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FUTURE EXPANSION POSSIBILITIES FOR US DOGGIE BAKERY IN SINGAPORE¹

What can Sim do for the future of US Doggie Bakery?

US (Uniquely Singapore) Doggie Bakery was founded in 2004 with the vision of providing nutritious meals for dogs using human-grade ingredients. Having run it for 4 years, the main shareholder and co-founder, Leslie Sim, was at an impasse regarding the future direction of the company. It was founded by Sim and Ms. Ho, one of his friends, and was the first bakery for dogs in Singapore. Sim observed the pressing issue of finding nutritious yet delicious food and snacks in the market for his own dog. Sim used to work with Ms. Ho in the hospitality industry, which exposed him to both Ms. Ho's baking skills and her kindred passion for dogs. Both Sim and Ms. Ho were dog owners and both struggled to find quality treats and food for their pets in Singapore. After several discussions, Sim and Ms. Ho decided to open a bakery shop specifically for dogs. They spent three months curating the menu and looking for the first outlet and another month designing and renovating said outlet. The original US Doggie Bakery was built inside an annex concession outlet in a petrol station on East Coast Road in Singapore. Its business there was successful, and managed to break even in just 10 months.

In 2005, the opportunity to open a second outlet in a shopping mall came as the landlord was looking for a new vendor for its vacant space. US Doggie Bakery was selected to fill that space. Sim was responsible for marketing, revenue management, and hiring and training of staff. Ms. Ho was the head chef in charge of baking, cooking, and the Research & Design of new flavors and menu planning. The shop organized weekly networking activities for dogs and owners as well as loyalty programs to attract regulars. After three years, the third outlet was opened as a franchised business with Mdm. Nelly as the franchisee. In 2008, Ms. Ho resigned, deciding to move overseas to reunite with her family. Meanwhile, Sim was offered an opportunity to venture into a new business field overseas himself. In light of both Ms. Ho's resignation and Sim's job offer the franchisee Mdm. Nelly expressed interest in taking over the whole business. Sim was at a crossroads, heading into uncharted waters. He needed to decide whether he would sell the business, continue running it with a new bakery chef, or appoint someone else to manage it.

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The Pet Market Industry in Singapore

Singapore's birth rate had been in declining in the past decade, Singapore's pet population, however, grew by 5% between 2006 and 2010. This small growth was attributed to the popularity of pets among older people, working couples, and children. The small mammals' population grew at a Compound Annual Growth Rate (CAGR) of 13.1% between 2006 and 2010, while the dog population grew at a CAGR of 1.7% in the same period (Table 1).

Table 1. Singapore Pet Population in Thousands of Animals (Source: "Consumer Trends Pet Food in Singapore," 2013)

Total Pets	2006	2007	2008	2009	2010	CAGR% 2006-2010
Dogs	106	107	108	108	108	1.7
Cats	45	46	46	47	48	6.9
Birds	96	94	92	91	89	-7.4
Fish	438	440	449	457	465	6.2
Small mammals	70	70	73	77	79	13.1

This increase in pet population led to a similar increase in the size of the pet food industry as the retail pet food market had grown at a CAGR of 3.9% over the past five years and had reached a value of US\$72 million by 2012. It was expected to grow at a lesser rate over the coming years to reach a total market size of US\$85.6 million by 2016. At the time, over 80% of pet food sold in Singapore belonged to the dog and cat food sub-category. This sub-category had grown at a CAGR of 4.4%, reaching US\$61 million by 2012, and was expected to reach US\$73.6 million by 2016. There had also been a rise in the volume sales of pet food, although at the slower rate of 2.2%. In particular, this was indicative of a rise in the unit prices of dog and cat food, whereby premium options are well received by consumers and thus have a higher unit price. ("Consumer Trends Pet Food in Singapore," 2013).

Pet food represented one of the fastest growing sectors (Table 2) in the food industry and the growth trend would continue into the next few years with volume and value growth remaining positive albeit smaller than in previous years (Dog Food in Singapore, 2017).

Table 2. Singapore Pet Food by Type, Retail Market Sizes in Millions of U.S. Dollars (Source: "Consumer Trends Pet Food in Singapore," 2013)

Category	2007	2008	2009	2010	2011	2012	2013	2016
Pet food	60.0	62.0	64.1	66.5	69.6	72.6	75.9	85.6
Dog and cat food	49.3	51.1	53.0	55.3	58.3	61.2	64.5	73.6
Other pet food	10.7	10.9	11.1	11.2	11.3	11.3	11.4	12.0

Pet Humanization Trend

Due to changing lifestyles, increases in single-person families, and decreasing birth rates, many pets had been promoted to the status of family members and companions rather than mere animals. The number one pet in Singapore was fish with over 456,000 population in 2010. Dogs were the second most popular, with a total population of 108,000 in 2010. Since homes were generally small in Singapore at the time, small breeds were the most popular types of dogs.

