WHITESPACE

PARTNERS

GOING GLOBAL: THE INTERNATIONAL DEVELOPMENT CHALLENGE

A WSP WHITE PAPER - OCTOBER 2023

WHITESPACE PARTNERS

WhiteSpace Partners is a strategic advisory firm, specializing in the restaurant and foodservice industries. Our focus concentrates on the development and execution of strategies for three types of clients:

- ✓ *Restaurant brands planning to expand within or outside their home market*
- ✓ *Investors assessing acquisitions in the restaurant industry*
- ✓ *Property asset managers developing projects including restaurants*

Our **international expansion and franchising advisory** team has led and supported top international brands through their market entry and expansion journeys, from strategy development to execution. Forming a diverse team, the local market expertise, native language skills and expansive network across key EMEA markets are what make us unique. Our most recent transactions include regional and country JV and franchise deals in Italy, Germany, France, the Balkans and the Middle East.

Primary services include:

- ✓ *Market entry strategy development and support*
- ✓ *International expansion strategy and execution*
- ✓ *Franchise strategy development and execution*
- ✓ *Franchise system auditing and optimisation*
- ✓ *Buy-side M&A advisory*
- ✓ *Acquisition target identification and commercial due diligence*

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Cross-border expansion is is the ultimate ambition for many restaurant brands, and a core topic that we know well in the foodservice industry. If maintaining growth is a goal, the question of cross-border expansion will arise at some stage. But for some it remains a mystery when it comes to developing and executing the right strategy at exactly the right time. Depending on size of and the development opportunities in your home market, the timing of this ambition will be earlier for some brands than for others.

It's a constant topic of discussion in the work that we do, and determining the right strategy and timing are crucial for success. "Is it the right time to go?" "How should we do it?" "Where should we start?" "How opportunistic should we be, if at all?" "Is our model easily transferable to other markets?" "Should we change our concept or adapt for the international markets?" "How can we make sure we do it the right way?"

It's an exciting and necessary venture for many, but not without a healthy level of risk and unknowns.

The short answer is that there is no cookie cutter strategy applicable across brands to ensure a successful cross-border endeavour. Concept, operating model, format, human resources capacity, country of origin and destination country - amongst other concerns - all carry weight in determining the right strategy. Our industry has seen some very impressive cross-border expansion success stories and others - including established brands - whose failures have been lessons for us all.

This white paper focuses on the last decade of cross-border expansion in key countries of Europe and the Middle East: the two regions that **WhiteSpace Partners** specialises in.

We explore the history and strategies exercised by brands of all segments and formats in seven specific countries, the patterns of cross-border journeys, the wins, the losses and the learnings. We share insights from renowned industry leaders who have done it successfully: the elements they focused on, the models they champion and the knowledge they gained. We will take you on a journey from analysis to application, as we explore the international development landscape, its players, its pros and most importantly the learnings of their trials, tribulations and triumphs.

Regardless of the role you play in your brand's international expansion story, our goal is that this white paper contributes to broadening your perspective on how to approach your cross-border growth aspirations and strategy.

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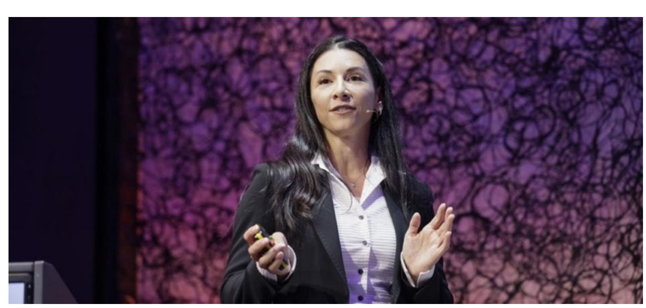


Our expert interviewees

Mario C. Bauer
Board member and shareholder of Vapiano and Dean & David,
Co-founder of WhiteSpace Partners and co-founder of Curtice Brothers

Mario, an entrepreneur and investor, played a pivotal role in the global expansion of fast casual pasta and pizza chain, Vapiano. Under his supervision, Vapiano expanded its presence to 32 countries worldwide. In 2020, Mario, along with other esteemed entrepreneurs, acquired Vapiano. Mario holds positions as a Board Member and Shareholder of Vapiano, as well as Dean & David.

Keith Bird
CEO, Marugame Udon Europe

Keith has over 23 years' experience in the restaurant sector, mainly in business development and operations. He started his career at YUM! Brands, eventually becoming the COO of Gourmet Burger Kitchen, which he grew to around 100 restaurants and was instrumental in its successful sale to Famous Brands in 2017. He is currently the CEO of the JV between Capdesia and Japan's Toridoll Holdings, Marugame Udon Europe, with responsibility for launching the world's largest udon noodle chain across the UK and Europe.

John Eckbert
CEO, Five Guys Europe

John studied at the London School of Economics. In 2010 he entered into a 50/50 joint venture with Five Guys founders in the US, the Murrell family. He launched Five Guys in London Covent Garden in 2013, developing the brand to more than 250 stores across Europe (incl. 160 in the UK), employing more than 4,000 people. By 2018 it was Britain's fastest growing casual dining chain.

John Hadden
CEO, Alshaya

Alshaya Group is a Kuwait family business with 50,000 employees, across 18 countries. They've taken 70 brands, 25 in hospitality, overseas to more than 4.000 stores. Their largest single brand is Starbucks, operating in 1,900 locations across 14 markets. Other brands they've developed include Shake Shack, Raising Cane's, PF Chang's and Cheesecake Factory. Before joining Alshaya, Hadden was the director of store development for Starbucks in Europe, the Middle East and Africa.

Michael Kark
Chief Global Licensing Officer, Shake Shack

Michael was Area Manager for Chipotle Mexican Grill from 2004-2012, before joining Danny Meyer's Shake Shack in 2012. Michael served as Director of International Licensed Business at Shake Shack, being promoted as Chief Global Licensing Officer in 2019.

Stéphane Klein
Managing Director, Pret A Manger (Europe)

Stéphane is described as a 'serial launcher' of foreign concepts, bringing Häagen-Dazs ice cream to France, then Baskin-Robbins, Dunkin' Donuts to some European markets and Pomme de Pain to France. He joined Pret, moving from general manager of Starbucks Coffee, France during a very early stage of their development.

Victor Lugger
Co-Founder and Co-CEO Big Mamma Group

Victor co-founded Big Mamma Group in 2013 with his business partner Tigrane Seydoux. The group of Italian restaurants is a B-Corp, mission-driven company that aims to recruit and train young Italian people, changing their lives via these authentic restaurants that offer a vibrant experience. Big Mamma now employs around 2,400 people operating 24 restaurants, across six European countries (France, UK, Germany, Spain, Monaco, Italy). Victor and Tigrane also co-founded Sunday, an innovative payment solution.

Henry McGovern
Co-Founder and Co-CEO of McWin Partners

Before co-founding McWin, Henry was CEO at AmRest which he founded in 1993 with the opening of the first Pizza Hut in Wroclaw, Poland. Through multiple acquisitions and rapid organic growth, he built AmRest to more than 2,300 restaurants in 28 counties before selling his interest in 2019. The McWin investment fund made multiple acquisitions in the industry and is now instrumental in the development and growth of Vapiano, dean&david, Gail's Burger King (Germany, Poland and CEE) and the Big Mamma Group.

Before we embark on the exploration of our cross-border development study, we wanted to pay tribute to a few champion brands who have successfully fulfilled (and continue to fulfil) their cross-border aspirations.

Joe & The Juice

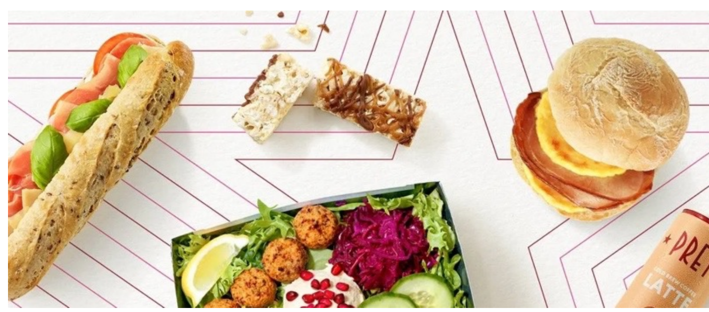
Founded in 2002 and now boasting over 300 units on four continents, this Danish concept has proven itself time and again as a scalable, transferable model.
Historically, their primary development model was focused on direct development only, and they successfully entered the UK, Germany, France, Switzerland, Belgium, The Netherlands, the USA and other markets. Their approach changed in the Middle East and Asia, when they signed country agreements in the UAE, Kuwait, KSA, Bahrain, Singapore, South Korea and others.

Nando's

This South African-born brand has become a household name in the UK, entering the market in 1992 and now operating over 350 locations. Another champion with the "land and expand" development model, **Nando's** has an established HQ in the UK, managing the business directly and ensuring the focus on localisation. With over 1,200 locations globally, over half of their business is franchised in Africa, Oceania, North America and the Middle East.

Pret A Manger

Up until a few years ago, it was not possible to obtain franchise rights of this globally beloved brand, unless you were an airport operator. **Pret A Manger** built a successful international footprint in the UK, France, the US and other markets solely on direct development and select partnerships with established airport operators or single-unit franchisees in France. Their strategy expanded in 2021 when they began offering franchise rights to regional and national area development partners, signing agreements in Germany, Italy, UAE, Israel and other markets.



PAUL

A family-owned business since its inception in 1889, **PAUL** is one of the largest European-born brands, with over 750 units worldwide. Their cross-border story starts in France where their 400+ units are a successful co-existence between corporate-run and franchised sites. The same is true for the UK where, since their market entry in 2000, they have opened 33 locations split between direct and franchised. The rest of their global locations are operated by franchisees.

Telepizza

Owned by the Food Delivery Brands Group, with over 1,600 units, both corporate and franchised, across 23 countries, **Telepizza** is the largest European-born brand and the world's sixth largest pizza brand by number of stores. Their story began in Madrid in 1987, and Spain remains the country with the highest concentration of units (700+) today. They have operated a variety of expansion models over the years, from direct and franchising into European countries, such as Poland, France, Ireland and Portugal, to creatively entering the air catering sector through airline partnerships in South America. One of their boldest moves came with the signing of a strategic partnership with **Pizza Hut** in 2018, making them the largest **Pizza Hut** franchisee in the world (1,011 units) with the aim of accelerating the brands' joint growth in Latin America (excl. Brazil), the Caribbean, Spain and Switzerland. The rest of their portfolio is spread across Ireland, Portugal, Chile, Colombia and the rest of South America.

It is notable that none of these brands relied on one, sole development model to reach their cross-border goals. They underline the insight that there is no "one size fits all" solution to international development and market entry strategy. Being flexible enough to pivot from market to market, based on your brand's needs to meet development targets has proven advantageous to their success stories, and we commend these expansion champions for their great strides in multi-market victory.

