Franchising an F&B brand
how to avoid the pitfalls

Nagi Morkos, managing partner, hodema consulting services, a hospitality franchise expert, reveals it all

Gulf investors today consider Lebanon as a showcase for food and beverage (F&B) concepts and an attractive market for many retailers. And, for Lebanese F&B homegrown concepts developers, franchising has become a natural sequel to operating their brand. However, creating a franchise does not simply mean signing a franchise agreement with a franchisee. It is a complex process that requires bringing together the franchisor and franchisee points of views, as well as an accurate preparation and full time dedication from both parties.

Lebanese home grown F&B brands are courted today by groups from the Gulf, whether in F&B or not, for several reasons. First, investors would rather capitalize on a concept that has already been successfully developed in Lebanon than create a new one. Second, they benefit from its good reputation in terms of concept, cuisine and service. Finally, they develop a product that is closer to their customer base's culture and adapted to their taste. "We haven't built our communication strategy on the brand's nationality, but rather on its identity," says **Anthony Maalouf**, founder of **Casper & Gambini's**. "With time customers found out that we are Lebanese. It gave credit to the chain in quality, consistency and brand identity."

The attraction is also financial. Indeed, the franchise of Lebanese brands is seen by most Lebanese businesspeople as part of a diversification strategy and an investment haven. This is due to the fact that some Lebanese franchises can be sold with upfront entrance prices that could reach up to USD 1million (the average of which revolves around USD 100.000) and royalty fees that reach 5 to 7% of the outlet's sales growth. The interest is mutual for both the investors and the Lebanese F&B players, who see in the franchise business an opportunity to expand their ambitions and beat the small size of the Lebanese restaurant market despite it being in full bloom. One of the pioneers is Casper & Gambini's, which has today a larger presence outside Lebanon than inside. The company started in 1996 in Ashrafieh, Beirut, and developed after 2002 in the Gulf. It plans to expand in North Africa, Europe and the United States.

However, the attraction is not only cultural and financial. Running a business abroad also offers local F&B brands an exit strategy in case of political turmoil in the country. **Christine Sfeir**, the Dunkin Donuts's franchisee in Lebanon, developed her modernized Lebanese restaurant concept **Semsom** after the 2006 war with the initial aim to franchise it abroad. "We were looking for a geographical diversification," she says.

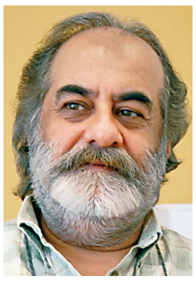
As for the Gulf, the boom in real estate has also reinforced the franchising trend for the past years, hence the several upcoming restaurants' openings in an already very dynamic market, among which Margherita pizzeria in Jeddah and Kuwait, Lord of the Wings in Kuwait, Brgr Co and Salmontini in Saudi Arabia, and Al Mayass in Abu Dhabi, Qatar and even across the Atlantic in New York City. As for Chopsticks, the brand is planning to launch two additional branches in Jeddah.

Pitfalls from a lack of experience

On paper, franchising Lebanese brands seems like a winning strategy. But the reality is slightly different. Considered as the ultimate business move by some professionals, "franchising can actually be a deceiving experience," according to **Samer Chehlaoui**, CEO of **Roadster diner**, who had to revise his development plans downwards in the United Arab Emirates. Some have even terminated their franchise agreements and closed down, such as Crepaway in Kuwait and

Kabab-ji and Larissa in Saudi Arabia. Although some companies like Casper & Gambini's continue to take the plunge and reinforce their presence in the Gulf, through signing franchise agreements with new partners in 2011, many do not take the risk anymore.

