Report on

FJ BENJAMIN

By: Team EMBAUER

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I. INTRODUCTION

F J Benjamin is one of Asia Pacific’s leading retailers and distributors of international brand names in the fashion and lifestyle sector. It has a proud heritage of close to half a century and a solid foundation on which it continue to nurture and build its reputation in brand management and marketing expertise.

A. Company Overview

FJ Benjamin Holdings Ltd. is a Singapore-based company. The Company is engaged in investment holding and the provision of management services to its subsidiaries. It has launched 14 Gap and Banana Republic stores in Singapore, Malaysia and Indonesia. The subsidiaries are primarily importers, exporters, licensees, distributors and retailers of consumer fashion wear and accessories, home furnishings and timepieces. The Company operates in businesses that include fashion retailing, timepiece distribution, and creative and licensing. In March 2007, it acquired seven Celine stores in Singapore, Malaysia, Indonesia and Thailand from the French luxury Group LVMH Moet Hennessy Louis Vuitton. Its subsidiaries include Benmark (Pte) Ltd, F J Benjamin (Indochina) Pte Ltd and F J Benjamin Concepts Pte Ltd

1. Company Mission:

“We will capitalize on the vast experience that we have accumulated over the years in the fashion and lifestyle business to build and position each brand under our care to be the market leader. In the best interest of the Group, our principals and our shareholders, we will ensure consistent growth and profitability of these businesses. We aim to distinctively stand out as the expert in brand management, image building, licensing and the development of in-house labels, which we
intend to market globally”[1].

2. **Corporate Statements:**

   “*Our products* cut across a spectrum of ready-to-wear / accessories, which include high fashion, lifestyle collections, children’s clothing, home / fashion accessories and timepieces. We represent international brands through exclusive retail and distribution agreements, licensed Original Design Manufacturing (ODM), licensing agreements, joint venture partnerships and outsourced manufacturing of in-house labels.”[1]

   “*Our network* of retail and distribution channels keeps us close to where our customers are in the major hubs of the Asia Pacific region. We operate more than 40 owned retail outlets and 44 franchise stores in the region, which include Indonesia and Thailand. In addition, we also distribute our products to third party retailers and duty-free operators.”[1]

   “*Our partnerships* with reputable and respected industry players have grown from strength to strength as we have earned their trust and confidence. Our understanding of our customers’ needs enables us to respond to fast changing trends.”[1]

   “*Our focus* is on improving our performance in brand management where we enjoy a strong, proven track record, and seeking opportunities in non-core businesses with partners that have strong synergy with our core businesses, ensuring that we add value to our customers and shareholders.”[1]

   “*Our people* comprise strong and experienced management who have been tested through economic downturns, and teams who are dedicated and passionate about
their work. We take a proactive and creative approach in delivering an unrivalled quality of service to our customers.” [1]

B. History

Frank Benjamin founded F J Benjamin in 1959 as a trader of paper, consumer novelties and photographic equipment. Later, the company ventured into the fashion business, which would ultimately transform the group into Singapore’s fashion retailing and distribution leader. F J Benjamin was granted exclusive rights to distribute Lanvin accessories in Singapore, Malaysia and Indonesia in 1975. This marked the beginning of a series of distribution agreements with global luxury brands such as Gucci and Fendi. Refer to the Achievements list in appendix.

C. Key Statistics & Ratios

1st quarter result for FY08.

Key highlights:

- Revenue and net profit growth 43% and 33% [5]
- Gross margin increased from 37% to 42% [5]
- Rental cost jumped 96% with new store opening [5]

(Refer to the Table 1 in appendix)

II. BUSINESS STRATEGY

A. Product List

Today, F J Benjamin holds the rights to retail and distribute the around 20 brands.

Refer to the Table 2 in appendix.

B. Business model
Fashion business is its core earnings driver. F J Benjamin has four business segments: ongoing retail, distribution, export and others. Ongoing retail refers to sales at retail outlets, distribution refers to timepiece distribution (including North Asia) and export refers mainly to sales to its JV Company in Indonesia. Others used to include sales from Manchester United outlets but these have since been discontinued. In FY06, ongoing retail accounted for 36% of its revenue while timepiece distribution and exports accounted for 43% and 20%, respectively (Fig 1, Fig 2 & Fig 3 in appendix).