The rising popularity of dogs was largely seen as a result of their growing reputation as companionable animals. People, especially unmarried couples, saw them as members of the family (Chia, 2016). Factors such as attitudinal change towards pets combined with growing urbanization, and increase in disposable incomes had contributed significantly to the increase in the number of households owning pets, which in turn, drove up the demand for pet foods ("Global Pet Food Market to Reach \$95 Billion by 2017", 2011). As the national economy began to recover from the global recession, Singaporeans were seen to be spending more money on their pets, viz., treating them with higher quality food and accessories.

There had been a value growth of 6% between 2010 and 2011 for dog food, reaching a market size of US\$42million as dog owners continued to seek dog food up to the same standards of ingredient familiarity, sustainability, and nutrition as their own meals. Dog owners were becoming more and more interested in dog food that was prepared readily and convenient to serve. Prepared food with nutrients catering specifically to dogs had become increasingly popular and pet food companies were already responding to this new trend.

The humanization of pets had also shaped the functional benefits of health products, such as pet dietary supplements, which closely mimicked health and wellness trends in human products. This could have been due to consumers' familiarity with human health and wellness products and the perception that analogous products for dogs ought to have been held to a similar standard. Premium dog food was expected to emerge as a popular option for Singaporeans, who perceived it as healthier alternative to lower-end pet food. As a result, more companies were offering premium food for dog owners. The pet humanization trend was expected to continue influencing dog food products significantly in the near future.

Homemade treats were also considered to be better than mass-produced commercial treats because they were readily prepared in the kitchen, fresh, and consisted only of human-grade ingredients. Treats and mixers accounted for a minority of the volume of dry dog food. As wet dog food spoiled quickly once opened in hot climate countries like Singapore, consumers preferred to opt for dry dog food over wet dog food.

US Doggie Bakery

The original US Doggie Bakery was opened in 2004 by Sim in the East Coast area of Singapore. The shop was located inside a petrol station. Sim owned dogs and wanted to find fresh baked products to feed them with. He partnered with Ms. Ho who was a baker and owner of three dogs. Since they could not find quality fresh dog food in the market, they decided to launch a bakery which catered specifically to dogs. The name US Doggie Bakery (Figure 1) was selected. US, in this case, did not stand for United States but rather "Uniquely Singapore" which, at that time, coincided perfectly with the slogan adopted by the Singapore Tourism Board's marketing campaign.



Figure 1. The US Doggie Bakery Logo

The East Coast shop was 1100 sq. ft. and was adjoined to two other shops in the complex. It had free parking slots for customers, and was visible to all drivers coming into the petrol station. The neighborhood was surrounded by landed houses, private condominiums, and apartments from The Housing and Development Board (HDB). It had good visibility from the main roadway. The monthly rent was approximately SGD3,500 including utilities.

The initial capital was SGD41,000 with SGD40,000 from Sim and SGD1,000 from Ms. Ho. The spending on decoration and equipment was kept to a minimum by sourcing mostly pre-owned and hand-made items. The overall cost in the initial set up of the location was SGD23,000. The bakery reached the break-even point in the third quarter of 2005. From then till 2008, the business had been profitable every month with an ROI (Return on Investment) of over 6% (Exhibit 1).

There are certain foods dogs cannot handle, such as walnuts, avocado, grape and sugar. Ms. Ho was in charge of creating recipes with appropriate ingredients for dogs. Only high-quality ingredients were used and eventually all products could be consumed by humans (granted, they wouldn't taste very good.) Sim was in charge of sales, marketing, and the managing, hiring and training of staff.

US Doggie Bakery obtained the TrustSg* certification, an accreditation scheme to identify and accredit organizations and businesses that met the stringent e-commerce standards set by the National Trust Council of Singapore. US Doggie Bakery even applied for the Agri-Food and Veterinary Authority (AVA)* license, typically given to farmers and food manufacturers. Surprisingly, in that period of time, the AVA in Singapore had never granted license in the category of dog's food. Upon several studies by AVA, US Doggie Bakery was the first shop to be awarded the certification for pet food manufacturer in Singapore.

The shop was running with Ms. Ho, two full-timers, and a few part-timers. They organized many marketing and promotional events to attract and retain customers. For example, since 2004, the shop had regularly sponsored the National Dog Walk organized by The Straits Times, a newspaper agency in Singapore. In addition, the shop would regularly run customer night events for associated members from 7pm to 10pm, wherein customers could bring their dogs for competitions such as the longest tail and the loudest bark. After the event, the shop would host a special sale with discounts up to 50% with an additional 10% for members.

