service restaurants segment might need to operate with caution.

Lifestyle, affluence, eating habits lift mass-market F&B to the sector's sweet spot

Companies in the mass-market segment continue to grow through acquisitions such as NTUC Foodfare's acquisition of Kopitiam and BreadTalk's planned acquisition of Food Junction. Consumer behaviour and busy lifestyles are driving a trend towards frequent eating-out, convenience, quick-service formats, and faster payment/checkout modes including cashless and online transactions. Higher-productivity initiatives are propelling companies towards adopting more self-service features with less reliance on manpower at mass-market outlets.

Operating costs remain a challenge

Opportunities aside, Singapore F&B players are operating in a competitive environment with costs challenges especially labour and rents. Rental costs especially in malls are expected to be higher in 2020 as property supply peaks in 2019 and is expected to fall from 2020 onwards. The impact following the tightening of foreign labour dependency ratio (DRC) from 2020 is small at less than 2.5% negative swing on earnings based on our estimates. We believe such costs can be overcome if operators are able to extract higher productivity over time especially in the areas of implementing technology.

We believe the mid-range mass-market segment will continue to be viable compared to niche high-end low-turnover dining concepts. With cost challenges, the mass-market segment will be able to extract higher productivity by implementing more self-service initiatives more easily than high-end full-service formats, as foreign worker dependency ratio is being tightened. We believe companies will need to continuously find ways to innovate processes to improve productivity and profitability.

Beneficiaries are mass market segment F&B players with clear regional growth strategies

We believe mid-to-large sized mass market F&B groups (defined by companies who are already profitable and no longer trying to be viable as a start-up) are key beneficiaries in the current F&B foodservice environment, as they morph into multi-format, multi-cuisine, multi-brand F&B companies.

Larger players have scale, which would enable them to 1) introduce foreign brands, while exporting their own brands overseas for regional growth; and 2) implement technology to deliver operational efficiencies. Smaller companies would seek to increase their operational scale to take advantage of cost benefits via outlet expansion, building central kitchens, and eventually tapping capital and debt markets to fund growth.

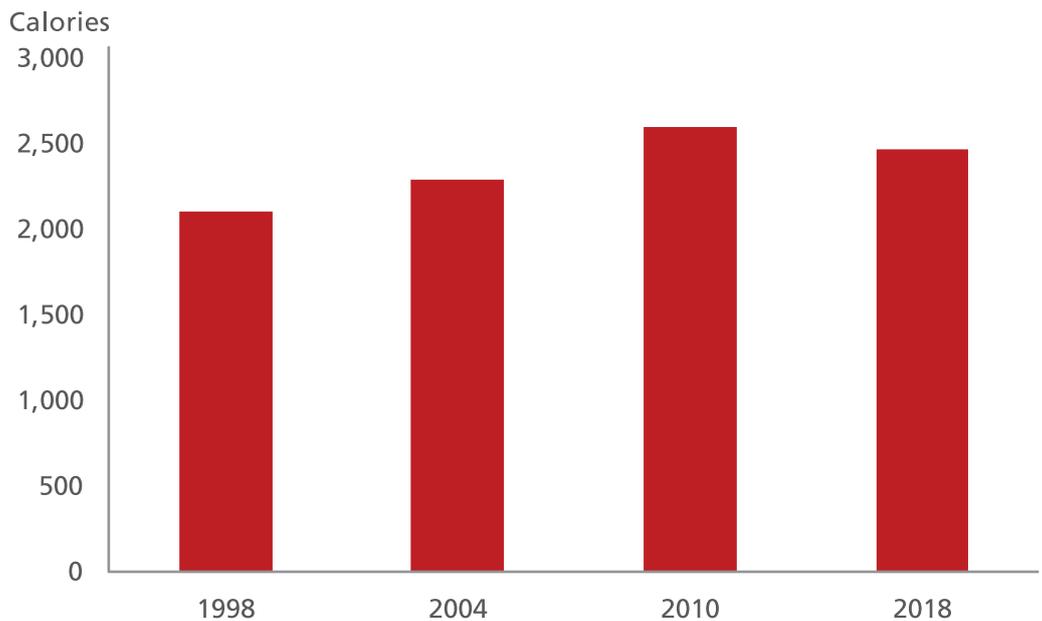
# Mass-market F&B in Singapore

## Eating: A Cultural and Social Activity

Singapore consumes more than 1.3m tonnes of food worth c. S\$8.4bn each year

We see Singapore as a melting pot of diverse cultures, which has led to its multi-cuisine atmosphere, and a wide variety of international food from various nationalities is now widely available. The market is very open to foods of different cultures, making it possible for various foodservice concepts to penetrate and gain acceptance in Singapore. Eating is a pastime for many local Singaporeans, opening up opportunities for foodservice providers to offer unique choices for good quality food.

### Average daily energy intake

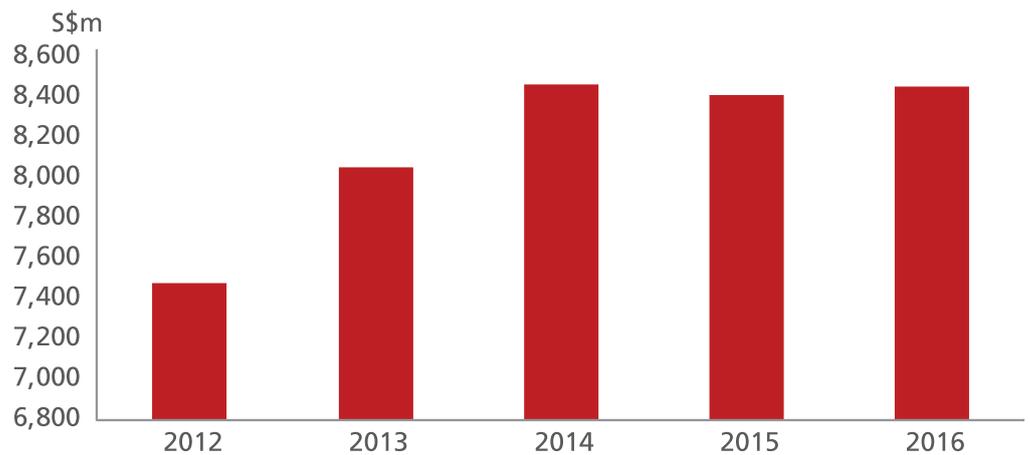


Source: National Nutrition Survey 2018, DBS Bank

In a recent survey conducted by Nielsen, 55% of Singaporeans eat out at out-of-home dining establishments weekly, with about 24% dining out daily. The current trend is largely the result of our busy and fast paced lifestyle which leads to more people eating out. We have observed an increase in eating out frequency at restaurants and other out-of-home dining establishments by Singaporeans. Dinner is the meal which is most often consumed outside of the home. Casual dining cafés and fast food outlets are popular choices as 81% have stopped by a casual dining outlet, 76% preferred quick serve (fast food) restaurants, with 64% choosing to dine at cafés (+18% from 2015). We understand 44% of Singaporeans

have ordered restaurant deliveries or meal-kit delivery services online as well, higher than the global average of 33%. Based on a past National Nutrition Survey, Singaporeans are also eating more, with daily energy intake in terms of calories increasing over the past 20 years.

**Value of F&B sales in Singapore is worth over S\$8bn**

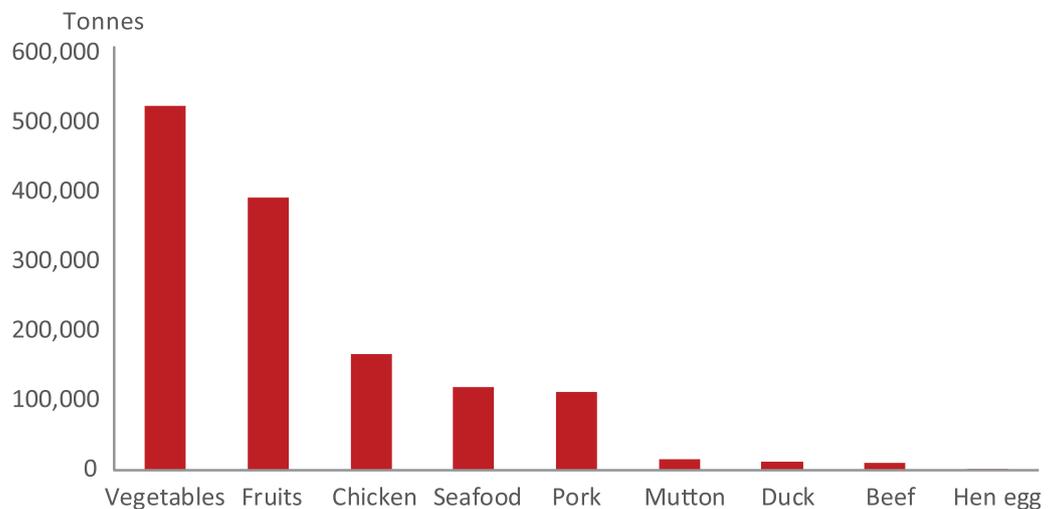


Source: data.gov.sg, DBS Bank

Singapore consumes more than S\$8bn of food annually

Based on data from Singstat and Ministry of Trade and Industry hosted on data.gov.sg, the estimated value of Singapore's F&B sales is approximately S\$8.4bn each year, or about S\$700m per month, growing from over S\$7.4bn in 2012 or about S\$600m per month. In 2017, Singapore consumed more than 1.3bn tonnes of meat, fruit, eggs and vegetables according to the Agri-Food & Veterinary Authority of Singapore (AVA). Separately, data from Singstat for Singapore Retail Sales point to S\$800-900m of F&B foodservice sales per month, amounting to S\$9.2bn in 2018.

