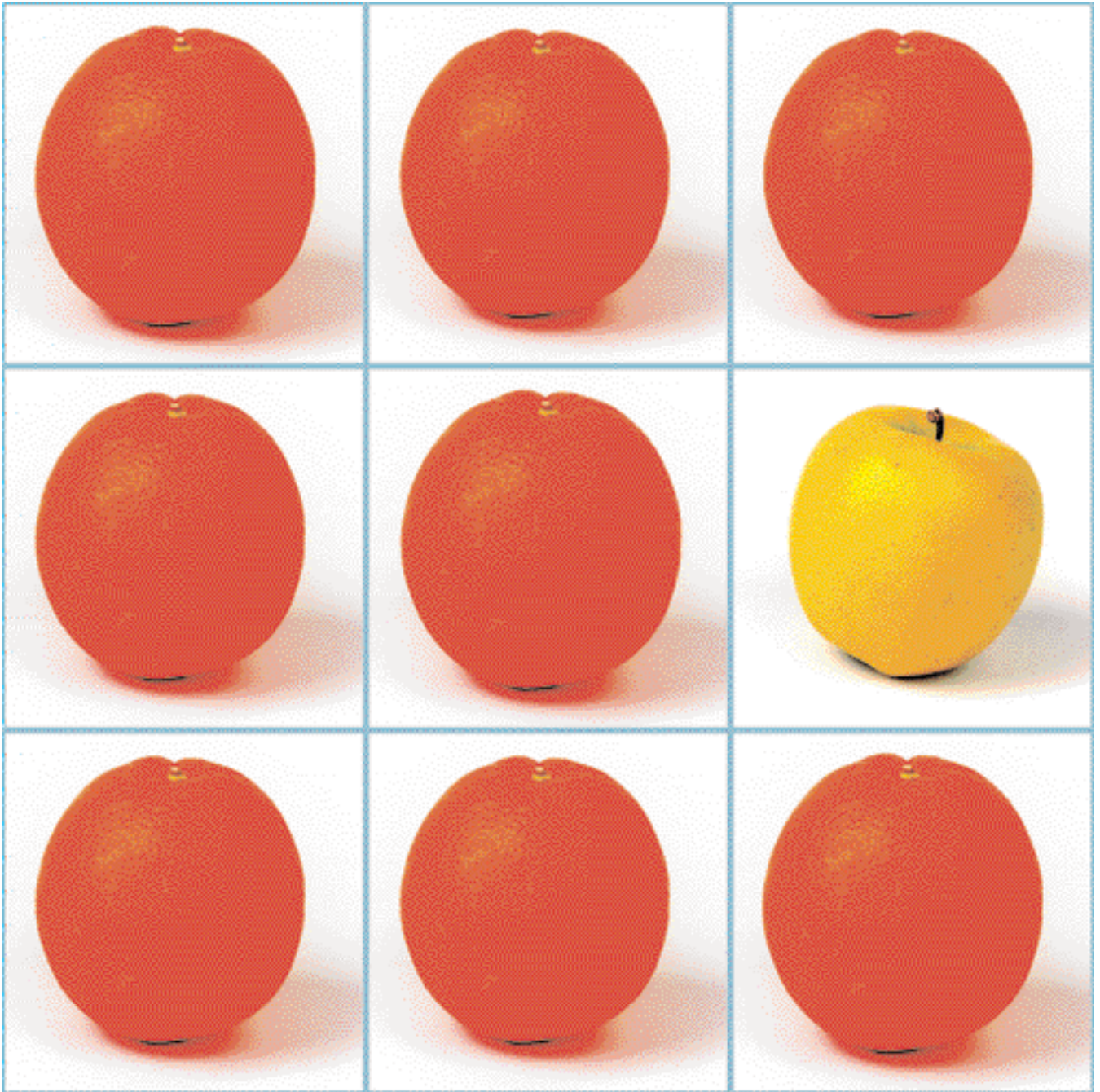


# Go forth and multiply!



the art to multi-unit franchisee success

Both franchisors and franchisees are increasingly discovering the economies of scale that multiple franchise units can deliver. But how can you tell if your franchise system is suitable for multi-unit ownership? **Tim Kilham** reports.

