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Franchising in the Age of Digitization, Robotics and Automation

Today's Panel

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Today's Topics

- Innovation and Emerging/Trending Technology in Franchise Systems
 - Utility of Automation, AI and Robotics
 - Unique Challenges or Downsides
- Driving Support and Franchisee Buy-In
- Implementation and Rollout of New Technology in a Franchise System
- Contractual Considerations



What are the Current/Emerging Technology Trends in Franchising?

- **Artificial Intelligence (AI) / Machine Learning (ML)**
(including predictive analytics)
 - ChatGPT
 - Customer-facing predictive analytics
 - (e.g. QSR kiosks, fraud detection, Chatbots)
 - Non customer-facing predictive analytics
 - (e.g. QSR scheduling, Supply Chain, Network Security, weather, finance)
- **Robotics**
 - Fryers
 - Table service



Let's Ask ChatGPT:

“What are the trends in new technology being used by franchise systems?”

- “As of my knowledge cutoff in September 2021, there were several technology trends being adopted by franchise systems. However, please note that technological advancements are continuously evolving, and new trends may have emerged since then. Here are some of the notable trends at that time:”
- “1. Mobile Applications: ... to enhance customer engagement, streamline operations, and provide convenience. These apps often offer features like online ordering, loyalty programs, digital payments and personalized promotions.”
- “2. Cloud Computing: ... Cloud computing allows franchises to centralize their data, streamline communication, and facilitate collaboration between different locations.”



Let's Ask ChatGPT:

“What are the trends in new technology being used by franchise systems?”

- “3. Data Analytics: Franchises are leveraging data analytics tools to gain insights from large volumes of data. This helps them make informed decisions, identify trends, optimize operations, and enhance customer experiences.”
- “4. Internet of Things (IoT): IoT technology enables the connection of physical devices, such as sensors and smart appliances, to the internet. Franchises can leverage IoT to monitor and control various aspects of their operations, including inventory management, energy usage, and security systems.”



Let's Ask ChatGPT:

“What are the trends in new technology being used by franchise systems?”

- “5. Artificial Intelligence (AI): Franchise systems are exploring AI applications such as chatbots for customer service, virtual assistants for internal operations, and predictive analytics for forecasting and demand planning.”
- “6. Virtual Reality and Augmented Reality (VR/AR): VR and AR technologies are being utilized by some franchise systems to create immersive experiences for customers, support training programs, or assist in virtual tours for real estate franchises.”
- “7. Automation and Robotics: Franchise systems are embracing automation and robotics technologies to optimize processes, reduce costs, and enhance productivity. Automated systems can be employed in areas like order processing, inventory management, and repetitive tasks to improve efficiency and accuracy.”



Let's Ask ChatGPT:

“What are the trends in new technology being used by franchise systems?”

- “8. Social Media and Influencer Marketing: Franchise systems are leveraging social media platforms to connect with customers, build brand awareness, and drive sales...”
- “9. Blockchain Technology: ...some franchises are exploring the potential of blockchain technology for enhanced transparency, supply chain management, and secure transactions. Blockchain can help track and authenticate products, streamline franchisee agreements and facilitate loyalty programs.”



What Does This Technology Really Do?

- Streamlining Operations
- Marketing
- Consumer Interaction
- System Growth and Development
- HR/Labor
- Data Collection



What are some of the Challenges/ Downsides?

Geo-political

- Changing, unpredictable environments
- Sanctions
- Export Compliance
- Technology sourcing
 - Domino's example - latest round of US export prohibitions actually prevents sale/shipment of ovens to Belarus. (Belarus allied with Russia/Putin, and ovens contain parts/technology that can be used to support Russian war effort.)



What are some of the Challenges/ Downsides?

IP Implications

- Challenges posed by franchisee innovations
- Competing/conflicting innovations among franchisees

Data Security and Privacy

- Data can be used in many ways
- Emerging laws around AI and data



What are some of the Challenges/ Downsides?

Other

- Non-Human interactions
- Loss of control
- International considerations



How To Drive Support for New Technology in the System?

1. Proof of concept/clear business case

- Corporate-owned operations vs. franchised
- Test/variance agreements to govern pilot programs
 - i. memorialize specific rights, obligations, KPIs
 - ii. protect franchisees from adverse consequences if needed
- Incentivize early adopters, support cooperative partners, protect against evaluation risk



How To Drive Support for New Technology in the System?

2. System buy-in

- Franchisee Advisory Councils
- Good Faith & Fair Dealing
- Best Interests of System
- Business Judgment Rule
- Relationship Management
- Practice Tips/Do's and Don'ts



What About The Money?

- Tech-based system changes often require significant capex/ongoing fees
- Is there a plan for payment of the upgrade expenses?
- Will the franchisor finance or help with the costs?
- Can the system upgrades be made over time?
- What does the ROI look like?



What If Franchisees Say No?

- Check your work – did you sell it as best you could?
- Non-contractual negotiations
- Contractual rights
- How do relationship laws impact the agreements or otherwise, both domestically and internationally?



What are the Important Contractual Considerations?

Franchise Agreement:

- System Modification provisions
- Data privacy/security provisions
- and DPAs
- Fees and Costs
- Multiple versions of FA within the system

Ancillary Agreements

(e.g., tech licenses)

- Length of term
- Flexible pricing
- Provision for updates



Additional Questions:

- What emerging technologies do you see as having the potential to significantly impact the franchising industry in the future?
- What's the best way to ensure that a system is keeping up with tech advancements and staying competitive in the industry?
- How do (or should) franchise systems balance the need for technology with maintaining a personal and human touch in customer interactions?
- How does the use of technology facilitate performance monitoring within a franchise system?
- How has the use of technology improved or changed training and support systems for franchisees?