**Singapore consumes more than 1.3m tonnes of food each year excluding food staples**

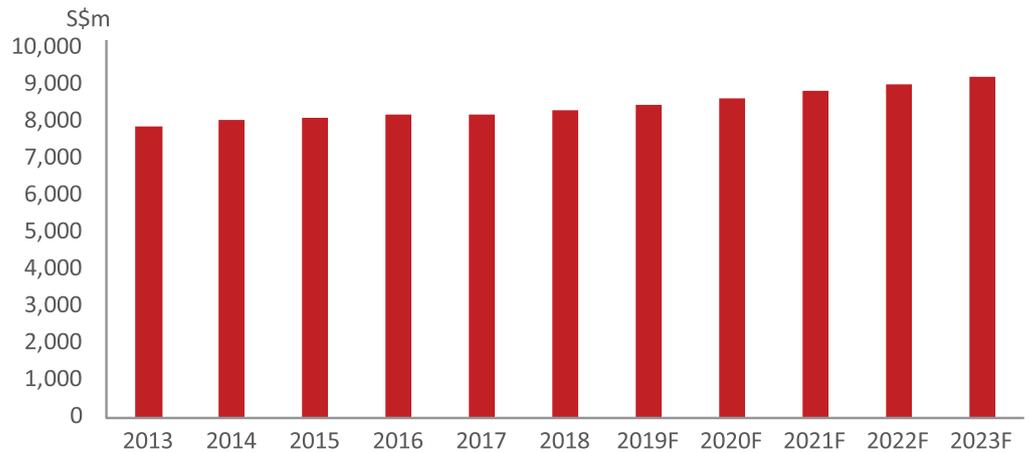


Source: AVA, DBS Bank

Singapore F&B market projected to grow at over 2% CAGR in the next five years

According to Euromonitor, Singapore’s F&B foodservice market is worth about S\$8.3bn and is expected to grow by a 2.1% CAGR up to 2023. Growth will be driven by higher ticket size and an increase in foodservice transactions which are forecast to grow at 1.3% and 0.8% CAGR respectively for the next five years. These in turn will drive per outlet sales by 1.9% CAGR, with outlet count remaining flattish at 0.2% CAGR over the next five years.

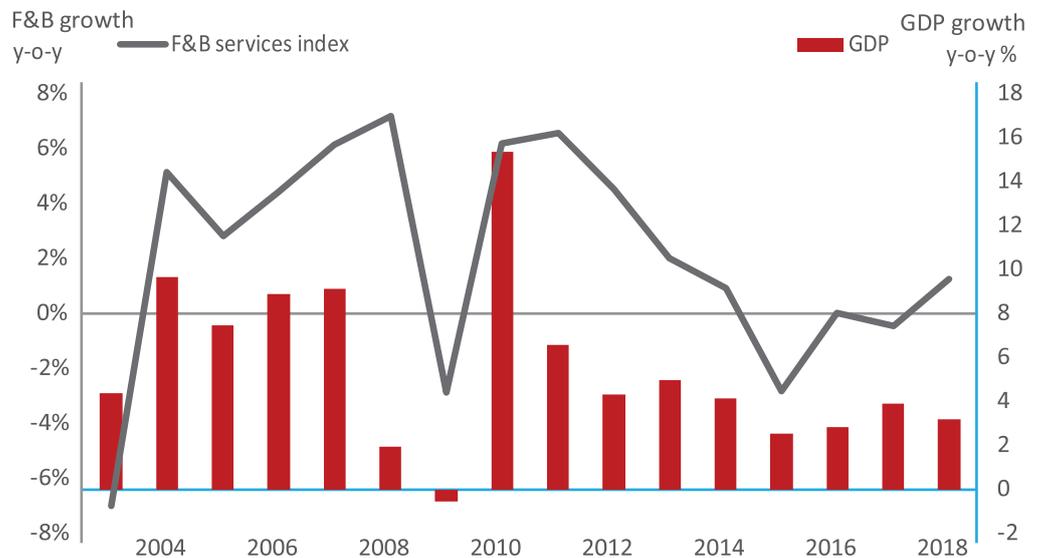
**Singapore foodservice to grow at 2.1% CAGR till 2023**



Source: Euromonitor, DBS Bank

F&B retail sales growth has generally hovered between -2.8% and 6.6% y-o-y since 2010 based on Singstat’s F&B Services index. Since 2009, F&B sales growth based on Euromonitor and Singstat has been at a similar rate of 1.9% and 2% CAGR respectively. We observe strong correlation between GDP growth and F&B Services index of 0.8 since 2009 with private consumption contributing 35.4% of 2018 GDP.

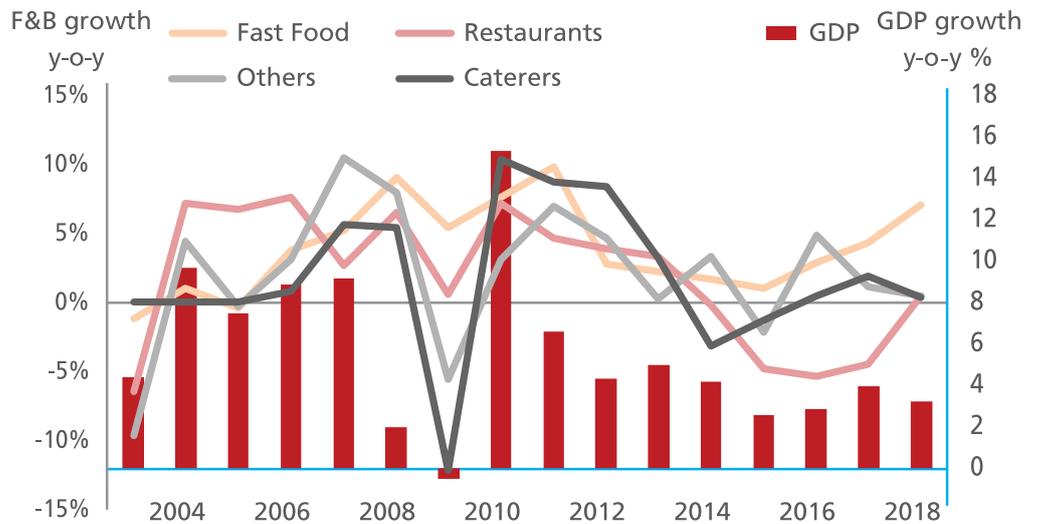
**Strong correlation between F&B Services and GDP at 0.8**



Source: ThomsonReuters Datatstream, DBS Bank

The F&B Services index pointed to a decline in 2015 due to a slowdown in GDP growth with restaurants posting the largest drag, declining by close to 5% y-o-y. Restaurants' performance recovered in 2018 along with GDP, but is still lagging fast food restaurants, which are currently growing the fastest.

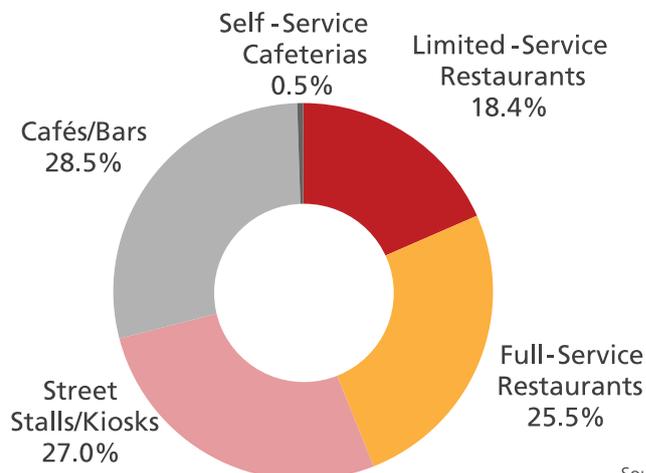
**Strong correlation between GDP and Foodservice**



Source: ThomsonReuters Datastream, DBS Bank

The number of fast food outlets has been growing since 2005. Even when GDP slowed in 2015 with a decline in the number of restaurants, fast food outlets continued to grow albeit at a slower pace. The outlook for fast food is robust given that limited service restaurants are forecasted to outgrow the overall foodservice sector at 2.8% CAGR vs 2.1% in the next five years, according to Euromonitor. We believe this signals a shift in the market towards convenience as lifestyles become more hectic. It is also notable that fast food outlets outgrew other formats during the 2009 financial crisis.

**Share of food service value in Singapore totaling S\$8.3bn in 2018**



Source: Euromonitor, DBS Bank

## Singapore's F&B Business Landscape

F&B outlets continue to grow

Based on Euromonitor's estimate, there are about 28,000 foodservice outlets in Singapore as of 2018, with the majority being street stalls/kiosks. Food shops according to Singstat have grown faster at 4.2% CAGR during the past 10 years.

