

**THE CHALLENGE OF QSR
FRANCHISE EXPANSION:**

What It Takes to Go From 10 to 100 Locations

Making the leap into fast casual franchising requires more than good food and dedicated management.

KING RETAIL SOLUTIONS



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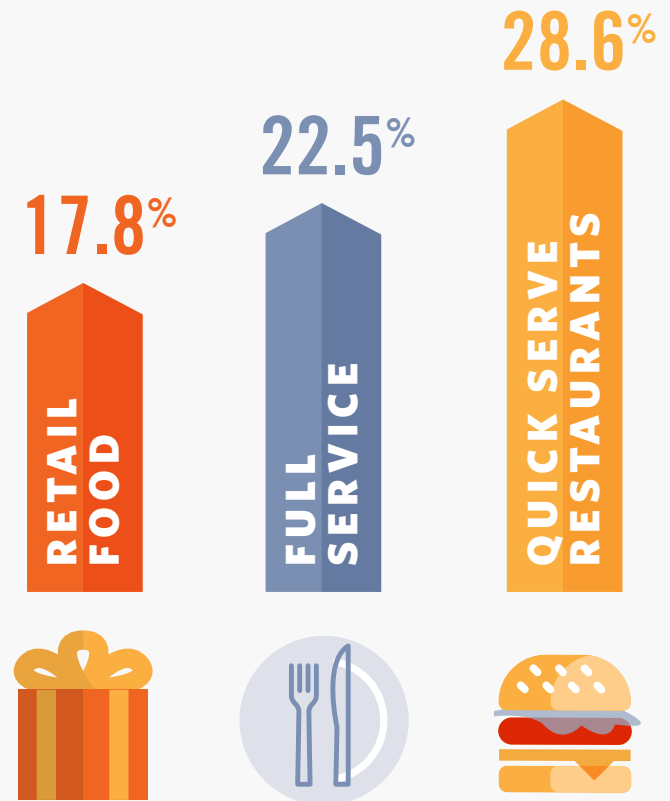
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INTRODUCTION

There's something deeply satisfying about expanding a QSR concept from a few successful locations to a full-fledged franchise.

The bean counters will point to the potential for geometric growth in profits. But for the founders, it's often something deeper—validation of their food ideas by the marketplace. Proof that they weren't so crazy after all.

Customers are rewarding these innovative restaurant concepts with above-average growth. According to Upserve, over the past five years multi-location restaurants in the U.S. have grown by 3.5% to reach a predicted revenue of \$144 billion. This has



GROWTH OF FOOD FRANCHISES FROM 2013-2017 (IN OUTPUT)¹

outpaced the growth of multi-location businesses in general by nearly 23%.

Quick serve restaurants have been leading the way in this growth. According to marketplace platform Franchise Direct, from 2013 through 2017 QSR franchises grew their revenue by nearly 29%. Compare this to full service, whose revenue grew just over 22%, and retail food franchises, whose revenue grew just under 18% for the same period.

¹ | Bailey, "Food Franchise Report." Franchise Direct.

While expansion can be desirable and profitable, it's not easy. The owners who have been able to take a hands-on approach with a few locations will be faced with a new set of problems. On paper duplicating a QSR location might seem simple. You just copy and paste, right? But the multiplication of even identical operations breeds a new level of complexity. Just ask anyone who's raised twins.

“At many points along your expansion journey, you may feel as if you are squeezing a balloon to take tension off one side of the business only to find it suddenly expands elsewhere.”

LEE LEETIS, CEO OF QSR AUTOMATIONS

THE THREE ELEMENTS VITAL TO SUCCESSFUL SCALING

1 LOCATION, LOCATION, LOCATION

The formula for choosing the right location is threefold.

First, it must place the expansion site in a demographic environment that gives it the upper hand. Do the people who live nearby or frequently drive past have any interest in this kind of food? Having rabid fans also means having people who will never be customers.

Second, it must be convenient to access. With so many food choices, even customers who like the food are likely to visit less often if they perceive the drive or lack of parking to be a hassle.

Third, the inside and outside of the location must communicate that customers have come to the right place. The design must be welcoming, reflect the true personality of the brand, and facilitate operations. Customers who've come to explore something new won't come back if they're underwhelmed.

