International Track
Labor Issues & Unit Economics: Learnings from Across Boarders

Matthew Patinkin
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The Hon. Bruce Billson
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Key Takeaways

- There is a large variance in wage rates and labor regulations around the world
- The latest from Australia
- How franchisors adjust to protect unit economics
- How these strategies can be applied in the US
What To Consider When Entering A New Country With A F&B Franchise

With Focus on Wage & Salaries Costs

William Edwards, CEO, CFE
Edwards Global Services, Inc.
Country Specific Plan

- Define the ROI potential for your franchise in the specific country
- Define local Competitors and how your franchise will differentiate itself to succeed in this country
- Identify the necessary legal agreement and disclosure requirements and costs for the country
- Develop the menu for the specific country
- Define supply chain needs and evaluate local producers
- Define franchisee marketing costs, startup, training, support costs and the appropriate initial fees and royalties for the specific country
- Build a financial model at the unit franchise level for this country to ensure the business is viable for both you and your franchisee
The attached single unit restaurant P&L spreadsheet has input from key franchise areas of the world.

The key variants tend to be labor, rent and food costs as a percentage of the single unit revenues.

The example is for a full service restaurant with about 135 seats in a large city.

The location is either ‘A’ or ‘B’ level.

The food is a mixture of international food.

The restaurant size is 3,000 sq ft.

Countries surveyed: Brazil; Canada; Chile; China; Colombia; Northern, Central and Eastern Europe; Guatemala; Indonesia; Peru; the Philippines; Thailand; the United Arab Emirates; USA and Viet Nam
# Australia

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales</strong></td>
<td>Average Sales $</td>
<td>$20,685</td>
<td>$26,777</td>
</tr>
<tr>
<td><strong>COGS</strong></td>
<td>31.5% - 39.7%</td>
<td>30.0% - 34.5%</td>
<td>31.0% to 32.7%</td>
</tr>
<tr>
<td><strong>GP%</strong></td>
<td>Gross Profit</td>
<td>60.3% - 68.5%</td>
<td>65.5% - 70.0%</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td>Royalty/Advertising</td>
<td>4.0% - 5.0%</td>
<td>3.3% - 4.1%</td>
</tr>
<tr>
<td></td>
<td>Staff wages as % of</td>
<td>20.0% - 24.5%</td>
<td>24.0% - 34.0%</td>
</tr>
<tr>
<td></td>
<td>Manager or Owner Wages</td>
<td>5.5% - 12.0%</td>
<td>5.5% - 6.5%</td>
</tr>
<tr>
<td></td>
<td>Rent as a % of sales</td>
<td>7.6% - 9.5%</td>
<td>7.5% - 16.0%</td>
</tr>
<tr>
<td></td>
<td>Other</td>
<td>8.5% - 14.0%</td>
<td>8.5% - 15.0%</td>
</tr>
<tr>
<td><strong>EBIT</strong></td>
<td></td>
<td>3.5% - 11.5%</td>
<td>3.1% - 8.2%</td>
</tr>
</tbody>
</table>

American food restaurant of 320 square meters (3875 square feet) with 160 seats

# IFA2017 Convention
F&B Single Unit EBITDA

<table>
<thead>
<tr>
<th>Single Unit Area Chain Restaurant</th>
<th>USA</th>
<th>Australia</th>
<th>Americas</th>
<th>Canada</th>
<th>China</th>
<th>Europe</th>
<th>SE Asia</th>
<th>Middle East</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single Unit Franchise Revenue (AUV)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Single Unit Franchise</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Unit Franchise Expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>COGS - Food and Paper</td>
<td>30%</td>
<td>35%</td>
<td>35%</td>
<td>30%</td>
<td>30%</td>
<td>23%</td>
<td>36%</td>
<td>39%</td>
</tr>
<tr>
<td>Wages, salaries and benefits</td>
<td>28%</td>
<td>31%</td>
<td>20%</td>
<td>30%</td>
<td>15%</td>
<td>37%</td>
<td>15%</td>
<td>15%</td>
</tr>
<tr>
<td>Occupancy Cost</td>
<td>10%</td>
<td>8%</td>
<td>10%</td>
<td>10%</td>
<td>15%</td>
<td>11%</td>
<td>18%</td>
<td>8%</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>15%</td>
<td>11%</td>
<td>15%</td>
<td>15%</td>
<td>15%</td>
<td>11%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Royalty</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td></td>
<td>88%</td>
<td>90%</td>
<td>85%</td>
<td>90%</td>
<td>80%</td>
<td>87%</td>
<td>84%</td>
<td>77%</td>
</tr>
<tr>
<td>Average Regional Unit EBITDA</td>
<td>12%</td>
<td>10%</td>
<td>15%</td>
<td>10%</td>
<td>20%</td>
<td>13%</td>
<td>16%</td>
<td>23%</td>
</tr>
</tbody>
</table>

