Decision Analysis of the Restaurant Chain Industry

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Note: All currency amounts are in US Dollars

Team Members' Biographies

Cedric Gardner

Cedric Gardner is a bilingual Bachelor of Arts candidate in Ryerson University's Creative Industries program. He is specializing in Communication Studies, Visual Culture, and Business Essentials while pursuing a minor in Entrepreneurship and a certificate in Retail Management. Cedric has over seven years in customer service experience, three of which were spent as a supervising manager in a franchise chain. He has completed leadership and management training courses regarding sales management and customer service quality. Cedric can work in high stress and fast-paced environments, managing multiple duties and groups of upwards of eight employees at a given time. One of his most constant on the job duties is responding promptly to guest service complaints, and resolving problems, turning potentially negative situations into positive situations. For example, he dealt with a multitude of complaints one day, as he managed five new team members that were not trained in the correct preparation of the restaurant's standard sandwiches. As a result, Cedric was able to calm the frustrated crowd by individually talking to all the customers, taking their orders and then pairing each new team member with an experienced worker to fulfil each order in a proper and timely manner, while apologizing to the restaurant's guests.

Mark Kryshtalskyj

Mark Kryshtalskyj is a full-stack marketing professional and technology founder with five years of experience in the retail and technology industries. He has held a number of roles across loyalty, digital marketing and customer service, culminated with being named one of Canada's Next Top 36 Business Leaders in 2015.

Over the course of Mark's emerging young career, he has helped build a number of successful national marketing programs. Most recently, Mark has helped drive digital strategy and execute demand generation programs behind HP Canada's $14M online store. Prior to HP, Mark gained valuable experience building online and offline marketing programs for League, one of Canada's fastest-growing healthcare tech startups. Mark also helped digitize and grow the My Canadian Tire Money loyalty program to 11.5M members across the country by 2017 and spearheaded Petro Canada's $11M partnership with Student Price Card in 2014.

Mark strongly believes in giving back to his community. He serves as a board member for Humber Valley Hockey Association, and a youth mentor for the Waterloo Region Business-Education Partnership and Canada Learning Code.

David Nasr

David Nasr is a fourth-year Retail Management Student currently pursuing his Bachelor of Commerce degree at Ryerson University through Ted Rogers School of Retail Management. David has worked over seven years in the retail industry, working for major retailers such as Walmart and Costco as well as gained experience as an Automotive Technician Apprentice working for GM. Alongside his work experience and academic retail management knowledge, David is an exceptional team member and communicator, striving for success. He has the drive to meet deadlines and get tasks done whether in a team environment or individual. Working in various environments has equipped David with the work ethic, attitude and mindset needed to work in a franchise environment, following strict guidelines and contributing effective problem-solving solutions. He has a good understanding of how to set productive and realistic goals that can translate well into franchise management.

Arshiya Reporter

Arshiya Reporter is a student at Ryerson University, pursuing a Bachelor of Commerce degree specializing in Retail Management. With over five years of experience in an administrative role, Arshiya demonstrates professionalism, works well in a team, is optimistic, and goal focused. Throughout Arshiya's professional career, she has also worked in a hybrid role as an administrator and a marketing coordinator in the Real Estate industry. Working in Real Estate can be stressful, but Arshiya's experience has made her an independent and collaborative multi-tasker that can successfully meet deadlines.

Evan Harris

Evan is a fourth-year student at Ryerson University, pursuing a Bachelor of Commerce degree specializing in Retail Management, with a minor in professional communication. Evan is results driven and goal oriented. He believes that nothing is given but rather earned. Hard work pays off. Over the course of University, Evan has worked at Apple, Canadian Tire and other retail environments. Evan wants to open a franchise at some point in his life later on and have it as a side business.

S.M.A.R.T. Objectives – Financial and Personal Goals

Financial Goals

- The expected initial investment should not exceed $750,000 to open a single unit as a newly admitted franchisee within one calendar year after signing the agreement, with prior confirmation of the location and type of unit (e.g., full restaurant or kiosk) being purchased by the franchisee. The initial investment includes any necessary construction costs, equipment purchases, leasing or buying a storefront, and transfer or negotiation fees.

- Royalty fees would ideally not exceed 8% of weekly gross sales.
- Advertising contribution fees cannot exceed 6% of weekly gross sales in total.
- Franchisee training must be offered within six months of the unit's grand opening. It cannot exceed more than two 40-hour work weeks with a full cost of $15,000 that includes training, travel and accommodations expenses. The $15,000 is not part of the $750,000 initial investment and is considered an additional expense.
- A minimum of a five-year licensing operations agreement, with the chance to renew the licensing deal once the contract has ended, for another five years with a $15,000 or less renewal fee is required.
- The franchisee has exclusion rights for the five years, and only two new operations can open within a 10 km radius of their storefront or kiosk every three years if the demand for the product/service increases.
- The franchisee can recoup the initial investment he or she made within the first five years of operations or the franchisee can sell off the remaining purchasing investment to the franchisor or another franchisee, with an expected loss of only 15%.
- The franchisee can purchase one to two new units when renewing the licensing agreement at a 10% lesser rate as the initial agreement or is permitted to make an investment purchase of another franchise either within or outside of the company when renewing the licensing agreement.
- The brand has a projected growth rate and expansion of at least 2% rate per year.
- Expected financial return in excess of 10x original investment.