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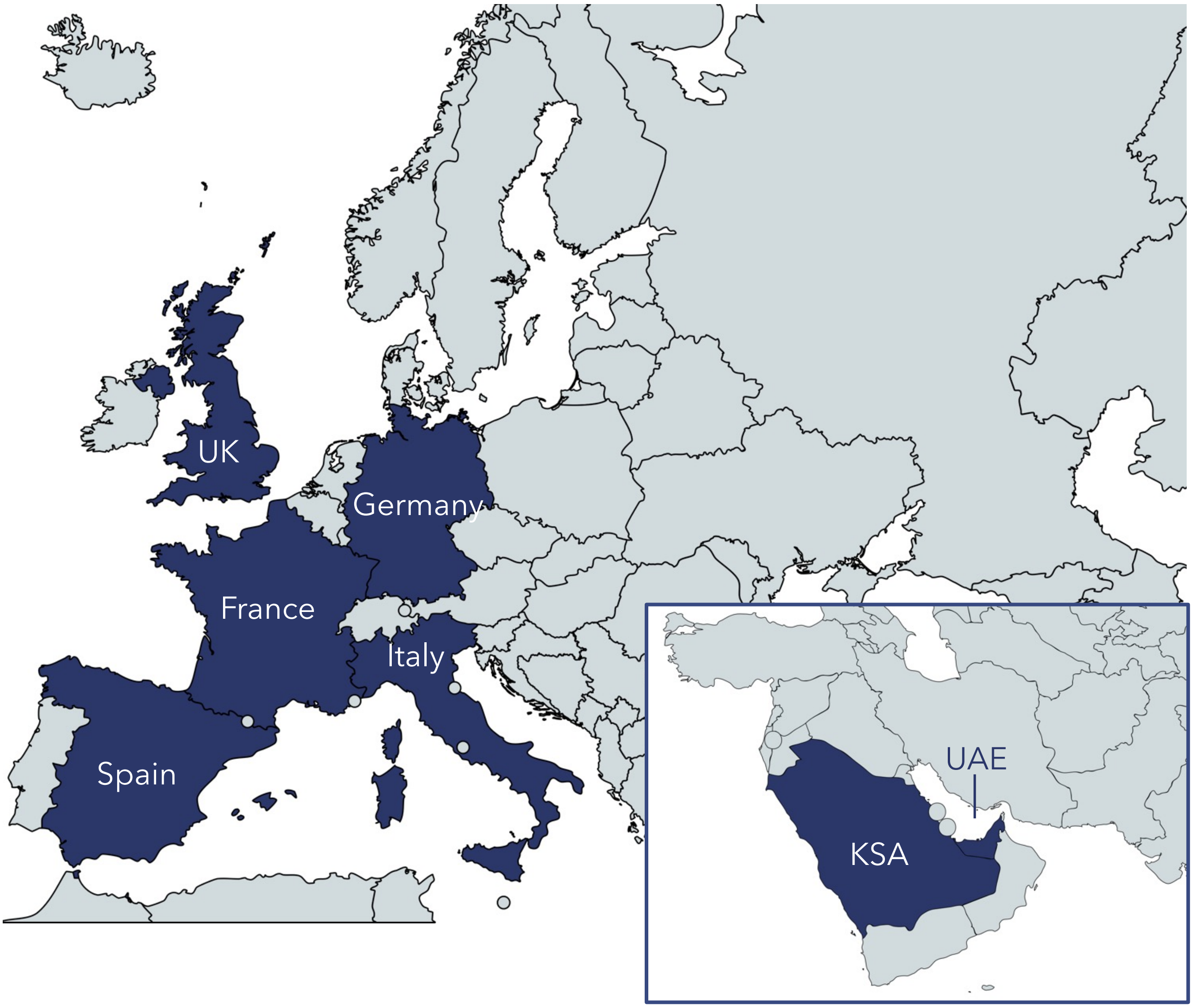


	France	Germany	Italy	KSA	Spain	UAE	UK
Population	68,521,974	84,220,184	61,021,855	35,939,806	47,222,613	9,973,449	68,138,484
#of cities >200k inhab.	11	40	14	28	22	5	49
Urban population	81.8%	77.8%	72%	85%	81.6%	87.8%	84.6%
GDP p.C.	40,963.8$	48,432.5$	34,158.0$	30,436.3$	29,350.2$	53,757.9$	45,850.4$

Methodology

We took a proactive approach to our research selections and built our coverage over 50 established brands that are most representative of growth into new markets (as it is impossible to include every example of cross-border development).

National brands vs. multi-national or global

The 50 restaurant brands we scrutinised, with both qualitative and quantitative data, represent 140 different development journeys, including successes and failures.

In order to deliver meaningful insights, we focused mainly on expansion into Europe and the Middle East - rather than wider or scattered international growth. We analysed their moves over an extended period of time, examined their strategies and studied the markets they penetrated, to better understand the trends that led to successful growth, while observing the outcomes of trial and error.

We've added insights and valuable context via in-depth interviews with top-level executives of renowned brands who have achieved some of the greatest international development journeys in the restaurant industry.

Brand and country scope

To allow useful comparison, our focus is maintained on scalable brands, from quick-service to casual dining, and avoids the larger and already very mature USA-originated, quick-service restaurant (QSR) chains like **McDonald's, Burger King, KFC, Pizza Hut, Dominos, Starbucks** or **Subway.** We drill down into the most interesting examples to find detailed development stories.

Although the brands within our sample may have planted their flag in a number of territories globally, for the purpose of the report, we concentrate on those large European countries where their size makes real scalability possible; namely France, Germany, Italy, Spain and the UK. We also dig into the Middle East, specifically the UAE and Saudi Arabia (KSA), whose F&B markets are the most developed. Although we do not ignore openings in smaller countries, the scalability of those larger markets offers us evidence of how successful the cross-border development has proven to be.

We concentrate on companies that have opened locations in one or more new territories within our geographic remit. We designated success thresholds of 10 or more units, 20+ units and 30+ units in each country, offering us a good overview and comparison between those opportunistic brands taking a few locations in new markets and the more strategic "land and expand" approach of companies who are taking a larger slice of the market in their new territories.

We also take a deep dive into the 30 largest native brands of the UK, Germany and France, to analyse their international development performance in our seven target markets, studying their preferred territories for expansion and seeking out trends which could be imitated.

In the next few pages, we'll outline our learnings based on this detailed methodology and show you the many routes that restaurant brands have followed into cross-border expansion.

The Cross-Border Development Landscape

Casual dining is a scalable industry, and managers and investors are always looking for opportunities where they can extend and grow their slice of the market.

Historically, scaling in your home market is commonplace: going from larger cities to smaller, opening in new location types like shopping centres, travel hubs or peri-urban neighbourhoods and continually increasing brand awareness whilst creating economies of scale.

Increased market unpredictability in the last three years (Covid lockdowns, inflation, costs crises, Brexit etc.) has pushed brands to diversify their presence across more markets, reducing dependency on any single market and increasing overall development potential. Successful scaling builds a brand's value, making it more interesting to investors. Our research and analysis has revealed some interesting trends in cross-border growth.

Research focus

In general, the restaurant sector remains a very local industry. Brands that go to other countries are few and far between, and those which can say they successfully scaled and gained significant space in foreign markets are very scarce.

In our report, we analyse the countries of both origin and destination of our 50 brands - representing 140 international development stories overall - and detail their success rates. We've broken down the market segments, the preferred development models and we've looked at which territories appear the hardest and the easiest to grow into.

Terminology and segmentation

- ✓ Direct Development: Where the company owner takes the brand into new territories using its own equity.
- ✓ Area Development Franchise: A franchisee is awarded an exclusive territory in which they commit to develop a minimum number of units over a specific period of time, that they operate directly (no sub-franchising).
- ✓ Master Franchise: A franchisee is awarded an exclusive territory with sub-franchising rights, in which they commit to develop a minimum number of units over a specific time period. The units are developed directly by the master franchisee or by the sub-franchisees, which the master franchisee is responsible for onboarding, training and supporting.
- ✓ Joint Venture (JV): A shared development opportunity with a local partner or co-investor in the target market. Territory and development schedule are subject to the terms of the JV.
- ✓ Single Unit Franchise: Developing a brand via individual franchisees typically operating at one or a few units.

To study cross-border development we categorised brands in the following way:

- ✓ **Full-Service Restaurants (FSR)**
- ✓ **Quick-Service Restaurants (QSR) & Fast Casual**
- ✓ **Café & Bakery**

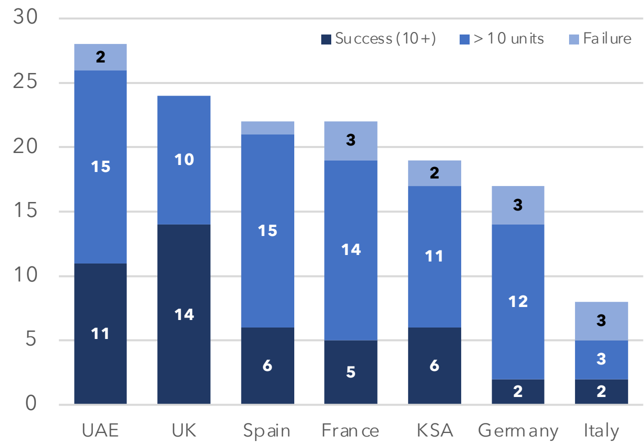
We've explored these 140 stories over more than a decade. The extended time frame indicates how long it can take to become a successful international brand, and it highlights the few who broke the mould and achieved cross-border development success in a relatively short space of time.

The UK: originator and destination

Victor Lugger, co-founder and co-CEO of **Big Mamma Group** describes London as having the best restaurant scene in Europe. The central position of the UK market within the European restaurant industry makes it an obvious landing point for all non-European brands, especially those coming from the US and Asia. Given the rich international brand landscape in the UK, it's logical that UK native brands are also those expanding more into continental Europe and the Middle East.

So, it's no surprise that our examination of origin countries revealed the UK to be the leader when it comes to brands moving overseas. Overall, 28% of the analysed brands we saw expanding into foreign markets are coming from the UK. Perhaps this signifies that the UK mindset isn't too far behind the USA when it comes to the drive to share a concept with the world. Interestingly, we saw cross-border activity increase after the Brexit vote in 2016.

Success rates in the scope countries



Lugger also says that London is an obvious choice as a destination for brands, because of its huge market size. Our research revealed that the UK was the second most popular destination (just behind UAE), with almost 18% of our 140 development stories taking place there. Interestingly, the UK also seems to be the country where brands can achieve the greatest success rate, with a third (30%) of the attempts to expand there reaching the 10+ unit threshold. Looking at the cross-border failures (of brands either closing and / or exiting), the UK is the only European country with no failures from our sample, compared with continental Europe which appears the more complex market, with failure rates ranging between 7% and 21% across the four large markets we analysed.