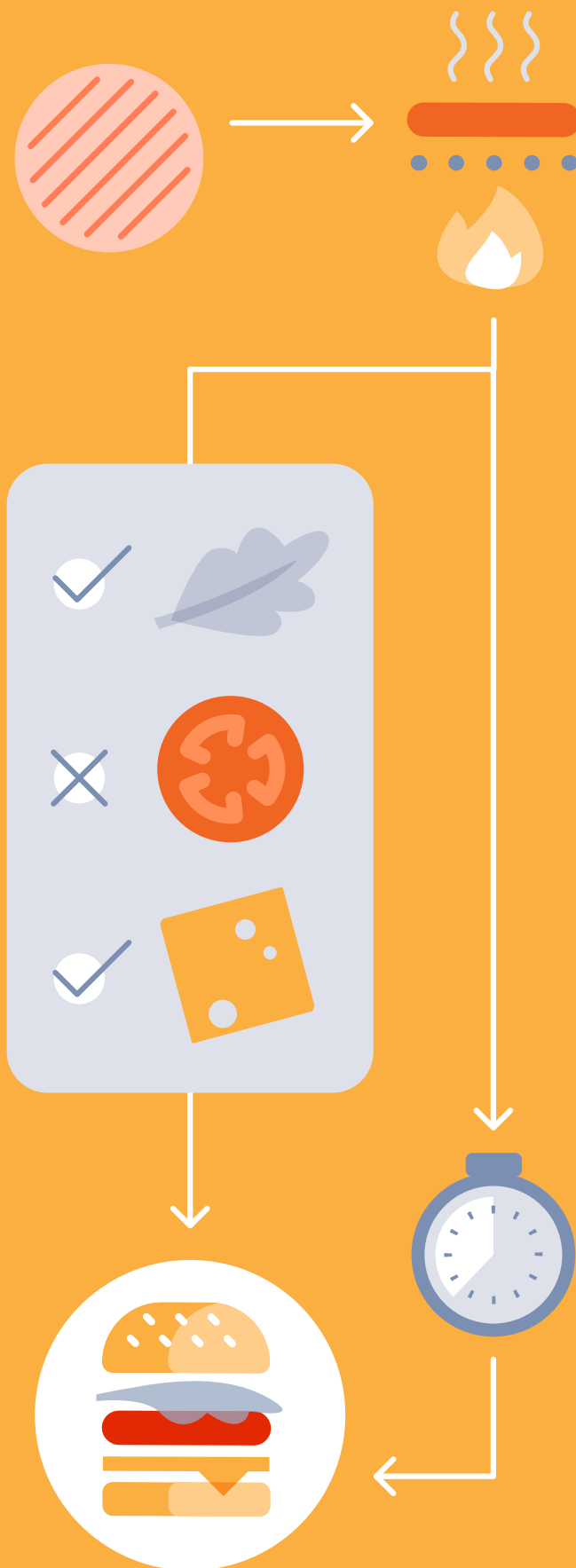
RESILIENT SYSTEMS

2

Systems are scalable. Micro-management is not. The restaurant owner must use the first few locations to test out the systems, procedures, and specifications that will govern every aspect of creating and running expansion locations. Extensive documentation, training and ongoing communication are the only ways to ensure that the customer experience at the 34th location is as good as if they went to the original restaurant.

Additionally, these systems must be flexible and resilient, so managers can quickly solve the problems that will inevitably arrive.

“First, clearly know and document your processes, procedures, rules, and structures that make your brand successful,” says David Knighton is the VP of Operations and (a franchise owner at Rodizio Grill). “Make those documents so clear that someone new to the organization can follow them.”





BENEFICIAL PARTNERSHIPS

3

Of course, it's important to have vendors who are able to scale their services along with the franchise. This is a vital component of consistency. But it's even better if these partners already have the experience and infrastructure to aid the franchise development team in developing logistics.

"Vendors and suppliers must feel like real partners in order to think on behalf of the brand. A partnership between you and your suppliers/vendors can help you enter new markets, gain knowledge and avoid mistakes."

SEAN KASHANCHI, SENIOR MANAGING CONSULTANT AT GALLUP

FREDDY'S SHOWS HOW IT'S DONE

Based in Kansas City, Freddy's Frozen Custard & Steakburgers chain has successfully grown from three to more than three hundred locations in the past fifteen years. With a five-year expansion rate of 30% and a closure rate of only 0.4%, Freddy's has twice topped the Forbes list of Best Franchises To Buy.

There's nothing remarkably creative about Freddy's food offerings. In fact, they're squarely in the mainstream of the crowded "better burger" concept. They smash their signature burger on the grill like a beef latke and serve it steaming hot. Their frozen custard is richer than ordinary soft-serve. However, their employees and the atmosphere of their restaurants are what have turned people into devoted Freddy's fans and keep them coming back.

They hire for personality and train (and train) for everything else, with the result being that each location feels like you're visiting the owners' first store. And the franchisees feel less like they've joined a corporate machine and more like they've been adopted by a family.

"I have seen the abuses that the home office can heap on its franchisees. So, when we started Freddy's, I knew not to do that, and instead become a partner, a partner for excellence, if that's not too corny a way to put it."

**RANDY SIMON, CO-FOUNDER AND CEO
OF FREDDY'S**



Restaurant design also plays a key role. Writing for Forbes, Micah Solomon says that walking into one of their locations gives visitors the feeling they've just stepped into something built a long time ago. "The throwback ethos is what first caught my eye, an effort by architect and outfitter that was clever enough to fool me into thinking that this joint must date back to post-WWII times (although I did soon come to my senses and recall that the last time I'd driven by this location, it was an empty lot)."

The perfect environment in which to deliver the enthusiastic, cheerful service that also feels like it's from another era.

It's not easy to create a new quick serve restaurant. And if it does succeed, it's not a given that it can successfully make the jump to a franchise chain. Competition and complexity throw up roadblocks at every turn.

To make the leap from ten locations to a hundred, the owner must be able to replicate the smallest details in the systems, operations, and atmosphere that made the original location so good. And then enlist the help of strategic partners who have the experience and resources to scale as the franchise grows.

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