

SMALL BUSINESS

Franchises, on a Smaller Scale

Firms Offer More Budget-Friendly Options, From Mall Kiosks to Mobile Carts

By STEPHANIE SIMON

Entrepreneur Rob Israel believes he has found a winning recipe.

The founder of **Doc Popcorn**, which sells fresh-popped snacks in flavors such as “sinfully cinnamon” and “hoppin’ jalapeno,” has supervised the opening of 54 franchise outlets in five years and says he is working with another 200 in development.

Mr. Israel would like to credit his product’s popularity for the steady growth. But he also attributes his success to a flexible franchise system that allows local entrepreneurs to buy into the

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brand at a level that fits their budget. Franchisees can open a full-scale store for an investment of up to \$150,000, or they can opt for a mall kiosk at a cost of about \$100,000. A mobile cart requires an initial investment of about \$70,000.

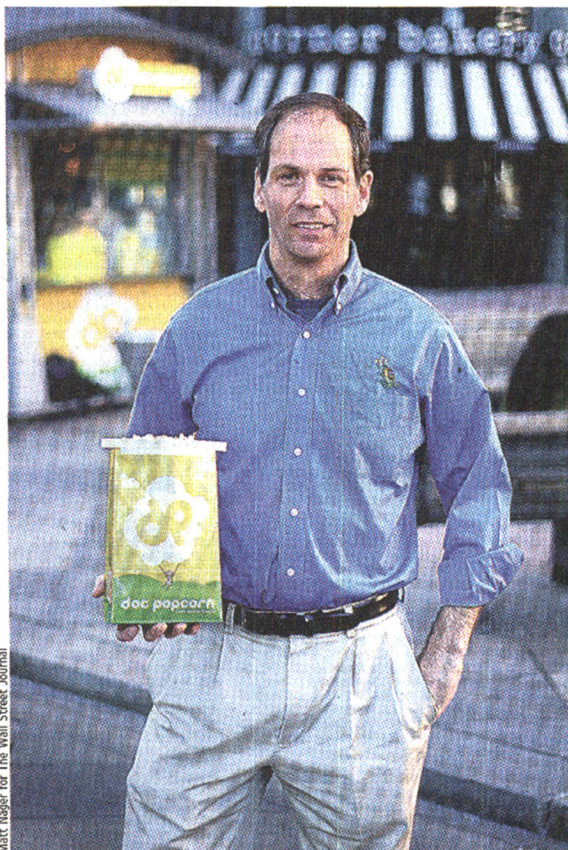
“It’s efficient, very simple and affordable,” Mr. Israel says.

It’s also a fast-growing trend in the franchise world.

Franchise consultants say they are seeing more corporations offering potential investors an array of business models, at different price points. In an era where credit is tight and investors are cautious, both franchisers and franchisees say this type of flexibility is the key to expansion.

“Many investors have difficulty finding credit to build out full-size stores,” says Steve Caldeira, president of the International Franchise Association, a trade group. “There has been an explosion of different franchise models within the same brand.”

Huntington Learning Center, a tutoring service, recently began offering prospective franchisees two tiers of investment. For a franchise fee of \$10,000 (plus build-out expenses and a 9.5%



Matt Heizer for The Wall Street Journal

Doc Popcorn franchisees can open full-scale stores, mall kiosks or mobile carts. Above, founder Rob Israel in Denver on Tuesday.

royalty fee), investors could open a “standard” tutoring center in a retail space of about 1,200 square feet. For a franchise fee of \$59,000—and a lower, 8% royalty—they could open an “expanded” center, with more room to tutor not just in the traditional subjects of math and reading, but also in science and other academic fields.

“This has not been a strong year for us in terms of new sales,” says Raymond Huntington, the company’s chairman, who attributes the slump to tough competition in the tutoring industry, tight credit and the shaky economy. He hopes the lower up-front costs of the standard option will encourage more entrepreneurs to give the Hun-

tington brand a try.

For franchisers, one risk of the tiered model is losing control of the brand image. A successful company will take the time to spell out precise standards for customer interaction, product presentation and corporate oversight—and do this well before launching a new business model, says Benjamin Litalien, who runs the consulting firm Franchise Well LLC.

Franchisers likely already have detailed standards for lighting, signage, product display and sales patter in a traditional store, but those rules don’t necessarily translate well to a mall kiosk or a food truck, Mr. Litalien says.

When the truck is emblazoned

with the brand name, everything from how the driver navigates traffic to where he pulls over to sell his wares can affect the product’s image.

Mr. Litalien also warns franchisers to think through the implications of new formats on loyal, long-time franchisees. Someone who has invested \$500,000 in building a stand-alone donut shop may not be pleased to see a rival selling the same brand from an inexpensive mobile cart, especially if they compete for the same customer base.

Prospective franchisees, meanwhile, should take a hard look at whether corporate executives have the expertise to help them pioneer a new means of reaching customers, Mr. Litalien says. “They may not have the field support,” he says.

Nazrul Islam says he recognizes the risks but was still happy to hear that a food vendor he enjoys, **BannaStrow’s Crepes and Coffee**, was offering a tiered franchise system that let him choose whether to launch with a food truck, a kiosk, a food-court counter or a traditional restaurant.

Mr. Islam found a location he liked at the entrance to a mall food court in Ft. Lauderdale, Fla., invested more than \$200,000 and recently opened for business. “In the economic downturn, I thought it was better to open in a mall,” at a location with heavy foot traffic, he says.

Doc Popcorn franchisee Nate Godo also started small, with a mobile cart that he wheeled to events at the convention center in his hometown of Knoxville, Tenn., in 2010. Retail sales were new to Mr. Godo; he had spent his career up to that point managing an automotive business. So he wasn’t about to invest a fortune in popcorn without first testing out the viability on a small scale, he says.

Mr. Godo’s mobile cart did so well that he moved into the popcorn business full-time a year ago; he recently stationed a second cart in a local mall.

He likes the way the tiered system “allows me to gradually ramp up,” he says.