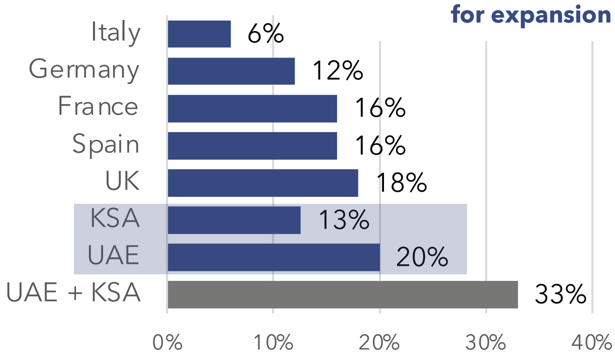
Country analysis

Besides the UK, we examined the other markets that were most commonly sending their own brands cross-border. We noticed greater fragmentation in Europe, with France taking third position representing 14% of brands, followed by Germany at just 8%.

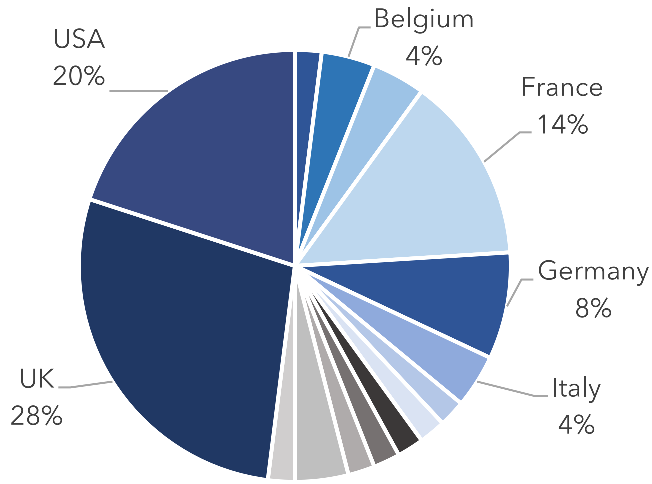
It's interesting to note that even though we eliminated all mature American QSR brands from our analysis, the second highest origin country is still the USA, representing one fifth (20%) of the brands heading overseas. This demonstrates the strength of the global mindset within the US restaurant industry. With the US being the originator of restaurant franchising it comes as no surprise that their models have been expanding outside of the country since the 1900s. Knowing the significant number of brands that are still US national champions (**Panera Bread, Chick-Fil-A, In 'n' Out',** etc.) which haven't yet grown into foreign markets - despite **Chick-Fil-A**'s very unsuccessful first attempt in the UK - we anticipate the flow of US brands into Europe and the Middle East to continue.

Considering destination countries, of the 140 development stories we reviewed, almost one in five has tried to crack the UAE market (20%). Spain and France represent an equal 16% of preferred destinations, followed by Germany and KSA (12% and 13%, respectively) and then Italy with 6%. This shows the clear appeal for these destinations for international brands and could be considered "must-haves" for those seeking increased visibility and attempting to step into the "champion's league".

Preferred destinations for expansion



Countries of origin of our brand sample



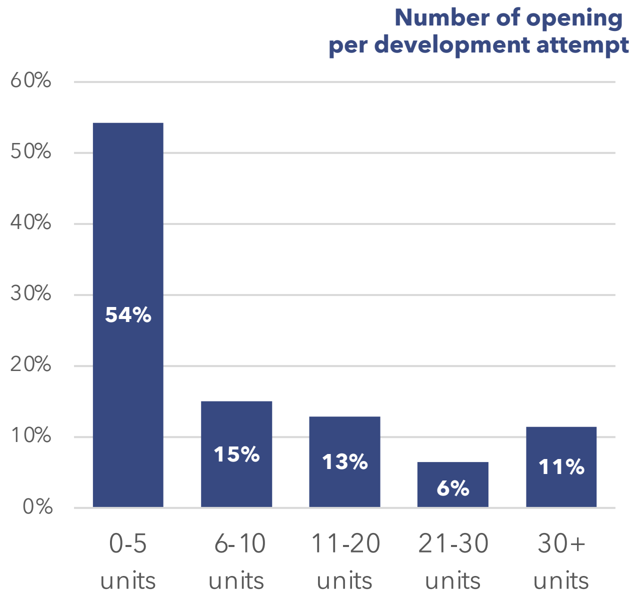
Market segmentation and growth analysis

We studied which segments of the market were most likely to attempt cross-border growth and saw the strongest drive amidst QSR and fast casual concepts, which represented 60% of the brands growing internationally. 20% of our study was comprised of coffee and bakery brands opening in overseas markets, bringing the total of the limited-service market segment to 80% and showing - once again - the much stronger scalability model that these more process-driven brands offer. 20% were full-service restaurants (including bars and pubs), showing the higher level of difficulty of bringing these more 'traditional' market segments into new markets.

Our experts were unanimous in their claim that taking a brand overseas is always a challenging endeavour, whatever the market segment. This perhaps explains why many of the brands we studied have expanded into only one foreign market within our country scope. Almost one third (26%) chose to go into only one of our sample countries, revealing a cautious country-focused strategy.

At the opposite end, another third (32%) attempted to expand into four or more of the foreign countries within our scope; a tricky strategy which can generally only be achieved over time. Launching in multiple countries at the same time is a higher-risk approach, as management teams can be overstretched and distracted by issues arising in a particular market, thus neglecting other markets that still need close attention.

Within the destination countries we observed a clear illustration of how difficult international expansion can be, since 69% of the development attempts didn't open more than 10 units in any of the foreign markets in our study. Of those, 54% didn't attain even 5 units in a foreign market. Just 13% of the development stories achieved openings in the 10-20 range, and 6% achieved units in the 20-30 range (in at least one market). Interestingly, at the more successful end of the spectrum, 11% of our developers achieved more than 30 openings in at least one of their foreign markets, suggesting a tipping point in market penetration where scale becomes easier after a certain number of units is achieved. This could be due to economies of scale, a higher level of brand awareness in the market, or operational optimisation of a brand amongst other benefits associated with managing multiple units.



Development model break down

When we looked at the preferred development models in our research, our experts discussed the different investment models that worked well when it came to taking a brand overseas. All those who rely on a partnership model wanted their partner to have the local knowledge that would make the transition to a foreign market more judicious and straightforward. Several preferred a joint venture partnership, which is likely to offer a good midpoint between area development and direct development. However, of the total study sample, JVs constitute only 10% of the deals.

As expected, area development partnerships represent 51% of the chosen models, while direct development - the most controllable model but also the one with the highest level of risk to the company - represents 28%. Meanwhile master franchising, which clearly suits most (industrialised) scalable models - represents a further 10% of our study sample.

Levels of success

In our analysis of the relative success of the 140 development stories in our coverage, we set the benchmark of achieving at least 10 openings in the target country as a minimum number of units to demonstrate that a brand has found its space in a large market.

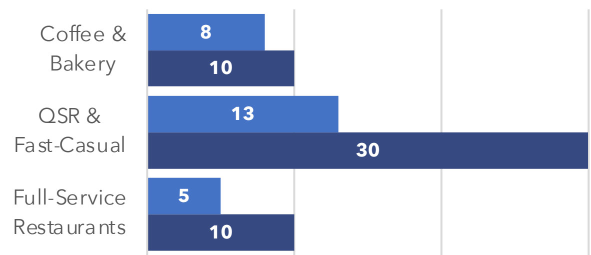
It is encouraging to see that almost one third of these stories (31%) can be considered a success, having opened 10 or more units in the target country. But over half (59%) have yet to prove they are successful, since the brand hasn't yet reached this 10-unit threshold. For those thinking of expanding overseas, we should note that 10% of the cases we studied can be considered definitive failures since the brand permanently closed their units and exited from that market.

Our C-suite experts were clear that taking a brand into a new foreign territory is never easy, because the concepts that thrive in the home market need to adapt to the culture and audience of the new country. When we look in detail at the success rate per country, we can see which are the hardest markets and which are less difficult.

The UK seems to be the country where brands can have the best success rate since one third (30%) of the development attempts from foreign brands reached the 10+ unit threshold. This reflects the wider variety of concepts and cuisines being accepted by the British audience, although the country - and especially London - offers one of the most crowded and competitive F&B landscapes in the world.

Within our study sample, UAE comes in at second place, with 24% of our brands' development attempts achieving the success benchmark of ten or more units in the market, while neighbour market KSA is only at 13% , like Spain. France reveal a success rate of 10.9%. Brands succeeding in Germany and Italy are below 5%, evidencing the strong local culture of those markets.

Development journeys per market segment



When we examined the different market segments to see which brand types seem to travel easily, we note that coffee and bakery brands reached an impressive 80% success rate since 8 out of the 10 brands covered in this segment have been able to open 10 or more units in at least one of their foreign markets. Full-service restaurants achieved a 55% success rate, while QSR and fast casual reached almost 43%.

WSP insights

It is important to note that, as with every entrepreneurial story, brands may experience successes in some markets and failures in others. Of course, building new market entry experience improves overall knowledge and reduces risks of future failures. Costa Coffee, a very successful development story in various markets in our scope (including UAE), failed in France due to poor understanding of the local market. Wagamama, while quite successful in UAE and Italy, experienced closures in Spain and France.

UK, FRANCE AND GERMANY: A COMPARISON

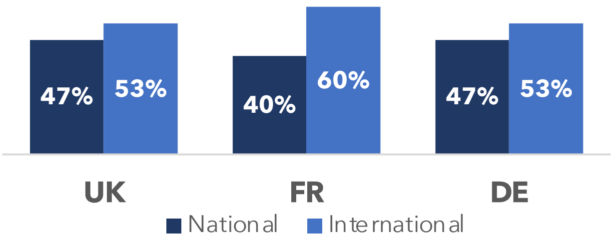
We compared the top 30 national brands in the UK, France and Germany to see how they behave and perform in these very different markets.

From its top 30, the UK has 14 brands (47%) which stayed entirely domestic and 16 (53%) which tried to open in at least one foreign market. Of those, 14 openings are within one of the markets in our country scope, showing an appetite for large and nearby nations, rather than more remote or smaller territories.

Germany, with the exact same proportion of entirely national brands (14 brands, 47%) versus brands that attempted international expansion (16 brands, 53%), has only 4 brands out of the 16 that tried to open in the countries in our study. For German brands, smaller but adjacent territories such as Austria with a similar audience can prove more attractive.

France's top 30 has only 12 purely national players (40%) and 18 international (60%), a higher international percentage than other markets, which might seem counter-intuitive especially compared to the UK. Ten out of the 18 international brands in France have attempted growth within our country scope.

National brands vs. international in country top-30



French and German brands have apparently been willing to try more international markets compared to UK brands. The cases from those two countries that expanded to our scope markets show a similar average of around 3.3 countries per brand. By comparison, the UK brands show more focus when it comes to the country strategy and prioritisation and have an average of 2.7 countries per brand.

