



SECOND LOCATION

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Are You Ready?

The decision to tackle a second location is not to be taken lightly. Krystal CEO Fred Exum offers guidance.

Q: How do I gauge whether or not I'm ready to open my second unit?

Obviously, you've got to have capital. Capital is really important. Secondly, you need to be convinced as a franchisor, and a good franchisee should also be convinced, that from a managerial standpoint the operator can take all his attention and focus it on his second facility and not lose anything in his first effort. By losing anything, I mean any kind of edge or ground that he has gained in all areas, whether it's service, inventory control, cost percentages, or anything of that nature.

Many times, franchisees build that second one thinking, "This first one was easy; the second one is going to be just as easy." They lose sight of all the really hard work that goes into it. I tell franchisees all the time, "You have to understand that when you build a second restaurant it's not just a doubling of your job. It's about a 110 percent increase of your job because now you've got logistics and time out of store that you didn't have before—on top of another store. You're more dependent on your management."

If you're a single-unit operator, generally, you can run the restaurant yourself. But when you open the second one, that becomes impossible. Therefore, you're more dependent on the individuals who work for you. That puts you in a position that you have not been in to such a degree up until that point.

Your speed of service needs to be consistent—consistently good. Your operational brand assessment needs to be at an acceptable level at the very minimum. It needs to be consistent, not just, "Ok, it's great this month. Let's hurry up and do this before it goes back to what the norm has been lately." Staffing, in particular management, needs to be stable. Those are the three big areas to benchmark against.

Operators need to be current with all their vendors and their royalties. They shouldn't push the envelope in the financing arena so far that the second restaurant causes them to live on the edge. They need a strong balance sheet.

If you're going to open a second restaurant, what you really ought to have is two managers who think about the business and are responsible like an owner would be. The owner is not going to be there—at either location—as much as he was in his one location. At best, he'll be at each one 50 percent of his time. You haven't got room for someone who always is waiting to be told what to do. You need to have self-starters as managers.

When you open the second restaurant, you are now beginning to function more as a multiunit supervisor than a general manager. You've got to find someone to take your place—and then somebody on top of that. Owners often overlook that. They think very well through the good parts, but oftentimes they don't really think about the obligations or the negative parts that come along with that, the parts that are hard.

Opening a third restaurant is a whole lot easier than opening a second. By that time, you've already learned the lessons. Instead of doubling your problems, they've only gone up by a third. And you've already started functioning in the role of district supervisor by that time. You've got to have three general managers as opposed to two, and you've got three headaches instead of two, but nothing is new at this point.

Capital is No. 1, though. Frankly, it doesn't matter how good your manager is if you're not capitalized properly. Too many people go down the road backwards. They've got a great manager, but they are not properly capitalized. They do it on a shoestring, and it ends up blowing up in their faces. Capital, then quality, proven manpower—as opposed to hiring a résumé off the street.

I see this a lot on the franchisee side:

"I hired Bill. He's going to be my general manager at my second restaurant."

"Well, what do you know about this guy?"

"Well, he has a great résumé."

"Oh, I've never seen a bad one, actually."

Franchisees a lot of time won't take the time or the money and invest ahead of time. They certainly understand the investment in building and equipment. But the most important investment they are going to make is the investment in that manpower. Oftentimes they don't even know the person they are going to be depending on because they haven't hired far enough ahead of time to learn about the manager's work ethic or managerial abilities, loyalty, or dependability.

I can't tell you the number of times a restaurateur opens a second restaurant and something blows up in the first one. Now instead of one new problem, you got two. And most of the time, it will be because the operator didn't know the management. He took a chance on management and didn't realize he was really risking two restaurants in the process.

You've got to have at least six months' experience with a person you're getting ready to turn over your \$1.5 million investment to. When you hire a general manager, you're essentially saying to your organization, "I trust this person with my \$1.5 million investment."

Company operations make the same mistakes. But we have the umbrella of the big corporation to do it inside. One store in our case is maybe 1 percent of our operations, but in the franchise community, it's 50 percent of your operations when you're going to your second store. Fifty percent of your obligation—if it goes wrong, that's bankruptcy.

When I think about a store being well capitalized, I think: How stable are my payables; are my controllables predictable at this point; is my cash flow adequate; and, if the worst scenario happened, how long could I survive with my current cash flow? If I build a stinker, how am I going to fund this? Chances are I'm signing a 20-year franchise agreement. Not to mention if you're leasing a location. I've basically committed 20 years to this. If you're going to do that, you ought to know what kind of cushion you have.

The role of the franchisor is to help franchisees think through things like that. They are doubling their profit potential, but they are also doubling their problem potential.



Thinking about opening unit No. 2 and need some guidance? E-mail your questions or hot topics to secondlocation@qsr magazine.com.