### Number of foodservice outlets 2018

	Independent	Chained	Total
Cafes/Bars	1,740	625	2,365
Full-service restaurants	1,266	468	1,734
Limited-service restaurants	64	1,534	1,598
Self-service cafeterias	0	7	7
Street stalls/kiosks	20,352	2,032	22,384
<b>Total</b>	<b>23,422</b>	<b>4,666</b>	<b>28,088</b>

Source: Euromonitor, DBS Bank

### Food shops have outgrown food stalls at 4.2% vs 1% CAGR



Source: Singstat, DBS Bank

Consumer foodservice in Singapore is dominated by independent street stalls and kiosks. These are mainly hawker stalls and small individually owned F&B outlets. The number of independent street stalls and kiosks accounted for close to 80% of total Singapore foodservice outlets in 2016. The National Environmental Agency (NEA) currently manages 114 markets and hawker centres in Singapore. Since 2011, at least ten new hawker centres have been announced or built in locations such as Bukit Panjang, Yishun, Pasir Ris, Jurong West, Woodlands, Punggol, and Tampines. The NEA is planning for 20 new hawker centres to be built by 2027

Leading coffee shop chains and foodcourt players operate in a market worth c. S\$1bn

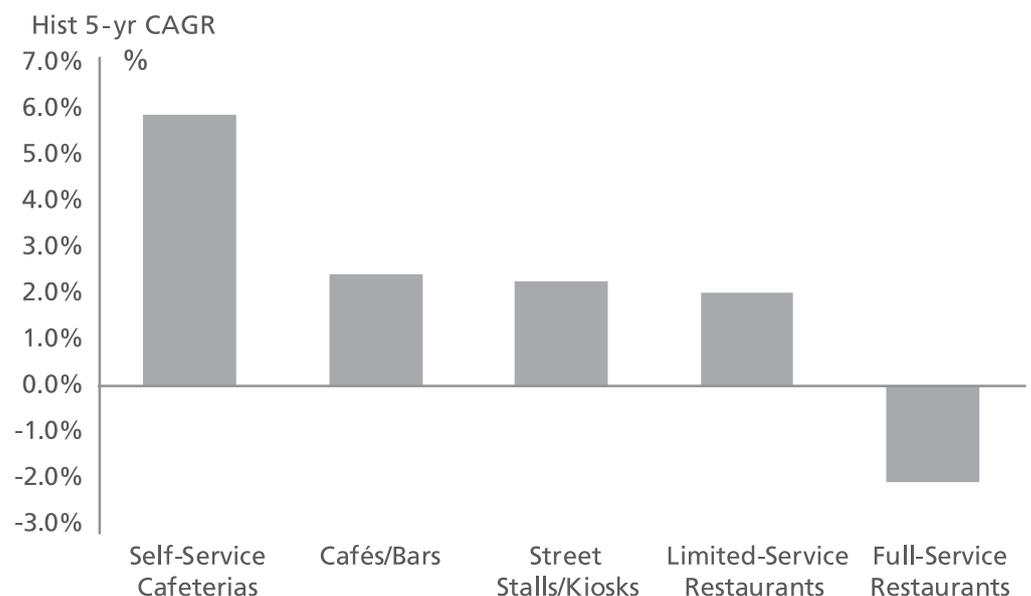
Based on our research, there are about 10 leading chain store coffee shops and/or foodcourt operators in Singapore with close to 360 outlets. We estimate the market size by revenue of this segment to be c.S\$1bn.

Leading chain foodcourt and coffee shop players operate less than 400 outlets. However, the number of licensed food shops and food stalls in 2016 amounted to 17,196 and 14,350 under NEA and Agri-Food and Veterinary Authority AVA. Of which, there were 872 eating establishments at HDB managed properties in Singapore as of March 2017 and 13,871 licensed hawkers under National Environment Agency (NEA) in 2016, according to HDB's annual report and Singstat. Food shops include restaurants, cakeshops, eating houses, coffee shops, foodcourts, snack and drink counters, market produce shops, private markets, food caterers, foodshops (pets allowed) and mobile food wagons, while food stalls are food outlets located inside private eating houses, coffee shops, foodcourts, canteens, and private markets.

## Growth Opportunities Aplenty

Based on Euromonitor's F&B growth for the past five years from 2013-2018, mass-market segment formats (which we define by per head spend of S\$20 or less) have thrived, each growing at >2% CAGR in terms of sales value. Conversely, the revenue of full-service restaurants has remained relatively flat while the number of transactions has fallen by 0.3% CAGR over the same period. We believe the slower GDP performance over the past few years has led to the downtrading of F&B demand from higher-end full-service restaurants to more economical formats such as fast food, kiosks, street stalls, and cafés/bars.

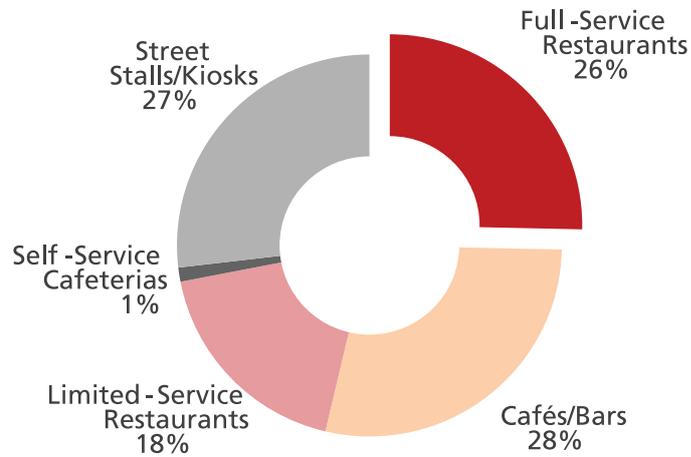
### Mass market segment F&B sales have thrived between 2013-2018



Source: Euromonitor, DBS Bank

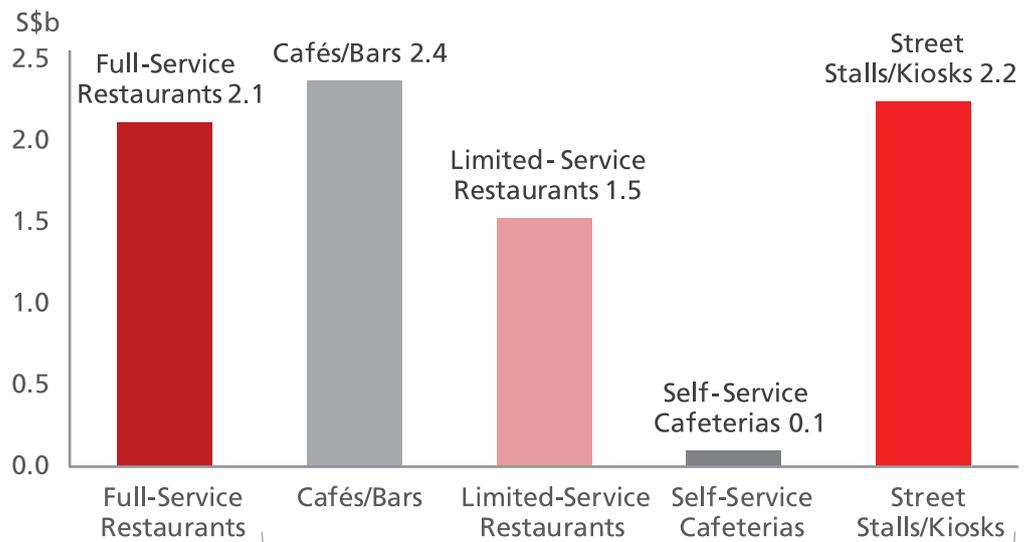
Based on Euromonitor’s categorisation of formats and market size excluding full-service restaurants, we estimate the mass market segment (comprising self-service cafeterias, cafés/bars, street stalls/kiosks, and limited service restaurants) to be worth S\$6.2bn. This makes up about c.75% of Singapore’s foodservice market.

**Up to 75% of Singapore’s F&B segment is mass market**



Source: Euromonitor, DBS Bank estimates

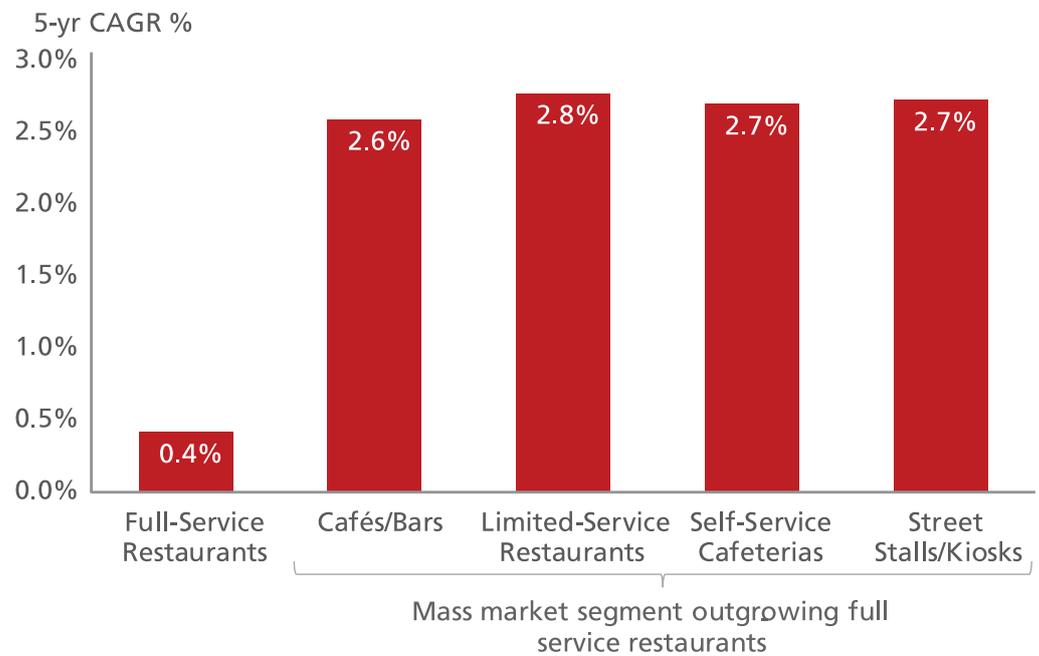
**We estimate mass market segment to be worth c.S\$6.2b**



