

Knowledge & Business

A Case of Franchising in Berlin

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Overview

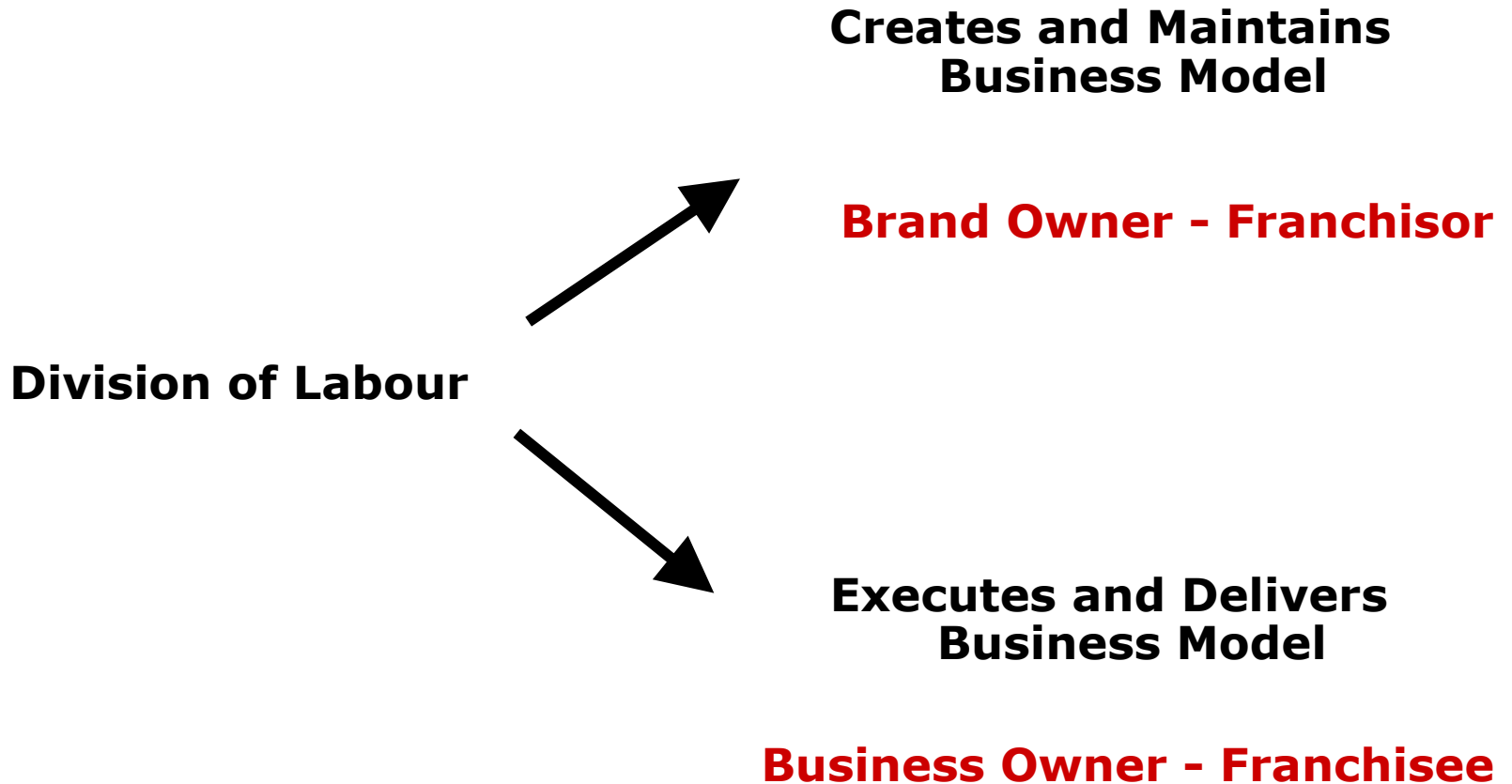
1. Franchising: creating and sharing knowledge
2. Example: Dunkin' Donuts Berlin & International



Definitions of Franchising...

