
WORLD OF INNOVATION

A survey of international franchising experts

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Innovation is occurring internationally on many fronts: franchise recruitment, employee incentives, transparency in franchisee reporting, international brands entering the U.S., dealing with Gen Y employees and customers, artificial intelligence, social media, mobile app food ordering, blockchain technology, ghost kitchens, cashless stores, and even types of legal agreements. We asked several international franchising experts for their thoughts on innovation.

IAIN MARTIN, International Franchise Consultant, The Franchising Centre (U.K.)—The traditional CV could be on the wane, to be replaced by video. In addition, artificial intelligence could play an increasing role in the candidate interview process. However, as we know, it's hard to replace the human element! There are also trends emerging in the food and beverage sector, where innovative operators are measuring customer behavior and automatically changing the restaurant environment to encourage the behavior they want. For example, driving customer behavior through music playlists by choosing music that fits a brand's personality and the restaurant's objectives, e.g., encouraging customers to eat faster or more slowly; having dynamic volume control (apparently the higher the volume the more unhealthy food choices customers make!); using different scents to encourage customers to choose specific menu items; and real-time light control, e.g., the darker it is outside, the more cozy the inside lighting.

JASON GEHRKE, Director, Franchise Advisory Centre (Australia)—Australian franchisors are embracing innovation that provides transparency over franchisee performance. In response to recent legislative changes that make franchisors liable for wage underpayments by franchisees, Australian franchisors are increasingly ensuring they have greater visibility over franchisee staffing and payroll practices, as well as franchisee profitability, which helps mitigate the franchisor's joint employer liability and protects them from prosecution if franchisees have been found to underpay and exploit their workers. However, this centralized visibility has extended to financial reporting, where more franchisors are now mandating the use of standardized accounting platforms for franchisees, from which the franchisor can access all franchisee sales and cost information to produce regular (usually monthly) profit-and-loss statements on behalf of the franchisees.

PHILIP ZEIDMAN, Partner and Senior International Attorney, DLA Piper (USA)—Innovation is also occurring in the

international legal sector. There is a trend toward shorter international licensing agreements with quicker unit development schedules. We are starting to see 5-year licensing agreements (where local laws and regulations allow) with 3 to 10 units required to open in that time frame for a licensee to keep the license. This trend is meant to correct the fact that, on average, 40 percent or more of all international license development schedules are not met in 10-year term agreements. Another emerging trend is for the World Bank to see franchising as a proven method to create new jobs and businesses in developing countries.

FRANZ-JOSEF EBEL, Managing Director, Master Franchise Germany (Bonn)—The German Franchise Association (DFV) states that innovation in franchising means addressing Generation Y in your company and as your consumers, not only in lifestyle, but also in technology, diversity, and digitization.

RAJEEV MANCHANDA, Inventure India (New Delhi)—With the very fast growth of social media and e-commerce, today's Indian customers have higher expectations. Online food and shopping portals have gained popularity across the country. The focus is to innovate and design experiences that create value to keep the discerning customers engaged. This has brought about increased competition among companies and encouraged brick-and-mortar restaurants to go online and develop omnichannel models of business. This has given rise to engaging with franchisees to establish experience centers, cloud kitchens, etc. The cost of such facilities is considerably low, making the business model viable and attractive. This is supported by innovations that are also being applied in areas of quality control, technology, consistency, efficiency, people, and even institutional changes.

JOHN HAYES, Director, Titus Center for Franchising, Palm Beach Atlantic University (USA)—Social media provides a huge boost to franchising, especially as it helps franchisors and master licensees develop opportunities in new countries. Lead generation for franchise sales, as well as in-country promotions of franchised products and services, will become more efficient thanks to social media. Technology overall makes it easier to communicate and promote franchising as a life-changing opportunity.

NED LEVITT, Partner, Dickinson Wright (Toronto, Canada)—In Canada, we are seeing the widespread use of mobile devices to order food and other products, make reservations, locate a business, and compare their offerings. Many franchise systems are providing incentives, such as coupons, over the Internet and even

making specials available only through the Internet. In store, it is becoming more and more common for franchise units to provide product information and to allow ordering using tablets provided by the franchisee. Technology is also being employed to easily capture information about customer preferences and demographics.

STEWART GERMANN, Principal, Stewart Germann Law Office (Auckland, New Zealand)—Current and future franchise sector innovations include artificial intelligence involving robots, geo-blocking and service portability, and the future of international sales using smart contracts, blockchain, and cryptocurrency. AI and its many applications are developing faster than most people can keep track of. The laws and regulations lag far behind the realities of technology. While AI promises many positive benefits, its immense potential human rights impacts are evident.

SANJAY DUGGAL, VP Business Development, Middle East and Northern Africa Franchise Association (Dubai, UAE)—In the Middle East, ghost kitchens take advantage of the major uptick in deliveries over the past few years, without incurring the costs related to full-time restaurant operations. In the coming months, more players are expected to get into this space. Shrinking real estate footprints are a distinct trend toward reduction of square footage wherever feasible. But operators are not allowing smaller sizes to interfere with the guest experience, which is optimized through focus on tech and upgraded service.

MCDONALD'S (press release, USA, Israel)—In late March, the world's biggest restaurant chain announced an agreement to acquire Dynamic Yield, a Tel Aviv-based decision-logic technology company, for more than \$300 million. The goal, according to McDonald's is "to provide an even more personalized customer experience by varying outdoor digital drive-thru menu displays to show food based on time of day, weather, current restaurant

traffic, and trending menu items. The decision technology can also instantly suggest and display additional items to a customer's order based on their current selections." Underscoring McDonald's push for improved customer-facing technology, CEO Steve Easterbrook said, "With this acquisition, we're expanding both our ability to increase the role technology and data will play in our future and the speed with which we'll be able to implement our vision of creating more personalized experiences for our customers."

BLOOMBERG (March 20, 2019, China)—"Yum China Holdings is betting on cashless stores, innovative food items, and customized service.... In Shanghai's southeastern district of Xujiahui, Colonel Sanders's smiling visage looms over the restaurant entrance, as it does at thousands of KFC locations around the globe. But step inside and it quickly becomes clear that this is no ordinary KFC. Customers line up before a row of touchscreen kiosks, keying in orders while a camera scans their faces to process payment in less than a second. Downstairs, a robot arm whirs to life to prepare an ice cream cone. Diners can choose the joint's background music via app and listen to a favorite tune while they eat.... Yum China Holdings says 86 percent of transactions are already cashless and about half of orders placed using the mobile app or digital kiosk at its more than 8,400 KFC, Pizza Hut, and Taco Bell restaurants.... Yum says the AI-powered menu, introduced in January, has already boosted average per-order spending by 1 percent—the equivalent of about \$840 million worth of fried chicken and pan pizzas each year." ■

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