



# Practical Guide to Buying a Restaurant Franchise

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The restaurant industry is one of the most difficult industries in which to succeed because prime costs for food and labor can amount to as much as 65% of sales for full-service restaurants, necessitating tight controls to maximize day-to-day profit.

And there are public health responsibilities that must be kept in mind.

If you are an individual looking to open your own restaurant without buying a franchise, you should consider carefully. A successful restaurant needs a single, unifying vision of menu offering, food portions, food quality, style of service, location, décor and price. If even one of these elements is out of place, the restaurant is unlikely to thrive. Getting all of the components right the first time is extremely unlikely.

Hundreds of thousands of people around the country succeed in the restaurant business as franchisees of proven concepts where all of the previously mentioned success factors have been established by a franchiser. **But a single franchise location is unlikely to make you wealthy.** Franchisers set the initial and annual franchise fees and annual marketing charges as high as they can justify by the potential results of the individual franchisee locations. The company doing the franchising is trying to maximize its own profit and return on investment. If the track record of success is long and strong, the franchise cost is likely to be large. If the franchise is new, the price is likely to be lower because the risk is greater for new individual franchisees.

## Personal Factors to Consider

- 1) Do you have a passion for the restaurant business?
- 2) Do you have a willingness to personally work long hours in the restaurant for many years, or find a concept that produces enough profit to pay a professional manager and still produce enough profit for you?
- 3) Do you enjoy engaging with people?
- 4) Do you have adequate personal cash to pay the initial franchise fee, get the restaurant open and pay operating losses until the restaurant gets established? If you need to borrow money for any of these items, it will be significantly more difficult to make the business adequately profitable.
- 5) Can you live comfortably on 25% less profit than the financial projections, to allow for the uncertainty of the restaurant business?

## Selecting a Franchise

If you answered “yes” to all the previous questions and you want to open a franchised restaurant, there are several important factors to consider in choosing which of dozens of franchise opportunities is right for you.

If you do not start with a specific franchise in mind, a good beginning is to simply type “restaurant franchise” into Google.

Always remember that you are opening a restaurant to make a living, so there is a pretty straightforward process to determine whether a specific franchise is likely to meet your needs. Will projected sales and profits (less 25% safety cushion) support your lifestyle and justify your time and money invested?

## **Concept Factors to Consider**

### **EXCITEMENT**

You need to believe in your product so your pride and your staff pride in your restaurant assists in sales building. If you are passionate about food you need to be careful. Franchise agreements are usually very strict and leave no room for you to offer your version of their product, or offer additional products in your location.

### **STABILITY**

You want to be comfortable that the franchiser will keep their product offering fresh and continue to meet customer expectations.

### **FOOD COST**

In a franchise, the food cost will be pretty straightforward and reliable. You will want to consider whether there are ingredients with significant seasonal price swings. If you need to buy specific items from the franchiser, you need to be comfortable with that relationship.

### **LABOR COST**

Management aside, restaurant labor costs are likely to be a dollar or two above the local minimum wage unless there is something unusually difficult in the menu production. The minimum wage varies in different places. Check your local job listings. It will be worthwhile to build a simple daily staffing diagram and enter the local wage rates plus 10% or so for taxes and benefits. Then compare that labor cost as a percentage of sales to the company average franchise at similar sales levels. Can the business support the cost?

### **DEMOGRAPHICS**

Demographics are the statistical details that describe a population—age, economic status, lifestyle and the like. The franchiser should have information about customer demographics for their existing locations, and they may have a resource to analyze the demographics of your proposed location against existing franchisees. If not, you can hire an outside service. You'll want to make sure that there are enough likely customers within a five-mile radius of your proposed location, or a steady source of customers such as a good mall location.

Are sales for the franchisees higher in some parts of the country than others? That can offer an important clue about how well received the menu is likely to be in your area. There are many unfortunate examples of restaurant concepts failing when they're pushed beyond a supportive demographic area. As a simple example, you are not going to want to open a Pho sandwich restaurant in an area with no understanding of what a Pho sandwich is. As another example, you are not going to want to open a restaurant with primarily lunch appeal in a location with few available lunch customers.

### **LOCATION**

Are sales higher for franchisees in some kinds of locations than others, and are there neighborhoods near you that are similar to those of the most successful franchisees? If site costs in your local market are much higher than the average franchisee's, will your sales also be higher than average to cover the additional cost?

### **HEALTH AND ZONING REGULATIONS**

Health and zoning regulations are an important factor in the restaurant business. Become familiar with those in your area.

## **ESCALATIONS**

Are there cost escalations in the contract that you should be concerned about?

## **Confirming a Franchise Choice**

A franchise is a big investment. While you will already have put a lot of time into this project by the point where you have chosen your franchise, there is still much work to be done before you sign a contract. When you have chosen your potential franchiser, you should talk to many existing franchisees about their experiences. Having the best information possible is one of the soundest ways to build success, and those who are actually running the restaurants are your best sources of reliable information.

1. Do the sales and profit projections show an adequate profit (with the 25% cushion)?
2. Are there adequate operating manuals and training available?
3. Does the franchiser have people who will visit to help with operating or financial difficulties?
4. Will the franchiser help you choose a location that has good demographics, traffic count and access, or is that your responsibility?
5. What is the strength and cost of marketing support? As well as national support, are there people who will help you with your local marketing needs?
6. Is there a good site available now at a price you can afford? In your eagerness to get started, you may be tempted to settle for a poor site simply because it's available now. If there are difficulties with the site, they will create long-term barriers to success.
7. Do you have a lawyer with restaurant experience to review the legal documents?
8. Are the necessary health and operating permits readily available for the site you have chosen?

## **CONSTRUCTION AND OPENING**

After the above aspects are considered, and you feel comfortable that your restaurant will be a success, **help is strongly recommended** to confirm that the sales forecasts and operating costs are practical, the potential location is reasonable, and legal and governmental pitfalls are anticipated and dealt with appropriately.

There are strict zoning and health department restrictions in most cities. Some permits and zoning variances can take months or even longer to come through. Even if you are opening where another restaurant existed, you may incur substantial costs to bring your restaurant up to current standards.

And as a final note, **after you spend all of the money it takes to open the restaurant, you need a financial cushion to pay the bills until the restaurant begins to turn a profit.** You may get a nice surge at opening, but it can take a long time to build a reliable customer volume.

*For more information, tips and tools, visit [www.therestaurantwizard.com](http://www.therestaurantwizard.com).*