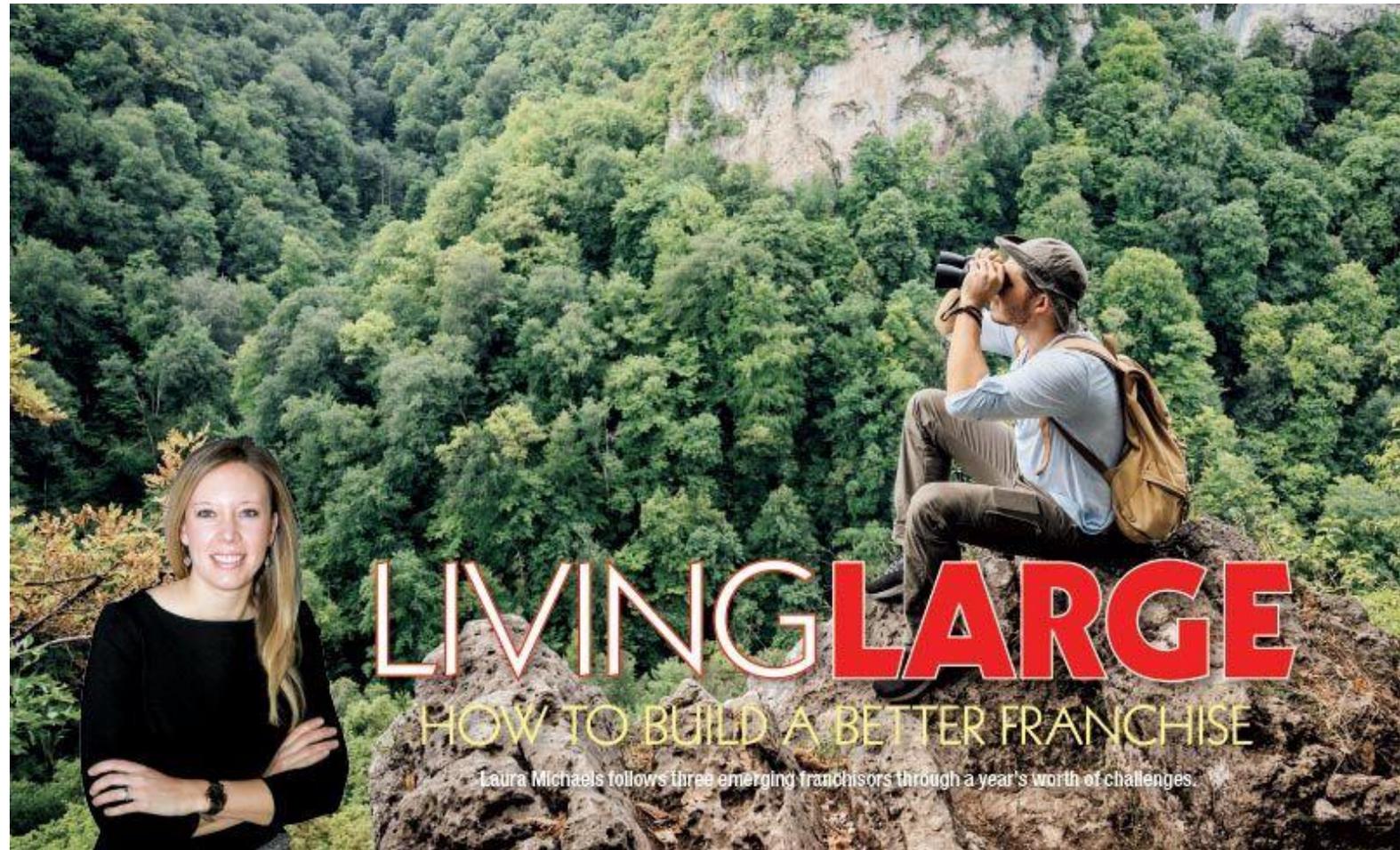


# Gut instinct doesn't cut it in site selection, in Living Large

Laura Michaels

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There's no getting around it—the real estate game is a challenging one. And for emerging brands wanting to establish themselves, the location of those first several units takes on even greater importance, as each is a vital building block on which the success of the franchise rests.

