



Could FRANCHISING be an option for your bakery?

# BRANCHING OUT

By Erin Brereton

Photo by offset

**F**ranchising—a business model in which franchisees pay to use a company’s name and branding to recreate its products—can provide a bakery a healthy source of revenue and expand its customer base.

Brian Pappas and his brother, Jeff, began marketing The Dapper Doughnut, a mini donuts food truck and retail space concept, to prospective owners in July 2016.

According to Pappas, the cost of making The Dapper Doughnut’s mini donuts is low compared to other foodservice offerings—an attractive selling point to potential franchisees.

“Food costs are much higher in a [sandwich shop]; you have to have a tremendous variety of ingredients, and things are perishable,” Pappas says. The Dapper Doughnut uses a dry powder batter that does not require refrigeration. “The labor costs are low, the overhead is low—it allows you to get higher profits.”

### Prep Work: Know Your Business

If you’re considering franchising, know up front that it takes time and resources to support new franchisees. In addition, while many bakeries see success with franchising, eateries with extensive menus can be challenging to reproduce, according to Mark Siebert, whose consulting company, iFranchise Group, has worked with franchised organizations like Auntie Anne’s Soft Pretzels and Nothing Bundt Cakes.

“There’s a trend toward more specialized concepts,” Siebert says. Bakeries that focus on one item like donuts or cupcakes may have an easier time duplicating their concepts. “It cuts down on the complexity of the operation and the waste,” he adds.

To determine if a concept will work, attorney Tal Grinblat, a franchise and distribution law specialist at Los Angeles firm Lewitt Hackman, recommends bakery owners first manage two or three additional locations.

“Sometimes you can have a bakery do really well at a phenomenal location, but not at others,” Grinblat says. “You want to make sure you have a good system. If a franchisor’s other locations succeed, you may be onto something that’s replicable.” This is also a good way to test whether you’d enjoy managing more than one location. Not every baker wants to spend extra time out of the kitchen.

## Franchise First Steps

Launching a multiunit operation requires careful planning. Follow these steps to sign—and support—franchisees:

### MAKE SURE CANDIDATES ARE READY FINANCIALLY.

Identify what makes a potential franchisee a good fit financially with a funding qualification. The form prospective franchisees fill out on The Dapper Doughnut’s website includes fields for their ideal investment timeframe and available liquid capital. In addition, the company’s vetting process includes credit and background checks.

### MAKE IT AS PROFITABLE AS POSSIBLE FOR THE FRANCHISEE.

To attract top contenders, run the numbers on your fee structure. “Are franchisees able to make good money at the unit level after deducting a reasonable royalty that will cover the cost of support and provide a profit for the franchisor?” says Mark Siebert, iFranchise Group CEO. Cupcake chain Smallcakes charges a relatively low 3 percent royalty fee, according to co-founder Jeff Martin. The company also has minimal equipment purchase requirements and encourages individual locations to market on social media rather than charging a marketing fee.

### OFFER COST OPTIONS.

The Dapper Doughnut’s franchisees can choose to run their business out of several locations, including a lower-investment food truck and a mall kiosk. “A food truck is going to cost around \$120,000, but you can own that for about \$20,000 down—depending on your credit worthiness—and finance the balance,” says Managing Director Brian Pappas.

### Price Pointers: Know Your Value

If your bakery model is replicable, crunch the numbers to figure out how to price it. Franchisees typically pay an initial fee that ranges between

\$10,000 and \$50,000, depending on the size of the business, according to Grinblat. They also often pay royalties between 3 and 8 percent of gross sales.

Other franchisor fees are based on a number of factors. In many agreements, franchisors provide training and send personnel to a new location for a specified amount of time to help the owner prepare to open. Franchisors can also charge marketing fees to advertise and promote the entire system, ultimately benefiting each store.

“Advisors can help you figure out the right pricing,” Grinblat says. “Some do studies to see what [franchisees] are willing to buy. Many franchisees’ fees are lower [at first]; then over time, you can charge more, because there’s more demand”

### Grow Wisely: Know Your Franchisees

After determining your pricing structure, the next step is selecting franchisees and preparing them to run their businesses. This is important; the outcome can have a significant impact on your brand.

“You want to make sure customers have the same positive experience, no matter what location they go to,” Grinblat says. “If an operation isn’t run properly, that can reflect badly on the reputation of the franchisor.”

As you build your bakery’s empire, consider these tips:

#### 1. MATCH FRANCHISEES’ SKILLS TO BAKERY

**NEEDS:** “[Saying yes to] the first person who waves a check for \$40,000 under your nose, when you should be saying no, is a fairly universal mistake,” Siebert says. He recommends franchisors determine the skills and qualifications franchisees will need. “If something requires a great deal of prep work on-site, you may want to look for someone who has foodservice experience,” he says. “If it’s in a high-traffic location, the franchisee might need to be a really outgoing person who can engage with people who walk by, whereas if it’s a more complex operation, the ability to manage people is more important.”

#### 2. WEIGH IN ON LOCATION:

As the franchise owner, you should have a say in site selection. “Locations are very important,” Siebert says. “You may not [be able to] select [the exact location], but at least provide some kind of parameters.” Review any territorial restrictions—such as a stipulation barring the franchisee from operating



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— Attorney Tal Grinblat, franchise and distribution law specialist at Lewitt Hackman in Los Angeles

stores next to yours—in the franchise disclosure document that the Federal Trade Commission requires franchisors provide franchisees, Grinblat advises. While some systems provide territorial rights, others do not.

**3. SET OWNERS UP FOR SUCCESS:** A promising franchisee may be an experienced baker with the right skills, but they'll still need guidance to run the business. Smallcakes, a cupcake bakery with 180 locations across the U.S., provides new franchisees four days of training along with an operations manual. Beyond providing training and launch support, some franchisors encourage franchisees to reach out to them for guidance regularly. "Part of the deal the franchisee pays for is that they're assured some assistance with operations going forward," Grinblat says. "And it

is to the franchisor's benefit to make sure its franchisees are operating correctly to increase sales."

**4. STANDARDIZE PRODUCTION:** To maintain product consistency across franchise locations, control each store's suppliers, ensuring most ingredients come from the same sources, Grinblat says. Similarly, the franchisor often dictates which type of oven and other equipment locations use. To guarantee cupcakes meet the same quality standards at each Smallcakes locations, the bakery creates its own mix and distributes it to franchisees. "We've made it simple; when a store gets ingredients, they follow A, B and C to get the product," says co-founder Jeff Martin.

**5. KEEP AN EYE ON OPERATIONS:** Consistency doesn't just apply to products—it extends to

the entire experience. Make sure each location embraces the brand's culture and maintains the same standards for customer service. Consider everything from decor and staff uniforms to hours of operation and cleanliness. Drop by franchises regularly and, sometimes, without advance notice. If a location isn't being run properly, give the franchisee a reasonable amount of time to correct the problem, Pappas recommends. If they don't comply, you have the right to terminate the agreement.

While franchising a bakery takes hard work and resources, the payoff can be very profitable. Follow these tips and watch your brand's empire grow smoothly.

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