There has never been as much variety in the retail landscape in Singapore, and yet the retail and food and beverage sectors are facing unprecedented challenges that might potentially curtail growth and expansion. What are the possible effects on real estate and what are some measures that retailers can take to mitigate these pressures?

RETAIL IN SINGAPORE HAS COME OF AGE

“It is the best of times, it is the worst of times...” for the retail sector in Singapore. The shopping environment and the food & beverage (F&B) scene in Singapore has never been as vibrant, exciting and dynamic as it is today. And yet in the midst of this vibrancy, unprecedented problems have emerged that threaten to severely cripple the retail experience.
In just over three short years, the retail scene has exploded with diversity and colour with an influx of consumer goods and gastronomic options. In 2009, Orchard Road came of age with the completion of Orchard Central, ION Orchard and 313@Somerset, transforming the premier shopping belt into a modern shopping street dotted with new malls offering a wide variety of brands, products and dining options. Other established malls embarked on various asset enhancement programmes in a bid to renew concepts, identity and positioning. And while all this was happening, unique “off-the-beaten-track” retail locations sprouted up all over the island with artisan products and/or cultural/ethnic dining settings. In predominantly historical shophouse areas (e.g. Haji Lane, Tanjong Pagar, etc.), in areas with a colonial heritage (e.g. Dempsey Road, Gillman Barracks, Rochester Park, etc.), in parks and recreational areas (e.g. Gardens-by-the-Bay, Sentosa, etc.) and in Housing and Development Board (HDB) heartland areas with a proliferation of new and up-to-date suburban malls, all manner of shops and eateries have cropped up to offer the population new consumer experiences.

Based on the latest available data, the number of retail trade establishments rose 8.3% from 19,069 in 2009 to 20,648 in 2011... the number of F&B establishments grew 8.1% from 5,969 to 6,453 in the same two-year period.

Growth of Retail Trade and Food & Beverage Services

Based on the latest available data, the number of retail trade establishments rose 8.3% from 19,069 in 2009 to 20,648 in 2011, even though part of this three-year period included the duration of poor sentiment as a result of the global financial crisis. Similarly, the number of F&B establishments grew 8.1% from 5,969 to 6,453 in the same two-year period. These statistics have yet to take into account the slew of new openings in 2012. It was recently
In the midst of all the exuberance in the retail sector... growth and future direction currently lies in doubt due to several factors... These are the critical labour shortage, rising occupation costs, congestion and parking shortages.

The shortage of labour in the retail sector, particularly the F&B sector where specialised skilled workers are required, has led to shops and eateries being understaffed... This shortage is due to the Government’s tightening of foreign worker quotas as well as the reluctance on the part of Singaporeans to pursue a career in the retail sector.

It does not help that rents in shopping malls are regularly raised upon the renewal of tenancies that are typically two to three years long...

... the volume of vehicular and pedestrian traffic can overwhelm access roads and parking spaces, causing congestion.

reported that figures from the Accounting and Corporate Regulatory Authority (ACRA) showed that 686 restaurants were set up in 2012, translating to an average of just under two restaurant openings a day. Yet, the F&B sector has not been without its casualties. A total of 537 restaurants closed in 2012, according to the Accounting and Corporate Regulatory Authority.

WIDESPREAD CRITICAL CHALLENGES

In the midst of all the exuberance in the retail sector, the sector’s growth and future direction currently lies in doubt due to several factors, most of which are cost-related. These are the critical labour shortage, rising occupation costs, congestion and parking shortages.

The shortage of labour in the retail sector, particularly the F&B sector where specialised skilled workers are required, has led to shops and eateries being understaffed. This shortage is due to the Government’s tightening of foreign worker quotas as well as the reluctance on the part of Singaporeans to pursue a career in the retail sector. Shops and F&B outlets have had to increase salaries in order to retain trained and experienced staff. And at the same time, the extra, and often overwhelming, demands on existing staff in understaffed outlets have led to a fall in service standards and a drop in quality of shopping or dining experience in many outlets.