- **A contract between a franchisor granting to a franchisee the right (i.e. freedom) to conduct business under its brand and with its know-how**
- **A distribution system that links independent operators through a common brand and operating standard**
- **A business strategy to accelerate growth through external capital and entrepreneurial resources**
- **An investment opportunity to create a business with lower failure risk based on a proven model**

...Understanding of Franchising



Improving the Return on Investment

➤ Brand Owner: 20%-50%

- Leverage through multiplication of a profitable business model**
- The degree of scalability drives the increased ROI on the initial investment**

➤ Business Owner: 12%-25%

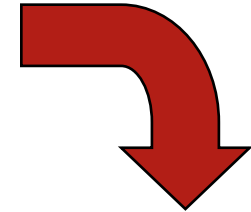
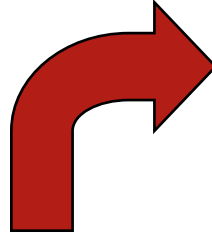
- Lower failure rate and thus lower risk through the use of a proven business model**
- Ceiling to higher ROI, but also low probability of negative ROI**

Cycle of Growth

**Replicability
creates
opportunity for
higher ROI**

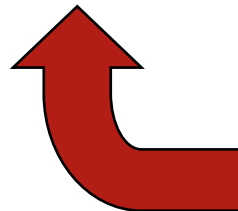


**More investment in
creation and
maintenance of
know-how**

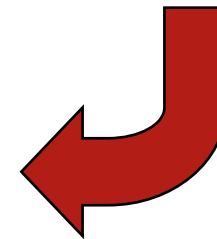


**Stronger, more
resilient and
profitable business
model**

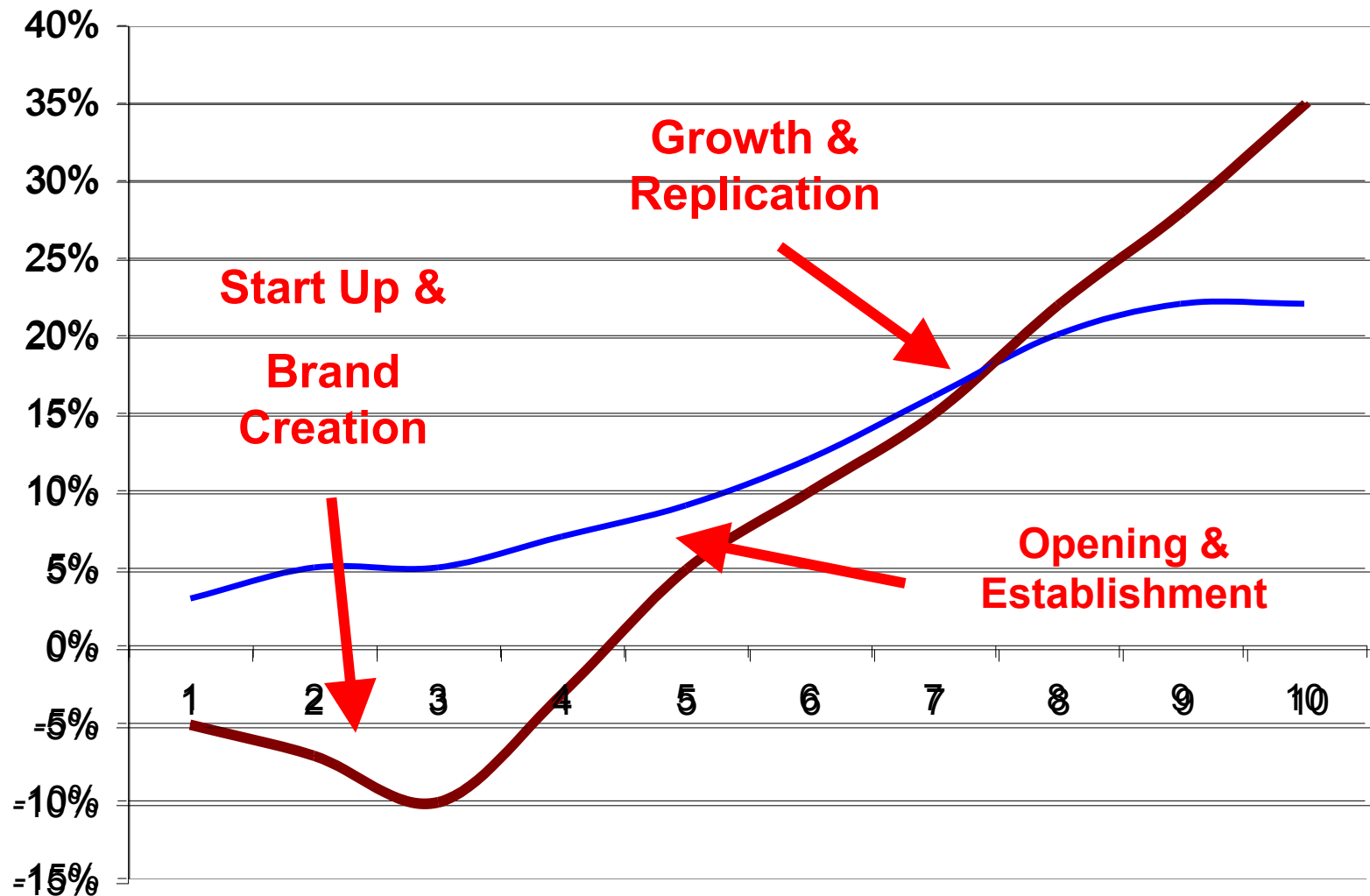
**Replication drives
ROI and reinforces
the process**



