Semsom US: Market Entry in New York City

semsom®

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This case has been written solely for classroom discussion and is not intended to illustrate effective or ineffective handling of a management situation. Details of the case study have been altered for didactic purposes and do not necessarily faithfully report actual events.

This case study was made possible by the friendly cooperation of Carine Assouad.

Hannah Lu Schmitt greatly contributed to the development of this case study.

Prologue

Manhattan, New York City, 12:30 PM. Two young women peer at the street through the windows of a yellow cab on Canal Street and Broadway. The sidewalks are wet and car drivers are blowing their horns. Lunch breakers, tourists, and students are hurrying across the street, trying to avoid the rain. People escape into coffee shops for a sandwich and a latte to help them through the second half of this cloudy November day.

It has been raining almost every day since Christine arrived in New York from Beirut for a long-awaited holiday. She is visiting her sister Carine, who is currently working in the city. As they see all the stressed-out people rushing into delis only to stand in line for wishy-washy sandwiches, the two feel grateful for not being at work right now. At least this gives them all the time in the world to find a nice place for lunch.

“Let’s have some hummus, Christine!” says Carine, taking out her umbrella.

“That sounds like a good idea. Do you know a place for some good hummus? I haven’t seen a promising restaurant that would serve proper Lebanese cuisine the whole week,” Christine gives back, leaving the crowded, hectic place together with Carine.

Carine and Christine spend the afternoon searching for a restaurant that serves the kind of hummus they know from back home in Lebanon. Somewhat disappointed, they end up having a late lunch at one of Manhattan’s many Chipotle restaurants. At least they serve fresh food prepared in front of your eyes, but the menu is Mexican style, a cuisine you can get anywhere in New York City. The hustle and bustle of lunch time is over now.

Still amazed by the fact that they could not find a good place for Lebanese food, Christine wonders, “To be honest, I always thought in New York you’d get anything you want for breakfast, lunch, or dinner. I just can’t believe there is no place that serves really good hummus. I mean, in Beirut, you can get it anywhere … I know, it sounds like a crazy idea, but what if we opened a Semsom restaurant in New York?”

This is where the story begins. Back home, Carine and Christine decide to conduct some research about New York City’s food service industry.

Carine and Christine

Carine Assouad and Christine Assouad Sfeir grew up in Beirut, Lebanon. The sisters went to school at Collège Nôtre Dame de Jamhour in Eastern Beirut, where they were instructed in French, Lebanon's second language. After graduation, Carine decided to study graphic design at the American University of Beirut. Although creative work had always been one of her strongest passions, in 2005, she made the decision to go to Paris and enroll in an MBA program at HEC, one of France's most prestigious business schools.

Christine, the older sister, had graduated in Nutrition and Dietetics in Beirut, completed a master's program in Food Science in Montréal, and a second master's in Marketing. At the age of 22, just after returning from Canada, Christine convinced the management team of the American coffee shop brand Dunkin' Donuts to make her the first franchisee in Lebanon. "When you are 22, you don't think that there is a possibility of failure," she once quipped in a BBC interview. After being informed that she would be granted the franchise to launch Dunkin' Donuts in Lebanon, she decided to 'put Lebanon and Dunkin' Donuts on the map' by putting the Lebanese and the Dunkin' Donuts flag to the North Pole. At that point in time, it was highly uncertain how Lebanese people would react to the American way of having coffee and snacks, but Christine's franchise stores turned out to be a success: Christine made Dunkin' Donuts the biggest coffee shop brand in Lebanon. Today, there are over 30 Dunkin' Donuts stores in the country, and they employ more than 250 people. Due to her outstanding performance as a franchisee, Christine won several prizes, the most important one being the Gold Medal in the Challenge of Excellence which is awarded to the brand's number one franchisee worldwide. In addition to this, she was listed as the 15th most influential woman in the Arab world by CEO Magazine in 2012. When asked how she managed to become so successful as a woman in the Arab world, she explains that "Entrepreneurship and passion are not gender related. The best piece of advice I give aspiring women in the Middle East is: If your partner doesn't support your dream, change your partner, not your dream."

In Paris, Carine was making her way in the consulting world. After completing a traineeship at BearingPoint, she understood that analytical and strategic thinking were also among her strengths. She started working for Arthur D. Little and later joined the Boston Consulting Group. In 2012, Carine was one chosen to join the BCG Strategy Institute, and she temporarily relocated to New York. Having now lived on three different continents, Carine speaks Arabic, French, and English, but her favorite food is still hummus. Like her sister, Carine enjoys the privilege of being a citizen of Lebanon, France, and Italy, and emphasizes how much of an advantage these citizenships can be for an international career.

Carine and Christine come from a liberal family that taught them to dream big and not to be afraid of failure. Although Carine has not lived in their home country of Lebanon for many years now, she still feels very attached to her family there. As Carine explains, family was also always intimately connected to food: “Growing up, we always gathered around food. Food meant celebration, happiness, family.” And today, beyond Christine’s Dunkin’ Donuts business, the family’s company ‘Treats Holding’ manages two additional restaurant brands: Green Falafel, a vegetarian restaurant chain, and Semsom.

Semsom in the Middle East

Christine created Semsom in 2008 as the first brand managed by Treats. From the beginning, Semsom was not meant to be a single-outlet, family-run restaurant, but it was conceived as a franchised brand that would “spread the Lebanese modern way of life to the world,” as the sisters reiterate in several interviews. They explain that modern Lebanese means being “attached to its roots and traditions, but well travelled and ready to try new things.” This is the reason recipes created for Semsom combine traditional ingredients with new flavors, giving the dishes a modern twist.

