How to Grow to 100 Units: Preparing for Restaurant Franchise Takeoff

How do you know your restaurant concept is ready for a successful franchise program launch?

By Richard Sharoff, Guest Columnist -- Chain Leader, 7/1/2007 12:00:00 AM

(From l.) Partner Paul Stratmeyer, Senior Partner and CEO Richard Sharoff, and Senior Partner and President Joe Spinelli of FranPoint Partners evaluate many factors to determine if a concept is ready for franchising including kitchen efficiency.

Launching a franchise program for your restaurant concept can be a very slippery slope. Those of us who have been down that path have many battle scars and ample war stories to share about things we should have thought about before taking the leap. Seemingly great concepts can easily run amok for reasons that appear obvious post-mortem, but may not be apparent to the ambitious prospective franchisor who may be overly enamored with his own creation.

At **FranPoint Partners**, there are a lot of factors we look at to determine if a concept is ready for franchising, but here are a few of the more important ones:

1. What are the unit economics?

By far the most important criteria. We have all seen great concepts that simply cost too much to build or battled high food, labor or occupancy costs, which prohibited it from realizing an attractive return on investment after fees and royalties. A concept that delivers an attractive 15 percent store-level cash flow to the company may not be adequate enough to a franchisee after royalties. If the franchise unit economics don't work, no need to read any further.

2. Is the concept original or sufficiently distinctive from its competition?

There should be a meaningful point of difference (menu, branding, theme, food quality, presentation, price, service, etc.). The consumer or the franchise prospect is not waiting for just another replica of something already out there.

3. Would it be difficult for a prospective franchisee to duplicate the concept?

Remember, franchisees are paying a dear price for a proprietary business model, and most smart franchise developers are asking themselves, "Why should I pay for this if I can do it myself?" Professional branding, good trademark protection and great systems are good ways to address this.

4. Are there several established, proven prototypes up and running?

Ideally, a concept should be time tested with proven portability in several markets and venues. It will help convince the franchisee that the he is likely to get a good return on his investment after fees and royalties.

5. Will the concept have longevity, and is the category supported by favorable consumer trends?

When investing in bricks, mortar, leaseholds, fixturing, etc. plus long lease commitments, the last thing anyone needs is a fad. It is also helpful to have some wind at your back. If the concept competes in a growing sector like fast casual or Pan-Asian, that is an added plus.

6. Is there strong repeat traffic?

Trial is usually easy, as everyone wants to try a new restaurant. But strong repeat visits are what really counts.

7. Have any units in the system closed that might raise questions about the success or replicability of the model?

The nature of any retail business is that some units are going to fail. But if there are some failures, there must be a clear understanding as to why and a convincing story to share with jittery franchise prospects.

8. Is there a strong management team in place as evidenced by well-operated units (clean, good service, good product delivery) and strong systems (good operating and training manuals and POS systems)?

Ultimately the franchise prospect is going to make his investment based on his conviction that the franchisor's management team is going to provide him good leadership. Also good management and good systems tend to correlate closely with system uniformity and consistency, which is all important in any successful franchise system.

9. Is there sufficient capital to launch a franchise program?

Most franchisors can figure the fixed costs of preparing a UFOC, but many simply underestimate the investment in infrastructure required. The first franchisee has a right to all the services of the 100th franchisee--sufficient real estate, development, marketing, training and field operations support resources. If the first few franchise units are not successful or if the pioneering franchisees don't feel they are getting good support and nurturing, further expansion will be compromised. Taking the plunge to invest in solid infrastructure early will help ensure the development of a healthy franchise system.

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One chain that knew it was ready for franchising was Atlanta-based **Rising Roll**—but not until after it spent four months analyzing and improving its menu, labor costs and prototype. **Read "Rising to the Occasion."**

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