J. Perry Maisonneuve of Northern Lights Franchise Consultants Corp.

Rick Stark of Prime Restaurant Group

GROWTH BY MULTIPLES

An increasing number of Canadian franchisors are choosing area development as a means of growing the system.

Kara Kuryllowicz

The franchise industry has been there, done that and is still doing it when it comes to multi-unit development because it works and it works well.

Growth is key to any business and even though multi-unit franchisees typically account for just 10 to 15 per cent of a franchise's locations, those who operate more than one store are an important part of any growth strategy. "It's a great way of building on the strengths of the best players," says J. Perry Maisonneuve, principal of Northern Lights Franchise Consultants Corp., Mississauga, Ont., a management consulting firm specializing in franchising. "You're inspiring the best to become even better by rewarding them financially and with recognition. They're also able to become leaders and set examples that others will follow."

Although one might wonder whether the multi-units carry more clout than the single-unit operators, experts and franchisors point

Photos: Gary Beechy

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Statistics show that franchisee-operated stores outperform employee- or manager-run businesses by 30 per cent when it comes to both sales and profit. Franchise-operators have a vested interest in the success of the business. It makes all the difference.

out that the single units are vital to their successes simply because there are more of them. "The multis are important but the singles are your bread and butter," says Maisonneuve.

Multi-unit strategies have benefited both franchisors and franchisees to the extent that there is now a trend towards cross-system multi-unit deals, where franchisees work with more than one franchise system. These offer the most mature and successful multi-unit franchisees new challenges and still greater growth opportunities along with further diversification of risk. Wadia Inc., the family business that has developed 14 Little Caesar's locations in Calgary and southern Alberta in 10 years, got involved with Quizno's Canada, a gourmet sandwich company, in late 1998. Under the name JELC Corporation, the family now has seven Quizno's in Calgary and will open an additional 18 within three years.

Another multi-unit deal would give patriarch Emile Chamoun the further challenge he craved, while offering control of everything from locations to marketing. "We are completely focused, we know what we're doing and we're starting with a base of knowledge and experience at each new location," says Chamoun. "It's a huge commitment but it's my ultimate goal to create something for my family so that they have their own business. I'm also proving to them that with hard work, you can get whatever you want. We're proving how much we can do." Chamoun's wife Leila and their sons, Joe (24), Jimmy (22) and Johnny (19), are intimately involved with the stores' daily operations.

It's in the franchisor's best interests to encourage franchisees like Chamoun. "You want to see them succeed and you want to keep them happy by giving them lots of opportunity to grow," advises Maisonneuve. Franchisors know that further expansion within a single system could potentially pose problems such as economic dependence on one franchisee operator or the geographic distance between locations. Because the franchise community is a relatively small one, the franchisee should make a point of informing the franchisor of his or her interest in other franchise systems and discussing expansion plans with the corporate management team.

Most typically, multi-unit development has a single individual or corporation owning and operating more than one franchised location within the same franchise system. While virtually all franchisors develop multiple units with a single individual or corporation, the specific strategies and requirements can differ greatly. One of the simplest, most basic differences lies between those who welcome franchisees only as full-time operators and those who also embrace the concept of "owner/investor," or a hands-off investor whose stores are run by employees or by head office.

Many franchisors insist on franchisee-operators. According to Maisonneuve, statistics show that franchisee-operated stores outperform employee- or manager-run businesses by 30 per cent when it comes to both sales and profit. "They have a vested interest in the success of the business. It makes all the difference," observes Maisonneuve.

Jerry Auger, a franchisee who owns three East Side Mario's, one each in Kitchener, Guelph and Cambridge, Ont., now has 250 employees and still makes a point of regularly "walking into the dish pit and washing a few." "It sure gets their attention," says Auger. "It shows employees that you care and that no job is too small to matter."

Like Auger, Chamoun and his family are extraordinarily involved personally. On a daily basis, Chamoun himself talks to each manager and visits six Little Caesar's and two to three Quizno's. "We lead by example, whether we're listening to their problems, sharing their concerns or wiping the tables," says Chamoun.

As the cost of running casual dining establishments continues to rise, investment-only deals are becoming more common. Because the pool of individuals who can handle such sizable investments is limited, Prime Restaurant Group of Mississauga, Ont., whose 130 casual dining establishments are branded East Side Mario's (76), Casey's (34), Prime Pubs (11, under different names) and Red Devil (9), is assembling investment groups to further corporate-store expansion.

"With incremental costs of $300,000 to $500,000, it makes sense," says Prime's Rick Stark, senior vice-president of corporate development. "In our case it's a financing vehicle for our corporate stores, but investors see it as potentially offering a better return on investment than a mutual fund with less risk than a dot com start-up."