**Easier to replicate:
higher ROI and
lower risk**



ROI Curve



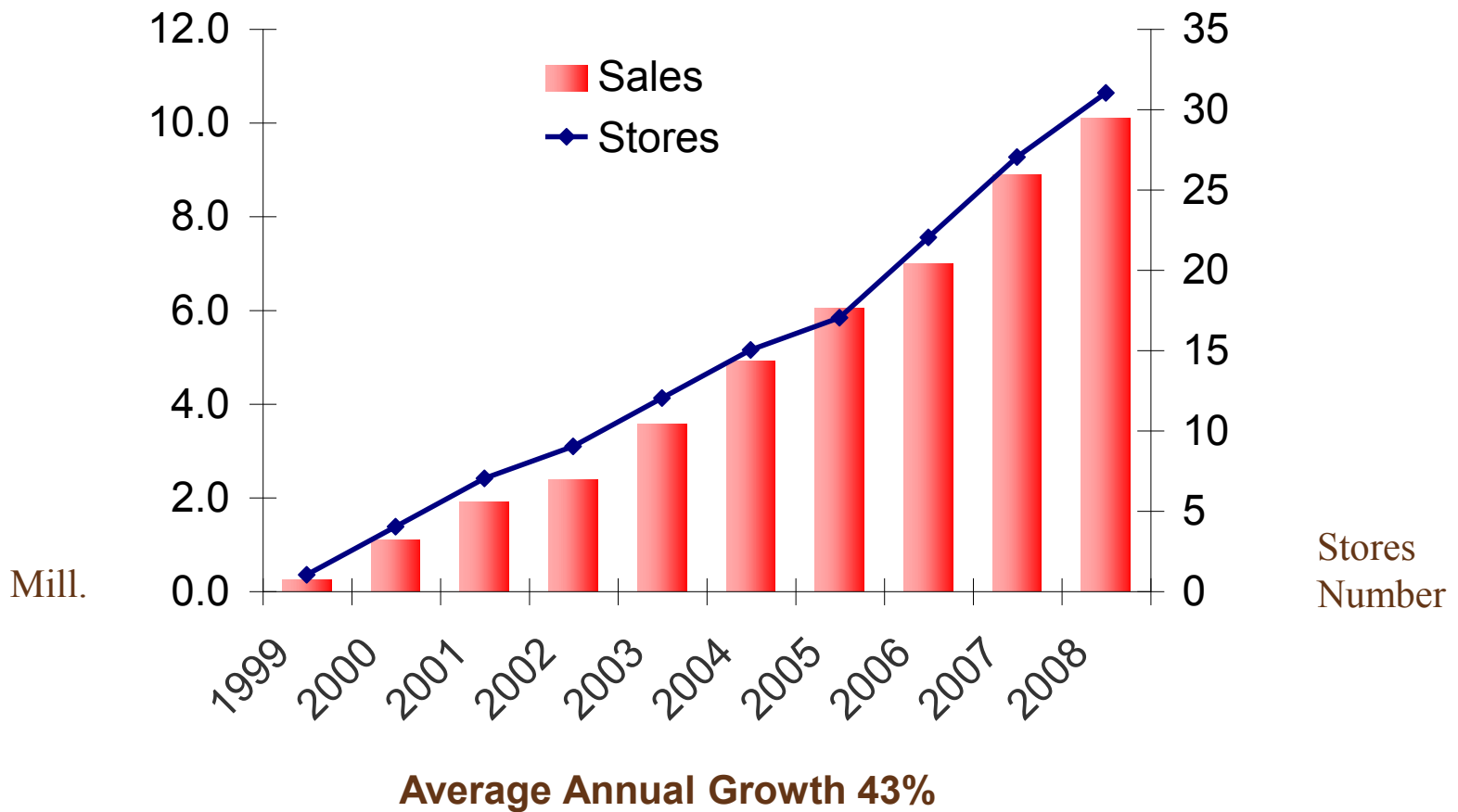


in Berlin

- **1998: Signed Area License with a group of private and institutional investors from the U.S. and Europe**
- **2000: Opened the first store in the Schlosstrasse**
- **2003: Opened store #10 in the Müllerstrasse**
- **2006: Opened store #20 at the Alexanderplatz
Same licensee opened 8 stores in NRW**
- **2008: Opened store #30 at Spandau Bahnhof**

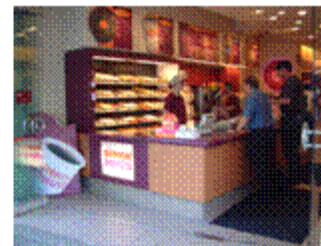
Brief History

Berlin: increase in sales and number of stores from 1999 to 2008



Business Model

- **City: Berlin**
- **Network: 32 stores**
- **Production: 1 central kitchen**
- **250 employees**



Business Model

- **Focus on Berlin to achieve brand visibility**
- **Store development to leverage central kitchen: increasing marginal returns**
- **Minimize store investment risk: strong asset turnover**