When it comes to success rate, the results are not glowing. The UK has 76% of the development stories that delivered less than 10 units in at least one foreign market in our scope (of which 53% were less than 6 units) and a 13% failure rate (complete closure in that country). Germany counts 69% of the development stories that stay under the 10-unit threshold (of which the majority - 62% - are under the 5-unit line) and has a 23% complete failure rate. France offers a different picture with only 57% of the development stories under the 10-unit threshold but a high failure rate at 24%.

It is interesting to note that UK brands have been particularly keen to expand in the UAE and KSA (the two combined markets representing almost 41% of the development stories) followed by France (21%). French brands have been mostly attracted by the Spanish (30%) and UK markets (18%). The limited number of development stories from German brands in the countries of our scope have been equally distributed between Spain, UK and UAE (approximately 23% each).

What Does Cross-border Development Offer?

The insights from our C-suite experts reveal some interesting reasons for deciding to take a brand overseas, and also highlight the motivations for growth that tend to prove less successful.

In such a high stakes, high risk process, jumping for the right reasons is a vital keystone to the ultimate outcome of the expansion plan. Here's what our experts had to say.

Why go outside the home market?

All of our interviewees were at pains to point out that the process of taking a brand into an international market is long and challenging. Their reasons for taking their brands overseas varied, and their advice to entrepreneurs thinking about expanding their own restaurant brand outside of its home market is to be cautious and diligent. **Henry McGovern**, co-founder and co-CEO of **McWin Partners,** said, "You need to have a strong balance sheet as it's difficult to open new countries, and the risk is high. Your brand needs to be strong enough to be capable of expanding whilst there is still room for development in the home market and you are still a unique concept. Uniqueness is an important driver for expanding in new countries."

Big Mamma - rational vs. emotional

Victor Lugger, co-founder and co-CEO of Big Mamma Group weighed up the differences between making strategic versus emotional decisions to take a brand cross-border.

He said: "Big Mamma has always been a mix of rational and emotional decisions. Going outside of France at such an early stage was more an emotional decision. It was the founders' wish, and was seen as an opportunity to move outside our comfort zone and have a huge learning experience. We wanted to test the Big Mamma concept of client experience and food culture outside of France, which we never saw as our home market, but as our 'starting market'. Could we identify a Big Mamma culture in multiple countries? There was also a rational side to the decision. Paris was becoming small, and we didn't want to over develop there with the risk that Big Mamma could be seen as tired. We needed to find scale, but secondary cities in France weren't big enough. We looked to big foreign capital cities to develop hubs as we had in Paris. Building hubs is essential and allows us to develop a strong senior management team with proximity between restaurants where a wider geographical spread across several cities is more difficult and expensive to control. Moving to London came very early in the Big Mamma journey, but not too early, and we have no regrets."

Mario C. Bauer, a senior player at **Vapiano, dean&david** and **Curtice Brothers** (and a WSP co-founder), pointed out that there's no copyright on ideas, saying, "If you don't do it fast enough, someone else will do it. People will copy you and do it themselves."He believes that the right time to go is as soon as the company can afford a separate team, and that could be after one restaurant or fifty.

For **Marugame Udon** and **Toridoll**, the brand owner, belief in their brand and experience drive them to go international because their mission is to fill the planet with dining experiences that move their customers. This fuels their ambition to make the brand a global icon. Taking a risk is one of **Toridoll's** values.

Managing Director of **Pret a Manger** Europe, **Stephane Klein,** said that the right time is when the brand's home market is consolidated, and the model is stable enough to be exported. He notes that many brand developments in the EU are opportunistic, often when a partner arrives offering to take a brand into a new territory, and that he feels is a high-risk strategy without having done any prior market assessment and research.

Adding value to a brand is another reason for the C-suite to grow into new territories. **McGovern** told us, "Valuation is a very important reason. There is no methodology, no clear calculation to understand the impact on valuation multiples. You can't just say that it works, you have to prove that it works. It needs to be scalable and that needs to be visible in the numbers."

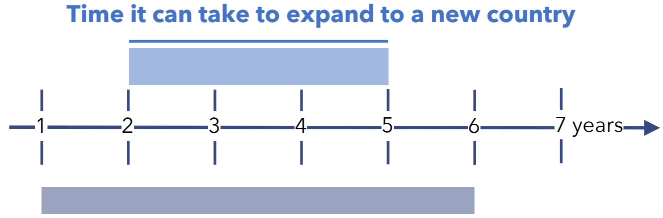
Improving the value also pushes private equity-backed brands to take a more tangible share of the value creation through JV structures with the local partner, often asking for a buyout option at an agreed Ebitda multiple. This allows the brand to acquire the local business if successful and fully integrate the local Ebitda at the point of exit. This strategy doesn't always meet the expectations of entrepreneurial country partners which tend to see the roll-out of the brand in their home market as a long-term and strategic project. Nevertheless, we see increasing examples of franchised platforms which are backed by financial investors, hence being more open to a clear exit strategy and relying on the franchisor buying back the business, if successful.

Bauer concludes, "Every successful venture abroad fuels the home market. In theory the concept becomes more valuable. If you can prove that you are successful in more than one country, the value grows a lot."

Take your time

Our experts all report that it took more than a year from making the initial international move, to seeing a restaurant open in a new market and for most, several years before the success of the launch could be determined and potentially lead to further sites. The shortest time we noted was from **Bird** who called it "super fast" when **Capdesia** in the UK took 14 months from signing the JV shareholder agreement with **Toridoll Holdings** in 2018, to opening in 2019. But several said that two or three years was the most common timeframe.

Time it can take to expand to a new country



Typical PE ownership time

McGovern said in his experience it is a five-year project from assessing the country, finding partners, opening, testing and then finally rolling-out. This, he said, makes it challenging for PE investors whose turnaround times are often short. "PE should start international expansion projects almost immediately after the acquisition to be able to benefit from it when they exit," he said.

Michael Kark told us that **Shake Shack** can talk to some prospective partners for several years before signing a deal. "Most have been five to six years of discussion before signing. The partner comes before the country in our strategy. We've not yet found the right partner for continental Europe."

Getting impatient for the launch could prove disastrous, **Klein** warns, and he urges all stakeholders to ensure their expectations and their motivations are aligned. "It always takes more time than expected," he told us. "Brands that want to open just to say they opened may go faster, but will fail. Overseas growth requires resources, research. Impatience is dangerous. When the timeline becomes too long, the people involved - managers, shareholders, partners - become impatient, so we always remind people 'we are not in a race', we want to do things well and we are here to stay." He also notes that a timeframe of about two years might not easily match with a PE investor's timeline.

Weigh the risk

Several of our experts are keen to sound a note of caution for brands that might leap too soon into cross-border expansion or go for the wrong reasons. If it goes wrong it could come at a great expense, jeopardise any future projects in markets with significant development potential, and damage the brand.

Bauer advised that brands should, "Never use the resources of your home market [to drive the expansion] as you risk losing the footprint of your home market and failing there."

Teams need to know their brand well before they choose to go cross-border, according to **Klein**. "You must be very cautious," he said. "If the brand and concept are not solid enough the brand may fail which is highly damaging, costly and painful."

Klein urges management teams to analyse possible geographical expansion well in advance and cautions against decisions based on ego. "International development has a high ego dimension for founders, entrepreneurs, investors and CEOs," he said. "This is very dangerous. People underestimate the difficulties. For example, ego brings a lot of brands to New York City, but it is probably the most difficult market in the world. The risks of failure are high. Development does not always mean success. People tend to forget this," he notes.

Klein also urges entrepreneurs to ignore the lure of potential partners or investors who might try to push a brand to go international too early. “It takes time and resources, so you must make sure it is the right move and not a distraction,” he said. “Since execution must be perfect, you must know if you have the capacity to do it well and that you are ready to do it,” he cautions.

Various reasons to go international...

Increase company value

Improve brand versatility

Expand development potential

FOMO (Fear of Missing Out)

Learn from partners

Build partnerships

Ego

Reach more customers

It's a learning process

Several of our experts say that a key driver for the decision to explore international expansion is the opportunity to learn more about their brand and about the process of taking it cross-border. Bauer agrees, “You can learn a lot from going international, you can learn from your partners.”

In fact, country partners are sometimes bigger and more structured compared to the brand’s own team. A case in point was **Shake Shack** which partnered with **Alshaya** to launch in Kuwait. **Michael Kark**, Global Licensing Officer at **Shake Shack** shared, “We realised we would learn so much from **Alshaya** if we wanted to grow the brand. We chose to go to the Middle East [to Kuwait], to learn from a great operator of a multi-site, multi-brand business.”

See also next section: *Focus on **Alshaya**.*

The interviews helped bring into sharp focus a number of key learnings that our quantitative data points to. Every brand’s cross-border development story is different and yet they all share the same challenges. The insights we’ve shared here highlight the route other brands can take when breaking into international markets.

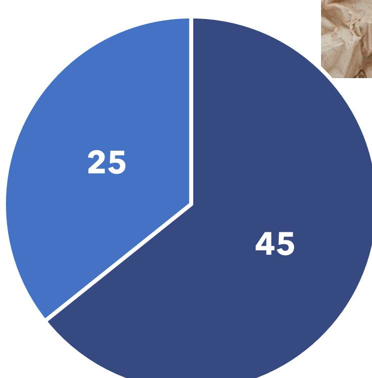
Case Study: focus on Alshaya

Besides regional cross-border expansion, a number of QSR and fast casual brands have expanded into the Middle East. So much so that the trend was viewed as a 'gold rush' for brands looking to reap the benefits of growth in the region. Many of them partnered with companies who are experienced at bringing brands to the area.

Alshaya is the stand-out company that others look to as a measure of success in taking brands to the region. A Kuwaiti family business, Alshaya has 50,000 employees across 18 countries, with 4,000 stores. They have taken 70 brands to the Middle East and other international markets, 25 of them being hospitality brands. As a consequence of this very high level of recognition, they are coveted as a partner by all major international brands, but in understanding the models that work for them, they tend to be quite selective in the brands they take as a franchise partner.

Alshaya brands

■ Retail brands
■ Hospitality brands



Starbucks is their largest single brand, with 1,900 locations in 14 markets, including North Africa, Turkiye and the Middle East. Their other hospitality brands are mainly American QSR/fast casual, like **Shake Shack** and **Raising Cane's**, or casual dining like **Cheesecake Factory** and **P.F. Changs**.

