

FROM VETERAN INDUSTRY
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SUCCESS WITH A BRICK AND MORTAR BUSINESS

Overcome common misconceptions and set yourself up for success.





MY FRANCHISE PARTNERS

Success With a Brick and Mortar Business

A bricks and mortar business may be in a mall, strip plaza, power centre, industrial plaza or standalone facility. Wherever they are located, they involve many of the same issues.

Bricks and mortar businesses are substantially more complex to launch than a home-based business and they take more time to get off the ground.

Finding the right location may take months. Then the lease negotiations may take a further few weeks. Having said that, when most people think of buying or starting a business, they generally envision a bricks and mortar location.

Development Areas

- General contractor
- Location intelligence
- Real estate and site selection
- Real estate legal
- Construction management

Licensed Professionals

- Licensed attorney
- CPA's and tax professionals
- Licensed architects/engineers
- Licensed general contractors
- Finance & insurance professionals
- Other business & franchise experts

A Proven Concept

The franchise model is brilliant!

Its success across countless industries leaves many people in awe of just what is possible when a proven business model is proved yet again. But don't be fooled...success isn't guaranteed and the stakes are a lot higher when leasing space and building physical locations!

Bricks and Mortar Misconceptions

The most common misconception amongst franchisees is “I thought it was turnkey”

Visions of a turnkey business have a tendency to make people think – “How hard could it be”

It’s NOT turnkey. Nothing is turnkey. You have the WHY, franchises offer the HOW and you provide the hard work.

You don’t know what you don’t know, so ask as many questions as possible and work with experts, such as an experienced franchise broker, lawyer and accountant.

Development Facts

How Does This Happen? You need to understand the process and procedures to be successful.

- “Why didn’t you ask...”?
- “I can’t afford to...”
- No one would intentionally put themselves in a vulnerable position.
- Ignorance isn’t bliss – it’s EXPENSIVE!
- How Hard Could It Be?
- Building new locations hasn’t changed much over the years
- Because it happens thousands of times a day across the country – “How hard could it be?” – “I didn’t get to be where I am...” – “I can figure this out.”
- Time is money!
- The clock is always ticking!
- Everything takes longer than planned
- Costs are always greater than you think

The Truth Is

- You CAN figure it out!
- But what will you spend or forego in the process? – Opportunity cost

Areas of Exhaustion

- Mentally
- Physically
- Emotionally
- Financially

Where to Begin

Even Before “The Beginning” you need to set up a Corporate structure. Once you have decided to go ahead with opening a business, you will need to register a business name. This can be as simple as a numbered company.

Forget the cheap advice “Because my dad said to....” Speak with a lawyer for legal advice, an accountant for tax advice and a franchise broker for the best franchise advice.

There are pros and cons with every opportunity. Be sure to establish an effective research and analysis process.

What Is The PERCEIVED Beginning?

- The calculation clock often starts ticking in a new franchisee’s head before a Franchise Agreement is even signed
- Usually the store should be open within 120 days from the day the lease is signed

What Is The REAL Beginning?

- Calculating an accurate development timeline
- Most people think in terms of the construction schedule
- The process really begins before a deal is ever signed
- Wielding the hammer is a small portion of the overall project timeline
- What is SAID vs. what is HEARD – True? Yes. – Accurate? Yes, but only if qualified and understood

Managing Your Time

When calculating your timeline, take the following into account

- WHAT needs to happen
- WHEN - the sequence of events
- WHO is best suited to complete specific tasks
- HOW LONG – it is important to be realistic
- PREREQUISITES
- SIMULTANEOUS EXECUTION

Successful project completion identifies three key areas:

- Roles
- Responsibilities
- Resources – Franchisor resources, Franchisor limits, mistakes

Roles:

Franchisor teach and support business operations. They manage the brand and create the reason why franchisees want to be part of their system

Franchisors help franchisees the most by focusing on growing the brand.

Responsibilities:

Franchisees are independent business owners. As the business owner, franchisees are ultimately responsible for opening their locations on time and on budget.

Resources

Common franchisor resources for brick & mortar locations include:

- site selection criteria
- location approval guidelines
- building plans

The people you hire can accelerate your early development or derail early efforts. You may not know the requisite skill set and those around you may simply give you what you ask for.

What if you are wrong? You may hire the wrong people. Unwittingly ask the wrong questions during the hiring process or you may do the right things but at the wrong time

The people you hire for your business will assume you know what you want. They will simply give you what you ask for. You need to establish a pattern for self education.

The Most Common Resource Mistakes

- DIY
- Interviewing and hiring staff without industry knowledge
- Training staff yourself
- Driving around looking for real estate yourself
- Not working with franchise expertise

Experts

Franchising is a regulated industry that is required to adhere to laws, rules and regulations not found in the regular business world.