Knowing that Lebanon still holds many interesting recipe secrets, Carine and Christine initiated what they called the Semsom Recipe Hunt. The idea behind this project was to travel to remote rural areas of the country to collect old recipes that were otherwise going to disappear. Although Semsom’s recipe creations can be considered a very new take on the Lebanese cuisine, Christine decided to conceptualize Semsom as a casual service restaurant. The outlets are located in quiet and clean environments like malls and include large seating areas. The store design varies from outlet to outlet, but each one is always a modern interpretation of the traditional Lebanese style, featuring wooden furniture and colorful cushion covers.

Semsom started out with one company-owned outlet in Beirut. Today, there are franchisee-operated Semsom stores in Kuwait, Oman, and Saudi Arabia. In 2011, Semsom was the fastest growing Lebanese company. Nevertheless, the political instability of Lebanon creates a very unpredictable business environment which makes day-to-day restaurant operations challenging. Because of constant turmoil, it is virtually impossible to plan ahead. “The stress level is higher here […] but it has the positive impact that it makes us much more flexible and adaptable,” Christine explains. Knowing that, when running a business, one can hardly hope to affect the stability of an entire country, the sisters worked to create their own tools to establish at least some stability for their business. Together with the team of Treats, they developed an online platform to support their franchisees in many operating and strategic issues. The platform turned out to be an invaluable quality management tool. It helps to ensure standardized staff management, financial monitoring, and a coherent brand image across all franchised and company-run outlets of each brand managed by Treats. To implement this online support platform, Carine and Christine put together all their knowledge about operational, financial, and marketing-related topics they had gathered during their studies and working life. As Christine stresses, being a Dunkin’ Donuts franchisee greatly helped her to understand the kind of support their franchisees would need to operate successfully.

So far, Carine and Christine gained experience from running two restaurant brands and many coffee shop franchise stores in Lebanon. But how would things change if they were to open Semsom in the United States? Carine, having lived in New York, knows that Americans are different when it comes to food. There was certainly no tradition of preparing food together and hosting family dinners which could easily last three days, like there was at home in Lebanon.

During the next family gathering in Lebanon, Christine sits down next to Carine at the large table in the salon of the family's house. "I thought about your idea of bringing Semsom to the States. I think we should first try to get as much information as possible about the food service industry in New York. Just to see whether we should do this or not," she says.

"I'm in. Let me do some research online, and call my friend Anne in the morning. She grew up in New York City and she's a foodie. She will know what the current trends are. Heck, if anybody knows about American eating habits, it's her," Carine responds.

American eating habits and consumer trends in 2016

American eating habits have been changing rapidly in the past years. Sales of fresh prepared food have gone up 30 percent since 2009. Consumers are also turning away from products created by big food companies, who, in return, have responded by creating new brands such as Cheerios Protein and a Betty Crocker gluten-free cookie mix. Living a 'Generation Y' lifestyle, consumers are beginning to make efforts to educate themselves about fitness and nutrition. Many are tracking calories and nutrients using smartphone apps. In addition, consumers have become unwilling to pay high prices if they are doubtful about a product's origins. Restaurants and coffee shops have reacted by making nutritional aspects and information about the origins of ingredients more transparent. Moreover, consumers now have a more holistic idea of what 'good food' means to them. Food is considered 'good' if it is morally and emotionally good instead of just good for your physical health. In this environment, for example, the number of farmers' markets in New York City has been rising continuously.

At the same time, Americans' eating habits have diverged significantly from those of Europeans. Whereas a lunch break in France may well take two hours – because French people like to take the time to have an entree, a main dish, and a dessert or coffee – in 2014, an average American spent only 64 minutes on eating during an entire day. In the US, anything about food seems to have to be fast and easy. It is not surprising to see that online ordering and delivery options are becoming increasingly prevalent.

Over the years, American consumers have also become cautious about when and where they shop. Although there is a rising demand for durability and value, Americans appear to derive particular satisfaction from finding bargains. Consequently, one would expect Americans to become more inclined to prepare food at home – the price of a home-cooked meal is one-third the cost of the average meal away from home. Yet, in 2012, food away from home as a share of household food expenditure reached its highest level in history, at 43 percent. In addition, 28 percent of Americans say they buy fast food twice a week.

With the rise of Facebook and Instagram, Americans, especially Millennials, have also become more interested in the style of their food and in the interior design of the place in which they consume it. A new status culture has evolved with consumers seeking kudos by documenting their experiences and sharing them on social media.

Carine decides to call Anne to discuss her findings. "You know, Starbucks is America's largest coffee shop chain today, and they were one of the first in the market to respond to these trends," Anne explains. "They offer fast service by having their customers order at the counter, but at the same time, they have these large and stylish, lounge-like seating areas where people started to hang out, to meet friends, or to work."

Smiling to herself, Carine thinks of the scene in Sex and the City, where Carrie conducts job interviews with prospective personal assistants in a Starbucks store.

"People are paying a lot of attention to design and style and atmosphere. So, the fast casual restaurant concept is the new big thing. It combines all the stuff people are looking for these days," Anne concludes.