Mass market segment is worth an estimated S\$6.2b

Source: Euromonitor, DBS Bank estimates

**Mass market segment F&B to outgrow higher end restaurants from 2018-2023**



Source: Euromonitor, DBS Bank estimates

Acquisitions reflect robust investment demand for mass-market F&B

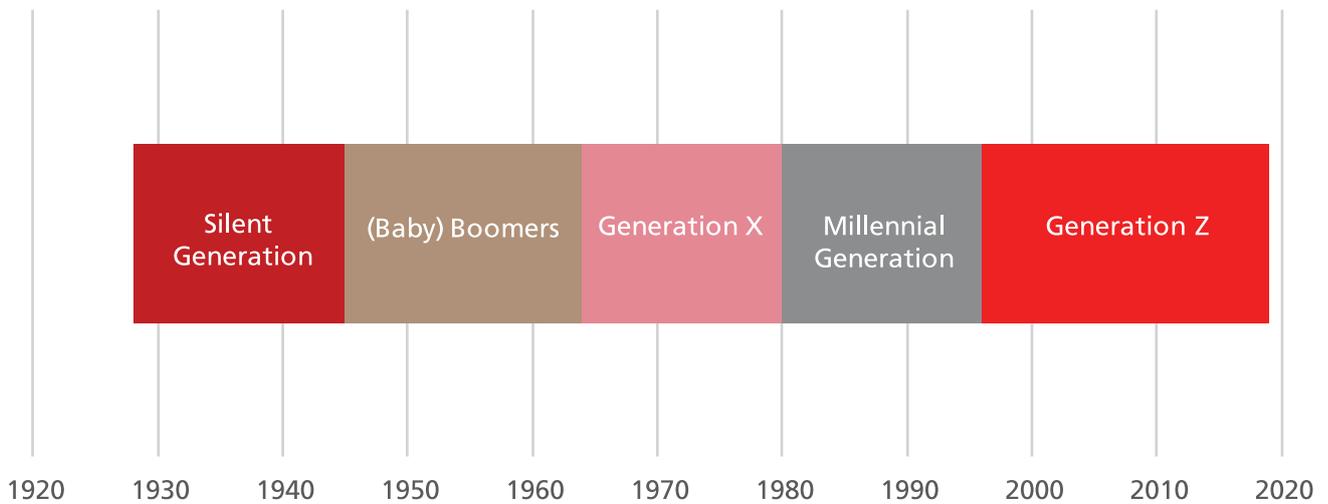
Recent acquisitions in Singapore include consolidation in the foodcourt/coffeshop scene with BreadTalk's S\$80 takeover of Food Junction. Earlier, NTUC Enterprise announced on 21 September 2018 its acquisition of Kopitiam Investment and its subsidiaries for an undisclosed fee. NTUC Foodfare and Kopitiam continue to operate independently, maintaining their own respective management and employees. The acquisition brings the number of foods outlets under the NTUC Enterprise umbrella to more than 100. Broadway had also in 2018 bought over 23 S-11 coffee shops.

# Millennials-led Consumption Trends

Millennials' consumption trend can fuel mass-market segment

According to Pew Research Center, the Millennial Generation is in the 23-38 age group today and is defined as those born between 1981 and 1996. According to Singstat, Singapore's Millennial Generation population is approximately 0.9m. Based on our observation, the eating preferences of millennials tend to evolve around healthy eating, freshness, convenience, and nutrition; with value, environment, lifestyle and aesthetics occasionally playing a part.

## Millennial generation classified by Pew Research Center

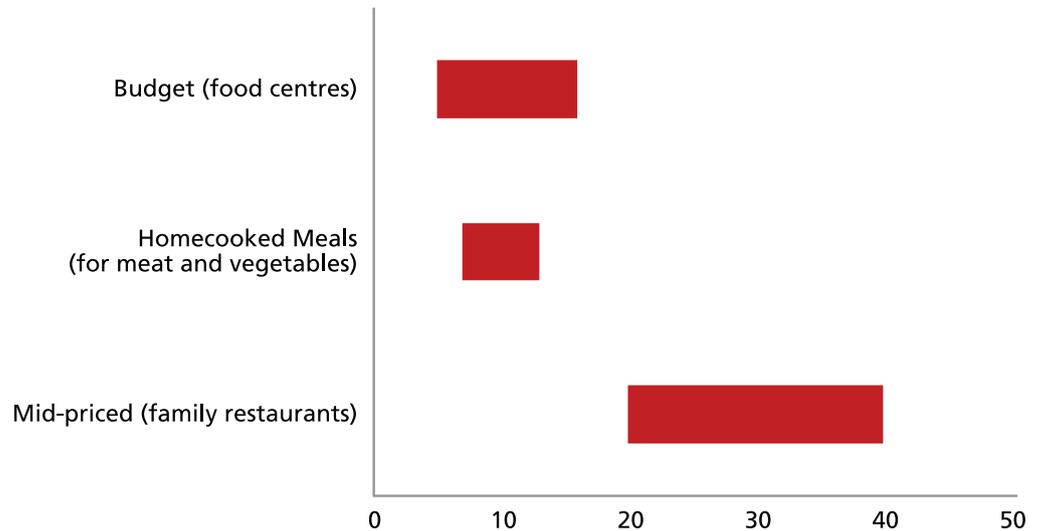


Source: Pew Research Centre, DBS Bank

Convenience, health, value and lifestyle generally dominate millennials' eating habits

Healthy eating is centred on the availability of information on health risks and nutritional value, which is pushing the market towards more health-conscious eating habits. Busy lifestyles have also helped to raise demand for convenience. With the rise of social media, novelty factors, ambience and aesthetics have also become key consumption considerations, tying in with the Millennial Generation's higher propensity to leverage on social media platforms to showcase their lifestyle choices. Millennials are also savvier in hunting for value, and would normally take advantage of discounts, deals and promotions when making their food purchases. These food preferences tend to fall under the mass-market segment where per head spend is S\$20 or below – an achievable level by the average Singaporean household's income and dining standards, in our opinion.

**Cost of living calculator: Price range of daily meals in Singapore\***



\*Fine-dining category ranges between S\$100 and S\$400 daily  
Source: Economic Development Board of Singapore, DBS Bank

More targeted and personal advertising strategies are benefitting mass-market segment

The rise of social media and influencers has changed the way F&B companies advertise and promote their businesses. Social media can improve brand awareness, lower marketing costs, and is able to target specific audiences. Social media and blogs are now part of how operators advertise and promote their food. The use of social influencers therefore allows food products and dining experiences to be reviewed and profiled independently via word of mouth.

Jumbo, in opening its recent outlets at Tsui Wah, Jumbo Seafood ION, and Zui Yu Xuan Teochew Restaurant, engaged social influencers to help promote their new restaurants as part of their marketing campaign. Operators would also need to keep up their level of food quality, aesthetics and service as well, since customers these days tend to feature their dining experience on social media. Accounting for 75% of the F&B foodservice market, we see the mass-market segment as a key beneficiary of such promotional channels.

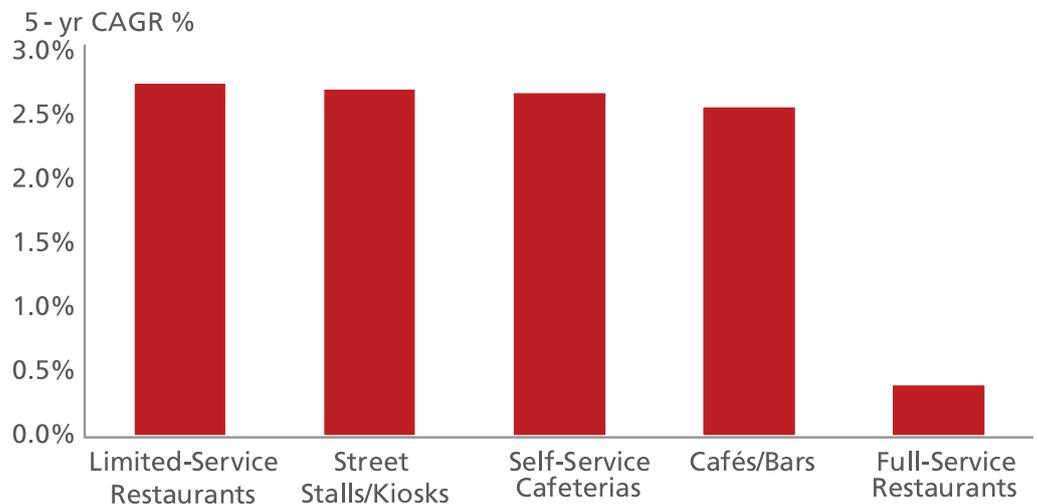
## Fine Dining

Fine dining challenged by other F&B sub-segments. High-end Michelin-starred restaurants are also affected by high operating costs including rent and manpower expenses. Singapore's only three-Michelin-starred establishment Joel Robuchon Restaurant and two-Michelin-starred Restaurant Andre owned by Chef Andre Chiang closed their doors in 2018. Stars are awarded for each kitchen and not for the Chef or an entire chain of restaurants. However, nothing stops those associated to the kitchen from marketing the accolade. These owners' willingness to lose their Michelin stars by closing their kitchens is evident that the F&B foodservices sector is challenging and faces keen competition from other F&B sub-segments, formats and concepts.

