Multi-Unit
Franchisee

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ADRIAN GONZALEZ, *Jersey Mike's franchisee*

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Buying Your Next Brand

Improving the odds of success

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Franchisees have numerous reasons and motivations for purchasing or developing units in another brand. Among the common investment themes are:

- Risk diversification
- Limited growth opportunities with primary brand
- Concern over strategic direction of current or primary brand
- Complementary real estate strategy by adding a new concept
- Ability to leverage strengths and resources in existing geographic footprint
- Need for new avenues of growth for next-generation family members entering the business

As owners and management teams review opportunities to invest in other brands, there are many factors and focus points that can help improve the brand approval process and condense overall deal timelines to ensure a buyers' efforts ultimately result in a successful outcome.

LIMIT YOUR FOCUS

When reviewing new investment opportunities, it is important to stay focused on a limited number of brands. The shotgun approach rarely results in a successful outcome. Be specific in your search. Buyers who indicate a preference for *any* deal with a top brand do not distinguish themselves to franchisors, advisors, banks, or investors. Instead, you're better served getting to really know a select number of brands. Talk with franchisees. Manage introductions through third parties who know the top franchisees. Banks, attorneys, and public relations firms all have tier-one clients. A top-down and bottom-up approach in getting to know a brand and its franchisees can be highly rewarding. Ask questions. How often do acquisition opportunities present themselves? Are there any current opportunities? What is the brand's current remodeling strategy, and what are the results? You will develop a series of important patterns and trends by taking such an approach.

CAST A WIDE NET

Once you have narrowed the list of brands you wish to focus on, look for potential deal opportunities anywhere and everywhere possible to get an idea of valuation parameters. Pursuing an active dialogue with the franchisor is the best approach. In some instances, distressed or challenged situations may present opportunities for new groups. These situations often require speed, and new franchisees can position themselves to the franchisor as an improvement over the status quo. Try to find situations and transactions that have been awarded and position your team as a backup buyer. A planned deal could fall apart at any time for a variety of reasons. Try to identify partner buyout or replacement investor opportunities. Cast as wide a net as possible by talking to banks and financial institutions that lend to the brand, attorneys who are active with the brand, and multiple advisory firms. Generally, a handful of advisory firms manage the active deal flow with most brands.

TIER-ONE VS. EMERGING BRANDS

As owners and investors contemplate adding new brands, opportunities with tier-one legacy brands will be different from opportunities with emerging concepts.

Approval in tier-one brands typically is more difficult, takes longer, and requires the buyer applicant to deliver a comprehensive business plan, often to senior management teams. Franchisors will ensure that the applicant satisfactorily addresses many of the following areas of importance:

- Proven operations history and excellence in current brand
- No conflict or competitive brand issues between current and new brand
- Proven track record of development and remodel history in current brand
- An understanding of the new brand's development requirements with a capital plan that supports new development, remodeling, acquisitions, and timing
- A business plan rooted in empirical data that can withstand industry challenges
- A complete understanding of the capital structure, investors, investor profile, and relationship to the franchisee
- Management and operations team responsible and accountable to the new brand

Emerging concepts, either in your existing segment or outside of your category, are generally much easier to qualify for approval. The roles may even be reversed with emerging brands, as these brands may be actively pursuing proven, well-capitalized multi-unit operators. Established multi-unit franchise owners are often coveted by less established concepts. Proven, successful multi-unit operators will generally have multiple opportunities to evaluate an emerging brand. In these situations, the incoming franchisee generally has more control over the process than with tier-one brands.

Take the opportunity to evaluate the brand, its development strategy, management team, and ownership structure. Ask yourself the important questions. Does the long-term strategy match your development goals? Does the franchisor have a good working relationship with its franchisees? How successful have other large operators been in the system? Does the new brand complement your existing brand(s) without creating a conflict of interest? Do you have the capital, resources, and patient investment return metrics needed to add another brand to your portfolio? Should you finance this opportunity independently, or will you leverage the embedded equity of your existing operations? And finally, are your capital partners aligned?

IN CLOSING

There is no doubt that this is an exciting time to be in franchising. Brand requirements, like remodel programs and technology upgrades—in addition to operational and financial challenges—often force franchisee consolidation within systems. In addition, entrepreneurial spirit is running high, and new entrants into the franchise space are abundant. In the end, there are many avenues for additional growth for multi-unit franchisees. Now get out there, do your homework, build your bench, and take a swing! ■

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