This is not a specific F&B franchise but a compilation of input from experience sources.
Comments

- Food costs vary highly even inside regions depending on whether the food supply can be sourced locally or must be imported.
- Occupancy costs can be lower in developed countries than in emerging countries due to the cost of rental space in fast growing countries.
- The same franchise brand can see EBITDA range from 10 to 20 percent in a single region.
- Labor in the Middle East is imported from the Philippines, India and other emerging markets.
- Labor in countries such as Australia, Germany and Sweden has very high social costs and starting hourly rates.
- An analysis like this is highly suspect as costs vary highly between brands!
Contributors

• Alberto José Aguirre, Desarrollo Puntos de Venta y Clientes – Restaurantes
• Daniel Alley, Italy based F&B Franchise Consultant
• Bruce Billson, Executive Chairman – Franchise Council of Australia
• James Liu, President, FranChina
• Ned Lyerle, President, CKE Restaurants International
• Sean Ngo, President, Vietnam Franchises
• Joel Sisson, President | Founder, Crush Strategy Inc., Canada
• Charles Weeks, Weeks International Interprises
The Hon Bruce Billson
Executive Chairman
Franchise Council of Australia
(former Australian Small Business Cabinet Minister 2013-15)
An Introduction to franchising in Australia
The Australian setting

• Economic success story - **25th year of uninterrupted annual growth.**
• Economic resilience, growth potential, low-risk & safe = attractive business environment.
• **Franchising “engine room”**
  • *$171 billion revenue p.a., 2.7% growth p.a., $12 billion in profits*
  • *1180 franchise systems*
  • *92,000 individual franchise units*
  • *Employing 560,000+ people*

(*Ibis World Report, May 2016)
Key Economic Issues

• Regulated, **economy-wide workplace relations systems** – National Employment Standards; Awards; Min adult wage $17.70/hr*

• **Independent regulators** - FairWork Commission (tribunal); FairWork Ombudsman (monitor/compliance); ACCC (Code)

• **Comparatively high input costs** – energy costs; tenancy/occupancy costs; commercial leasing information asymmetry

• **Market influences** – price deflation in some segments; migration consideration;
Australian Profit Strategies

• Cost discipline running very ‘tight ships’
• Staffing profile, young workforce
• Floor space & energy efficiency
• Supply chain & procurement rigour
• Customer/market granular analysis, culture/customisation & timing
Strong Unit Level Economics and a Proven Business Model Drive Growth in a Brand’s Home Market and Aboard.

Attractive ROIs:

• Create interest in your brand from well-qualified franchise applicants
• Position your brand to compete for capital
  ✓ From Alternative Investments Options
    (Including Other Franchise Brands)
  ✓ Lenders
• Generate cash for existing franchisees to invest in new outlets and capital improvements
• Build satisfaction from franchisees and suppliers as value is created for all stakeholders
CKE RESTAURANTS GLOBAL FOOTPRINT
3,780 Restaurants in 41 Countries, 24 New Markets In Last 7 Years
ACCELERATING INTERNATIONAL GROWTH

Middle East
Americas
Asia
Europe

% of System

FY07 FY08 FY09 FY10 FY11 FY12 FY13 FY14 FY15 FY16 FY17(F) FY18B
238 282 316 338 359 423 486 572 617 694 777 882

8.0% 9.2% 10.2% 10.8% 11.4% 13.1% 14.7% 16.7% 17.5% 19.0% 20.5% 22.1%

12.7% CAGR
Key Contributors to Attractive ROIs

• Strong Sales to Investment Ratios
• Attractive Variable Margins
• Fixed Cost Coverage
Improving Sales to Investment Ratios