Store Economics

AUV	432,000 €
EBITDA	18%
Asset Turnover	3.4

ROI Store 62%

Network Economics

Total Sales	10,100,000 €
EBITDA	9.5%
Asset Turnover	2.3

ROI Network 22%

Development: Portfolio Strategy

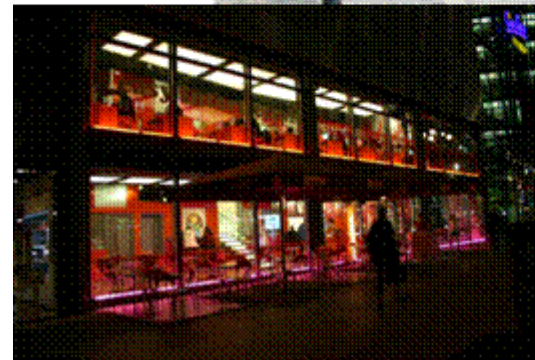
Locations	Number	Size Range	Sales Range
High Streets	5	80 to 250 m ²	312K to 900K Euros
Train Stations	9	9 to 110 m ²	168K to 1000K Euros
Local Trade Streets	10	30 to 100 m ²	140K to 360K Euros
Total	24	9 to 250 m²	140K to 1000K Euros

Note: one store missing because located in shopping mall

- **Mix of location types and store formats**
- **Maximize market penetration**
- **Optimize returns across the portfolio**

Development: Cluster Tactic

- **Cluster stores in marquee**
- **Proximity and store visibility**
- **Build ritual of coffee purchase**
- **Examples in Berlin:**
 - **Kurfürstendamm**
 - **Potsdamer Platz**
 - **Friedrichstrasse**
 - **Alexanderplatz**



