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Franchisees wanted

Competition for operators, franchisee consolidation leads to new dynamic

BY MARK BRANDAU

It's a tale of the haves and have nots. Many restaurant brands are finding themselves caught between two prevailing franchising issues — the availability of single-unit franchisees, which can be successful but lead to slower growth, and the difficulty in reaching mega operators currently dominating the space, who promise speedy development.

"There doesn't seem to be a middle class of franchisee anymore," said Jennifer Durham, vice president of franchise development for Tampa, Fla.-based Checkers Drive-In Restaurants Inc. "It seems like it's either the biggest [franchisee companies] or the one- to three-unit operators. It gets hard for brands to compete when we're going for the same folks, so it comes down to what your differentiation is."

To stand out, many restaurant brands have had to get creative.

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Summer is salad season at restaurants

Recent offerings feature trendy ingredients, bold flavors and more vegetables, pg. 32

Franchisees wanted

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Voo Doo BBQ & Grill is planning to grow to 300 units in five years by developing support partners to provide scale. Fresh to Order is attracting multiunit franchisees by building its brand recognition and corporate systems.

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Some have focused inward on unit economics of company-operated systems to best entice partners, while others go on aggressive recruitment road shows. Some even lower expectations on snagging that large franchisee, instead working with smaller operators to grow the brand in a sensible dynamic.

Driving enlistment

In order to find the right franchisees, the operator of the 800-unit Checkers and Rally's Hamburgers brands gives prospective partners access to leaders of both concepts throughout the process.

"The alignment of cultures is so important," Durham said. "We try to make [clear] from the first point of contact what it means to be part of our system. Knowing the leadership team is something we incorporate in our selection process."

Any franchisee candidate can call any executive during the discovery and selection process, she said, including chief executive Enrique "Rick" Silva.

Checkers owner Sentinel Capital Partners is one of several private equity players that invests not only in franchisors — it also owns the Huddle House family-dining chain — but also in franchisees, including operators that run scores of Taco Bell and Church's Chicken outlets. Sentinel sold Southern California Pizza, a 224-unit Pizza Hut franchise, to Sterling Investment Partners in 2012.

Stepped-up recruiting is the main charge for James Walker, who joined Aliso Viejo, Calif.-based Johnny Rockets as chief development officer in December and found that the brand had not had a franchise sales strategy in the 28 years since its founding.

"Johnny Rockets had grown the brand passively because they have this core group of fantastic existing franchisees that all continue to want to grow," Walker said. "When you've got that core, it's real easy to just continue to support those guys. But coming in and wanting to supercharge that, ... I started looking outside."

In 2014 Johnny Rockets will do 23 franchise road shows and add a presence at several more franchise conventions.

"We [wouldn't] snub a great candidate who just wants to own one Johnny Rockets and have it be their life," he said. "But there are some real advantages to organic-growth players: They have a faster route to market; they can open stores quicker; they know the business and are already brand champions."

Looking inward

Other growth-minded franchisors have been able to recruit the desired brand champions by first building company-operated systems into a model for multiunit success.

Before he founded "fast-fine" Fresh to Order in 2006, CEO Pierre Panos was the fourth-largest Papa John's Pizza franchisee in the United States, with more than 40 units. From the beginning of the now 12-unit Fresh to Order's franchising program, Panos was hoping to attract operators with a scale similar to his.

"But all the big guys would say, 'When you get to 250 stores, call me,'" he said.

So while Fresh to Order politely turned away candidates interested in just one location, the Alpharetta, Ga.-based brand kept building corporate stores and working to get positive brand recognition, including a 2013 Hot Concepts award from Nation's Restaurant News, Panos said.

"We went as slow as it took to get those bigger guys into the system," he said.

The chain invested in recruiting, including shipping a mobile kitchen to markets like Charlotte, N.C.; Nashville, Tenn.; and Orlando, Fla., to prepare food from the chain's fast-but-healthful menu for invited real estate brokers and restaurateurs.

Most of the franchise deals Fresh to Order has in the pipeline are for three to five units, and the largest chunk it would sell at once would be for eight restaurants, Panos said.

He and his corporate trainers spend a tremendous amount of time with each franchise store during pre-opening and opening.

"The first three months determine the next three years of sales," Panos said.

Like Fresh to Order, in 2006 Ichor Restaurant Group began building corporate stores of its flagship brand Old Carolina Barbecue Company, while also looking to grow through area development agreements, founder and CEO Brian Bailey said. The company built five units in northeast Ohio through 2011 and began franchising Old Carolina over the next two years. At the same time, the company was developing two other fast-casual growth vehicles, Baja Pizzafish and Smoke the Burger Joint.

"Some people have enough money to buy themselves a job where they would manage a single unit, but that doesn't accelerate our growth," Bailey said. "We want to work with people like us who are interested in growing in a region with multiple stores and multiple brands."

North Canton, Ohio-based Ichor and its franchisees operate nine Old Carolina units, one Baja Pizzafish and two Smoke restaurants in Ohio and Michigan.

