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Airing It Out: Athena Perrakis and Dave Meizlik at Torrance's Sage Goddess.

Solo Shops Buy Into Franchises

RETAIL: Investors spur quick jump into expansion mode.

By SUBRINA HUDSON *Staff Reporter*

Athena Perrakis started her company almost three years ago with a single product: \$6 hand-wrapped bundles of white sage, roses and lavender.

Now her company, **Sage Goddess** in Torrance, also sells gemstones and perfume oils out of its lone retail location – and Perrakis plans to start franchising.

It's just one of several young companies in Los Angeles that, despite having just one or two locations – and over the warnings of industry experts – are attempting to take advantage of high investor demand by jumping into franchising.

Franchising at such an early stage is a risky proposition, as emerging companies have to prove their short-lived business models can be successful and have enough brand awareness to pique the interest of potential franchisees. But would-be franchisers see ample demand from investors –

Please see RETAIL, page 37

Retail: Franchising Grows Quickly on Small Shops

Continued from page 1

both individuals and groups, including private equity firms — who are anxious for opportunities outside of the stock and bond markets, said Ed Kushell, president of Century City firm Franchise Consulting Group.

"There's a lot of cash out there looking for a place to go," he said. "So people say, 'Let's look at franchising.'"

Among the local upstarts are **Top Round Roast Beef**, a single-location Miracle Mile restaurant that's just 16 months old, which announced last month that it's partnering with **Upside Group Franchise Consulting** in Scottsdale to offer franchise opportunities. There's also **Chirp**, a kids karaoke café in Pasadena, and **Fleurish**, a do-it-yourself flower bar in Brentwood. Both opened single locations this year and already have plans to franchise.

Companies that are more established have noticed increased interest, too. **Anthony Parete**, vice president of franchising for Pasadena's **Wetzel's Pretzels**, said he's noticed more inquiries from potential franchisees over the past year.

"There has been a blip in 2013 and 2014, and I think it's going to continue into 2015," he said. "There seems to be a lot more people interested in developing a franchise with us."

Kevin Burke, managing partner at West L.A. investment firm **Trinity Capital**, which invests in franchised businesses, agrees that low bond yields and high stock prices are making franchises of all kinds a more attractive investment, but he also cautions that it could be difficult to successfully franchise a business that has just a few stores.

"You need to demonstrate that a concept has legs and that it would be widely accepted in different geographies," he said. "I think that becomes more of a challenge to prove when you only have one or two locations."

Alternative path

For investors, franchises represent a lot of work compared with a passive investment in stocks or bonds. But they also offer a chance to buy into a proven business model or, in the case of Top Round and other local startups, the



On Move: Athena Perrakis and Dave Meizlik at Sage Goddess in Torrance.

opportunity to buy into what franchisees hope might become the next big thing.

Mario Altiery, president of Upside Group, said the success of famous brands like McDonald's and Subway have made investors realize it's better to get in sooner than later.

"If you try to get on the list for one of those (now) you can't even buy one," Altiery said. "Because of that, people don't give any thought to a brand not having a long history."

But it can be an expensive proposition. Altiery said the investment can vary greatly depending on the type of business and location size, but the "sweet spot" for a fast-casual restaurant is between \$400,000 to \$475,000, including franchise fees and build-out costs.

For the businesses themselves, franchising can be very profitable and lead to quicker growth than they would be able to handle on their own, Burke said.

"It's an intelligent way to grow," he said. "And for a business that has a universal product, which entails universal demand and has a delivery system that produces good margins that can be replicated, franchising does a great job."

Dave Meizlik, chief operating officer at

Sage Goddess, said franchising will allow the company to grow quickly and without much capital expense for its owners.

"It's an accelerated go-to-market strategy," Meizlik said. "The investment necessary to open up 50 or 100 stores nationwide from one individual is significant and prohibitive."

Perrakis said she has considered the risks of expanding after one location, but she's under-estimated and points to her company's growth over the past few years. She said the 15-employee company, which she founded about three years ago in San Francisco and moved to Torrance last month, will have \$2 million in revenue this year. She expects that to more than double next year.

What's more, she said a niche business such as Sage Goddess has relatively few obvious competitors compared with a restaurant franchise.

"I think people know the generic risks of opening a franchise," she said. "But this is a much safer franchise than a yogurt franchise or sandwich franchise."

Anthony Carron, chef and co-founder of restaurant Top Round, said he wanted to expand its fast-casual concept and that franchising is a way to do that with less capital.

"The partners are a bunch of young guys," he said. "We don't have a ton of capital so if we were going to grow we needed to find a way to do that without expending capital we don't have."

He said Top Round's sole location, which opened last year, has been successful and that it won't be hard to replicate.

"There's not a ton of moving parts," he said.

Risk factors

Sage Goddess, Top Round and others looking to expand through franchising see there's increasing demand for franchises among investors. Across the board, franchise demand from new and existing franchisees is expected to jump 12.4 percent this year over last, according to Arlington, Va., consulting firm FranData. That represents a nearly 20 percent increase in demand from 2012.

But increased demand doesn't mean it's a good idea to invest in a franchise, especially a new and unproven one.

Barry Kurtz, a franchise law attorney with Encino firm **Lewitt Hackman**, said there's no legal requirement for a company to have one or even 10 business before selling franchises, but from a practical point of view, it's best to have a few company-owned locations first.

"There's just a lot of information that you haven't gathered yet because you haven't had the experience of doing it," Kurtz said. "Franchisors who have multiple locations learn from each location. What you don't want to do is learn on the backs of your franchisees."

Wetzel's Pretzels' Parete also advises young companies to tread carefully as they start to franchise — and not just for the sake of potential franchisees.

"I think it's important for the franchisor to make sure that the business model works and there's cash flow for the franchisee," he said.

"It's like getting married, but it's a lot harder to get a divorce from a franchisee than it is from a bad ex."

Franchise consultant Kushell agrees, but said that he thinks even these young businesses will find willing franchisees.

"People who want to buy a franchise get very excited and very unrealistic about things," he said. "There's a sucker born every minute."