**A**s a way of doing business, franchising has become so popular that it surprises many people to know that it has only been around for some 50 or so years, starting in America. Franchising was first introduced to Australia in the early 1970s.

In the early days, and even until comparatively recently, the traditional franchisee owned one franchise and derived his or her wealth from the operation of that one franchise. Many people considered buying a franchise to be the equivalent of buying a job. This is no longer the case – multi-unit franchising is becoming increasingly popular. It is a trend that is taking Australia by storm, and will continue to do so.

### What is multi-unit franchising?

Multi-unit franchising means more than one unit of the same brand operated by one franchisee (for example, a franchisee who has, say, two or more Pizza Hut stores). This differs from multi-brand franchising, which means two or more units from different brands owned by one person (for example, a franchisee who owns a Pizza Hut and a Noodle Box store). This article concentrates on multi-unit franchising, rather than multi-brand franchising.

### Trends in multi-unit franchising

A survey done in Australia found that almost half of all Australian franchisors are encouraging their franchisees to own more than one franchise unit. It appears that this is a much higher percentage than in previous years and the trend is likely to continue.

In the United States, many more franchisors have multi-unit franchisees than is the case in Australia. In fact, 12 per cent of all franchisees in the United States are now multi-unit owners.

Indeed, when I attended the International Franchise Association Convention in Palm Springs in March this year, one of the major topics was multi-unit franchising. In the United States, it is now possible to attend conferences that are devoted entirely to the subject of multi-unit franchising, and the special needs of multi-unit franchisees. Multi-unit franchising heralds a new era in franchising.

### Franchisor views of multi-unit franchising

Not all franchisors are in favour of multi-unit franchising. Some franchisors see a major component to franchise success being the actual day-to-day involvement of the franchise owner. Norman Picker, from Nandos, says: "I prefer to have individual franchisees. The program works really well when you have the

franchisee and his wife and family involved in one store and committed to that store." But, he adds: "You can't stop people if they were successful in their first store and they come to you cashed up and ready to go for the second."

Many other franchisors, however, take a different view. Tracey Steinwand, of Subway, says the policy has helped the chain's phenomenal growth. "If we have someone who is doing a great job in one restaurant, we would be silly not to give them the opportunity to see if they can expand and grow their business."

Eric Morgen, Director of consulting firm, Franchise Developments, sees both sides of the coin. He says there is a downside to multi-unit franchising for the franchisor. "The essence of running a one unit franchise is the owner operator has his or her eye on absolutely everything in the business. That really harnesses their focus. When you start doing two or three or four franchises under one proprietor, it's a bit like running a company-managed chain. Where it works well is where the system is already strong and that's why McDonald's can do it."

Are you suited to running more than one unit? Are all systems suitable for multi-unit franchisees? What are the major advantages of being a multi-unit franchisee? These questions, and others, are explored in the rest of this article.

### Will your franchisor want multi-unit operators?

As I have already indicated, some franchisors don't like multi-unit operators. Some simply will not allow multi-unit operators in their system. But for every franchise system that discourages multi-unit operators, there is another that not only allows multi-unit operators, but actively encourages them.

Many systems encourage franchisees to acquire more than one unit by offering reductions in the franchise fees payable for multiple stores. Domino's Pizza and Subway are just two systems that offer reduced fees for franchisees that acquire further units.

It makes sense to the franchisor to offer reduced fees, because the costs of training and setting up an existing franchisee in a new franchise are substantially less than the costs of setting up a franchisee who does not already own a unit. In all franchise systems, the right to open more than one outlet is a privilege, and not a right. All franchisors will require proof that you can successfully operate one unit before they will allow you to operate more units.

The primary reasons why franchise systems adopt multi-unit franchising include the opportunity to enhance system growth, to reward productive franchisees, and to achieve greater operating efficiencies. These reasons also make sense for the multi-unit



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franchisee. Multi-unit franchising should thus result in a win-win situation for both the franchisor and the franchisee.

