Franchising, Licensing & Growth By Adoption

Tools For Operators · https://jeffreysummers.com/docs/franchising-licensing-growth-by-adoption/

An operator with one good building wants a second. Or he wants out of the daily and into something that scales. So he looks at buying a franchise, or at franchising his own, or at a licensing deal, or at a management company's system.

Every one of those is the same transaction underneath: growth by adopting a system built to be adopted. And that sentence contains the entire problem, because a system built to be adopted was necessarily built against a building that is not yours.

What A Franchise Actually Is

A franchise is a complete operating architecture, decided elsewhere, licensed to you, and enforced by contract.

Every part of it is somebody's decision. The menu, the buildout, the equipment package, the vendors, the labor model, the pricing, the standards, the marketing spend, the software, the reporting. Somebody made each of those calls against a market, a period, a cost structure, and a scale, and none of it was your building.

The inference: **this system produced results in hundreds of locations; therefore this system will produce results in mine.**

The premise is usually true. The conclusion depends entirely on whether the load in your market matches the load the system was drawn against, and nobody in the transaction is paid to find out.

What You Are Actually Buying

This is where operators get it wrong, and the split is clean.

Real, and worth paying for. Brand recognition that shortens the demand-building work. Purchasing power you cannot get alone. Site selection built on real data. A proven buildout that will not surprise you. Financing that is easier to get. Training infrastructure. Somebody who has

already made the expensive mistakes.

Those are capabilities. They leave your operation able to do things it could not do alone, and some of them are genuinely worth what they cost.

Also being bought, usually without noticing. Every ruling about how the operation runs, permanently, with a contract preventing you from changing it.

That second half is not a side effect. It is the product. A franchise's value to the franchisor depends on consistency, which requires that the operator not rule his own building. The contract exists to enforce that. You are not being cheated -- you are buying exactly what is advertised, and most operators have never once read what the second half costs.

The Constraint You Inherit

Every part of the system was drawn against a specific set of limits, and you inherit all of them whether or not they exist in your market.

A labor model built when wages were different in a market unlike yours. A menu built for a supply chain and a Guest expectation in another region. Equipment specified against a volume assumption. A pricing structure built against a cost basis that is not yours. Occupancy assumptions from a period that has passed. Marketing spend allocated against a media landscape that has changed.

And you cannot rule any of it. That is the part that costs the most. You are in your building, seeing what is actually there, and the one thing you have no authority to do is decide differently. When your read and the system conflict, the contract wins, and your read becomes a private frustration.

Six Things That Come With It

Vendor arrangements you did not negotiate. Required suppliers at required prices, sometimes with rebates flowing back to the franchisor. Your cost basis is not yours and you cannot see all of it.

Royalty and marketing fees off the top line. Percentage of revenue, not profit, which means they are paid in a bad period exactly as in a good one.

A defined territory that limits your own growth. You can grow into what you were sold and no further.

Standards enforcement with no read behind it. An inspector scores your building against the system's criteria. Same instrument as a mystery shop, with contractual consequences attached.

Encroachment and system decisions you do not vote on. A new location down the road, a menu change you have to execute, a technology mandate you have to fund, a marketing direction you have to pay for.

An exit that is not fully yours. Transfer approval, right of first refusal, and a business whose value is partly the brand's rather than yours. You built equity in somebody else's asset.

Franchising Your Own Is A Different Business

The operator with one strong building who decides to franchise it usually does not understand what he is changing into.

You are no longer in the restaurant business. You are in the business of selling operating systems, and the product is a set of documents and standards portable enough to work in buildings you have never seen. Which means everything specific to your building -- the read, the cast, the room, the particular thing your Guests choose you for -- has to be stripped out to make it sellable.

You will spend your time on franchisee recruitment, compliance, legal, and support. Your income comes from royalties, not from operating. And the thing that made your one building work is precisely the thing that cannot be packaged, so what you sell is the part that was never the reason.

Some operators genuinely want that business, and that is a legitimate choice made with open eyes. Most think they are scaling their restaurant, and they are not.

The Honest Test Before Any Of It

What can I rule, and what can I never rule. Write both lists from the actual agreement, not from the pitch. Look at the second list and ask whether you can live inside it for ten years.

What is the total cost, including what I cannot see. Royalty, marketing, required vendors, mandated technology, required remodels, and the spread on anything you are required to buy through them.

What was this system drawn against, and is that true in my market. Wages, rent, supply, Guest expectation, competitive set. Where it does not match, you are inheriting a constraint that does not exist here.

What happens when my read conflicts with the system. Get the real answer, from existing franchisees, not from the franchisor.

What is my exit and what is it worth without the brand. If the answer is nothing, you spent a decade building somebody else's equity.

Is the demand actually theirs or mine. In some markets the brand brings the Guests. In others you will build the demand yourself and pay a royalty on it forever. Those are completely different deals wearing the same paperwork.

What Replaces It, If Growth Is The Goal

Build the second one off your own read. Same rulings, new building, re-read for that market. Slower, entirely yours, and the equity is yours.

Buy capabilities instead of an architecture. Purchasing groups, shared back office, a real estate partner, financing, the specific expertise you lack. Every one of those is buyable without licensing your rulings away.

Build the structure that lets the operation run without you first. Most operators wanting out of the daily do not need a franchise. They need a cast holding a written standard with the authority to execute it. That is the actual constraint, and no license fixes it.

Own the thing that cannot be copied. The read, the rulings, the cast, and what your Guests cannot get in the same form anywhere else. Grow by reproducing your ability to do that, not by installing a system that reproduces the parts.

What Changes Tomorrow

If you are considering buying one, take the disclosure document and build two lists on one page: everything you would control, and everything the contract controls. Do not summarize. Line by line, in their words.

Look only at the second list. That is the operation you are agreeing not to run. If the read you would have made about your own building appears anywhere on that list, you now know exactly what the deal costs beyond dollars.

If you are considering franchising your own, write down the five things that make your building work. Then, honestly, mark which of them could survive being written into a manual and handed to a stranger in a city you have never visited.

Whatever does not survive that test is the actual reason your operation works, and it is the part you would not be selling. Decide with that in front of you.

Digging Deeper

Every term in my framework lives in the Knowledge Base: kb.jeffreysummers.com

Terms used here: [Constraint Inheritance], [Sameness Machine], [Default Architecture], [Designed Architecture], [Vendor Capture], [Cost Basis Opacity], [Contract Constraint], [Structural Scale], [Authority To Execute], [Meaningfully Differentiated Value], [Ordinary By Design], [Configuration Arbitrage], [People Constraint], [Constraint Architecture], [Transactional Cost-Plus]

More of my work on this, all of it in the Knowledge Base:

- 2045 Should You Franchise Or Go Independent -- the full published treatment of this decision
- 5.X You Didn't Buy A Business Partner. You Bought A Dependency. -- what the agreement actually installs
- 2060 The Decisions Before The Decisions -- what has to be settled first
- 074 Million Dollar Mediocrity -- the operation that scaled the wrong thing
- 5.X What Makes A Restaurant Sellable -- the exit, read honestly
- 5.X Your Lease Is A Profit Decision -- the other contract nobody reads

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