



THE MORE THE MERRIER

How and Why Franchisers and Franchisees Go Multi-or Single-Unit

by Mark Henricks

Building a string of franchised businesses can take a long time but can also produce considerable income and create significant equity. Opening a single franchised business location can be accomplished much more easily and more quickly generate income on which to live. Those are some of the criteria would-be franchisees consider when making the decision whether to seek a single-unit franchise agreement or sign a contract allowing them to open multiple units of the same business opportunity. But the multi-or-single decision is also, to some extent, made for potential franchisees because of the varying demands each approach places on them. According to Britt Schroeter, a Baltimore consultant with franchise matchmaker firm FranChoice, "There are different skill sets in single-unit versus multi-unit franchises."

Single-unit franchises are suited to franchisees with fewer financial resources because they require lower investments, Schroeter said. They are also good fits with franchisees who lack higher-level management skills but enjoy working more directly with customers. "The risk of a single-unit

franchise is that the franchisee may lose their potential growth area," Schroeter said. That can happen when another business person buys the right to open the same franchise in what would be a logical region for expansion.

Multi-unit franchisees are betting that they'll want to grow beyond a single unit. The financial requirements for opening multiple units means more financial resources, but it also means locking up rights to grow into pre-chosen areas. Another key point is that franchisers often reduce fees to buyers of multiple units. "Some of them offer discounts of up to 75 percent off the franchise fees," Schroeter said. "That can be significant."

From the franchiser perspective, single-unit franchises generally offer better customer service. "On-site ownership at a single unit equals on-site TLC for the customer," Schroeter said. "And in today's marketplace, the best customer service is prevailing." Multi-unit franchisees, on the other hand, provide franchisers with greater efficiencies because the franchiser has fewer franchisees to manage.

Generally speaking, franchises that are simpler to operate are better suited to multi-unit ownership. Having less complex operations allows franchisees to run several or many units by installing capable managers. More complex businesses are better fits for single-unit owners who are on-site to help keep things running smoothly.

At Seniors Helping Seniors, CEO and Co-founder Philip Yocom described a philosophy in tune with Schroeter's analysis. The Reading, Pa.-based senior in-home non-medical care opportunity offers master licensing agreements that grant master franchise owners the rights to franchise new locations to other franchise partners within a given territory. "Whereas our single unit franchise owners derive their fulfillment from the actual doing of senior in-home non-medical care, we have found multi-unit franchise candidates distinguish themselves as being more builders of people and businesses," Yocom said.

Yocom notes that in the last quarter of 2010, Seniors Helping Seniors grew as much as it had in its first two years -- 2006 and 2007 -- combined. "We averaged seven new franchise partners each month, which also represents a 150 percent increase over our previous year," Yocom said.

The master licensing structure helps Seniors Helping Seniors control that rate of growth by providing more support for franchise partners, encouraging better communication and consistency, allowing for greater flexibility and efficiency when executing initiatives and creating a stronger regional infrastructure and distribution system for additional products and services. For near-term expansion, the company is targeting the northern, southern, central, and western states.

Multi-unit also is the focus at Lucille Roberts, a New York City-based franchiser of women's fitness clubs. "We emphasize multi-unit agreements as the franchisees can leverage their infrastructure and dominate the market," explained Collin Gaffney director of franchise development at Lucille Roberts.

The fitness club has been around for four decades and just began franchising in 2010. The women-only feature means franchisees don't compete head-to-head with the majority of clubs, which are co-ed. Being gender-specific also attracts members who don't want to be distracted by having members of the opposite sex in the gym. "They can focus at the task at hand and achieve the results they seek," Gaffney said.

Lucille Roberts has 47 company-owned locations in New York, New Jersey, and Connecticut, and is opening its first three franchise locations in those markets, as well. Gaffney said the company intends to market area development agreements aggressively in 2011. "Our plans are to continue opening additional company stores in our core markets and accelerating the pace of franchising through area development," he said.