Morgen notes that multi-unit franchising is becoming more prevalent among maturing franchise chains. He quotes the example of Pack & Send, which has a national franchise network of 80 stores – 24 per cent of which are owned by multi-unit operators. Morgen states: "Existing franchisees are accepted as multi-unit operators if they meet various criteria. These include the financial capabilities to fund the exercise, strong adherence to the business system in every aspect, demonstrated ability to successfully manage a store, and the hunger and desire to grow their own business network."

### What are the advantages of multi-unit franchising to a franchisee?

Owning a number of businesses creates multiple revenue streams and spreads the business risk over a larger base. It is the classic case of not putting all your eggs in one basket. Having said this, multi-brand franchising, rather than multi-unit franchising, provides an even greater spread of risk.

As most franchisees will attest, running a franchise business requires great effort and long hours. However, it is possible to leverage time in a multi-unit business. A franchise owner who spends 15 hours on running a franchise is unlikely to require 30 hours to run two franchises – the time required should be smaller.

One of the big advantages to James Hatzimoisis was the ability to have a central administration office for all of his Barry Plant Real Estate offices (see breakout box). This enabled him to achieve economies of scale that would never have been possible with only one office. These economies of scale can significantly increase the profits of multi-unit franchisees.

A multi-unit franchisee certainly has more power – not necessarily as against the franchisor, but certainly in terms of purchasing power from suppliers. The franchisor will usually provide purchasing power, but a multi-unit franchisee can enhance this power.

Phil Blain, Principal of franchise consultants, Franchise Alliance, points out that multi-unit operators "certainly seem to be the movers and shakers within a franchise system, and normally have superior influence as a result". Says Blain: "For example, they may have a strong influence on advertising initiatives if it suits their particular unit strategies."

The downside of this to a franchisor is that multi-unit franchisees may have excessive power, which then may lead to a case of the tail wagging the dog. But, Blain adds, "a good multi-unit operator will push the boundaries of the system, be exasperating at times to the franchisor, but generally assist the franchise system to bigger and better things."

### What are the advantages of multi-unit franchising to the franchisor?

Just as a multi-unit franchisee is able to achieve efficiencies, so there are efficiencies to franchisors in having multi-unit operators.

## JAMES HATZIMOISIS – BARRY PLANT REAL ESTATE

James commenced in real estate in 1986 and bought into an existing Barry Plant Real Estate franchise as a partner in Niddrie in 1992. Within a few years, he had acquired a number of other offices. Today, James and his major partner operate six offices. James says that it was always his intention, from the outset, to open more offices. "We saw it, and still see it, as an important way of retaining key staff. By expanding to other locations and offering key staff an equity involvement, it eliminates them from becoming competitors, as well as strengthening our position in the marketplace. It also allows better buying power and greater economies of scale, because of increased volume."

James believes that one of the keys to success has been the ability to surround himself with good people. He has been able to develop good operators and excellent support staff. He employs the best accountants, lawyers and business advisors he can

find. He also notes that another key success factor has been the establishment of a central administration department that handles all the accounting for six offices at one location – thus enabling him to achieve significant economies of scale.

James says: "The best advice I can offer to anyone wanting to become a multi-unit operator is that you never weaken your strongest office or unit, for the sake of expansion. I've always been conscious when planning a new office that it has to be run 'standalone'."

He further adds: "It is important to have adequate funding in place and an absolute determination and desire to do whatever it takes to make the venture a success." James would certainly do it all over again "because building a successful business and keeping it moving forward is a very rewarding experience, and there are constant challenges to overcome, which again is very satisfying when you achieve the outcome you desire".

From a franchisor's perspective, it is clearly far more efficient for a successful franchisee to open, say, three units than it is to have three new franchisees each open one unit.

The risk to the franchisor is also reduced with multi-unit franchisees. Each time a new franchisee joins a system, the franchisor (and the franchisee) face financial risk and human risk. Will the franchise succeed financially, and is the franchisee going to be a good operator? With multi-unit franchisees, the human risk is minimised. The franchisor already knows the franchisee and knows he or she is a good operator.