## Limited Service Restaurants and Kiosks

Street kiosks and limited service restaurants projected to outperform full-service restaurants. Both limited service restaurants and street stalls/kiosks have been projected by Euromonitor to grow at a 5-year CAGR of 2.8% and 2.7% y-o-y respectively from 2018-2023, the fastest across all F&B formats. Players in this segment include chained casual and fast food style restaurants.

### Kiosks expected to outgrow other F&B formats



Source: Euromonitor, DBS Bank

### Back on the bubble tea bandwagon

A key example of limited service restaurants and kiosks is bubble stores which burst into the scene recently. At around S\$5 a cup, this is definitely for the mass market segment. We believe the attraction of bubble tea kiosks lies in the market's high acceptance for bubble tea beverages, low floor area required to operate these outlets (about 150-200 sqft), low capex of S\$100,000-250,000 relative to restaurants, and lower depreciation and breakeven. Operating margins of these businesses can be in the double digits, which makes such businesses attractive. Some of the newer brands in the market include R&B Tea, Tiger Sugar, and Nayuki.

### More bubble tea outlets opening up in recent years

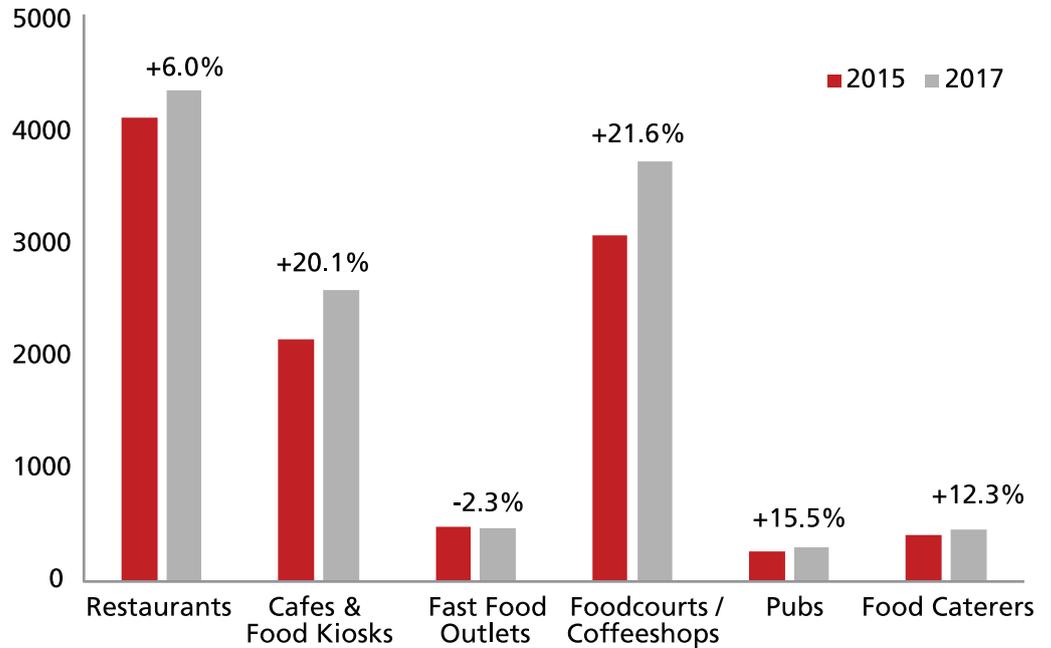
Competitor	Year established	Number of Singapore outlets
Koi	2007	53
Gong Cha	2009	25
Liho	2017	66
R&B Tea	2018	16
Tiger Sugar	2018	5
TP-Tea	2018	2
Nayuki	2018	2
Heytea	2018	2
Bobii Frutii	2018	2
TenRen Tea	2018	1
TaiGai	2018	1
Supertea	2018	1
Bober Tea	2018	1
The Alley	2019	2
Jenjudan	2019	1
Xing Fu Tang	2019	1
<b>Total</b>		<b>186</b>

Source: Companies' store locator, DBS Bank

## Casual, Quick-turn Concepts

Casual and quick serve restaurants which tend to be under S\$20 per head, is also fueling growth for the mass market segment. While the frequency of eating out has increased, trends have leaned toward more casual dining and quick-serve concepts, with convenience, novelty and health factors often at the top of consumers' minds. In 2018, 64% of respondents highlighted their preference for dining out at a café - a sharp rise from 18% in 2015. Unsurprisingly, cafés, coffee houses, and food kiosks were among the fastest-growing F&B categories, increasing 21.6% over a two-year period to reach a total of c.3,750 establishments as at end-2017.

**Kiosks one of the fastest-growing food retail formats**



Source: Singstat, DBS Bank

**New Malls And Brands In Singapore**

**A star is born** After much anticipation, Jewel Changi Airport commonly known as Jewel, finally opened its doors to the public on 17 April 2019. In addition to over 280 retail stores and eateries, the mall is also integrated with entertainment and nature-based elements such as a Forest Valley and Rain Vortex – the world’s tallest indoor waterfall.

Approximately 60% of brands featured are new to Changi Airport. F&B operators currently represent over 30% of Jewel’s tenants. Offering a differentiated shopper experience, coupled with its premium location at the Changi Airport (which enjoys direct connectivity to both the CBD and heartlands via public transportation), is poised to be a dominant force in the local retail scene as its unique attributes appeal to both locals and tourists alike.

**More choices and new names** The opening of Jewel has added new names to Singapore’s F&B scene. Jewel as an international destination is a choice location to put F&B businesses on the international map. At least three new restaurants brands have landed at Jewel such as Shake Shack Burger, A&W, and Burger & Lobster. Amongst these, there are more economically priced casual brands than full-service restaurants, evidencing the shift in popularity to mass market.

New brands can use Singapore as a springboard to go regional

Despite Singapore being a small market, new food companies are here to use Singapore as a base to grow regionally. As the market is open to various cuisines, Singapore is ideal to put these new concepts to trial. Successful concepts can thereafter be exported to other parts of Southeast Asia. These new companies also contribute to the market with more dining choices.

**Stand-out new F&B brands at Jewel Chang Airport**

New restaurant brands	Franchisee
Shake Shack	SPC Group
Burger & Lobster	Directly operated
A&W	Directly operated
Yun Nans	Directly operated

Source: DBS Bank

# Secret Sauce: Strategies to Thrive in F&B

## Making F&B Businesses Viable

Minimising operational costs including rent, depreciation and wages

We believe the use of technology to replace staff can reap benefits over the long term. Businesses may incur initial capex when implementing technology, but after these fixed assets become fully depreciated, the depreciation cost savings will add to better profitability over time. Customers utilising self-service stations in mass market segment is already becoming common. Singapore mass market diners are already catching on the culture of returning trays to their designated collection areas after consumption anyway. While employing technology helps to reduce staff and depreciation costs, strong bargaining power with landlords to obtain favorable rental rates helps to improve profitability as well. Ideally, retail landlords favour strong brands to help bring in footfall. As such, strong F&B names can bargain for attractive rental rates, an observation seen in our F&B stock coverage.

Churning cashflow

F&B is typically a cash business and businesses should focus on high turnover for cashflow churn. Strategies include running promotions that will bring in footfall, adopting technology to ease choke points at cash collection counters, and turning over tables quickly. Loyalty programs help to retain and encourage repeat customers as well. We believe customers will return if outlets offer convenience, value and quality. Singaporeans are savvy in terms of spending, and food options which offer value typically works.

Build loyalty and improve captive audiences

Captive customers ensure sustainable footfall for outlets as consumers return to support the outlets for repeat purchases. These are customers who are “captured” by the business and find it difficult to change or substitute patronising the outlet for another competitor. Captive customers help to build a strong customer base. Incremental sales will come from non-captive sources such as promotions, etc.

Location and footfall

Tenants may take a long-term view on footfall when seeking less attractive property outlets in anticipation of future development and footfall increase in the future. Some F&B outlets such as Jumbo take advantage of extended operating hours by opening most outlets outside of malls, as malls usually have limited hours for outlets to operate. Other ways to maximise rent at outlets include kiosks, like Old Chang Kee, which pays higher rent per square feet but lower absolute rents for occupying a smaller floor area. Facing public walking areas also exposes an operator to higher footfall and allows for longer operating hours with no mall operating hour restrictions as well.

Leverage on social media for alternative marketing

Marketing can now be more personalised with postings from influencers, blogs, and customers on social media platforms. Social media platforms can be cheaper than traditional advertising and have mass impact on foodservice businesses both positively and negatively. The advantage of F&B on social media is that food when presented attractively has the potential to entice customers to visit the outlet.

