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Headline: Singapore's cafe wave not a smooth ride for entrepreneurs

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Lola's Cafe

The Lola's Cafe located in the housing estate of Kovan, Singapore.

Located in the quiet housing estate of Kovan in suburban Singapore, three-year-old Lola's Cafe enjoys bustling business.

The 30-seat café, frequented by families, middle-aged women and young adults, was founded by 28-year-old Foo Choo Kiat and 26-year-old June Tan when they were college students at the Singapore Management University.

Foo and Tan recouped their startup capital of 100,000 Singapore dollars (\$75,720) within 6-8 months and are hoping to replicate the success in their second café outlet launched last year in the south-western residential enclave of Pasir Panjang. On The Table, which required a startup capital of 200,000 Singapore dollars, serves a more extensive menu including handmade ice cream.

The story of Foo and Tan is part of a fast-growing cafe entrepreneurial scene in Singapore, underpinned by the so-called "third wave of coffee movement" or the appreciation of specialty brews, which hit the city-state in 2011. Serving artisanal coffee, the independent boutique cafes garnered immense popularity, even fueling a phenomenon of "cafe-hopping" which industry watchers put down to rising affluence and increasingly sophisticated palettes in Singapore.

However, soaring rents and food costs, alongside labor shortages and stiff competition, have proved to be a tough wakeup call.

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According to figures from Singapore's Accounting and Corporate Regulatory Authority, nearly half of the 369 cafes that opened shop in 2011 have since pulled down the shutters. Of the 391 which registered last year, almost 100 have exited the market.

Experts say many cafe entrepreneurs are not thorough with market research and get caught out by a lack of essential knowledge in kitchen, inventory and cashflow management.

"We opened the cafe because we love cooking and eating, but we realized that while the F&B industry may be an easy industry to enter, staying on and building a long-time career is a challenge. We've met people who enjoy baking and cooking like us, but the business part of things eventually eroded their passion," Tan, co-founder of Lola's Cafe, told CNBC.

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Challenges

A 2014 study by Singapore Productivity Centre (SPC) cites manpower shortages and financial issues as the top two challenges that business owners face.

With a quota on foreign employees and as Singaporeans shun jobs in the services line, cafe owners admit they are going the extra mile to avoid a labor crunch.

At Coffee Daily, a café in the northeast district of Serangoon, part-time employees stay on the job for 8-18 months, but still higher than the average turnover rate of 2 months for the sector. Owner Jared Chan says he goes the extra mile to make employees feel a sense of belonging.

"They are essentially full-time students and part-time workers, which means school has to come first. I would ask for their exam schedules and make arrangements.. to show that the management cares," 27-year-old Chan said.

High rents in space-scarce Singapore have also prompted cafe owners to look beyond hipster enclaves such as Tiong Bahru. Analysts say heartland areas such as Ang Mo Kio, alongside culturally-rich districts like Keong Saik Road, have emerged as start-up hotspots.

"Unfazed by the fact that their shop fronts are not located in the midst of heavily-trafficked pedestrian flows, these new cafes rely on the reach of social media to draw walk-in customers. Some of these alternative retail options provide an uncommon ambience that, over time, can evolve into F&B destinations," Chia Siew Chuin, director of research & advisory at Colliers International, wrote in an email to CNBC. Lower rental costs also render more time for start-ups to test and adjust their businesses, she added.

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Coffee Daily

The "Coffee Daily" cafe located in Singapore's northeast district of Serangoon.

Industry watchers say a rapidly saturated market also means it is essential for establishments to develop their distinct value proposition, but few succeed.

"Some cafes appear to have different concepts, but they are actually in direct competition with fellow cafes that offer similar products or they target the same clientele base," Dr Woon Kin Chung, chief executive officer of Singapore Productivity Centre (SPC), told CNBC.

For four-year-old Group Therapy, regarded as a pioneer in the local cafe scene, the recipe for success stems from crafting a unique menu that caters to different parts of Singapore.

While its first outlet in downtown offers both main dishes and desserts, Group Therapy's second cafe in the eastern suburb of Katong focuses on breakfast and brunch, as "Katong is traditionally a breakfast place," co-founder Deborah Oh explained.

Earlier this year, Oh and her business partner set up a third shop selling handmade ice cream in the nostalgic neighborhood of Balestier.

"We try to make sure at each outlet, we accommodate the crowds. Everywhere we go, we try to make it a little bit different because if we just keep churning out run-of-the-mill franchises, it's kind of boring," the 33-year-old former psychologist said.

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Brewing entrepreneurs

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Market watchers are unsure if the cafe and coffee scene is here to stay, but acknowledge that the boom has helped to fan an entrepreneurial spirit in traditionally risk-averse Singapore. Giving up a stable, full-time job to kick-start your own business is not an attractive proposition for many Singaporeans.

"Despite the challenging operating environment, the entrepreneurial spirit remains strong among the young trying their hand in the F&B business. These young entrepreneurs are more willing to take risks, particularly those who have the financial assurance from friends and family members... as well as those who are willing to test new concepts in a spirit of enterprise," Colliers International's Chia said.

And for those who have found a footing in the industry, the experience gained from running a cafe will serve as a stepping stone to other F&B ventures.

Lola's Cafe for one is looking to serve up casual dining in the future.

"We are definitely looking at how to expand our business, not just cafes but the business as a whole like experiment with different F&B concepts like bistros or stores that only sell drinks and desserts," Tan told CNBC.

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