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Although, in Australia, there are a growing number of potential franchisees looking to acquire franchises, there are also a growing number of franchise systems looking for franchisees. Attracting franchisees – and attracting quality franchisees – is no easy task, as many franchisors can attest. For the franchisor, the multi-unit operator enhances the system growth and provides a ready source for new franchise outlets.

### Is the system suitable for multi-unit owners?

Some franchise systems are better suited for multi-unit owners than other systems. As one veteran franchisor industry executive states, “one of the keys to success for multi-unit ownership is to find the franchise company whose operating systems and support structure allow the franchisee to successfully operate multiple units”. As a potential multi-unit operator, you need to satisfy yourself that the franchise system has the business models and systems in place to allow you to successfully operate as multi-unit owner.

Historically, multi-unit ownership has been concentrated mainly in the automotive, fast food and service business categories. There is a view that the characteristics of these industries are such as to make them more suitable for multi-unit franchising than some other industries. Having said that, multi-unit franchising has been successful across almost every industry category, but is simply more prevalent in some categories.

A multi-unit operator has a level of business sophistication that the single unit operator usually does not need. This also means that the multi-unit operator makes different demands of the franchisor as compared to a single unit operator.

Franchisors know that a multi-unit operator doesn't need the support and hand holding of a single unit franchisee. But they

often do not recognise that multi-unit operators need support in different ways and in different areas.

### Are you ready to become a multi-unit owner?

At one stage, Franchise Alliance's Blain owned three units in a large franchise system. He says: “My real personal experience in running three retail franchised outlets was that my problems tripled, but my profit only doubled. Big is not always better. It was only after I'd built up those outlets that my true rewards were materialised, but it was hard work in between! The franchisee must possess excellent management skills to run more than one franchise unit.”

Blain believes that the characteristics and strengths of a multi-unit operator are “adherence to the system, tenacity, people management skills, and a good eye for numbers”.

In the United States, studies have shown that those franchisees, which have become multi-unit franchisees, do so after having been single unit operators for, on average, between three to five years. For franchisors, on the other hand, multi-unit franchising as an expansion strategy is adopted after they have been franchising for, on average, two-and-a-half to three years.

### What are the keys to success as a multi-unit operator?

To be a successful multi-unit operator, you must have clearly displayed an ability to successfully run and operate a single outlet. This may seem self evident, but there have been examples of franchisees that have been allowed to operate multiple units without really understanding the system well. It is important not only to understand the system, but to also adhere to it.

You must have learned by your mistakes, and this is why experience is so important. For operators who have not learnt by

## EMAD NAYEF – HAIRHOUSE WAREHOUSE

Emad Nayef owns four Hairhouse Warehouse stores and is the current Australian Franchisee of the Year. Hairhouse Warehouse was started, in 1992, by Tony and Joseph Lattouf. The franchises offer one-stop high quality hairdressing, beauty, waxing, body piercing and tanning services.

In 1998, Emad dropped out of university to sweep floors and make coffee at a Hairhouse Warehouse franchise. “The family was chaotically disappointed,” says Emad.

Emad, however, had his path firmly mapped. He honed his retail skills and, within three years, was offered a franchise. More stores followed (Emad

has sold several stores) and today he operates four stores.

Emad is committed to the organisation. He helps train new franchisees and says, “I want the training to be perfect and the franchisees to be like one big family”. Tony Lattouf says that what makes Emad successful is his persistence, goal setting, and his belief in himself.

Emad says that his biggest mistake, when he became a multi-unit franchisee, was “to try to do everything myself to work in and on the business. Once I started delegating, it freed me up to groom my staff and build the business”.

He says the key to his success has

been “my ability to look long-term, to grow staff to all being possible franchisees, and investing time in staff to improve the quality of customer service”. Emad's advice to a single unit operator who aspires to become a multi-unit operator is “to be 100 per cent ready. Two stores will not necessarily double your profit. A store needs to be able to run and be profitable, without the franchisee working in it”.

From the outset, Emad wanted to acquire more units. He sees franchising as the future in business. He adds: “Success in business means hard work, honesty, energy, and a lot of taking advice from other successful people. No matter how much you think you know, there is always someone wiser.”

their mistakes, multiple unit ownership means multiple mistakes!