Personal Goals

- The expected working hours should not exceed 50 hours per week with one weekend day off (either Saturday or Sunday), statutory holidays off, one week off in December and two weeks of vacation allowed between May and August.
- After hours calls (past 18:00) should only occur on average once every two weeks for emergency purposes that require an executive decision.
- Opening and operating the franchise will not require the franchisee to move any more than a 100 km drive away from downtown Toronto.
- As a co-franchisee with four other partners, everyone can expect to make $60,000 yearly salary with a chance to buy out the partners after the first two years of operations.

Franchise Analysis

Boston Pizza

Boston's The Gourmet Pizza Restaurant & Sports Bar (Boston Pizza) is an internationally recognized brand that began its operation in Edmonton, Alberta with Greek immigrant, Gus Agioritis in 1964. The restaurant began growing in 1968 with the help of Walter James Treliving, current Chairman and Chief Executive Officer of Boston Pizza and co-founder of Boston Pizza International. Treliving Private Investments Ltd., in British Columbia, Canada and BPR GP, Inc., in Delaware, owns Boston Pizza United-States. The restaurant's headquarters is located in Dallas, Texas, United-States. Boston Pizza (2019) has 380 restaurants in Canada, has established operations in the United-States of America with BPR GP, Inc., and has begun opening franchises in Mexico under the affiliation of Boston Pizza Restaurants (Mexico), Inc.

Boston Pizza is a full-service casual dining restaurant with a focus on pizza and pasta dishes, alongside other entrees, appetizers, salads, sides and desserts. The restaurant's target consumers are families, young adults and singles, and middle-aged dinners, with a focus on adults looking for a casual and fun dining atmosphere. Boston Pizza's competitors are other full-service dining restaurant chains, small pizza shops, and sports bars. Boston Pizza has a strict exterior and interior decorative format that includes rules regarding signs and displays, wall decor (e.g., televisions, local sports merchandise), restaurant layout, colour scheme and site location. All units are obliged to have a bar and outdoor patio for dinners alongside their regular dining area. The franchisor is permitted to dictate the types of products, inventory, and supplies of food and non-food items the restaurants can receive and use within their establishments, and everything must be purchased from a Boston Pizza approved supplier list that franchisees can choose. Any non-approved supplier that the franchisee wishes to conduct business with must be reviewed and approved by Boston Pizza through a written application. Anything else will result in substantial fines or contract termination.

Furthermore, the franchisor maintains controls over the uniform standards of the restaurant's approximately 50 to 60 employees, the accounting and information technology software the franchisee can use and sets the hours of operation of the restaurants. A Boston Pizza restaurant's main source of revenue comes from dine-in experiences with take-out and delivery sales accounting for approximately 4% to 13% of total sales, which may vary per location. Restaurants are subjected to the general business, health and food safety, and liquor rules and regulations of their region of operation as well as the standards of Boston Pizza. It is up to the franchisee to obtain the proper licenses needed to begin and maintain operations within their jurisdiction and begin operation within 210 days of signing the franchise disclosure documents.

The prospective franchisee can expect to pay an upfront cost of $65,000 to the parent company (i.e. $50,000 signing fee, $5,000 opening fee and $10,000 pre-opening marketing fee) in addition to construction and renovation costs of opening a restaurant. There are three types of Franchise Agreements, which includes upfront costs paid to the parent company as well as a range of construction and renovation cost options:

I. A single restaurant built from the ground up: $2,019,000 to $3,017,000 (excluding land costs).

II. A retrofitted or shell build-out of an existing structure: $1,145,000 to $2,205,500 (excluding leasing costs).

III. A development agreement in accordance of first two options with an additional payment of $50,000 for every unit to be developed within a specific timeframe (e.g. 3 development units x $50,000 + $15,000 in opening and marking fees).

The Franchise Agreement is a ten-year term contract under the Boston Pizza trademark from the date the agreement is signed. There is an option of two renewals with the same contractual obligations for a five-year term each that must be given in writing to Boston Pizza no sooner than nine months and no later than 12 months from the initial contract termination date. If the prospective franchisee does not choose the development agreement, he or she must wait until the ten-year renewal period arrives, pay the initial development fee and must follow the same contractual obligation for the next five-year term. All contract renewals are conditional until Boston Pizza confirms that the franchisee has met the parent company's conditions and has paid Boston Pizza a renewal fee in an amount equal to 50% of the then-current initial franchise fee (i.e. $25,000 in renewal fees).

