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## **Analysing “Gula’s for Kitchen Lovers” and its franchising opportunity**

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Master Thesis – Hospitality and Tourism

Doutor Nelson Campos Ramalho, Associate Professor, Iscte – University Institute of  
Lisbon

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## Resumo

Esta tese de mestrado tem como principal objetivo analisar a empresa “A Minha Gula – Gula’s for Kicthen Lovers” e, mais concretamente, a sua viabilidade de franchising. “A Minha Gula” é um restaurante situado na zona do Saldanha em Lisboa que serve comida gourmet e típica portuguesa. Este projeto começou pela investigação de informação necessária a perceber o conceito de franchising, incluindo as vantagens e desvantagens, a relação entre as duas partes e os requisitos legais. Depois de obter essa informação foi feita uma análise de mercado com o objetivo de analisar as oportunidades do negócio, tendo em conta diversos fatores, internos e externos. Acrescentando a isso, foram feitas duas entrevistas, uma à CEO do restaurante em questão e outra ao CEO duma cadeia de restaurantes franchisados. Por fim foi elaborado um plano de financiamento para abertura de um restaurante-tipo franchisado e projetados os valores de faturação e custos mensais, resultando no retorno monetário líquido. No final, ficou concluído que era viável a elaboração deste projeto devido aos números apresentados.

**Palavras-chave:** Franchising, Restaurante, Turismo, Indústria

## Abstract

The present master thesis has, as main objective, the analysis of the company “A Minha Gula - Gula’s for Kicthen Lovers” and, more precisely, its franchising viability. “A Minha Gula” is a restaurant located in the Saldanha area in Lisbon that serves gourmet and typical Portuguese food. This project started by researching the information necessary to understand the concept of franchising, including the advantages and disadvantages, the relationship between the two parties and the legal requirements. After obtaining this information, a market analysis was carried out in order to analyse the business opportunities, considering several factors, internal and external. Adding to that, two interviews were made, one to the CEO of the restaurant in question and another to the CEO of a franchised restaurant chain. Finally, to understand if this project could or not be lucrative, a financial evaluation was made based for a prototypical franchisee, and the projected income and monthly costs were made, resulting in net monetary return. In the end, it was concluded that the elaboration of this project was viable due to the figures presented.

**Keywords:** Franchising, Restaurant, Tourism, Industry.

## Executive Summary

The hospitality and tourism industry is deeply rooted on the principle of mobility. The long trend of increasing tourism, not only in Portugal but worldwide, has been put on hold by the unexpected Corona virus crisis, without a foreseeable end, but it will most probably resume once the issue is overcome. We might say that the installed capacity for tourism may be affected by Covid-19, meaning that people might stop going there personally, but the concept of “eating outside” remains the same, in the way that people still want the convenience of eating something made in restaurants and not by themselves. Therefore, restaurant managers must take benefit of the already existent brand image of their own and create a new relationship with the customers. A great advantage of restaurants compared to other domains of activity in tourism, hotels for instance, is that hotels cannot provide their service or product through internet, obviously they can sell a room via e-business but if customers want to enjoy the stay, they will have to go there personally. On the other hand, within the food industry it is possible to build a new strategy, during this hard Covid-19 times, and invest on e-business, since people can still order food and start to enjoy it in less than half an hour, instead of walk there and put themselves at risk, since that is their main personal concern.

The most pre covid-19 recent studies, made by the WTC (World Trade Center) in 2020 stated that Portugal tourism’s revenue reached 4.28 billion € in 2019, an equivalent to approximately 18% of its’ total GDP, an increase of 7.3% from 2018. The capital of Portugal, Lisbon, has been and continues to be, one of the most visited cities in Europe for the past years, it still is considered by numerous tourists, a great gastronomy destination. Studies found that the attractiveness of tourist destinations can be influenced by local food specialties and it can positively affect the likelihood of (re)visiting both the city and the restaurant (Alderighi et al., 2016). Due to the importance of gastronomy as a touristic asset, restaurants must not only comply with contingencies such as the Covid-19 as they must find ways of reaching customers via a sustainable and effective growth strategy. Franchising is a well-known and suitable strategy that can relate with current challenges.

This project aims to analyse a Portuguese restaurant situated in Lisbon, “Gula’s for kitchen lovers” (GKL), also known as “A minha Gula”, more specifically, its’ franchising opportunity. *A Minha Gula* was created in 18<sup>th</sup> July 2011, at start, it focused

more on selling kitchens than selling food. The years went by and it was noticed that the food was actually what was selling the most, so the whole idea of the business shifted, and now it does not even sell kitchens as it focused exclusively on being a restaurant. Now more than ever, due to the higher competition and to the fact that people can easily comment and provide a feedback of their experience, and be heard, restaurants need to pay a special attention to customers' personal tastes and preferences due to the higher competition. *A Minha Gula* has a distinct way to deliver its personalized service, it has a kitchen open to the public, where customers can interact with the cookers, and a menu which changes every day, differentiating it from the majority of the restaurants that have the same menu every day, with maybe an exception of the "plate of the day". The restaurant has also a great location. It benefits from being in a zone in Lisbon that is both very touristic and office populated (Including: near to the Caixa Geral de Depósitos headquarters).

Among the many strategies a business can adopt to grow, franchising has been gaining momentum (Dogru et al., 2020). As it is known, franchising a business has a great deal of advantages, not only for the owner but also for the franchisee. One of the most important advantages concerns the value of the brand and its image. The road to success of the business is halfway through, if a significant brand recognition factor can be established and preserved in the minds of the consumers and franchisees (Holmes, 2003). This business plan aims to design a strategy to develop a master franchise and its deployment in the Portuguese restaurant market taking into consideration the above-mentioned contingencies. For such purpose a benchmark on existing franchising business plans were analysed and best practices extracted in order to avoid common mistakes. The master franchise strategy and plan were designed to be readily put into practice by showing its legal requirements.

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## 1. Introduction

This project is focused on an important strategy for organizational growth without the usual need for large sums of capital: franchise. Usual approached from the perspective of the franchisee, this strategy has been lacking in systematic analysis from the perspective of the franchisor. However, it is undoubtedly an attractive option to leverage organizational growth.

The specific choice for a project, instead of a thesis, originated from the personal opportunity to put in place such project while, simultaneously, being challenged to apply the knowledge gained during the master course. A project at this level requires both the development and clear explanation of a business opportunity taking a real organizational setting as the baseline for its development. Additionally, a project requires the mobilization and review of extant literature as well as the knowledge available about the market, the business sector, with a focus on industry analysis and marketing plan together with the financial evaluation, development of strategy and policies that are integrated to offer a comprehensive view of the viability and nature of the business idea itself.

The following pages will reflect precisely the options made and analyses done pertaining to these topics targeting a master franchise proposed to an existing restaurant. Having opted for this line of business is not only a decision that aligned the topic with the nature of the Master in Hospitality and Tourism as it is also a decision that came from being personally acquainted with the industry, having been given the chance of developing the idea within an existing organization, and having been entrusted with the possibility of actually implementing it. With this in mind, the following project starts by describing the business proposal, reviewing literature that helps in understanding the nature of franchising, the specific relations between franchisor and franchisee, the advantages, disadvantages and cautions that one should be aware of, the legal requirements, and the strategic planning for the business itself, after having considered the important contingency of COVID-19.