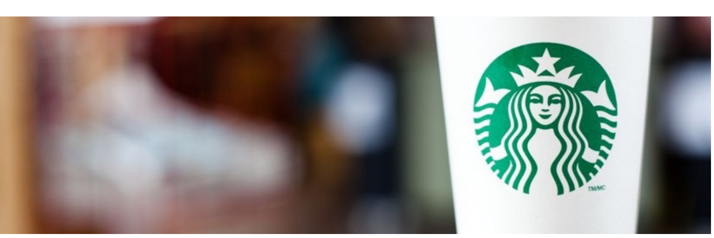
In our recent discussion with **John Hadden**, CEO of **Alshaya**, he told us that their brand strategy is not primarily driven by country analysis, but by brand selection. Executive Chairman **Mohammed Alshaya** travels the world looking for new brand opportunities, but they are also often approached - particularly by American brands - to facilitate Middle Eastern expansion. Despite the demand for their attention, they choose brands that fit with their model which is based on big scalability and strong development potential. They believe now that they took too many brands in the past. This makes them more thoughtful on brand selection, focusing on scalability and ensuring that the financials will work for their core countries.

Hadden said, "We're very considered when we introduced hospitality brands. After finding a brand, we open a small number of restaurants in key markets to test a concept and customer demand, but our agreements are more about making it work for both sides and developing a long-term partnership with the potential for scale in terms of markets and openings. We recently announced an agreement with Chipotle as their first brand franchise partner – we will introduce the brand to consumers in Kuwait and Dubai in early 2024 before expanding further."

In deals with brands, they aim to identify markets for expansion and don't just go for one market. **Hadden** continued, "Whilst our agreements are based upon the opportunity for scale, we always start in two markets: Kuwait, our home market, and Dubai. In other markets, we look to have exclusive rights to open once we have tested the brand."

For brands looking at the region, **Hadden** says everyone wants to open in Dubai which has a large expat population, but from Alshaya's perspective, all their brands need to work in the Kingdom of Saudi Arabia (KSA), as it's the biggest market in the area, although also very difficult to break. When Alshaya looks to new territories, their new country strategy always starts with **Starbucks**, as they know the model well. If **Starbucks** works, they slowly roll out other brands. Seventy percent of Alshaya's business is in the GCC (Gulf Cooperation Council) countries and North Africa, with a clear appetite for family-driven markets.

Hadden is very clear that **Alshaya** is purely an operator. They focus on area development partnerships and don't have any master franchise agreements in place. They directly operate all their units in all countries themselves. They don't have local partners and even rule out developments in countries that require a local partner, such as India. They are used to this capital-intensive model, taking all the risks and paying royalty fees to their franchisors.



Therefore, brand selection is a crucial exercise, which they have improved greatly over time. They now have a clear focus on a limited number of brands, all offering not only solid financial performance but also a strong scalability model. **Hadden** reminded us that they like to scale brands as they are, they don't want them to lose their identity with too many adaptations in new markets. He defines the group as an excellent "replicator", and likes to ensure that only some small, local fine tuning post-opening is necessary, on a maximum 10% of the brand's proposition.

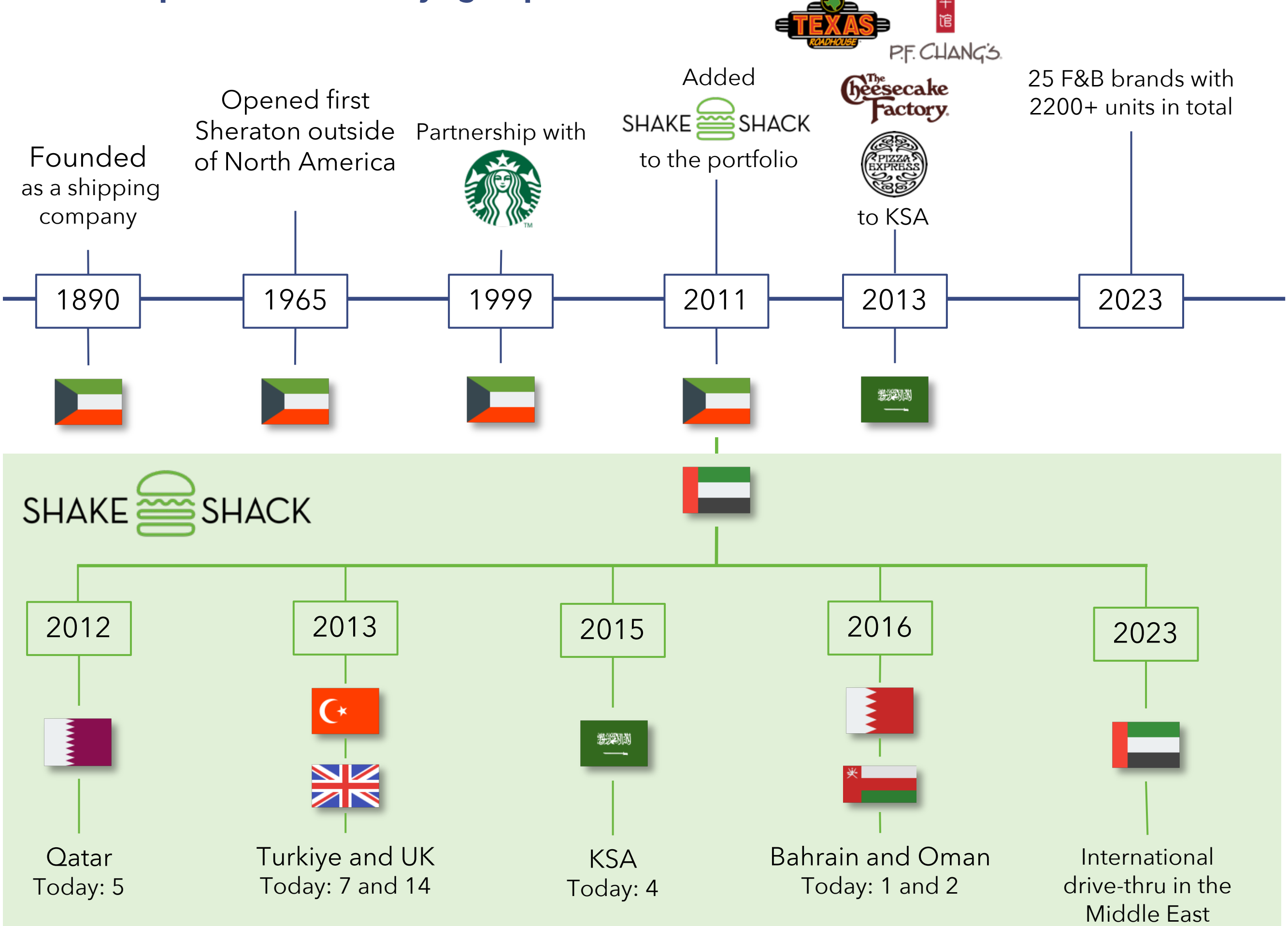
QSR and fast casual brands have proven to offer a higher level of performance, especially when they also have a drive-through offer. Although they started their journey with casual dining, Alshaya is now focusing more on limited-service concepts.

The vast majority of the units they operate are in malls rather than high street locations. Their incomparable brand portfolio and investment capacities make **Alshaya** one of the strongest tenants in the countries where they have a presence. They are able to secure up to 20 different leasing agreements in the same retail venue, allowing them to benefit not only from excellent financial terms, but also from the very best locations.

Hadden emphasises that a successful new market entry relies on a strong local team, which is mainly built from nationals at all levels having a good understanding of the market and being led by a country manager coming from **Alshaya's** team. He has learnt that US and UK professionals don't always work well in those markets, but having a strong local team will be critical for the success of the project.

Nevertheless, entering into a new market is never an easy exercise. Hadden believes it takes a minimum of three years before you can be sure that a new market is performing well, from opening the first units, understanding and improving price point strategy, finding the exact model format and so on. In the past, he realises that they sometimes built units too big and have had to adjust over time, as the format and unit size may vary depending on markets and local consumer habits. To accelerate the 'land and expand' timeline, they do market assessments and consumer surveys prior to opening a brand in a new country.

The development of the Alshaya group



Alshaya and Shake Shack: Big Risk, Big Reward

In addition to **John Hadden**, we spoke to **Michael Kark**, Global Licensing Officer at **Shake Shack,** to understand both sides of the partnership experience, going into countries like Kuwait and Dubai (UAE).

Mohammed Alshaya is an astute collector of global concepts that he thinks will work in their market. When he saw **Shake Shack's** success in New York, he approached them to partner with a Middle East launch.

Hadden described the development journey for **Shake Shack**. "Our concept of market testing, combined with customer research has been key in bringing **Shake Shack** to the Middle East. Expanding into other markets can be a challenge, such as bringing F&B brands to Western Europe. It depends on the brand, and when we brought **Shake Shack** to the UK it proved to be the exception, but the model is challenging in Western Europe, where staff costs and rents are much higher and delivering margins to give the required ROI are tougher. High brand awareness helps a lot with driving success, and now we conduct customer research on brand awareness before entering new markets."

For **Kark**, partnering with **Alshaya** was a huge opportunity for the **Shake Shack** team to watch and learn how to achieve a successful cross-border development. He explains, "**Mohammed Alshaya** saw the lines in front of our New York restaurant and came to **Shake Shack** and said, 'come to Kuwait and UAE, just come and see this part of the world'. It was a crazy idea, and we were not ready for that at our early stage of growth. But while we knew how to make great fine dining restaurants, we had no idea how to duplicate a fast casual food brand. We knew that **Alshaya** knew how to run multiple brands and were experts in the field. We realised we would learn so much from **Alshaya** if we wanted to grow the brand.

"It was in 2011 and the fourth or fifth **Shack** in the world when we opened in Dubai. We had low expectations and were excited to learn from a great operator of a multi-site, multi-brand business. Following our opening in Dubai there was a real lightbulb moment, that the brand had something. **Alshaya** had the resources and team to build that infrastructure. Nobody within our team had that fast casual / QSR experience, so it was a learning curve for us. It was very unconventional, but the best choice ever. **Shack Shake** wouldn't be the company it is today without an incredible partner like **Alshaya**. It has been a landmark point for the brand's expansion and now we're grateful for **Alshaya's** trust in us even when we were in our very early stages."

Our exploration into the experiences of our restaurant entrepreneurs brought to light some commonalities in approach, but also interesting differences on hot topics.

Through these conversations, it became apparent that our C-suite experts share a common mindset rooted in humility and a recognition that lack of knowledge about a new territory demands thorough research and understanding. Finding ways to develop that understanding, as well as having clear insights into the brand, the concept and how it can differentiate itself in the new market was critical to delivering a successful launch. **Victor Lugger** explained, "We have a very humble approach. **Big Mamma** works in new markets only because it is a concept which is easy to adapt to each location."

All of our experts agreed that an international project demands patience and resources, as it's a long-term commitment. Management teams need to be aligned on their aims and prepared to spend time on an overseas project, with a clear focus on the end goal. If you're looking for a quick win in terms of profitability or increasing brand value, going into new territories is probably not the best route to achieve this.

THE ROADMAP TO SUCCESSFUL CROSS-BORDER EXPANSION

Perfect timing

Our experts were somewhat divided on the best timing for brands to begin their forays into cross-border expansion. Where private equity investments were involved, the consensus was that growth into foreign markets needs to happen quickly, as turnaround times are usually short for PE investors, and speed is a priority if returns are expected before starting to plan their exit.