Additional fees that we must take into account include royalties, advertising expenses, renovation and additional funds (renovation and additional funds are included in the estimated Franchise Agreement costs). Royalty fees are 5% of weekly gross sales, and advertising fees are

4% of weekly gross sales (3% towards the parent company and 1% spent on local advertising by the franchisee). The franchisee must have an available liquid asset in cash for a minimum amount of $48,000 for renovation and additional funding. Boston Pizza requires all franchisees to have a minimum of $18,000 on hand for unexpected renovation/structural repairs and equipment replacements and another minimum of $50,000 of additional operational funding. It is the responsibility of the franchisee to pay for any unexpected repairs that must be made to the building in which the restaurant is situated and replace equipment within 30 days. Boston Pizza is not responsible for the funding and can apply penalty fees if the franchisee cannot provide documentation of their effort to rectify the situation. Also, in the event of a slow start after opening a new restaurant, franchisees are still required to pay fees, taxes and payroll in a timely manner; therefore, an additional minimum fund of $50,000 cash on hand is required, or a more significant amount that should cover all expenses for three months to break even.

Boston Pizza prohibits franchisees to purchase competing restaurants or partake in any franchises outside of the parent company that operates within the casual restaurant industry (Boston Pizza gives a comprehensive list). If the franchisee does not wish to renew their agreement after the ten years operational period, the franchisee cannot directly or indirectly have involvement with a competing business for two years within a 10-mile radius of any Boston Pizza restaurant, which will be listed by the parent company. If the franchisee violates their agreement (depending on how long the restaurant is open), he or she must pay fines to cover the average amount royalty fees and advertising funds Boston Pizza would have collected for 36 months or the number of months remaining in the term of the Franchise Agreement upfront.

Pita Pit

Pita Pit was first established in 1995. Their mission is to offer “healthier alternatives to traditional high-fat, high-carb, high-calorie fast foods” (Pita Pit, n.d.). They offer Lebanese style pita sandwiches that are filled with fresh vegetables, grilled meat, and zesty sauces (Pita Pit, n.d.). Presently, Pita Pit has more than 650 stores in North America, Europe, Asia, the Middle East, and Asia-Pacific (Pita Pit, n.d.). The total investment required to operate a Pita Pit franchise is from $216,354 to $435,102.50; this includes an initial franchise fee of $30,000 payable to Pita Pit Inc. and affiliates. The franchise fee covers administrative, legal, training, and travel costs. A necessary fee is required to enter a Multi-Unit Development Zone Agreement payable in the amount of $66,000 to $98,000 to Pita Pit Inc. and affiliates. The purchaser of the franchise has the right to establish and operate, from a single location or a retail outlet that specializes in the sale of the pita sandwiches. The purchaser can also offer a line of smoothie products which can cost from $6,850 to $10,840 in total to set up. The total fee also includes $300 to $600 for leasehold improvements, $5,900 to $8,940 for initial term fix and equipment package, $200 to $500 for opening advertisement, $300 to $500 for initial inventory package, and $150 to $300 for additional funds, including extra staff expenses. Also, with every location a franchisee purchases upfront, the initial franchise fee is decreased by $5,000 per store (e.g., if two locations are purchased, only a $25,000 in initial fee is required, for a third one, the initial fee is only $20,000 and so on).

Before the documents can be signed, the franchise fee is required as a deposit. When this is done, Pita Pit Inc. and affiliates will enter into an agreement with the franchisee. Any sales tax is to be paid to Pita Pit Inc. and affiliates. There is a separate fee required for additional assistance such as seminars or training programs for the franchisees, but the franchisee is responsible for paying all expenses for everyone who attends the training. A maximum of $5,000 can be charged for additional training per individual. The fee will depend on the program. If Pita Pit Inc. and affiliates audit the franchisee's business and they have under-reported net sales by 3% or more, they are obligated to pay for all costs of the audit including travel expenses and compensate the auditor and any additional cost of their employees who were involved based on their hourly rate. The franchisor also has the right to terminate the Franchise Agreement after all expenses are paid.

A renewal fee is required for any renewals of the Franchise Agreement for an additional ten years or until the expiry of the lease or sublease of the premises. If the franchisee complies with all the requirements, they can apply the $2,500 renewal fee towards the cost of upgrading the restaurant if it is less than $22,500 and the if upgrades exceed this amount, the franchisee is required to pay. If the franchisee makes late payments, interest begins from the date of late payment, a rate of 5% above the highest domestic prime rate published in The Wall Street Journal is applied. A fee of $138 is required and payable to Digital Lizard for an initial order of 500 gift cards; this fee is taken from the general advertising fund. Please refer to Table 1 for all estimated initial investments required to own and operate a Pita Pit Inc. and affiliates franchise.