It does not help that rents in shopping malls are regularly raised upon the renewal of tenancies that are typically two to three years long, putting more cost pressures on retailers.

Many of the popular shopping destinations in Singapore, whether in malls or standalone outlets, are able to draw crowds, especially on weekends. However, the volume of vehicular and pedestrian traffic can overwhelm access roads and parking spaces, causing congestion. In some areas, the congestion and inconvenience has reached levels where potential shoppers are deterred.

While each of these challenges on their own would not seriously affect shopping patterns and retail sales, the combination of all of these places a major strain on the cash flows of retail and F&B businesses. Once these pressures build to a critical mass, some of these retail brands and F&B chains could cease to expand, close down less profitable stores and outlets, strategically consolidate operations and/or leave the industry altogether. Restaurant Wok & Barrel closed its doors in March 2013, citing a shortage of manpower as the main reason. Japanese restaurant group RE&S, and the TungLok Group (which runs a chain of mostly Chinese restaurants) also had to close some of their eateries because of the manpower
With the combination of cost pressures and operational difficulties, certain retail and F&B operators would have little option but to consolidate...

...crunch. It was reported that the TungLok Group would not be opening any new restaurants in Singapore for a while.

And it is only a matter of time before the effect on the retail real estate sector is felt.

**BACKLASH ON RETAIL REAL ESTATE**

With the combination of cost pressures and operational difficulties, certain retail and F&B operators would have little option but to consolidate and take strategic defensive positions to close under-performing branches, just so that manpower and equipment can be reallocated to locations that remain profitable and rental costs can be lowered.

Other retailers might totally relinquish a physical shop space and move their point of sales to cyberspace.

The strategic closure of outlets, especially in the malls, could place pressures on occupancies and rents... the malls that will be affected will be those that are less desirably located, older and/or do not have convenient access to main public transport links.

The strategic closure of outlets, especially in the malls, could place pressures on occupancies and rents. Nonetheless, this is unlikely to happen immediately. Many of the well-located and popular malls still enjoy a waiting list of retail brands and eateries that are queuing to take up space should vacancies occur. In all likelihood, the malls that will be affected will be those that are less desirably located, older and/or do not have convenient access to main public transport links.

In malls that are held for investment or rental income, landlords would still be able to maintain control over the tenant mix and would be able to mount a concerted advertising and promotional effort to boost crowd volumes. However, in retail complexes that comprise of individual strata-titled units, having a unified retail concept and tenant combination would be more difficult.
... in retail complexes that comprise of individual strata-titled units, having a unified retail concept and tenant combination would be more difficult... strata-subdivided retail centres are likely to find it more challenging to replace retailers and F&B operators that have quit the location... and individual owners of shop or retail space might consequently have to lower rents in order to attract new tenants...

There is already a two-tier shopping mall scene in Singapore and this could emerge further with more new strata-titled developments coming on stream, where there are modern crowded malls charging robust rents, and shopping malls that are less occupied and visited, without a strong retail identity and presence of prominent anchor tenants. Such shopping centres/facilities could suffer from a deterioration of economic value. For example, it was recently reported that Thomson V, a mixed development in Upper Thomson Road had a mere 25 of the strata-titled development’s 78 retail spaces occupied in early April, with tenants complaining of dismal trade and poor traffic. Some of the original tenants such as dessert shops My Garden Café and The Ice Shop, and salon Ez Cut had already closed in the months after the retail section at Thomson V opened in mid-2012.