Where brands have more time to grow organically, views are diverse. **Stephane Klein** feels it is important to seek international growth only when the home market is secure and wouldn't be at risk from having resources poured into the new project.

Others believe it is important to get ahead of the competition in a particular market, particularly if the brand is a unique concept. Expanding before anyone steals the idea would be a good reason to go early.

John Eckbert, Europe CEO of renowned burger brand **Five Guys** thinks that a concept would travel well to different geographies if it's a leader in a cuisine the home country is synonymous with. People seeing the USA as the home of burgers, coupled with **Five Guys**' excellent reputation in that market made them ripe for cross-border growth, he believes.

Knowing your audience

It's crucial to conduct the research to understand the particular quirks of a foreign market before launching. Highlighting the guidance that **WhiteSpace Partners** offers our clients, **Eckbert** agrees that brands should look into the differences in eating behaviours, customers' interests and the cultural variances in a new country. **Henry McGovern** feels that brands should ensure that their concept is a good fit for the market and should do some preliminary work to establish that an audience exists for their product, and that the consumer will accept and welcome it. **Bauer** also agrees. Starting cross-border expansion in the wrong country could prove very painful, he says, and brands should find a way to "keep the soul" of the concept whilst being prepared to make a few adjustments to the model.

According to **Keith Bird**, **Marugame Udon's** approach was to undertake intensive market research to understand price points, locations, interior design and other aspects of the concept that would need to be adapted. They worked with a 2,000-strong consumer panel in the UK to understand which dishes would transfer well from Japan, whittling the menu down from 64 dishes initially, to 32, and eventually launching with 16. Subsequent learning from the launched sites has adjusted the menu further to just 12 popular dishes.

Klein told us, "Every market has peculiarities to understand, and to know what you can adapt, you must know your brand super well – its strengths and where you can and cannot twist to suit the audience."

Understanding competitors in the space and who will be trying to take a slice of the same pie was also important. Is the concept different enough that the brand can carve itself a niche? **John Hadden**, CEO of **Alshaya** said companies should research their brand awareness and segmentation: what's the market and what's the competition? Understanding what is the right format for the brand in a new country is difficult and may take time, he explained.

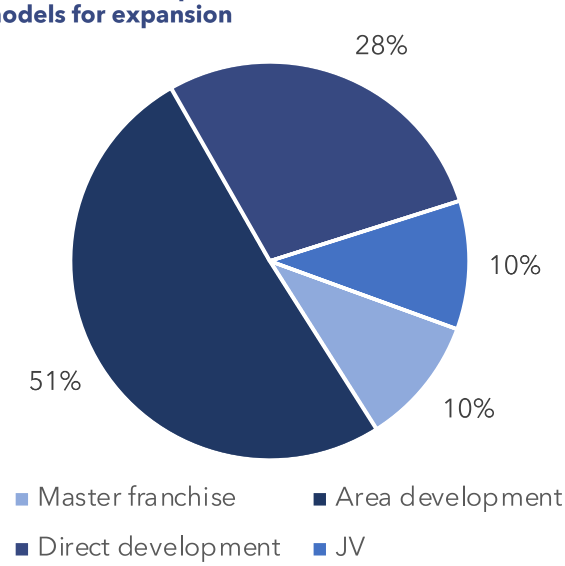
A model partner

For many, the ideal route to understanding a foreign market is to identify a partner with expertise in the new territory. This could be via joint venture (JV) or a franchise opportunity.
"If you try to come into a new market, you need to understand a lot. You need a local partner that understands how the market works and what's the right price to pay [for property]," Bird explains. For **Marugame Udon**, their PE JV partner was the UK-based **Capdesia**, making the UK the obvious place to start in cross-border growth. With Bird's previous deals, he has also preferred a JV with partners who understand the local market. "JV is a good model for local adaptations," he said.

Joint venture partnerships are also favoured by **Henry McGovern**, but he said that country prioritisation for him was based primarily on what market was a good fit for that brand and where the consumer would best accept the concept.

Bauer's approach is to find the best partner even before identifying the country. "We go where we can find the best partners first. The ones with great operational skills, we open with them. We don't care where. We've never excluded anything geographically," he said. He avoids single-unit franchisees offering minimal learning and requiring replicated work, preferring multi-unit franchising deals. He adds the critical advice: "Before you open for franchising, understand which countries you don't want to give away and block them right away, ready for when you have enough investment capacity for a direct development in those markets later on."

Preferred development models for expansion



Shake Shack's, Michael Kark, also thinks that finding the best partnership is vital. "We learned that the right partnership is the most important factor," he told us. "The right country with the wrong partner will always fail, but if it's the right partner in an 'ok' country, it has the best chance to succeed. Partner comes before the country in our strategy," he said. For that reason, **Shake Shack** looks for partners with a very strong track record in that particular territory. Although JVs are interesting to them, their model has focused on licensing thus far. "Each partner develops an entire country without sub-licensing" he explained. "However, we are always open to new ways of thinking about partnerships."

For **Five Guys**, a JV is also the right choice. **John Eckbert** explained, "A master franchise can be a very effective model, but the JV route for **Five Guys** has been excellent. **Five Guys** Europe is a 50/50 joint venture, so we're not technically a franchisee. We don't pay royalties to our US entity, but we share profits. The brand and menu are simple, the offer is very flexible, and we didn't have to make adjustments. This makes our EU JV model very efficient and allows us to be more aggressive on property and on speed of development."

Klein thinks brands should be open to all kinds of models, and that different concepts might suit different approaches, and this might evolve over time. "All models can be relevant. It really depends on the brand DNA and strategy. Models can also vary per country. With **Pret**, our model was direct in France, regional partners in Germany and country partners in Italy, Spain and Israel. And if you look at **Starbucks**, the model changed over time. They started with JV, and now **Alsea** has a multi-country master franchise. It's important that you know your model well and can be sure you have the right one and the right resources for it," he said.

Of all the experts we spoke to, **Victor Lugger** of the **Big Mamma Group** is the one who champions taking the brand directly to a foreign market without a local partner, but doing so demands an extra level of commitment from the team. He explained: "Part of **Big Mamma** is not a standardised concept, so it gives space for the founders or country CEO to adapt the soul and the DNA of the company in the market. Their creativity participates in maximising the chances of success in each location. We have not had any partners: no franchise, no licence, no management contracts, no JVs. You can only understand our model if you remember that the two founders moved to each of the first two new countries: **Victor** in London, and **Tigrane** in Madrid. We moved with our lives and families, becoming our own local partner. Our capacity to adapt - to create a new restaurant every time while keeping the same 'engine' - has been one of our success factors. Later we were able to launch Germany with a country CEO. In the future, we will do so in JV, but it takes time to build a restaurant model that can adapt and retain its soul."

Location. Location. Location.

Our experts had different routes in choosing their cross-border markets to launch in. Lugger looked to London as an "obvious choice" for **Big Mamma** because of the huge market size with "the best restaurant scene in Europe". He thought the locals would be attracted by the Big Mamma experience coupled with value for money. Later they looked at Germany when they felt the market had matured a little more. "It's easier to go in markets that are huge and crowded but that have the right dining culture and the right audience, rather than markets that are too early stage, and you have to educate the consumers," he said.

We noted that the successful development of international brands in Dubai, Kuwait and Saudi Arabia instigated a 'Gold Rush' of brands heading to the Middle East.

Five Guys' approach is to open in different locations, see what works and then seek to replicate it in other markets. **Eckbert** told us that after the successful London Covent Garden launch, they were keen to break into Germany but struggled to identify a city with the same market conditions, so they chose Paris instead. In Spain, they again felt the capital city of Madrid to be the obvious choice. With those restaurants successfully bedded in, their understanding of the brand and the ideal launch conditions brought them back to Germany and Frankfurt.

Kark said **Shake Shack** also learned a lot as they broke into new territories. "It's always difficult to open in new markets, but we've learned a lot and grown our skill set. They're just never easy," he told us. "Even markets that look easy have their surprises. We learned a lot. We benefited from learnings earlier on in our development. Now we're much better prepared and have experience in enough markets to understand most challenges, but something new will always crop up. Thought processes in one new market might make you think a different way in another market. It's always a learning curve."

McGovern feels the best choice is often where your partners are based, but he also looks at whether senior leaders would relocate to the launch city. "You need to secure a team or a partner that knows the country very well. For **Popeyes**, we have a dedicated leadership team which is local. Looking at **Sticks'n'Sushi**, I believe it worked in the UK because **Andreas Karlsson** (CEO) lives there part time. When **Amrest** acquired **La Tagliatella** I moved to Madrid. I wouldn't have done it if I was not driving the integration myself," he said. **Kark** agreed: "You need to meet with people where they are. Opening in the 'hometown' of the partner is the most important, it's where they are strongest and it's key - typically that is the capital city, but not always."

Once **Marugame Udon** knew London was the right location for international expansion they did more research to pick the right site, despite the property having some specific challenges. "Our first opening was Liverpool Street [a big transport hub in the financial district]," shares **Bird**. "We did a plan of the city. Liverpool Street has a very mixed audience: students, lots of workers, a cultural aspect. We looked at it as a brand opening not just a restaurant opening. And the opening of **Eataly** helped bring more people to the area."

A shiny new home

Different concepts demand different site requirements. Our entrepreneurs considered seriously what city location and which property would work for their overseas ventures. Some used the property itself to communicate something about the brand to its customers.

Bauer wanted the local partner to visit multiple locations, suggesting a minimum of 10 and wanting a clear explanation as to why they chose the final one and why it would be successful. "Show them your best performing locations and let them tell you where they could find similar locations in their home markets. That needs to be challenged. From whom do we steal the business in the area?" he explained.

Real estate decisions depend on the brand and its strategies, according to **Klein**. "The choice is between a flagship or a more scalable model," he told us. **Pret** kept their UK model, taking locations overseas they could also take in the home country, but **Starbucks** had more of a flagship strategy in the beginning. "You must create local awareness and visibility," he said. "Become a destination for the neighbourhood."

Eckbert said that with **Five Guys**, the property strategy in the US was initially very 'vanilla', targeting strip malls and B locations. "But we believed the product deserved the prime location, and this would communicate to the public that we believe in the quality of the product, and the product deserved to be in the best location," he said. In the EU they sought out prime locations. "It messages to the customer the quality of the brand." The team looks for site visibility. They like street corner locations which also help to build brand awareness. "Being successful in an obscure city won't help to build the brand. Everyone comes to London, and prime locations in London are seen by the entire country. It's the same for the Champs-Elysées in Paris," he explains.

Shake Shack also prefers prominent locations. "It does best at the corner of Main and Main," says **Kark**. "It helps guests understand who we are, that it's a little bit special and different. We like iconic story-telling locations." Meanwhile **Big Mamma's** preference is for very large restaurants in capital cities to maximise launch visibility to press, customers and competitors.

