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Franchise Food Businesses

SIC: Unavailable**NAICS:** 722**Number of Businesses / Units:**
Unavailable

Industries in the Food Services and Drinking Places subsector prepare meals, snacks, and beverages to customer order for immediate on-premises and off-premises consumption. There is a wide range of establishments in these industries. Some provide food and drink only; while others provide various combinations of seating space, waiter/waitress services and incidental amenities, such as limited entertainment. The industries in the subsector are grouped based on the type and level of services provided. The industry groups are full-service restaurants; limited-service eating places; special food services, such as food service contractors, caterers, and mobile food services; and drinking places.

Food services and drink activities at hotels and motels; amusement parks, theaters, casinos, country clubs, and similar recreational facilities; and civic and social organizations are included in this subsector only if these services are provided by a separate establishment primarily engaged in providing food and beverage services.

Excluded from this subsector are establishments operating dinner cruises. These establishments are classified in Subsector 487, Scenic and Sightseeing Transportation because those establishments utilize transportation equipment to provide scenic recreational entertainment.

Rules of Thumb

(This category is dominated by McDonald's, Burger King, Wendy's, KFC, Domino's, Pizza Hut, Arby's, Dairy Queen, Taco Bell & Denny's—others are Subway, Blimpie's, Baskin Robbins & Schlotsky's)

52 to 60 percent of annual sales plus inventory

2.5 SDE plus inventory

4 times EBIT

3.5 times EBITDA

Asset value plus 1 year's SDE plus inventory

Expert Ratings

▶ Competition	2.4	(1=Lot of : 4= Not Much)
▶ Amount of Risk	1	(1=Very : 4= Not Much)
▶ Historical Profit Trend	2	(1=Down : 4= Up)
▶ Location & Facilities	2.8	(1=Poor : 4= Excellent)
▶ Marketability	2.8	(1=Low : 4= High)
▶ Industry Trend	2.8	(1=Declining : 4= Growing)
▶ Ease of Replication	2.8	(1=Easy : 4= Difficult)

Pricing Tips

"Establish seller-adjusted cash flow and multiply times 2.5 to 3.5"

"The multiples are a bit above the level for the industry in which the franchisee participates."

"Stability of income, down payment & quality of franchisor"

"Labor costs typically represent 15 to 20 percent of gross food sales. Food costs generally run from 28 percent to a high 40 percent for red meat on the menu. Pizza shops run about 28 to 30 percent. Rent should not exceed 10 percent."

"Check the franchise agreement. Who pays transfer and training fees? Does the franchisor have the first right to purchase the business? Will the transition require the facilities to be upgraded to franchisor's current standards? If yes, the upgrade cost can be substantial."

Benchmarks

"\$600 to \$800 per sq. ft. is respectable."

Expenses as a Percentage of Sales

▶ Cost Of Goods 30%

Expert Comments

"All of the above factors influence pricing."

Seller Financing

"5 to 7 years; however, SBA loans up to 10 years can be obtained."

▶ Payroll/Labor Costs	19%
▶ Occupancy Costs	7%
▶ Profit (pretax)	22%

Industry Trend

"Constantly improving"

Advantages

- ▶ "The mainline food franchise establishments are continually growing with improved patronage. Investors are experiencing increased difficulty getting accepted by Franchisor as a master licensed franchisee."

Disadvantages

- ▶ "Significant start-up costs along with royalty and mandated advertising fees"

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