Table 1: Estimated Investment in One Pita Pit Restaurant

Type of Expenditure	Cost	Method of Payment	Payable To
Initial Franchise Fee	$24,000 to $30,000	Lump sum	Pita Pit Inc.
Initial Rent & Security Deposit	$2,400 to $10,000	Lump sum	Lessor, Sub-Lessor
Opening Cash	$500 to $1,000	As incurred	Vendors
Leasehold improvements	$79,489 to $225, 299	As incurred	Contractor, Lessor
Business License	$200 to $1,000	As incurred	State, Municipal

			agencies
Insurance	$1,500 to $4,500	Varies	Broker, Insurance co.
Store Launch and Local Marketing Program Package	$2,500 to $3,000	Lump sum	Approved suppliers
Legal & Accounting fees	$500 to $2,500	As incurred	Lawyers, Accountants
Initial Furn, Fix, Equip. Package	$71,560 to $110,737	As incurred	Vendor, Lender, Leasing form
Staff and Management Training Expense	$1,000 to $3,200	Upon attendance	Accommodation providers, Restaurants, Airlines, etc.
Uniforms & New Store Kit	$1,200 to $1,900	As incurred	Vendor
Initial Inventory Package	$5,000 to $8,000	As incurred	Vendor, Lender, Leasing firm
Coca-Cola freestyle program fee	$0 to $241.50	Each month	The Coca-Cola Company
Additional Funds (for three months)	$25,650 to $31,500	1st day of the month following the opening of the restaurant	Suppliers, Lessor, Employees, etc.
Local Advertising	1% of Net Sales	As incurred	Vendors
Laptop Computer	$450 to $1,500	As incurred	Vendor
Online Ordering & Loyalty Program	$405 to $725	As incurred	Vendors
Totals	**$216,354 to $435,102.50**	**As incurred**	**Pita Pit, Third Parties, Vendor, Contractors, Insurance Company**

The first month rent and a security deposit in the same amount of one month's rent is included in the initial start-up expenses. Approximately 1,000 to 1,400 square feet is the required space needed for the restaurant. The franchisee is required to coordinate their efforts in finding an approved location; they will need to obtain a real estate broker, and that is to be accepted by Pita Pit Inc., and affiliates. Ultimately, the franchisor determines which location is suitable for the restaurant, and suitability is based on proximity to schools, employment districts, retail centres, demographics, visibility, foot traffic, accessibility, and delivery if applicable. It is the franchisee's responsibility to hire an attorney to review all lease agreement terms and conditions. Leasehold improvement costs can vary from location to location; if the lessor has already made the necessary improvements, it is likely the cost is included or added to the monthly lease payment. All services or products purchased or leased must comply with Pita Pit Inc. and affiliates' specifications in their system manual. It includes the standards and specifications for delivery, performance, design, appearance, grade, and composition. In order to operate the restaurant, the franchisee must only use their approved and designated suppliers. This rule also applies for items such as furniture, fixtures, equipment, interior and exterior signage, and services. Lastly, the franchisee can only purchase food and beverage products, paper materials, and other supplies, as well as uniforms, marketing, printing, insurance, and any other services from their designated and approved suppliers. A franchisee may be required to enter into a written agreement with specific designated and approved suppliers.

The Pita Pit restaurant must have at least one individual in their restaurant that has completed their training program. Those who attend training are required to complete pre-work assignments before the program; failure to do so can result in the restaurant opening being delayed. Total training requires approximately 82 to 89 hours. Franchisees are to meet all requirements outlined by Pita Pit Inc. and affiliates and failure to do so can result in them not being approved by the franchisor. It is necessary for the potential franchisee to conduct their research, consult with a lawyer and ensure he or she is financially capable of opening and operating a Pita Pit restaurant. All franchisees can refer to the insurance program, described in their system manual to assist them in meeting their insurance needs. The franchisee is also responsible for spending a minimum of 1% of net sales on local advertising and promotion, and they are required to participate in the Local Marketing Program.

Overall, Pita Pit seems like an attractive franchise, mainly because the retail food industry has seen a significant rise in healthier food alternatives and organic food items. At least 84% of Canadian consumers believe food has a direct impact on their physical health and nearly 63% of these consumers have agreed it plays an important factor on their emotional wellbeing too (Powell, 2017). About one quarter of that, or 27% of survey respondents, claimed they are more likely to purchase from a restaurant that claims to offer healthy food options (Powell, 2017). Keeping these statistics in mind, Pita Pit seems much more attractive for Canadian consumers.

Pizza Hut

Pizza Hut is an internationally known restaurant chain and international food franchise founded by Dan and Frank Carney founded in 1958 in Wichita, Kansas, United States. Pizza Hut is known for their pizza, but they offer a wide range of Italian-American cuisine, as well as other sides and desserts. As of March 2018, Pizza Hut operates 16,796 worldwide.

If a potential franchisee chooses to open a new Pizza Hut restaurant, they must first sign a Development Agreement. After the Development Agreement is signed, they must pay a development fee of $25,000 for each new restaurant they want to develop. The franchisee must also sign a Location Franchise Agreement if they plan on opening up a new restaurant.