Quizno's Canada has been in Canada since 1996 and is about to open its 100th unit, thanks in part to multi-unit development. The firm has five area developers or directors, which are individuals or groups with the rights to develop and support Quizno's in a particular market. While this approach has worked, the firm will revert to developing the remaining regions from head office. "You can develop and penetrate a wider geographic area more rapidly, and local area directors have a real understanding of a particular area's culture and demographics. However, you're also putting a layer between the franchisor and the franchisee," says Jeff Young, vice-president, franchise development at Quizno's. "A successful area director requires strong business acumen."

With 130 casual dining establishments, Prime Restaurants is using investment groups to fund its expansion.

Area developers may or may not operate stores personally, but most franchises feel that a developer with a store has an advantage. "It gives the brand an immediate awareness and presence when breaking into a virgin market, while giving the area developer and the franchise credibility," says Young. "But you have to be sure they don't spread themselves too thin." The fact that in the long term, royalties and franchise fees may be split is also a deterrent to some.

The TDL Group Ltd., the licensing company for the Tim Hortons brand, a quick-service restaurant chain with 1,754 locations in Canada and 116 in the U.S., has never even considered such an approach. Its success lies in its ability to seek and approve franchisees. "We would never have a franchisee seeking other franchisees," says Patti Jameson, vice-president of corporate communications. "We're the ones with the experience and track record in knowing what to look for in a franchisee operator and we know our criteria and the importance of them. We put so much into our franchisee operators that it's reasonable that we'd want to select them ourselves. We are the ones who are ultimately responsible to our other franchisees, who are the very heart and soul of our chain."

Quizno's, on the other hand, will continue to award multi-unit deals up front, where an individual or a group agrees to open a prescribed number of stores in an area within a certain time frame. In most cases, the winner of such a deal would have significant business experience and financial resources, perhaps even a solid track record with another franchise system. A perfect example, Chamoun was a senior vice-president with a multi-plant manufacturer in Europe, before starting with Little Caesar's. Otherwise, like other franchisors, Quizno's will offer just one unit to begin with, inviting expansion only as the newly formed franchise relationship unfolds successfully.

When considering potential franchisees, financial resources are but one consideration. Experience and ability are vital. For example, Auger had seven years of corporate work experience and another seven years running his own electronics franchise before he became involved with Prime. He bought his first East Side Mario's eight years ago.

The mature established franchise systems, like Tim Hortons, typically start all franchisees with only one location — with no exceptions whatsoever. "We do not grant multiple units to a new franchisee," says Jameson. "We reward our good operators by allowing them to grow their business through additional units once they've met our operational standards."

While one could assume that such franchise systems would be better able to handle any risk, the fact is that a failing or sub-standard location can do more harm to their image and reputation. They just don't need to take such chances. "They can afford to wait, while an emerging chain with 15 to 20 stores has a greater appetite for risk in order to speed their growth," says Maisonneuve.

However, performance in no way guarantees single-unit operators will become multi-unit operators. A franchisee may meet and exceed all financial targets and be a positive, contributing member of the system. But that individual may lack the management skills and drive needed to successfully run more than a single unit. "Once we identify a new location, we put a great deal of thought into determining who will operate it," says Jameson. "In general, we'd prefer giving it to an existing franchisee because that's one of the things that has kept our chain strong."

At Prime, Stark notes that individuals may be very good at running single restaurants because they're great at the front of the house, where they interact with customers. While they may deal with staff and related issues competently, they are more

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guest-oriented than management- focused. "There are common skill sets, but the emphasis and relevance of particular abilities is quite different depending on how many units you're running," says Stark.

Both franchisors and franchisees ultimately benefit on any number of levels with few downsides for either player.

Franchisors - Pros

1. Franchisors win big on cost savings alone. The cost of finding potential franchisees is huge. The advertising and promotion required just to get that phone to ring is generally $6,000 to $8,000 for each franchise granted for an emerging or adolescent franchise system. The mature, sophisticated organizations that have earned instant recognition and are household names no longer need to advertise for franchisee candidates, because they already have waiting lists. For example, Tim Hortons has approximately 3,000 ready and willing qualified candidates in reserve.

   Multi-units also slash the cost of managing inquiries, creating and sending out franchise kits and meeting with interested parties. Credit and reference checks, legal reviews, psychological profiles and assessments of business plans and financial projections, site location and training expenses, coupled with those marketing costs typically run $20,000 to $25,000, eating up 90 to 95 per cent of the franchise fee.
2. Franchisors reduce their risks by half. Awarding additional units to proven franchisees makes great sense, because it reduces the risk of selecting the wrong franchisee right from the start. Franchisees know management's financial and strategic expectations. "Multis are easier to work with and better partners because they're familiar with our corporate culture and policies," says Stark. "If they haven't been part of a foodservice or franchised operation, the first few years can be a bit of a culture shock." Multis are also better able to compensate for issues such as seasonality and regional dips with more locations.
3. Once a multi-unit deal has been signed, the franchisor can remove locations from the inventory list and focus its efforts on growth opportunities in other cities.

