

## TRENDS FRANCHISE

# Franchising Lebanon: Risk vs. Opportunity

The franchising spree is scaling new heights across Middle Eastern destinations, and Lebanon is still the primary source of concepts that actually work across the region. But operating a franchise is no easy ride. The hidden challenges can outdo even the smartest of concepts.



## The Challenges of Developing a Lebanese Franchise in the Middle East *by Karim el Asmar*

**G**ulf investors are savvy of Lebanese franchises because they offer a better value to the investor than foreign franchises do. This investment value is expressed through lower entry and franchise fees, and the cultural closeness of Lebanese concepts to the customer base, which renders benefit from a higher customer awareness of the product. Despite the obvious "franchisability" of Lebanese concepts, though, operators find themselves faced with many challenges. Exporting the know-how is not as simple as sending a chef or an outlet manager to the new outlet. Insuring product consistency across all outlets while maintaining profitability and proper returns on investment are but a few fundamental issues that any operator seeking to expand needs to consider. Prior to pursuing expansion dreams, the operator will need to bring a clear answer to these issues.

Mario Haddad ventured into the food business in 1998 with Le Sushi Bar. Since then, his portfolio has expanded to include - among others - the Rai, Asia, Sushi Xpress, and Bert's Café Contemporain.

Upon their success in Lebanon, Le Sushi Bar and Sushi Xpress are well on-way to regional franchising in KSA, Jordan, Kuwait, Egypt, UAE, and France. [www.sushixpress.net](http://www.sushixpress.net)



“Sushi Xpress is quite the neo-sushi bar, with vibrant colors and a more upbeat approach to sushi, which had long been associated with class or older markets. The concept is lively and bold, yet authentic in presenting Japan's modern neon culture to a wider market and much more accessibly.”



a team of multi-disciplined creative idea squeezers, reputed for producing innovative design solutions particularly in the food and beverage industry.

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### > Do your homework

Challenges will always appear at the set-up stage. This aspect will involve internal control, product consistency and human resources. When developing a chain, solutions to most operational problems must already be available. An implantation package, with an owner and manager's guide must be ready. In a franchise, there is no place for improvisation. With regards to internal control, procedures have to be detailed covering all aspects from purchasing to cashier control, cost calculations, and menu modifications. Product consistency is a process. The user will find information about purchasing specifications, cooking processes, service, graphical iden-

tity, and brand management. In some cases, product consistency may clash with local marketing requirements; such issues will have to be assessed strategically. Human resources are an essential component for a successful, consistent, and durable development. Finding the right recruits, training them, and keeping them are key to success. The franchisor will have to propose a coherent and adapted solution and guidelines to managing the human resources. The franchisee guide will have to provide information about employee profile, evaluation, career management, training and development, remuneration, and end of service policy.

### Casper & Gambini's

Casper & Gambini's is an internationally franchised restaurant-café chain with regional headquarters in Lebanon. The company specializes in serving gourmet meals and specialty espresso-based drinks, with an emphasis on healthy and fresh ingredients. The all-day menu comprises hot cuisine, sandwiches, salads, weekly features, homemade desserts, and coffee and juices, served in an elegant and contemporary atmosphere.

- 3 outlets in Lebanon: ABC Ashrafieh; CityMall; and Dunes Center, Verdun
- 16 regional outlets: Kuwait (2 in Kuwait City; 1 in Marina Crescent, Ahmad Tower, and Daow Tower); KSA (3 in Jeddah and 1 in Khobar); Jordan (Abdoun, Amman); Egypt (2 in Citystars Mall and 2 in Nile City); UAE (Dubai Festival City and Park Tower)
- Coming up: Qatar and Bahrain
- Master Franchise Fee: \$275,000 per country

www.casperandgambinis.com



Everyone within the Casper & Gambini's circle understands and delivers the ethos of this company's culture. As CEO Anthony Maalouf puts it:

“We don't have owners, we have ambassadors. We don't have chefs, we have nutritional artists. We don't have waiters, we have culinary guides. We don't have customers, we have partners. This is what makes Casper & Gambini's experience unique.”



### La Maison du Café - Café Najjar

Massaad Fares: “La Maison du Café – Café Najjar means business in the region. Its expansion portfolio is a well-earned success for the classy yet accessible coffee meeting-point concept.”