If the potential franchisee is planning on purchasing an already existing location, the franchisee must enter into an Asset Sale Agreement. The purchase price that the franchisee will have to pay will be negotiated between the franchisor and the franchisee. The amount is usually related to historical cash flows from the specific restaurant location they wish to purchase. On top of the negotiations, a $25,000 initial fee per restaurant plus the value of that restaurant's equipment and inventory is required. The franchisee is also required to pay an exclusivity fee which grants the franchisee the exclusive right to pursue with acquiring the franchise(s). Table 2 breaks down more clearly what the estimated initial investment is for a potential franchisee.

Table 2: Estimated Investment in One Pizza Hut Restaurant

Expenditure/fee	**Amount**	**Method of Payment**	**Due Date**	**Payable To**
Initial Franchise Fee	$25,000	Lump Sum	At time of acquisition close	Pizza Hut
Development Fee	$25,000 - $50,000	Lump Sum	At the time of acquisition close	Pizza Hut
Equipment, Signs, and Inventory	$125,900 - $751,300 or more	Lump Sum	At closing	Pizza Hut
Leasehold or Other Real Property Interests	Varies	Varies	At closing	Pizza Hut
Computer Technology Upgrades	$0 - $10,000	Lump Sum	As Incurred	Pizza Hut
Computer System Training (if requested by franchisee)	$1,500	Lump Sum	When requested	Pizza Hut
Total Purchase Price	**$175,900 - $837,800 or more**			

Other than the initial investment costs, there are other fees that the franchisee has to pay such as a Restaurant Technology Fee which comes up to $2,500 per year and a System

Advertising Fund which costs the franchisee 4.75% of gross sales. There are also some fees which vary in price due to several contributing factors. These fees include taxes, On-site Training & Assistance fees, Inspection and Testing costs, etc. Table 3 further breaks down some of these expenses.

Table 3: Other Fees Involved in Investing in a Pizza Hut Franchise

Fee/Expense	Cost	Expected Payment
Restaurant Technology Fee	$2,500 per year	12 monthly bills a year
Monthly Service Fee	6% of gross sales	Payable monthly by the 20th day of the following month
Taxes	Determined by tax authorities (differs per region)	As incurred and upon demand
System Advertising Fund Contribution	4.75% of gross sales	Payable monthly by the 20th day of the following month
International Pizza Hut Franchise Holders Association (IPHFHA) fees	4.75% of gross sales	Established by IPHFHA
Digital Innovation Fees	$0.38 per transaction conducted through a digital or other automated channel established by Pizza Hut	Payable monthly by the 20th day of the following month
Software Training Fee (only if franchise opts to partake in training program)	$1,500 plus travel and living expenses	When requested
On-site Training and Assistance	Unspecified/varied training fees plus expenses	When requested
On-going Training	Unspecified/varied training fees plus expenses	When requested
Inspection and Testing Costs	The franchisee must reimburse Pizza Hut for all costs and expenses incurred to the review, inspection, and approval of a proposed	When requested

	product or supplier. Includes salary, travel, and lodging expenses	
Audit	Expenses may vary depending upon multiple factors such as the auditor selected	Five business days after billing

Pizza Hut franchises follow two models: FCD, which is the more prominent model of dine-in/delivery/pick-up restaurants, and the smaller "Delco" model, which is more geared towards pick-up and delivery. Table 4 breaks down the differences in the required expenses to operate each type of franchise.

Table 4: Comparison of Costs for a Pizza Hut Franchise (FCD VS Delco)

Expense	FCD	Delco
Equipment	$150,000 - $450,000	$125,000 - $200,000
Opening Inventory	$4,000 - 8,000	$4,000 - $8,000
Smallwares	$15,000 - $50,000	$15,000 - $22,000
Building/Site Improvements	$550,000 - $1,575,000	$340,000 - $550,000
Land	Varies	Varies
Computers	$15,000 - $30,000	$15,000 - $30,000
Miscellaneous	$10,000 - $22,000	$10,000 - $22,000
Advertising	$0 - 16,500	$0 - $10,300

Saladworks

To open up a single Saladworks franchise once it is approved, the prospective franchisee must sign a franchise agreement and a non-refundable $35,000 payable to the franchisor. When submitting the deposit, it is final and non-refundable. In the US, if the franchisee is a veteran of the U.S. Army, he or she must pay a sum of $15,000 right away which is also non-refundable. Once the franchisee pays the deposit, he or she will get a Prototype Design Package ("PDP") at no cost to them. If he or she does not use Saladworks' preferred architect once the franchisee finalizes a location, then he or she will need to arrange an architect that will result in higher fees. The franchisee must use Saladworks' PDP. If the franchisee chooses his or her own architect, he or she must have someone from Saladworks come and review the store at a cost of $1,000. If the franchisee uses the company's preferred architect, then the $1,000 is waived and paid by Salad Works.