Having achieved this, the project shows the methods deployed to gather and treat information to conduct the market analysis, namely, the PESTEL and SWOT analyses, industry analysis, and marketing plan. Additionally, the project elaborates on the financial evaluation and ends with the foreseeable development strategy and policies.

## 2. Description of the business proposal

According to Lee et al. (2016) there are an abundantly number of ways to improve a restaurant's performance. It could opt for developing a new product or a new market opportunity, critically improving human resources or building an innovative environment (could innovate a product, the service or even the process of servicing). Franchising comprises the majority of these opportunities. The most important according to the authors is defining the core purpose, the franchisor and the franchisee must have a clear idea of what they really desire with the business opportunity, they should have an identical common goal, expansion and income expectations. Considering this, the franchising plan idea was proposed to the owner of GKL, in which it was agreed, as well as a "green light" to access all the private information that may be needed. Therefore, as stated, this project has the primary objective to evaluate and analyse the potential of a possible master franchising of GKL, by studying existent franchising plans of restaurants' brands, in order to create one meritorious plan and worthy of being successful.

To achieve this there are many considerations pertaining to franchising and the specific restaurant that must be taken into account. For example, according to Norton (1988), franchising has been designated as a strategy to expand chains in the global market, due to the advantage of lower monitoring expenses in managing geographically spread units of the business. However, franchising seem to have a limit to its value adding effects as a study conducted by Koh et al. (2009) analyzing the value franchising adds to a restaurant firm, found that restaurant companies seem to enhance their value more as they franchise at a low degree.

Additionally, restaurant franchising could also add value to the brand by understanding the local culture, customs, and values (Alon et al., 2010). However, cultural considerations can also be a challenge to franchising. Within hospitality and tourism industry, cross-cultural considerations are usually called for all phases of the service, from advertising to delivery. As tourists, that are expected to have some awareness of the local culture, religion and way of living, so do restaurants that franchise internationally have to take into consideration food preferences and restrictions related to several religious, environmental and sociocultural factors. Because GKL, at least for this moment, is intending to just operate in Lisbon, all the above factors are not critical, in a

way that the customers are the same, they share the same culture and religion (most of it), and the same goes for the environment, in which the restaurant is implanted. Still the menu has room to accommodate all sort of idiosyncratic requirements and food restrictions.

Taking in consideration all of these factors, this business plan is structured to explore the literature review akin to franchising and especially restaurant franchising and to critically analyse the pros, cons and precautions in this line of business.

### 3. Literature Review

#### 3.1. Franchising and Master franchising

It has never been entirely clear who was the originator of the business system that grew into business format franchising based on the reading that was made, but whoever came across this innovative business idea, changed the whole perspective of specific business sector. However, it is known that the principle of franchising has existed for many years, since the time of kings and romans where rulers granted the right to some individuals to collect taxes, compensating them with a percentage of it. The rapid development of franchising started in the late 1800s coinciding with the Industrial Revolution (Beere, 2017).

The term “franchise” comes from the French concept “free from servitude”, practically speaking, that would mean that businessperson is free to run their own business (Norton, 1988, pp. 197-201).

It can be agreed that the concept of franchising is just one and equal for everyone, but it really comprises different perspectives. Firstly, starting from the economic perception franchising is a leading aspect for comprehending the economic structure of contacts (Combs & Ketchen, 1999). The marketing perspective for instance, has a different approach, frequently considering franchising as a distribution channel. From the view of an entrepreneur, and from the franchisor/franchisee, it works as a transportation for entering business ownership (Shane & Hoy, 1996, pp 325-226).

Independently of the perspective, franchising may be taken as “a system of marketing goods and/or technology, which is based upon a close and ongoing collaboration between legally and financially separate and independent undertakings, the franchisor and its individual Franchisees, whereby the Franchisor grants its individual Franchisees the right, and imposes the obligation, to conduct a business in accordance with the Franchisor’s concept” (EFF, 2016). In this same document produced by the European Franchise Federation, namely the European Code of Ethics for Franchising, it is stated that such right “entitles and compels the Individual Franchisee, in exchange for direct or indirect financial consideration, to use the Franchisor’s trade name, and/or trade mark and/or service mark, business and technical methods, procedural system and other industrial and/or intellectual property rights, supported by continuing provision of

commercial and technical assistance, within the framework and for the term of written franchise agreement, concluded between the parties for this purpose”. (EFF – European Franchise Federation 2016). In other words, and giving a more informal definition of it, franchising is a business method by which the owner (franchisor) of a product or service acquires distribution through financial independent but juridically bounded dealers (franchisees).

A franchising is based on a contract signed between a legitimate business owner (franchisor) and individual franchisees. A franchisor will hold a Master Franchise which is the legal instrument that supports the contractual conditions mutually agreed by the franchisor and a franchisee. Occasionally, a master franchise refers to a sub-franchising where the original franchisor acknowledges the power of an individual entity to operate in a specific territory on their behalf. This implies subordinated power as the original franchisor retains supervisory functions and the master franchise, thus mentioned, is more properly named as sub-franchising.

### 3.2. Franchisor – Franchisee relationship

With the concept of franchising comes the relationship between the franchisor and the franchisee. Franchising is not only an economic system, but also a social system, in which the franchisor(s) and the franchisee(s) have a close working relationship. The franchisor needs to continuously provide a licensed privilege to the franchisee to do business; contributing with assistance within the organization, training, merchandising, marketing and managing. Franchising a business offers a great profitable opportunity for both parties who share a cooperative relationship among them. Numerous studies on the matter revealed that great part of successful franchised businesses showed a huge benefit from the decent relationship between parties. Both franchisors and franchisees have personal professional aims that can be accomplished by teamwork and confidence. According to (Strutton et al., 1995, pp. 81-91), this relationship has to be developed on trust, communication, mutual respect, cooperation, integrity, and professionalism. They stated, “The symbiotic relationship between the franchisor and the franchisee is the primary basis for success in franchising”. Since both parties want a positive long-term relationship it is crucial that there is honest mutual understanding of all undertakings, in other words, it is imperative that they mutually understand all operational aspects of the

business. According to (Badrinarayanan et al., 2016) agreeing to enter this type of business with some salesperson just because of the capital he/she brings is very enthusiastic and not recommended, since it might have short-term flow of income but in a long-term it can demonstrate to be very costly. He stated, “It is better to say “no” to a mismatched franchisee rather than suffer the consequences later on”. Profitable franchised businesses are those whose parties start their relationship with clear grounding terms and align their objectives and goals (Shaikh et al. 2018)

For most of the cases, an interview is made from the franchisor to the franchisee with very specific questions concerning work ethic and personality. Those questions are made to forecast and franchisee behaviour in the company and evaluate if he/she seems to be trustworthy or not.

