

Operators Wanted!

Skilled operators are a hot commodity

For decades now, franchised concepts have attracted consumers and investors alike, who often feel compelled by one simple notion: they know what they are going to get. Whether it's a familiar menu or a stable cash flow, recognizable brands put people at ease. This mindset has played a huge role in creating such a successful climate for multi-unit concepts over the years, with more and more people looking to buy into franchised systems.

In the restaurant space for example, interest is so great that there's ample opportunity to acquire restaurants in scale and in all segments of the industry. However, the ability to invest does not necessarily translate into the ability to operate, which rings true in regard to any franchised business, regardless of industry. Herein lies the problem: the ratio of skilled operators to prospective purchasers/investors is skewed heavily toward the latter group.

The fact is, there is more capital available for transactions presently than there are talented operators. Equity is available from a variety of sources. Be it embedded equity in franchised stores from franchisees of the same brand, embedded equity from investments in other brands, family offices, or private equity, there is no shortage of capital. Debt markets are also functioning well, with an adequate debt level available, attractive advance rates, and terms/conditions for major brands well-established.

What we have found is that quite often the missing piece of this puzzle is a proven operator or operating partner who runs the business on a day-to-day basis. Talented operators are truly a scarce commodity, and finding the right person for the job can be one of the greatest challenges facing investors today.

As already mentioned, it is not difficult to find parties seeking investments in

franchised concepts. Investors are usually comfortable with the segment and the risks involved, and already understand how to own and operate a business in general. Financial returns and engineering are largely applied across any industry, also adding to the investors' basic operational knowledge. The primary issue stems from



the investors' lack of skill or experience in operating a specific brand.

Franchisors will typically embrace or consider different types of equity capital ownership, but they are consistently seeking out franchise groups that have operators experienced in their brand or similar concepts, especially when it comes to deals that are larger in scale. All companies and their respective systems were not created equal. Thus, having the proper knowledge and insight into how a specific brand functions can be of paramount importance in achieving operational success.

Franchisors are well aware of this, and thus approve and select prospective purchasers fitting this description at a significantly greater rate over those who do not have the same brand- or segment-specific operating experience. Too often, new equity investors fail to address this critical need early enough, often chasing the deal

before solving the operator question. As a result, they often get passed over in a competitive process, regardless of their financial strength. Additionally, franchisors undertaking refranchising initiatives can make their brand more attractive to prospective purchasers by assisting in the placement of operators.

Therefore, operators proving to be the "right fit" find themselves in the unique position where they can and should demand attractive opportunities in exchange for partnering with an investor. Furthermore, in certain situations deals may be

contingent upon keeping the current operators with the business, providing them with an even more critical ongoing role. That being said, operators would be wise to augment their skill set to be viewed as capable of running the business, as opposed to simply managing restaurant operations.

Essentially, the two main take-aways here are:

1) If you are an investor looking to purchase stores in a new brand or industry, it would greatly behoove you to seek out the right operator as one of your first steps. This will substantially increase your chance of being selected as the winning bidder, while also boosting your capacity to achieve subsequent financial success.

2) On the flip side, if you are an experienced operator, it is imperative to remember that you have a highly marketable skill set. There are numerous investors out there today searching for you. Make a point of becoming visible to those groups and you will likely find an exciting opportunity in the future. 



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