You do require a reasonably strong financial position before acquiring multiple units. It also helps to have a good eye for numbers. Running an organisation – and this is what a multiple unit franchise owner does – brings with it particular business stresses. It helps if the business is on a sound financial footing.

To be successful in business, you cannot work bankers hours (apologies to bankers!).

Being a multi-unit operator requires dedication and probably long hours. There is a saying that the reason people go into business for themselves is so they can work 16 hours a day to pay other people to work eight hours a day for them! This need not be the case, but as most business owners will attest, building an organisation requires much hard work and, often, long hours.

It is not possible to micro-manage the business once you become a multi-unit operator. As a single unit operator, you might be the frontline person and you might also be responsible for administration, purchasing and finance. This is simply not possible as a multi-unit operator. You must be prepared to delegate and deal with the bigger picture items. You go from being the pulse of the business to a role where you have to rely on others to take the pulse.

Most multi-unit operators say that people development is the most critical aspect for success. For most franchises, regardless

of their nature, the business is about putting people in place to provide the kind of service that will keep the customer coming back. As a multi-unit operator, you will not be dealing with or serving the customer.

You need to have the people in place that can do this. Thus, people development is the most critical aspect for success as a multi-unit operator. As one person put it “everything in our business today can be copied, except our talent”. If you are not building strong teams, then all the capital in the world is not going to help if you don’t have the right people to staff and run the organisation.

**You must be prepared to delegate and deal with the bigger picture items. You go from being the pulse of the business to a role where you have to rely on others to take the pulse.**

Success as a multi-unit owner requires good strategic planning. Good strategic planning involves operational, human resources and financial planning. As a multi-unit operator, you need to make the appropriate investment of time and resources in preparing strategic plans. An infrastructure needs to be built. There needs to be a long-term vision and a long-term focus. Vision and leadership are required to make the business successful.

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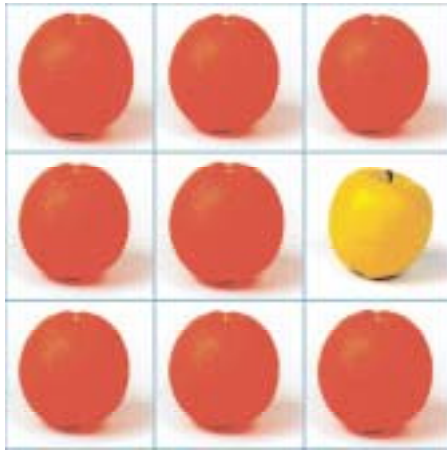


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## 10

TIPS FOR SUCCESSFUL  
MULTI-UNIT FRANCHISEES

1. Satisfy yourself that the franchise system you choose is suited for multi-unit ownership.
2. Know the system well, and be prepared to follow and trust it.
3. Be prepared to work hard.
4. Learn by your mistakes – don't multiply them with multiple units.
5. Be prepared to delegate. As a multi-unit owner, you cannot micro-manage.
6. Recruit, develop and grow your people. People development is critical.
7. Make sure you have funding in place for multiple units.
8. Surround yourself with good accountants, lawyers and business advisors.
9. Undertake strategic planning and build the necessary infrastructure.
10. Have a long-term focus.



Franchising is no longer necessarily just about buying one unit and buying a job. There is nothing wrong with owning one unit, and many people do so very successfully. For others, however, franchising is about building an organisation. Being a multi-unit franchisee requires a wide range of organisational and entrepreneurial skills. A multi-unit franchisee is the CEO of an organisation. Those who do it successfully find it very rewarding, both emotionally and financially.

If you are ready to become a multi-unit owner, and if your franchise system is suitable for multi-unit ownership, then consider acquiring more units and building an organisation that can use your talents and skills. ■

*This article was written by Tim Kilham, Partner in charge of McLean Delmo Franchising – the specialist franchising division of McLean Delmo & Partners, Certified Practising Accountants. You can contact Tim on (03) 9819 4666 or via email at tim.kilham@mcleandelmo.com.au*



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