Sequence of Cause and Effect in the Retail Property Sector

<table>
<thead>
<tr>
<th>Critical Build-up of Retail Challenges</th>
<th>Stagnation</th>
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<tbody>
<tr>
<td>Labour Shortage</td>
<td>Expansion ceases</td>
</tr>
<tr>
<td>Staff salaries increase rapidly to prohibitive levels</td>
<td>Close unprofitable outlets/ branches</td>
</tr>
<tr>
<td>Increasing rents</td>
<td>Consolidation of operations to locations that are still popular</td>
</tr>
<tr>
<td>Congestion/Parking problems</td>
<td>Abandon industry</td>
</tr>
</tbody>
</table>

Effect on Retail Real Estate

- Occupancy levels fall in poorly located/managed malls
- Rents decrease
- Mall’s image declines and pedestrian traffic falters
- “Off-the-beaten track” F&B locations experience high turnover of operators

Source: Colliers International Singapore
And even in the crowded and well-trafficked shopping malls that can still command premium rents, shoppers and diners can expect that the price for their shopping and dining experiences will continue to increase, while the service standards remain the same or, in some cases deteriorate in an understaffed outlet, as a result of high turnover of transient service workers.

**MITIGATING SOLUTIONS**

The culmination of the above problems and challenges have led retailers, food service operators, the relevant trade associations and the Government to move towards a reduced dependence on labour and to explore various means of improving productivity through the application of technology or ingenuity.

**Technology**

Technology has been utilised to mitigate the present difficulties. Automated and specialised kitchen equipment can save on the need for extra skilled labour. This would include auto-woks, larger capacity ovens and food processors that can be used efficiently by less skilled kitchen staff. A more obvious application of technology would be computerised POS (point of sales) systems where orders can be processed by the kitchen immediately once they’ve been made by service personnel. The Employment and Employability Institute’s (E2i) Inclusive Growth programme supports such initiatives, as the programme co-funds projects that enhance operations to raise productivity and worker efficiency.

Retail shops can also look into software that tracks the buying patterns of their customers. The mining of customer data through customer relations management can assist retailers in reorganising and customising their businesses in a more productive fashion. This potentially alleviates the challenges at the front-of-shop, as technology can provide the tools for retailers to do more accurate manpower planning. For instance, pedestrian counters can provide data on peak activity hours, and staff shifts can be planned to overlap during these periods. Technological aids in the form of ERP (enterprise resources planning) systems also allow retailers to monitor and manage the location of goods, plan for timely promotions, and cross-sell based on the needs and profiles of customers, with less staff required.

**Cultivating Self-Service**

Another use of technology would be to enhance the self-service aspect of the shopping or dining experience. Currently, NTUC Fairprice and Cold Storage supermarkets have self-checkout kiosks at some of their outlets.
The same is presently lacking, though, at F&B outlets. While some eateries have installed equipment and systems where diners can make reservations or are alerted via their mobile devices when their table is ready, most restaurants and eating places still require service staff to take, deliver and clear orders. A way to reduce such reliance could be the installation of self-service order machines. These look like vending machines and are commonly used in the eateries of Japanese cities. Customers input their orders, pay and are issued a receipt before they even take their seats. The orders are relayed to the kitchen and are served based on the receipt numbers.

The installation of equipment for such self-service automation would likely be restricted mainly to the larger and more established F&B chains, catering to mass market consumers, such as fast food outlets and noodle shops, among others. These F&B formats would have the turnover volume to make such a productivity initiative viable and worthwhile. Another way in which these F&B chains can promote a self-service culture would be to design the layout and operations of their outlets so that customers collect their own cutlery, water and side dishes from a centrally located station. Or else, the use of self-collect electronic tokens that alert diners when their orders are ready, can also be considered. Some eateries have already invested in and installed such systems.

It is not likely that the mid- to high-end restaurants would adopt such productivity initiatives as their diners expect a measure of hospitality and service as an integral part of the dining experience.

Central Kitchens

Significant productivity in-roads can also be gained by tapping into central kitchens. With automation and machinery, less staff are needed to run a central kitchen, while the increased output can be used by several branches and outlets.

