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Creating Franchise Concepts That Work for the Franchisee

By Dennis Monroe

Over the years a steady stream of people who are in the early stages of developing a restaurant concept have come to see me to ask about franchising. In most cases, the business owner has received numerous inquiries from customers or employees eager to become their first franchisee. So, it's easy for them to believe they have something franchisable.

It's one thing to run one or two successful locations, but quite another to have something that satisfies the demands of a franchisee. In some cases, I try to talk them out of it. For others, I discuss the metrics necessary to have a great franchise and the key unit economics that will make the venture successful for a franchisee. It's not always an easy concept to grasp, because while they may be making money for themselves, it doesn't automatically mean the concept will make money when a franchisee takes over.

Aziz Hashim of NRD Capital in Atlanta has been on both sides of the table, as franchisor and franchisee. His unique experience and skill set has given him the knowledge base of what it takes to run a successful franchise business —and not just one concept at a time. Hashim, through his NRD's Experiential Brands platform is developing franchisable concepts that have consumer demand and can generate sustainable revenues.

I asked Hashim to outline his thought process while working through two concepts that are in the development prototype stage. One is a chicken concept—The Original Hot Chicken—and the other is Inked Taco—both are in hot categories right now.

Hashim first looked at these concepts by defining the important metrics. The first is craveable food that can be made efficiently and cost effectively without sacrificing quality. The profitability should be at a pre-franchise level or what we call "the four-wall level"—at least 20%. Being mindful of the matrix, Hashim is developing concepts that have a limited menu and that emphasize efficiency, which then lowers the labor and training costs.

Additionally, Hashim's concepts are almost exclusively intended for existing restaurant spaces so the occupancy cost is lower than average by using the existing infrastructure.

The next matrix is sales-to-investment. His two concepts go into existing restaurant sites only, which lowers costs, and helps to achieve the goal of sales-to-investment in the range of at least 4 to 1.

The third key matrix is the overall technology, particularly on the marketing side. Successful concepts need to have the latest technology and real-time reporting in order to track consumer usage and communicate with them to keep them coming back. This means utilizing all types of communication methods and loyalty programs, especially for delivery and take-out. Hashim's concepts are built around technology and locally focused marketing, thus lowering the need for the franchisee to pay high fees for a national advertising fund.

Implementing these three standards can help create a much more effective restaurant industry and help deal with some of our systemic issues such as labor and cost of development.

Industry veteran, Dan Rowe, founder of Fransmart, agrees with Hashim's use of existing restaurant sites. He compares it to "playing with house money."

Building an evolved franchise system not only benefits the franchisor, but it also puts the franchisee onto a clear path to success. The hard part is not being tempted to start franchising too soon before you've proven your system and before you have the keys to success.

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