Table 5: Estimated Investment in One Saladworks Restaurant

Fee	Cost	Payment Due	Payment to
Royalty Fee	6% of net sales	Every Wednesday	Saladworks (SW)
Advertising fee	3% of net sales	Every Wednesday	SW
Insurance	18% procurement fee if he or she fails to keep their insurance		SW
Renewal fee	$17,500	On renewal	SW
Failure to attend the annual convention	$1,000	On occurrence	SW
Annual convention	Their travel and rooming expenses	N/A	N/A
Sublease fee	0.5% of net sales		
Local advertising and promotion	2%	As incurred	SW
If he or she requests help with the store opening	$500 a day per staff member	As requested	SW

Referring to the table below, it will cost the franchisee between $415,273-$596,455 to open up a Saladworks franchise. He or she will need most of these funds up front. Some costs can be claimed back on business taxes, as a business expense etc.

Item 7 ESTIMATED INITIAL INVESTMENT

YOUR ESTIMATED INITIAL INVESTMENT (FOR A SINGLE RESTAURANT)

Type of Expenditure	Amount	Method of Payment	When Due	To Whom Payment Is To Be Made
Initial Franchise Fee[1]	$30,000 - $35,000	Lump sum	On signing franchise agreement	Us
Architectural Plan Review[2]	$0 - $1,000	As incurred	On request of our PDP	Us
Architect Fees[2]	$11,500	As incurred	Before opening	Our preferred architect or your local architect
Permits & License Fee[3]	$2,300 - $5,000	As incurred	Before opening	Contractors or government agencies
Leasehold Improvements[4]	$158,700 – $280,500	As incurred	Before opening	Contractors
Equipment[5]	$105,000 - $105,700	As incurred	Before opening	Designated Vendor
Furniture[5]	$4,520 - $12,150	As incurred	Before opening	Designated Vendor
Millwork	$14,180 - $24,500	As incurred	Before opening	Vendors
Smallwares	$3,920 - $4,470	As incurred	Before opening	Designated Vendor
Exterior Signage[6]	$7,600 - $13,100	As incurred	Before opening	Vendor
Menu Board, Graphics and Interior Signage	$19,300 – $25,640	As incurred	Before opening	Vendors
Technology Systems[7]	$553 - $695	As incurred	Before opening	Us
Grand Opening Marketing[8]	$5,000	As incurred	On or before opening	Vendors
Security Deposit	$0 - $11,500	Lump Sum	Upon lease signing	Landlord
Uniforms, Menu Materials, Office Supplies	$2,450	As incurred	Before opening	Vendors
Travel & Living Expenses While Training	$0 - $2,500	As incurred	During training	Transportation, motels & restaurants
Opening Inventory	$5,700 - $7,150	As incurred	Before opening	Designated Vendors
Insurance[9]	$1,750 - $3,000	As incurred	Before opening	Insurer
Additional Funds – 3 months[10]	$42,800 - $45,600	As arranged	As incurred	Landlord, utilities, suppliers, etc.
TOTAL	**$415,273 - $596,455**			
TOTAL PROJECT COST**	**$388,273 - $531,455**** **based on our experience, you may receive on average between $27,000 and $65,000 in tenant improvement allowance, which will be paid back to you by your landlord within 90 days of opening. While you may need the Total amount up front, this estimate is representative of total project cost after allowances. Not getting tenant improvement dollars would increase your overall project cost.			

Saladworks Annual Report and Franchising disclosure document. (2018). 1-39. Retrieved February/March 2018

Freshii

Freshii is a nationally recognized brand that operates over 370 locations throughout North America, South America and Europe. The franchise, founded by CEO Matthew Corrin in 2005, offers healthy meals such as salads, rice bowls, wraps, oatmeal, fresh and frozen yoghurt, healthy portable snacks and beverages, and plans to expand to 760 locations worldwide by year end 2019. The total investment required to begin operation of a Freshii restaurant franchise is $175,000 to $470,500, including a $45,000 upfront fee payable to the parent company or affiliate. This payment includes a $30,000 franchise fee, $10,000 marketing deposit for grand opening costs, and a $5,000 application review fee payable upon submission of a letter of intent. Freshii may also sell rights to individuals or entities to develop many restaurants in a specified territory, at a minimum of five restaurants per Area Development Agreement. Area developers are required to pay a development fee of 100% of the initial franchise fee for the first restaurant to be developed, plus an additional deposit of 50% of the initial franchise fee for each additional restaurant developed under the agreement. The total estimated investment required ranges from $237,000 to $533,000, including the $90,000 upfront franchise fee payable to the parent company or affiliate ($30,000 + 4 x $15,000). Additional fees include a weekly royalty of 6% of gross sales, monthly marketing contribution of up to 3% of gross sales (currently 1.5%), 1.5% of gross sales spent on local marketing efforts (must be approved by the franchisor), and $10,000 upon transfer of the location to another franchisee. The franchisee must also consider one-off fees such as $500 per day plus out-of-pocket expenses for ongoing training and special assistance, $2,000 for replacement of a confidential operations manual, and additional fees for new product testing, general business insurance, relocation, audit, interest, indemnification, employee attire and printing. The franchise agreement is for ten years and renewable for an additional ten. Table 6, below, provides a breakdown of expected investment costs by line item. The company is headquartered at 1055 Yonge Street, Unit 101 in Toronto, Ontario, Canada, with American operations located at 27 North Wacker Drive, Suite 426, Chicago, Illinois, USA.