Franchisors must know what makes their concept tick before they can determine the best location for the business. How do customers interact with the concept? Is proximity to residential areas important? What about the tenant mix? An all too common mistake among young franchisors is accepting sites just to get stores open faster. Create solid site selection criteria and then stick to it; don't be lured by the desire to get open simply to collect royalties sooner. Failed locations early on can easily come back to haunt a brand or even deter prospective franchisees who see an Item 20, the list of franchise outlets, and count too many closures. Banks, too, may hesitate to lend money to a system that's losing units.

Most franchisee candidates aren't experts in site selection or lease negotiation, meaning smart franchisors will help fill in the knowledge gaps by directing them toward commercial real estate brokers or, in the case of one of our Living Large brands, requiring the use of a real estate attorney before signing a lease.

Yes, these resources are an investment for the franchisor, but given that a franchisee's level of success can hinge on location, it's money well spent.

### **'Cherry-picking locations'**

Tough Mudder Bootcamp puts in the work on the front end of finding real estate so its franchisees can keep their focus on the business, says Dan Henry, director of franchise sales for the Brooklyn, New York-based brand. Tough Mudder "site scores" the options, he explains, "but we're never going to pick the location.

"They're getting a list of locations already approved by us," he continues. "Our franchisees, they don't have to become experts in real estate" and instead can focus on lead generation, marketing and "driving their presale."

Though its name carries the weight of the mega endurance event brand, the Bootcamp side of Tough Mudder is still working to gain traction in the fitness studio space, meaning the sites for its first several locations need to be as close to perfect as possible.

"Right now, we're cherry-picking locations," says Henry. "We don't have a big brand, so we want those first studios in the best locations we can get."

For Tough Mudder, that means putting studios near what Henry describes as "daily needs" storefronts, such as "a Panera, a pet supply store or hair care." The brand's three open studios—Burlington, Massachusetts, Las Vegas, Nevada, and Houston, Texas—are all within shopping center developments.



"With small brands you can feel intimidated and pushed around. Remember it's your brand and you're the expert in it." — Dan Henry, Tough Mudder Bootcamp

"It's tough enough to get people to go to the gym, so we don't want to create any further friction," he says, adding access to parking, and ease of ingress and egress are other factors. "The type of clients we're going to get are already shopping at these locations," meaning the Bootcamps will always benefit from "secondary visibility."

Other key information for Tough Mudder is market density, daytime and nighttime population, and annual household income, notes Henry. Real estate research is outsourced to Doug Jerum at Hanna Commercial Real Estate, who Henry says also works specifically in tenant representation and can give that extra guidance.

"Our franchisees find extreme peace" thanks to Tough Mudder's real estate support, says Henry, and when it's time to negotiate a lease the brand has resources at the ready for that, too. "We say, 'We can't negotiate the lease for you, but here's a really good attorney.'"

### **Negotiate the best deal**

Rob Flanagan says it's rare that a franchisee comes to Wag N' Wash with the experience necessary to fully evaluate a location, which is why the brand has comprehensive site selection criteria and works with Catalyst Commercial Group, a national real estate brokerage. "They work in the franchise space, they have the resources and connections in every place in America," says Flanagan, president of Centennial, Colorado-based Wag N' Wash. Franchisees are presented with several site options and meet locally with a commercial broker to discuss pros and cons and visit the potential locations. Once the list is narrowed down, Flanagan, along with Wag N' Wash's founders, travel to review the finalists with the franchisee.

"At the end of the day, we don't want to feel like the franchisee got a location pushed on them, and then on the flip side we don't want to get



"Before you ever go to an agency, you have to be 100 percent dialed in to what's your messaging, what's your brand promise."  
— Rob Flanagan, Wag N' Wash

talked into a site either," says Flanagan. Open dialogue helps avoid that scenario, and the brand also considers a handful of factors such as retail synergy, access—"how easy is it to get in and out"—and average household income. "Folks with higher incomes spend more on their pets," notes Flanagan.

