

RS&G

Designing Your Concept for Successful Franchising

What makes a franchise system successful?

Knowing what the marketplace needs and what prospective franchisees want makes it easier to create and design a concept and an organization that meets those needs. When asked why they are looking to buy a franchise most potential franchisees say they want:

- To generate a strong return on investment dollars and make money

- For the Operating Systems, Procedures, and Policies

- For a positive “Brand” and all that it brings

- For the marketing of that Brand and the Research and Development

- For purchasing and distribution advantages

- For ongoing support to improve the business

Simplicity

Simplify everything possible. It will make it much easier to train and to execute the concept and brand. Your systems must be trainable and repeatable. By doing so, you will also broaden the potential pool of franchisees. The more complex the concept, the more sophisticated and experienced your franchisees, managers, and employees need to be. Complexity tends to create higher salaries and it makes it harder to find the right candidates.

Do not over think or complicate any part of the concept. Approach this from the perspective of a novice in the business and you will be doing yourself and your franchisees a great service.

Create systems, procedures, and tools that are user friendly and easy to teach/learn. This applies to everything from training materials, training programs, training aides, to operating systems. Have you ever bought something new and tried to read the “owners manual”? It can be an absolute nightmare. Most instructions are written in a manner so technical that you need an interpreter to put them into plain English. This is true whether you bought a DVD player, a vacuum cleaner, a new car, or a bicycle that needs assembly. The more direct you can be with instructions the better. Remembering that a picture is worth 1000 words, any time you can use pictures or a series of pictures to show how a process works it will have a positive impact. You want anyone who picks up any of your manuals or training materials to be able to read through it with relative ease and be able to say “I got it”.

Broad bandwidth of target customers

The more people you are able to potentially attract the greater your chances of success in today's, and tomorrow's very crowded markets. This also creates for you a much greater range of real estate options that will work for the brand since there are more target markets where your target customers are in any metropolitan area. If you appeal to the upscale, high income group your number of target markets (places where they live, work, and play) is much more limited, and therefore much more expensive. Think of how many Palm Steakhouses there are compared with the number of Chili's or Applebee's. Much has been written about the challenges facing our industry today and the one that is garnering a significant amount of attention is the increasing shortage of viable real estate. Some companies have actually slowed their growth because of the real estate shortage. It has become increasingly more expensive and the risk has increased as well. There are many more concepts looking for the same sites. In some markets costs have been driven to outrageous levels and threaten to erode any chances of solid returns on investment. Therefore, it is an imperative that you look at designing in flexibility regarding sites.

The concept needs not only to have broad appeal, it also must have relevance in the marketplace. There have been a number of "hot concepts" and new fads to hit the market in the last several years that have fizzled and faded. Remember bagels and how many people jumped on that bandwagon? How about restaurants based on wraps? Where are they now?

The concept also requires broad acceptance. You can make your own tweaks or take some artistic license, but you still need to be a bit familiar in order to connect with your target customers. Look how long it took for sushi to find its way into the mainstream. Can you afford to wait that long? You can see this tweaking to familiar dishes all throughout the industry. Instead of grilled chicken salads we now have Thai chicken or Buffalo chicken salads. We are using salsa and tortillas instead of ketchup and buns. Even curry is making its way onto a number of menus. Consumers have become cautiously adventurous. However, the most exotic dishes are usually reserved for ethnic restaurants in ethnic neighborhoods, or higher end restaurants.

Understand your target customer first and foremost. The concept must meet a marketplace need. As an industry we have always looked to demographics to tell us about the marketplace, who is there, how old they are, how educated they are, their gender, how much money they make, etc. Now it has become at least as important to look at "psychographics". Demographics tells a story about who people are and where they are in our society, whereas psychographics tells us more about how these people live and behave. Knowing more about the target market's lifestyles, self images, interests, and activities gives you greater insight in how to be more attractive and solve more of their

everyday issues and problems. It is critical that you create a “meaningful” difference for the guest. There are a number of ways in which you can differentiate yourself, but what will really make a difference and drive traffic to your operation? The more you know about them the better you are able to create a concept and brand that delivers the meaningful difference.

