

### hodemahighlights



#### Is developing franchises risk free for Lebanese brand owners?

Recent market trends have shown a rush towards franchising. While the Middle East market is still growing and savvy of new food and beverage concepts, the road to franchising successfully is heavily ambushed and booby trapped. Lebanese operators often rush into a franchise in response to the regional demand. While the opportunity is genuine, the risks of failing to deliver are very high, and the damages can be high for both the franchisor and the franchisee.

## The risk of developing a Lebanese Food & Beverage brand

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#### What does it take to create a franchise?

The operating manual is the corner stone of the franchising activity. Yet it takes more than a compilation of memos and some written procedures to create a franchise. Franchising is a business on its own, and it extends beyond the normal restaurant operation. With interesting cash perspectives and return on investments, Lebanese entrepreneurs have identified the great potential of the franchising activity. Revenues from the franchising activities can be weighty : a basic entry fee of around US\$100,000 and royalties ranging from 5% to 7% of the outlet turn over. Considering the case study of a medium sized outlet with an annual turnover of US\$750,000, franchising around five outlets of such category with royalties at 5%, the franchisor would collect US\$37,500 per outlet totaling US\$187,500 per annum. With operating costs running at 50%, the profit margin of such activity would be in the region of US\$100,000 per year.

#### Know-how and support

A franchisee seeks to acquire the know-how and support in managing the outlet, including planning, internal control, business development and human resources management.. Prior to franchising it, however, the outlet must be a successfully managed one, giving the franchisor the role of coaching and directing the franchisee in order to achieve higher performance. On entering a franchise, the operator expects to receive a manual on "how to" with recommendations and highlights on dangers and operation weaknesses. In addition, the outlet manager hopes to find solutions for the daily operation challenges such as production consistencies, personnel insurances, purchasing and other internal control procedures.

#### The product

At the heart of a successful operation is the balanced product. This sends us back to the core of the restaurant business. A food and beverage product has two components: the tangible and the intangible. Understanding the product is the most difficult duty of the manager. A successful operation combines the right attributes and components of the products. A successful manager is the one who plays on the right features to meet and exceed customers expectations.

#### The network

Franchising also offers the operator the opportunity to capitalize on acquired knowhow by using a network of contractors, suppliers and other economic partners. For example, some franchisors restrict interior design artifacts to designated suppliers under his direct supervision. This proves a good means to control the integrity of the product. A strong network can help the operators achieve economies of scale and reduce operating risks. Large franchised groups such as Mc Donalds conduct a yearly franchisee convention where franchisees are encouraged to bound and exchange best practices.

#### The brand

The franchise is first of all a brand. The brand is the ultimate expression of a franchise. A well managed and exposed brand increases the chances of success and desirability of a franchise. Brand recognition is also what attracts the customer. The challenge is to have a cross border recognized brand. For example, a leading brand on the chicken fast food in KSA is the Saudi brand Al Baik, which operates 35 units in the Jeddah region alone. While this brand is widely known on the Jeddah market and in the KSA, it has not yet been exported outside this market. Furthermore, brand integrity is regularly challenged and tested in new markets. Customers expectations differ and the product must adapt. Positioning is a key issue in the development of a brand. Upon entering the Lebanese market, Mc Donalds was positioned higher than the international norm, however, as the product interated, we observed a shift of strategy and a drop in the average check.

#### What does it take to operate a franchise?

There is a difference between the franchisee and master franchisee/franchisor requirements. While the master franchisor must have the structural and financial support to lead-on a regional development, the franchisee must have the know-how to operate an outlet. The master franchisee-franchisor is often led by real estate opportunities in the development of brands. Significantly, franchisees in the region do not always correspond to the profile recognized internationally: an operator, with know-how in search of support and branding. More often than not,

franchisees in the region are large groups that are seeking to operate a franchise as part of an investment diversification strategy. This imposes both a threat and challenges for the developers of franchises. Such large ventures are faced with the structural issues of creating an operator.