When franchisees are ready to sign a lease, Wag N' Wash requires the use of a real estate attorney to facilitate the transaction between 'zee and landlord because, says Flanagan, "If you don't have experience or don't think to negotiate," it's easy to miss out on tenant improvement dollars or end up locked into rent that ultimately impacts profitability. The attorney can also push for non-compete clauses in leases, stipulating that another similar retailer, such as one with a pet wash facility or with pet food accounting for more than 10 percent of overall sales, not be allowed to lease space in the development.

"They also may negotiate the size of a marquee sign, the pillar placement, how high up Wag N' Wash is," says Flanagan.

Wag N' Wash is careful to manage franchisees' expectations, which can sometimes mean giving them a reality check if they think they'll be able to open their store immediately after signing the franchise agreement. "It's talking to them before they're even in the real estate process, to educate them on what that looks like," says Flanagan. "It's all about patience and not getting too attached to any one location."

### **Market opportunity matters**

Site selection is generally a simple undertaking for Delta Disaster Services because there's no storefront necessary for the commercial and residential restoration business. Franchisees do have shops where they store trucks and equipment, and these locations should have convenient access to roadways, says Dan Tarantin, so they can get to jobs and "respond very quickly" when calls come in. "But we have a lower cost because you don't need those Class A locations," says Tarantin, CEO of HRI Holdings, the franchisor of Delta Disaster. "That's an advantage over other types of franchises."

The lack of a typical retail storefront doesn't mean Delta Disaster can have a cavalier attitude when it comes to choosing its markets. The brand has a presence in 13 states with the aim



"You've gotta manage your message through multiple channels." — Dan Tarantin, Delta Restoration Services

of building out territories nationwide, and it's

taking a strategic approach that includes analyzing a number of data points. "One of the main determinants for us is population size and number of households," says Tarantin, as that simple density factor increases opportunity. "We look at opportunity as opposed to competitors because competitors are everywhere."

Delta Disaster also considers the presence of referral sources, such as property management companies, which its franchisees can market to, along with the characteristics of a territory's business districts.

"Because we do commercial as well as residential, that's part of the conversation," says Tarantin.

Geographically, Delta Disaster doesn't place too much emphasis on opening in regions that are more likely to experience natural disasters such as hurricanes, with Tarantin noting while some companies are "chasing storms," that's not a focus for his brand. "The bulk of our business is the everyday things that can happen to anyone," he says, such as smoke damage or damage from a busted hot water heater.

"It's really about market opportunity."

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## What the experts say

**Don't relax site requirements.** While it's ultimately dependent on the brand, site requirements can be one of the most important items for opening new locations, says Steve Beagelman, CEO of SMB Franchise Advisors, "so you need to try and hold true to what has made your brand successful as much as you possibly can.

"If you relax those requirements it can end up hurting the brand in the long run."

**Take advantage of tech.** Location intelligence tools are an important part of site selection, but they haven't entirely replaced old-school practices of site visits and personal experience. It's important to apply both high-tech and low-tech solutions, says Mark Cairns, director of franchise development at Toppers Pizza.

"I think the technology and the analytics gets you to that right trade area and right intersection very quickly," says Cairns. But it is more difficult to find a space available right where that pushpin is located in a map, he says. Moving even a half block away from a key intersection can have a big impact on performance, and each potential location also needs to be evaluated for key factors such as accessibility and visibility that can influence customer traffic and sales.

**Provide professional resources.** A reputable franchisor will offer support in the final negotiations, including carefully examining provisions surrounding extensions on the lease and unexpected rent hikes, notes Ken McAllister, CEO of My Salon Suite. Still, he recommends franchisees hire their own attorney to review the lease. Franchisors also needs to steer new 'zees away from a reliance on a gut feeling type of decision. Instead, it needs to be disciplined, rational, systematic process.

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Laura leads the overall editorial direction of Franchise Times. Her special emphasis on international franchise development provides a behind-the-scenes look at franchisees operating U.S. brands on a global scale.