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WINTER 2016
HELPING Hands
Senior Helpers assists a growing population of senior citizens. PAGE 22
FACE-TO-FACE
Franchise Expo South helps people make meaningful connections.
REINVENTING SUBS
Cousins Subs works hard to remodel and expand its brand.

Column by **Steve Castle**

READY TO GROW

IF YOU ARE LOOKING TO INCREASE ROI, THE BEST STRATEGY MIGHT BE TO ADD LOCATIONS OF YOUR CURRENT FRANCHISE.

CHANCES ARE, YOU ALREADY

Chances are, you already spent a significant amount of time performing due diligence on your franchise investment. You chose to own a franchise because there was something about it that struck a chord with you, whether it was belief in the brand, the strength of the business model or the convenience of taking over a turnkey operation. All of these factors are still in place, so why re-invent the wheel?

You've already done the hard work of getting the rights, setting up a new business entity, learning their system and hiring and training the staff. Doing it all again should be easier – and more cost-effective – the second (or third, or fourth) time around.

Often, one unit alone may not yield the return on investment you want. If you are happy with your franchise, acquiring another should increase your

You might find that owning only one unit does not yield the return on investment that you would like.

profit just for the simple fact that you have economies of scale on your side. There were other costs that were probably not factored in the pro forma when you acquired the franchise. You now know what those are and should not incur the same costs on the second. With a shorter learning curve, acquiring the second unit will enable you to double your revenue without doubling your cost.

Costs to set up the entity (corporation, partnership or limited liability company) and filing tax returns usually do not have to be duplicated just because there are multiple stores. Other costs – such as insurance, business licenses and state fees – do not always increase with an additional location. If your management functions are already done offsite at a separate facility you rent or own, opening additional units would not cause that rent to increase or that mortgage to change, nor would your overhead expenses increase.

Bookkeeping expenses are another area of potential savings under a multi-store strategy. Franchisors, banks and investors often require financial statements prepared by a certified public accountant, but these services to create financial statements will not increase exponentially with each new store. Once processes are in place to handle one location, your finance team can easily replicate the process to combine the incoming financial data into one financial statement. Economies of scale are created because you now have a workforce that is familiar with you, your management team and the franchisor.

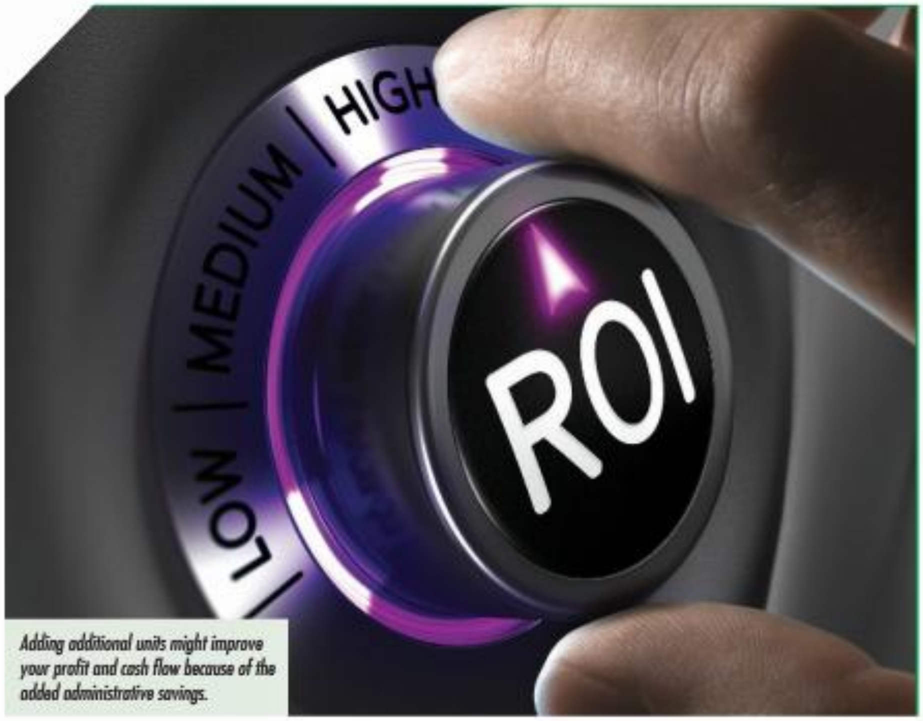
Growth Opportunities

Opening an additional unit gives some of your employees the ability to move up within the organization and take on more responsibility. Shifting employees from an existing location to a new one will substantially cut down your training and opening time since they are already familiar with the operation, including customer interaction and the point-of-sale interface. You will not need to train a whole new group – just individuals. The processes and procedures do not need to be recreated, but simply downloaded to a new group of team members.

It is important to remember that franchisors are looking at increasing their profitability and cash flow by adding volume. After all, that is why they franchise. So if the franchisors are trying to improve their bottom lines by adding volume, shouldn't you follow their lead?

Opening additional franchise units will spread your costs and will provide a better return. In fact, many franchisors will seek investors willing to open multiple units because they understand there are administrative costs that do not make sense when you own only one.

It is not the same for every franchise, but adding additional units will improve your profit and cash flow because of the added administrative savings on a per-unit basis. Remember, most franchisors spend significant amounts of money on advertising, maintaining brand recognition and improving products, efficiency and presentation. All of these come at significant costs. By being a bigger part of that group, you can make a bigger return as a franchisee through multiples units.



Adding additional units might improve your profit and cash flow because of the added administrative savings.

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