Going forward, we expect the fashion business (including exports, which mainly consist of sales to Indonesian associates) to grow at 54% CAGR over FY07-09, boosted by organic growth of existing brands and new store openings (Gap and Banana Republic). We expect the fashion business to account for 75% of total revenue by FY08 [4].

1. **Target Consumers**

   FJ Benjamin focuses on upper-middle class and upper-class, tourist as well as locals. “We believe that as consumers grow wealthier, they are more likely to spend on higher-end discretionary products like luxury items and high-quality apparel.” [4]

2. **Strategy**

   F J Benjamin does not pay franchise fees to its brand principals. Instead, it buys inventory from these principals and is responsible for store fit-out, as well as advertising and promotional costs. Group gross margins in FY06 were 41.7%. Going forward, we see the potential for margins widening on higher contributions from the fashion retail business, which is more profitable than timepiece
distribution. Consumer preferences and tastes in Asia change fast, as consumers are increasingly exposed to international brands via the Internet and other media, and new trends. In the fashion retail business, it is important for FJ Benjamin to keep up with these changing trends. Hence, it has to do careful research before signing franchise agreements, which generally last for a number of years. FJ Benjamin mitigates this risk by diversifying its brand portfolio and looking out for new brands constantly [4].

3. Competition

FJ Benjamin expects more entrants competing in the apparel segment. FJ Benjamin’s portfolio consist mainly American brands. Competition is likely to come from European brands such as Zara and Massimo Dutti, which are affordably priced and popular in Asia [4].

4. Vulnerable to economic downturns

FJ Benjamin caters to discretionary spending in Asia. The profitability of discretionary-consumption companies tends to be influenced by economic cycles. In the event of an economic downturn in Asia, FJ Benjamin’s profitability would be affected [4].

5. Going Forward

FJ Benjamin intends to open 15 Gap, Baby Gap and Gap kids stores in Jakarta, Surabaya, Bandung and Bali by 2011 and five Banana Republic stores in Jakarta and Surabaya by 2011. This is in addition to the 30 Gap and Banana Republic stores planned for Singapore and Malaysia by 2010 [4]. They believe that growth in consumption spending in Singapore and the rest of
South East-Asia will continue. They believe that the Singapore market has the greater growth potential for several reasons. First, they expect consumption spending to rise with the completion of the Integrated Resorts, which will open in 2009. Second, Singapore’s retail industry is as saturated or mature as that of Hong Kong. As a result, new brands would have an easier time penetrating the market. With growing disposable incomes and increasing demand for luxury and lifestyle products from consumers in South-East Asia and North Asia, Benjamin believes it is an opportune time to expand its brand portfolio and stores. Also, capturing the demand from Chinese population with the easing of Chinese travel regulations, they believe the number of mainland Chinese traveling to South-East Asia and Australia will rise exponentially over the next few years. There remain substantial differences in the prices of luxury goods sold domestically and overseas, arising from differing consumption taxes, VAT and import tariffs. Thus, F J Benjamin expects mainland Chinese to continue to buy luxury goods overseas. According to the World Tourism organization forecast, China will become the fourth-biggest tourism source country by 2020, with outbound tourist reaching 100m annually [4].

Thailand is a relatively new market for F J Benjamin and although there are concerns over business growth in the current environment, F J Benjamin’s expectations for Thailand contributions are small at the moment. Also, in a recent report on Thailand’s retail sector dated 15 June 07, their colleagues highlighted the positive fundamentals of the retailing industry in Thailand, supported by demographics, rising long-term wealth and rapid urbanization. This is despite
current regulatory uncertainties, political turmoil and dented consumer confidence. F J Benjamin believes a turnaround in Thailand can produce future growth opportunities for the company [4].

In FY06 F J Benjamin operated 90 stores. It aims to expand by 48% to 133 stores by end-FY07. They expect the group to expand by another 25-30% in FY08-09. They also expect average store size to increase by 28% in FY07, mainly due to Gap’s larger store format. Based on the retail network and average store size assumptions, they forecast that retail floor spaces will more than triple by FY09 [4].

