Competing with the giants

Franchising homegrown food & beverage (F&B) concepts has become a trend in the Middle East. But how do the locally created concepts compete with the giant established international brands? **Jad Alameddine,** consultant at hodema consulting services, reveals his take on this

Creating a restaurant with the sole intention of franchising internationally has become a visible trend in the Middle East. Many restaurateurs and entrepreneurs in the region are continuously searching for gaps in the local F&B market and creating concepts that they hope will compete on a regional level.

A current example is the UAE homegrown brand Just Falafel, which was launched in 2007 in Abu Dhabi and has now expanded to seven countries with over twenty operating outlets and more to come. According to its CEO Fadi Malas Just Falafel should start to open one outlet per week around the world in 2013.

The trend is also tackling the mid-end market segment with the Lebanese homegrown brand "Margherita pizzeria del quartiere dal 1959", which is also expanding just as effectively but at a slower rate. Having opened its flagship outlet in 2008 in Beirut, Margherita now has already franchised 3 outlets in Lebanon and Saudi Arabia with openings in Kuwait and Dubai planned soon, bringing their total to around ten outlets by the end of 2013.

Giant operators

The competition for these homegrown concepts is stiff as well-known established international F&B brands are selling their territory rights in the Middle East to a few giant franchise operators such as Al Shaya or Americana, who require a high operating capital. Al Shaya owns territory rights to over twenty F&B brands and operates around 700 franchised outlets in the region.

Between 2011 and 2012, Al Shaya announced that it acquired additional F&B brands, including The Cheesecake Factory and the International House of Pancakes (IHOP) with aggressive expansion plans that include around 40 outlets. Other franchise operator groups exist in the Middle East such as the Lebanese company Azadea which continues to grow through territory acquisitions of brands among which Paul (outside Lebanon) and The Butcher Shop and Grill.

Room in the market

But is this aggressive expansion strategy of the operator groups leaving space for the homegrown F&B concepts and is the competition fair? The main issue for these regional homegrown brands, such as Just Falafel or Kabab-ji, is to compete against the expansion rates of the well-established international F&B brands such as McDonald's, Pizza Hut or Subway. And when one looks at the strategies of the global brands like Starbucks, it is clear that these established names from the West and the Goliath sized franchise operators in the Middle East have formed a perfect partnership for several reasons.

Firstly, the focus is on physical assets: these franchise operator giants, be it directly or indirectly, dispose of their own locations - mainly large scale malls - allowing financial savings on rent and ensuring primary commercial real estate locations.

In Kuwait, Al Shaya understood the importance of owning its own prime real estate in malls and has been the major shareholder for years of The Avenues Mall in Kuwait. Lebanon has recently witnessed the same strategy with Acres holding, a sister company of the Azadea group, which opened its third mall in Lebanon in August 2012, Le Mall Dbayeh, a USD 60 million dollar project accommodating now over 100 retail brands including F&B franchises.

Secondly, rather than finding multiple franchisees in different countries to operate their brands and establishing new logistics, they rely on a single partner in the Middle East, who would centralize the brand expansion throughout the region. The Americana group, owner of over ten international F&B concepts among which is Kentucky Fried Chicken, now counts for over 400 outlets developed in eleven countries.

Thirdly, these large franchise operators have the necessary financial leverage to enter into negotiations to acquire multiple regional franchise rights.

Finally, and as a result of the above, it is the fastest way to keep the brand growing. Starbucks arrived in the Middle East in 1999 with one outlet in Lebanon and one in Kuwait. Starbucks partnership with Kuwaiti based Al Shaya has allowed it to expand with the group to over 560 outlets in the region.

Homegrown brands

While the major regional franchise operators continue to expand all their brands rapidly in the area, the homegrown F&B brands are attracting another type of group: equity funds, financial institutions and private investors. They are taking notice of the small homegrown concepts and have injected cash in return for equity stakes. This strategy is a win-win situation for both the equity funds, as they invest in the F&B cash business and allow the homegrown concepts to develop with more aggressive expansion plans.

Recently, Ant Ventures the parent company of Lebanese homegrown "Casper and Gambini's" entered into a joint venture with the Zahed Group, a Saudi Arabian based holding company, which will help propel its brand on a global level with the required financial capital. Another financial institution, Abraaj capital, is also looking very closely at Lebanese F&B homegrown brands.

Essential tools

Financial leverage is a luxury most of the local F&B concepts still do not have, and whilst they continue to build on it, they are not ready to sell their territory rights to these large operator groups.

They constantly work on fine-tuning their systems, establishing their brand equity by creating operating manuals and adapting their offer to match the market gaps. Branding and social media are also today an essential tool in their expansion strategy and are among the vital means to compete and become a financially attractive model.

The F&B market in the Middle East, especially in the Gulf, today shows that there is room for both the local concepts and the established brands. Recently, some local F&B brands have been able to demand franchise entrance fees as high as their international counterparts, which results in an almost direct competition with one another.

The investor groups and funds certainly inject more capital into the homegrown F&B brands and will allow them to compete with the giant brand in a much shorter time frame. Furthermore, local F&B brands are now franchising their stores in Europe and the United States, such as Lebanese owned BRGR Co which has recently franchised an outlet in London, and the Lebanese created Armenian concept restaurant Al-Mayass, which went further west and opened an outlet in New York, increasing its total outlets around the world to five.

"By default we will be competing with the larger brands as falafel products becomes a core element of the food mix. Today even the largest mall operators now consider it as a pillar amongst other food offerings," says Fadi Malas. So, whilst the established international F&B brands continue to expand rapidly in the Middle East, the local F&B concepts keep finding strategies to grow and expose themselves to the competition.

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Middle Eastern F&B operators

Group	Brands	Outlets per brand	Total outlets
Al Shaya	Starbucks	564	702
	PF Chang	5	
	The Cheesecake Factory	2	
	Dean & Deluca	4	
	Le Pain Quotidien	16	
	Pinkberry	57	
	Texas Roadhouse	2	
	Shake Shack	2	
	Al Forno	4	
	IHOP	2	
	Potbelly Sandwich Shop	6	
	Pizza Express	11	
	The Gaucho Grill	2	
	Pei Wei	1	
	Garrett Popcorn Shops	2	
	Teavana	2	
	Asha's	6	
	Brasserie de l'étoile	1	
	IZ Juice	1	
	Noodle Factory	4	
	Thai Chi	2	
	Castania Nut Boutique	6	
Azadea Group	Kösebasi	4	49
	The Butcher Shop and Grill	6	
	Argo Tea	1	
	Paul	26	
	Columbus Café	8	
	Pulp	4	
Americana Group	KFC	438	1106
	Hardees	199	
	TGI Friday's	33	
	Pizza Hut	137	
	Chicken Tikka	36	
	Red Lobster	1	
	Fish Market	8	
	Krispy Kreme	116	
	Samadi	7	
	Maestro	1	
	Costa Coffee	51	
	Grand Café	11	
	Signor Sassi	1	
	Fusion	3	
	Baskin Robbins	64	
Homaizi Group	Burger King	58	123
	Pizza Hut	48	
	Applebee's	5	
	Taco Bell	1	
	Kababji	9	
	Burj Al Hamam	1	
	Boost Juice Bars	1	

Source: Groups' websites