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Brand Names versus "No-Names"
Which Type of Franchise is Right for You?

In 1954, Ray Kroc mortgaged his home and invested his entire life savings to become the exclusive distributor of a five-spindled milkshake maker called the Multimixer. Hearing about the McDonald's hamburger stand in California running eight Multimixers at a time, he packed up his car and headed West. He was 52 years old.

Ray Kroc had never seen so many people served so quickly when he pulled up to take a look. Seizing the day, he pitched the idea of opening up several restaurants to his brothers Dick and Mac McDonald, convinced that he could sell eight of his Multimixers to each and every one. "Who could we get to open them for us?" Dick McDonald said. "Well," Kroc answered, "What about me?"

Ray opened his first restaurant in Des Plaines, Illinois in 1955. First day's revenues - $366.12. No longer a functioning restaurant, that building is now a museum containing McDonald's memorabilia and artifacts, including the Multimixer!

There are two important points about this story. First, when inflation is factored in, $366 in 1955 equals more than $2,500 in today's dollars. Thus, if Kroc had started his enterprise today, gross revenue would be close to $1,000,000 per year. Secondly, though McDonalds is now an internationally-known brand name, 50 years ago it was a "no-name".

Conclusion: *Building* a brand versus *buying* a brand may be more successful.

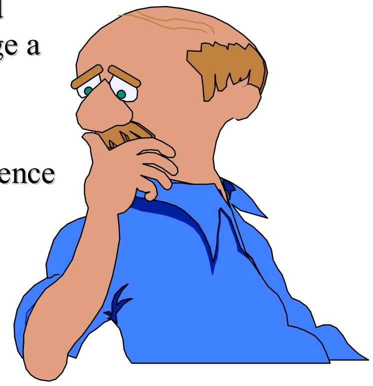
We often hear from clients who are interested *only* in name-brand franchises. They believe in the value of name recognition and perceive the potential for instant success in what Ray Kroc and others like him have built. And that's fine, because we represent a variety of franchise opportunities, including name brands and no-name brands alike. In general, we look for the following positive characteristics:

- Industries with high profit margins
- Reasonable initial and ongoing cost
- Successful track records
- Ethical business practices
- Excellent training and support

You may have noticed that brand-name recognition is not on the list, and here's why. While there's nothing wrong with strong and positive name recognition, it's not necessarily a guarantee of success or future profitability. Here's what we've learned:

Characteristics of Established Franchises:

- **Better name recognition** – Who can argue with the value of brands like Coke or Kleenex, names that are today synonymous with the products they represent? In fact, some brand-name franchises have actually adopted nicknames provided by their *customers*, like Mickey-Ds or KFC.
- **More regional and national marketing** - Advertising is never a bad thing, but who's paying for it? Most well-established franchises charge a mandatory "ad fund" that may or may not best suit your local market.
- **Experienced management** – Many established franchises maintain consistent management, but executive managers often use their experience to establish competing brands.
- **More refined training and support** – Nothing succeeds like success, but well-established franchises may be more rigid in reinforcing standardization. As a franchisee, you may feel more like an employee versus an entrepreneur.



- **Better purchasing power** -- Established franchises may enable you to acquire goods at less cost. However, they may require you to purchase goods through them -- with an imbedded profit margin.

Characteristics of Newer Franchises:

- **Exciting, cutting-edge concepts** – Who introduced the 99 cent menu? Wendys did, thereby gaining 12% market share while forcing competing chains to slash prices and lose profits. Newer franchises are often more flexible, nimble and highly motivated to think outside the box.
- **Business may have been designed to avoid mistakes made by older franchises** – Look at any franchise established in the last 5 years, and you'll find one that has striven to "build a better mousetrap" – through faster delivery, lower cost, increased convenience or a variety of other improvements versus older business models.

- **Lower cost of entry and royalties** – There is a well-established and successful bread franchise that has become unaffordable for most entrepreneurs. Ten years ago, they might have been interested in speaking with you. But today, they are *only* looking for operators with 1) specific experience 2) a minimum of $7.5mm net worth and 3) an interest in owning at least 15 units. There is a well-established and nationally-known pizza franchise. However, their franchise fee is considerably higher than average and operators are charged 11% royalties and ad funds. Newer franchises often provide the same high-quality products/services at far less cost to the franchisee.

- **More opportunity to share in equity growth of the company** – Just like people, franchises generally grow faster when they are younger and growth slows down with age. McDonalds is a good example where gross revenues per unit have crept up only fractionally over the last decade, not having kept pace with cost of goods, staffing and other business expenses. Of course you want your business to be profitable while you own it. But it's equally important that the value of your business has increased when you are ready to sell it.
- **More flexibility in working with franchisees** – Every franchise has an established business model, and your success will be partly based on how well you follow it. However, older and more established franchises are often focused on *maintaining* their brand vs. building it. As a result, their business models sometimes become overly rigid. Newer franchises generally are more receptive to input and feedback from their franchisees and more flexible in their business models.

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In conclusion, franchises with strong brand names all have one thing in common: Every one of them started with no name recognition at all. They succeeded over time with products that met the needs of the marketplace, and "early-adopters" like Ray Kroc reaped the greatest rewards. Additionally, a well-recognized brand is not necessarily a guarantee of success, just as a lesser-known brand is not necessarily a negative. Finally, since franchises often focus on *regional* growth, what may be a "no-name" opportunity to you may be a *very* well-known brand elsewhere – and introducing that brand to *your* marketplace might be your best path to success.

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AT Franchise Consultants provides no-cost assistance to entrepreneurs nationwide, helping them identify franchise business opportunities that match their interests, backgrounds and financial means. We offer hundreds of business opportunities in a multitude of categories.

We are an affiliate of the world's largest franchise consulting network with more than 25 years experience helping entrepreneurs like you find and own their own businesses.

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