At the end of every quarter, the shop organized a “Midnight Madness” sale for members and accepted on the spot free membership to drive sales even further. As a prelude to the midnight sale, they held theme nights, catered events for owners to Show-off their dogs and take part in competitions and games. US Doggie Bakery also sponsored events like the National Dog Walk and SPH pet events. They even took in interns from Temasek Polytechnic when TP students heard about its unique concept.

Almost everyone working in the shop was a pet lover or owned a dog. Employees were allowed to bring their dogs to the shop. Whenever a new movie with a dog-related theme came out, Sim would invite the whole team to go and watch it.

All products were freshly made and sealed to last for up to four days following the bakery expiration date. New packaging was introduced for better visibility and attractiveness. Cookies were packed in a bag with small transparent windows for people to see the product inside. All packaging used recycled materials and only paper bags. A new policy was also put into practice wherein customers could get free delivery with purchases over SGD \$25. US Doggie Bakery had also introduced “Tingkat” meals for dog food. TingKat was the concept of “tin containers” of freshly produced food delivered to your doorstep every day at a set time (Figure 2).



Figure 2. US Doggie Bakery Cookies

In 2005, US Doggie Bakery opened a new outlet in a supermarket at Compass Point and that shop reached the break-even point in the first month (Exhibit 2). In 2006, the third shop was launched in Bukit Timah with Mdm. Nelly as franchisee, a retired teacher and dog lover who showed interest in working with the brand (Figure 3). This shop likewise managed to turn a steady profit (Exhibit 3).



Figure 3. US Doggie Bakery Shop in a Shopping Mall in Singapore

The Decision

In 2008, Sim was managing three shops, two directly and one franchised. The business was profitable and running without direct competitors. However, a new challenge came when his business partner Ms. Ho decided to reunite with family members in the United States. At around the same time Sim's previous employer offered him an opportunity to go to Indonesia to explore new business opportunities. Mdm. Nelly, the franchisee showed interest in expanding US Doggie Bakery and had potential to open more shops. Sim now had to decide whether he would keep the business by hiring a new chef or sell part or the whole of the business to Mdm. Nelly. There was no pressing need for Sim to cash out the investment, but he was concerned about managing the business from a distance if he had the opportunity to stay longer overseas. There were advantages and disadvantages on each of these options. What would you do if you were in the Sim's position?

Additional Information

TrustSG and AVA Certification

TrustSg was an initiative by the National Trust Council (NTC), an industry supported by Infocomm Development Authority of Singapore (IDA), formed with the mission to build confidence amongst businesses and consumers to spur e-commerce growth in Singapore ("CaseTrust | Webfront (E-Commerce) - Be Sure", 2017).

TrustSg was a program that provided international prestige and credibility for businesses to help build their reputation as trustworthy merchants. It was an approved certification scheme to identify and accredit organizations such as trade associations, chambers or businesses whose members were bound by an online Code of Practice to promote good business practices. The TrustSg seal was awarded by the Authorized Code Owners (AOC) to online merchants that utilized good e-business practices. ("CommerceNet Singapore (CNSG) -", 2017)

Agri-Food and Veterinary Authority (AVA) was the regulatory agency that safeguarded animal welfare in Singapore. All local commercial producers of animal feed needed to get a license from AVA to

manufacture and process animal feed. This included businesses that produced dog biscuits, pastries or confectionary items for sale at retail outlets ("Animal Feed | AVA", 2017).

Merchants applying for TrustSg would have to pass the following stringent criteria:

1. Sufficient information about goods and services was available to help make informed decisions;
2. Ensured that personal data would be secured and protected;
3. Ensured that payment would be handled in a secure manner;
4. Ensured that purchases would be delivered in a safe and punctual manner;
5. Cancellation and refund policies were clearly stated; and
6. Promptly addressed complaints.

Once all the AVA regulations were met, the product had to be labelled properly. The packaging of all pet food was to be clearly labelled in English with the following information: The list of ingredients used in the pet food; the date of manufacture of the pet food and expiration date; the species of animal for which the pet food was intended; and the name and address of the importer.

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Biography



Dr Kuan-Huei Lee is an Associate Professor at Singapore Institute of Technology, graduated from The University of Queensland, PhD in Tourism Management and holds a MBA from University of Illinois at Urbana-Champaign. She accumulated many years of industry experience in hospitality businesses. Her research interest includes food tourism, food service management and cross-cultural studies of tourists.



Dr Jawn Tze-hin Lim is an Assistant Professor at Singapore Institute of Technology, graduated from Harvard University with a Doctor in Design and holds an Advance Certificate for Executives in Management, Innovation & Technology from the Massachusetts Institute of Technology. His research interest includes strategy, business innovation, service design & smart technology.

