

When is it Time to Franchise My Concept?

By Dennis Monroe

A common question from early-stage restaurant companies is this: “When is the right time to franchise?” There is no set answer to this question, but many concepts franchise before their time and before they have some of the fundamentals worked out. It’s not enough to have a great concept that people express initial interest in becoming franchisees of. Here are some guidelines that I believe are key to determining the time to franchise.

Concept qualities:

Uniqueness: In the restaurant world, it’s important that any concept you are looking at franchising has unique qualities. We’ve all heard numerous times, “I have the best hamburger in the world” or “People love my coffee.” And while that may be true, the key element is the consumer has to want to try and become a regular user of your concept. Chick-fil-A was unique when it began franchising. When Subway started, there were similar concepts, but it had a unique way of involving the customer in personalizing their sandwiches.

Technology: In today’s world, a concept must be technology-centric. Ordering, scheduling, etc., all have to be easy for the consumer and employees. Technology is a necessity for restaurant operations, but also can be used as a key marketing tool.

Labor: This may be No. 1 for a successful franchise structure. Your concept must be designed for the shortage and cost of labor. Also, your labor model should emphasize cross training and flexible scheduling.

Supply chain: Establishing a reliable supply chain early on is vital. Items like protein costs, supplies, equipment and on-going costs need to be clearly addressed. If you’re a chicken concept, you need to know that you will have access to an on-going supply of chicken even when there’s a shortage. Also, pricing needs to allow for cost increases.

Unit economics: The concept itself has to have strong profitability, and that means profitability after the payment of franchise fees and advertising, not prior to those components. I like to see store-level profitability

in the 15% range after royalties, and some reasonable overhead. When you are seeking franchisees, particularly among the experienced larger operator group, the first thing they will ask is to see the unit economics. And you can’t just show one store with strong unit economics, it needs to be multiple stores. A critical mass of stores overtime is necessary to prove out these unit economics. I used to say a concept needs to have a minimum of 10 stores before franchising, but with the Internet and social media that’s not as crucial. But it’s still important to have that critical mass with proven economics.

Investment to sales: The investment in your franchise needs to be in line with the sales level and profitability. I like to see three times sales to investment, which means that if the store costs \$500,000 to open, and assuming reasonable rent, you should have sales of three times the investment. Concepts like major QSRs have historically had sales more like 1:1 or at best 2:1, but in today’s world 3:1 is preferable.

Broad consumer appeal: Demographics are changing and you need to prove that your concept can attract a wide variety of customers, maybe not in every part of the country but in a large enough area that has real expansion capabilities.

Availability of sites: To expand, your concept needs readily available sites. If it only works, for instance, in downtown office buildings, that could be a problem. Make sure you have enough available sites with affordable rents that you can offer reasonable development rights to the franchisee.

Adaptability: I like to see concepts that can adapt to various sites and demographics. Another plus is to have multiple revenue sources, such as drive-thru, take-out, licensing of your name and retail. The more revenue sources that are reasonable and doable, the more effective franchisees will be in operating their stores with a greater latitude to withstand downturns in the economy and major issues like a pandemic.

Ease in operation: Before franchising, systems need to be streamlined so they can be operated by a proficient franchisee. Your concept can’t be so complex that a potential franchisee needs to have unique skills,

particularly high-end culinary skills.

Franchising is alive and well, particularly in light of business owners wanting to control and their own destiny. It's always been a unique way to become an entrepreneur or to expand your existing business. The secret to success is to have a proven concept with the strong economics and addressing all the attributes provided above.

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