

# Incubating Merchlions\*



\***merchlion** | noun/mɜːtʃliən/

derived from “merchant” and “Merlion” to refer to Singapore merchants and brands that have become successful icons of the Singapore brand in domestic and international markets.

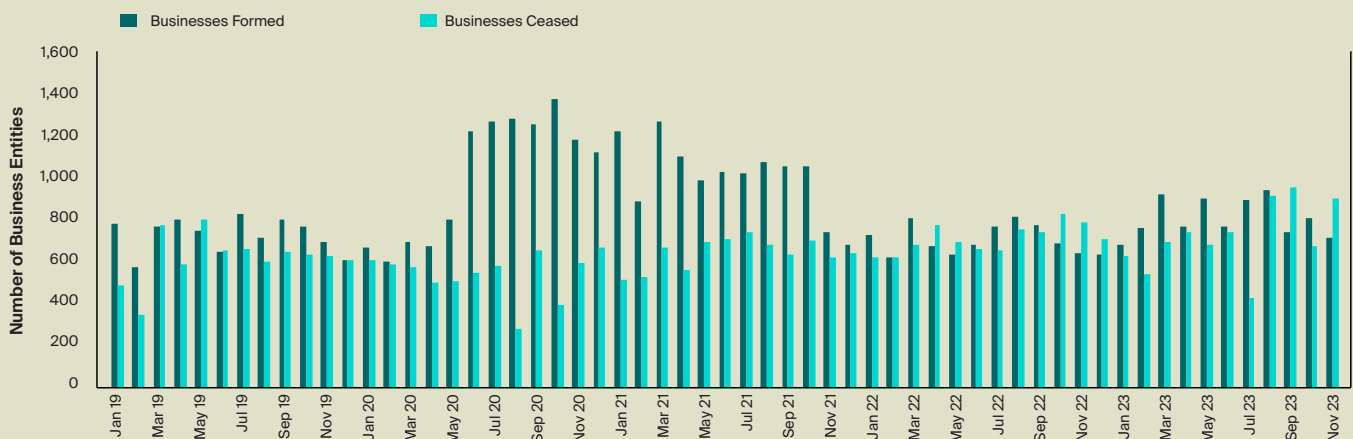
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## COVID-19 PARADOXICALLY INFUSED SINGAPORE WITH RETAIL ENTREPRENEURSHIP

An interesting phenomenon during the COVID-19 pandemic was the sudden spike in local private enterprise in the retail and food and beverage (F&B) sectors. Between 2020 and 2021, there were 23,433 new business registrations and 14,275 business cessations recorded, making for a net increase of 9,158 new start-ups during those two difficult years. And so it is surprising that in the recovery years from 2022 up to November 2023, there were only 17,460 new business set-ups and 16,521 cessations for the retail and F&B trades. In what was supposed to be a period of normalisation, fewer start-ups and more business closures were registered with only a net increase of 939 new retail business formations. Exhibit 1 shows the dramatic surge in new retail entities registered between June 2020 and October 2021, contrasted against fewer start-ups once recovery and normalisation started.

**Exhibit 1: Formation and Cessation of Business Entities (Retail Trade, Food & Beverage Service Sectors)**



Source: Accounting and Corporate Regulatory Authority (ACRA), Knight Frank Research.

In the 1980s and 1990s, it was not uncommon to hear laments about the lack of entrepreneurial spirit among Singaporeans, who appeared to be risk-averse, seeking stability with a full-time job rather than venturing into uncharted territory to start a business. While Singaporeans have largely grown more enterprising since the new millennium, it was ironic that it took a global pandemic to spur the retail sector to that level of entrepreneurship at a time that could arguably be one of its darkest periods. Some attributed this to survival instinct kicking in when conditions turned bleak.



Singapore weathered the COVID-19 pandemic with sound crisis management measures, stable political, socio-economic and legislative structures, good medical infrastructure and a supportive workforce. Additionally, the Singapore government also shared in the burdens of local businesses by providing extensive assistance and support in the form of grants, subsidies and loans. Some of the government support schemes for retail and F&B businesses included the Enterprise Development Grant and Small Business Recovery Grant.

As a result, Singapore managed the crisis well with tough rules that worked in unprecedented times. Sound government policies that were effectively implemented in a volatile and fast-changing environment were appreciated by a populace who were generally co-operative with the continually evolving safe-distancing protocols, masking-up regulations and movement control parameters.



