

A Feast of Franchises

From quick-service restaurants to delivering arrangements made with real fruit, these franchises offer great opportunities for entrepreneurs inspired by gastronomic delights.

When all else fails, food succeeds. Restaurant industry sales are expected to reach \$566 billion in 2009, according to the National Restaurant Association. And even though economic uncertainty is encouraging more diners to put their pocketbooks before their stomachs and emphasize value when deciding what to eat, the restaurant industry still accounts for 48 percent of the food dollars spent annually.

Perhaps it's not surprising, then, that food franchise operators generally report healthy business despite the recession, with many adding new locations and increasing same-store sales. That's especially true for those who address growth niches in the field. One of those is healthy eating. The restaurant association said three-quarters of adults surveyed said they try to eat healthier at restaurants than two years ago. Another is value. More than one in four said they pay more attention to coupons and value specials when picking a restaurant.

Some things never change much, however, and one of those is Americans' attraction to ice cream and other frozen treats. "Ice cream is fun; it's social and it's a medium that brings people and their families together," says Dan Beem, president of Scottsdale, Ariz.-based Cold Stone Creamery. That summer-picnic feel about ice cream is one of the things that attracts franchisees to Cold Stone, according to Beem.

Another, no doubt, is the \$360,000 average annual sales volume each Cold Stone Creamery unit generates. That's high for an ice cream parlor. Beem says part of the explanation is that the last couple of years they've focused more on boosting same-store sales than growing the size of the system. They've gone after licensing deals for jellybeans and lip balm, signed a strategic alliance with a chocolate maker to help ease seasonal and time-of-day sales fluctuations, and introduced new items such as ice cream cupcakes, and iced and blended coffee drinks. "Next year we've got an even more innovative effort from R&D," Beem promises.

In 2009, the chain should grow slightly beyond its current 1,400-location size. But Beem's main objective is to keep

adding sales while containing costs. "Our focus has been and will continue to be driving that unit volume up in individual stores," he says.

A focus on product drives Trevoze, Penn., Rita's Italian Ice. "When people come in, they've never tasted anything like this," says Jim Rudolph, chairman and CEO. Rita's prepares its treats fresh daily, and anything left over is discarded after 36 hours. Rudolph, a veteran food industry franchiser, bought the company four years ago, planning to move on after a few months. He's stayed, he says, because he senses that Italian ice has staying power.

"It's a very unique, different product," Rudolph says. "Twenty percent of our guests come in once or more per week. The reason is they love the product." Since taking over Rita's, Rudolph has nearly doubled the number of locations to 575. He thinks the next two or three years could be even better. "I'm still going to be here," he says, "and, hopefully, if this economy improves we could be at 800 or 900 stores."

While Italian ice may still be a stranger to many American palates, the nation's love affair with other Italian fare goes far back. Villa Enterprises of Morristown, N.J., opened its first pizzeria in New York City in 1964. Today the company's system extends to 96 Villa Fresh Italian Kitchen franchises, as well as approximately 147 corporate owned locations. That rate of growth may pale in comparison to some newer concepts, but Adam Torine, vice president of business development, says the company prefers to take a more gradual, controlled approach to growth.

"The fact that we've been in business so long gives us instant credibility," he says. They zealously guard the reputation they've built up. For instance, Villa requires franchisees to have prior food industry experience. They've also resisted shortcuts when it comes to the food. "We're still making our own sauce, we're still making our own dough, we are still chopping vegetables every morning," Torine says.



Villa has fairly aggressive growth plans calling for adding 75 or so Villa Fresh Italian Kitchen locations in the next three years. But Torine says they won't favor growth over quality when it comes to selling franchises. "One bad location and one bad franchise can ruin a system," he says. "And we're in it for the long haul. We'd like to be here for another 45 years."

Mexican food represents another important ethnic cuisine in the franchising world. "Mexican is in a sweet spot from a demographic standpoint, as non-Hispanic consumers are looking for more flavor and spice," says Steve Carley, president and CEO of El Pollo Loco, Inc. based in Costa Mesa, Calif. Its menu also serves Hispanics who are looking for more traditional food.

El Pollo has carved out a space in that flourishing niche with an offering emphasizing freshly prepared meals centered on its fresh, natural, hormone- and antibiotic-free chicken grilled over an open flame. The company's marketing pulls in more families than the young males lured by some other Mexican food chains. That leads to higher average ticket prices and higher profitability per location, Carley says.