The fast casual concept

As the name suggests, fast casuals are a hybrid of fast food and casual dining concepts. They combine aspects like limited service and online ordering from fast food formats with characteristics such as ethically and locally sourced ingredients and healthy recipe creations from casual dining. The largest players in the fast casual segment understood that offering high quality, and thus more expensive food, can only become a successful business concept if they manage to reduce costs elsewhere. Therefore, the fast casual twist is to raise the quality of the food and of the eating environment on the one hand, but to reduce service on the other. Instead of offering wait staff service, fast casuals have their customers order at the counter and pay before eating. Customers can then decide to eat on the go or to stay in and take advantage of individually designed, comfortably furnished, and spacious seating areas. Recently, many fast casuals have extended their ordering options and also offer office and home delivery. Prices at fast casuals are being set just in-between the price ranges of fast food and casual dining restaurants. As prices are posted on most fast casual restaurants' websites, Carine can easily see that their menu prices all vary between $9 and $15. The combination of affordable healthy food and short waiting time has made fast casuals very popular among lunch breakers, students, and tourists.

However, these customer groups have different preferences, be it a desire to watch their food being prepared, the time they are willing to spend on ordering and eating, or their willingness to walk longer distances to get their favorite food. Tourists, for instance, are eager to follow the preparation process of their food. As they are frequently not familiar with a restaurant they enter, they appreciate open kitchens where they can judge the quality of the food before ordering. Office workers, in contrast, are likely to prioritize speed and tend to choose a spot for lunch where little time is needed for ordering and preparation. Since American office workers, in contrast to Germans for example, very rarely prepare food at home the day before, practically every New Yorker purchases prepared food for lunch. Students tend to be more flexible than tourists and office workers in many ways. For example, they are willing to walk longer distances to make a bargain in the form of special offers or a ‘meal of the day.’

Fast casuals offer limited menu variety but regularly make changes to the menu. It is common to see seasonal and ‘limited edition’ creations which are only available for a short period of time. Also, the fast casual menu concept heavily relies on customization. Guests can choose a base ingredient and compose their meal by choosing from a variety of different additional ingredients. As a consequence, there are a lot more ways of composing a meal at fast casuals than there are at casual dining or fast food restaurants. For operators, the customization option has an interesting effect. They can limit the total number of different ingredients without compromising menu variety, and, when ordering larger quantities of a single ingredient, they enjoy discounts offered by their food suppliers.

“What is it that makes the most important players in the fast casual segment so very successful? How do they organize their businesses?” Carine thinks to herself. The most dominant fast casual brands in the United States are Chipotle Mexican Grill, specializing in Mexican cuisine, Panera Bread, which serves sandwiches, salads, and smoothies, and British Prêt-à-Manger, which focuses on sandwiches, soups, and coffee. Browsing these companies’ websites and social media accounts, Carine immediately sees similarities. All three brands focus on communicating a marketing message that expresses social responsibility and a healthy lifestyle. As Chipotle puts it: “With every burrito we roll or bowl we fill, we’re working to cultivate a better world.”

Next, Carine turns to financials. According to Chipotle’s filings at the New York Stock Exchange, food, beverage, and packaging costs represent the largest chunk of the company’s expenses. As opposed to many other restaurants, Chipotle uses few commodity-priced ingredients like potatoes but includes special ingredients like avocados in its recipes. Such ingredients are subject to serious price fluctuations depending on seasonality. As a reaction to such problems, Panera Bread, for example, decided to bake its own bread, making the company only dependent on commodity ingredients like flour. The second largest part of Chipotle’s expenses are labor costs. Chipotle offers several employee benefits uncommon in the US labor market. For instance, its hourly employees are being granted free food during their work hours, and the company pays for employees’ English and Spanish classes. Chipotle’s benefits can be seen as a reaction to one of the largest problems prevailing in America’s food service industry, which is staff turnover. On the one hand, employees in the US do not enjoy job security to the extent European workers do. But on the other hand, it is also very easy for employees to leave their employers. Plus, the kind of job hourly workers perform at, say, Panera Bread is fairly similar to the jobs they could take at any competing firm, so when a better offer comes along, people frequently decide to jump ship.

Whereas all Chipotle outlets are company-owned, most large chains, including Panera Bread and Prêt-à-Manger, are spreading across the country using the franchise concept. Franchising means that the company which owns a brand (the franchisor) sells the right to use the brand, as well as know-how and equipment needed for the operation of a brand's outlet, to a franchisee. The franchisee, in return, pays an initial fee and annual royalties to the franchisor. For instance, the total investment needed to become a Panera Bread franchisee ranges between $942,000 and $1.6 million. This is comparable to the capital needed to open a McDonald's outlet. The decision of whether to grow a business through company-owned or through franchised outlets represents a difficult trade-off. On the one hand, franchising greatly reduces the costs for setting up new stores. This is especially important when a company plans to open many outlets at the same time. In such a case, handing over the initial costs and the risk of failure to franchisees is an opportunity to scale quickly without needing to invest large sums of money at once and without taking on too much risk regarding demand uncertainty. On the other hand, franchising introduces many other risks, for example concerning quality standards, hygiene matters, and employee management. It is thus in the interest of the franchisor to ensure standardized food preparation processes, staff management, and financial monitoring in order to prevent reputational damage.

