

## FOODSERVICE FRANCHISING; successful business formula or 'money for old rope'

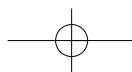


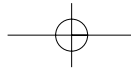
**F**ranchising has been with us in foodservice for many years. It has brought us icons such as McDonalds, KFC and Pizza Hut and made Ronald and the Colonel household names. Franchising has also brought us some pretty awful food concepts dotted round the world which I won't mention!

In future articles, I will be discussing a number of foodservice franchising case studies across a broad range. Here I would like to provide a perspective on this industry which counts close to a million companies worldwide and provides 18 million jobs in the US alone.

I have been lucky to work in franchising all my life. I've seen

**Stefan Breg**





it transform people's lives making millionaires of people who started with modest sums. Franchising has become the single most influential business element of the foodservice sector and it often provides entry jobs for the unqualified and unskilled. There is even a school of thought that says that franchising was one of the factors which liberalized Eastern Europe and brought an end to the communist regimes in the 1980's. McDonald's and Pizza Hut had become lifestyle icons for East Europeans fed previously by government-owned canteens. It is argued that the fast food brands combined with Dallas, Dynasty and the advent of satellite TV, gave East Europeans the impression of opulent lifestyles in the West fueled by the availability of exciting and affordable Big Macs!

The reality is somewhat different; all franchised concepts are based on simple business formulae with food that is easy to replicate, under-pinned by solid margins and relatively low capital investment.

**Franchising - recipe for success**

Franchising has grown from a foundation in US 'fast food' in the 1960's to domination of casual dining such as Chili's and Pizza Hut. Franchising now even surfaces in more upscale dining such as Trader Vics, Buddha Bar and deals with celebrity chefs. These agreements in upscale dining are often closer to license deals but nevertheless, the common thread is that the franchisor has a successful business formula which he/she wishes to expand using other people's capital. Nothing beats getting rich on 'other people's money'.

However, franchising is not as simple as it seems. The systems that support KFC, BK, McDonalds etc have been refined and evolved over the years. These companies spend huge amounts on research & development and are constantly evolving their product range. KFC in particular has a product range that you would barely recognise from the 'Two Pieces and Chips' which dominated in the 1980's.

The 'fast food' brands (more accurately defined as counter service) have also done an admiral job of adapting to the Indian market in terms of product range. McDonald's success in reducing its reliance on beef in India has provided them with learning points for their international future in a world where there is increasing awareness of the environmental impact of beef production. The increase in health awareness internationally also means that the days of the Big Mac are numbered in favour of items with lower calories.

You can't do a review of franchising without looking at its impacts on people's lives. Franchising in foodservice has provided many with successful and rewarding careers. Franchising is frequently ruthlessly competitive which means that employees build surprising loyalty to their brands and work hard as a team to compete. I will never forget my days with Burger King; we watched McDonald's every step from new products and price changes to new sites and TV advertising. It was pure competition; you could simply look across the road and see what your competitor was doing on an hourly basis.

**Wealth creation**

Foodservice franchising has created some very wealthy individuals. It is often said that KFC created more millionaires in the US than any other business model. Franchisees can be a very diverse bunch from owner operators to large corporations. Franchise investors are often a contradiction. The self-made entrepreneur may choose to invest in a foodservice franchise only to find that he/she is frustrated by the strict operating and brand marketing confines of any self-respecting franchise concept.

If you are thinking now about franchising, start by ask yourself some simple questions;

- ◆ Why am I interested in franchising (investment/diversification/vanity)?
- ◆ Is this concept proven? Successful track record?

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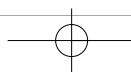
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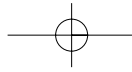
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Filling a gap in the market? Unique?

- ◆ Is the franchise recommended by existing franchisees?
- ◆ Do the fees reflect the market potential for the concept and the level of support you can expect from the franchisor?

**India the number 1 market**

India is arguably the world's no1 market in terms of franchising potential. This vast market has all the necessary factors to make foodservice franchising a huge area of growth. India has young aspirational consumers and a growing foodservice market. The availability of sites is improving as more malls open and India has a young, well-trained workforce. According to The Food Franchising Report 2009 (FICCI-CIFTI & Franchise India Holdings Ltd), the Indian foodservice market is worth USD 11 billion and organized retail makes up only 8% of this total. The

potential is therefore excellent but could be held back if government legislation does not adapt to support this growth potential by reducing restrictions on royalties and fees. Indians also have a unique commercial acumen which will prove a valuable source of franchisees. In our experience, Indians have a knack for being able to sort out the genuinely hot concepts from the deadwood. We've seen some weak international franchises pop up in the Middle East; somehow we think Indians are more wily and will spot the winners more effectively. One thing is for sure, growth in India's foodservice market will be fueled by franchising. ◆◆

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**McDONALD'S IN EARLY DAYS**



First McDonalds in Moscow 1990



First McDonalds

First KFC 1957



First McDonalds