Economic Model

There are two critical pieces to the economic model, 1) initial investment and capital budget, and 2) ongoing operating profits. Your economic model will be a central focus of most potential franchisees. It not only will drive development and the future of the brand, a positive, strong model also makes it much easier to source funding and find the required financing to achieve your development targets. Returns need to be both compelling and predictable in order to attract the best of the best franchisees. Most potential franchisees will be looking for an EBITDA of at least 15%+.

Strategically, lower initial investment costs are crucial, because once an investment is made the owner lives with it for the life of the business. There is no second chance to improve this cost. It is wise to involve restaurant industry experts in the prototype design, as they will bring all of the latest information, technologies, and industry “best practices” to the project. They will help define your design to be appealing, functional, and create a good work flow. It could be a huge mistake to engage an architect or designer who doesn’t specialize in the restaurant business. Although they are well qualified to work with commercial space they do not have the industry specific knowledge that you will require. Working with someone who knows city codes, health department regulations and requirements, equipment capacities, operational flows, and the ins and outs of restaurant electrical, mechanical, and plumbing will save you much time and money and give you a better functioning space. They will also understand the best options regarding approved materials and consider issues like finishes, installation, maintenance, replacement and wear factors, and cleaning. They should be able to direct you with regards to effective lighting, a very important factor in creating focus on products, the environment and ambience. They should also know how to best design to get through the local permitting process, again saving time and money.

The Sales to Investment Ratio is a standard industry measure that most professionals will want to know when looking at a franchise opportunity. To calculate this ratio you divide the annual net sales by the total investment cost. For example, if your projected annual sales are \$1,200,000 and your investment is \$600,000, your ratio is 2:1 Although a ratio of 1.7:1 is acceptable it is far better to be in excess of 2:1. At this level and above the returns should compete favorably with other investment opportunities.

Another critical consideration is that the franchisees P&L statement will reflect a Net Profit that will be 5% to 8% lower than a company owned store due to the royalty fees and marketing fund contributions. It is imperative that your economic model be designed with this in mind and still deliver the necessary operating profits that make the concept attractive. This additional 5% to 8% in expenses puts serious pressure on you, the franchisor, to build a menu and a prototype unit that achieve very effective Cost of Goods Sold and Total Labor Costs. You must deliver a strong value for that 5% to 8%.

Knowing that the total labor costs will forever be challenges for your operators, engineering lower ongoing operating costs into the concept will keep the concept a bit more profitable over the long term.

In order to strategically manage labor costs you will need to consider the efficiencies of your FOH and BOH designs. Lower staffing requirements are paramount to managing long term labor costs. Well designed operations take advantage of opportunities to minimize the number of kitchen work stations and the ability to combine stations during slower business periods. It is also wise to address the front of the house positions in the same way. In order to support a smaller overall staff you must provide the necessary tools, technologies, and advantages to do their job at with a high level of competence. The location of and accessibility to the kitchen can make life heaven or hell for management and staff. The length of run, or distance between the farthest station and the kitchen should be as short as practically possible. Creating a smooth work flow will not only help to ensure that things run better, it will also help reduce turnover and retain your good personnel.

Some important questions to answer are:

How many POS stations and screens are needed and where should they be located?

How many beverage stations are needed and where should they be located?

How many bartending stations are needed and where should they be located?

The other major ongoing expense in the business is Cost of Goods Sold. A well designed menu not only drives that Cost of Goods Sold, it is a significant driver of almost everything in the business. It impacts:

Total sales

Kitchen design, layout, and staffing requirements

Equipment needs

Inventory levels and number of ingredients needed to prepare all menu items

Labor costs in both the Front of the House and the Back of the House

Front of House design and style of service

- Pricing
- Positioning in the market
- Flexibility
- Productivity

You have a tremendous opportunity to use your menu as a differentiator for you customers, employees, franchisees, and investors. An investment in ongoing R&D will keep the menu fresh, vibrant, and relevant.