• Conduct Market Entry Diligence on Brand Positioning, Menu, Pricing, Market Planning
• Sign the Right Franchisees
• Provide Support and Resources to Effectively Enter Markets
• Accept No Compromises on Site Selection
• Launch With Effective PR and Brand Marketing
• Adapt to the Market
• Localize - Supply, FF&E
• Market the Brand and Achieve Scale To Reach Effective Media Levels
Improving Sales to Investment Ratios
Launch With Effective PR & Marketing
Improving Sales to Investment Ratios
Enhance and Adapt Your Concept To Maximize Sales
Improving Sales to Investment Ratios
Enhance and Evolve Your Concept To Maximize Sales
# Improving Sales to Investment Ratios

Demonstrate Flexibility in Building Format and Design

## 03.01 TYPOLOGIES COMPARATIVE CHART

<table>
<thead>
<tr>
<th></th>
<th>Standard FSR 285sqm</th>
<th>Small FSR 286sqm</th>
<th>In line (Street) 150sqm</th>
<th>In line (Mall) 186sqm</th>
<th>Food Court 85sqm</th>
<th>Express 45sqm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Area</td>
<td>250-350 sqm</td>
<td>200-250 sqm</td>
<td>150-240 sqm</td>
<td>140-210 sqm</td>
<td>55-85 sqm</td>
<td>&lt;45 sqm</td>
</tr>
<tr>
<td>Front Of House</td>
<td>46.4%</td>
<td>36.10%</td>
<td>48.96%</td>
<td>36%</td>
<td>—</td>
<td>0%</td>
</tr>
<tr>
<td>Back Of House</td>
<td>45.3%</td>
<td>55.88%</td>
<td>37.56%</td>
<td>64%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Restroom</td>
<td>8.3%</td>
<td>8.10%</td>
<td>13.48%</td>
<td>No Rostrooms</td>
<td>No Rostrooms</td>
<td>No Rostrooms</td>
</tr>
<tr>
<td>Indoor Seats</td>
<td>103 seats</td>
<td>58 seats</td>
<td>66 seats</td>
<td>97 seats</td>
<td>0 seats</td>
<td>0 seats</td>
</tr>
<tr>
<td>Ratio*</td>
<td>2.73 sqm/seat</td>
<td>3.58 sqm/seat</td>
<td>2.27 sqm/seat</td>
<td>1.92 sqm/seat</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Terrace</td>
<td>64.10 sqm</td>
<td>0 sqm</td>
<td>0 sqm</td>
<td>0 sqm</td>
<td>0 sqm</td>
<td>0 sqm</td>
</tr>
<tr>
<td>Outdoor Seats</td>
<td>45 seat</td>
<td>0 seats</td>
<td>0 seats</td>
<td>0 seats</td>
<td>0 seats</td>
<td>0 seats</td>
</tr>
</tbody>
</table>

* Calculated with FOH surface
Improving Sales to Investment Ratios
Reduce Cost and Improve Space Utilization

Typical Domestic Kitchen: 116.6 m²

Asia Kitchen Example: 65.5 m²

In the US, the kitchen area is a designed specifically for our standard sized freestanding building.

Internationally, the kitchen areas are much smaller to account for smaller spaces and the need for increased seating counts.
Key Contributors to Attractive ROIs

• Strong Sales to Investment Ratios
• Attractive Variable Margins
• Fixed Cost Coverage
Delivering Attractive Variable Margins

• SCM Diligence and Localization
• Manage Pricing to Market and to Deliver Desired Margins
• Focus on Training and Productivity
• Educate Operators on Best Practices For Inventory and Labor Control
• Offer Effective POS and Back of House, Above Unit-level Control and Reporting Systems
Delivering Attractive Variable Margins

- SCM Diligence and Localization
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- Focus on Training and Productivity
- Educate Operators on Best Practices For Inventory and Labor Control
- Offer Effective POS and Back of House, Above Unit-level Control and Reporting Systems
Delivering Attractive Variable Margins
Best Practice in Inventory Management

Physical Inventory Counts
- Daily
- Weekly
- Monthly

Calculated by POS
- Recipes
- Ingredients
- Receipts
- Transfers

Missing Inventory
- Theft
- Waste
- Crew Over Portioning
- Short Case Pack
Delivering Attractive Variable Margins
Best Practices in Labor Management

- Labor Law Compliance
- Punch Enforcement
- Labor Utilization And Productivity
- Utilization of Part Time and Student Labor Where Allowed
- Forecasting and Variance Reporting
- Overtime and Violation Alerts
Delivering Attractive Variable Margins
Utilize Effective POS and BOH, Above Restaurant Reporting Systems
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