The company has approximately 420 locations and will be looking for franchisees with existing franchising and food industry experience to assist with further growth. Carley says their service and product both help them stand out from the crowd. "We straddle fast food because we have fast food service and a drive through, yet our food quality is equal to or better than casual," he says. "That's important to franchisees who want to be proud of the food they serve."

Asian fare also has been a strong and steady performer in franchising. Genghis Grill, based in Dallas, has built a 37-unit chain using the Mongolian barbecue format. CEO Al Bhakta says the format may not have any connection to Mongolia, but consumers do connect with the idea of a build-your-own Asian stir-fry. "We're a growing concept despite the economy," Bhakta says. "Our same store sales are up double digits."

Consumers like the exhibition aspect -- food is cooked on a large grill in full view of diners -- the moderate prices and guests' ability to design dishes that fit any taste or diet, including vegetarian, Bhakta says. "We provide a real niche dining experience," he says. "It's high quality and it's not very expensive."

Franchisee requirements are also welcoming. "It's an easy concept to operate," Bhakta says. "Our training program is

only a three-week format and our unit economics makes a lot of sense. We build the stores for less than \$500,000 including franchise fees and working capital. And our average unit volume is \$1.4 million."

Every now and then a whole new niche opens up in food franchising. One of those is Buffalo chicken wings. Jim Flynn, president and CEO of Wingstop, based in Richardson, Texas, says the 425-location franchise has maintained relatively robust growth in 2009, with approximately 60 new locations scheduled to open by year-end.

The simplicity of the menu is one of the major appeals, he says. "If you take wings, fries, and beverages, you've got 92 percent of our sales," he says. "Some are able to sell franchisees to people with no restaurant experience." Eighty percent of a typical Wingstop's meals are takeout, which means a small store footprint and low occupancy costs. And that adds up to attractive unit economics.

Wingstop's appeal to consumers is based on the taste of the wings. Flynn notes that Wingstop has won top honors at the National Buffalo Wing Festival held each year in Buffalo, N.Y. "In the cities that we're in, it's continuously named the best wings around," he says. Currently, Wingstop has only a couple of eateries in the Northeast, but Flynn plans to crank up expansion to about 100 units a year, and the region where Buffalo wings were born is high on his target list.

Another regional food item that has plenty of appeal to people in other places supports Philly Pretzel Factory. Marty Ferrill, vice president of operations for the 120-location Philadelphia-based franchise company, says the concept is uncomplicated. "We've taken a product that people grew up with in Philadelphia getting from a corner store or street vendor and put that into a retail environment," he says.

Philly Pretzel Factory has sought to improve on the time-tested regional snack by ensuring its pretzels are always fresh-made -- still warm from the oven, in fact. The pretzels are also economical -- three sizable, fragrant pretzels for \$1.50.

Many of Philly Pretzel's franchisees are former customers, and they have a tendency to be new to franchising and food, because the business involves little complexity. "We don't have a hundred-item menu and we don't do a lot of prep," Ferrill says. "Our niche is Philly soft pretzels and we focus on that." Over the next few years, Ferrill says the company hopes to open another 50 or 60 locations, sticking mainly to the East Coast.



Every now and then, a concept comes along that can make a claim to true uniqueness. Edible Arrangements, which sells fresh fruit attractively arranged in a manner reminiscent of floral bouquets, can do that. Founder Tariq Farid owned three flower shops before opening the first Edible Arrangements in 1999. Today, the Wallingford, Conn., franchiser has approximately 900 locations, and there are plans to open another 400 in the next couple of years.

The product may be a little unusual, but Farid says franchisees have no trouble getting their arms around the fact that Edible Arrangements locations are run similarly to quick-serve restaurants, but the average ticket is far higher, hovering around \$75. Farid also has plunged into online ordering. "It's really paying off," he says. "We're delivering 50 to 60 percent of the orders to franchisees through our website. That makes it easy for franchisees."

Edible Arrangements may represent a possible future direction for food franchising, one that finds ways to bridge with other industries. That combo is part of the franchise's lure for franchisees, Farid says. "We have the appeal of flowers, the look of flowers, and the feeling you get when you get flowers. At the same time, the consumer knows it's food and you can eat it. That is a big advantage we have when it comes to selling franchises. Someone who's been in the gift industry can see the opportunity and someone who's been in the food industry can see the advantage of getting into the gift industry."