

## FOCUS ON FRANCHISING

### Multiple-Unit Setups Now Can Have an Edge

By Lawrence Bivins

**I**t may seem odd, but in these days of economic uncertainty, bigger can mean better — especially for entrepreneurs embarking on new franchise ventures.

Multiunit franchisees, those pledging to open numerous locations across a certain region during a given period, have long enjoyed the benefits that scale can bring. Now, amid tenuous credit conditions and consumer squeamishness, such franchises can, depending on specific circumstances, have an edge over those launching a single franchise unit.

Because they typically enter new franchise agreements after previously managing other franchise brands, multiunit franchisees arrive with a firm grasp of the ins and outs of the industry. That carries weight with lenders, many of which are now leery of making loans to first-time franchise buyers. When considering making loans to franchisees, banks and finance companies look closely at the business concept itself and the success rates of its franchisees. But equally important are the qualifications of the borrower, according to Marc Kiekenapp, managing partner of Franchise Outsource in Scottsdale, Ariz. "They're going to look very closely at management experience," says Mr. Kiekenapp, whose firm counsels franchise systems on growth strategies. "If someone is looking at a five-unit deal, the financial institution is also going to want to see that they've got a management team identified."

In some instances, new franchisees can tap into relationships franchisers have cultivated with banks. That is the case for Paciugo Gelato, an eight-year-old frozen dessert concept headquartered in Dallas. The firm's long-time relationship with Bank of America means that lenders there have examined Paciugo's business model and are confident of the brand's profit potential for new franchisees, about a quarter of whom pursue multiunit arrangements. "Otherwise, we're finding that most lenders are unwilling to make loans outside their immediate community," says Ugo Ginatta, the company's founder and president.

Not every franchisee seeking capital to launch a multiunit venture works with a traditional lender. Some opt to organize their own private investors. Either way, multiunit franchisees should be prepared to show their financing plans early on — likely when they first begin discussions with franchisers. "Experienced multiunit operators will already have a

fund-raising strategy," explains Steve Berkman, vice president of franchising services with Desert Sun Tanning, a unit of Dallas-based Palm Beach Tan Inc. "We have to verify that their strategy is realistic," he says. With \$1 million to invest, franchisees can open as many as three Desert Sun units, depending on the location, Mr. Berkman says.

Lenders are also drawn to multiunit franchising strategies for their ability to manage risk. The nine Moe's Southwest Grills operated by GCF Ventures LLC, are spread across a 120-mile territory stretching from Clearwater to Port Charlotte, Fla., which has protected the company from shifting economic winds. As business has fallen off at stores in communities dependent on residential construction activity, units in Tampa have continued to perform well as a result of strength in the local tourism and business-services sectors. "Stores revolving around retail centers are taking a bit of a hit right now," says Guy Campbell, president of GCF Ventures, which is headquartered in Tampa. The firm's two restaurants located near high schools are outperforming all others, according to Mr. Campbell, who intends ultimately to operate 15 Moe's Southwest Grills in the region.

Diversification helps smooth business cycles, though multiple units also enable franchisees to take advantage of economies of scale in their administrative, marketing

and training programs, what franchise experts refer to as "infrastructure." The cost of local advertising and promotional programs, for instance, can be shared across units, as can accounting and human resource functions. Multiunit operators benefit from trusted business relationships they've cultivated with local commercial real estate professionals and construction firms.

"Infrastructure means people," explains D'Wayne Tanner, vice president of franchise sales at FOCUS Brands Inc., in Nashville, Tenn. The deployment of one cleaning crew and maintenance team across various locations can also bring added efficiency for multiunit franchise operators, says Mr. Tanner. "There are so many pieces you can leverage."

FOCUS Brands, the franchiser of Moe's Southwest Grill and three other eatery chains, can offer entrepreneurs the option of multiunit, multiconcept franchising arrangements. In cases where concepts are similar — food service being one example — multiple units can also easily share

common infrastructure. Diversifying across brands allows franchisees to take their risk management to an even greater level. Such franchisee "portfolios," Mr. Tanner says, appeal to investors eager to avoid "putting all their eggs in one basket."

Even as labor markets tighten, franchisees grapple with the challenge of retraining and retaining quality workers, particularly for management-level jobs. Advancement opportunities are limited for employees of single-unit franchise operations, and managers typically hit salary ceilings early on. With multiple locations, "you can put a good manager in charge of more than just a single store — and offer a salary in line with those additional responsibilities," says Mr. Ginatta of Paciugo Gelato. That has been the case with a Paciugo franchisee whose three gelato parlors in Dallas are no more than a 30-minute drive from each other. "As long as they are geographically compatible, it's quite sensible to manage three just as easily as one," Mr. Ginatta says.

But franchising pros are quick to point out that not everybody is cut out for multiunit franchising. "Everyone thinks they want to go multiunit, but they don't have the management piece," says Franchise Outsource's Mr. Kiekenapp, referring to the need for franchisees to have either deep management experience themselves, a partner who's got it and willing to apply it, or have already hired a proven and trusted manager to supervise personnel and juggle day-to-day operations across locations. Those more accustomed to hands-on control over day-to-day operations may find it a challenge to focus on the big picture.

Some concepts require new franchisees to prove themselves with an initial unit before approving additional locations. Omaha, Neb.-based Right at Home, a provider of senior services and in-home health care, monitors qualitative measures such as number of clients served, hours of service provided and staffing levels before allowing new franchisees to open second units. "Most don't meet the thresholds until some time in their second year," says Allen Hager, the company's president. He cites his concept's pioneering nature — unlike more traditional businesses such as retailing or food, which produce legions of experienced business people — as the reasoning behind the more measured franchisee development strategy. "We're a really new industry and it's important that our franchisees get it right," Mr. Hager says.

Still, multiunit development deals offer the clearest path to financial success for the ambitious entrepreneur, assuming the right components are in place. Gregory Henley, who directs the Herman J. Russell Center For Entrepreneurship at Georgia State University in Atlanta, says the choice of single-unit or multiunit franchising often comes down to the basic objectives of the franchisee. "We often see people entering into single units who are essentially buying a job," Prof. Henley says. "Whereas, those venturing into multiple units are building wealth."

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