



## **Franchise Information**

Buying a franchise is a serious undertaking, but compared to the inherent risks in starting a business concept from scratch it is far less risky; statistics show that the majority of small businesses will fail where there is no previous experience. Here again, the strength of a Dulce Franchise when compared to other similar Franchises is that Dulce has been Franchising for 16 years, and attempts to eliminate all potential outlet failures using their built in checks; in the site selection, the rental negotiation, the business viability evaluation and the design; and again in the franchisee recruitment, and in their training and support procedures, as described more expansively under key success factors. The Franchise although well established, is strong, growing, and has recently had a full Corporate ID upgrade in decor, uniforms, menu design etc. The franchise is also a strong FASA member, and fully accredited by the major SA banks and the IDC, and other government institutions as a good business investment.

In 1987, the first Dulce Ice Cream and Coffee shop in Rink Street was opened in Port Elizabeth close to today's International Head Office. The food menu was developed and continually upgraded through a process of ongoing market research. This has become an integral element of the success of Dulce's franchise concept. In September 1994 the franchise rights for the whole of South Africa were purchased and the current Dulce Café© Franchise was born. A period of consolidation and upgrading of existing outlets was instituted, with further expansion started in 1997 throughout the whole of South Africa. The opening of offices followed in all the major centers, and the Franchise support team reached 18 strong in 2006, when our 50th store was opened. The brand has been constantly updated in look, decor and menu to meet customers' requirements and stay at the forefront of the South African market. Changes to certain outlets such as the addition of alcohol, retail sales, evening menus etc. followed during this period. Over the next 5 years of growth we had our first Halaal stores, our first International Dulce café's in the Middle East, commencement of TV advertising. A recent new exciting store redesign and full menu upgrade in late 2010 followed , and today, Dulce has over 50 stores operating in Southern Africa, and we are busy with the rollout of new stores and revamp of existing stores, and the opening at least 3 stores offshore in 2011.

Dulce's success to date is largely the result of an ongoing investment into research and analysis of the market and the brand. Dulce's belief is that through ongoing analysis of the market, trade areas, customer needs, brand perceptions and store performance the brand can maximise profits and customer satisfaction. Dulce has commissioned major market research projects of the coffee shop market on a national scale. The findings have been aggressively responded to and have had a huge impact on the Dulce stores you witness today. Since these national research projects, 'dipstick' research initiatives have been conducted on an ongoing basis to monitor market changes from the initial results.

The quality of the product (or food) is a huge contributor to the success of the brand. An overwhelming percentage of Dulce's customers find the 'quality of food' (59%) or 'menu' (25%) to be the attraction to Dulce. This is also probably why over 90% of Dulce's customers are return-customers.

Dulce achieves these phenomenal figures through its own in-house Research & Development (R&D) department. The R&D department is responsible for the ongoing product development for national and regional implementation. The sale of product lines, at store level, is constantly monitored resulting in the removal of slow-moving items and the introduction of new, faster-moving menu items.

The research showed that key attraction factors of Dulce are also service, ambience and cleanliness. Dulce places a huge emphasis on the initial training of all personnel as well as the ongoing support of every franchise. Dulce's positioning in the market between the traditional coffee shop and restaurant markets is another key success factor. This is because the research has shown that almost half the population will consciously choose a 'coffee shop' before a restaurant when making the decision on where to eat. Furthermore, while the gross profit margin on coffee is traditionally good, it is the higher priced food items that increases the stores' turnover and viability.

One of the cornerstones of Dulce's success is the amount of focused effort placed on recruiting, screening, selecting and training of franchisees. However no matter how well one selects a Franchisee, and trains that individual and staff, if the business is not financially viable from basics such as poor location, low foot count, wrong clientele, high rentals and escalators etc. then it's not ever going to be a good and profitable investment.

Dulce is very successful in avoiding opening Franchises in these non-viable locations through its emphasis on business viability studies, enabling Dulce to avoid fighting fires, and rather concentrate on its core activities, and hence result in an increase in the Franchisees net profit margins.

Another one of Dulce's success strategies, is to 'tailor make' each store to its environment, the Dulce Continental Cafe with A menu is aimed at the high-volume, super-regional shopping centers, and a slightly smaller Dulce Lite, aimed at more niche environments. Dulce currently operates sites in a wide variety of markets such as Malls, Airports, Universities, Casino's, Hotels, Nursery Lifestyle centres, Private Hospitals and Office Parks etc.