III. IMPACT OF CULTURE

A. Corporate Code of Ethics

The ethics of Singaporeans is one of honesty both inside and outside the company. This is not too different when it comes to the culture of F J Benjamin. F J Benjamin has a detailed Code of Ethics, and as with most Asian cultures, it is expected that it be adhered to explicitly. Identified within will be just a few of the key points. For example, their Values are specific. F J Benjamin expects their employees to respect their position, act professionally and self-motivate to aspire to a higher state of learning. They expect the employee will have a sense of pride in the product/brand so as to improve market share for the company, which in turn creates a higher standard of quality and brand image vis-à-vis integrity and commitment. (FJ Benjamin, Code of Ethics.)[2]

The Employment Practices of F J Benjamin is similar to that of the Western culture, which is predominantly a performance based reward system. Their desire is to ensure
strong performance, the development of new skills and proper training. Workers in Singapore are very hard working; they have come to understand the relationship that hard work will be rewarded in higher pay and compensation. In general they take pride in their work and will put in whatever hours required to meet the deadline even if it means working overtime, voluntarily. FJ Benjamin recognizes the hard work of its employees and also understands the culture of Singaporeans as it relates to associating hard work with rewards. FJ Benjamin “provides an open and challenging work environment for its employees and encourages staff participation. They have adopted a results and performance based reward system, not an across the board increment or bonus payment system. “Because FJ Benjamin has associated rewards with skill sets, they make an effort to invest in the right training for its employees to increase productivity through learning new skills” [1].” The Singapore government provides extensive support for employee training and most companies, including FJ Benjamin, emphasize its importance. Most companies in Singapore employees are required to take a minimum number of training hours annually. Course selections are wide ranging from courses in technical skills, to management development, to English as a second language. In addition, employees are encouraged to take numerous off-site courses for which they are reimbursed by the government. (Culture Quest, Management Practices) [3].

The open door policy of communication is offered at FJ Benjamin. They publish a quarterly magazine, Chatline, for employees to present questions and/or post business or corporate information; the magazine also provides employees with important business and corporate updates. Annually they provide a two-way appraisal system at
which both the employee and the supervisor have the opportunity to exchange viewpoints. In addition, they maintain the corporate handbook electronically so all employees have access to it at all times. Again, just like the Western culture, F J Benjamin is an Equal Opportunity Employer. They only take into consideration the job qualifications into account when considering a person for a position, and all employee data is held in strictest confidence and the highest level of health and safety are ensured to each and every employee. [2]

The Responsibilities to the Community is important, although it may seem to be insignificant, can impact a culture. Specifically, what is the company’s ethical standing? F J Benjamin supports good causes, both charitable and non-profit. Their goal is to strengthen the community where their employees reside and where they work. Additionally, on a corporate level, F J Benjamin is fully committed to eliminate or at least minimizing the impact on any type of environmental business activities [1]. These statements are heard by many.

B. Local Culture vs. FJ Benjamin Culture

As mentioned above, F J Benjamin has a very detailed and strict code of ethics with which they expect their employees to adhere. This is in line with the local culture of that of most businesses in Singapore. Their work ethic is very regimented and strong. Corporately, F J Benjamin expects the highest quality standards, pursue to motivate, learn and compete in their environment through professionalism, commitment and sound business practices [2]. They promote fair and open competition and focus on developing long-term relationships with supplies and contractors. Again, along with the culture of Singapore, Singaporeans tend to be kind
and courteous, reserved and modest. Accomplishments are seen as enormously important, and competition to excel is fierce. Historically, employees are comfortable alone and on defined job activities. With some coaching and training from expatriates, Singaporeans are learning to do knowledge transfer to subordinates and co-workers, as well as some delegation and cross training. Their work ethic is "Good, better best, Never let it rest till your good is better and your better best [3]."

C. Impact of FJ Benjamin on the Local Culture

As we have already discussed, FJ Benjamin has had a profound impact across Asia. With its central headquarters located here in Singapore, which was just recently relocated to a new office building at 10 Science Park Road, #04-01, The Alpha, Science Park II, Singapore 117684, they have become the leader in distributing the Westernized brand building icons into their culture. Prior to FJ Benjamin, brand name products of the Western world were not as predominantly available and/or accessible to the Asian community. For nearly 30 years now FJ Benjamin and their various subsidiaries have continued to influence the culture by providing the community with not just Westernized fashion trends but through the expansion of their own house labels, RAOUL and Paint 8, as well as nightlife entertainment with St James Power Station and other night club venues [1].

What FJ Benjamin has brought to the community has been well received and FJ Benjamin is responding in kind by opening new locations across Asia. Just in August, 2007 Nash Benjamin presented his 2008 projections where he anticipated opening 18 Guess, 7 Gap, 5 Banana Republic, 11 LaSenza, 6 RAOUL, 2 Celine, and 23 Timepiece stores. This not only affects the culture of the Asian community, but it
also strengthens and increases brand awareness and establishes a definite market share for FJ Benjamin as the leader in the industry.