## RISE OF “MERCHLIONS” AND “MERCHCUBS”

With the worst of COVID-19 behind us, the spotlight is now on Singapore, hailed as a shining icon in Asia and the world. The Singapore brand is now associated with a high degree of quality, and consumer recognition and identification have risen to regional, and at times global, levels. Some of these local brands include names such as BreadTalk, Charles & Keith, Janice Wong, Love, Bonito, Old Chang Kee, OSIM, Razer, Secretlab, TWG Tea and Ya Kun Kaya Toast.



These homegrown trailblazers are the “Merchlions”, a term coined from the name of our mascot – the Merlion – as a reference to the Singaporean merchants forging bravely beyond our local shores into international waters. It would be naïve to think that the success of these businesses came easy with a dash of clever marketing or pure fortuity. As shown in Exhibit 1, for just over one new business entity formed post-pandemic, another one closed within the same period, effectively netting off the level of new enterprise to nought.

As a small country without natural resources, the odds are against Singapore which lacks the scalability afforded to businesses in larger environments where the availability of diverse resources, cost efficiencies and talent can become key advantages. The companies that survive the odds to establish themselves both in Singapore and overseas are a rarity in today’s increasingly complex and challenging operating environment. The ones who do manage to find success naturally become icons of the Singapore brand to inspire other young entrepreneurs (or “Merhcubs”) to pursue the Merchlion dream.

The pandemic showed that there is potential for further growth and development in the retail and F&B sectors if the right conditions are present. If private enterprise could experience sustained growth spurts organically during a two-year period of global hardship and uncertainty, it is conceivable that much more could be achieved if institutional support structures are in place to incubate and nurture our Merhcubs and Merchlions in the making.

Exhibit 1 suggests that the momentum for enterprise has lost some steam from Nov 2021 onwards, as Singapore moved towards recovery from the pandemic. Which leads us to ponder whether Singapore will continue to do well. What is next for the retail industry after surviving the last three years of unprecedented hardship? What more can be done for Singapore brands to continue performing well domestically and on the global stage?

The retail environment continues to be very unforgiving post-pandemic, notwithstanding the removal of movement and border controls, alongside healthy tourist arrivals. Will that spurt of entrepreneurship circa 2020/2021 be relegated to a mere historical statistic?

How can we produce more Merchlions and encourage more Merhcubs to come forth?



## **SURVIVAL OF THE FITTEST AND THE LAW OF THE JUNGLE**

The retail sector in Singapore could be seen as Darwinian, where only the financially strongest have a chance of survival with prospects for sustainable growth. Rents in our retail malls are high when compared to other cities in Asia, and now that the pandemic is all but over, these have resumed an upward trajectory.

Aspiring Merchlions may not have the financial muscle to rent a space in a retail mall, let alone one that is popular and enjoys high foot traffic. New and interesting ideas, concepts and/or products, as good as they may be, might not survive the harsh competition and brutal business environment. Rising occupational and operational costs may be too prohibitive such that new ideas are killed off before they have had any chance of entering the market, especially for businesses that aim to operate beyond cyberspace in brick-and-mortar stores.



## **INCUBATING MERCHLIONS**

A public good is defined as products or services available to every individual within a community with unrestricted access. These tend to be basic necessities but there is often no profit in providing them; the task of providing such goods is typically the responsibility of governments, rather than private enterprise. Streetlamps, traffic lights or sewage channels are examples of public goods. If the lessons of the pandemic taught us that the spirit of enterprise is a good thing for business and for Brand Singapore, then perhaps the definition of a public good should be extended to incubating promising Merchlions for the initial period until their survival can be sustained. Aspiring Merchlions without the benefit of deep pockets of venture investors can be saved and spared from premature demise, especially if all the concept needs is a little gestation time and space for germination.

It is widely accepted that one of the biggest cost concerns for the retail industry is rent. Real estate in Singapore does not come cheap and entrepreneurs often find themselves unable to find affordable retail premises to kickstart their new venture. One way that the government can help is through the provision of rent-assisted incubator space. Housing and Development Board (HDB) neighbourhood centres can incorporate spaces that are let out to new enterprises with new-to-market concepts that appeal to the mass market in the residential heartlands of Singapore. Government facilities that house all manner of public goods for sports, recreation, arts and cultural use could potentially create incubator spaces to protect and nurse fledgling Merchlions out of infancy to a stage where they can swim on their own.