Operating Systems, Procedures, and Policies

Franchisees are “buying” the operating systems that make you so successful. You will be providing them with a full set of documents that address every aspect of operating your brand and concept. This is the heart of what makes your concept repeatable, trainable, and transferable to new operators. It is the “how to guide” that creates the consistency the brand needs in order to grow productively.

Operating Manuals generally contain 3 major sections:

- People Management Systems
- Product Management Systems
- Management Systems

The People Management Systems will typically include staff selection guidelines, interview checklists, general employee handbook, job descriptions, training schedules, department training manuals, staff tests, evaluation process, discipline action forms, termination forms, exit interview forms and a management training program.

The Product Management section will include the master recipe book, plate presentations, item portion list, recipe references, product specifications, approved purveyor list, purchase order system, inventory system, ordering guide, receiving guidelines, proper storage guidelines, product preparation list, daily production guide, and station diagrams.

Management Policies and Procedures will include management job descriptions, operating policies and procedures, rules and regulations, opening and closing checklists, daily, weekly and monthly accounting and reporting system recommendations, master labor schedules, weekly meeting agenda and planning guide, facility maintenance program, in house marketing, cost control, quality control, consistency, and sales building programs.

There are myriad POS and technology options available to help you run and effectively manage the business. There are so many options that it can be overwhelming. Once you have determined what numbers you need to have, what numbers really matter in managing the business, and what numbers your franchisees need you will be prepared to choose the technology solutions best for you and the concept. This will help you avoid the mistake of “over buying” technology. I have seen too many operators buy systems with capabilities that they will never need or use. It can also be confusing and unproductive. Why pay for all of the extra horsepower when it is unnecessary? You are really looking for a system that provides you what you need at the least amount of initial investment, and is also less expensive to operate and maintain.

A positive “Brand”

In building a brand, points of differentiation are what make you unique in the mind of the customer. You are not just another “me too” concept in a sea of sameness. You offer relevant differences and something that makes a difference in the consumers’ mind and life.

These points of differentiation need to be well defined and articulated for you, your employees, your franchisees, and your customers. All constituents need to know what’s in it for them and how to communicate this to others.

Who thought we needed another sandwich shop? However, there have been a number of fairly recent entries to this already crowded segment. Panera Bread offers high quality artisan breads baked on premise with a wide variety of premium ingredients and is nearing the 1000 unit mark. Which Wich is a brand new entry and offers quick, low priced, customized sandwiches. The customer fills out his order on a pre-printed bag that goes to the display kitchen for preparation and is then served in that very bag. All sandwiches are around \$4. Pot Belly sandwiches is growing significantly and they offer fresh sliced meats and cheeses with a limited number of topping choices. They make the entire ordering and selling process fun for the staff and the customer. Each concept has its own twist on the sandwich and how it is served. They have created their own points of differentiation through a combination of unique product, service style, offerings, pricing, value, environment, and customer experience.

You can build all of your differentiators into the concept design and prototype. They should be carried through every aspect of the operation. A great example of this is Pei Wei. They have done a terrific job of building a brand that signifies high quality, fresh, healthy, made to order Chinese food that is perfect for eating in or taking out. As you enter one of their restaurants all 5 senses are attacked. You see the Asian design immediately and the activity in the exhibition kitchen. You smell the food being prepared in the woks. You hear the sizzle from the kitchen and know that each order is made fresh. Everything you touch fits the concept from the serving bowls to the chopsticks. And finally you taste the great dishes. This was no coincidence. The owners of the brand did a great job in bringing everything together to create this wonderful experience.

Prototype

Identifying the “Core Elements” of the concept/brand can be fun and will ensure that you are making the impression on your guests that you need to build your brand. Core elements are those 5 to 10 icons that stick in your mind about a concept. As an example Chili’s puts its Red Chili on everything from the front of the building to the menu and the uniforms. You will also find the Margarita Bar, Mexican Tile table tops, and large booths, all of which let you know where you are without even having to print Chili’s anywhere. Starbucks has done the same thing with its Mermaid logo, signature curves and angles in the design, their own style of light fixtures, and their distinctive furniture. Almost everyone would love to have the immediate identity that TGIFridays enjoy with its red and white stripes that have been a moniker of the brand for over 40 years. These core elements will be found in every location and they will always let customers know where they are. They can be in logos, materials, colors, presentations, and icons. Guests will be able to identify where they are even without a sign.

