

## Multi-Unit or Multi- Concept?

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**Question:** Three friends and I have decided to pool our investment dollars and buy some franchises. Our backgrounds are financial, sales, and business administration. We have investigated several different franchise opportunities and have enough money to either buy 6-10 locations from a single franchise or 1-2 locations from three different franchises. Our question: is it better to own several units of one franchise or to own one or two of several franchises?

You may find that some of the franchisors you are considering will not allow you, under their standard agreements, to own or operate other businesses while you are a franchisee of their system. Many will not offer to sell you a franchise if they know in advance that your full attention, at least in the beginning will not be focused on their brand, especially if your team is going to be working on several new concepts at the same time. Make certain that all of the options you expect to have, actually exist.

Putting that all aside, it sounds as though you have put together a formidable management team. Unfortunately there is no “right” or single answer to your question. There are pros and cons to each option and you are going to have to make some trade offs in making your decision.

Many franchisors offer an area development plan to those potential franchisees who are willing to commit to opening a specified number of units within a defined territory and in accordance with an agreed upon schedule. They often provide several benefits in exchange for the franchisee’s commitment. Typically, these incentives include some of the following:

- An exclusive territory for a defined period of time
- Reduced opening fees – generally you will find that initial fees are reduced on a sliding scale. The more units you commit to, often will determine the “average” fee you will pay.
- Reduced royalty if the franchisee provides support to their own units
- Reduced royalty based on total sales volume
- Ability to open additional units within the territory during the term of the agreement with no or lowered initial fees once the initial development obligations are met

With multiple units you may be able to realize significant operating efficiencies.

- Shared labor among the locations you own

- Commissary and internal warehousing and distribution costs
- Purchase and other cost of goods benefits
- Advertising efficiencies
- Critical mass benefits including location and lease considerations from landlords
- Improved operations because of the ability to establish a strong internal management and training infrastructure

These are just a few of the benefits multi unit operators can achieve. In addition to these benefits, owning several units of a single franchise often enables you to provide a career path for key employees. This in turn eases the burden on staff recruitment and can increase your employee retention rates.

You're also going to be "a bigger fish in the franchisor's pond". With more locations, you may have a louder voice with your franchisor and more influence among your fellow franchisees.

Of course, you will be putting all your eggs in one basket. Remember that not all franchisors are created equal. Some franchisors succeed while others disappear from the marketplace. It will be very important to evaluate both the consumer demand for the product or service you will be offering and the stability and track record of the franchisor.

Some franchise systems are truly only geared to single unit ownership. They cannot support either paid unit management or the establishing of a back of house support organization to run the multiple locations. Either the bottom line is insufficient to support both the royalty and other payments to the franchisor or the royalty or other payments to the franchisor are too high for successful multi-unit operations. You need to be certain that the franchisor you select has a system designed to allow profitable operation by a multi-unit owner.

Selecting multi-concepts will definitely allow you to spread your risk. You may also pick up intelligence and skills in one business that will improve your performance in another business. And, you may realize a higher overall return with a diversified portfolio --- one really hot concept can make up for a lack of performance elsewhere.

The multi-concept option may work best if the concepts you select either:

- Are within the same general industry, e.g. food, clothing, technology, etc.
- Create synergy among themselves, e.g. pre-school and children's clothing, elder care and home services, etc.
- Are all service businesses or have other similar attributes that can be leveraged over the brands.

- Do the different brands have differing seasonality that can improve your internal cash flow

By leveraging concepts you may be able to create efficiencies that can be used across brands. This will likely be in areas of administrative support (payroll etc.) and warehouse and distribution among others.

In addition to gaining experience from one brand that can be used on the other, you may be able to maximize real estate. Landlords like to work with tenants that can deliver multiple concepts. They can sub-divide larger space to fit your multiple brands or can simply appreciate the fact that you can deliver to them efficiencies that are not possible from single concept tenants.

If you decide on the multi-concept option we would suggest that you read your agreements very carefully to make sure the franchisor allows you to operate other businesses during the term of your agreement. Make certain that your definition of competing business and the franchisor's are the same. Have a qualified franchise attorney work with you to coordinate and provide guidance on the differing requirements of the various franchisors. These types of transactions tend to become complicated.

One last piece of advice. Learning how to run any new business and managing the opening of that new business generally requires more time, effort, money and skills than anticipated. While your team may bring many talents and skills to the new business, getting one concept off the ground before you take on another concept is going to be essential.

- Select compatible opportunities
- Stay geographical
- Look for seasonality benefits
- Develop your support infrastructure to leverage across brands, if possible
- Pace your investments and development obligations.
- Make certain that each concept can sustain its Return on Investment independent of contributions from the other.
- Get great business and legal support to give you guidance in specialized areas

Take your time and good Luck