Table 6: Estimated Investment in One Freshii Restaurant

Expenditure type	Cost	Payment Due	Payable To
Letter of Intent	$5,000	Upon LOI signature	Freshii
Franchise Fee	$30,000	Lump sum unless Area Development franchise	Freshii
Travel & living expenses while training	$10,000 - $25,000	As agreed	Third Parties
Marketing Deposit for Grand Opening	$10,000	Upon lease signature	Freshii
Real Estate / 3 Months' Rent	$10,000 - $30,000	Monthly	Landlord
Security Deposit	$5,000 - $15,000	Upon lease signature	Landlord
Construction, Remodeling, Leasehold Improvements	$30,000 - $150,000	As incurred	Contractors/Interior Designers
Furniture, Fixtures, Fixed Assets, Equipment	$30,000 - $100,000	As incurred	Approved Vendors
Signage	$3,000 - $10,000	As incurred	Approved Vendors
Opening Inventory and Supplies	$5,000 - $10,000	As incurred	Third Parties
Insurance	$1,000 - $7,500	As incurred	Insurance Company
Licenses and Permits	$1,000 - $3,000	As incurred	Government agencies and contractors
Miscellaneous	$5,000 - $15,000	As incurred	Third Parties

Opening Costs			
Contingency Capital	\$10,000 - \$60,000	As incurred	Third Parties
Total Investment	**\$175,000 - \$470,500**	**As incurred**	**Freshii, Third Parties, Landlord, Contractors, Insurance Company**

Generally speaking, Freshii restaurants provide products and services to the general public that compete with restaurants, grocery stores, and convenience stores offering healthy foods and snacks. The market is well-developed and targeted at health-conscious customers. Furthermore, the restaurant industry itself is heavily regulated. A variety of federal, state and local laws, rules and regulations govern and impact standards, zoning, permitting restrictions, construction, design, maintenance and operation of each location. Moreover, there are existing strict standards for employee health and safety, food identification and labelling, and advertisements about food. For example, all store employees must be ServSafe certified. Locations are routinely inspected to ensure that they comply with these laws, rules and regulations. As a franchisee, these regulations are essential to consider, as they can take significant time and effort to manage, and have a significant effect on successful build-out and day-to-day operations.

A typical Freshii restaurant occupies approximately 500 to 1,500 square feet of space within an inline footprint in an urban setting with a high vertical density that is focused on attracting office workers and professionals. Rent varies by geographic location, size, local rental rates, other businesses in the area, site profile, and other factors. A landlord may require a security deposit that is equivalent to one to three months' rent. While the majority of franchisees rent their locations, buying real estate is another option that might represent an additional long-term revenue source for the franchisee and decrease the risk profile of the investment. The estimate provided in Table 5 represents the typical cost associated to outfit a 1,000 square foot property to align with Freshii's operating standards and visual brand guidelines. Costs may vary based on the site's condition, location and size, and include items such as floor coverings, wall treatment, millwork, ceilings, painting, window coverings, electrical, plumbing, digital menu boards, small wares and office supplies. The franchisee should also be aware that the parent company may require him or her to periodically remodel the restaurant, branding, layout, design, or replace a material portion of operating assets to meet current requirements. The franchisee should be prepared to cover these expenses at any time within 60 days with written notice. Moreover, all remodelling efforts must be approved by the franchisor. All leasehold improvements, fixtures and equipment must also be approved by the franchisor.

While the franchisor provides initial training, guidance, proprietary products and marketing materials and campaigns for the franchisee, there is a substantial amount of work that the franchisee must be prepared to execute in a timely fashion. In many cases where the franchisee does not have previous domain expertise in strategy, negotiation and building out a brick and mortar site, they must be comfortable being uncomfortable navigating a steep learning curve. Specifically, the franchisee must be prepared to select and win a site, sign a lease agreement, coordinate pre-opening purchases, coordinate permits and drawings, train employees, manage grand opening and initial fees, comply with franchise and regulatory standards, purchase initial inventory and comprehensive commercial general liability insurance, draft a business plan, and prepare reports, among other activities. The franchisee must be comfortable working in an environment where no job is too big or too small for them. From a marketing perspective, the franchisee should understand that the franchisor invests the 1.5-3% royalty in overall brand-building activities that may not necessarily benefit their specific territory. Additionally, the franchisee must understand that all local marketing efforts, including brand and trademark usage, must be approved by the franchisor head office.

One major limitation of the FDD was the lack of actual or projected financial performance records provided. The FDD cited the FTC Franchise Rule, which permits a franchisor to provide information about the actual or projected financial performance of its franchised and/or franchisor-owned outlets. Historical records are only provided upon purchase of an existing franchise in the network. According to a report by Peridot Capitalist (Brand, 2017), however, for an average store investment of $260,000, same-store sales in 2016 averaged $468,000 per location at a 10% profit margin would net franchisees a 14-15x ROI.