Going back to the earlier point regarding the tight real estate market, the prototype needs to be designed with the ability for flexibility. It will potentially need to fit into many different environments. You may find some excellent sites that are inline or end caps in strip centers, or free standing buildings. You may want to be able to take advantage of non-traditional opportunities and sites such as airports, train stations, sports venues, schools, offices, etc. One of the best ways to achieve this flexibility is to design the prototype as a “Kit of Parts”. A kit of parts means that you design each section of the facility as a free standing entity. For example, the fryer station, the pantry station, the bus station can all be designed and all necessary equipment specified to be build anywhere. Because you will encounter many varying types of sites this approach will enable you to fit your concept most anywhere. Think of this as putting together a jigsaw puzzle.

If at all possible, design with the future in mind. To keep the concept fresh and relevant it is good to have second and third generation ideas in mind. This will be crucial as demographics and psychographics continue to evolve. It only takes minor changes to update a concept. One of the best companies at doing this is Houston's. they have been able to do this in their design as well as in their menu and bar.

Two other items to address here are logos and slogans. Anytime you can create something that stands out from the clutter you will be miles ahead of everyone else. We have already looked at the Chili's red pepper. TGIFridays incorporates their red and white stripes in their "stop sign" style logo. Applebee's uses a red apple in their signage. As you study logos you will find a number of very creative ideas and you will see how important an edge this can be for your brand. Slogans can be just as effective in identifying you and separating you from the crowd. Here are a few examples you will likely recognize, Subway, "eat fresh", TGIFriday's "In here it's always Friday", Applebee's "good in the neighborhood", and Red Lobster "for the seafood lover in you". Each of these is unique, recognizable, unmistakable, and trademarked.

Purchasing and distribution advantages

The more you are able to create purchasing and distribution advantages the more valuable you will be to the franchisees. Your system should create lower prices, higher quality, and consistent supplies of key products and services. The main areas to address are:

Core items – these are the proprietary or main items and ingredients required to execute the concept. They usually account for more than half of cost of goods sold.

Commodity items – these can be items that range from produce to paper goods to chemicals.

Vendor contracts – services like POS systems, pest control, and equipment leasing can be included here.

Ongoing support to improve the business

Although this is listed last it is something that can make or break your franchising efforts.

Any potential franchisor who neglects this is not setting the system up for success.

Ongoing support involves systems developed to help both the franchisee and the franchisor as partners build the business. The key support areas are:

Annual business planning sessions to create focus on the critical issues that build the business and drive growth. In this meeting the participants set goals and targets for the upcoming fiscal year.

Annual Marketing strategy planning to enhance the brand and its position, and build profitable sales.

Develop annual marketing calendars to support the marketing strategy. Identify the necessary tactics and execution points to achieve the plan. This involves the who, what, when, where, and how of the plan.

Unit reviews and evaluations are an integral part of keeping and building brand integrity for the franchise system. It helps to ensure concept consistency and also serves as a training tool for all participants. These should be done at least semi annually and are most effective when done quarterly.

Financial reviews help the franchisor and franchisee keep a finger on the pulse of the business. This process eliminates any surprises and ferrets out any potential problems or opportunities. Profitable franchisees are happy and they continue to build new units. They will be your apostles when recruiting new franchisees.

Effective training programs for owners and managers that set them up for success in executing the concept and making money.

A real estate program that includes a rigorous site selection process with well defined success criteria. The approval process helps the franchisee completely think through all parameters of the site. It is better to discover a problem with a site before a commitment is made than to live with a bad decision.

As you can see, there really is no easy way to franchising, but there most certainly is a smart and well thought out way to go about it. By working through all of the issues we have discussed you will be as prepared as possible for your successful venture into franchising. Take the time, do the heavy lifting now and you and your franchisees should profit for years to come.