#### Success

Creating a franchise is not simply signing a franchise agreement with a franchisor. Franchising is a complex and exhaustive process through which both franchisors and franchisees are gauged and tested, prior to reaching an agreement. Franchising requires preparation and dedication from both parties. Indeed, while the franchisor has to provide all the guidelines and support the franchisee has to carefully plan and study his operation. The co-optation process can be lengthy and difficult, and often takes several months before an agreement is reached. In the recent developments on the Lebanese market, franchising an outlet has become a natural sequel to operating an outlet. Indeed, Lebanon is considered as a showcase, where operators display their know-how and concepts. While there is a lot of creativity in the concept, often the premeditated development strategy is lacking. Human resources is among the toughest challenges. While the food and beverage industry may compete on low end job scale and remuneration, it quickly loses ground on more senior positions, as the remuneration does not follow. Perhaps the solution is to take the example of a restaurant chain, who instated a program to develop entrepreneurs/managers for their restaurant. Hence the goal for each employee is to own and operate their own franchised restaurant.

#### Difference of objectives between franchisor and franchisee

Objectives of the franchisor	Objectives of the franchisee
Maximize profit	Maximize profit
Protect intellectual property	Acquire business know-how
Protect the brand	Protect investment
Insure the conformity of the outlet	Insure recyclability of the outlet
Minimize cost of support	Maximize franchisor support
Maximize franchise fees	Minimize cost of franchise
Maximize brand coverage	Maximize own geographic coverage
Secure the franchising contract	Secure an exit clause

The franchisor and the franchisee have different points of view on their relation. Negotiating the contract in full awareness of the difference of agendas can help reduce risks in developing the franchise.

#### Case study of one outlet

Title	Description	Amount
Revenue	Mid sized outlet	US\$750,000
Franchise fees	5%	US\$37,500
Net revenue	Gross revenue - franchise fees	US\$712,500
Franchise cost incidence	Impact of cost of franchises on the general outlet cost structure	1.053
Initial food cost	% on total revenue	25%
Adjusted food cost	% on total revenue after deduction of franchise fees	26.32%



## Interview with Mr. Giovanni Casa Partner and Executive Chef of "Da Giovanni" restaurant

**I had a lot of faith in Lebanon and its potential for restaurateurs. I saw the tourism industry flourishing and had high expectations...**

Giovanni Casa, of Italian decent, grew up in Sorrento, Napoli, amidst a family of restaurateurs. His love for food, and his Italian roots, made cooking second nature for him. Napoli situated on a sea front, paved way for him to establish a base in sea food specialties. Giovanni spent 8 years of his professional experience in France, and mostly in the Cote d' Azure. His Italian cooking techniques merged with the scents and flavors of the Provencal cuisine, nourishing his inspiration to create special recipes. In the year 2001, he came to Lebanon and started off working in "Pasquale", the Italian restaurant of the 5 stars hotel "Grand Hills" in Broumana. After that he joined "Synergy", one of the leading restaurant management companies, where he was Executive Chef & Developer to their assigned Italian outlets. Throughout his stay, Giovanni established himself a great reputation among the Lebanese diners.

He became renowned for his exquisite dishes, and his passion for quality and freshness of cuisine, and was soon a credible figure in terms of Italian food.

The time became right for him to go solo. Thus came the opening of a seaside restaurant, specializing in Italian seafood. It was a success among his faithful clients, and the demand got higher. This paved way for Giovanni to choose a new location, amidst the city of Beirut, in the lavish Saifi area. He opened the famous "Da Giovanni", which has become the trademark of Italian cuisine in Beirut.

### Which project are you working on now with *hodema*?

We are currently working with *hodema* on our upcoming chain of pizzerias, introducing to the Italian food lovers, the original pizza, which was created in my land of origin, Napoli, Italy. We envision this restaurant to recapture the authentic version of the pizza, and to spread it among the Middle East, through a series of eat-in and delivery outlets.

### How do you describe the food and beverage market in Lebanon?

The market is currently saturated. There is far more supply than there is demand. There aren't enough gourmet lovers to fill the existing restaurant seats. People tend to follow the trend or the extravagance of outlets and thus lose interest after a while. It requires a lot of dedication and professionalism to remain solid amidst the competition. Once a client is impressed and truly gained, it is difficult to attract him elsewhere. This makes the market very competitive.

There is also a diversity of cuisine in Lebanon, and diversity of price range. People are drifting away from the Lebanese cuisine, finding themselves stuck with repetitive techniques and tastes. Lebanon is a country renowned for its hospitality and the Lebanese seem to be losing interest in the development of their own rich and traditional kitchen.

