WHITE PAPER

ROI Advantages in Value-Based Franchises

Decreased initial investment and diversification fuel value-added franchise concept.

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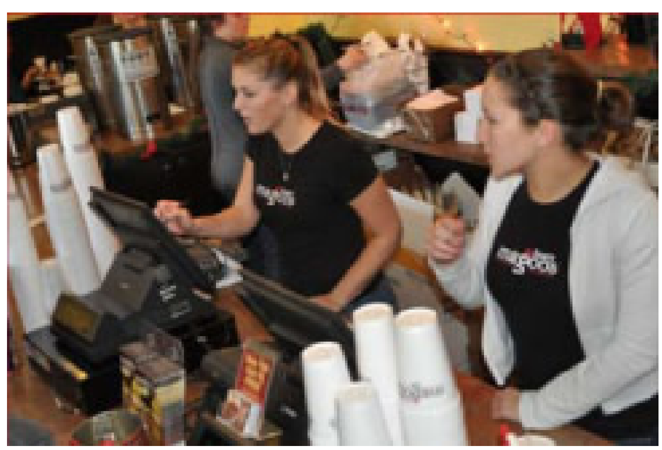
The mutually beneficial arrangement created by the franchise concept makes it an attractive scenario for many entrepreneurs. The system affords business owners the opportunity to expand while providing external entrepreneurs the chance to invest in a business of their own without the added risk that goes into developing a completely new concept. The problem is that sometimes the front-end investment leaves external players questioning their ROI.

According to the Restaurant Industry Association, the chicken restaurant sector has become one of the top restaurant franchise growth areas over the last decade. In 2011, eight chicken restaurants landed among the top 50 franchises seeing the largest jump in new units between 2010 and 2011, often coming with a hefty initial investment fee for franchisees.

This white paper, sponsored by Huey Magoo's, an Orlando-based chicken restaurant company, discusses how a value-added franchise system makes it possible for investors to become franchise owners in one of the fast growing restaurant franchise sectors while minimizing the associated investment costs and tempering the risks.

Lower startup costs

A survey conducted by Leger Marketing found that 14 percent of entrepreneurs who decide to invest in a franchise do so because of predictable startup costs. A would be investor looking into a major brand chicken restaurant franchise, namely one ranking high on the growth list, will find that the initial investment comes with a high price tag.



Several factors contribute to the value-based franchise concept, including reduced royalty and advertising costs.

In some cases the startup cost comes in beyond the $2 million mark, and that does not include franchise fees or advertising costs. The high cost of real estate, new construction or the purchase of a stand-alone building that needs to be customized is a major impetus for the high cost of investment in this sector.

Franchising a small capital or emerging restaurant affords the advantage of decreased startup costs, though there may initially be less immediate brand recognition. Under Huey Magoo's franchise concept, investors have the opportunity to invest in multiple locations within a defined geographic area. Investment costs remain comparable to that of a single established brand franchise because the property cost factor is reduced as well as royalty and advertising costs are significantly decreased.

"For investors, the question is do you want to put $1.5 million into one restaurant, or do you want to invest the same amount for three restaurants within a single territory," said Matt Armstrong, co-founder of Huey Magoo's.

Less competition

Competition abounds when it comes to restaurant franchises. Multiple players are continuously vying for a stake in the various categories that make up this economic sector. Each category, be it chicken, hamburgers or coffee, is continuously expanding.

Franchising a single location within a given category is a common approach for new franchisors. From that point it is sink or swim amongst a sea of competitors.

Given the startup costs associated with chicken restaurants in particular, investing in multiple locations, though doable from a strategy perspective, often requires a substantial investment and is more difficult to achieve from a financial standpoint.

The value-added franchise methodology allows for an advantage that helps franchisees stand out from the competition. For Huey Magoo's, the idea is that investing in a select geographic area rather than a single location, affords a competitive advantage and can be done without exceeding the investment costs of other franchise models.

Value-added franchise concept

The value-added franchise concept, developed by Huey Magoo's, includes:

- Lower start up costs
- Increased diversity
- Less competition
- Decreased risk

Increased diversity, decreased risk

A diversified financial portfolio is a commonly recommended and accepted course of action when it comes to stock market investments. Why doesn't the same hold true with restaurant franchises? The fear of failure cripples some would be franchisees. For some, the idea of putting a sizeable investment into a single establishment that may or may not survive is enough to stop them before they even begin the process. This highlights one area of concern when investing in a costly, well-known franchise brand.

The value-added franchise concept developed by Huey Magoo's hones in on diversification. Multiple locations within a target region not only minimize competition, it also substantially decreases the risk of the investment. It positions investors to bypass the risk of putting all of their dollars into a singular idea. This is important especially for a new and emerging brand that does not yet garner the same immediate recognition achieved by long-standing franchises.

"We bring to the market an investment opportunity where franchisees can expand their ROI by having multiple revenue streams," said Armstrong.

The built in ROI components of a value-based franchises make them an attractive opportunity for investors. No matter what the name on the franchise, whether it's a household name or emerging brand, the ultimate question investors must ask is, "What is the ROI?" The cost savings, protection from competition and decreased risk associated with Huey Magoo's value-added franchise concept makes the idea a valuable alternative to the franchise norm.

About the sponsor: *Huey Magoo's, based in Orlando, Florida, has a mission of serving great tasting, cooked-to-order chicken tenders in a clean, friendly environment. Founded in 2004, the company operates two restaurants in Central Florida and is continuing its expansion with two franchised locations starting October 2012.*