- 6 outlets in Lebanon: Ashrafieh, ABC Ashrafieh, Beirut City Center, Tripoli, Zalka, and CityMall
- 8 outlets in KSA, 2 in Bahrain, and 2 in Qatar
- Soon: in Kaslik, Kuwait and Egypt
- Franchise Fee: Local varies between \$25,000 and \$50,000  
Arab countries varies between \$100,000 and \$400,000  
Europe varies between \$450,000 and \$750,000
- Royalty Fee: 6%

www.lamaisonducafenajjar.com



“... a well-earned success for the classy yet accessible coffee meeting-point concept”



### Wooden Bakery

Ghassan Bou Habib: “Wooden Bakery is a one-stop fast shopping experience for bread, cheese, cold cuts, and wine. It also incorporates a coffee shop and two brick pizza ovens on the ground floor.”

- 12 outlets in Lebanon: Zalka, Jal el Dib, Awkar, Elissar, Zouk Mikhael, Adonis, Tripoli, Kafarsaroun, Baushrieh, Hazmieh, Jbeil, Mansourieh
- KSA first master franchise due to open in Riyadh by Dec 2007
- Coming up: 7000 m² central kitchen in Antelias due Sep 2007
- In negotiation: Qatar, Kuwait, Dubai, and 4 new outlets in Lebanon

www.woodenbakery.com



“Wooden Bakery is a one-stop fast shopping experience for bread, cheese, cold cuts, and wine.”





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### > Raw creativity falls short

As a starting point, it is important to understand that the creativity initially invested in developing a concept, and bringing it to life, will have to make way for a structured and detailed systematic approach. An outlet may be centered on the expertise and the artistic touch of a chef. In a chain, however, the chef's talent is in creating a replicable product in texture, taste, appearance, and costs. In a chain, the challenge is to replace the owner's presence by a clear set of instructions and checklists, set out clearly to guide the employees across all outlets to perform all tasks in the same manner and at the same pace. Several outlets develop their concept with franchising and chain development in mind. Lebanon's Casper and Gambini's developed its first outlet with such a strong identity that it seemed like a foreign franchise. As a result, their product is balanced and ready for "export". However, most outlets are coming to franchising and chain development as a second development stage, even as a survival solution

since the local market is facing a slowdown. While it is understandable that their initial developmental approach was not oriented towards franchising, this sudden shift in their strategy heightens the operating risks. Prior to pursuing this new path, these outlets need to undergo a thorough operating evaluation prior to initiating any other activity.

The operator has to understand his/her operation, and clearly identify what their real asset is; whether their competitive edge stands in key employees, such as the bartender and the chef, or in the ambiance with a unique design, or even in a specialty using a specific cooking technique. Furthermore, the operator needs to understand how easily the product can be duplicated; a competitive provider of similar or substitute products is always a risk factor. Moreover, an inherent risk in this recognition process is the lack of honesty and clairvoyance; there is a natural tendency to exaggerate positive aspects and overlook the negative.

#### Roadster Diner

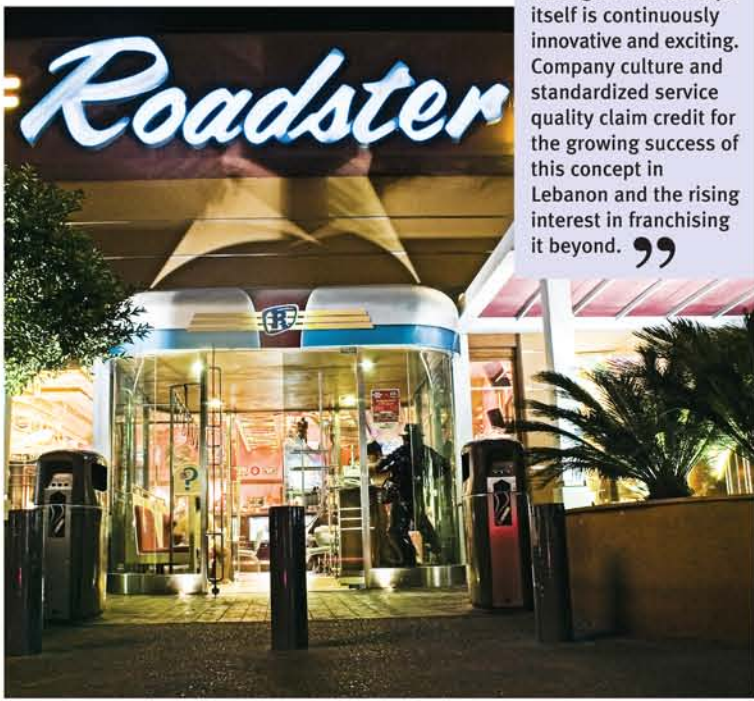
**Samer Chehlaoui:** "Roadster Diner is an authentic casual-diner concept where people from all ages can enjoy themselves in a warm and relaxing atmosphere."

