

Chick-fil-A model helps it lead

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While many of its competitors have hit a wall, Chick-fil-A is on a roll.

The College Park-based chicken sandwich chain rang up the fast-food industry's highest average sales per store last year — almost \$2.7 million per shop — putting it ahead of industry giants such as McDonald's, which posted \$2.4 million.

At the same time, several of Chick-fil-A's big competitors have stalled. While Chick-fil-A has been adding stores, rival KFC has been shrinking in terms of total units, as have Pizza Hut, Arby's, Hardee's and Dairy Queen, according to QSR, a trade magazine for quick-service restaurants.

So what is Chick-fil-A's secret ingredient?

There may be several — some better known than others. There's its well-known, never-open-on-Sunday Christian mores, which have lent the company cult status among some customers and employees. Company officials tout the quality of its food and its focus on local communities, which builds repeat business.

But a less known key to Chick-fil-A's success is its unusual approach to franchising, which is almost unique in the restaurant industry.

Boiled down, Chick-fil-A's system allows the privately held company to be extremely choosy about who runs its restaurants, and to reward them well if they succeed — or get rid of them if they don't. Because it owns all its restaurants — seemingly a contradiction in franchising — Chick-fil-A can move quickly into new products and markets. It can shift strong-performing franchisees to bigger stores or give them more responsibility — much like employees — while firing up their entrepreneurial zeal.

“I look at it as a great opportunity,” said Margaret Phillips, who nearly 30 years ago scraped together \$5,000 to take over her first Chick-fil-A store in Daytona Beach, Fla. Then 23, she was already a Chick-fil-A veteran, having started at 16 in a shop in North DeKalb Mall. “They have shown us a lot of grace and love over the years,” said Phillips, who now runs a Chick-fil-A restaurant in Commerce.

Normally, companies use franchising to speed up their growth by tapping outside investors' money to build additional outlets. Would-be entrepreneurs pay an up-front franchise fee and the costs to build and open a new outlet. They also pony up roughly 9 percent of sales to the company for advertising and rights to use its brand and sell its products.

To join a major chain like KFC, franchisees typically need to shell out about \$1.9 million before opening their doors, according to Don Sniegowski, editor of Blue MauMau, an online publication that tracks the franchise industry.

But Chick-fil-A CEO and founder S. Truett Cathy turned that model on its head when he decided in 1967 to expand his business into a chain of restaurants.

The company bankrolls the entire cost of its new restaurants and picks the locations. The only cost its so-called “operator” franchisees shoulder up front is \$5,000, but they can’t later sell the business or pass it on to their heirs. Chick-fil-A retains ownership of the restaurant, and takes a much bigger cut of each store’s revenues and profits than at most franchises. It gets 15 percent of sales, collects rent on the property, and splits the remaining profit with the operator.

The formula seems to have worked well for both sides.

Based on franchise disclosure documents and interviews with Chick-fil-A officials, the company’s roughly 1,100 operators took home operating profits of about \$210 million last year, or an average of \$190,000 each. Some make substantially more.

Meanwhile, Chick-fil-A collected about \$841 million last year in rent, royalties and its share of operating profits from franchisee-operated restaurants — four times what the franchisees got. The company reported a \$175 million profit for 2010 on systemwide revenue of \$3.4 billion last year.

Company officials say Chick-fil-A gets 10,000 to 25,000 applications for roughly 60 to 70 new slots that open each year.

The result is highly motivated “operator” franchisees like Phillips, Bob Garrett and Melissa Winkfield, whose metro Atlanta restaurants generate annual sales of up to \$4 million each — two or three times the average fast food restaurant’s volume — despite being open only six days a week.

Chick-fil-A’s profit-splitting arrangement is a huge motivator for operators, who would not get a share of profits if they were traditional employees, said Russ Umphenour, head of Atlanta-based FOCUS Brands, where he oversees Moe’s and five other fast-food chains.

“If [you’re] thinking about every dollar that walks in the door, [part] of it will be mine, you start to look at the world differently,” said Umphenour, who calls himself “a huge Truett Cathy fan.”

Before joining FOCUS Brands, Umphenour tried a similar plan with many of the managers at his 775 Arby’s restaurants he operated before selling in 2005. In exchange for \$5,000, the Arby’s managers got a 10 percent to 20 percent share of their units’ profits. Many of those operators later boosted profits by up to 25 percent, he said.

Still, only a few companies, including the 7-Eleven convenience store chain, Outback Steakhouse and the Shoney's restaurant chain, have tried similar plans, say industry players.

"I think most companies are scared of it, because they think it will eat into their profits," said Umphenour.

Chick-fil-A's 2010 profit margin, which was 5.1 percent of its systemwide sales, was somewhat behind the 6.4 percent profit margin of industry kingpin McDonald's Corp. last year. But industry experts say Chick-fil-A is beating most rivals in terms of sales and profits per store.

"I'm just amazed that there haven't been more businesses doing this," said John Gordon, with Pacific Management Consulting Group, a San Diego restaurant consulting firm.

By not depending on franchisees to build stores and maintain them, Chick-fil-A has grown slower, but has the power to upgrade restaurants, launch new products or change operators whenever it wants, he said. Older franchises such as McDonald's, Wendy's and KFC can't do the same without risking a revolt by franchisees who don't want or can't afford to make such changes.