Swamped by the amount of information about the fast casual world, Carine decides to take a look at the US food service industry as a whole to acquire a sense for proportions in the industry. In 2016, America's restaurant industry is worth $783 billion, representing 4 percent of US GDP. There were approximately 14.4 million people, or 10 percent of the nation's workforce, employed in the industry. In general, the presence of limited service restaurants is very strong in New York: The city features more than 10 fast food outlets per 10,000 citizens. In addition to this, the number of permits for restaurants, bars, and cafés issued in New York City had risen to 23,705 in July 2014, up from 18,606 permits issued in 2006. Of the 45,681 restaurants in the entire city, 20 were Chipotle and 8 were Panera Bread outlets located in Manhattan. In 2014, the fast casual segment made up 8 percent of the US food service industry and it grew at a rate of 13 percent in the same year, whereas the overall industry grew at only 3.8 percent in the same period. Fast food chains experienced a stagnant market environment, with some players even shrinking. For example, while McDonald's is still ranked America's most valuable restaurant brand at an estimated worth of $88.65 million in 2015, the company's revenues declined by $3 billion between 2013 and 2015.

Opening a restaurant in New York City

Christine's phone is ringing. But she is in a meeting with the senior managers of her Dunkin' Donuts outlets of Northern Lebanon, so she does not take the call. Five minutes later her phone is ringing again. She asks the team for a short break and picks up the phone.

“Hi Christine, it’s Carine. I’m so sorry to call you during that time of the day. You are probably in the middle of one of your many meetings again.”

“It’s alright, Carine – I think my managers are happy about a break. It’s 35 degrees. So, what’s up?”

“I wanted to tell you what I found out about the food service industry in the US and about the fast casual segment. It’s very interesting, although some things are kind of contradictory. I’ll send you an email with my findings. What I have by now should be most of what is available on the internet. Still, there must be some more insights on what it is actually like to open a restaurant in New York. I thought about that friend from your Food Science studies in Montréal who opened a restaurant in New York two or three years ago. Do you think he could give us some more advice?”

“Good idea! His name is David. I’ll call him tomorrow and ask about his experiences. You are right: There are always some issues that you only become aware of after you got started in that business already. I’ll let you know tomorrow!’”

When Christine calls up David, he is happy to help. He argues that successfully operating a restaurant, and especially a restaurant chain, in New York City is highly dependent on four factors: location, labor, food supply, and legal conditions.

Location is vital for a New York restaurant. Since New York City is a very densely populated area – especially compared to other American cities – food service outlets must be accessible to pedestrians. In Manhattan in particular, population density varies greatly between daytime and nighttime. During the average workday, commuters increase Manhattan’s population by 1.5 million. Office workers thus nearly double Manhattan’s population during the day. They mainly stay in Midtown, along Broadway and in Downtown’s central business district. In these areas, the great amount of additional people brings along an equally great spike in demand for food during lunch time.

As David says, “Fast casuals are the perfect fit for health-conscious workaholics that are pressed for time. So fast casuals definitely need to find themselves a spot in exactly these densely populated areas, where workers, students and tourists look out for lunch and coffee options.”

A problem resulting from the necessity to be accessible to pedestrians (i.e., to be close to the offices in which possible customers work) is that not only rents are generally high, but suitable locations are rare, too. As is the case in many cities, New York’s city blocks are divided into commercial zones, residential zones, and public areas, such as parks. For a restaurant to be permitted to operate, the location space it chooses needs to be in a commercial zone. Luckily, information about any city block in New York can be retrieved from New York City’s online City Atlas. By entering any address in the search bar provided here, the user gets access to information about construction and renovation issues, about landlords, and the zone the building has been assigned to. Unfortunately, most retail spaces, although they are part of a commercial zone, are unfit for use as a restaurant because they do not feature the necessary infrastructure such as access to the gas pipeline network.

"There are multiple great locations in New York, but half of them do not meet the specific criteria for restaurant operation, so in the end, you often just can't take the spot, although the landlord would be happy to have you – which is rarely the case to begin with," David adds.

Christine smiles to herself. Her husband Carlos is the CEO of Sfeir Industries, a Beirut company specializing in industrial kitchen equipment. One of the firm's special products is professional kitchen equipment that needs neither gas nor exhaust hoods for food preparation.

"Ultimately, rental costs are one of the most important factors when looking for a location. Rents are usually the second largest component of fixed costs right after labor costs," David points out.

Doing a quick internet search while David keeps talking, Christine finds that the monthly rent for a restaurant location space at St. Mark's Place in Manhattan's East Village would amount to $19,800.

"But then," David says, "the problem is not only to raise the capital to pay the deposit and the first few months of rent. You need to convince landlords to rent out their space to you in the first place. In New York, many restaurants open and close because they fail to prove themselves in the market. Landlords are always wary of renting their space to a newcomer because they can hardly judge whether the business will be successful. They are afraid of having their space acquiring the stigma of a 'failer's location,' which will happen when they have multiple tenants in a short period of time. Also, negotiating with landlords is not an easy thing to do. A lot depends on whether the spot you want to get into is owned by one of the big guys who control over 500 units in eight different buildings in the city, like Allan Goldman, or if you are dealing with a small landlord who owns just one or two units."

While checking the multiple rental offers on the websites of real estate companies, Christine finds notices that most lease contracts are fixed for short periods of time, like one or two years. Short leases, Christine knows from her day-to-day business as a Dunkin' Donut's franchisee, are good on the one hand, because as a tenant, you have more flexibility to get out of the contract. On the other hand, short lease contracts imply that landlords can increase the rent frequently. They know that the investment of settling into a location, i.e., buying and installing the kitchen equipment and the furniture, would tie any restaurant tenant to the rented space.

When she mentions this to David, he responds, "You are right about that. But you also know that, compared to other industries, kitchen equipment is not a very specific investment. It is common that, when restaurant owners close down their business, they sell the kitchen equipment to the landlord who then rents it out to the next restaurant operator. You could also sell single parts of the kitchen equipment to other restaurants."