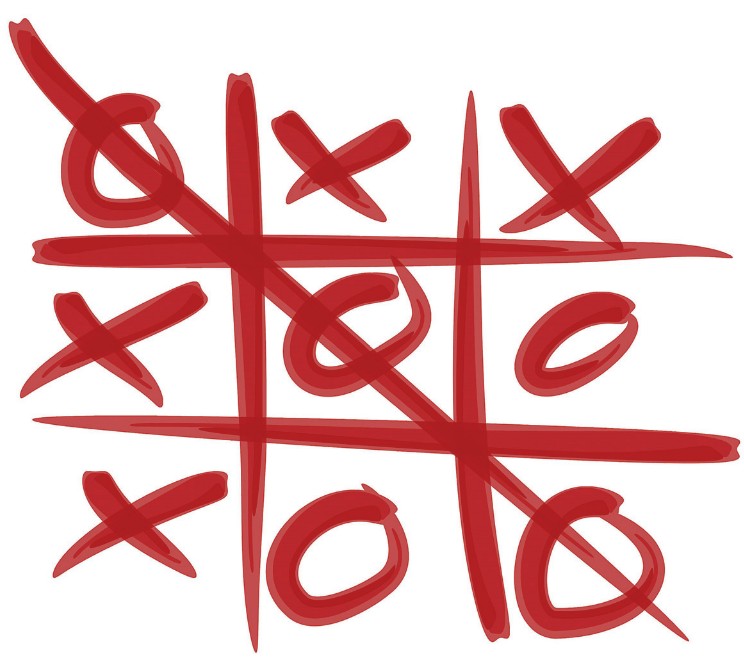
Today, the Doumit family (Al Mandaloun group) declared that, for now, it is concentrating on its activity in Lebanon and Roadster Diner henceforth refuses to open new franchises. "I would not advise franchising in the Middle East unless you find the ideal partner with whom you share your vision and operating model," advises Chehlaoui. "How one selects the franchisee is surely a key point," confirms **Chant**



Alexandrian, owner of **Al Mayass** restaurant (Armenian cuisine). Most people will just go for the highest bidder, which does not guarantee success, not only in managing the franchise and honoring the contract terms but also in respecting the brand's standards, which are key criteria. "You need to make sure that the franchisee implements the brand standards, in terms of quality of food and service," maintains Chehlaoui. "In parallel with the conduction of trainings, both the franchisor and franchisee have to insure the implementation of and follow up on the right processes." Hindered by their lack of experience in the field, local restaurant owners struggle to resolve problems inherent to franchises. They find out that exporting know-how is not as easy as assigning an already trained chef. An eatery's popularity and reputation can be based on the talent of a chef but not of a chain. "The challenge is to design recipes that are duplicable in aspect, taste and cost, and to systemize the kitchen and service

procedures," says **Giovanni Casa**, owner of **Margherita** pizzeria. Hence, the major role is played by the operating manuals, which help the franchisee understand the product and manage the outlets, and allow the employees to abide by the brand's rules and regulations.

The franchisor has to make sure that they follow the right steps before making their dreams of expansion a reality. One of the most popular start-up mistakes made by restaurant owners today is to fail to register their brand in their target countries as soon as they have started their activity in Lebanon, according to Tarek Nahas managing partner of Sami Nahas Law Firm. Burj el-Hamam experienced a similar situation when they signed with the Pearl in Qatar before discovering that a third party had already registered the name. For some, like Margherita, franchising is part of the initial strategy. But for most it is a second stage of development, sometimes even a rescue strategy when the local market slows down. This sudden reorientation can be harmful, and even kill the brand if the strategy is not thought through carefully. Success lies in a strong internal organizational structure, in detailed franchise and operating manuals and in the recruitment of full time franchise specialized staff.



Franchisors do your homework

How does one avoid falling into the traps when starting a franchise? Most problems must be detected in the early implementation stages. A good eye for human resources, carefulness in the choice and quality of the products, and good internal organization are essential. No room should be left for improvisation and all aspects should be looked into, from suppliers and brand management to cooking and taste standards, as well as graphic identity, among others. The last two points can sometimes be incompatible with local habits, which must be taken into account. Lastly, human resources play an important role in the development of an outlet. Hiring, training and keeping the right people at the right place are keys to success. "Roles and responsibilities between the two parties should be clearly defined and agreed upon upfront," says Chehlaoui. "The franchisor provides a system and know-how while the franchisee manages and ensures the follow-up on operating manuals. Very often franchisees even expect the franchisor to operate!"

