Considering Multi-Brand Franchising?

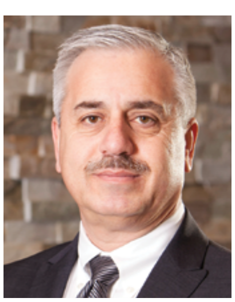
By Debbie Swanson

Jesse Keyser, of St. Louis, Missouri, purchased his first franchise unit, Little Ceasars, in 2005, and soon expanded to five restaurants in Western Kentucky and Southern Illinois. Fueled by that success, Keyser began looking into other brands, and purchased Valpak in 2008, which provided an unexpected source of insight.

"Working with Valpak, I did extensive interviewing of business owners in different industries, and realized the area had a need for both carpet cleaners and hair salons," he says.

At the Franchise Update Conference in 2014, Keyser connected with individuals from Oxi Fresh carpet cleaners, and was soon the owner of five units. Fast forward to today, and he successfully operates six Oxi Fresh, five Little Ceasars, and 27 Sport Clips—having sold ValPak in 2011.

Keyser is enthusiastic about the benefits franchisees can gain from operating multiple brands. "When adding a brand, you are opening yourself up to a whole new mastermind group. The opportunity to talk to another set of people who share your commitment, but bring a different perspective, will build your expertise."


Tony Lutfi


Jesse Keyser


Therese Thilgen

Both industry experts and franchisees agree that multi-brand franchising can be a good business strategy, but there is a general warning: Don't act too fast. The keys to success, experts say, are carefully exploring and planning each addition.

Times have changed

Owning a franchise has come a long way since people would invest their savings into a single unit selling a popular brand. Today franchising is more sophisticated. Therese Thilgen, co-founder and CEO of Franchise Update Media, has observed the progression of a franchisee from "mom and pop owners, to multi-brand." As hosting organization for the annual Multi-Unit Franchising Conference (the 19th is being held March 24 - 27, in Las Vegas), Thilgen says that about 75 percent of recent conference attendees answered yes (via questionnaire) when asked if they are looking into adding other brands.

"Historically, franchisees would stay within their specialty area, such as food or restaurants. Now, they are breaking out

WHAT'S TO GAIN?

With careful planning and adequate research, your move into multi-brand ownership can yield many advantages, including:

- **Enhanced financial stability:** Diversifying can enhance your ability to ride out the natural ups and downs any business is bound to encounter, whether it be due to seasonal traffic, varying day part demands, or the occasional, unexpected economic hit.
- **The ability to leverage your resources:** While most experts don't recommend sharing employees or management across brands, most do use common overhead resources, such as legal, accounting or executive support. "Brands have different cultures and objectives; one supervisor may be perfect for one, but not all brands. The real savings occurs at headquarters," says multi-brand franchise owner Tony Lutfi.
- **Access to a cultivated network:** Making use of existing contacts in your network will make your response time more efficient when in need of services, hiring, or purchasing.
- **A smoother launch:** Your past experience with starting up a brand should facilitate an easier startup time at your new brand, and expedite the process of settling into daily operations.
- **Reciprocal knowledge**: Your overall business will flourish from the knowledge you'll both bring, and gain, from wider exposure.
- **Rejuvenate your spirit:** A fresh challenge and room for growth can ignite the spark into your career, which will benefit both your personal well-being, as well as your business success.

of their industry; the majority state they don't have specific brands in mind. They're exploring the spectrum of opportunities available, from food, to services, to non-brick-and-mortar franchises," she reports.

It's no surprise, given the entrepreneurial nature of most franchisees.

"Franchisees are smart business people," says Thilgen. "[If] they run out of the ability to grow where they are - due to available territory or agreement limits - many ask themselves, now what?"

This shift in thinking isn't just limited to franchisees; brand owners, who may have historically frowned upon franchisees entertaining other brands, have also come to recognize the benefits that come with diverse ownership.

"Years ago, franchisors wouldn't send their franchisees to the conference. But at our current conference, there are 250 franchisors exhibiting, and they're looking to attract other franchisees," Thilgen reports.

Clear any hurdles

If you're toying with tucking a new concept under your belt, start by reviewing the commitments and obligations in your Dunkin' Brands agreement.

