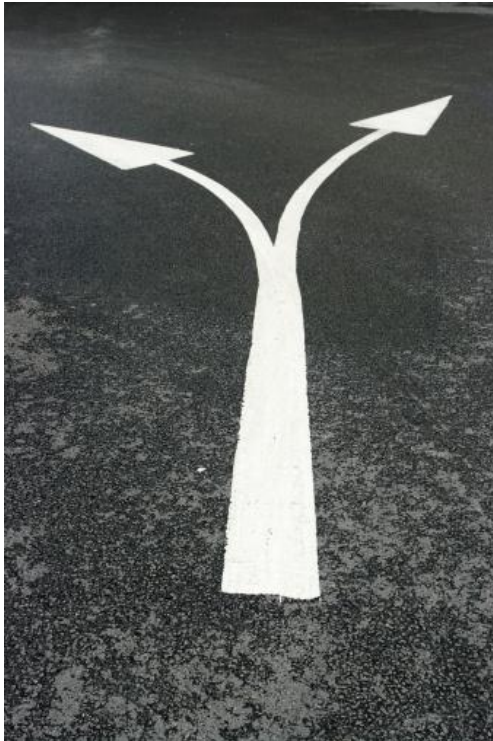


Expanding Your Restaurant: Building a Chain vs. Franchising

By Rieva Lesonsky



Your restaurant is successful. Congratulations! Now it's time to think about expansion. Perhaps customers have asked when you'll be opening in a location closer to them. Perhaps you have visions of a chain of locations throughout your region or nationwide. Perhaps you've even had people ask whether you sell franchises, because they'd like to get in on your concept. When deciding how to grow your restaurant, there are two choices: starting a chain, or selling franchises.

A *chain* of restaurants means you own all the locations. Although you hire managers to run each location, you are ultimately responsible for all the restaurants and enjoy all of the profits. As a *franchisor*, you sell the rights to use your business name, methods and system of doing business to franchisees, and provide them

training and support. They pay an initial franchise fee and ongoing royalties.

Here's a closer look at factors to consider when deciding which route to take.

Capital needs: With a chain, you need to come up with all the capital to open and run additional locations. With a franchise, your franchisees provide the money to open their locations. That doesn't mean that being a franchisor is inexpensive. In fact, it's quite costly due to regulatory and compliance issues. You'll also need to hire employees for your franchise system, market the concept to potential franchisees, and have cash on hand to sustain the system until franchisees start paying royalties.

Regulatory issues: Franchising is regulated by the Federal Trade Commission and many state governments. Before offering franchises for sale, you'll need to prepare a Franchise Disclosure Document (FDD), which requires revealing information such as your business's financial statements. With a chain, you'll need to comply with the usual state and local laws regarding restaurants, but the regulations are less complex.

Geographic reach: If you want to be the next Starbucks, franchising is the better way to achieve that goal. Managing a chain of restaurants over a wide geographic area becomes unwieldy very fast. If you just want to open a few more locations in your city or state, you're better off launching a chain.

Complexity: Starting a second restaurant is fairly simple; you already know how to run a restaurant. Launching a franchise system is a whole different animal. In addition to operating your original restaurant location (and any other locations of which you decide to keep ownership), you'll have to learn how to manage and grow a franchise company, keep up with regulations, market your concept, keep franchisees happy and provide them with ongoing support (such as marketing campaigns).

Both chains and franchises can be excellent methods for growing your restaurant business. The key is to choose the right option for you.

Rieva Lesonsky is CEO of GrowBiz Media, a media company that helps entrepreneurs start and grow their businesses. Follow Rieva at [Twitter.com/Rieva](https://twitter.com/Rieva) and visit her blog at SmallBizDaily.com. Visit her website SmallBizTrendCast to get the scoop on business trends and sign up for Rieva's free TrendCast reports.