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## For Melting Pot, dipping into Mideast not so easy

**The Melting Pot, shown above, opened in Edmonton, Alberta, and Mexico City in 2010, then went to Jakarta, Indonesia, in 2015. Other units target Dubai, UAE, Saudi Arabia and elsewhere.**

Gathering around a fondue pot is a communal experience, and The Melting Pot wants a larger community.

With plans to further spread this business of dip-able cheese and chocolate, The Melting Pot is expanding beyond the confines of North America and into the Middle East and Indonesia—popular destinations for American brands, but challenging lands for franchised restaurants.

"We essentially own fondue in the U.S., why not own it globally?" said Dan Stone, vice president of franchise development at parent Front Burner Brands. "We would hate to look back and say, 'Why didn't we take this brand outside of the U.S.?'"

With the backing of the company's ownership and leadership team, the 40-year-old company first decided to expand to Canada and Mexico for its proximity and relative ease of entry before moving to other, farther-flung countries.

After moving into Edmonton, Alberta, in 2010, and Mexico City that December, the company's leadership team knew what it didn't know about overseas expansion.

To cross that bridge, The Melting Pot contracted the services of Edwards Global Services (EGS) of Irvine, California, to analyze the brand and determine which international markets made the most sense for its next, more ambitious phase of global growth.

EGS' research singled out Saudi Arabia, United Arab Emirates, Kuwait, Bahrain, Oman and Qatar in the Middle East, as well as Jakarta, Indonesia.

In total, The Melting Pot has more than 20 international units in development, and its first non-North American location opened in Jakarta, Indonesia, in March of 2015.

William Gabbard, senior director of EGS, said many American franchises systems look to the Middle East. "When you go into the Middle East, you're not going to see three or four hamburger places on one block—the saturation of the marketplace in the U.S. is quite heavy in comparison," he said. "It becomes more lucrative and their average volumes are higher."

Stone said selecting foreign locations can be intoxicating, but added it's critical to understand whether the brand will translate well to diverse markets. Also key is whether the company has the infrastructure to support such a big move and the patience to wait for return on investment, often several years out.

"EGS helped us run numerous five-year pro formas on international expansion, and we said, 'OK, if we were to get into this, realistically how fast can we grow, what would our average unit volumes be and, realistically, what kind of royalties will we yield from that growth?'" he said. "Then you take those revenues and compare it against the anticipated expenses to support international openings."

After digesting that research, The Melting Pot decided to implement higher royalty fees for new locations outside of the United States and Canada, and also instituted a one-time training fee to cover the much higher costs of sending an opening team to Jakarta, for example.

As many other American franchises move into the Middle East, Stone said consumers have great interest in Western brands, as do savvy individuals and Middle Eastern investment groups looking to court brands to their home turf.

"It's very easy to get excited about that, and it's very easy to want to take a brand to another part of the world and it's also very easy to be influenced by dollar signs," Stone said. "You've got to have the infrastructure and commitment, because it is not easy growth."

Trouble has come in many forms as the company expands, from difficulty in securing its trademark in some countries to design and menu adaptations. For example, the chain had to develop an extensive menu of "mocktails" to supplant revenue lost by not serving alcohol in some Middle Eastern countries.

Large food orders have been canceled multiple times, menus have been tweaked and re-tweaked, staff visas have expired due to delays and, in the most extreme instance, a brand-new location in Riyadh has sat vacant for more than a year due to a dispute between the landlord and the government.

"We thought we were thorough and realistic in our expectations and, even with that, it's been harder than we thought it would be," Stone said.

Stone expects its future international projects will come easier than the first wave. The Melting Pot is seeking a development deal in Brazil, and is also interested in Japan, South Korea, Hong Kong, China, India, Australia and some select European markets.

“Things that are rewarding don’t come easy,” he said. “It’s been a ton of work, but it is rewarding to see our brand translate and be as well received as it has been in international markets, and that gives us the fuel to keep going.”

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**Dealing’s a must when negotiating fees abroad**

“Most franchise systems have a very difficult time negotiating,” said William Gabbard of Edwards Global Services. “When they go international all of a sudden they get to the table and these people are saying, OK, we’ll pay you one at a time as we open or we will pay you half of the fee now and half of the fee gladly next whenever. So all of a sudden these franchise systems are thinking, oh my god what did we get ourselves into?”

Through his many international franchise negotiations, Gabbard says every international candidate typically likes to challenge and negotiate the initial fees—a practice much different than adding new franchisees in the United States.

“Preparing or doing your homework as a candidate will help you understand the logic of the franchise system and reason for the upfront fee’s demanded by the franchisor,” he said.

He urges internationally minded franchisors to remember to include the costs of moving new franchisees through the training process, as well as training of the staff in-country.

“The costs related to this are travel, food, lodging and staff required from day one of the training to post-grand opening,” he said. “This also includes construction diagrams with at least two or more visits by the franchisor prior to opening.”

To prevent unwanted surprises, Gabbard tells his clients to ask as many questions as possible prior to visiting new franchisors, and collect information in advance, including training and marketing materials.

Being flexible is also a key part of the process, as refusing to negotiate is a non-starter in some business cultures.

“Asking for the franchise system to bankroll your business is not going to happen,” he said. “Most deals are lost due to poor communication, bad timing and lack of understanding of the franchisor’s expenses for the entire process.”