1. **Entertainment Industry:**

F J Benjamin has penetrated the South Asian style and fashion market using several different strategies. Their presence in lifestyle entertainment, trendy US labels, and popular sport franchises like Manchester United complement their style and fashion brands. F J Benjamin has fed Singapore’s thirst for consumption and materialistic needs by supplying Western styled goods, penetrating even the lower income consumers. The night scene is as good in Singapore as in anywhere in the world. FJ Benjamin has several holdings that bring in great revenues. Their entertainment investments include many clubs and bars, but their major holdings include Devils Bar and St. James Power Station (SJPS).

F J Benjamin has used Devils Bar and SJPS to tap into the “ready audience” for their latest fashion collections of its fashion labels through fashion shows in some of the clubs. This enhances greater brand awareness for its fashion labels, creating potential sales revenue for its retail businesses. Based on the nature of the night club operation, we believe that both Devils Bar and SJPS are capable of providing a consistent flow of cash to fund the high working capital requirement of its extensive retail network and aggressive expansion plans.

### IV. MANAGEMENT

#### A. Management Style

F J Benjamin follows the Singapore-style of organization. It has a hierarchy, but a flattened one. This organizational style gives managers more direct reports than a
taller hierarchy that has more middle management. In fact, the recent economic downturn has caused many companies to downsize and eliminate middle management, thereby creating the flattened organization. The plus side of this structure is that the subordinates respect their managers as compared to managers here in the US. Usually, this functional style will create rigid job structures where employees just work on their specific task. This has changed. Now multifunctional teams formed have been to complete projects. Employees are encouraged to be creative and provide opinions. These brainstorming sessions are known to be effective, according to directors. When dealing with employees or management who are from other cultures, such as the United States, Singaporeans are learning to share their knowledge of tasks and to delegate and cross-train. They are also learning to think more creatively “out of the box”.

As far as managing branches outside the home country (Fig 4 in appendix), those offices tend to follow the same culture as the home office. Fortunately for FJ Benjamin, their outside offices are within the Pacific rim area, from China, down to Australia.

Negotiating is different in Singapore than in the United States. Singaporeans will not try to bully them, but will likely compromise to find a win-win decision.

B. Management Issues

Singapore has been a colony for most of its existence. This meant little or no decision making for the Singaporean managers. Their directions came from their foreign bosses. Also, the government had a very autocratic style. Today, local managers and supervisors still need to learn to assume responsibility for their positions. The
younger generation, among many other Singaporeans have an appreciation for critical thinking, the entrepreneurial spirit, and relatively greater level of risk taking, unlike their parents. Within the companies, younger employees are willing to learn these new analytical and project management skills, but they may not have acquired them before you arrive. Most workers tend to be young college graduates with little or no experience. Managers then have to micro-manage these employees for the first year or two until they are up to speed on their job [3].

Another issue facing management is job-hopping when unemployment is low. If an employee is unhappy and there are plenty of jobs available elsewhere, then they will quickly pack their bags and go to another company [3].

Another issue facing management is relocation of employees. Although Singaporeans are used to working with professionals from other countries, they are reluctant to transfer to anywhere else but China. Singaporean companies have made large investments in China over the past few years, and since many Singaporeans speak the same language as their Chinese ancestors, moving to China is a safer move than anywhere else. However, China job availability is declining, so locals are more willing to relocate, but only for short-term positions [3].

On the reverse side, some specialized technological fields, like electronics and biomedical engineering, appear to be in high demand as there are not enough locals for these positions. The Singaporean government is working to resolve this problem by increasing the number of schools that offer technical and engineering degrees. The government is also granting work permits for those foreigners who have the skills for these jobs. Fortunately, administrative personnel are in an ample supply [3].
V. CONCLUSION

Question 1: In one of the interviews of Nash Benjamin, he mentioned United States is a tough market to enter. What makes US markets different from Asian markets? What would be the strategy of FJ Benjamin to enter into US markets.

Question 2: FJ Benjamin has its business spread in different parts of the world, from South Asian counties to Australia to Middle East (UAE). How FJ Benjamin as a company, is managing the cultural difference within these countries. Also as we understand fashion is always different in different countries. FJ Benjamin being a fashion company and present in multiple countries how is able to satisfy fashion need of different countries?