Certain Dulce's have a high retail component, most have alcohol, but others not, and the outlets can be fully accredited Halaal sites. Many of our stores have a take away menu and delivery option, we also have Platter menu's for outside Function catering, and evening menus for increasing evening turnovers. The ideal franchisee is a strong individual with an entrepreneurial, outgoing nature and a burning desire to own and grow their own successful business. This owner / operator should be hands on, and have the ability to work long hours, manage others through good communication skills and respect. An eye for detail and a strong service orientation is a positive factor to increase turnover and profits, whilst previous direct experience in the industry is not a necessity.

The ideal Franchisee should have a MINIMUM of R750 000 in unencumbered (no interest payable) cash funds, and the ability to borrow at least another R800 000, collateral is usually required against this.

Whilst there are financial means of borrowing a greater percentage of the total restaurant set up cost, this option is evaluated carefully by ourselves, as the repayment costs of borrowing are often too onerous for cash flow, and acquiring a partner with funds or a family backer, a better option.

Repayments on borrowings of over R1.2 million or higher are invariably too much to allow for a Dulce business to succeed as a good ROI , and it is almost certain that Dulce would not look at a Franchisee with such high gearing , unless there was high collateral backing with assets that one would prefer not to liquidate. This person must also be able to work within the systems and processes imposed by the franchiser

In most cases, the franchisee must be prepared to manage and personally run the business for at least the first year, and preferably for the duration of the lease. The following is summary of the pertinent clauses of the Franchise Agreement. Please read the Franchise Agreement in its entirety and get the assistance of an attorney.

The Agreement lasts for five years with an option to renew for a further five years. The agreement does not provide you with an exclusive trading area but does provide you with the right of first refusal for another Dulce outlet within a three-kilometer radius of your business. This will only be initiated if circumstances demand and require the establishment of a new unit within the trading area.

1. The franchiser collects 6.0% of your gross turnover on a monthly basis in the form of a Management Service Fee ('royalty')
2. You are responsible for providing monthly financial reports to the franchisor.
3. The franchiser collects 3.0 % of your gross turnover on a monthly basis for a national advertising fund.
4. The use of the monies in the advertising fund is at the discretion of the franchisor.
5. The franchised business must be operated under the direct supervision of the franchisee, except at the Franchisers discretion.
6. The franchised outlet will be upgraded at regular intervals when the need therefore is determined by the franchiser (typically a three-year facelift and a five-year revamp) and at the cost of the franchisee.
7. The Operations Manual details the specifications, standards and operations procedure that the franchisee must follow.
8. The franchisee must comply with the Dulce standards and menu.
9. The Operations Manual may be changed from time to time at the discretion of the franchisor.
10. Trade secrets provided by Dulce may not be divulged or utilised in other businesses.
11. The franchiser provides the initial training and ongoing support to the franchisee.

12. Use of Dulce's trademarks and logos is limited.

In the Business Viability & Verification Process you will be assisted with the following important factors:

1. Sourcing and securing premises for the prospective franchisee
2. Financial modeling
3. Cash flow modeling
4. Developing start-up requirements, schedules and plan
5. Business Plan formatting, compilation and presentation
6. Finance requirement schedules, facilitation, planning and documentation compilation
7. Assistance with 'Offer to Lease', lease negotiation and ensuring reasonable leases
8. Tenant installation requirements
9. Independent Market research, Site analysis and verification of suitability
10. 'Start-up' project management
11. Business structuring and/or partnership formatting

One of the outcomes of the Business Viability & Verification Process is the franchiser's assistance with the production of your detailed business plan. This business plan fulfills a number of roles, namely:

1. The business plan answers your questions as to whether or not you are suited to this franchise.
2. It answers your questions regarding the potential viability of your intended franchise.
3. It answers the franchiser's questions as to whether or not you will succeed as a Dulce franchisee and therefore whether or not he should proceed by entering into a Franchise Agreement with you.
4. The business plan is used as part of the presentation to the bank for the bank's final approval on loan finance for the business.
5. The business plan serves as the blueprint for your running of the franchised business, should you proceed.

Because Dulce is a retail business, location is important. For this reason, your business plan is produced for a specific site. Dulce actively source sites for potential franchisees. Once a site has been identified

that meets Dulce's basic site profile criteria and that falls within the area over which you have the right of first refusal (as described in your signed Pre-Franchise Agreement), Dulce enters into negotiations with the landlord to obtain an Offer to Lease for the site, on your behalf. The objective of the Offer to Lease is to get the landlord to legally bind himself to leasing you the premises, yet enabling you to withdraw should you not be satisfied with the outcome of the Business Viability & Verification Process. Once the landlord has committed himself to the Offer to Lease Dulce undertakes a detailed site verification to confirm the suitability of the premises and Dulce produces the designs, plans and costing for the site so that you will know exactly what the store will cost. The cost of these services is usually born by the prospective Franchisee.