### 3.3. Pros, Cons and Precautions

When it comes to franchise a business, there are substantial advantages to the franchisor, to the franchisee and also to the consumer. Although the relationship between both parties have a huge impact on whether to profit from those advantages or not, as mentioned above, there is a basic concept for pros and cons. For the franchisor, it provides a lucrative and organized strategy for marketing and hasty expansion with almost no direct involvement and financial investment. The franchisor will give the necessary assistance, as specified in the contract, such as advertising and training, he/she will also provide continuous supervision, but not having direct connection with the organization, profiting with royalties. For the franchisee it indicates an opportunity to own and operate a business concerning an established concept or a business format with a minimum financial risk. He/she will also benefit from consumers’ recognition of the franchisor’s brand name and trademark. And, as stated above, costly operating and marketing mistakes can be dodged since it is provided by the franchisor as part of the arrangement. And as for potential consumers, franchising provides a way to receive services in a reliable and predictable manner. Taking the example of **Gula’s for Kitchen Lovers (GKL)**, most of the people that go there are daily clients, they have a great and cozy relationship with the owner, and they know the brand name, and according to *Tripadvisor* and *Zomato* platforms the service and the food are excellent. This means that, wherever another GKL opens, people that know the brand will expect the same service and food quality as they

have on the original restaurant. If the franchising plan and continuous teamwork between parties is properly executed, it can result in a win-win situation (Heung et al., 2008)

The involvement of the franchisees in the franchise structure can result in numerous advantages for them, and, generally, the vast number of advantages of franchising are actually what makes it an effective method of creating business opportunity. The advantage for the franchisee, among others, is obvious, clearly, he/she has the minimum risk possible since the concept is already established and the tools for success are already given. In this case, it will be mentioned the pros and cons concerning the franchisor, since this is master franchising business plan. However, it is important to state that the pros and cons of the franchisee will also be considered.

It is clear that, for the franchisor, franchising supplies more monthly income due to the royalties received by the franchisee. Furthermore, it provides an opportunity of business expansion, it does so, by giving franchisee(s) the prospect of more income. According to (Hussain, 2016), many investors may join in the business as a restaurant franchise expands, due to the lack of extravagant business experience needed, therefore attracting capital for expansion by either direct investment by the investors or the sale of franchises, and this is why, the more a franchised business grows, the more a franchised business grows. Additionally, buying power. One restaurant involves large amount of ingredients and equipment purchase, imagine two or more. A franchisor may benefit from bulk buying for the original restaurant plus for the franchisees. Bulk buying can also provide collaborative arrangements or even contracts with suppliers, giving discounts on products, materials or equipment, depending on the agreement.

In spite of being a financial asset, franchising a business also provides disadvantages. Franchisees may build certain expectations that will not be fulfilled, they expect instant profit, maybe because of other franchised businesses' success (Baresa et al., 2017). It is important to understand that it entails hard work, time and motivation. For a franchisor, in general, the worst part about franchising the business everything in which is not under his/her control. The franchisee's financial situation for instance, it may impact the system and endanger the operations and overall profitability of franchisor's organization. There are a few more disadvantages of franchising a business, such as lack of communication, lack of freedom, the franchisee recruitment and selection, (Sun et al., 2019) but it all comes down to the bond and communication between both parties. Interestingly, the cons of franchising, for the franchisor and comparing to other type of

business, are exclusively related with the franchisee and his/her relationship with the franchisor. Franchising not only provides mutual benefits to franchisors and franchisees, but also, economic speaking, it provides benefits to a region such as increased employment and tax revenues.

Franchising systems have a great impact on the economic development results around the world (Kaufmann, 1999). Obviously, for a franchisor, there is a possibility for the plan to fail. This part of the study focuses on the importance of predicting failure and management strategies on entrepreneurial franchise decisions. According to (Bates, 1998), franchise failure research is firmly influenced by the failure concept underlying the study's research perspectives, data collection, analysis, and resulting research conclusions. According to (Holmberg & Morgan, 2003), there are several common mistakes in a franchised business, that need to be taken into account and to come up with the corresponding precautions. Deciding the future of the company grounded on information taken from unreliable sources such as the internet. The franchisor, if he/she wants a successful merger, and be provided with accurate company information, personal visits is essential. Not having a clear strategy planning of any possible future changes. Making verdicts based on the success of a competitor; different concepts have different ways to get to success.

Comparing previous franchise failure research is difficult due to the inconsistency of failure concepts and definitions. Numerous recent studies have proposed that, instead of defining franchise failure, it is more important to view the process comprehensively (Holmberg & Morgan, 2003). GKL will take advantage of this information and avoid these common mistakes. Nevertheless, there are still lessons to be learnt and, in order to avoid common mistakes, cautious analysing and planning is needed. As mentioned above, to increase the quality-assurance ratings, the overall performance and, of course, the profit of the company, franchisor and franchisee need a strong marketing partnership and relationship with each other. All combined results in customer satisfaction.

### 3.4. Legal requirements

Franchising is a legal contract between a franchisor and a franchisee. There are legal principles that should be considered to define “franchising”, since there can be pointed several rights that pass from one party to another. From a legal perspective and according to a report by the U.S. Congress House Committee on Small Business “franchising is essentially a contractual method for marketing and distributing goods and services of a company (franchisor) through a dedicated or restricted network of distributors (franchisees).” Legally speaking and under the terms of a franchise contract, the franchisor grants the right and the license to the franchisee to sell a product or service or both, using the franchisor’s brand name and/or its business organization. The contract enforces obligations and privileges for both parties. A product, training and marketing support must be provided by the franchisor, and on the other hand, the franchisee brings financing and managing skills. Certainly, it is incredible for the franchisee to be obligated to assure the success of the business, however, he/she must defend the brand’s name and image at all costs, so it is advisable for the franchisor to determine whether the franchisee is trustworthy or not. The franchisee typically gets the rights to the business model for a specific time period and in a specific geographic area (Spinelli, Rosenberg & Birley, 2004). In the best scenario both parties’ triumph, the franchisor expands its brand and gains additional income and the franchisee has a business of his or her own to run.

As a fundamental instrument for the regulation of rights and duties of parties involved in a franchising relation, a contract can clarify the nature of the business and how the parties are expected to behave. Pipes (2020) succinctly but comprehensively structures the most central topics involved in a franchising contract. For rigor sake, a transcription of the contract as designed by Pipes (2020) is reproduced below: “The franchise agreement is essentially a legal document between the franchisor and you (the franchisee). It is a legal binding agreement. It explains in detail what the franchisor expects from you, as a franchisee, in the way you operate every facet of the business. There is no standard form of franchise agreement because the terms, conditions, and the methods of operations of various franchises vary widely depending on the type of business.

Every franchisee is required to sign the franchise agreement, and the franchisor will also sign the document. A word of caution, a franchise agreement is a binding legal document and you may want to have a franchise attorney review it on your behalf prior to signing.

