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Five reasons why it is time to grow again

By Dennis L. Monroe

For the last several years, growth in the franchise world (in terms of new units opening) has been slow. The reasons are obvious: The economy has not grown at the pace we would all like, capital has been short, and there has been uncertainty.

In a recent article in a recent restaurant publication, there are two wonderful quotes that I feel deserve some restating. The first quote was by Ron Shaich, Panera Bread's Executive Chairman: "Growth is what seems to be the end for so many people, but growth is a byproduct. It's the byproduct of having something of quality, an individual store that actually works."

The second quote is from restaurant icon, Phil Hickey: "Speed kills, or it can. If you look at the brands that have stood the test of time, they're those that have been nurtured and held fast and pulled back on growth when there is not the funding." Both of these quotes seem to be endemic of what's happened in the restaurant and franchise world.

Is it time to start growing again? Let me give you five reasons why I think the time is right for growth, and growth that may be consistent with Ron's and Phil's statements.

1. Labor. There is an overall thought process in the franchise world that was recently borne out in a Wall Street Journal article written by Julie Bennett of Franchise Times. She writes that in the franchise world there is a new clear source of franchisees and franchises that meet the labor needs. Specifically, the underemployed, the unemployed or the insecure in their present positions can be ideal prospects for franchise businesses. The franchise world can provide these individuals with business opportunities and some control over their business future. As a result of these employment factors, the franchise community has greater access to labor, particularly young labor. Young people are looking for new alternatives. We are particularly seeing this in the restaurant industry where people are selecting it as a career choice when they might not have done so in the past. Franchise opportunities seem to be springing up to meet the needs of buying a job.

2. Tightening Up. Most franchise businesses are currently run leaner than they were several years ago. This tightening has been necessitated by the economic downturn resulting in radical cost cutting. Very few of the successful franchise businesses (at both the franchisor and franchisee levels) are run worse than they were three or four years ago. The cost savings in hourly labor, undue management, lower product costs, adjusting and renegotiating occupancy costs and running enterprises leaner have allowed the companies to be more financially solvent. This cushion of higher current earnings has provided the kind of effective margin companies need to feel comfortable to plan growth.

3. Real Estate. The price of real estate is still flat, if not down; and except in hot markets, the price per square foot for retail/franchise sites is very affordable. You have willing landlords that are looking at filling empty spaces. Plus, there are a number of spaces that are occupied by tired concepts or concepts that are just on the verge of failing so landlords are more than willing to try to find quality replacement tenants. There have been some notable bankruptcies, particularly the General Growth bankruptcy. Many of these bankrupt companies have worked their way through the process and are now ready to provide space opportunities.

We have also seen that many municipalities are looking at redevelopment plans. These cities are tired of waiting for the private sector and are looking to spur development which has been stagnated for a long time. In general, current opportunities provide an attractive approach to reasonable occupancy cost.

4. Financing. I believe money is beginning to loosen up. Not traditional sources, but sources I have written about in my column. Private individuals who have seen that the stock market is not an attractive place to invest their money are now available to invest in quality franchise operations. There are also new sources of sale/leaseback, equipment leasing and commercial lending sources.

The market is still tight, particularly as it relates to banks; but I'm seeing a softening and more deals are getting done. Obviously, the SBA is still active in this process and continues to be a good source of funds. Once again, landlords may be a good source. Some companies have been able to accumulate cash over this period of time, and they certainly will get a better return for cash by expanding.

And finally, one of the biggest sources

has been the self directed IRAs and 401(k) investments. There are a number of financial firms that have developed proven techniques for the use of these funds.

5. Franchisors. Most franchisors have experienced lack of growth. As a result of this lack of growth, franchisors are providing incentives to obtain good franchisees. These incentives may be lower royalties, a lower initial franchise fee, joint ventures, assistance with financing, development assistance and many other financial and management aids. Franchisors have even softened the legal documents and, in general, are doing what is reasonably necessary to attract franchisees.

While we may not have seen the end to our slow times, it may be good to position your company for the inevitable upturn. I have always been an optimist, but even the pessimist can say this may be a good time to plan for growth. FT

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