"The flexibility to operate what is essentially a 100-percent company operation is tremendous," he said.

Chick-fil-A's unusual approach has helped fuel its steady growth, despite the 2007-2009 recession, with systemwide sales rising from \$2.3 billion in 2006 to \$3.4 billion last year.

With total sales expected to hit \$4 billion this year, it's poised to displace Oklahoma City-based Sonic as the nation's 10th largest fast-food chain in terms of revenues. Chick-fil-A expects to add 92 outlets next year to its more than 1,500 locations, which includes about 1,000 free-standing restaurants and a smaller number of company-operated stores and units in malls, hospitals, airports and colleges.

Still, Chick-fil-A's unusual franchising approach and pervasive Christian culture hasn't been for everyone.

According to press reports, the company has been sued about a dozen times for employment discrimination, sometimes based on religion. According to Forbes, a former restaurant operator who is Muslim sued in 2002, alleging he was fired for not participating in a Christian prayer at a company training program.

Meanwhile, some states have challenged Chick-fil-A's tight control over franchisees, alleging that they are employees rather than business owners.

Last year, a former franchisee in Delaware sued Chick-fil-A alleging wrongful termination of his restaurant agreement. He also sought unemployment compensation.

The case was settled after the former franchisee received \$115,000 in net payments from Chick-fil-A and he “affirmed that ... [he was] a franchisee and independent contractor” rather than an employee, according to Chick-fil-A’s franchise disclosure documents.

The company said it has withstood all claims that its franchisees are employees. Otherwise, in its dealings with operators, Chick-fil-A would have been subject to federal employment discrimination restrictions and other occupational rules that don’t apply to independent contractors.

“We work really, really hard to make sure it’s abundantly clear ... that we meet all franchise laws,” said Tim Tassopoulos, Chick-fil-A’s senior vice president of operations. “It’s been the same for 40 years. It’s held consistent.”

And while there “have been some lawsuits” alleging discrimination, Tassopoulos said, the company doesn’t ask about operators’ faith or discriminate based on religion, race or other traits. Those lawsuits went through “normal legal resolution,” he said.

This much is clear. By the time new franchise operators walk into their stores for the first time, Chick-fil-A has spent a lot of time getting to know them. And odds are, the operators also enthusiastically embrace founder Truett Cathy’s blending of faith and finances.

When she was 21, Melissa Winkfield was working two jobs, as an assistant manager at a very large burger chain and as a cook at a Chick-fil-A. She ultimately chose to stick with Chick-fil-A because the other company was “all about the numbers,” she said. At Chick-fil-A, “the atmosphere was so different,” she said. The company’s philosophy is “to glorify God by being a good steward.”

Now 39, Winkfield operates a Chick-fil-A restaurant in East Point, one of the company’s highest-volume restaurants in metro Atlanta, with about \$4 million in annual sales. She takes home well above the average operators’ income.

“We grew up in a low-income home. My parents are very proud of me,” said Winkfield. “It’s just been an awesome blessing.”

Bob Garrett, 47, likewise counts his blessings.

Before he joined Chick-fil-A, Garrett, of Lawrenceville, was a general manager at a family-owned truck-washing company. But after 18 years at that company, Garrett said he tired of the moves the job required. On the recommendation of a longtime friend working at Chick-fil-A, he decided to become a franchise operator.

A year and a half and 15 interviews later, Garrett took over an existing Chick-fil-A store in Lilburn. The chain later promoted him to open a new store in Hamilton Mill.

Then earlier this month, Garrett became one of roughly 100 operators who Chick-fil-A allows to operate two stores, opening a new store in Dacula.

At the Dacula shop on the eve before its opening, Garrett said he’s “humbled” to get a second store.

Outside in the restaurant’s parking lot, among about 70 tents, a crowd of people threw footballs and tossed flying discs, watched TV, listened to music and got ready to spend the night. The next day, the first 100 customers were to get a year’s worth of weekly meals from Chick-fil-A — now a tradition at new stores.

“This just completely changed my life,” Garrett said of joining Chick-fil-A’s operations. He hopes his two stores, with about 140 employees, will eventually tally \$7 million in combined sales, and roughly double his income.

“I get to make more than I’ve ever made in my life, doing what I love to do,” he said.

Top-selling restaurant chains

Chick-fil-A tops the industry in terms of average sales per restaurant. And while industry giant McDonald’s has the second-highest sales per restaurant, the list is generally dominated by fast-growing regional brands or niche chains with a loyal following. Most national brands, such as Burger King, Wendy’s, KFC and Taco Bell (not shown) are slower-growing and generally have average per-unit sales in the \$900,000 to \$1.4 million range.

Chain	2010 average sales per restaurant	Total U.S. restaurants	Units added in 2010
Chick-fil-A	\$2.7 million	1,537	57
McDonald’s	\$2.4 million	14,027	47
Jason’s Deli	\$2.2 million	226	11
Panera Bread	\$2.2 million	1,453	73
In-N-Out Burger	\$1.9 million	252	13
Chipotle	\$1.8 million	1,084	129
Whataburger	\$1.7 million	717	15
Culver’s	\$1.6 million	424	11
Steak N Shake	\$1.6 million	487	2
Bojangles’	\$1.6 million	484	7

Source: QSR magazine