### What is making you invest in Lebanon despite the current situation?

I had a lot of faith in Lebanon and its potential for restaurateurs. I saw the tourism industry flourishing and had high expectations, as did many local or foreign investors. The reality today has proven harsh. Lebanon is very unstable, and this instability and insecurity directly hits the food and beverage industry. I hope for the situation to dissolve into a brighter future and my fingers remain crossed. I hope for the best but still expect the worst. We have no choice for the time being but to be patient and positive, and to hope that better times lie ahead. I love this country and would hate to be forced to leave.

### What made you choose Gemayze as a location for your outlet?

Our new pizzeria is a "Pizzeria del quartiere" meaning the authentic pizzeria of the neighborhood. Gemayze is a famous quarter for its traditional spirit and is today the number one destination area for various types of people. I think that our concept would integrate well within the style of this genuine street, and will get the needed exposure. Our outlet in Gemayze will be the first one of this chain and I hope it will project a promising image.

### What is your opinion on the evolution of Gouraud Street in Gemayze?

Today there is no doubt that Gemayze is booming, with this stunning variety of restaurants and bars. For the area to flourish, I suggest that other types of stores open, such as fashion stores or embossing services. This will ensure Gemayze's long-term survival, not just in terms of night-time business.

I also wish that the people responsible for the development of this street manage the traffic problem and consider turning it into a pedestrian street. I see Gemayze like the pedestrian streets in Nice, in the South of France, and it could be even prettier, with its unique magic, if it remains relaxed and varied.

### What do you consider was the added value of *hodema* in the development of your project?

*hodema's* expertise is very important for us to sustain our concept in a well-positioned and corporate atmosphere. We continuously consult with *hodema* on the precise requirements for the success of such a chain in Lebanon and the Middle East in the hope of satisfying the demands of the market in a professional way.



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## Operating manual and strategic counseling for an Armenian restaurant Beirut, Lebanon

Restaurants offering Ethnic Food have spread all over Lebanon. This growing trend concentrated in Beirut includes different concepts such as Italian, Armenian, and Chinese. In this mission, *hodema* provided strategic counseling and developed an operating manual.

## Strategic support & concept development Beirut, Lebanon

*hodema* worked on the development of a pizzeria chain in Gemayze. In its scope of work, *hodema* performed a market study, formulated the restaurant concept and helped in the development by advising on several aspects of the design.



Sketch by Caline Morcos

## Concept development & feasibility study Jeddah, KSA

Saudi Arabia is the largest country on the Arabian Peninsula and has consistently been among the leaders on the Food and Hotel market in the Middle East. Jeddah is one of the most active markets in the Kingdom encompassing a variety of Saudi, International and Lebanese brands. *hodema* performed a study on Jeddah Food and Beverage market, a concept evaluation, a concept definition and a feasibility study.



Cartography by Alexandre Medawar

## Operation audit, strategic counseling & operating manual Beirut, Lebanon

*hodema* performed an operation audit and strategic counseling for a high-end catering company in Lebanon. Following this mission, *hodema* helped restructure and elaborate the operating manual of the company featuring its standards, policies, and procedures.



## Academic ties & collaboration Beirut, Lebanon

*hodema* is actively involved in the hotel management program at the Management Institute (IGE-USJ) at Beirut St Joseph University. *hodema* is contributing to the development of the human resources, both locally and regionally. Karim el Asmar is in charge of the program coordination and management supervision at the *Atelier* practice restaurant, while Nagi Morkos lectures on new trends in the hospitality industry worldwide.

## Hotel complex on the Syrian coast: Board meeting presentation Moscow, Russia



Further to the market study, concept development and feasibility study of a hotel complex on the Syrian coast, *hodema* presented the results of the study during a Board meeting with the developers of the project in Moscow, Russia.

## Development of a practical Health and Safety book Beirut, Lebanon



*hodema* is collaborating with APAVE Lebanon, the international risk control specialist, on the elaboration of a Health and Safety HACCP Guide for the hospitality and tourism industries in the MENA region. The guide will be available in Arabic, English and French languages early 2008.

**L'Atelier**  
Restaurant d'application de l'IGE

L'Atelier est le restaurant d'application de l'Institut de gestion des entreprises (USJ).

Ce restaurant offre un concept de pédagogie et de restauration différents du traditionnel.

Ouvert du lundi au vendredi, midi et soir, et tous les samedis soir.

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