"Be sure you won't be violating the provisions of your franchise agreements, specifically, the non-compete," says Justin Klein, a franchise and business attorney with Marks & Klein, LLP, in New Jersey. "Some brands have a broad non-compete agreement, while others are much more specific in how they define competitors." Consult a lawyer early in the process to confirm your understanding and make sure you won't be crossing any lines.

Aside from gaining the legal green light, it's also good business to make sure your current brand is on board. "You don't want to kill the goose that laid the golden egg," says Klein. "Talk to your franchisor about the new concept, and make sure they are comfortable with it."

Finally, take a realistic look at your availability and the anticipated time commitment required. "There are a lot of different investor models, so it really depends upon the brands in question, and what level of commitment they expect of the franchise operator, whether it's full time or not," Klein says.

Fuel yourself with knowledge

Once you've identified some potential brand(s) of interest, learn as much as you can about them. Read all the franchise documents available to you, and dig around on local news sources and social media – the latter of which can offer an inside view of the brand's popularity and culture.

And, for a closer look, talk to people within your business circles. Experts advise you ask about the roadblocks or unique circumstances investors in other systems have faced, as well as their thoughts about that brand's culture. Listen for any trends in their responses, as well as potential warning signs. And find out how those concepts perform in markets similar to yours, so you can draw comparisons.

Keyser says people need to be realistic when they start comparing the numbers. Specifically, he says, do not completely trust the data a franchisor provides in Item 19 of their Franchise Disclosure Documents (FDD), which provides potential earnings. While it may be accurate, it could be reflective of a region unlike yours, such as a college town with regular late night activity.

"You want to make sure [Item 19] is an accurate representation of what earnings you might expect," says Keyser, suggesting you use the FDD information as a basis for inquiry. "Many franchisees won't be willing to give out financial data, but you can ask whether or not they feel the FDD 19 is accurate for their area."

Unlike when you were a first-timer, Klein says, your own expertise will guide your decision. This firsthand knowledge is valuable, but still, remain objective.

"If you are used to the quality and care of one brand, such as Dunkin', realize that you may not get that with another brand," Klein suggests. "Be careful not to make assumptions or bring expectations."

This is another area where talking with existing franchisees is valuable; try to get a feel for their day-to-day demands and expectations , as well as the parent company's support for the franchisees.

Which brand to choose?

Franchising opportunities span a wide spectrum, from restaurants and products, to services, to home-based opportunities. Aside from steering clear of obvious restrictions, there are many factors to weigh when selecting a new concept that will complement your existing portfolio: your own desire for change versus a preference for familiarity; personal appeal for the product or service; ability for co-branding with complimentary brands; and more.

California-based franchise owner Tony Lutfi recalls that his awareness of the industry's climate at the time played a role when he purchased two Long John Silvers to add to his original brand, Arby's. "This was in the mid 90s, after Jack in the Box had their E-Coli incident, with sales plummeting. I thought being diversified would be wise, and have continued this careful diversification policy, to reduce risk."

Lutfi's careful approach has paid off; along with his children, he presently runs 14 companies operating 54 Arby's, 20 Jack in the Box, 29 Church's Chicken, 29 Little Caesars, and six Sizzler restaurants. In his experience, franchises need to "also consider each brand's acceptance of one another, to avoid future conflicts."

Another factor is location: will you be expanding within familiar regions, or breaking into an entirely new market? Both have their advantages; your choice is a personal preference, taking into account logistics, regional preference, need for your physical presence, regional demand and competition, and more.

"I've worked with franchisees who own a few different concepts all in one region – for example, a massage shop, hardware store, coffee shop. They know how to operate in that town, they've gotten good at it, and continue to remain successful," Klein observes.

Over the past decades, franchising has not only flourished, but attitudes have evolved for both brand owners and franchisees.

"Franchising has become an investment strategy; it's not just a means of buying yourself a job, it's a business," says Klein.

For the owner who already knows what it takes to make a franchise unit succeed, this is good news. With careful planning and a measured growth, moving into multi-brand franchising can open up a whole new world of new opportunity.

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