Labor, too, is an essential input factor when opening a restaurant. "In New York City, it is no problem to find skilled workers. But to be honest, if you are going to open a fast casual restaurant, you'll have standardized food preparation processes and service rules that don't require highly specialized employees. The problem is that although you will hire mostly students and other people who do not need any specific qualifications, you will still need to pay them minimum wage," David explains.

Indeed, Christine finds out that US states can decide over their minimum wage level independently as long as it is set above nationwide minimum wage of $7.25 an hour. And in New York, state legislation determines that by the end of 2018, minimum wage will be $15 per hour.

David adds, “Labor costs are not only about hourly wages but also about the money and time you need to spend on staff training and retention. I guess you already know about turnover issues and have learned about employee benefits introduced by established fast casual operators when you had a look the largest players in the segment.”

Compared to other industries though, only few restaurant workers are unionized. Also, information about wages is available on the website of the New York State Department of Labor. Christine is surprised to see how much of this information is readily available in the US.

Fresh food, which is the most important part of variable costs for restaurant operators, is available from large food suppliers like Sysco or from local farmers’ markets which have appeared across the city in the past years. Produce is usually delivered and stocked at the New York City Produce Terminal at Hunts Point in the Bronx where, every day, delivery services take on the ordered fresh fruit and vegetables, meat, and dry goods to deliver them to restaurants, cafeterias, and grocery stores across the city. At Hunts Point, all kinds of produce are available from several agricultural associations. Prices for fruit and vegetables depend on season, weather conditions, and availability. Daily prices for fresh produce can be retrieved from the Produce Terminal’s website at any time. Restaurants using a fixed menu regularly find themselves in trouble when a required ingredient becomes more expensive during a particular season. “Having a ‘meal of the day’ or seasonally changing menu items may be a good idea,” Christine thinks to herself. Since transportation costs are an important part of a food supplier’s cost structure, suppliers offer lower prices per unit when restaurants purchase larger amounts of the same produce regularly. Moreover, many large food supply companies only work with restaurants that order a minimum amount of food and agree to long-term contracts because fluctuation of clients and varying orders make a food supplier’s business unpredictable and unstable.

“Especially as a small restaurant,” David says, “you should carefully evaluate whether to cooperate with these big supplier firms or whether you need more freedom in choosing the produce and in negotiating prices. The latter will cost you way more time – you would need to personally choose every ingredient every day – but you’d be free to decide on what and how much you need on any given day.”

“Thank you so much, David. This has been a tremendous amount of information already. Is there anything you can say about your customers? How did you get the people to know your restaurant and how did you make them come back?” Christine asks.

“The first thing I can tell you is: loyalty programs don’t work the way you might imagine. Although we are using a smartphone app that informs our customers every day about special offers and free drinks, if you ask them why they are here, they mostly say because they were craving my Greek salad or the tzatziki. Students might be the only customer group that is willing to walk a few more blocks to get cheaper food, but most of my customers decide whether to come or not simply based on what they want to eat. As you know, the actual perceived value of a product like prepared food is highly dependent on individual taste. If a person doesn't like Greek food, it will be hard for me to convince him or her to become a loyal customer. But maintaining customers who already love your food is possible if you continually offer good food quality, friendly service, and if you change the menu regularly, so customers will always find something new to try. In the beginning, I heavily invested in upfront advertising to make people in the neighborhood aware of my restaurant. The largest part of my initial advertising expenses was giving away food for free during the first weeks of operation. When it comes to food, you need to entice people and seduce them by letting them taste your creations. Afterwards, you need to rely a lot on word-of-mouth advertising. Either people bring their friends or they write comments online on platforms like Yelp or TripAdvisor."

"From what you say, it seems as if individual restaurant owners in New York City were quite dependent on their customers' goodwill," Christine replies, "but I think since we would introduce Semsom as a franchised fast casual restaurant concept, brand building would be possible. I know what you mean when you say that individual tastes play a role for attracting and maintaining your customers, but in my experience, people often do not even know what they actually want to eat. They then decide on other criteria like brand name, interior design, and price."

"Yeah, you are probably right about that, Christine. When it comes to the franchise world, you are definitely the one with more experience."

"Thanks so much, David, that was very helpful. I hope to see you soon in New York!"

Epilogue

Manhattan, New York City, 9:30 AM. Two young women are stuck in traffic in a yellow cab at the street corner of Canal Street and Broadway. The April sun is shining brightly.

"I would not have though I'd be back here with you so soon. The last time we drove through here, it was raining like hell," Christine says, smiling at her sister.

"You're right. Can you show me the business plan one more time? I know it is perfect because you prepared it. I just want to check page 32. I think, in the end, we didn't put in that chart about growth rates in the fast casual segment, did we?"

"Carine, why are you so nervous? We are a great team, you and me. We already got the pledge of four million dollars in Lebanon. The meeting with these guys at FFA Bank is going to be good, and it only starts in two hours. So, let's relax, get a coffee before, and think about where to open our first 'Semsom Eatery.' I think Astor Place would be nice. We passed it on our way here."

"Christine, I know you are trying to change the topic now, but this is the US. Things work differently here. If I look out of that window, I just see hundreds and thousands of fast casual restaurants popping up along the street. There are going to be many changes to the restaurant market in the next years. Do you really think it is a good idea to bring Semsom to New York City?"

Appendix

On average, how often did you dine or purchase a meal outside the home at any of the following types of restaurants in the past 12 months?

