2045 Should You Franchise or Go Independent

Product Book · https://kb.jeffreysummers.com/docs/2045-should-you-franchise-or-go-independent/

This question gets asked from two directions. The operator who has built something and is considering franchising it out. And the operator who is starting out and deciding whether to buy into a system or build their own. The mechanics are different. The core question is identical: what are you trading, and is the trade worth it?

If You've Built Something and Are Considering Franchising It

You have a concept that works. The food is right, the experience is right, the Guests are loyal, and someone is asking whether you want to put your name on their building. Before you answer, understand what you are actually selling.

The franchising minimizers in a Cornell study of ninety-four restaurant chains — the chains with strong brand names and specialized operating knowledge that stayed predominantly company-owned — outperformed every other group. Return on assets 2.96. Sales growth 28.72 percent. Market-to-book 2.09. They protected the brand by keeping control of the experience. The worst performers were the chains that franchised to solve a capital problem. Return on assets -6.62. Sales growth -2.43 percent. They franchised because they needed cash. The capital problem didn't go away. It became an agency problem on top of a capital problem — franchisees cutting corners, brand standards eroding, quality declining.

The lesson is structural. The more your brand is linked to a specific experience — the food, the room, the cast, the standard you have built — the more value you destroy every time a franchisee delivers a version of it you didn't control. The independent whose competitive advantage is the relationship cannot franchise the relationship. They can franchise the name. Those are not the same thing.

Franchising your concept is not growth. It is multiplication. If what you are multiplying is strong, multiplication compounds it. If what you are multiplying is dependent on your presence, your judgment, and your standard — multiplication dilutes it. Know which one you have before you

sign.

What the Business Is Worth When You're Ready to Leave

The relationship-based model is the independent's competitive advantage while the operator is present. It becomes a valuation problem when the operator wants to exit.

A buyer does not pay for relationships. They pay for systems, documented processes, transferable revenue, and a business that performs without the person who built it. The Guest who comes back because they know the owner is not a transferable asset. The regulars who stay because of the culture the operator built are a risk, not a guarantee, the moment the operator signs the closing documents and hands over the keys.

This is not an argument against building relationships. It is an argument for building systems alongside them. The independent who runs a relationship-based operation without documented processes, trained managers who hold the standard without the owner present, and Guest loyalty attached to the experience rather than the individual — that operator has built something valuable to run and difficult to sell.

The operators who exit well build both. The relationship earns the revenue. The system makes the revenue transferable. A buyer looking at your business needs to answer one question: will this still work when you're gone? If the honest answer is no — if the cast defers to the owner, if the regulars ask for the owner, if the standard drops when the owner travels — the business has a valuation ceiling the financials alone won't overcome.

Build the relationship. Document the system. Develop the people who hold the standard without you. The exit is not the end of the story. It is the proof of concept for everything the book argues.

If You're Starting Out and Deciding Whether to Buy a Franchise or Build Your Own

You are on the other side of the same trade. The franchisor gets your capital. You get their system. Whether that trade makes sense depends entirely on what the system is actually worth — and what it costs you beyond the check.

What you get: brand recognition that generates traffic before you earn it. A proven operating system. Supply chain access at negotiated rates. Training infrastructure you don't have to build from scratch. A Guest base that already trusts the brand and will show up at a new location

because of the sign.

What you give up: the Guest relationship — which now belongs to the brand, not to you. Pricing flexibility. Concept flexibility. Menu flexibility. The ability to respond to your market without brand approval. A royalty that extracts a percentage of every dollar you earn regardless of whether your unit is profitable. A marketing fund you pay into but do not control. And the structural dependency that comes with all of it — the brand above you has its own creditors, its own growth imperatives, and its own survival priorities that have nothing to do with your unit.

Look at what the franchisor is before you buy. If they are franchising because the brand is strong enough to replicate — because the system is proven, the supply chain is real, and the recognition travels — the trade may make sense. If they are franchising because they need your capital to fund their growth, you are the money-scarce franchisor's solution. Your capital is solving their problem. Whether it solves yours is a separate question entirely.

The independent who builds by design — who chooses the relationship, builds the system underneath it, and compounds both over time — is not playing a smaller version of the franchise game. They are playing a different game entirely. One where the Guest relationship is theirs, the standard is theirs, and the advantage cannot be purchased, franchised, or competed away.

When Franchising One Unit Makes Sense

The decision is not always binary. Some operators build a strong company-owned core and use franchising selectively — not to solve a capital problem, but to extend into markets where company ownership is impractical.

The Cornell study's Seasoned Veterans operated this way. Oldest firms in the study, most experienced executives, modest franchising at 23%. Their performance matched the best-performing group. They were not franchising out of desperation. They were using it as a deliberate tool in a mature, disciplined operation.

The hybrid model works under one condition: the brand is strong enough and the operating system is documented well enough that a franchisee can deliver the experience without the franchisor's daily presence. That is a high bar. Most operators who think they are ready to franchise a unit are not — because the thing that makes the original work is still the operator, not the system. When the system can hold the standard without the operator, franchising one unit is a test worth running. Before that point, it is a way to find out, expensively, that the business was more personal than transferable.

The test is the same one the exit question demands: will this still work when you're gone? If yes — run the test. If no — build the system first.

Choose deliberately.