- ✓ Location/territory. The franchise agreement will designate the territory in which you will operate and outline any exclusivity rights you may have.
- ✓ Operations. This section details how franchisees are expected to run their units.
- ✓ Training and ongoing support. Franchisors offer training and training programs for franchisees and their staff. Training may take place at corporate offices or out in the field. All ongoing administrative and technical support will also be outlined in the agreement.
- ✓ Duration. The document will detail the length of the duration of the franchise agreement.
- ✓ Franchise fee/investment. There will generally be an upfront initial franchise fee that grants the franchisee the right to use the franchisor's trademark and operating system. Those costs will be clearly outlined.
- ✓ Royalties/ongoing fees. Here you will find the details of the franchisor's royalty structure. Most franchisors require franchisees to pay an ongoing royalty, usually a percentage of total sales, which is often paid on a monthly basis.
- ✓ Trademark/patent/signage. This section will outline how a franchisee can use the franchisor's trademark, patent, logo and signage.
- ✓ Advertising/marketing. The franchisor will reveal its advertising commitment and what fees franchisees are required to pay towards those costs.
- ✓ Renewal rights/termination/cancellation policies. The franchise agreement will describe how the franchisee can be renewed or terminated. Some franchisors include an arbitration clause. This requires, in the event of any legal action, that an arbitrator review the case before it goes to court.
- ✓ Exit strategies. Every franchise has its own resale policy. Some allow franchisees to sell their franchises at their discretion. Other agreements include buy back or right of first refusal clauses. These allow the franchisor to buy back the franchise at a rate determined by them or to match any potential buyer's offer.”

Below are some important definitions of concepts that may be on a franchising agreement according to Khan (2014), which are most likely to be unknown:

***“Leased department*** means an arrangement whereby a retailer licenses or otherwise permits a seller to conduct business from the retailer’s location where the seller purchases no goods, services, or commodities directly or indirectly from the retailer, a person the retailer requires the seller to do business with, or a retailer-affiliate if the retailer advises the seller to do business with the affiliate.

***Prospective franchisee*** means any person (including any agent, representative, or employee) who approaches or is approached by a franchise seller to discuss the possible establishment of a franchise relationship.

***Sale of a franchise*** includes an agreement whereby a person obtains a franchise from a franchise seller for value by purchase, license, or otherwise.

***Signature*** means a person’s affirmative step to authenticate his or her identity. It includes a person’s handwritten signature, as well as a person’s use of security codes, passwords, electronic signatures, and similar devices to authenticate his or her identity.

***Trademark*** includes trademarks, service marks, names, logos, and other commercial symbols.

***Written or in writing*** means any document or information in printed form or in any form capable of being preserved in tangible form and read. It includes typeset, word-processed, or handwritten documents; information sent via email; or information posted on the Internet. It does not include mere oral statements.

To summarize, a franchising contract grants the franchisee the right and license to market a product or a service, or both, using the franchisor’s trademark, and in return, the franchisee’s form of payment is usually in royalties, but can be altered if written in the contract.

### 3.5 The COVID-19 factor and its implications

The world has experienced a number of major epidemics/pandemics in the last 40 years, yet none had similar implications for the global economy as the COVID-19 (Corona virus) pandemic. There is no need for a formal definition of the virus since everyone is aware of what it is, what is important is to consider the impacts it had and still has on the world, more precisely on the restaurant industry. With restaurant closures in most countries, and an expectation that social distancing will have to remain a key strategy to manage COVID-19 in many countries for several months, it can be expected that restaurants will face problems recovering, specifically as they usually have limited liquidity and small profit margins. The operational alternative is where restaurants are allowed to stay open for take-away customers, also requiring fewer staff. The question is: As a restaurant, what strategy can be implemented to improve during these hard times, to get the good out of a bad situation?

The emerging GKL will comprise the same strategy as for the client satisfaction focus, with the addition of developing an E-business tactic. According to several of researches, and as mentioned below, many restaurants “survived” the COVID-19 and still do, because they invested/invest on the E-business. The hardest time was the beginning, after the lockdown and re-opening of the facilities. Although its’ occupancy was under 50% for most of the restaurants in Lisbon, restaurant managers kept it open to public but prioritizing slightly more the take-away and home-delivery because they figured that people did not suddenly start cooking every day, what changed was that they stopped going to the restaurant personally. To some extent, the emerging GKL will also focus and give more attention to take-away and home-delivery through platforms such as UberEats and Glovo, which is what the already existent GKL is doing.

### 3.6 Strategic Planning for A Minha Gula

Several number of analysts in strategic management give more importance to strategic planning process and consider its implementation insignificant in accomplishing the organization's goals. Absence of emphasis on implementation method may be attributed to the assumption that firms that reach a level of sophistication sufficiently high to own official strategic planning, tend to be better prepared as strategy implementors. This assumption lacks both theoretical and empirical support. However, according to (Parsa, 1999), bias toward planning process over implementation methods still dominates the strategic management literature.

According to (O'Neill & Mattila, 2010), one issue that ascends with franchising is the possibility of contrary result on the brand perception in a property that is operated by a third-party manager. Franchising has a huge role in the growth of the restaurant industry. More than 56% of fast-service restaurants and 13% of full-service restaurants are franchises (Cao Y, 2015). Their study states that consumers are more likely to choose a restaurant with a familiar brand name, than local restaurants, because they know the brand, and also to avoid losing time searching for restaurants in unfamiliar locations. Due to this consumer behavior, restaurant chains have chosen franchising as the favored system of expansion). They concluded that there are some factors that may increase the likelihood for a restaurant to engage in franchising, such as the rapidity of a restaurant's growth and quickness of the restaurant's service. Quick-service restaurant firms are more likely to franchise than other types of restaurants, which fits with A Minha Gula's concept: Quick service and less time waiting. There is a factor that may do the opposite, according to them, the older a restaurant firm is, the less likely to engage in franchising. The restaurant firm in hand is new, along with his type of service, there is not many restaurants offering the same type of service than this one. The idea for the franchised restaurant is to maintain the same concept, meaning that it will use the same products, the same logistic, and the same kind of service. There will be two different aspects coming with the new restaurant, first, the menu. The menu is going to be different, the same concept of food but diversity of dishes, with the simple reason that, this way customers are not "getting bored" of eating the same food over and over again. Doing this menu strategy will facilitate rotativity between restaurants, giving an option, for the client, of eating something else but still be within the company. Second, the staff, obviously one

person cannot be in two places at the same time, so the recruitment and selection process will depend on me, since I am to act as the master franchisor of the business. The candidates will have to be chosen wisely based on experience and personality, and most important, motivation is a must as long as their time at the firm, it could be with an annual bonus or trips to go abroad for example. For the long-term strategy, and if the first franchised restaurant profits, the idea is to expand it even more, and franchise it. If it comes to that, someone interested in franchising the business is going to be needed. An interview would be made to understand if that candidate is the right one. According to (Hussain, 2016), motivated franchisees devote a substantial amount of their asset and time in the business, therefore it is the franchisor goal to sue to it. On the other hand, it is the franchisee responsibility of recruiting the staff for that franchised restaurant, the concern of the franchisor is about motivating the franchisee. If after an explicit time of success, reducing the royalties will encourage the franchisee to keep doing great work, which will be the motivation strategy in the long-term.