It would be more challenging to convince the private sector to set aside precious income-generating spaces for rent-assisted commercial concepts that are newly set up by private enterprise. Especially when there are demands from shareholders and directors with expectations of highest-and-best use returns, mostly monetary in nature. Thus far, the closest the private sector has come to incubator facilities are pop-up stores, events, trade fairs and exhibitions. An exception worthy of mention is Far East Organization's project Baker X @ Orchard Central. This space, fully equipped with a baking studio and café, was set up to give home bakers the chance to trial and sell their bakes to the public in a brick-and-mortar setup at no cost for up to six weeks, thus giving them the opportunity to plant and potentially grow their business. Shoppers are also able to benefit from the constant stream of new concepts and products which in turn drives footfall to an upper floor within the mall. This model can and should be expanded to a magnitude that would be meaningful for the retail sector as a whole, instead of niche interest segments of society.

The government already has in place a bonus Gross Floor Area (GFA) scheme for Community and Sports Facilities (CSFS), where additional development area is given to developers who house community and/or sports uses that include public libraries and non-profit community service providers like eldercare, childcare and other social services.

In the same spirit, the government could provide bonus GFA to malls that dedicate a portion of their retail space for the incubation of Merchcubs. Thus, the private sector would provide the space – a breeding ground for young Merchlions – backed by public policy. This would see both the private and public sector working together to provide safe, fertile ground for Merchlions to emerge.



Naturally, conditions must be put in place for these incubators to birth new, innovative iterations of Brand Singapore retail and F&B. These qualifying conditions could be:

- A maximum two-year lease term under an assisted rent structure to allow the Merchcub to reach some level of maturity and independence;
- A subsidised rent structure comprising total service charge plus 10% of the gross turnover sales (GTO) per month;
- The incubator space should be leased by a Singapore ACRA-registered business entity for the purpose of operating a new business concept, subject to evaluation by an evaluation committee which could comprise the landlord, representatives from the community as well as independent professional consultants or academics;
- The incorporation of a mentorship programme where an assigned mentor from a related field (eg. business school academia or trade fraternity) could provide guidance on business operations without breaching boundaries of business confidentiality and trade secrets;
- Where possible and practicable, the new start-up could also explore a reciprocal learning exchange programme or internship for local business students and promote inclusive hiring practices.

This way, young Merchcubs with the enthusiasm, creativity, passion and drive for business enterprise can have a sufficient runway for their original concepts to take off. They will also benefit from the opportunity to learn the ropes of business-making and management from experienced professionals so as to better manage their business costs and develop a sustainable retail business model before venturing deeper into the commercial jungle. Public and private landlords of retail spaces in Singapore can provide promising Merchcubs with the space and platform needed to present their ideas and concepts to the market without a prohibitive cost burden hanging over their heads.



## IDENTIFYING MERCHLIONS

It is important to have controls in place to ensure that the incubator scheme is not taken advantage of, and that genuine Merchlions are nurtured, by implementing qualifying criteria for the opportunity to lease such spaces.

First, the new concept proposed by the aspiring Merchlion should appeal to the mass market. Second, this concept should not be available or found in the particular mall where incubator space is being offered. Third, it should fit and harmonise with the overall retail theme of the mall, to complement with the current trade- and tenant-mix. The new concepts should enhance local communities, both within the mall as well as its surrounding estate, with potential to trend and make an impact in the whole country.

The selection panel, or multiple registered panels within the scheme, if feasible, should be kept small so as to be objective, nimble, able to make quick decisions and not be bogged down with complex bureaucracy and selection matrices.

This will enable the sandbox environment of the incubator space to remain focused on the enterprises that have the best chance to thrive in an everchanging retail landscape.

## CONCLUSION

The incubator environment has worked well for several industries, such as life sciences, technology, fintech, manufacturing and healthcare. Singapore is known to be one of the most stable and business-friendly environments in the world. Riding high on the wave of Brand Singapore, it is timely to consider investing more in our creative minds within the retail and F&B sectors. By giving some thought to providing a structured and meaningful sandbox for our young Merhcubs, we can help to keep alive the dream of seeing the next generation of Merchlions emerge.

Having a government-led retail-incubator framework with widespread adoption by the private sector would benefit the overall retail industry in Singapore. Stakeholders can access a wider collaborative network, build new communities and leverage synergies to enhance the overall incubator ecosystem. And with supportive structures in place to cushion the weight of business running costs, our promising Merhcubs have a fighting chance to make it to adulthood and become the next big thing in the retail world, taking Brand Singapore to greater heights.

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