The franchisor reiterates its targets of growing to 730-760 stores by year-end 2019, achieving same store sales (SSS) growth between 3-4% for Fiscal 2019, and system-wide sales of between 5-6% for the same period. Potential catalysts for success include higher than average anticipated store openings, SSS ahead of guidance/expectations, supportive policy change announcements by the new U.S. administration, and an improved economic backdrop. Potential risks include an inability to deliver against store opening targets, SSS below expectations, a weaker economic backdrop across North American markets, and a decrease in profitability due to increases in input costs such as labour and ingredients.

Overall, opening a Freshii franchise is an attractive investment due to its recognizable, global brand, a leading position in a growing health-conscious, fast-casual market, relatively low initial investment of $175,000 to $470,500 and reasonable franchise fees of 6% gross sales (weekly), 1.5-3% marketing royalty (monthly), and 1.5% spent on local marketing. Moreover, the franchisor is expected to achieve same-store-sales growth of 3-4% in the next year, and system-wide sales of 5-6%. With the franchise focusing on locations with high traffic and density with young professionals, a prospective franchisee could expect early mornings and reduced hours on weekends. Franchisees are also given adequate training at Freshii's Toronto or Chicago headquarters and can purchase master franchise agreements of at least five stores. The one objective Freshii may not meet is being able to provide a living wage of $60,000 for all co-owners. It is likely a franchise best suited to one or two owners with available working capital.

Decision and Process:

Ultimately, the three “fast-casual” quick-service restaurants in Freshii, Pita Pit and Salad Works scored the highest on the decision matrix with scores of 131, 123, and 130, respectively. These all came in at reasonable investment of under $600,000 and had conservative royalties below the thresholds established in our decision criteria. Pizza Hut and Boston Pizza scored lower, however, at 93 and 77 points, respectively, mostly due to a start-up cost in excess of a million dollars, stagnant same-store-sales growth, and low profitability. It is also important to note two major limitations in our decision - one being that none of the franchises would allow all partners to draw a $60,000 annual income, and the other being that none of the franchises were accepting new franchisees within 100 km of Toronto. They are all relatively mature at this point and focused on international growth in new markets. That being said, an analysis showed that there are some local options available for sale within the Greater Toronto Area, including Freshii.

In choosing a Freshii franchise, the team can expect a modest initial investment of $175,000 to $470,500 and reasonable franchise fees of 6% gross sales (weekly), 1.5-3% marketing royalty (monthly), and 1.5% spent on local marketing. Store support and training is amply available within the first 8 months of build-out, and the overall concept is one that is targeted at a healthy millennial lifestyle. The parent company has shown solid same-store-sales growth of 3-4% YoY and an average franchise can expect annual sales in excess of $468,000 per location, putting the breakeven period sometime in year two or three of operations. While similar arguments could be made for both Saladworks and Pita Pit, the Freshii brand is strong, internationally recognized, and focused on empowering people to live healthier and happier every day -- something all of us could appreciate and something that resonates with millennials.

	Criterion	Weight	Freshii	Pita Pit	SaladWorks	Pizza Hut	Boston Pizza
Financial Criteria	Franchise should not exceed $750,000 total investment	5	3	3	2	2	0
	Weekly royalty fees should not exceed 8% of gross sales	4	3	3	3	3	2
	Advertising royalty fees should not exceed 6% of gross sales	4	3	3	3	3	3
	Franchise training should be offered within 6 months of grand opening and not exceed $8,000 in incremental costs	3	2	2	3	2	3
	Minimum duration of 5 years for franchise agreement plus the option to renew for < $15,000	3	3	1	3	3	2
	Franchise has exclusion right for the first five years and only two new operations can open within 10km radius	2	3	3	2	2	3
	Less than 5 year payback period	5	3	3	2	2	0
	Franchisee can purchase additional units at a 10% discount to the original franchise fee	2	3	3	3	3	3
	SSS growth of at least 2% per year	5	3	3	3	1	0
	Expected financial return of at least 10x original investment	5	3	3	3	1	2
Personal Criteria	Expected business hours should not exceed 50 hrs / week for the franchisee	4	2	2	2	2	1
	After-hours calls (past 6pm) should only occur biweekly	4	1	1	3	1	2
	Accepting new franchisees within 100km of Toronto	3	0	0	0	0	0
	All partners can derive personal incomes of $60,000 per year	4	1	1	1	0	1
	All parties are genuinely interested in the franchise's core business area	2	2	1	2	1	2
	Sum	55	131	123	130	93	77
	Rank	-	1	3	2	4	5
	Status	-	Decision				

Score meaning:	**Weight Meaning:**
3 Fully Satisfies	5 Very High Importance
2 Substantially Satisfies	4 High Importance
1 Partly Satisfies	3 Medium Importance
0 Does not Satisfy	2 Low Importance
	1 Very Low Importance
	0 Not Important

Citations

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