A recipe for success

It's clear from our experts that brands need to understand how to adapt their offer to meet the needs of a new audience, and that this work could take time**. John Hadden**, CEO of **Alshaya**, thinks that understanding whether a new market is working could take two to three years. "You need to understand and improve the price point strategy, the customer experience, develop local menu adaptations, understand its scalability and development potential." he said. **Alshaya** are hugely experienced at taking brands into new markets and prefer not to change the concept and risk that brands might lose their unique identity. They make minor country adaptations to the food or drink offer, but a maximum 10% of the menu. That might get reviewed after launch once it's been tested on the local audience.

Eckbert urges teams not to be afraid to drop things that aren't working. "**Five Guys** spent two years before we opened our first store in the UK, and on the first day, the hot dog wasn't right, so we pulled it." He says brands should work with their local teams to figure out what the key cultural elements are of the business, and how – for them - the American enthusiasm can be adapted into a local interpretation of hospitality. Staff shouldn't work to a script, but conveying the principles of **Five Guys** hospitality is key to a good outcome, he felt, as the experience is critical to the brand: "What are the right things for us to do to create the way we want our customer to feel?"

For successful transfers into an international market, it is vital to make the offer as operationally simple and easy as possible, says **Bird**. Design is important for **Marugame Udon**, but challenging for the team in Japan which sometimes struggles to adjust their traditional vision and adapt to the changes that were planned in the UK, including the alcohol, music, look and feel of the restaurant. The team worked with international architects, Harrison, to come up with something that suited all parties.

The WSP price point index (2022)	Bev.	Food	Global
UK (base 1,00)	1,00	1,00	1,00
Germany	0,86	0,84	0,85
France	0,92	0,88	0,90
Spain	0,85	0,82	0,84
Italy	1,07	0,99	1,03

Kark told us that pricing can be a difficult topic for cross-border expansion. "The challenge is how to price **Shake Shack** within a new market. It does best when it's great value. For a little bit more money than fast food you can get a much more elevated experience," he explained. He helps partners who get excited by the premium positioning and its potential, and who want to price the brand higher to understand where **Shake Shack** fits in within each marketplace. "Our goal is to have the first articles written to say that **Shake Shack** was delicious and delivered great value. If guests see the value, we're in a great place. If we're seen as good but expensive that quickly becomes a much more difficult equation". He wants word-of-mouth and reviews to highlight the value of the restaurant. While higher prices might offer success in the short term, it won't have longevity or scale, as guests don't return with the same frequency, he believes.

McGovern doesn't think pricing would be difficult if teams properly conduct their competitive landscape analysis and country analysis. Then finding the right price point shouldn't be a problem, he argues.

Selecting your dream team

Our industry entrepreneurs are all clear that the secret to a successful cross-border expansion is the people behind it. Whether it's your partners, suppliers or the on-site team, people's commitment to the project is what drives its success. **Klein** told us that 90% of a successful launch comes down to the team and the partners.

"What creates success?," **Eckbert** said, "People. People. People. Having people that are passionate about what they're doing. If you have that, but the location is wrong, you still have a chance to make it work." Their belief is that **Five Guys** should behave like a local brand, so having a humble approach and finding the right local team is crucial. Identifying the right in-store leader is critical but can take a while to get right, building up the skill set. He also feels that the local crew is fundamental in translating the **Five Guys** approach to hospitality into the local cultural and behavioural styles with customers. "We need to find the right interaction between our American culture and the respective country cultures, which can be very different," he said. Ensuring that local partners and vendors are committed to the brand and its standards is also key. "When you're tiny, this is really hard, but showing them the opportunity of growth will help," he explained.

The importance of building a local team, with a good understanding of the market is also underlined by **Hadden**, and **McGovern** also agrees that having the right, strong leadership team in the launch country is vital. **Bird** recruits best-in-class teams both at executive level and in the restaurants themselves, setting teams up for fast growth.

Kark shares, "What I've learned is how difficult it is to find great leadership and experience in new markets, and then retaining these talented leaders. Our team and people are fortunate to have the opportunity to go to any country they want to. But we want to work with people that are great. We want to be excited by everyone we work with."

Finding the vital ingredients

Our experts have shared their experiences on the many challenges faced by their teams when taking a brand overseas, and many of them spoke about the importance of finding the right suppliers and building a reliable supply chain.

"Finding suppliers that are not too small, but also not too large is very challenging," **Eckbert** told us. "You don't want to be with anyone too big that isn't going to focus on you. But smaller suppliers won't be able to follow you when you grow."

Several of them recall struggling to get the balance right between importing critical ingredients that were vital to the consistency and flavour of the offer, whilst ensuring sustainability and supporting local sourcing. Importing could add pressures to menu pricing. **Bauer** advises restaurants to "source as much as you can locally, but ship key ingredients like flour, mozzarella. It makes it more sustainable. But then you have to invest time in the local sourcing."

McGovern shares that one solution is to work with international distributors: "Supply chain is difficult when you start in a new country and lose your critical mass and volumes; you start from scratch. Brands should anticipate this and work with the right distributors who can follow them in new countries."

Kark shared that keeping the consistency of **Shake Shack's** food is a challenge, as ingredients vary around the world and at different times of the year. They found it challenging to ensure a perfect product consistency internationally, but maintaining food quality was the essence of the brand – so this was critical. "You have to understand the nuances of the local supply chain, but also need to make it uniform as a brand," he said.

Hadden also described the early challenges **Alshaya** faced as they took **Shake Shack** cross-border. They looked immediately to create an efficient food sourcing system, building a relationship with brands, and bringing supplies from the U.S. But he acknowledged they were not fast enough to pin down the margin. Today they have local food suppliers ensuring delivery is much faster and locally sourced.

Learning a foreign language

Every country will present its own unique challenges to be addressed and learned from. Each learning strengthens the team and the brand towards building efficiencies into the international expansion process for each new territory, so mistakes should be viewed positively. "All problems can be managed when you better understand the country," Kark agrees, "You build your experience, thanks to your other new market entry experiences. A large brand with prior international development experience will always solve its problems much faster."

Eckbert also agrees: "Every country is going to have some regulatory, tax or permit or employment law issue, something that will be frustrating and won't be done in your home country. Resisting the urge to get angry about that is important. Adjust to it and respect the differences. Accept that there is a local interpretation of how to do business."

Marugame Udon's international development journey

Keith Bird described the unique challenges that Marugame Udon faced with taking the Japanese concept into overseas territories and how they tackled each one. "Property is usually the most difficult issue. Sending a team overseas to find good sites is not enough. You need a local partner that understands how the market works and what's the right price to pay, find an interior designer, project manager and so on. We prefer a cashless and paperless restaurant. It's all done via interactive screens which saved us a lot of work. We started with 14 different systems and only had to remove one. But it's important for upcoming franchisees to know that there is a proper tech stack they can use. We aim to make it as simple and easy as possible, always looking for operational simplicity.

"We opened in London a week after Covid lockdown ended, but there was a supply chain crisis that everyone was struggling with, and the cost of shipping was much higher. This was coupled with a recruitment crisis and us opening a brand that no one really knew. Inflation and national minimum wages have all brought their own challenges. However, we navigated these challenges as well as planning during Covid to successfully land the brand."

Big Mamma faced different challenges in each market, **Lugger** explained. In Germany, finding the right team compensation structure for restaurant staff was an issue. In the UK, Brexit made recruiting Italian staff very difficult. In Spain, their biggest challenge was finding locations with the appropriate restaurant licence. In hindsight, he feels they could have managed this by reducing the number of countries they went to but expanding more in each one instead. Construction costs and timelines coupled with red tape around restaurant licences had proven frustrating, particularly when managing expectations from the C-suite.

Complex labour laws, costs and regulations were also challenging in France, **Klein** agreed, "It is always difficult to open a new territory. You don't know the country which makes decision making very difficult. You don't know if you can 100% rely on your local partner who might make mistakes which you won't see immediately. What is difficult is the pressure that can come internally.

The brand wants to accelerate development pace, but a new market entry takes time." He said it was a mistake for brands to try to mitigate their frustration by sending expats as management. The management must be local with a good understanding of the market, he felt. "International expansion is a long-term project and will take more time than you expect. Don't be impatient. We grow, we do not hunt!" he explains.

Sometimes partnerships can support the brand through their challenges. **Kark** explained how **Alshaya**'s experience of taking brands international had proven invaluable. "**Alshaya** invested in growing the people resources necessary to make the brand a success. In the earliest days, we didn't know the details of our supply chain, we didn't have training materials, we were young and growing and learning. Nobody within our team had casual dining or QSR experience, as we came from fine dining, so it was a learning curve for our team."

Some measure of success

Once the brand is launched in its new market, it can take time to build brand awareness and learn whether the concept is working with its new overseas audience. Our interviewees described how they grew their customer base and could measure their cross-border success.

Eckbert told us, "Every brand has a voice, and finding the right local interpretation of that voice is vital to determine how to communicate that to the local consumer. If you don't have all the advertising tools it can be a little harder. You just have to look at ways of communicating that aren't necessarily obvious." He confessed that it had taken time for some **Five Guys** sites to deliver their potential, but average weekly sales in every store increased as brand awareness grew, boosting locations that were underperforming. In the UK, the popularity of sites in London helped. Their Valencia restaurant underperformed for two years but is doing very well now the brand is better known.

Even having sites with high footfall wasn't necessarily enough to bring customers into **Five Guys** until word of mouth grew. That was boosted by the online community of blogging burger fans. "Having that group of people with passion for the product to spread word and chat about the best burgers has been great," **Eckbert** told us. They closely monitor brand awareness in all countries and cities and found that the magic tipping point of 65% brand awareness delivers a significant jump in sales.

Klein agrees that brand awareness for **Pret** – as was his experience with **Starbucks** - is built gradually unit per unit, client per client.

