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DEFINING SUCCESS TOGETHER

IS FRANCHISING YOUR RESTAURANT CONCEPT THE RIGHT EXPANSION MODEL FOR YOU?

If you own a successful restaurant concept, you've undoubtedly considered expanding your footprint. Enthusiastic customers have probably said they are ready to put their money down if you'll let them clone your concept. While tantalizing, is this the right expansion approach for you?

When deciding how to expand your restaurant concept, there are two choices: chain expansion, where you own all of the locations and hire managers to operate them, or franchising, where you license your brand and business methods to independent operators who pay initial and ongoing fees for the right to identify their restaurant with yours. Franchising allows you to leverage the two main ingredients of any business expansion: capital and personnel costs. Your franchisees, not you, put up the money to build and operate their own locations and hire the staff to run them. In exchange for providing the brand license and operating support, you receive a percentage of each franchised restaurant's top-level sales regardless of whether the restaurant breaks even.

Franchising has its trade-offs. First, if the franchisee's restaurant is successful, the franchisee, not you, enjoys all of the profits after paying your fees. Second, franchising is an entirely different business than the one you are in: By franchising, you are no longer running a restaurant; you are putting people in the restaurant business. While you may be proficient in restaurant operations, franchising commands a host of different skills for which you may have little experience. Franchisors need the know-how to recruit qualified network members; design uniform operating protocols; create a consistent brand experience across licensed units; train recruits in operating procedures; run effective marketing campaigns; build consumer awareness in new markets; organize group purchasing programs leveraging the network's buying power; procure proprietary items; supply point-of-sale computer solutions; deliver customized operational support; and police the system against rogue operators. Finally, franchise sales are regulated by federal and state laws adding extra regulatory burdens that restaurant owners bypass by opting for chain expansion.

Hundreds of restaurant concepts in the U.S. today successfully employ franchising as an expansion vehicle. These companies are the first to say that compliance with franchise regulations should not deter a restaurant concept from considering the franchise option, as legal compliance is mainly a matter of education, internal discipline, and hiring an experienced attorney. The real question is whether the owner's restaurant concept is franchisable and the owner is prepared to dedicate the time and personnel to the franchising endeavor.

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ARE YOU READY TO FRANCHISE? 10 KEY PREDICTORS:

1. Are you credible? Without experience managing multiple outlets of your own, you may not be credible enough to attract prospective franchisees. Prospects measure credibility in a variety of ways: number of units, years in operation, management's depth and experience; and brand strength.

2. What sets your restaurant concept apart? Your business model must be able to stand out in a crowded field of franchise opportunities. As with credibility, prospects gauge differentiation in many ways: distinctive menu, competitive consumer prices, lower initial investment costs, operational efficiencies, brand strength, effective marketing campaigns, targeted geographic markets, and franchisor-supported financing.

3. Is your restaurant concept adaptable? Does your restaurant's success depend on a talented celebrity chef, unique location, or the perseverance of the founders? Can the concept be replicated in new markets, adjusted for regional variations in consumer tastes and preferences, and accommodate differences in physical sites? Can you streamline existing operations without compromising quality or core brand elements?

4. Is your restaurant concept sustainable? To attract prospects to invest in franchise ownership, franchise agreements are long-term licenses, typically for 10 years with options to renew. Can your concept stay relevant despite new competition and invariable shifts in consumer tastes? Are your core menu items faddish? Is the market growing or consolidating? Can others easily tack on your menu offerings and start competing? Think about what killed bagel restaurants and whether retail locations selling just cupcakes, frozen yogurt, or other single-focus specialty treats may be wiped out by an upstart who puts it all together.

5. Are the core elements of your restaurant concept simple to teach? Not only must the core elements differentiating your concept be replicable, they must be teachable. You must be able to explain your policies, procedures, and business practices in a user-friendly operations manual and transfer your knowledge easily to others. If your business model is too complex to teach a new franchisee operational self-sufficiency in relative short-order, e.g., 3 months, you may have difficulty franchising. Some complex franchise systems reduce the timeline by targeting experienced restaurant operators, but, generally speaking, the more complex your system, the more difficulty you will face managing quality control.

6. Is your brand name protected? No company is ready to franchise until it has taken steps to protect its brand name with the U.S. Patent & Trademark Office. Restaurant owners have been known to adopt a new name before franchising if their investigation reveals that their existing name is not protectable, already registered to someone else for a related use, or already in use in a remote, but desirable market in the U.S.

7. Can you nurture healthy dependency by franchisees? A teachable concept may still not be a good candidate for franchising without a hook to keep franchisees invested in the brand. The most successful franchisors are those that know how to sustain the delivery of operational efficiencies and brand awareness in a meaningful way, e.g., by offering access to proprietary products or ingredients that differentiate menu items; fair economic terms; innovative marketing programs; greater buying power through preferred supplier arrangements; operating support that franchisees cannot economically replicate on their own; and competitive marketing strategies that keep the brand relevant. The constant delivery of value keeps franchisees happy and fosters a healthy interdependency. The franchise agreement itself should not be considered a hook; it is easy enough for an unhappy franchisee who no longer finds value in belonging to the chain to use the legal system to try to break away. While the unhappy franchisee's legal claims may not always be successful, they are always disruptive.

8. Is your restaurant concept scalable? Scalability of business operations is important to fostering franchisee allegiance. A franchisee that can reduce its food costs by leveraging the chain's buying power, make local use of marketing materials produced from a central advertising fund, and train its managers at the franchisor's training school will have little reason to leave the franchise system when the benefits of being part of a critical mass offset the continuing fees.

9. Are there sufficient prospects for a healthy ROI (yours and theirs)? No franchise program can be launched successfully unless franchisees have a reasonably good prospect of being profitable. This does not mean that franchisors must guarantee a minimum ROI or share past or future financial performance results with prospects. However, if you want your franchisees to be cheerleaders for your concept, you need to structure and support the program so that a reasonably diligent franchisee can realistically expect a healthy ROI after payment of fees by at least year 3, e.g., something approximating 20%. No doubt, profitability is relative: It is a function of investment risk and management prowess, can be improved through multi-unit ownership and economies of scale, and manipulated by running personal expenses on one's books. But the franchisor's right to a percentage of its franchisees' top-level sales does not justify the franchisor's indifference to its franchisees' bottom-line. Likewise, there is no reason to embark on franchising unless you have reasonably good prospects for a return on the capital and time you will invest in your franchise network. Your ROI prospects are inexorably linked to your ability to grow the network and that, in turn, is linked to franchisee performance: Franchise systems with strong ROI have good growth records, and systems with good growth records tend to have profitable franchisees.

10. Are you committed for the long term? Not only must you make time for expansion, you must be committed to building long-term relationships with your franchisees. You must know how to motivate others and build trust so that you can lead franchisees to accept change when competitive circumstances warrant adjustments. Possessing strong leadership skills is essential to helping franchisees optimize their ROI and your own successful franchising.

When done right, franchising mutually benefits the restaurant company that wants to expand geographically and entrepreneurs who get to learn the business and manage the model at the local level. Franchising is an especially compelling expansion model in today's economy given the difficulty of finding financing for company-owned growth and availability of better-qualified franchisee candidates displaced from corporate America. But clearly franchising is not for everyone. Both franchisors and franchisees must do their homework before jumping in. For restaurant owners, the first assignment is to critically analyze the franchisability of your restaurant concept and personal commitment to an entirely new business endeavor with its own set of best practices.