## 4. Method

Following the literature review two interviews were made. One to an anonymous CEO of a relatively big chain of franchised restaurants and the other to the owner of GKL. Both interviews made were semi-structured meaning there is a sequence of questions previewed in the interview script that could be adjusted or complemented by emerging answers.

Many researchers use semi-structured interviews because it gives time to prepare the questions, allowing the interviewer to show himself as a competent professional. Semi-structured interviews also permit informants the freedom of expression of themselves. It provides reliable, comparable qualitative data. Semi-structured interviewing, according to Bernard, (1988), is best used when you will not get more than one chance to interview someone. This was the interview format chosen to collect data pertaining to experienced sources. It can be said that the biggest value of semi-structured interviewing consists in being able to ask questions following the previous answer, in order to structure the conversation.

### **Data analysis**

Although data analysis was originally thought of to follow content analysis procedures (Bardin, 2009) the straightforwardness and briefness of the collected information precludes the use of such complex data analysis technique. Thus, in order to extract the meaning of the answers, a thematic narrative analysis is more suitable (Reissman, 2003). The nature of a franchising venture is prone to storytelling in the sense that whoever has that experience will report events or at least will refer (even if implicitly) to events to extract meaning and offer the personal account or advices about its nature, added value, risks, or implementation strategies. With this in mind, narrative analysis will be a suitable approach to gain insight both from an actor that is tenured in franchising (taken as experience) and from an actor that has no experience whatsoever with franchising (taken as expectations). The story and plot are subsumed if not explicitly made to convey meanings (Herman & Vervaeck, 2019).

## Interview scripts

Both interviews were intended to offer different perspectives on the franchising topic as the CEO is experienced in this domain and can offer expert advice on the requirements and implementation strategies while the owner's perspective is critical for the viability of options made in this business plan, especially as regards franchising related issues that can be an obstacle for its adoption. Both interviews are presented on the appendixes, pages 42 – 45.

The interview script designed for the CEO comprehends 6 questions (comprehending both, those that were pre-planned and those that emerged). Namely: **1) Tell me about your restaurant and why did you come up with the idea of franchising?;** **2) You mentioned that the opening of the first restaurant was 50.000 €, If I wanted to be your franchisee how much would it cost me now to open a restaurant with your brand name and image?;** **3) What do you do to bring franchising opportunities? What is your strategy to get people to franchise your business?;** **4) What is it? Your criteria of selection a franchisee? What makes you say “yes” or “no” to their request?;** **5) How can you be so sure that they will recuperate the money invested in two years?;** **6) What is your strategy now with all your restaurants and franchised ones?.**

The interview script designed for the owner of GKL comprehends 3 questions. Namely: **1) Tell me about your restaurant and what differentiates it from the other typical Portuguese food restaurants?;** **2) Have you ever considered franchising your business before?;** **3) What scares you the most about the idea of franchising your brand?.** This interview was purposively short as it was intended to understand the issues in franchising that could operate as main deterrents.

## 5. Market Analysis

To help substantiate this business plan, a market analysis will be drawn. It is important to analyse the industry and the market externally and internally, in order to come with a marketing plan. For the external analyses, the PESTEL tool will be performed, to evaluate the political, economic, social, technological, environmental and legal factors that may affect the company. For the internal analyses and to recognize the strengths, weaknesses, opportunities and threats, the SWOT tool will be implemented.

### 5.1. PESTEL analysis

#### **Political**

The political dimension pertains to the regulations and inspective activities that target food industry, namely, restauration. Like any business in the food industry, GKL must take political factors into consideration. As an example, following the restrictions of the health and safety regulations is the company's top priority. In this way, GKL and its workers handle the responsibility of their food products. The assurance of the service and product quality by a franchisor implies some sort of control over the service delivery and product quality of its franchisees.

The most efficient way to control such alignment of service and product quality is to set standards that also reflect the scrupulous observation of regulations. However, GKL has a vested strategic interest in pursuing differentiation by distancing itself from anything close to "fast food". Therefore, converting regulations into standards should not be made at the expenses of the differentiation strategy.

#### **Economic**

The economic outlook for Portugal, like many other service-based economies, sharply reversed on the onset of the COVID-19 crisis as hospitality represents a large share of its GDP as has greatly been disrupted by the crisis. According to the European

Commission's Summer 2020 Economic forecast report, Portugal was expected to witness an economic overall deterioration with Tourism being the most impacted.

A recent report issued by AHRESP (the Portuguese Association of Hospitality, Restauration and Akin Business) surveyed its associates to find that 38% of F&B participants stated their intention to file for insolvency (AHRESP, 2020). The same report informs that the financial strain has made up a substantial number of firms unable to pay salaries in full (10%) or at all (9%) thus showing 1 out of 5 firms is experiencing deep financial strain.

Another important factor is the inflation rate. If it increases, the prices of raw material crucial for production will also rise. Consequently, the prices of goods sold by the restaurant will also have to increase. This economic factor is linked to the consumer income, if there is a rise on the inflation rate, the prices of raw material will go up, and so will the restaurant goods, but if the consumer income maintains the same, he or she is less likely to order food or go to the restaurant personally (Khalid et al., 2020).

## **Social**

The social structure of Portuguese society is mostly stable which is also reflected in relatively steady job market where workers tend to have fixed work contract. Although unemployment rate tends to oscillate between 6% and 7% in the latest years, it has surprisingly fell in the 2<sup>nd</sup> quarter 2020 to 5.6% although the inactive population has increased 7.5%. This is suggestive of an increase in unemployment, and Hospitality and Tourism industry must have played a central role because 14% of H&T firms fired employees and an additional 24% admitted they must fire employees up to the end of the current civil year (AHRESP, 2020). This scenario strikingly contrasts with the ever-increasing availability of qualified workforce in Hospitality and Tourism as it has been a domain of strong educational investment.

Another social factor that can affect the restaurant business is the customers' desire for more healthy and organic food. According to (Demirtas, 2019), people are more informed, aware and more health conscious, therefore, meaning that they will prefer healthy food instead of junk or fast food. As mention by the GKL owner and based on information given by regular daily customers, several of them have a busy lifestyle and

late hours work at the office, which gives them no free time to cook proper food once they get home, leading them to order fast food. GKL is packed with this type of customers because it sells organic and healthy food and its service is as fast as a fast food restaurant because the food is already made upon customers' arrival, fulfilling their expectations and needs.

### **Technological**

With the COVID-19 virus, the technologic system within the restaurant needed to be upgraded. GKL had a normal IPO system but with the pandemic changes, where it is not advisable "the touch", every table of the restaurant has a sticker with the QR code to access to GKL's website on the menu part, so customers can chose without asking for the menu in form of paper. GKL also added MBway as a new payment method, once again to avoid touching the machines. In addition. GKL's website is being managed by experts in the matter, and every day in the morning, the daily menu is posted on social media to let people know and think about they want to eat even before they get there. According to GKL's customers, this menu idea worked very well since several of them are routine customers that work nearby and only have 1h of lunch time.