Leaders of fast-casual Asian-inspired chain Tokyo Joe's decided this year that the brand was a mature enough concept — after 18 years and 28 company-owned locations — to start franchising. Like other franchisors, Denver-based Tokyo Joe's is looking to bypass the single-unit franchisee stage and work with operators capable of opening a minimum of three restaurants.

"We feel like we have a well-developed brand, and we're not looking for people to test it out and see if it works," said Chad Corrigan, vice president of brand expansion. "We know it works. We're willing to wait for the right partners who can take on a whole market, have the right experience and have the skill set to develop a full system."

Tokyo Joe's plans to open 30 more company-owned stores by the end of 2016 and wants to add 24 franchised locations in that same time frame.

Partnering in growth

Leaders of some other restaurant companies acknowledge that eventual multiunit franchisees may start with one location — if the franchisors are focused on providing resources to help both the brand and the operator scale quickly.

Multiconcept franchisor Trufoods LLC is recruiting single-unit franchisees for two of its three brands in turnaround mode: Pudgie's Naked Chicken and Ritter's Frozen Custard. The goal will be to develop those franchisees into multiunit operators by growing the needed systems to support franchisees as they get larger, said Gary Occhiogrosso, president of New York-based Trufoods.

"The reality is the giant, professional franchisee likely isn't interested in the startup or the turnaround," Occhiogrosso said. "They're looking for the plug-and-play tool and buying cash flow.

"That leaves franchisors like me creating models that eventually become attractive to larger franchisees, while initially offering opportunities to 'disciples' who are passionate about a brand," he continued.

Courting smaller franchisees is not as much of a gamble as it used to be, he said. Since the end of the recession, the single-unit franchise candidates that remain are more likely to be well-capitalized, he said, unlike the former mom-and-pop franchisees that could have easily leveraged their homes or secured Small Business Administration funding to get into the business.

Occhiogrosso explained that even if single-unit operators in the 21-unit Ritter's system or the six-unit Pudgie's brand do not achieve multiunit scale quickly, many of them collectively could build a model a larger institutional franchisee could replicate.

"If we have single-unit operators [collectively] running 30 to 40 units in Nassau County on Long Island, [N.Y.], now all of a sudden the sum total of that becomes the model for the multiunit franchisee," he said. "Say [the prospective franchisee] operates 15 units of another brand in one or two counties — they could duplicate that system with Pudgie's or Ritter's in a territory."

With 18 years of experience and 28 company units under its belt, Tokyo Joe's is only accepting operators capable of opening a minimum of three restaurants. Amsterdam Falafelshop, on the other hand, is comfortable developing single-unit franchisees into multiunit operators.

To help spur franchise growth, Trufoods spent a lot of time reducing the costs for new restaurants.

Similarly, Arianne Bennett, CEO of four-unit Amsterdam Falafelshop, planned to franchise the fast-casual concept from the beginning in 2004, when the brand was just one corporate location in Washington's Adams Morgan neighborhood. Her team has been developing and preparing the infrastructure for operators of any size to open locations, she said.

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>
> *— Jennifer Durham, vice president of franchise development, Checkers Drive-In Restaurants Inc.*

"In the beginning, it's just about finding the first few representatives who embody your brand and who would have shops you'd like to showcase to people," Bennett said. "It can be a different type of franchise operator for each unit."

For instance, the first franchisee, Matt D'Alessio, first encountered Amsterdam Falafelshop while he was a student at George Washington University, and while he had no previous restaurant experience, the franchisor coached him in the business after deciding he had potential.

D'Alessio opened his single unit in Somerville, Mass., in July 2012, and less than two years later he signed a lease for a second location in Boston, to be operated jointly with Laurence Wintersteen, who had bought the rights for three Amsterdam Falafelshop units of his own.

Five more franchisees have since signed deals for multiple units in the Washington-Virginia-Maryland corridor, Dallas and Salt Lake City markets, leaving Amsterdam Falafelshop's corporate team as the only single-unit operator of the concept.

"We've committed everything to paper so that [the franchisees] can think like us," Bennett said. "We've spent the most time developing the detailed infrastructure to get ready for explosive growth and slot people into the markets when they're ready."

New Orleans-based Voo Doo BBQ & Grill is focusing its infrastructure development around building a "strategic alliance" of supply chain management, accounting and information technology vendor partners that can provide scale to support the 17-unit brand.

Voo Doo's new president, Glen Helton, said that support is key to corporate-store growth and the recruitment of larger, sophisticated franchisees like those he worked with in his days as an executive at Burger King. By leveraging that "instant infrastructure," lowering build-out costs and engineering more profitability into the menu, Helton is targeting 300 new locations over the next five years.

"How do you go from a base of 17 restaurants to building 60 a year? You do that through resources and not necessarily leveraging our balance sheet upside down," Helton said. "It allows us to behave like a much bigger company than we really are." ■

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