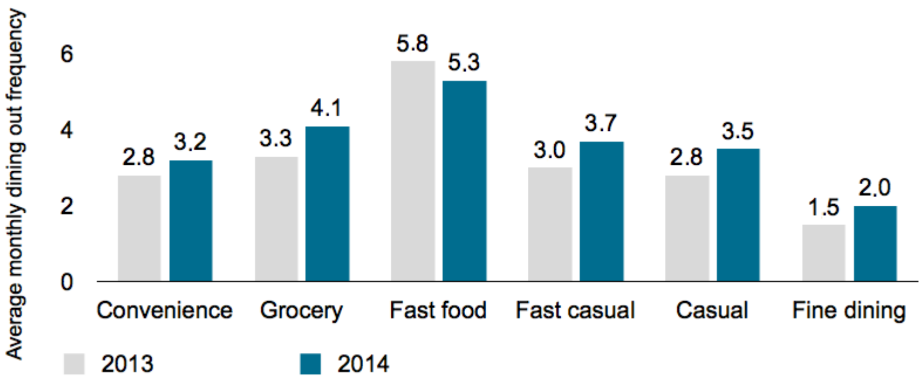


Exhibit 1 – Source: AlixPartners (2014)

Consumer opinion on menu variety at fast food and fast casual restaurants in the US by 2014

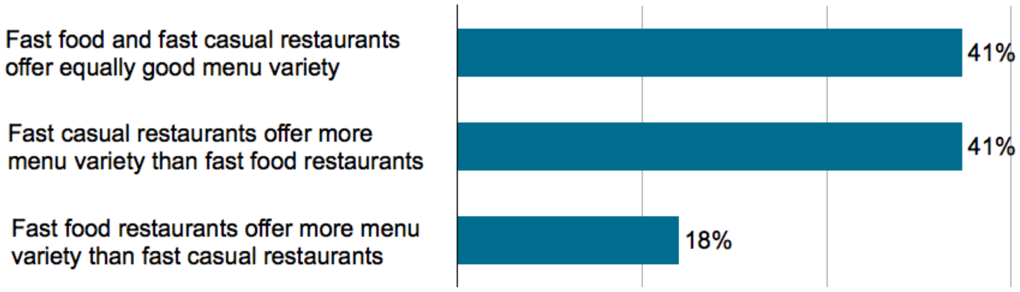


Exhibit 2 – Source: Technomic (2014)

Consumer opinion on the value for money of fast food and fast casual restaurants in the US by 2014

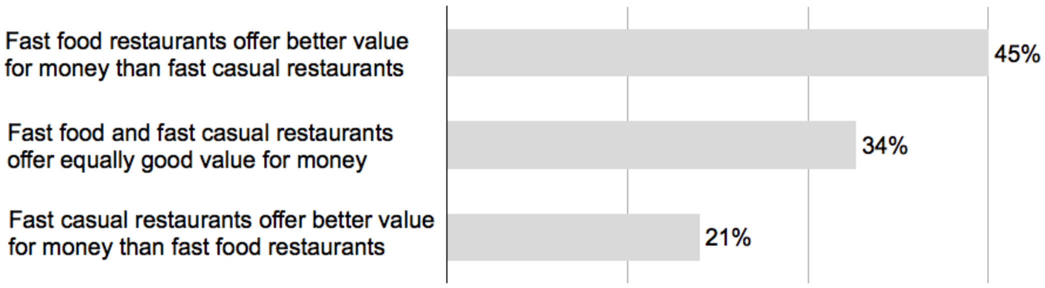


Exhibit 3 – Source: Technomic (2014)

Most important attributes of limited service concepts in the United States by 2014