Kurfürstendamm



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Potsdamer Platz



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Friedrichstrasse



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Alexanderplatz



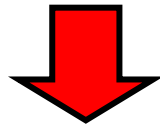
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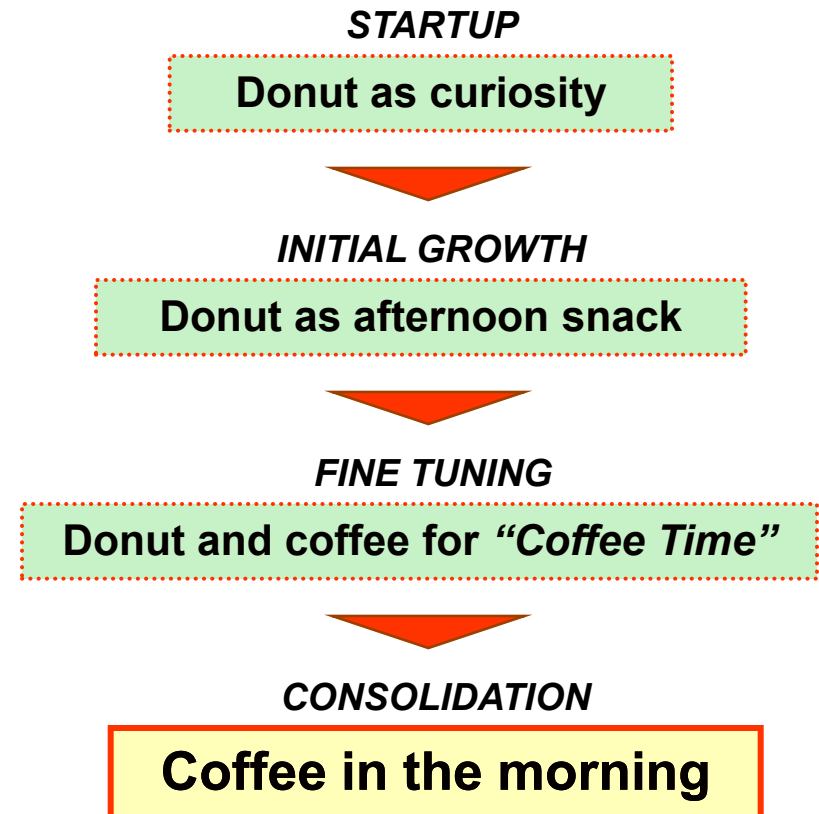
Brand Development

❑ Consumption switches from **impulse** to **convenience** with shift towards coffee (for everyday consumption) and reduction of bakery share (typically for occasional consumption)

❑ As **brand awareness** is established, products tend to become part of the customers' **daily habit**



HIGHER FREQUENCY OF CUSTOMERS' VISITS



Brand Today

*Sales mix:
2001 - 2007*

Sales Mix	2001	2004	2007
Single donuts, muffins, brownies	35%	21%	16%
Donuts' boxes (12x or 6x)	20%	25%	18%
All bakery products, total	55%	46%	34%
Bagels	5%	2%	6%
Hot drinks (mainly coffee)	18%	30%	37%
Cold drinks (soft)	4%	3%	3%
Coolatta	3%	5%	6%
All drinks	25%	38%	46%
Menus	13%	13%	13%
Others	2%	1%	1%
Total	100%	100%	100%

The growth of coffee sales is a key indication of the success of the concept: it drives to higher frequency visit and higher margins

Creation of Knowledge

- **Analyze track record and extract only the valuable insight to strengthen the system: **JUDGEMENT CALL****

- **Business strategy: portfolio of locations**

- **Development strategy: cluster in key areas**

- **Marketing: from donuts to coffee**

Leverage of Knowledge

- **Share across the system to improve the ROI for both franchisees and franchisor.**
- **EXAMPLES:**
 - **Portfolio of stores: UAE with 50 stores from gas stations to universities, hospitals, drive-thru and upscale malls**
 - **Cluster tactic: market openings in Spain (Mallorca, Granada, Malaga) with multiple stores in close proximity**
 - **Donuts to coffee: marketing in Lebanon and Saudi Arabia with coffee at 50%+ of sales**

Thank you for your time