Exhibit 1: Financial Statements of US Doggie Bakery in East Coast Shop

2005(SGD)					
	1stQtr	2ndQtr	3rdQtr	4thQtr	TOTAL
Revenue	18,000	21,000	30,000	31,000	100,000
Rent	10,593	10,593	10,593	10,593	42,372
Labour	10,000	10,000	10,000	11,000	41,000
FoodCost	4,500	5,250	7,500	7,750	25,000
GP	(7,093)	(4,843)	1,907	1,657	(8,372)

2006(SGD)					
	1stQtr	2ndQtr	3rdQtr	4thQtr	TOTAL
Revenue	36,000	35,000	36,000	42,000	149,000
Rent	10,593	10,593	10,593	10,593	42,372
Labour	10,000	10,000	10,000	11,000	41,000
FoodCost	9,000	8,750	9,000	10,500	37,250
GP	6,407	5,657	6,407	9,907	28,378

2007(SGD)					
	1stQtr	2ndQtr	3rdQtr	4thQtr	TOTAL
Revenue	37,000	36,000	41,000	39,000	153,000
Rent	10,593	10,593	10,593	10,593	42,372
Labour	10,000	10,000	10,000	11,000	41,000
FoodCost	9,250	9,000	10,250	9,750	38,250
GP	7,157	6,407	10,157	7,657	31,378

2008(SGD)					
	1stQtr	2ndQtr	3rdQtr	4thQtr	TOTAL
Revenue	38,000	36,000	41,000	39,000	154,000
Rent	10,593	10,593	10,593	10,593	42,372
Labour	10,000	10,000	10,000	11,000	41,000
FoodCost	9,500	9,000	10,250	9,750	38,500
GP	7,907	6,407	10,157	7,657	32,128

Exhibit 2: Financial Statements of US Doggie Bakery in Compass Point Shop

2005(SGD)					
	1stQtr	2ndQtr	3rdQtr	4thQtr	TOTAL
Revenue			25,000	28,000	53,000
Rent			2,500	2,800	5,300
Labour			4,000	4,000	8,000
FoodCost			6,250	7,000	13,250
GrossProfit			12,250	14,200	26,450

2006(SGD)					
	1stQtr	2ndQtr	3rdQtr	4thQtr	TOTAL
Revenue	28,000	29,000	30,000	32,000	119,000
Rent	2,800	2,900	3,000	3,200	11,900
Labour	8	4,200	4,200	4,200	12,608
FoodCost	7,000	7,250	7,500	8,000	29,750
GrossProfit	18,192	14,650	15,300	16,600	64,742

2007(SGD)					
	1stQtr	2ndQtr	3rdQtr	4thQtr	TOTAL
Revenue	32,000	31,000	33,000	34,000	130,000
Rent	3,200	3,100	3,300	3,400	13,000
Labour	4,300	4,300	4,300	4,300	17,200
FoodCost	8,000	7,750	8,250	8,500	32,500
GrossProfit	16,500	15,850	17,150	17,800	67,300

2008(SGD)					
	1stQtr	2ndQtr	3rdQtr	4thQtr	TOTAL
Revenue	30,000	30,500	33,000	34,000	127,500
Rent	3,000	3,050	3,300	3,400	12,750
Labour	4,300	4,300	4,300	4,300	17,200
FoodCost	7,500	7,625	8,250	8,500	31,875
GrossProfit	15,200	15,525	17,150	17,800	65,675

Exhibit 3: Financial Statements of US Doggie Bakery in Bukit Timah Shop

2006 (SGD)					
	1stQtr	2ndQtr	3rdQtr	4thQtr	TOTAL
Revenue			28,000	32,000	60,000
Rent			3,500	3,500	3,500
Labour			8,800	10,000	18,800
Food Cost			7,000	8,000	15,000
					-
Gross Profit			8,700	10,500	19,200

2007 (SGD)					
	1stQtr	2ndQtr	3rdQtr	4thQtr	TOTAL
Revenue	36,000	40,000	42,000	44,000	162,000
Rent	3,500	3,500	3,500	3,500	14,000
Labour	11,000	11,000	11,000	11,000	44,000
Food Cost	9,000	10,000	10,500	11,000	40,500
					-
Gross Profit	12,500	15,500	17,000	18,500	63,500

2008 (SGD)					
	1stQtr	2ndQtr	3rdQtr	4thQtr	TOTAL
Revenue	44,000	43,000	46,000	45,000	178,000
Rent	3,500	3,500	3,500	3,500	14,000
Labour	11,000	11,000	11,000	11,000	44,000
Food Cost	11,000	10,750	11,500	11,250	44,500
					-
Gross Profit	18,500	17,750	20,000	19,250	75,500