- Serves 132 items in 9 main categories from starters to wraps, salads, pasta, sandwiches, platters, burgers, dessert, breakfast, shakes, and coffee
- Interior design based on the American 50's era
- 7 outlets in Lebanon: Jal el Dib, Ashrafieh, Hamra, Beirut City Center, City Mall, Jounieh, and Beirut Delivery Center
- Soon: Roadster Diner across the Middle East

www.roadsterdiner.com



“Roadster Diner's philosophy is to maintain “consistency with an edge”. The concept itself is continuously innovative and exciting. Company culture and standardized service quality claim credit for the growing success of this concept in Lebanon and the rising interest in franchising it beyond.”



#### Dunkin' Donuts

**Christine Assouad Sfeir:** "Dunkin' Donuts is the largest donut and coffee chain in the world with over 6000 outlets in over 40 countries."

- 25 outlets in Lebanon
- First outlet in Lebanon: Zalka highway, 1998
- 142 outlets in the Middle East region
- Regional master franchise: Meeting Point s.a.l., Lebanon
- Plans to expand further across the Middle East in 2007

mpoint@terra.net.lb



“The primary target market is adults leading busy lives, mainly university students and young professionals.”

#### Crepaway

**Albert Thoumy:** "Crepaway is a modern diner concept that serves across the spectrum, from pizzas to salads and crepes. It caters to a relatively wide market and is extremely popular with younger consumers."

- 9 outlets in Lebanon: ABC Ashrafieh, Ashrafieh, Batroun, Brummana, Beirut City Center, Furn el Shebbak, Jal el Dib, Jounieh, Kaslik
- 5 regional outlets: Qatar (Doha), Egypt (Giza, Citystars Mall), KSA (Riyadh, Granada Mall)
- Most recently opened outlet: Batroun, Sep 2006
- Coming up: 2 new outlets in Lebanon

www.crepaway.com





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### > New market, new concerns

with regards to the marketing, a chain operator has to insure consistency of both the product and the image across all outlets. The difficulty is in giving the right level of freedom to outlets for their individual promotion while protecting the integrity of the brand. Large scope campaigns have limited returns and serve only to add to the overall brand awareness; but food & beverage is a proximity business, and local and proximity communication will be necessary. The danger is in losing control of the communication at the level of the chain. Another challenge is the need to adapt the product to fit local requirements. The example of McDonald's in India is striking; to enter the Indian market, beef was eliminated from the menu and replaced by vegetarian, chicken, and lamb products. The Zaatar w Zeit menu, gimmicky and trendy in Lebanon, will probably need some adaptation to fit into a European base of clientele as a *labneh* sandwich will probably not trigger the same reaction and enthusiasm in England as it does in Lebanon. With regards to the legal structure,

### Tipping the Balance: Franchisor vs. Franchisee

Franchisor	Franchisee
<b>✓ Advantages</b> <ul style="list-style-type: none"> <li>• Direct financial return from franchisee investment</li> <li>• Development of chain image</li> <li>• Expansion of chain network</li> <li>• Potential to generate substantial profit in the long run</li> </ul>	<b>✓ Advantages</b> <ul style="list-style-type: none"> <li>• No need for F&amp;B expertise</li> <li>• Already existing concept: tested and proven</li> <li>• Low risk in penetrating a new market</li> <li>• Low cost of marketing and promotion</li> <li>• Pre-defined standards and policies</li> <li>• Benefits from staff recruitment and training</li> <li>• Benefits from worldwide chain performance</li> </ul>
<b>✗ Disadvantages</b> <ul style="list-style-type: none"> <li>• Long term investment</li> <li>• Need to establish a strong brand name</li> <li>• Need to be innovative in the concept and in the menu</li> <li>• Need to establish a reputation</li> <li>• Major financial investment (high risk)</li> <li>• High cost of research and development</li> <li>• High cost of marketing and promotion</li> <li>• Intensive control requirement of all points of sale</li> <li>• Risk of testing adaptability of a new concept</li> <li>• Risk of maintaining consistency across the chain</li> </ul>	<b>✗ Disadvantages</b> <ul style="list-style-type: none"> <li>• Need to find strategic location for outlet</li> <li>• Need to have a basic financial investment</li> <li>• Narrow decision space</li> <li>• Barriers to ending the contract</li> </ul>