Flexibility is the core approach at School of Rock, where Alyson Shapero, senior vice president of marketing for the Teaneck, N.J.-based chain of music education franchises, said they welcome franchisee candidates who want to open one location as well as those who are interested in more. "Whether they're single or multi-unit we work successfully with both," Shapero said.

School of Rock's performance-based curriculum teaches kids to play rock music while emphasizing community involvement and interaction. The company has 66 schools in primary and secondary markets coast to coast and, Shapero says, is in aggressive growth mode. "We are looking at the Houston market, more expansion in the Los Angeles market, and across the country, generally," Shapero said.

No special emphasis is placed on single-unit or multi-unit franchises at Gamin' Ride, a Jackson, N.J., company that franchises mobile entertainment gaming and movie theaters used for parties and other gatherings. While the company usually sells single-unit franchises, multi-unit operators also find it works. "Our units are completely mobile and so is our business," said Michael Falgares, who goes by the title, chief experience officer. "It allows for an operator to be hands-on or completely hands-off either in their hometown or across the globe." Gamin' Ride has 11 locations in seven states and plans to open 40 units by the end of 2011.

Great Clips franchise owners who want to grow their business into a multi-unit operation are attractive franchise candidates to the Minneapolis franchiser of hair salons. "Up front people always have the option to buy one," according to Rob Goggins, vice president of franchise development. But after five years, he added, the average franchisee in the system owns five or six salons. "The vast majority of people who get into our business are doing it to open multiple units," he said.

Today, there are just over 2,900 Great Clips locations throughout the U.S. and Canada. Target markets for the future include Toronto, Boston, Miami, Chicago, Los Angeles, and Houston. "Next year we're looking to open between 150 and 200 new salons and our target is to recruit 100 new franchisees," Goggins said.



A slightly different look is exhibited at IKOR USA. The franchiser of businesses that provide professional advocacy services for senior citizens and disabled people doesn't emphasize either multi- or single-unit franchise agreements. But they offer every franchisee a multi-unit option allowing the franchisee to lock up another territory for a year, according to Cynthia Gartman, president of the Kennett Square, Pa.-based company.

IKOR's franchisees develop solutions to care needs, monitor the care being provided and the environment in which it is received, and handle a selection of basic legal, financial, and administrative services, such as power of attorney responsibilities and bill paying. IKOR began franchising in July 2010, and has five open locations in Pennsylvania, New Jersey, and Texas. By the end of 2011, Gartman plans to have 17 locations open in the northeastern and central U.S.

Franchisees looking for an alternative way to get into the quick-casual restaurant business find one at Austin-based

sandwich, pizza, and salad chain Schlotzsky's, which serves its signature sandwiches on fresh bread baked on-premises. Both single- and multi-unit operators find the concept suitable, said President Kelly Roddy, but today they are selling mostly multi-unit agreements.



"Our model works even if you pay a manager to run the business, so it's worked really well for multi-unit developers," he said. "Our business is also a little more complex, so if you don't have restaurant operation experience, it would be more difficult to come in and run a Schlotzsky's," he added. Schlotzsky's has 360 locations and plans to add 35 to 40 restaurants in the next year. New target markets include North Carolina and Florida.

Multi-unit is likely to increasingly become the norm in franchising, according to consultant Schroeter. One factor influencing this is the consolidation of franchise systems, with stronger operators buying out weaker operators, creating larger franchisee operators, she said.

Another force pushing toward multi-unit operators is the maturation of franchising in general. "Franchisers will continue to gain significant strength in training and systems, which will make it easier for strong candidates to run multiple units," said Schroeter. "And that will limit the risk points for each franchiser. So it's my belief that over time we're trending toward more multi-unit and fewer single units as franchise matures as a distributor model."

That doesn't mean now is a bad time for single-unit franchisers. In fact, it may be the reverse, as today's single-unit franchisees join an industry increasingly able and willing to help them grow their businesses, perhaps larger than they've ever dreamed. "I'm seeing significant growth out of franchise organization in terms of their sophistication and their ability to impact strong growth of their franchisees," Schroeter said. "It's coming of age now, and it's an exciting time to be involved with franchising."