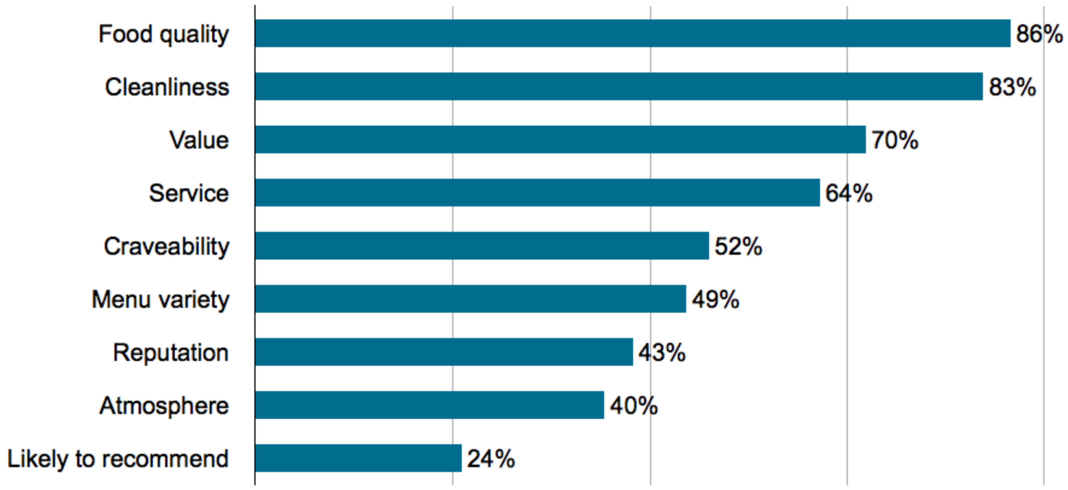


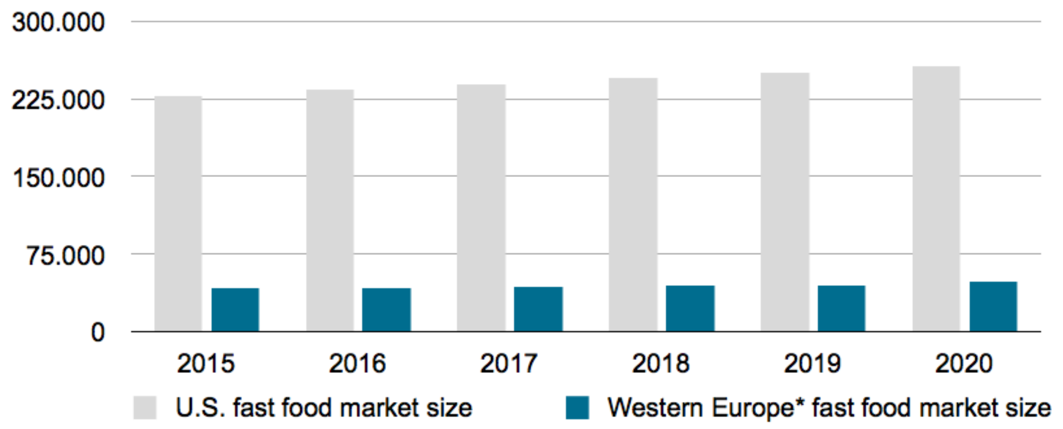
Exhibit 4 – Source: Nation's Restaurant News & WD Partners (2015)

Leading US chain restaurants ranked by sales volume

Chain name	2015 sales ($000)	Year-over-year sales change	2015 U.S. units	Year-over-year unit change	Average check ($)	2015 % franchised
McDonald's	35,837,200	1.1%	14,259	–0.6%	6.68	90%
Starbucks	13,936,114	12.8%	13,066	7.9%	5.40	39%
Subway	11,500,000	–3.4%	27,103	0.5%	7.56	100%
Taco Bell	9,100,000	9.6%	6,121	3.4%	5.35	85%
Burger King	9,000,000	4.2%	7,086	–0.5%	6.32	99%
Wendy's	8,777,400	1.6%	5,722	–0.5%	6.37	89%
Dunkin' Donuts	7,624,140	6.2%	8,431	4.3%	4.73	100%
Chick-fil-A	6,291,000	8.8%	1,950	3.3%	8.02	97%
Pizza Hut	5,510,000	0.2%	7,799	–0,8%	19.39	93%
Panera Bread	4,795,900	7.1%	1,955	4.8%	10.27	54%

Exhibit 5 – Source: Technomic & Restaurant Business (2016)

Comparison of the US and Western European fast food markets (in million US dollars)



* Germany, France, Spain, Italy, Switzerland, Ireland, Austria, Belgium, Portugal

Exhibit 6 – Source: Euromonitor International (2016)

Business and ownership of fast food restaurants in the United States in 2016

	Jobs	Payroll	Output	GDP	Establishments
Franchisor owned	525,400	$ 15.7 billion	$ 38.3 billion	$ 21.2 billion	24,429
Franchisee owned	2,946,600	$ 75.8 billion	$ 184.3 billion	$ 102.3 billion	162,547
Total	3,472,000	$ 91,6 billion	$ 222.6 billion	$ 123.5 billion	186,977

Exhibit 7 – Source: PwC (2016)

Market share of leading brands in the US fast food industry in 2015

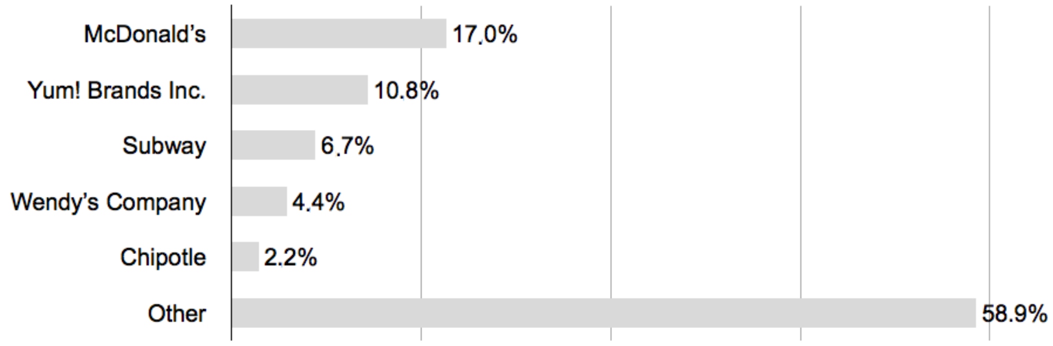


Exhibit 8 – Source: IBISWorld (2015)

Brand value of the 10 most valuable fast food brands worldwide in 2016 (in million US dollars)