- Business attorney is not necessarily a Franchise attorney
- CPA with franchise accounting and tax expertise
- Franchise Brokers / Consultants
- Hire certain roles based on project type
- Real Estate broker (your specialty + tenant rep)
- Architects and engineers (expertise + bid #'s)
- General contractor expertise
- Project Manager

Time to Grow

There are key criteria to facilitate your success:

- site selection
- location intelligence
- buried treasure
- follow the opportunity
- real estate

Location – Location - Location based on Intelligence – Intelligence - Intelligence

Before you begin to lease or build, direct considerable intelligence toward where you should put your business.

Location matters! You could do everything else ‘right’ but if the location is wrong...nothing else you do will matter.

Site Selection vs. Location Intelligence

- Site selection criteria identifies parameters that are important for the brand (‘the starting point’)
- Location intelligence tells you if there are customers in that area

What you can’t see can make or break the survival of your business

- Architecture
- Due Diligence
- Project Management

There are 3 types of construction projects

GOOD – CHEAP – FAST You can pick any two

- GOOD projects CHEAP won’t be FAST
- GOOD projects FAST won’t be CHEAP
- FAST projects CHEAP won’t be GOOD

Real Estate Representation

- Specialist based on the type of project
- Take the Franchisors general site selection criteria
- Adjust for important site factors at the local level: Visibility and Ingress/Egress
- ‘Cheaper’ is not always better – Higher sales can more than offset higher base rent

Real Estate legal usually starts with boilerplate legalese. You need to understand that a standard landlord lease will not contain all the clauses you should have for your location and your needs. Every landlord lease contains clauses that should be removed or modified!

Real Estate Legal

You will need to match the lease obligations to the franchise agreement obligations. The lease cannot expire prior to the Franchise Agreement

- Use/exclusive use provisions (broad/evolve)
- 'Out' clauses – Permit contingency, liquor license, financing
- Free rent (specify the 'correct' effective date)

Architecture & Engineering

You need services and results that meet the unique demands of your location and franchise.

- Project-type expertise
- Architect partner: friends & family discount
- Submitted 3-4 times
- Timeline extended by 2 months – Was that your 2 months of 'free' rent?
- Opportunity cost (no sales to offset expenses)

Due Diligence

- Found a space
- Signed the lease
- Hired an architect – Zoning/water (\$40K)
- "Thank You!" – Basic retail vs. restaurant
- Structural (hoods), HVAC, grease interceptors

Construction/Project Management

One of the worst ideas you could have is to think you can find the location and do the build out work yourself with the same quality as the professionals.

- DIY project management is a bad idea
- Failed inspection – work not on the plans
- Additional time to finish the project
- Take 2: your work might pass inspection the 2nd time
- "Right here all along" – you will see obvious things that should be done
- The cost to make corrections may seem small but it is the opportunity cost

Construction

- Similar-other intricacies
- The pros and cons of – Competitive bid vs. negotiated bid vs. design build
- Bid process & qualifying #'s – Time and money

DIY danger areas

- Insurance – Specific to concept type – It doesn't have to be true to be real
- IT, wiring & communications
- No power = failed inspections, no sales ringing in
- PCI or HIPPA requirements? FCC hot water
- Firewall/data breach

Ready-Fire-Aim

You found a space, all on your own and jump in right away!

- Signed the lease
- DIY Project Management
- Real Estate
- Legal -Liquor denied (SIR) – No 'out' contingency – 30% impact on sales
- Financing denied
- Money owed for the life of the lease

Reload-Fire-Aim

You realize a few mistakes and try to fix things

Example #1

- Didn't use a broker
- Signed the lease
- Wrong traffic counts provided by Landlord were based on outdated report – Off by 80% – “Sorry...” (not their fault; you need to trust but verify)

Example #2

- Found a space
- Signed the lease
- Hired an architect – Immovable structural column
- staff = customers
- Sales less than projected
- 4 ½ more years
- New problems begin
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Risk Management

Who has a vested interest in your success? You can trust but always verify everything.

Franchisees

What is Plan B?

Failure could cost franchisee their life's savings – inability to repay loans – If 401(k) rollover, there is no protection from bankruptcy

Franchisors

Franchisee failures are documented on the FDD (future prospective Franchisees may be wary)

Shuttered locations = public black eye

- Slow, low or no royalties (affects YOUR cash flow)
- Franchisees call YOU for help (or relief) – Your eye is now on THEIR problems at the expense of growing the brand
- The brand is reactive (and exposed?) vs. proactive

Lenders

- Qualifying borrowers – Credit score, Business Plan, skin in the game
- Important gap: – “Do you have development experience?”
- Prerequisite to release of funds – Educated borrowers succeed and are able to pay their loans back!

Franchise Brokers

- Trusted advisor – Franchisors AND Franchisees
- Go-to, mutually beneficial resource for Zees, Zors and their lenders

Timing & Sequence

1. Franchise Agreement signed – ‘Official’ franchisee
2. Brick & Mortar Franchise Success - Do not, Do Not, DO NOT sign a lease until the franchise agreement is in place
3. Operations training – Focused and excited

Perspective

- With a \$5K mistake on a franchise project, the Franchisee has a problem
- With \$100K worth of mistakes on a franchise project, the lender has a problem

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