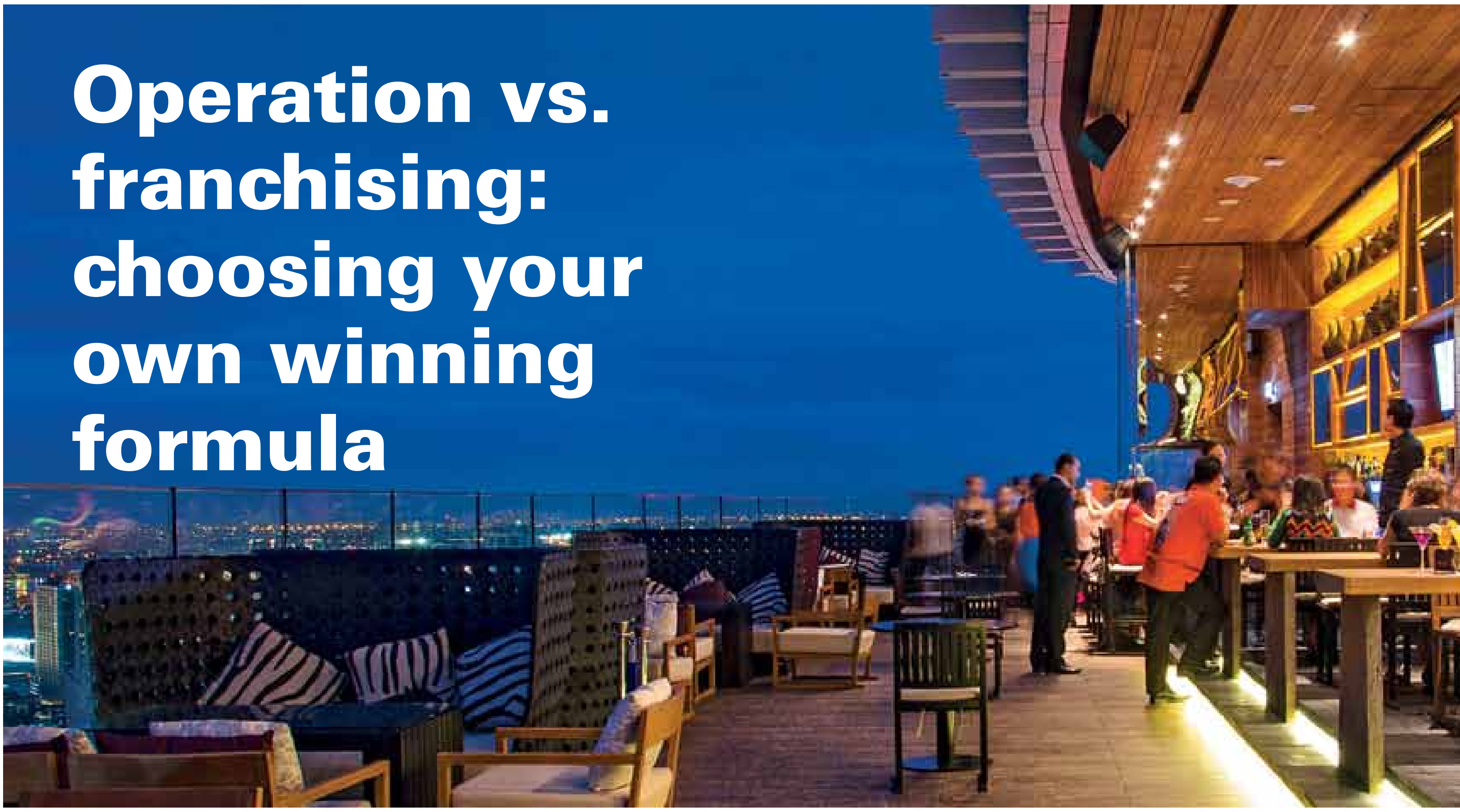
Operation vs. franchising: choosing your own winning formula



For any brand owner, the ultimate goal is to make it in the business. The F&B sector is no exception to the rule: all professionals want their establishment or chain to become key destinations each in their own categories eventually leading to franchising. So what is the winning formula for a healthy and sustainable development? by **Nagi Morkos**, managing partner, **hodema**

Stay in control: favor your operations

The first that comes to mind is to create value through the business's operations. Figures speak for themselves: the net profit can reach 25% to 30%. The self-developing option, either with your own cash or with the help of a partner, has a lot of positive sides. The main one is to keep your grip on the way things are managed and implemented. By staying in control, the owner and/or founder of the brand makes sure that its identity and image are respected to the letter. The second argument in favor of this strategy is that it stresses the importance of cash flow. If the business is successful, the owner will quickly see the returns on his or her investments.

But to every upside there is a downside. In the first place, self-development requires an important capital outlay. Opening new outlets can be very costly. Finally, choosing to expand through operations can be a good fit for brand owners who don't dream of worldwide expansion, but rather a strongly rooted local exposure. That is the path chosen by the Lebanese Boubess group: it owns twelve different brands in Beirut, from the Italian Napoletana to the Japanese eatery Kaiten and popular Cafe Hamra. The group, with a strong cash flow base, has decided to open new branches of its restaurants abroad on its own. Italian style eateries La Piazza, Napoletana and Scoozi are now all in Dubai.

Aim higher, dream bigger: opportunities in franchising

Self-development is not the only path to success, though. Another, rather popular, option is to franchise your brand. Entering the franchising world can both be a source of opportunities and challenges.