1. Operational training for the owners, manager and kitchen supervisor
2. Basic evaluation of your suitability to be a successful franchisee (may include all significant partners/managers)
3. Right of first refusal for an agreed area for an agreed period of time
4. Optional Business skills training courses or modules
5. Sourcing and securing premises for the proposed franchise
6. Independent analysis and verification of the proposed premises
7. Lease negotiation for the proposed premises
8. Guidance and assistance in evaluating the viability of the proposed franchised outlet
9. Detailed costing of your total investment for the proposed franchise
10. Guidance and assistance in producing a business plan for the proposed franchise
11. Facilitation and assistance in securing loan finance, if necessary

The Operations Training programme is conducted initially in a classroom environment on theory, then hands on training at one of the franchiser's training stores, and finally in your own store. The training stores are located in Johannesburg and Port Elizabeth, but at times training can be moved to better suit the Franchisee. The Operations Training programme lasts a minimum of two full weeks, and finishes prior to your outlet opening, while the kitchen supervisor may train for up to an extra week solely in the kitchen.

The objective of the Operations Training programme is to equip you, irrespective of experience, to successfully run and manage your franchise. The training follows the contents of the Franchise Operations Manual, some of which are detailed below:

### **Operating procedures**

1. Human resources and Industrial relations

2. Basic Financial ratios and reports
3. Presentation
4. Kitchen recipes
5. Baking recipes
6. Point of sale systems

All staff members undergo the Staff Training Programme so as to ensure that they are adequately trained to work in the 'front-of-house' or 'back-of-house' of the business.

The Staff Training Programme is conducted initially in a classroom environment, at a training store and finally at your own premises, commencing two full weeks before your opening, and ending typically ten days after your opening. The cost of the Staff Training Programme, and an accrual for staff wages during training, is included as part of the initial Franchise Fee and is covered below under "Financial Information"

The Staff Training Programme contains a large amount of detailed information, but its contents can be broadly summarized as follows:

1. Waiter service skills
2. Point of Sale System
3. Confectionery and baking skills
4. Back of house skills
5. Front of house skills
6. Ice cream preparation
7. Espresso and cappuccinos
8. Bar service
9. Disabled awareness and safety

Dulce handles the entire project management of your new business, from designs to plans, costing, and shop fitting and merchandising (i.e. turnkey) .As a new franchisee you are welcome to have input on the design and layout of your new business. However, the final decision on the design and layout rests with Dulce. Shop fitting is performed by Dulce's appointed shop fitters. In summary, the following support is provided to you after you sign the Franchise Agreement but before opening your business:

1. Operational training for the owner and kitchen supervisor (and sometimes a manager)

2. Recruitment and selection of staff
3. Training of staff
4. Design, project management, building and shop fitting

One of the most satisfying aspects of a Dulce franchise is the teamwork Dulce promotes and supports. Dulce encourages participation and feedback and takes an active role in supporting your needs its over 20 person strong back up team. We are on the same team and we consider our relationship a partnership, where we are striving to achieve the same goals.

### **TOTAL INVESTMENT**

The total investment for a Dulce franchise varies from store to store because of numerous factors including different store sizes and varying contributions from landlords etc. The total investment is made up of the following costs:

1. Initial discussion and registration
2. Prospective franchisee screening cost
3. Business Viability & Verification Process
4. Initial Franchise Fee
5. Fixed Franchise establishment costs
6. Variable Franchise establishment costs

The objective of this section is to give you an indication of what your total investment may be.

### **INITIAL DISCUSSION AND REGISTRATION**

There is no cost to a potential franchisee during initial discussions, basic registration, and discussion and response to the Dulce business disclosure document. If both parties are positive, and wish to proceed further, then costs will then start to be incurred, which are payable by the prospective franchisee.

### **SCREENING ASSESSMENT OF APPLICANT**

Screening of the applicant is carried out, and ranges from initial meeting and interviewing the applicant, and screening through several external companies, in order to check criteria such as references, financial background etc.

At certain times we may also conduct personality profiles by means of simple aptitude tests, the cost of the screening assessment of one applicant is approx. R1000 plus Vat, and varies depending on the number of applicants screened. These tests are to highlight any areas which may require additional training, prior to or after the Franchise is opened, the results of which are passed on to the candidate. Payment is upfront and non-refundable, but in no circumstance guarantees that the application is acceptable.