## How should Singapore F&B businesses react in today’s operating environment?

We believe companies at different stages of their life cycle face different challenges and will have to focus on different things in terms of delivering shareholder value, growth, gaining competitive advantage. We map out what we believe businesses should focus on for startups, mid-sized companies who are no longer trying to become profitable and want to grow, and larger listed F&B groups.

### Key priorities for F&B companies for growth

	Small startups	Midsized F&B Players	Regional F&B Players
Focus	Gain profitability	Gain operating scale	Enhance shareholder value
Business model	Target operating small scale network of stores	Target sustainable chain store operations, brand expansion	Manage regional portfolio of F&B brands as JV partners or franchisor / franchisee
Growth strategy	Sustaining demand and profitability	Market share and extending local presence	Regional growth
Ways to find operating efficiency	Lean operating cost structure, operate at fully depreciated premises	Consider central kitchens	Use bargaining power for lower rental rates

Source: DBS Bank

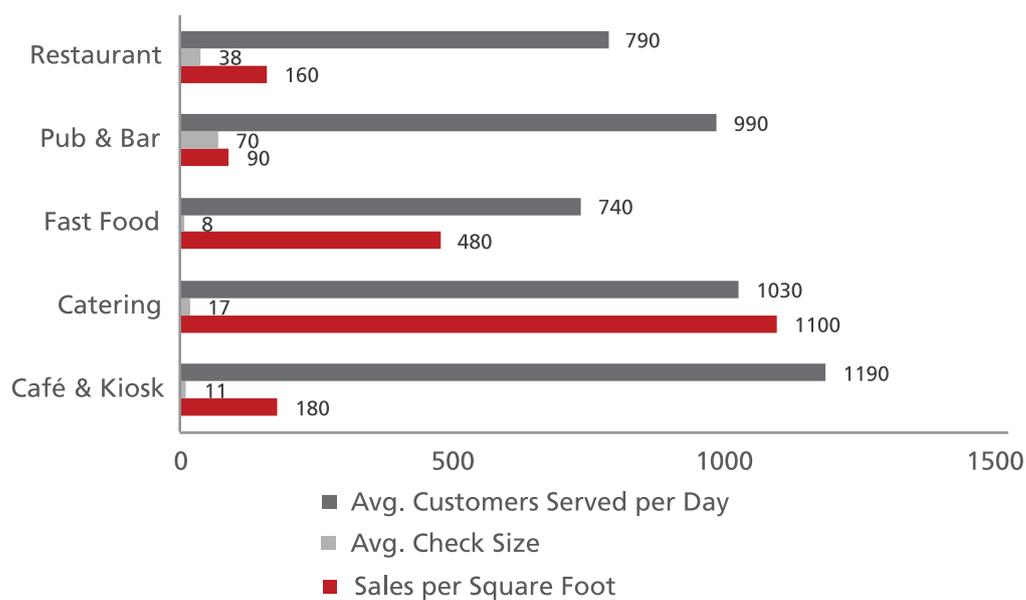
Turning F&B businesses profitable is key for new start-ups. Fresh start-ups tend to face more challenges with breakeven due to uncertainty of success of new concepts, along with high costs including fixed store depreciation, manpower and rents. Operational targets include average target table turns of 2-3x per meal time and average spending or ticket sizes based on our estimates.

### Average spending

	Average spending	Comments
Casual restaurant	S\$12-30	Per head spend
Kiosk	S\$3-10	Ticket size
Bakery	S\$3-6	Ticket size per head
Foodcourt stall	S\$4-15	Ticket size
Full-service restaurant	S\$60-80	Per head spend

Source: DBS Bank estimates

### Sales Productivity by Sub-sector (2016)

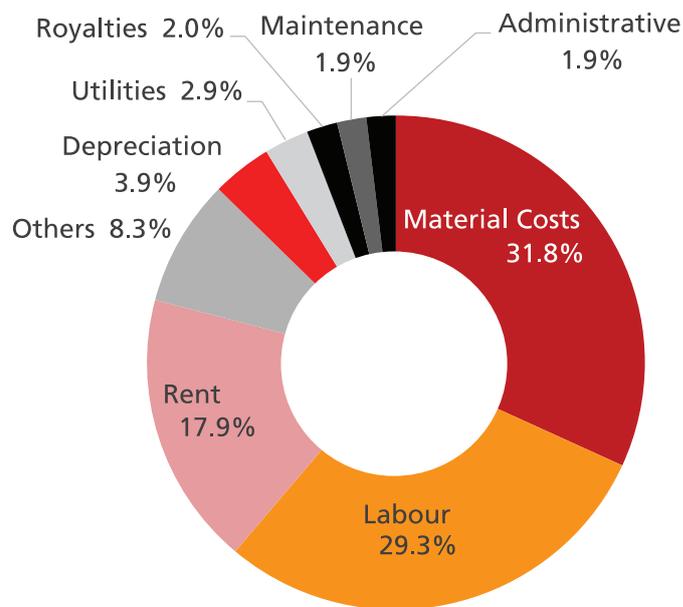


Source: Singapore Productivity Centre, DBS Bank

#### Survival of the fittest

The odds appear to be stacked against foodservice companies as history suggests that only 60% of smaller F&B businesses make it past the five-year mark, while close to 2,000 (or 25-30%) F&B establishments close their shutters each year. As F&B operators compete for consumers' mind- and wallet-share, taste, value, and often experience are undoubtedly the key differentiating factors, one must also keep a firm eye on costs.

**Rent, Labour and Materials Cost Accounted for c.80% of Total F&B Business Costs in 2016**



Source: Singstat, DBS Bank

According to Singstat, manpower, rent and COGS-related components accounted for approximately 79.1% of total F&B business costs in 2016 on average. To maximise returns, it would thus entail optimisation of rent and labour components, and to a certain extent, material costs through better supply chain management.

Food courts/hawker stalls are possible low-cost places to start

We believe the ideal places to start where profitability is key to business owners are low cost formats such as foodcourts and hawker centres. Several companies have grown into decent sized F&B groups after starting from humble beginnings. Katrina Group started to sell Peranakan food by operating a foodcourt stall and today, has branched out to operate multiple restaurant brands (So Pho, Streets, RENNThai, Bali Thai, Muchos, Indobox etc.). Fei Siong Group started as a fishball noodle hawker stall and today owns multiple food concepts including Encik Tan, Malaysia Boleh!, London Duck, and EAT. Cash outlay is lower compared to starting from standalone outlets, as capex is usually priced into the rentals over the period of tenancy. Food courts also offer opportunities to grow when the foodcourt operator expands to new outlets. Other chains operating within foodcourts include Pepper Lunch, a DIY fast food service concept.

### Capex for new stores

	Capex	Size sqft	Estimated Capex per psf
Casual restaurant	S\$500k-1m	3,500-7,000	S\$143-285
Kiosk	S\$100-250k	200-300	S\$500-833
Bakery	S\$200-300k	600-700	S\$333-428
Foodcourt	S\$2-3m	10,000	S\$100-150
Foodcourt stall	S\$30-60k	120-150	S\$250-400
Full-service restaurant	S\$1-2m	10,000	S\$100-200

\*note: The above are estimates and may vary depending on business specifications, i.e. type of food, equipment, renovation, etc.  
Source: DBS Bank estimates

F&B foodservice is largely a cash business. Apart from generating cashflows, getting the business to profitability is also key concern for shareholders. Key cost items are staff, rents and depreciation. We see cost of sales especially food costs less of a concern since margins are typically high at around 60% and higher food costs can be passed on to consumers in the form of higher selling prices. Sales turnover would need to be sufficient to cover fixed costs to achieve profitability.

### Estimated annual sales psf

Format	Avg size sqft	Annual Sales psf	Annual Sales/store
Casual restaurant	1,000-7,000	S\$500-1,100	S\$0.9-4.5m
Kiosk	200-300	S\$1.2-5k	S\$0.4-1.1m
Bakery	600-800	S\$1.25-4.2k	S\$1-2.5m
Fast food	1,000-3,000	S\$0.6-1.4k	S\$1-3m
Foodcourt	5k-20k	S\$250-1,000	S\$2-5m
Foodcourt stall	120-150	S\$2.5-4.2k	S\$0.4-0.5m
Full-service restaurant	6k-10k	S\$700-1.5k	S\$5-15m

Source: Euromonitor, Companies, DBS Bank estimates

F&B companies have built strong brands and competitive advantage with signature dishes. Jumbo and No Signboard seafood establishments specialise in chili crab dishes. BreadTalk specialises in bakery operations and took off with the pork floss bun. RE&S and Sakae Holdings specialise in conveyor belt sushi. Old Chang Kee specialises in selling curry puffs in kiosks.

## Mid-sized F&B Players

Market share, economies of scale a focus

For firms which are already profitable after undergoing the startup phase, we define these mid-sized F&B players as those with a few profitable chain stores, the focus for these companies is to maintain profitability while growing footprint and market share locally to enhance operating scale.

Brand building becomes important as well, for consumers to identify and associate with these growing F&B groups. As these companies expand into a chain operation, companies may be able to enhance customer loyalty with promotional programmes. From more humble beginnings, companies are also beginning to corporatise by onboarding more professional managers in their decision making as outlet and staff count grow. Apart from store count and market share, companies may consider setting up central kitchens to centralise their food preparation function to enhance economies of scale. Beyond the central kitchens, companies may seek to raise funds through a public listing to grow beyond Singapore and to improve its standing as a regional F&B group.