a number of issues relate to protecting the know-how as well as defining the working procedures and the responsibilities of the franchisors and the franchisees - the owner and the operator. Important aspects in the legal chapter are related to the calculation and payment of fees. Other aspects are related to termination causes and

indemnity to the severed party. In conclusion, while the operating manual is an essential element and a corner stone in developing a chain or franchise, many challenges lie ahead of the operator. And prior to undertaking any step, one has to undergo a thorough and objective examination of one's operation. This should serve as a basis for establishing the right development strategy and supporting it with the necessary tools, such as an operating manual and a strategic plan.

#### LFA

The Lebanese Franchise Association (LFA) was founded on April 13, 2006. Having recognized the growth of the franchising business to and from Lebanon, and the need for an official regulatory body to coordinate and promote this business, Charles Arbid, general manager and owner of Rectangle Jaune, took the initiative. As president of LFA, Arbid states the association's objectives "to coordinate the activities of its members in a concerted effort to promote and exemplify excellence in franchising, through training and guidance, the association's resource center, promotion, mediation, and legal services." The LFA is a joint effort to centralize business in the hope of promoting Lebanese franchise opportunities and protecting the investments of Lebanese franchisors and franchisees. [www.lfalebanon.com](http://www.lfalebanon.com)



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#### Waterlemon

Jean Paul Ramy: "Waterlemon is a boutique juice bar and café concept; a relaxing and welcoming atmosphere, offering fresh fruit and vegetable juices, coffees, teas, and a small healthy food menu."

- 2 outlets in Lebanon: ABC Ashrafieh and Metropolitan Boulevard
- 5 regional outlets: Kuwait (Marina Mall and Arraya Center); KSA (Tahlia Street and Al Faisaliah Mall); Bahrain (Al Ali Mall)
- Soon to open: 2 outlets in UAE (Dubai Festival City and Burj Dubai) due April 2007; and 1 outlet in Jeddah, KSA, due May 2007
- Already signed: 1 outlet in Qatar and another in Jordan
- On-going negotiations for Oman and Egypt

#### Living Colors

Living Colors is a fresh, bold, and vivacious approach to casual dining and home delivery. The concept is distinguished by the original presentation of innovative dishes, cocktails, and coffees.

- 5 regional outlets: KSA (Galaxy Mall and Al Faisaliah Mall, as well as a delivery center); Kuwait (Bahar Center and Tunis Street)
- Coming soon to: Dubai, Qatar, Jordan, and Lebanon

"Living Colors is a fresh, bold, and vivacious approach to casual dining and home delivery. The concept is distinguished by the original presentation of innovative dishes, cocktails, and coffees."

- 2 regional outlets: Kuwait (Marina Mall) and KSA (Tahlia Street)
- Already signed: 1 outlet in Jordan and another in Qatar

[www.h2o-lemon.com](http://www.h2o-lemon.com)



"Waterlemon is a boutique juice bar and café concept; a relaxing and welcoming atmosphere, offering fresh fruit and vegetable juices, coffees, teas, and a small healthy food menu."



#### Caféblanc

Caféblanc has introduced a new trend in Lebanon. The name reflects the concept: a Lebanese restaurant and coffee house which is modern in image, yet traditional in essence.

- 1 outlet in Lebanon: ABC Ashrafieh
- Coming in 2007: Dubai Festival City; Al Ali Mall, Bahrain; Jeddah; and London
- On-going negotiations for Oman, Egypt, and Montreal

"Caféblanc has introduced a new trend in Lebanon. The name reflects the concept: a Lebanese restaurant and coffee house which is modern in image, yet traditional in essence."