### **BUSINESS VIABILITY & VERIFICATION PROCESS**

The cost of any Business Viability & Verification Process will range from zero (internal), to a maximum of R10 000.00 plus VAT if the prospective Franchisee wants an outside agency to be used, dependent on the store location and to what degree suitable Market research is available or required. Our normal service level is usually sufficient and this carries no fee, but as with all viability assessments carries no guarantees.

### **INITIAL FRANCHISE FEE**

The Initial Franchise Fee for a new store is R100 000.00 plus VAT. This fee is mandatory for all franchisees. In purchasing an existing store this fee is site dependent, but approximately half as that for a new site i.e. R50 000 plus VAT . This amount is to cover the cost of granting a franchisee the right to the use of trademarks, logos and intellectual property, as well as the following services:

#### **Operations Training Programme**

1. Recruitment and selection of staff
2. New store construction
3. This amount is only due and payable to the franchiser once you sign the Dulce Franchise Agreement.
4. Agreement. At that point, this amount becomes non-refundable.

### **FIXED FRANCHISE ESTABLISHMENT COSTS**

There are a number of franchise establishment costs that have been set by Dulce that are not variable.

These are, with their cost ( excl Vat )

Legal Agreement R0 – R 2,000, usually zero Design, plans and costing R 15650 SUBTOTAL R 15650 + vat

Legal Agreements costs are to cover the franchiser's costs in taking your Franchise Agreement through to conclusion. Designs, plans and costing is covered under 'Franchiser Support' above and is to cover the cost of taking the initial design ideas through to final working drawings and to assist a potential franchisee in establishing his total investment cost.

### **VARIABLE FRANCHISE ESTABLISHMENT COSTS**

The figures below are intended to give you an approximate range of potential costs you will incur to establish your proposed Dulce franchise. (This total includes the above upfront fee and design fees)

### **Dulce Continental Cafe**

Typically for 2011 your potential total investment for getting the Continental Cafe to opening as a turnkey cash outlay , including rental deposit , first month rental , stock etc. ( every cost or cash outlay ) to 1 month after opening is R1.85 million excl vat , and will range between approximately R1650,000 and R2 000,000 (excluding VAT). During your Business Viability & Verification Process you will determine the total investment cost. Preferably, your own cash contribution should be a minimum of half of the total investment amount. However, this will be determined during the Business Viability & Verification Process. This Disclosure Document should have helped you make up your mind. Do not rely on this document alone to make your decision. Start by submitting an application form found above on the Franchise information header page, and follow this up with a call or email to head office via the contact numbers shown on the home page if more information is required. This is your opportunity to become a Dulce Cafe franchisee and to be part of a successful network of Dulce businesses. We look forward to hearing from you in the near future.

### **Dulce Lite Cafe**

Smaller sites and smaller quicker menu, as above , but with costing a set up cost over R300 000 less

### **International Franchising**

Dulce Cafe prefers to expand via the master licensee route for various countries, and even specific territories within a particular country, as this ensures that the necessary brand protection and expansion takes place with interested partners on the ground.

The master licensee should have access to the necessary funds to grow the brand quite quickly, have the necessary clout and business contacts to secure the necessary sites, be prepared to commit themselves to being involved in the business, and have the same outlook to business and passion for the brand that we, the license holders, have for the Dulce Cafe concept.

The master license is usually for a period of 10 years, with a master license fee payable for the rights within the respective territory. The master license would require the licensee to open a certain number of stores within the license period. The master license fee and potential number of stores would depend on our negotiations as well as the potential for the number of stores within the territory concerned.

Currently the stores cost in the region of USD350k per store each to open, depending on various factors like size of store, etc. The Dulce Café stores that are operating in the Gulf (Bahrain and Qatar) in Q1 and 2 , 2009 were trading well, despite the economic downturn , and have been well accepted by the people within these territories. We are currently looking at expanding into the rest of the Gulf States, parts of Africa , India, Mauritius and Australia. If you are interested in becoming a master licensee for the Dulce Cafe brand within your country, please send me more information about yourself, and/or a prospectus

of your company, or the group with which you would be using to establish such an operation so that we can explore this possibility further.

We are currently expanding into Saudi Arabia later this year and then the rest of the Gulf States and North Africa . We are opening in Ghana and Tanzania later this year . If you are interested in becoming a master licensee for the Dulce Cafe brand within your country, please send me more information about yourself, and/or a prospectus of your company, or the group with which you would be using to establish such an operation so that we can explore this possibility further.