Central kitchens help to enhance economies of scale and drive growth

Central kitchens facilitate production of key ingredients and minimise kitchen space and preparation time at the outlets. Listed companies including Jumbo Group, Neo Group, BreadTalk and Koufu have central kitchens to support their F&B operations and growth.

### Estimated cost of F&B central kitchens/HQs in Singapore

Date	Company	Area sqft	Estimated Cost	Estimated Capex/psf
2013	BreadTalk IHQ	c.250k	S\$64.1m	S\$256
2014	RE&S HQ	c.100k	S\$30m	S\$300
2017	Kimly	c.17k	S\$5m	S\$294
2020	Koufu HQ	c.200k	c.S\$43m	S\$215
2020	Neo Group HQ	c.300k	c.S\$65-70m	\$216-233

Source: Companies, media reports, DBS Bank estimates

Expanding into chain stores help to enhance market share, economies of scale

Beyond the start-up phase, F&B players seeking to grow into mid-sized players should look to scale up the number of outlets and traction with customers. Apart from better store network, higher revenue and enhancing customer catchment, chain operations help to defray fixed HQ costs if any and can improve economies of scale such as

backend systems across multiple outlets. Companies with a portfolio of F&B brands may even collectively bargain for rental rates with landlords as they help to inject different F&B concepts into malls. In the case of an underperforming outlet, F&B companies with different brand concepts can be flexible enough to retain the store unit by converting the space to another F&B brand concept under their group umbrella.

### Brand expansion and representing overseas brands via franchise/JVs

Mid-sized F&B companies would have established their brands and concepts with consumers. Beyond growing their store network, companies can grow laterally through introducing other F&B concepts and brands. Other than organically establishing new brands, smaller F&B companies can consider becoming a franchisee of overseas brands or representing these new brands and concepts through a joint venture with overseas brand owners. Larger listed players continue to take up franchises of overseas brands to operate in Singapore. Japan Foods Holdings specialises in bringing in overseas F&B brands as a franchisee to operate in Singapore and regionally. It has multiple Japanese brand concepts and believes in becoming a reliable operator for Japanese food brands here in Singapore. No Signboard has recently established Little Sheep outlets in Singapore under a franchise agreement. BreadTalk operates as a franchisee of Din Tai Fung in Singapore. Jumbo operates Tsui Wah Hong Kong style cafés in Singapore via a JV. Winning the correct brand representation through franchise rights or joint venture could help smaller groups springboard and grow into larger F&B entities. In any case, F&B companies can expand their portfolio of brands either organically or through cooperating with overseas partners.

## Fund Raising Growth Ambitions

In recent years, SGX has been rife with IPOs of F&B groups. The IPO route has helped F&B business owners to fund regional expansion, build larger central kitchens and corporate HQs, and raise the profile of their businesses. An IPO also allows business owners to discover the true value of their businesses once the company is floated on the stock exchange.

### Recent F&B listings on the SGX

Stock	Board	Earnings (b/f IPO)	IPO date	Central kitchen
Jumbo	Catalist	S\$10.6m	9 Nov 15	Yes
Katrina	Catalist	S\$4.3m	26 Jul 16	No
No Signboard	Catalist	S\$8.3m	30 Nov 17	Yes
RE&S	Catalist	S\$5.7m	22 Nov 17	Yes
Kimly	Catalist	S\$24.2m	20 Mar 17	Yes
Koufu	Mainboard	S\$26.9m	18 Jul 18	Yes
ST Group Food	Catalist	A\$2.7m	3 Jul 19	Na*

\* No operations in Singapore  
Source: Companies, DBS Bank

While F&B companies are cash generative and may not require capital markets' funding, being publicly listed as an F&B group provides benefits in raising the profile of the group's brands. This helps to elevate their standing with landlords to obtain competitive rental rates and choice units, and in cooperating with overseas partners when expanding through JVs and franchises arrangements. An IPO provides additional funding for expansion and a partial unlocking of value for business owners in some cases.

## Regional F&B Groups

The key for regional F&B groups is to continue to grow and enhance shareholder value. Companies should already have corporatised if they are gunning to be a regional F&B group with overseas presence.

### Coverage universe expanding out of Singapore

Company	Brand	Type	Markets
BreadTalk	BreadTalk	Bakery	China
	Food Republic	Foodcourt	China, HK
Jumbo	Jumbo Seafood	Seafood restaurant	China, Vietnam, Thailand
	Ng Ah Sio Bak Kut Teh	Specialty casual dining	Taiwan
Koufu	Koufu	Foodcourt	Macau
	Supertea/R&B	Kiosk	Macau

Source: Companies, DBS Bank

#### Exporting Singapore brands and cuisine overseas

BreadTalk, Jumbo and Koufu are examples of Singapore companies which have successfully exported their brands overseas. Both BreadTalk and Jumbo have grown organically overseas and given out franchises to partners who can help to run their brands in some overseas markets. Companies can also rely on Singapore's reputation for food safety, quality, and safe food preparation processes to go overseas. Operationally, tweaks will need to be made to pricing, menu options and taste to suit the local market.

#### Offering franchises

Instead of building F&B brands and line of products, companies may opt to grow by being a franchisee of overseas brands in Singapore. However, obtaining the right to operate a franchise may require the franchisor to look at past operational track record of potential franchisees before awarding the contract as it may demand a certain level of experience in operating to represent the brand name. The franchisor has less commitments with no capital expenditure obligations and recognises franchise fees and takes a percentage of sales but cedes the remainder to the franchisee. The franchisor can also dictate the number of stores a franchisee needs to open over a specific time frame as part of the

franchise agreement. These require commitment and obligation for the franchisees. Japan Foods is a strong franchisee of Japanese restaurants in Singapore.

#### Expanding overseas via franchise, JV or organic growth

Joint venture arrangements would require more commitment such as capex and resources whereas franchise arrangements would entail the franchisee taking up all operational risks. Contribution under franchise arrangement is normally via franchisee fee and percentage of sales, all of which has little or no cost to the franchisor. Any risks or earnings benefit would be attributable to the franchisee. Operational control under a JV arrangement is usually easier than as a franchise due to the ownership interest in the JV. JVs would be the more preferred structure where the outlook for penetrating the market is more positive.

Companies can expand overseas organically or engaging the help of local partners to expedite growth. Enlisting the help of a local partner would accelerate the learning curve and enable them to break into the market easier. Appointing a local partner can be done via a JV or franchise arrangement. Most of the overseas expansion we see amongst our coverage universe makes use of local partners' operating experience to enter overseas markets. The structure can be in the form of either giving out franchises or via joint venture agreements where both parties jointly share risks and benefits in the new venture.

#### Operating a portfolio of brands across the region ultimately

Regional F&B groups can ultimately manage a portfolio of F&B brands regionally across various cuisines. Companies can adopt a multi-brand, multi-city, multi-cuisine, multi market segment approach in order to grow. As the market becomes increasingly saturated, companies can bring in new brands or start new concepts and offer a portfolio of options for consumers. BreadTalk, SGX's largest F&B group by market capitalisation, is now bringing in brands such as Taigai, Nayuki, etc. into Singapore while expanding its own brands overseas.

# The Next Leap: Leveraging Ecommerce

## Food Delivery Platforms

Food delivery platforms are growing their operational scope

Digitisation and apps including Foodpanda, Deliveroo and GrabFood have come onstream in recent years. Foodpanda and Deliveroo make deliveries from 3,800 restaurants and 3,500 respectively. According to Euromonitor, commissions average around 25% per order.

These food delivery platforms not only provide front end ordering and payment systems, but have also set up kitchen platforms where its foodservice partners can prepare and deliver food from. These 2,000-4,000 sqft central delivery kitchens or takeaway kitchens (Deliveroo Editions at Lavender and Katong, and Favourites by Foodpanda in Woodlands) house chefs from multiple restaurants to produce food on-site. Tenants at these kitchens are provided with cooking equipment, storage facilities, and delivery riders.

New online players coming up to develop niche underserved segments

Despite challenges faced by major incumbents, new players are emerging with each aiming to capture a niche group of users. For instance, Porterfetch, an online night delivery food service that operates from 9pm-3am, partners with famous supper joints for supper deliveries. Other food tech startup such as Grain, Lean Bento and AMGD target health-conscious individuals based on a monthly meal subscription model.

## Not without Challenges

However, online may not necessarily be profitable. Honestbee, a Singapore online grocery startup suspended its grocery delivery operations in the region - Thailand, Hong Kong, Japan, Indonesia, the Philippines - including home market Singapore due to the inability to raise funding. HonestBee failed to receive funding in its latest attempt to raise S\$20m after a leadership reshuffle. We believe this cautious stance by investors could be related to some bike sharing companies in Singapore which ceased operations and took away riders' deposits. The need for additional funding is a testament that these companies might be unprofitable.

Cost pressures set to grow

Based on Euromonitor, wages for delivery staff in Singapore surged by an average of 50% from 2014 to 2017. Moreover, coupled with tight foreign labour rules and highly liquid rider supply, competition for labour is expected to intensify in the short-term, putting pressure on profits and potentially growth.