Question 3: To own and distribute so many different brands, FJ Benjamin should have a strong distribution model. Can you illustrate on your distribution model? What kind of IT Systems does you company uses to manage your distribution model?
APPENDIX

Achievements[4]
1959  Incorporated by Frank Benjamin
1975  Open first-ever single-brand store in Singapore-Lanvin at the Grand Hyatt
1976  Public listing of FJ Benjamin Holding LTD on Singapore Exchange
1979  Franchise partner of Gucci
1988  Franchise partner of Fendi
1989  Franchise partner of Girard-Perregaux
1990  Franchise partner of Sheridan
1992  Franchise partner of Guess?
1995  Franchise partner of Manchester United
1996  Gucci regains direct controls of Asians operations after 25 years
1997  Launched Devils Bar with Dennis Foo, JV franchise partner of Valentino
1998  FJ Benjamin develops house label, RAOUL and launches in Singapore, Malaysia and Indonesia
1999  FJ Benjamin develops house labels, Inez and Paint8, launches Canadian lingerie label La Senza, and expands relationship with Callanen International to distribute timepieces for Guess?, Marc Ecko, Nautica.
2000  FJ Benjamin develops house label, RAOUL and launches in Singapore, Malaysia and Indonesia
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2002  FJ Benjamin develops house labels, Inez and Paint8, launches Canadian lingerie label La Senza, and expands relationship with Callanen International to distribute timepieces for Guess?, Marc Ecko, Nautica.
2002  FJ Benjamin develops house label, RAOUL and launches in Singapore, Malaysia and Indonesia
2003  FJ Benjamin develops house labels, Inez and Paint8, launches Canadian lingerie label La Senza, and expands relationship with Callanen International to distribute timepieces for Guess?, Marc Ecko, Nautica.
2004  FJ Benjamin develops house label, RAOUL and launches in Singapore, Malaysia and Indonesia
2005  FJ Benjamin develops house label, RAOUL and launches in Singapore, Malaysia and Indonesia
2006  FJ Benjamin develops house label, RAOUL and launches in Singapore, Malaysia and Indonesia
2007  FJ Benjamin develops house label, RAOUL and launches in Singapore, Malaysia and Indonesia

Table 1

<table>
<thead>
<tr>
<th></th>
<th>Quarterly (Dec '07)</th>
<th>Annual -2007</th>
<th>Annual (TTM)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Profit Margin</td>
<td>8.38%</td>
<td>7.90%</td>
<td>6.24%</td>
</tr>
<tr>
<td>Operating Margin</td>
<td>9.73%</td>
<td>9.38%</td>
<td>7.13%</td>
</tr>
<tr>
<td>EBITD Margin</td>
<td>-</td>
<td>11.30%</td>
<td>9.29%</td>
</tr>
<tr>
<td>Return on Average Assets</td>
<td>10.10%</td>
<td>8.67%</td>
<td>7.12%</td>
</tr>
<tr>
<td>Return on Average Equity</td>
<td>15.18%</td>
<td>14.58%</td>
<td>11.98%</td>
</tr>
<tr>
<td>Employees</td>
<td>500</td>
<td>-</td>
<td>-</td>
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</table>

Table 2[4]

<table>
<thead>
<tr>
<th></th>
<th>Luxury labels</th>
<th>Mid-priced lifestyle labels</th>
<th>House labels</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apparel</td>
<td>Celine, Valentino</td>
<td>Gap, GapKids, BabyGap, Banana Republic, Guess, Guess Kids, Baby Guess, La Senza, Marciano</td>
<td>Raoul, Paint8</td>
</tr>
<tr>
<td>Timepieces</td>
<td>Giard-Perregaux, Jean Richard, Bell &amp; Ross</td>
<td>Niké Timing, Nautica watches, Marc Ecko, Guess Collection, Guess, Victorinox Swiss Army</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>Sheridan, Nike, Vision, St. James Power Station</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Figure 5: FY06 revenue breakdown by business

Source: Company, CIMB-GK Research

Turnover by Business Segment
Fig (3)

Turnover by Geographical Segment

Q1 08
- North Asia: $1,828,300, 16%
- Australia: $2,071,000, 18%
- Southeast Asia: $58,841,000, 79%

Q1 07
- North Asia: $1,040,000, 18%
- Australia: $1,850,000, 26%
- Southeast Asia: $45,955,000, 76%
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