### **Environmental**

Environmental speaking, internal and external analysis must be considered. Inside the restaurant (internal), the atmosphere is appealing, clean, well decorated and a cosy environment with an average temperature of 20°C - 23°C, varying depending on the season. Outside the restaurant (external), the street is safe, it is situated in a well frequented area with easy accesses, with parking for the car and between two metro stations. From the inside to the outside, GKL recently signed in "Too good to go", which is an innovative idea where the restaurant sells the leftovers for €2.50 a dish, which is not even 20% of its normal price. The goal is to help the "less-able-to-pay" consumers to create customer loyalty. The rest of the leftovers is given to the restaurant employees to take to their homes.

## Legal

Concerning the franchising legislation, it was not found any specific legislation for its activity in Portugal. However, in the restaurant business, there is a complex set of legal diplomas that establish the conditions for operation. Namely, the Regime Jurídico de Acesso e Exercício de Atividades de Comércio, Serviços e Restauração (Decreto-Lei nº 10/2015 de 16 de Janeiro), the [Regulamento \(CE\) nº 852/2004](#) do Parlamento Europeu e do Conselho de 29 de Abril de 2004 relativo à higiene dos géneros alimentícios, the Regime Jurídico da Segurança Contra Incêndio em Edifícios (RJ-SCIE) - [Decreto-Lei nº 220/2008 de 12 de Novembro](#), the Regulamento Geral de Higiene e Segurança do Trabalho nos Estabelecimentos Comerciais, de Escritórios e Serviços - [Decreto-Lei nº 243/86, de 20 de Agosto](#), the Regulamento Geral do Ruído em Edifícios - Decreto-Lei nº 9/2007, de 17 de Janeiro, alterado pelo [Decreto-Lei nº 278/2007, de 1 de Agosto](#), the Normas sobre [gestão de resíduos](#), the Legislação sobre direitos de autores (Ex: música ambiente ou existência de televisão no estabelecimento), the PDM: Plano Director Municipal (edifícios construídos de raiz), and the Regulamentos municipais (ex: ocupação da via pública por esplanadas). Therefore, it is up to the franchisor and franchisee to agree and establish their own regulation, under the franchising legal contract.

## 5.2. SWOT analysis

SWOT analysis has its origins in the 1960s since organizations needed a systematic thinking and wide-ranging diagnosis (Learned et al., 1965). SWOT stands for and evaluates the Strengths, Weaknesses, Opportunities and Threats of the organization in question. Having these factors acknowledged, it is supposed to develop a strategy which may shape on the strengths, eliminate the weaknesses, exploit the opportunities or mitigate the effects of threats (Dyson, 2004).

| Strenghts                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Weaknesses                                                                                                                                                                                                                                                          |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>✓ Business expansion;</li> <li>✓ Increased brand visibility;</li> <li>✓ Growth without incorporating new fixed costs;</li> <li>✓ Attractive investment as franchisee has low costs to build a ready-to-go business;</li> <li>✓ Brand equity turned into royalties;</li> <li>✓ Ability to set contractual clauses that clarify operating rules.</li> </ul>                                                                                                     | <ul style="list-style-type: none"> <li>✓ Brand Image risk due to compliance failure from franchisees;</li> <li>✓ High initial costs may hinder franchisees will to apply;</li> <li>✓ High training investment effort (time and cost) for the franchisee.</li> </ul> |
| Opportunities                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | Threats                                                                                                                                                                                                                                                             |
| <ul style="list-style-type: none"> <li>✓ Less competition, since COVID-19 has substantially reduced the number of players in the restauration industry;</li> <li>✓ Gastronomy is a leading attraction for tourism in Portugal;</li> <li>✓ The establishment of e-business and growth in food delivery firms, due to COVID-19, opens new market opportunities,</li> <li>✓ High number of experienced individuals with possible enterpreneural profile seeking for a franchise opportunity.</li> </ul> | <ul style="list-style-type: none"> <li>✓ Risk of declining the brand image,</li> <li>✓ New health contingency that imposes restriction to mobility.</li> </ul>                                                                                                      |

### **Strengths and Weaknesses**

Franchising is a fast way to expand the business and gain visibility. For the franchisor it is a simple way of growth, receiving monthly royalties and without any addition of fixed costs, because the new costs are going to be paid by the franchisee. Also, according to the financial evaluation of the company, in 2 years the initial investment is paid off, making it attractive for upcoming franchisees. Nevertheless, there are always risks in every business. In the franchising business, for the franchisor, there is always the risk of deteriorating the brand image, so, it is important to wisely choose the franchisee. Also, it will be time consuming for the franchisor with the high training investment effort.

Even though the amount initial invested from the franchisee is foreseen to be recovered after 2 years, it is still a high initial cost which may push away the franchisees.

### **Opportunities and Threats**

As it is known, the year 2020 came to be a lot different from the others. COVID-19 had and still does a huge impact on the world, economic and social speaking. In the restaurant industry, it has reduced the number of competitors since many restaurants had to declare insolvency, what led to open spots for the entrepreneurs to enter the market. A great prospect is the investment on e-business, due to COVID-19, food delivery firms are already growing, which opens new market opportunities and confronts to the new health contingency that imposes restriction to mobility.

### **5.3. Industry Analysis**

Hospitality industry has a long-standing mature market in Portugal that has witnessed a growth as indicated by the 40943 registered firms in 2018 against the 29648 in 2004, which is outstanding when considered the recession period that led to the intervention of the Troika. The industry also employed 315320 workers in 2017 which represents more 63820 jobs since 2004. The overall gross added value (VAB) for 2018 reached over 10.6 billion euro which shows a strong contribution to the economy especially when compared to the 6.2 billion produced in 2004. Relative to the overall gross added value of all industries in the country, hospitality industry represents about 6% (INE; PORDATA, 2020). Regarding franchising in Portugal, and according to (IFE by Abilways, 2017), restaurant franchising represented 13,3% of all the franchised businesses in the country in 2017. This mentioned study, forecasts a rise of nearly 1,4% each year. The revenue generated by the franchising businesses represents approximately 3% of the national GDP.

To further analyse this industry, Porter's Five Forces was made. Porter's Five Forces is a valuable tool to comprehend the logistics of an industry, in this case the restaurant industry. To take fully advantage of this tool, a rigorous examination had to be made, concerning different categories: threat of new entrants and substitute products; bargaining power of buyers and suppliers; and competitors. Each category was evaluated

within three measures: low; moderate and high, which depended on the Influence of each one.

### **Threat of New Entrants – Moderate**

To open a restaurant requires a moderate level of investment, making an easy-to-enter industry. The fix costs and operating cost need to be taken into consideration by the new entrants, to guarantee the establishment of cost advantage. According to Hill and Jones (2014), a great way for new players into the industry to accomplish cost advantage is through making bulk purchases and receiving discounted prices from the suppliers. However, and despite having low profitability in the beginning of their business, new entrants have to manage their operations and the high fixed costs which remain a concern for them. Considering the factors above mentioned, it can be concluded that the restaurant industry has moderate threat of new entrants.