Delivery fees charged to customers for food typically range from S\$3-5, delivery rates of

Pizza Hut and McDonald's pegged at S\$4. OFood delivery apps take 20-30% from the merchant while delivery costs are usually paid by the customer and the delivery platform. Based on our delivery cost estimates of S\$6-11 per order, we believe that online food delivery platforms would have to get S\$20-30 per order for breakeven.

New formats taking over dine-in options

With labour constraints and cost factors likely to remain an ongoing (if not rising) challenge, and technology and R&D serving as key enablers, these alternative formats are set to gain further popularity ahead. Spring Singapore predicts that by 2025, three out of eight dining experiences will involve these new formats, as opposed to traditional dine-in options.

Overall, we find that labour challenges and rising rental cost environment favour the adoption of manpower-lean concepts such as kiosks, particularly for micro food service companies (defined as business with annual revenues under S\$1m) and encourages better space planning. Alternative formats that have emerged in recent years as shown in the table below.

**Alternative retail formats have proliferated in recent years**

<b>Grab-and-go Kiosks</b>	Primarily focused on takeouts, and may provide a small dine-in area on site
<b>Click-and-collect</b>	Pre-select meals online for store pick-up at a specified time. Increasingly bundled together with 3rd party meal subscription service
<b>Meal Delivery</b>	Can be ad-hoc or tied to meal subscription service. Delivery can be in-house or outsourced.
<b>Vending Machines</b>	Leveraging on technology to offer hot meals on demand, without compromising on quality and nutritional value.
<b>Food Trucks</b>	Popular at events but not widely adopted in Singapore. Channel News Asia estimates that only 17 of 66 food truck licences were active in 2018.

Source: DBS Bank

Online platforms do not compete directly with foodservice providers. They provide another channel for foodservice providers to market their food and undertake payment and delivery outsourcing capabilities for foodservice providers to better compete in the market.

### Homegrown Names Leading the Charge with Alternative F&B Models

Grab and Go



Click and Collect



Vending Machine



Meal Delivery



Food Trucks



Source: Respective Companies, DBS Bank

All food service companies require an online strategy

Due to the increasingly competitive market, it is critical for companies to leverage on the opportunities that an online strategy presents. Inability to do so will possibly result in the loss of market share to competitors who are venturing aggressively into this space.

An efficient use of excess capacity and idle resources to cater to online orders can maximise revenue and profit despite facing tight margins.

In order to support the increasing frequency of online transactions, reliable technologies need to be present. Investing in technological infrastructure will ensure ease of transition and operation in the coming years.

## Enhancing Backend Operations with Digital Solutions

DBS MAX is a merchant collection solution leveraging on PayNow Corporate, which accepts cashless payments from customers of nine participating banks. As DBS MAX is app-based, it can sit on any mobile device. DBS MAX allows real-time collections, enables access to funds instantly and facilitates easy reconciliation with real-time notifications and end of day reports across all outlets. QR code scan and pay via Paynow makes it easy for customers to pay. The advantage over NETS and credit card payment systems is that DBS MAX has no requirement for merchants to invest in any terminals. The registration and setup fees are also currently waived, and transaction fees (collections) on DBS MAX is also at an attractive rate of 0.25%, making this a very viable alternative to NETS or credit cards.

### DBS MAX



Source: DBS Bank

Businesses to consumers (B2C) digital solutions include Paylah! and Foodster

DBS Paylah! is a digital mobile wallet app that allows users to send and receive money instantly and securely on smart phones. It can be used as a secure mode of payment with merchant partners through the scanning of QR codes. Merchant promotions can also be posted on the DBS Paylah! app. Foodster is a retail chatbot platform that allows customers to order and make payments for their meals via Facebook Messenger and DBS payment channels. This automates the ordering process without additional manpower or space. Data tools and analytics allow merchants to implement targeted and personalised customer loyalty programmes on the Foodster platform. They can also conduct customer surveys to better understand customer's needs and contextualise marketing promotions.

**Digital solutions for businesses to gain an edge**

Business Platforms	Function
DBS Max	Cash collection, back end reconciliation from multiple outlets
Paylah!	Cash collection platform
Foodster	Customer ordering and payment platform
DealOnline	FX management, regional business insights

Source: DBS Bank

DealOnline provides digital solutions for regional forex management

DealOnline is an online forex (FX) trading platform that enables businesses to track real-time FX rates for companies with foreign currency exposure. Businesses can receive automatic FX transaction quotes from various currency pairs for transactions of up to a year. Businesses can stay informed on the latest market developments with regional business and industry insights from more than 100 DBS research analysts in Asia.

# The F&B Evolution And Real Estate

The threat of e-commerce and changing consumer habits have significantly transformed the role of shopping malls over the past decade, from retail-centric hubs to lifestyle centres catering to shoppers' physiological, social and entertainment needs.

As shopping malls evolve, they are giving rise to more integrated spaces - featuring adjoining residential and/or office blocks, and more community spaces. The configuration of malls has also changed with the times in favour of more F&B and activity-based tenants, which has helped to anchor the resilience of the retail sector amid a challenging retail backdrop.

In this section, we explore how conventional real estate in malls has adapted to the rise of e-commerce and changing consumer habits.

## **Multi-concept Food Halls**

Time-starved lifestyles is a key contributing factor to shifting consumer dining habits. In response, landlords have evolved to develop more multi-concept food halls and kiosks, featuring a greater diversity of tenants and cuisines within smaller spaces which in turn, support more mass-market, lower-priced F&B offerings.

## **Healthier Living**

With the market trending towards healthy eating, more salad outlets are proliferating in the city. These support lunchtime consumers who are health conscious or vegetarians and those looking for a quick lunch.

### Salad kiosks

Competitor	Number of Singapore outlets
Saladstop	15
Daily cut	3
Munch	3
Omnivore	3
Kipos	2
Salad shop	2
Salmon samurai	2
Shake Farm	2
The green bar	2
Wafuken	2
Grain traders	1
SMOR	1
Sumo Salad	1
Urban Mix	1
Wheat Baumkuchen	1
<b>Total</b>	<b>41</b>

Source: Companies' store locator, DBS Bank

## Food Factories

The increasing prominence of food delivery services has kept demand for food factories relatively healthy. These food factories are dedicated facilities to store, process, cook and package food for delivery to F&B establishments or retail customers. The higher demand can also be attributed to the streamlining of F&B retail spaces and efforts to enhance productivity in the sector.

For example, Deliveroo opened its second central kitchen at Lavender on February 2018 while Foodpanda opened its first central kitchen at Woodlands Industrial Xchange one month earlier.

## The Digital Experience

We believe the next wave of growth for malls will likely be driven by deploying technology, which will allow businesses to operate from smaller units and thereby maximising use of space for the landlord.

After its relaunch after a three-year redevelopment, Funan is making some progress on that front. Patrons at the food court, KOPiTech can place orders via Facebook Messenger or through self-service ordering kiosks (twenty in total). Each is linked to an e-payment system that accepts numerous payment modes, including cryptocurrency. Electronic queuing systems also eliminate the need for physical queues at the respective food stalls – leaving more room for additional food stalls and/or dining spaces.

## Venturing Into Heartlands

New-to-market concepts favouring suburban over downtown locations appear to be on an increasing trend. Owing to their larger population catchments and often favorable locations alongside key transportation nodes, suburban malls are generally less susceptible to e-commerce threats, which have contributed to their rising popularity among tenants over time.

Famous Taiwan bubble tea store, Xing Fu Tang, is one such example. After gaining much fanfare at its temporary pop-up at Orchard, the bubble tea chain announced the opening of its first standalone franchised store in Singapore at Century Square mall, which sits in Tampines (Outer East region). Similarly, A&W, which has returned to Singapore after a 16-year hiatus, set up an outlet in Jewel in April 2019 and also announced plans to open its second outlet at Ang Mo Kio – a prominent submarket in the North-Eastern part of Singapore.

# The Way Forth

Mass market, convenience and online are trending up

We believe demand in F&B continues to be in the mass-market segment with the market moving towards accommodating a more convenient, and self-service lifestyle due to 1) increase in operating costs especially labour and rents; and 2) integration of technology and online platforms into F&B businesses.

While food remains a staple for consumers, the preference for convenience and online purchases is starting to kick in. Reaching out to consumers now entails more online channels (discount codes/coupons, payment systems, reviews, etc.). By the same token, the internet facilitates a convenient lifestyle which complements mass-market to-go value food.

F&B players are still expanding despite challenges; expect more technology to be implemented

The market has seen niche players such as higher-end Michelin Star restaurants giving up their status due to high operating costs. Going forward, we expect to see outlets adopting more technology with reduced manpower, while requiring more self-service from consumers to counteract labour cost challenges. Despite these cost challenges, the players in the market are still seeking expansion via acquisitions, bringing in new brands or new players coming in with new brands, products and concepts. F&B firms in Singapore are still keen on growing market share. Seeking growth from overseas markets continues to be a trend. A few listed companies on the SGX have sought funding to grow overseas. Firms can remain profitable and growth can be sustained if companies get their products, food quality value and brands, and cost structure right.

Cost challenges can be managed

For larger F&B groups, higher manpower costs can be mitigated by technology and productivity initiatives, while rising rents can be managed with strong bargaining power using multi-outlet strategy in malls, taking up a larger floor area, locating outside of malls, or only entering malls at the landlord's invitation at a favourable rate.



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