Franchisors - Cons

1. Risk still exists because there is a greater dependence on one person or group responsible for the performance of several locations. Although candidates are thoroughly screened and researched to be sure they have the skills, drive, financing and psychological profile required to succeed, the fact remains a significant number of those new area developers will fail to open the total number of locations within the specified time frame as originally agreed, according to Maisonneuve. As mentioned earlier, to continue to grow, some franchisees will expand with other franchise systems to diversify the risk geographically, seasonally and by sector.
2. Franchisors know the "Midas touch" syndrome well. It's human nature that certain multi-unit operators will come to think they had more to do with the success of their locations than their franchisor's concept and systems. "There are high profile court cases where some area developers have become renegades by deciding they alone are responsible for their success and not the franchise system," says Maisonneuve. "It negatively affects goodwill with customers." It also brings bad publicity for the franchising industry when it leads to lawsuits.
3. While risk is reduced because franchisees have a proven track record, there will be failures, if franchisees become financially over-leveraged, management supervision becomes too thin, sales drop or rents increase.

Franchisees - Pros

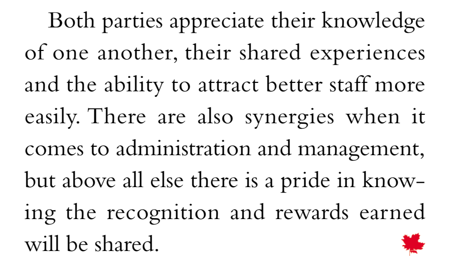
1. Knowledge of the system, experience and the positive relationships with the management team. "You're both sticking with what you know," says Auger. "You should never forget the lessons you learned with the first unit." Adds Chamoun, "It gets to the point it's just in your blood."
2. Synergies when it comes to cross-managing and cross-promoting the stores. Bookkeeping and other functions can likely be shared without greatly increasing incremental costs. Marketing campaigns carry the message to more people more cost-effectively. If the multis are run by the same operator but are different concepts, cross-promotion and merchandising can be equally effective. "There are economies of scale in terms of knowledge and administration," says Auger.
3. Depth of resources. Staff and stock can be shifted from location to location based on demand and expertise. For example, Chamoun's wife and sons each have their specialties: management, maintenance and administration; computer, cash, inventory controls; training and operations. "Each individual visits each store every day to provide an objective and specialized eye," notes Chamoun.
4. Career advancement and opportunity improve with multis as employees can rise through the ranks. "If you jump on with Little Caesar's or Quizno's at the first stop, you can go for a long ride with us," says Chamoun. This helps attract human resources, which is a significant challenge in many markets today. Satisfied customers often become franchisees and/or employees. "Having a name like East Side Mario's and an established presence and trusted reputation in our communities helps us attract employees," says Auger. "The labour market is tight and we've developed from within for some time now. We attract them into the fold early and move them up."
5. There are cost savings in some instances. For example, Tim Hortons' franchisees may operate a flagship store where all of the production is done, then open second and third satellite units nearby. While their offerings are the same as any other Tim Hortons, the main products are produced off-site. As a result, there are some savings on equipment and training.

Franchisees - Cons

1. No cost savings. Very few franchisors will offer discounts on either franchise or royalty fees and no one gives greater discounts on supplies. "The franchisor can't support a double standard by creating the haves and the have-nots," says Maisonneuve. "Besides it would be a political and administrative nightmare."

   In fact, some franchisors will demand a deposit as a gesture of good faith that the franchisee is truly committed to opening the additional stores as agreed upon. In some instances, that fee will be deducted from the franchise fee as subsequent locations open. "It's fair compensation if a franchisor has delayed expansion in a given area while waiting for the franchise to catch up," says Maisonneuve. "Then waiting for development usually means a franchisor is also missing out on market share and royalty revenue they would otherwise have had if they had granted the location to another candidate." Quizno's franchise fee is $25,000 for the first location and $20,000 on subsequent units, because as Young says, "We don't have to retrain and re-indoctrinate them."
2. Control becomes a greater challenge. "The bigger you get, the easier it is to lose control of operations and quality," says Maisonneuve.

Multi-unit development strategies will continue to help grow the franchise industry because they benefit both franchisors and franchisees. Of course, there are obvious benefits like cost savings, reduced risk and a greater depth of resources, but it's more than that.



Both parties appreciate their knowledge of one another, their shared experiences and the ability to attract better staff more easily. There are also synergies when it comes to administration and management, but above all else there is a pride in knowing the recognition and rewards earned will be shared.

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