For example, Pu Tien needed only 13 people to run a 3,800 sq ft central kitchen, and are responsible for cooked food at Pu Tien’s nine local outlets.¹

The Labour Conundrum

In spite of the above schemes, the manpower challenges will not simply go away. The higher foreign worker levies, the reduction in the dependency ratio ceiling, and the reluctance of Singaporeans to work in retail or F&B, means that retailers and eateries will have to look for alternative sources of manpower as well as retain those that can do their jobs well.

Depending on the nature of the job, retirees, students, part-timers and workers with
disabilities can and have been trained to be effective and efficient within a retail environment. The key is to retain trained and experience staff. In this light, continued training and career exposure to new responsibilities and methods, as well as variable rewards whenever a customer compliments a staff member, could partially allay turnover.

The Government has also been putting forward various incentives with which to assist retailers and F&B establishments in the training of their employees.

GOVERNMENT HELP

The Government has a repertoire of initiatives to help retailers and restaurateurs help themselves and increase productivity given the limited resources available. These come in the form of several incentives and assistance packages by SPRING Singapore and the Workforce Development Agency.

The following table lists some of the programmes that retailers and F&B operators can tap into for assistance by SPRING Singapore.

### PRODUCTIVITY PROGRAMMES OFFERED BY SPRING SINGAPORE

<table>
<thead>
<tr>
<th>Programme</th>
<th>Description</th>
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<tbody>
<tr>
<td><strong>For the Retail and Food &amp; Beverage Industries</strong></td>
<td>SPRING Singapore will work with industry players and partners such as Trade Associations and Chambers (TACs) to identify industry-specific productivity challenges, and issue calls-for-solutions that have the potential for mass adoption within the sector.</td>
</tr>
<tr>
<td>Collaborative Industry Projects (CIP)</td>
<td>The Customer-Centric Initiative (CCI) aims to encourage companies to be committed to service excellence and to take the lead in raising service standards in their industry. Led by SPRING, the National Trades Union Congress, the Singapore Workforce Development Agency, the Singapore Tourism Board and the Institute of Service Excellence at SMU, the CCI offers an assistance package to assist Singapore-based companies in upgrading service standards. The CCI assistance package covers up to 70% of eligible costs for SMEs and up to 50% for non-SMEs.</td>
</tr>
<tr>
<td>Customer-Centric Initiative (CCI)</td>
<td>The Excellent Service Award or EXSA is a national award that recognises individuals who have delivered quality service. It seeks to develop service models for staff to emulate, and to create service champions.</td>
</tr>
<tr>
<td>Excellent Service Award (EXSA)</td>
<td>This S$5,000 voucher now allows SMEs to pay for services in three more areas — Productivity, Human Resources and Financial Management. The aim is to encourage SMEs to start upgrading in these areas to enhance their capabilities.</td>
</tr>
<tr>
<td>Innovation &amp; Capability Voucher (ICV)</td>
<td>BrandPact supports industry branding efforts and adopts a cluster development approach by leveraging on industry branding efforts. The different Government agencies work closely with the business associations on industry-wide brand projects, or brand research efforts that are useful to enterprises for branding themselves to reach out to new markets.</td>
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continued on next page
Landlords also can play a role in keeping the scene alive and vibrant.

### PRODUCTIVITY PROGRAMMES OFFERED BY SPRING SINGAPORE

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<tr>
<td>Part-Time Pool Programme (PTP)</td>
<td>To encourage more companies to adopt flexible staffing models and integrate part-timers into their workforce, SPRING Singapore launched the Part-time Pool Programme. Appointed service providers will recruit and deploy a pool of trained part-timers for companies to tap into.</td>
</tr>
<tr>
<td>Local Enterprise and Association Development Programme (LEAD) with The Restaurant Association of Singapore (RAS) – For Food and Beverage Industry only</td>
<td>RAS’s proposal focuses on three key strategies to further strengthen the industry, namely: • Build a skilled and professional workforce • Resource/Research Intelligence • Capability Development</td>
</tr>
</tbody>
</table>

Note: The above list is non-exhaustive.