New markets, new habits

When it comes to marketing and advertising, the franchisee can choose between two systems. They can leave the marketing and communication management to the parent company, which unifies the strategy and emphasizes the brand identity. The franchisee can also develop the marketing strategy and adapt it to the specifics of the local market while respecting the brand identity. Margherita for instance, had to cover up some body parts of the angels in its logo to be able to open in the Gulf. The franchisor must be aware of the legal aspects to protect the brand in the countries of implementation.

Alternative franchise models

Some Lebanese restaurant owners opt to auto finance the opening abroad of their own restaurant or concept already developed in Lebanon without the help of a franchisee, as did the Lebanese Boubess group, which exported its own brands, such as La Piazza, to Dubai. This self-funding strategy happens the other way around too. Some Lebanese businesspeople create a concept abroad before opening in their home country, as did Mohammad Zeitoun who developed the sushi restaurant Maki in Kuwait before its Beirut version. A third scenario for expanding a restaurant chain is to sell the franchise concept before it exists. Jean-Paul Ramy, owner of Café Blanc, sold the idea of Living Colors in Saudi Arabia before launching the concept in Lebanon.

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From a legal point of view

Nagi Morkos, hodema consulting services, met with **Tarek Nahas**, managing partner of Sami Nahas Law Firm, legal advisor to leading Lebanese and regional hospitality and F&B franchisors and franchisees, who talks about the legalities of franchising

Are there laws in Lebanon to protect F&B brands wishing to franchise?

There is no special law that governs franchising in Lebanon. Franchising is subject to the relevant provisions of the applicable laws, including civil and commercial laws. However, a code of ethics determining the terms that apply to a franchising relationship does exist at the Lebanese Franchise Association. It is similar to the basic rules determined within the Codes of Ethics of the European Franchise Federation and the World Franchise Council. Its members must adhere to it. It would be advisable for a Lebanese franchisor to request from its franchisees to conform to the provisions of the above-mentioned LFA code of ethics. The term "franchise" remains legally undefined in Lebanon. Only one court decision has recently differentiated franchising from commercial representation and exclusive distributorship but this may not give a solid legal base to rely upon in case of disputes and claims, as it does not create a mandatory precedence that courts have to follow.

What is the legal framework for franchising in Lebanon?

Franchising in Lebanon depends mainly on the franchise agreement signed between the franchisor and the franchisee. In the absence of a special law, the main protection of the franchisor resides in the protection of its distinctive intellectual property rights, such as the trademark and the logo, and on the provisions of its franchise agreement. The protection of the intellectual property rights is of prime importance prior to granting any franchise as it protects such rights and prevents their use by third parties. With respect to the protection of intellectual property rights in Lebanon, the franchisor is advised to duly proceed with the registration formalities at the Ministry of Commerce and Trade and to make sure to be the first user of those intellectual property rights. Such registration assures a protection of the trademark for 15 years.

What advice would you give to a Lebanese F&B brand that plans to franchise?

To engage professional advisers to assist in preparing all operation manuals and to put a system in place to which a franchisee will have to conform to. Also to set up a proper and flexible legal structure to carry on its franchising activities in and outside Lebanon, and, most importantly, to register its intellectual property rights in Lebanon and the targeted countries and put together a solid franchise agreement.

What improvements can be brought legally to ensure franchise protection?

A new law should be passed to clarify and define franchising and Lebanon should become a member of the World Franchise Council. This would give the appropriate legal frame and protection. Furthermore, and on a micro level, instructions should be given to the officers at the ministry of economy and trade to abstain from registering a franchise agreement as a commercial representation or exclusive distributorship agreement. It may also be advisable to create a special register for franchising with simplified registration formalities.

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