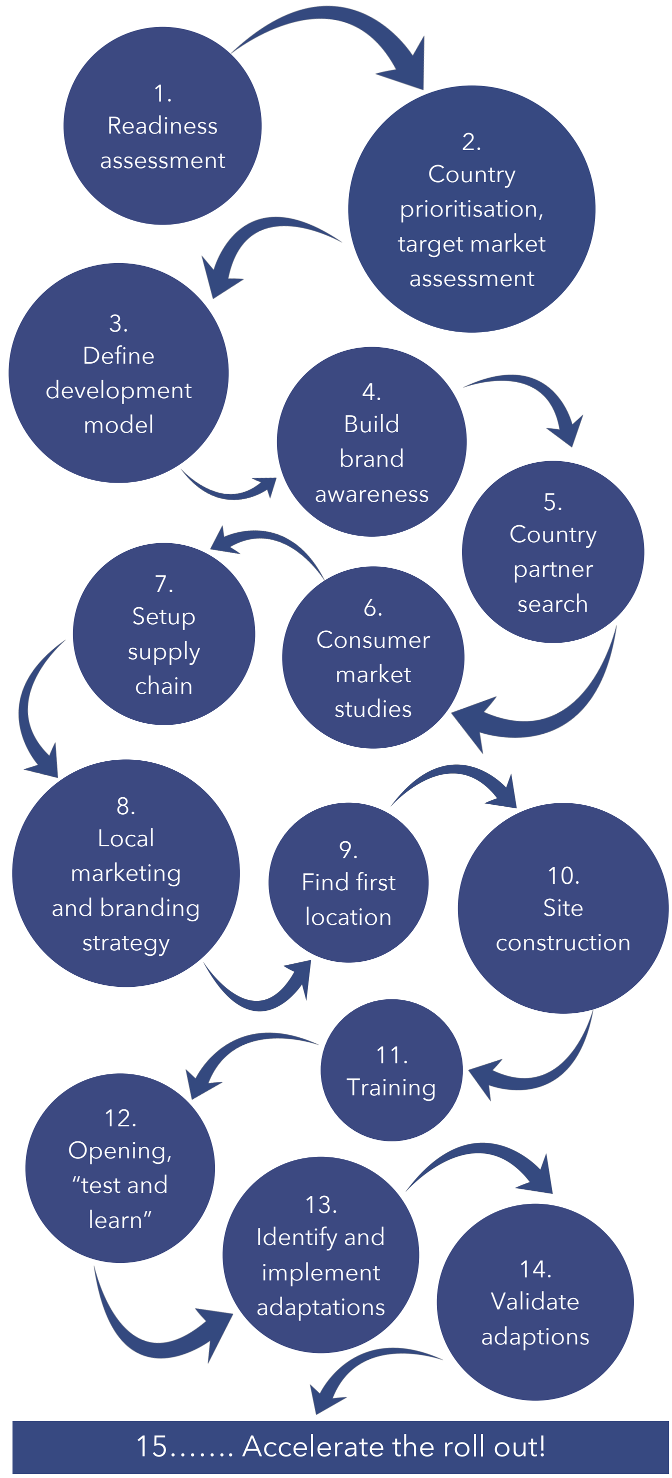
Hadden also believes that success in new countries is driven by brand awareness. **Alshaya** conducts customer research on brand awareness before entering new markets. The urban population in the Gulf countries are well-travelled and well connected on social media so have generally good awareness of the main international food brands, which helps.

Kark feels that **Shake Shack's** brand awareness is stronger than its actual size in units and being seen as a cool destination in New York has really helped with overseas audiences who know their story when they launch in other destinations. They retain the New York feel and experience in all their restaurants, with a nod to the local audience. The brand launched the same year as Facebook and has consequently done well on social media.

Big Mamma's approach is to build a destination restaurant with each launch. **Lugger** told us they build brand awareness by opening large, 250+ seat restaurants and spending a huge capex at each launch. "You don't find casual dining brands opening as large restaurants and spending so much on capex, so that immediately puts the spotlight on you," he explained. Generally similar launches are fine dining brands with a smaller audience. "When **Big Mamma** opens, it is so big and visible, so different in design, that the press will spread the word," he said.

Bauer told us, "Almost every brand starts with no brand awareness. You start from scratch. It's a local game. You build it in every country, one guest at the time. Brand awareness grows as you deliver, so you need to be consistent. The best marketing is a happy guest walking out of your restaurant."

Every step of an international expansion journey



Our research has painted a big picture of the world of international expansion depicting a mixture of strategies and models which prove successful for some, while more difficult for others.

We've also discovered some key takeaways as a result of our country and brand analysis, coupled with the insights from our industry experts who have successfully walked the international development road.

Objective strategic decisions

Although brands often consider it a mission to bring their concept to the wider world, be cautious of making decisions based on ego over strategy. Taking an objective look at your offer and considering what makes it popular in its home market and whether that will travel well to different countries and cultures will be an important exercise. You and your development team need to know your brand inside and out in order to understand what is working well with audiences and what can be adapted to an overseas market.

Victor Lugger (Big Mamma)
"International development is an opportunity to move out of your comfort zone."

Stephane Klein (Pret A Manger)
"Ignore the 'Siren's songs' that lure a brand to go international too early. Make sure it's the right move and not a distraction."

Think like a local

Once you recognise the concept's USPs, the next step is to conduct market research on the destination. What's your brand awareness like there? Work to understand the local customers and their consumption habits. Undertake consumer surveys to identify what will translate well to the local audience and which aspects they're unlikely to adapt to.

Henry McGovern (McWin Fund)
"Consumer research is critical to understanding local clients. Difficulties often arise as people believe they know their brand very well, but they forget that every market is different. You must understand the country's needs."

Learn from the past

When you've decided on your cross-border destination, it's useful to look at the development journey of the brands that went before you in this market. Who has failed or succeeded here? Is it possible to understand what worked and what didn't? What are the peculiarities of this country to consider when bringing your concept here? Why did the brands that thrived or folded have that particular outcome?

Mario Bauer (Vapiano)
"Our brand needs to be more specific than the local competition."

Know your competitors

Next comes the competitive landscape analysis. Who are your peer group brands that you'll be trying to take consumers from? Is the market big enough to accept another concept and strong enough to justify the resources, effort and risk of the overseas endeavour? If you're developing your brand via franchise, you also need to understand who your franchisor competitors are.

John Hadden (Alshaya)
"We conduct research on brand awareness and local segmentation. Who is the customer, what's the market and what's the competition?"

Victor Lugger (Big Mamma)
"It is easier to go in markets that are huge and crowded but that have the right dining culture and the right audience, instead of markets that are too early stage and that you have to educate."

Keith Bird (Marugame Udon)

We recruit great people - the best-in-class - both at exec level and in the restaurants. And we chose the best location for the brand… it happened to be in the capital."

Michael Kark (Shake Shack)

"Partnerships are like a marriage: easy and fun to get into, but expensive and painful to get out of. Some potential partners we talk to for eight or nine years before signing a deal."

Mario Bauer (Vapiano)

"We have a 'dating phase' from signing, with a 12-month cool down period to be really sure we can build a strong relationship."

Choose the right growth model

Deciding your investment and development model is the next milestone on the journey. Conduct P&L modelling to learn how sustainable your business model is likely to be in the target market. What makes sense to take the concept into the new territory? Is direct development, offering the most control but the greatest risk, the right option, or could a joint venture help share the load? Will you look for franchisees, and if so, how will you slice the offer in different countries?

People make it happen

Based on your development model decision, the next important aspect is building the team who will take the concept to market, find the perfect unit to open and adapt the offer to the local audience. Local expertise is vital to create the best chance of success. Will your local partners influence the destination city you choose to open in, or are you going straight to the capital?

Set your real estate and supply chain strategy

Your city and region in the new market also influence your real estate strategy and your supply chain. Will you take a larger flagship outlet and make it an opportunity to announce your arrival in the new location, or does it make sense to choose a scalable high street or mall location that you can roll out in other cities? Sourcing ingredients and building a reliable supply chain was an issue flagged by all of our C-Suite interviewees. Should key ingredients be shipped internationally, and will that add margins to your pricing strategy? How can you ensure quality and consistency in an overseas market you're unfamiliar with?

John Hadden (Alshaya)
"You need to understand the brand's development potential in the new market. It's not just about opening two locations but understanding if you can expand at scale.

Get your team ready

As solutions to previous challenges are identified, the launch strategy comes into view. Teams must ensure they are ready, which means assessing team preparedness. Does the team have the appropriate skills and resources? Do they understand how to deliver the concept and the 'je ne sais quoi' that makes the offer unique? Are the HQ, human resources and training protocols in place? Do members of the local management and global executive team all have the focus and bandwidth to deliver the launch?

John Eckbert (Five Guys)
"Five Guys is a brand that is talked about. We focus on PR coverage but that's not always been the most important aspect. We don't really advertise, it is all about word of mouth, social media, client experience and engagement."

Create visibility

Finally, the team needs to establish how to build brand awareness and create momentum within the new audience. Delivering a comprehensive marketing strategy that speaks to local consumers but chimes with the native concept is critical, as most brands start with little to no brand awareness in their destination country. Building visibility and capturing the imagination of customers is key to competing with the successful local champions in their home territory.

Mario Bauer (Vapiano)
"Spend time with the team. Build a good training structure, with multi-language manuals. Every partner could contribute to the programme, and we send them to support our new opening teams."

The data we have compiled in this study looking at the past 10 years of international development, provides historic context and direction of future travel as restaurant brands continue to venture cross-border. It's clear that although international expansion is a popular goal, success may be harder to achieve than one might assume.

Our analysis reveals a healthy number of cross-border attempts, but a smaller number of success stories when it comes to full market penetration. Entering a market is not always difficult, but scaling up is where the real challenge can be if the necessary, upfront preparation has not been thorough. The strategic decisions that are made before a brand ever opens in a new country will be the deciding factors in whether or not it will experience longevity. There is no one-size-fits-all solution. The right approach must be determined by each brand and requires thoughtful and deliberate planning.

WhiteSpace Partners cherishes the relationships we hold with senior executives and founders and are appreciative to those who have opened their worlds to us and allowed us to share their experiences and valuable insights with our readership.

Their experiences - although all very different - have revealed similar results in success and learning within their own restaurant segments. They demonstrate the importance of being agile, hands-on and open to making mistakes if success is the ultimate goal.

In considering the cross-border expansion of restaurant brands, we encourage a strategy-driven, methodological, humble, yet pragmatic approach to the process. As the numbers have shown, success, although attainable, should not be taken for granted.

International restaurant expansion will evolve, and it will remain a specialisation of **WhiteSpace Partners** as we continue to support private equity and restaurant brands on their ventures into new markets.

No matter where you are in your international development journey - or even if you're just looking to learn - we thank you for embarking on this exploration with us and hope that we've thrown some light on this exciting and greatly rewarding challenge.

Glossary

CAPEX	Capital Expenditures
EBITDA	Earnings Before Interests, Taxes, Depreciations and Amortisations
ESG	Environmental & Social Governance
JV	Joint Venture
KSA	Kingdom of Saudi Arabia
PE	Private Equity
P&L	Profit and Loss
QSR	Quick-Service Restaurants
UAE	United Arab Emirates

Section 9
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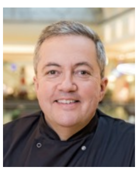

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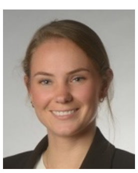

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The **EFSS** is the number one platform for the European restaurant industry. This is where trend meets global insight.

MAPIC is the leading international gathering of the retail property, leisure, food, and tech communities.

Foodservice is the leading magazine for the restaurant and F&B industry across Europe and the Middle East.

Leaders Club International, established in 2003, stands as a C-level global network within the foodservice industry.

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Notes


BECAUSE WE BELIEVE IN THE
SUSTAINABLE GROWTH
OF RESTAURANT GROUPS,
WE HAVE CREATED
WHITESPACE PARTNERS.

WHITESPACE

PARTNERS