#### LANDLORDS CAN HELP TOO

While retail landlords will make every effort to maximise the income-producing areas within malls, shaping and cutting up net lettable space in order to obtain the highest and best yields, there is nevertheless still merit in ensuring the medium- to long-term sustainability and growth of their tenants. Therefore, the onus to improve productivity and create a progressive, thriving and sustainable shopping and dining environment in Singapore amid the present difficulties, should not be carried only by retailers, F&B operators and the Government. Landlords also can play a role in keeping the scene alive and vibrant.

Traditionally, landlords of shopping malls help retailers and F&B outlets to survive a competitive environment by providing advertising and promotional coverage through publicity. This often includes the use of the mall’s website, and with today’s technologically savvy shopper, the use of mobile applications that inform and offer shoppers/diners of promotions as well as product offerings. Some landlords take the promotional effort one step further by collaborating with their tenants, and organising consultations to assist their tenants to design and develop more attractive shop-fronts to attract the shopper traffic into their stores once the mall’s management has succeeded in bringing in the crowd.

The Singapore Government has always offered companies that are new to Singapore and industries that the Government plans to promote strategically, a form of “pioneer status” that includes tax concessions and other incentives. On a smaller scale, perhaps landlords can also consider a modified version of “pioneer status” within their malls.

Shop and eatery chains or brands that are new to Singapore, offering a variety of products and
... retailers, F&B operators, landlords and Government productivity agencies can take the opportunity to incorporate the use of technology and ingenuity to raise productivity.

cuisines that are not-yet-common locally might be offered reasonable rent discounts or an extended rent holiday in which to find their footing in a new trading environment. This would not only allow new players a better chance to establish a foothold, but would also provide landlords with avenues to maintain and manage the overall retail concept, tenant mix and mall’s public image over time. In Singapore’s retail market, this method of incentivising targeted retail and F&B brands is usually reserved for renowned international names that would add to a mall’s traffic pull. The mall’s management could perhaps extend such incentives by evaluating businesses that introduce new and innovative concepts, products and services to the mall, granting a similar boon to select entrepreneurs.

It is also possible that landlords of Orchard Road and suburban malls might consider centralising building systems such as waste management and disposal, and automated central washing facilities for the benefit of tenants, particularly F&B outlets. For an incorporated service charge, instead of F&B outlets having to manage the cost of their waste individually, landlords could help lower such costs through economies of scale and cost by centrally contracting to manage the waste and washing for tenants.

**EPILOGUE**

The trading conditions in the retail sector are likely to get worse before they get better during this period when growth and expansion will be checked by the availability of manpower and suitable operating space. Despite this, retailers, F&B operators, landlords and Government productivity agencies can take the opportunity to incorporate the use of technology and ingenuity to raise productivity. While the problems, difficulties and challenges of labour, occupation costs and acute competition will not disappear any time soon, a concerted effort to mitigate these challenges would lead an enhanced and stronger retail and F&B sector once this period of difficulty has passed.

Often criticised for a lack of entrepreneurial spirit, Singaporeans now seem to embrace the romance of the untried and of venturing into the retail and F&B scene. After all, to set up a shop, a store in a suitable location, some manpower and a supplier is probably all that is minimally needed. To start an eatery is more complicated, though, and more planning for manpower, equipment and a suitable location is required. And while it is encouraging that Singapore is going through a retail renaissance of sorts, as many lawyers, bankers and other former professionals give up their day jobs to open a store or to start a restaurant, some measure of caution should be heeded.
It is a jungle in the retail and F&B sectors now. Only the fittest will survive the competition, labour problems and rising costs. And to tackle all of these and still achieve basic productivity and service standards, operational and managerial savvy and experience is needed. Becoming a retail and F&B entrepreneur in today’s market is definitely not for the squeamish.

1 The Business Times, 26 June 2012.