Franchising opens a door to the world for an F&B brand, even if its owner has little market knowledge outside of his/her country or region. It enables owners to rely on franchisees to adapt the outlet to the local requirements and criteria, and saves the hassle of dealing with new legislation. World famous chains have already tried out the system, with giants McDonald's and Starbucks, among others, franchising their outlets to local franchisees in the Middle East.

The other way round also works: Dubai-born Just Falafel is on its way to international exposure, thanks to new franchises in Canada, Europe, India and the Far East. On a smaller scale Lebanese homegrown brands such as Al Mayass, whose flagship outlet is located in Beirut's Achrafieh district, has already opened outlets in Riyadh, Abu Dhabi, Doha, Kuwait and even in New York. Burger Co, based in Beirut with two outlets, has already opened a franchise in London and is planning another one in New York.

Apart from the geographical opportunity, franchising a brand can be cost-effective: all the implementation and opening fees might be covered by the franchisee. So for brand owners who think big, with a development plan involving several new outlets in a relatively short period of time, the savings are significant. This strategy is chosen by many low to mid-end brands, such as casual eateries or fast-food chains.

However, recently more refined establishments have been getting their share as well: Lebanon-based restaurant Babel has teamed up with Kuwaiti franchise expert Al Shaya Group which operates over 60 different brands of retail and F&B across the Middle East including over 700 managed outlets in the Gulf region, and over 550 Starbucks outlets. The agreement will enable Babel owners to benefit from the Kuwaiti group's expertise and reputation in the region, which

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could ensure the success of the new outlets. Dori Rizk, one of Babel's owners, considers that "by teaming up with Al Shaya, Babel will expand its brand much faster than it would have, if we had expanded it alone." The development plan for Babel is aggressive and targets all the Gulf countries.

Overcome the challenges

The franchising system is not all rosy though. Compared to development through operations, the profits are much less important, with usually around 5% to 7% of net revenues in addition to territory and license fees. But some find the deal fair, as they save on initial outlay to open new branches. In the mid to long run, giving out franchises can be a good financial call.

Another major challenge is choosing the right partner. Some partners will want to buy a franchise having little to no F&B expertise, thus involving the franchisor more in the day-to-day operations. Furthermore, smaller groups might not have the financial power to expand the brand as fast. In some instances, newer groups might favor a brand over another which can slower the growth and expansion.

Lastly, and most importantly, some brands are reluctant to give away the know-how and want to remain in control.

The easy way in: buy a franchise

Franchising does not only benefit brand owners. Local F&B investors can also build a business through agreements. It is a way to start a business for yourself, although not by yourself. The obvious reason is that the brand has already proven popular elsewhere, so the jump into the unknown is pretty limited, as the brand is already established. It is a turnkey business, which makes the whole implementation phase easier, and helps obtaining financing if necessary.

On the more technical side, the franchise manual outlines the know-how, whether it is operations, health and safety or staff training. And if any problems do surface, the franchisee can usually find support from the franchisor. Some regional investors have made a fortune out of franchise. Americana Group for instance has specialized in casual and lower-end eateries. It operates eleven international brands in the Middle East, such as chicken giant KFC, TGI Friday's, Hardees, Pizza Hut, Krispy Creme and Costa Coffee. Fellow Kuwaiti Al Homaizi Group develops US brands Burger King, Applebee's, Taco Bell, it has also bet on Lebanese chain Kababji and Burj el Hamam. However, turning to franchising is not limited to the big groups. The Lebanese company Eaternity recently acquired Magnolia bakery for Lebanon, Jordan, Saudi Arabia and Kuwait.

Another reason to turn to franchising can be the lack of expertise. Developing operations needs a strong background in F&B management, from finances to HR and logistics. It requires having a sharp understanding of the market, to be able to make the right decisions to support the growth of the brand. Buying a franchisee is not as demanding: the franchise agreement specifies in detailing all the aspects the franchisee should be responsible for. It also lists the brand's requirements and managing rules. So, for candidates willing to enter the F&B world and not yet familiar with its rules, becoming a franchisee can be a clever way in the business.

For the most adventurous out there, getting involved in new franchises is an exciting challenge as well. The clean slate of a brand that has never opened abroad gives franchisees the freedom to implement new habits, identify new customers, although the work load will be heavier to establish the business and the short-term success more uncertain. The bright side though is that the franchise purchase price will be lower.

> *FOR SOME COMPANIES, THE STRATEGY IS SIMPLER: WHY CHOOSE WHEN YOU CAN HAVE THE BEST OF BOTH WORLDS?*

Get the best of both worlds

For some companies, the strategy is simpler: why choose when you can have the best of both worlds? Boubess Group, while developing its own brands, has decided to operate French bistrot Le Relais de l'Entrecôte's franchise and American Japanese cuisine restaurant Benihana in Lebanon as well as recently acquired French F&B brand Café de Flore. Abou André Lebanese cuisine, in Lebanon since 1976, is now offering franchise packages in the USA, Europe and the Middle East, while it has eight self-owned outlets in Lebanon and one in Chicago. That option requires significant back-up finances that will cope with any operations or development hazards.

But again, having it both ways requires a strong experience in the businesses of both franchising and operations development. Al Shaya Group has had mitigated results as it tried its hand at developing its own brand Café Coco, Veranda and Brasserie de L'Etoile. So, the key formula is to go for the option that best fits your profile.

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