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Want To Franchise Your Concept? Ask Yourself These 10 Key Franchising Questions First

by Jay Goldstein

If you've developed a successful concept and are looking for opportunities to grow, franchising may be an option to consider. However, getting into franchising is expensive, time-consuming and not every successful restaurant translates into a successful franchising business. Use these 10 key questions as a reality check to determine whether your business is a good candidate for franchising or not.

1. **Does your business have a well-defined concept/brand?**

There are a number of things that add up to a well defined brand. The Brand must be identifiable. If someone asks the question, "what is this place and why would I be interested in coming?," they should receive an answer that easily describes the concept and its value proposition establishing what's in it for them. The brand/concept needs to be easily understood by both customers and employees. Employees need to know what it is they represent and what is expected of them in order to deliver on your Brand's promise. Think of what comes to mind when someone says Starbuck's, McDonalds, Outback Steakhouse or Chili's. You immediately have a picture in your mind of what each concept is and why you would use that Brand.

2. **Is your business capable of creating some type of sustainable uniqueness/competitive advantage?**

What is it that makes you unique and creates a competitive advantage? It could be that you have an extremely complex system like Cheesecake Factory or TGI Friday's. It might be your financial model creates a stronger than expected return on investment like Applebee's, Subway and Sonic. Maybe it is your service style or speed of service like Pei Wei's self service and 5 minute ticket times, Chipotle's custom made for you and immediately delivered food, or Sonic's car hop service. It could even be the simplicity of the concept that allows you to outperform your competitors like Chili's. Even in the burger sector there are a number of cooking methods that differentiate each Brand. McDonald's "griddles", Burger King "flame broils", Wendy's cooks your burger "fresh" once it is ordered, and White Castle "steams" the burgers with onions. Your points of differentiation enable you to stake out a position necessary in vying for and retaining customers and employees.

3. **Have you had several successful locations?**

More than one successful location shows that it was not just one lucky site that happened to work. You have proven that your business is attractive to consumers in a number of markets. It also exhibits the fact that you have established systems in place and have developed the people in your organization to be able to successfully execute the Brand beyond the first location.

4. **Can your restaurants demonstrate a strong track record of sales?**

You will be measured and judged on two metrics regarding sales, "average unit sales" and "comp store sales". Average unit sales are stated in a number of ways, weekly, monthly and annually. This number defines expectations and gives an indicator of how your concept does versus the competition. Comp store sales are a comparison of how sales compare this year versus the same time period from the previous year. Successful concepts show continued growth in same store sales constantly proving their ongoing viability and vitality in the marketplace.

5. Can your restaurants demonstrate a strong track record of profitability and return-on-investment?

Investors look to this as a key determinate of whether or not they are interested in becoming a part of your system. They can invest their money in any number of ways and you are competing with those alternatives. There are a myriad of financial measures, but the two I suggest you focus on are EBIDA (earnings before interest and depreciation) which is essentially an approximation of cash flow, and the payback period which is the amount of time it will take to recover the initial investment. The investment will vary considerably between QSR, Quick Casual, Casual Dining and Fine Dining, as they will between leasing versus owning. Naturally the higher the investment is the higher the sales and EBIDA need to be. As a general rule an EBIDA of 20%+ and a payback period of less than 3 ½ years are good targets.

6. Is there room in the profit equation for royalties and a marketing fund?

One of the most common mistakes a potential franchisor makes is to look at their own Profit and Loss statement as the rationale for wise investing. If they took out 4 to 5 % for royalties and 2 – 3% for marketing fund requirements the profit picture may not look so good. It is advisable for the franchisor to run their own P&L numbers with a 6% expense line for these items to see whether or not the franchisees can make a reasonable return. If not, the future is not promising for either party. You will only be as successful as your franchisees and it is incumbent upon you, the franchisor, to figure out how to create that financial model for success.

7. Have you developed well defined, user friendly, documented systems for all business disciplines?

Is your "system" documented so that franchisees are able to consistently execute the Brand, and to do so in the most efficient and effective manner. You must clearly articulate the business and method of operations so others can follow it. This is typically done in a series of manuals that include an operating manual, a human resources manual, a recipe/product manual, a development manual, a marketing manual, and a new store opening manual.

8. Do you have well defined success criteria?

What makes a successful location for today and the future? You need to define the specific success factors, such as, demographics (age, gender, education, income level, etc.) and psychographics (time starved, hurried and harried, see and be seen, meets personal image standards, etc.) in order to effectively determine the markets in which you should be operating. Then, with specific site criteria (freestanding or in line, ingress and egress, traffic counts including foot, vehicular and public transportation, parking spaces, square footage requirements, signage restrictions, etc.) you can determine the right sites within those markets.

9. Do you have the capability to train franchisees and their representatives?

Do you have the resources to dedicate to training to ensure that there is an in depth understanding of how to operate the "system"? Are your current operations at the "lead by example" level of execution? It is critical that the new franchisees see your standards in action and practice as that is what they will go out and imitate.

10. Do you have the necessary legal requirements in place - trademarks/registrations/contracts/disclosures?

Have you developed a trade name or trademark unique enough that it can be federally registered and not conflict with "prior users" of the same or similar name elsewhere in the country? It is very important that you file for and receive federal trademark protection, as state and county filings are not enough. It typically takes about a year's time to clear and protect a name or a logo, so it becomes imperative that you start this process well before you actually start your franchising program. The other critical documents required to begin franchising are the Franchise Contract and the UFOC (Uniform Franchise Offering Circular). The specifics of the Franchise Contract will drive the information in the UFOC. The UFOC is required by a number of states. You must register to sell franchises and submit your UFOC for review and approval, and pay a filing fee for the privilege to do so in those states. Other states either require a "notice" filing or are regulated under the Federal Trade Commission requiring the use of a disclosure document in the same or similar format as the UFOC. It is advisable that you contact an attorney who specializes in franchise law to work you through the contract and UFOC process.

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