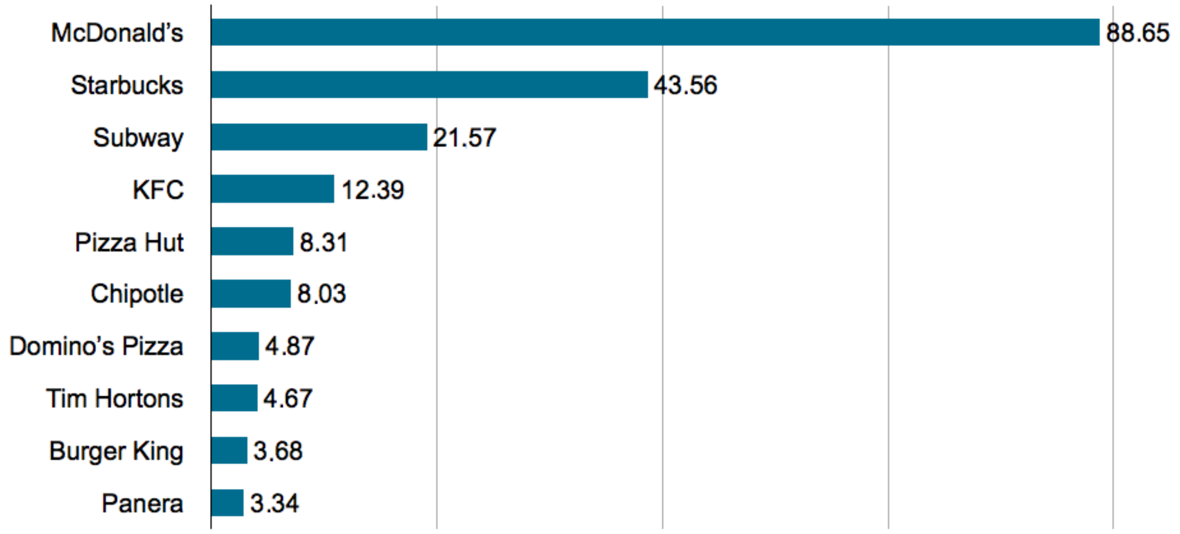


Exhibit 9 – Source: Millward Brown (2016)

Commuter adjusted daytime population in Manhattan

	Estimated	Margin of error
Total resident population	1,583,345	0
Total workers working in area	2,326,754	10,929
Total workers living in area	826,997	4,482
Estimated daytime population	3,083,102	10,193
Daytime population change due to commuting	1,499,757	10,193
Percent daytime population change due to commuting	94.7	0.6
Workers who lived and worked in the same area	696,081	4,440
Percent workers who lived and worked in the same area	84.2	0.3
Employment residence ratio	2.81	0.02

Exhibit 10 – Source: United States Census Bureau (2010)

Suggested steps and required permits for opening a restaurant in New York City

- Register your business. LLCs, Corporations, and Limited Partnerships register with NY State. General Partnerships and Sole Proprietorships register with the County Clerk.
- Apply for an Employer Identification Number (EIN), also known as a Federal Tax ID Number.
- You will need to get a Sales Tax ID from NY State.
- The types of food and beverages you sell, such as frozen desserts and alcohol, will affect which permits and licenses you need.
- Consult a licensed professional to review your location, plan any construction, and ensure compliance with accessibility requirements. Only a registered architect or professional engineer may submit plans to the NYC Department of Buildings. Changes to your space must comply with NYC Department of Buildings, NYC Department of Health, NYC Fire Department, and NYC Department of Transportation (sidewalk) regulations. There may be additional regulations with which you need to comply.
- Allow time to receive approval from the Landmarks Preservation Commission before performing work on a location that is landmarked or located in an historic district.
- Check that your kitchen has a grease interception. All commercial kitchens must capture grease from sinks, woks, deep fryers, floor drains, and other fixtures to prevent clogging pipes and sewer backups.
- Have your licensed professional submit plans and required documents to the NYC Department of Buildings. Change and resubmit plans as needed. If there are objections to the proposed work due to safety or compliance issues, your licensed professional will receive notice and resubmit the drawings with the necessary changes. All commercial cooking – on gas or electric stoves, fryers, or ovens – requires a range hood and fire suppression system. Make sure your licensed professional files plans with the Fire Department.
- Consult with your licensed professional to identify utility requirements for your property (gas, electric, water, and sewer).
- Progress inspections may be required during construction. Make sure to place Fire Extinguishers in the correct locations. When construction is almost complete, obtain your Food Service Establishment Permit with the NYC Department of Health.
- If you want to install a canopy, awning, or sign on the outside of the building, ensure that you comply with the NYC Department of Transportation (for a canopy with supports running down to the sidewalk) or the NYC Department of Buildings (for an awning or sign mounted onto the building).
- Start your application process early if you plan to serve alcohol or open a sidewalk cafe, as both require consultation with your Community Board and several approvals. If 75 people or more will gather in your restaurant at any time, you will need a Place of Assembly Certificate of Operation and Permit. Consult a licensed professional to come up with floor plans for seating arrangements that comply with NYC Department of Buildings regulations.
- Health violations are sometimes identified after you open your business, such as an improperly placed hand-washing sink. Think about how you will move food and waste through your space. This may affect whether you pass your pre-operational inspection.
- Make sure you or one of your supervisors has a Food Protection Certificate. Get a Food Protection Certificate by: a) taking an online class followed by an in-person test, or b) taking a 5-day in-person class. Be sure to have a certificate holder on premises supervising food preparation during all hours of operations.
- A restaurant must pass a pre-permit inspection before a permit can be issued. If you use uncommon cooking methods, such as sous-vide, ensure you have an approved Hazard Analysis Critical Control Point (HACCP) plan.
- To avoid violations, you must obtain a Certificate of Occupancy, Temporary Certificate of Occupancy, or Letter of Completion before opening your doors.
- Hire a private carting service for waste removal. Avoid costly fines by separating waste into 3 separate containers: metal-glass-plastic, paper, and trash
- Post all required posters and permits, such as the CPR kit sign.

Exhibit 11 – Source: New York City Business Acceleration (2016)