### **Bargaining Power of Buyers - Moderate**

According to Adhikari and Rao (2013), the restaurant industry is also affected by the buyer's choice, since the buyers hold the power to influence the pricing decisions of the company, the products offered and their quality. However, the restaurant cannot offer overpriced items, to avoid the limitation of customers. Analysing the target market and that sector of the market will help adjusting the prices of the products. Based on this conclusion, it is safe to say that buyers have a moderate bargaining power in the restaurant industry.

### **Bargaining Power of Suppliers - Moderate**

In this industry, a supplier is a company which provides raw material to the restaurant. According to Chong et al. (2001) the influence a supplier can have on buying decisions of their customers is determined by the number of suppliers in the industry, around the same region. The higher the number of suppliers within the same region, the lower is their power, the lower the number of suppliers, the higher the power. If there is only one supplier of a specific product, for instance, it has the power to increase prices

because it knows the customer cannot get it anywhere else. That is how the power of suppliers is calculated. The size of the restaurant is also an important factor. Due to its limited made order, small scale restaurants create a higher supplier power. On the other hand, large scale restaurants can make bulk orders and negotiate the price. Considering all the information above and the region of the restaurant of this case, it can be concluded that suppliers have a moderate bargaining power.

### **Threat of Substitute Products – High**

In every country, in every city, all around the world, the number of restaurants continues to get higher and higher. As mentioned above, from 2004 to 2018 there was an increase of more than 10000 registered firms in the industry, just in Portugal. The vast number of entities in the industry and the low switching cost, makes it easier for the customers to switch from one restaurant to another (Chong et al., 2001). According to Solomon (2018), if the customer experience does not, at least, match with their expectations, the desire of switching from one restaurant to another is increased, which makes the restaurant industry having a high threat of substitute products.

### **Competitive Rivalry – High**

According to the extracted numbers above mentioned, from the “Base de Dados Portugal Contemporâneo” – PORDATA, there is a significant number of restaurants in the country and logically, the higher the number of competitors the more powerful is the competitive rivalry in the restaurant industry. As a result of numerous small-scale restaurants and fast food franchises, the industry has intense competition and consequently little customer loyalty as people can switch from one restaurant to another more suitable to their preferences and demands (Chong et al., 2001), making it harder for the smaller restaurants to maintain high profitability. Thus, the restaurant industry has high threat of rivalry.

To conclude this industry analyses and as previously mentioned, what customers value the most on a franchised business is that they know they will receive the same food quality and fulfil their service expectation, which is the main reason they do not hesitate

in eating in one of the restaurants, wherever they might be located. Hence, making franchising a great strategy to avoid competition.

#### 5.4. Marketing plan

To ratify the marketing plan, the 4 P's of marketing was made. The 4 P's of marketing, also known as marketing mix, is a tool that helps companies to understand the market and summarizes the four basic pillars of any marketing strategy: Product, Place, Price and Promotion.

##### **Product**

A potential franchisee is looking for an offer that guarantees all the conditions for an operational and financial sustainable business that transfers the success of the brand to the new venture. By “all the conditions” one means the legal requirements and assurance that a legal binding contract is available, the detailed instructions and support related to facilities, brand identity and all related tangible materials, the support received in training employees and managers, in advertising and promotion, in dealing with legal obligations and brand equity that adds value to a starting business.

##### **Place**

As a franchisor there is interest in guaranteeing that a potential franchisee chooses a location that offers good probabilities of a successful business. Extrapolating the features of the original GKL location, the franchisee is advised to look for a business area, with offices around, urban and middle social class, and between 150m<sup>2</sup> – 170m<sup>2</sup>.

##### **Price**

The price of franchising the business will vary between 190 875,00 € and 216 325,00 €, depending on area of the restaurant as mentioned on the financial plan below.

Regarding the restaurant prices, the franchisee will face himself/herself with an already made price list. The prices of the dishes must be the same as the original restaurants.

### **Promotion**

GKL has a very specific way to advertise. Besides the fact that the name of the restaurant is on all the websites that locate and evaluate the restaurants (tripadvisor, Zomato etc...) with an average of 4.5 stars out of 5, GKL has a facebook and Instagram page with more than 2.000 followers which is managed by experts on the matter, who post the daily menu, along with some well-designed photos of dishes. In addition, the restaurant is using food delivery platforms, such as Ubereats and Glovo.

## 6. Financial Evaluation

In order to comprehend if the business idea could be or not be profitable, a financial evaluation of the company was made. The results of operating costs below mentioned, are based on real numbers concerning the GKL results throughout the years.

### The opening costs:

| COSTS                                                                                                                                                                                    | VALUE     |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|
| Electricity                                                                                                                                                                              | 5 500 €   |
| Water and sewers                                                                                                                                                                         | 700 €     |
| Fire and Safety                                                                                                                                                                          | 400 €     |
| Smoke exhaustion system and air conditioner                                                                                                                                              | 35 500 €  |
| Construction of the space                                                                                                                                                                | 85 500 €  |
| Restaurant equipment (aprons, lockers, ovens, microwaves, induction hob, fridges and freezers, kitchen and balcony, chairs, tables, outdoor awning, POS, fire extinguishers and signage) | 76 000 €  |
| TOTAL OF COSTS IF 160m2                                                                                                                                                                  | 203 600 € |
| PRICE PER m2                                                                                                                                                                             | 1 273 €   |

|                      |           |
|----------------------|-----------|
| TOTAL COSTS IF 150m2 | 190 875 € |
| TOTAL COSTS IF 170m2 | 216 325 € |

### The monthly income and costs

All the results below mentioned were calculated by using the medium of 1-year monthly return.

| MONTHLY COSTS                                    | VALUE           |
|--------------------------------------------------|-----------------|
| Rent                                             | 2 000 €         |
| Charges + insurances + medicine at work + HACCP* | 2 600 €         |
| Electricity                                      | 550 €           |
| Water                                            | 100 €           |
| TEL + Internet                                   | 30 €            |
| Security Alarm                                   | 40 €            |
| Social network managing company                  | 350 €           |
| AHRESP*                                          | 250 €           |
| Food - Raw Material                              | 10 000 €        |
| Accountant                                       | 300 €           |
| 8 employees (around 700€ each)                   | 5 600 €         |
| <b>TOTAL MONTHLY COSTS</b>                       | <b>21 820 €</b> |

As it can be seen, the total of the opening costs if the restaurant's area is 160m<sup>2</sup> (which is the same as the GKL original restaurant), is 203 600 €, which is, approximately, 1 273 €. It is advised for the franchisee that the restaurant should have an area of between 150m<sup>2</sup> and 170m<sup>2</sup>, meaning that the opening costs may vary between 190 875 € and 216 325 €.

The medium price of a dish in the restaurant is 9 € and the medium price of a full meal (if appetizer/soup + main dish + drink + desert + coffee) is 13 €. The restaurant sells around 110 full dishes, daily which is equal to 2 420 dishes at the end of a month: (13 x 2420 = 31 460 €). As shown below: 31 460 € - 21 820 € = 9 650€ monthly gross income.

|                         |           |
|-------------------------|-----------|
| MONTHLY GROSS INCOME    | 9 640 €   |
| ANNUAL GROSS INCOME     | 115 680 € |
| GROSS INCOME IN 2 YEARS | 231 360 € |

\*HACCP stands for “Hazard analysis and critical control points”. It is systematic preventive approach to food safety.

\*AHRESP is the Portuguese hotel, restaurant and similar association. This association gives daily support to the restaurants, such as tips and the most recent important news concerning the industry.

## 7. Conclusion

Gastronomy is a leading attraction for tourism in Portugal and according to (Alderighi et al., 2016) the attractiveness of tourist destinations can be influenced by local food specialties and it can positively affect the likelihood of (re)visiting both the city and the restaurant. Although COVID-19 brought worldwide social and economic issues, new opportunities for the restaurant industry came with it. The possibility for the industry to invest more in e-business and food delivery, changes the whole concept of going to a restaurant, instead they order food from the restaurant and do not have to go there in person. Most importantly, in the aftermath of COVID-19 crisis, most of the businesses will resume and many of the empty market offer in restauration will regain in number of players and figures. How these players will deploy their businesses will determine how quickly they grow and, if indeed the opportunities will lie ahead, those who grow faster will stand a better chance of reaching a larger market share.

Franchising is known to be a form of business growth that allows for a fast deployment of an existing successful business. Without any additional fixed costs for the franchisor, as well as receiving royalties, the franchisee can also be attracted to franchising since it has low costs to build a ready-to-go business. Although the biggest fear of any master franchisor is the risk of ruining brand image, developing the relation between both parties, valuing trust, communication, mutual respect, cooperation, integrity and professionalism will help fighting against that risk: “Profitable franchised businesses are those whose parties start their relationship with clear grounding terms and align their objectives and goals” (Shaikh et al., 2018, pp).

As explained, this thesis is intended to explore the viability of an existing restaurant to become a franchisor taking into consideration the near future after COVID-19. Following the financial evaluation of the company, it was necessary to understand if franchising the business could be or not be lucrative for, not only the owner, but also the franchisee. It started by adding the opening costs of the restaurant, every little thing (203 600 €), along with the price per m<sup>2</sup> (1 273 €). Furthermore, the monthly costs; with the exception of “Food – Raw Material”, because it varies depending on the food purchased, they are all fixed costs (21 820 €). As mentioned, the restaurant’s gross revenue is roughly 31 460€ per month, which gives 9 650 € monthly gross income. The

design of the franchise as well as projected figures take into consideration the need to have an online presence and business.

To conclude, and as it is showed in above tables, the cost of the investment to open a new GKL restaurant will not be more than 217 000 € and the gross income in 2 years will be around 231 000 €, if everything goes as planned which worked out well for the first GKL. This means that, considering the net income, the value of the initial investment would be returned in less than 3 year, therefore, it can be said that this is a valid investment.

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## **Webography**

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## 9. Appendices

Here is the scripted interview made to a CEO of a franchised restaurant chain:

### Questions:

- **Tell me about your restaurant and why did you come up with the idea of franchising?**

**A:** I started this business seven years ago with the opening of my first restaurant in Lisbon, I can say that the idea of franchising was not on my mind yet, I just wanted to start my business. I had 50.000 € to invest on it, and as you know it is not that much. I had no contacts of suppliers; my kitchen material was the cheapest and most of it was second handed. I even painted my own restaurant. The idea of franchising came 2 years later, I got approached by a person who wanted to buy my trademark. The restaurant profit was high and my income as well, so I had the possibility to invest in another restaurant. I declined the proposal of that person and opened another restaurant in Lisbon, with the same name. The idea of franchising and the actual franchising were not at the same time. After my second restaurant it was “all the way up, non-stop” I got more proposals and I said yes to four of them. Nowadays I have two of my own and four franchised all over the country with two more coming.

- **You mentioned that the opening of the first restaurant was 50.000 €, If I wanted to be your franchisee how much would it cost me now to open a restaurant with your brand name and image?**

**A:** 250.000 €. With the key on your hand. With the best equipment, an assembled kitchen and a great staff already.

- **What do you do to bring franchising opportunities? What is your strategy to get people to franchise your business?**

**A:** Nothing. I just keep doing what I do. They come to me. They are the ones who ask me if they can franchise my business.

- **What is it? Your criteria of selection a franchisee? What makes you say “yes” or “no” to their request?**

**A:** Despite of what people think it is not about the money. I once had a great financial offer of a franchisee, and I declined. Because I did not trust that that person was going to maintain my good brand name and image. When someone offers to franchise my business, I have to make sure he/she is trustworthy. I have interviews to evaluate their character and personality. Afterwards, if accepted, I present the formal contract and tell the franchisee that he/she will recover the money invested in two years.

- **How can you be so sure that they will recuperate the money invested in two years?**

**A:** There is never an absolute certainty but that was what happened with every other franchised restaurant of mine. And I show it to them.

- **What is your strategy now with all your restaurants and franchised ones?**

**A:** The only thing I can say now is that I have a contract of exclusivity with a couple of my suppliers, meaning they cannot sell their product to anyone else and every franchisee has signed a clause that obligates them to only sell the products I sell on my main restaurant, they cannot arrange any other supplier for their own, from the food to the

napkins. Also, the Staff is from the same Human resources company. I want my clients to expect the same type of service and the same quality of products everywhere they go.

**Thank you**

Here is the scripted interview made to the GKL owner:

**Questions:**

- **Tell me about your restaurant and what differentiates it from the other typical Portuguese food restaurants?**

**A:** Well, firstly, this wasn't always a restaurant, when I started this business, we had some savoury on sale, like pies and croquettes, but the main goal was to sell kitchens, kitchen designs, kitchen appliances. It became a restaurant when I realized that, at the end of the month, the money was coming from the savoury and not the kitchens. I think what makes my restaurant different is the type of food, it is Portuguese, but gourmet and with a touch of my own recipe, the clientele, they are workers seeking for fast served cook and quality, and last but not least the relation between the client and the employee, as well as the open kitchen to the public.

- **Have you ever considered franchising your business before?**

**A:** It crossed my mind, yes. But very hypothetically, I have never actually thought it through before you came up to me with the idea.

- **What scares you the most about the idea of franchising your brand?**

**A:** The clients of my restaurant have exclusive traits, most of them are regulars that come here almost daily. They know what they want, and they know what to expect from our service and our dishes. When this idea emerges, I will want the contract to include many particularities of my own, especially my suppliers, I want them to be the same, without changing a thing. My biggest fear is the provided service. I trust my team here and I know their capabilities, but will I trust the team on the other restaurant which are representing my brand name and image? I don't know... But then again: isn't it one of the biggest fears of every franchisor? However, I trust my franchisee and I trust he is going to succeed in recruiting the best team for the job.

**Thank you**