2016 Best Franchise Deals

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The Best Franchise Deals are back—albeit with a fresh twist.

For the last six years, *QSR* has brought you an annual look at the 10–12 quick-service and fast-casual concepts that provide franchisees the best return on their investment (ROI). In this year's seventh-annual report, we're doing something a little different; we've partnered with Franchise Business Review (FBR), a leading market research firm specializing in franchisee satisfaction and performance, to assess the top industry deals. FBR brings a valuable perspective to the table: The firm offers a look behind the curtain to help determine not only companies' financial success, but also intangibles like franchisor support and overall system satisfaction.

(*Looking for our past Best Franchise Deals? Click for 2015, 2014, 2013, 2012, and 2011.*)

Digging well beyond brands' financial inputs and outputs, FBR and *QSR* assessed a wide range of factors to determine this year's Best Franchise Deals, including franchisee satisfaction surveys, management team experience, litigation history, estimated ROI as a factor of average unit volume (AUV) and average startup costs, overall fee load, unit growth and continuity, franchisor financials, marketplace niche, and momentum.

"When you're looking at the totality of a restaurant franchise and the value it delivers for its franchise owners, it's absolutely important to understand if the franchise owners are happy and satisfied, because it's the collection of everything—financial, support, and so on—that drives overall success and makes owners feel that their investment was a worthy one," says FBR CEO and managing director Eric Stites.

For instance, potential franchise partners might consider: Do franchisees have a voice in the system? Is there a strong leadership team in place committed to evolving the brand in smart ways? Does the franchisor treat its franchise owners like true partners?

"It seems so simple, but some brands really struggle to recognize that if their franchisees are successful, then the company is successful, as well," Stites says.

Here are 10 brands with a convincing story to tell prospective franchisees.

Arby's

U.S. Units: 3,214

U.S. Franchised Units: 2,210

Systemwide Sales: $3,540,000,000

Franchise Fee: Waived*

Total Start-Up Costs: $272,700–$1,647,000

Royalty: 4% of net sales*

Renewal Fee: $2,500

Marketing Fee: Minimum 4.2% of net sales

Over the last two decades, Arby's has endured its share of ups and downs, but momentum today is on the brand's side under the direction of third-year CEO Paul Brown.

In 2015, the Atlanta-based chain posted the highest one-year (8.1 percent), two-year (13.8 percent), and three-year (16.6 percent) same-store sales growth for its system in more than 20 years, while both company-owned and franchised units surpassed the $1 million AUV mark for the first time in the brand's history.

Though mature, Arby's is far from stagnant. The brand opened 60 new U.S. restaurants in 2015 and recently announced new development agreements that will add about 140 more restaurants in the coming years.

"We run Arby's as a fearless startup rather than as a 52-year-old, established restaurant brand," Arby's director of franchising Dave Gleason says. "We're scrappy in our approach to the business, authentic with our marketing, unafraid with our brand voice, innovative with our products, and invested in our team members. It's in our DNA to do things a bit differently."

And it shows with Arby's franchisee satisfaction. Stites reports that 91 percent of Arby's franchisees rate the company above average in overall quality as a franchisor, a rather impressive figure given the national brand's size and lengthy history.

*Through a Development Incentive Program effective through March 31, 2017, the $25,000 franchise fee is waived and the royalty is 1% for the initial 12 months for traditional locations. There is a also a development fee of $10,000 per location, or $5,000 for veteran

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Checkers/Rally's

U.S. Units: 828

U.S. Franchised Units: 505

Systemwide Sales: $776,097,079

Franchise Fee: $20,000–$30,000

Total Start-Up Costs: $165,795–$1,306,345

Royalty: 4% of net sales

Renewal Fee: $10,000 for 10 year renewal

Marketing Fee: 4.5% of net sales

The Tampa, Florida–based sister chains Checkers and Rally's win with franchisees. According to a recent FBR survey, nine out of 10 franchisees would recommend Checkers/Rally's to other franchisee candidates. In particular, Stites says, the sister drive-thru brands have an active and involved franchisee board, and franchisees have significant engagement in areas such as operations, marketing, and store design, which helps propel franchisee buy-in and boosts the brand's overall performance.

Owning and operating more than 300 of its own units, Checkers/Rally's is aligned with its franchisees, says chief development officer Jennifer Durham. Per its 2015 Franchise Disclosure Documents (fdd), the company pegs its ROI for new restaurants in their first year of operations at 71.4 percent, while AUV sits at $1.27 million for Checkers units and $1.17 million for Rally's.

"Our No. 1 measurement for success is restaurant profitability," Durham says.

The company, which is riding a five-year streak of same-store sales growth, is expanding and growing in markets across the country, including in New York City, Los Angeles, and Houston. It’s doing so with a diverse array of unit types: freestanding units with a drive thru, inline, endcap, second-generation conversions of previous restaurants, and nontraditional venues such as Walmart stores and airports.

Firehouse Subs

U.S. Units: 944

U.S. Franchised Units: 912

Systemwide Sales: $648,527,574

Franchise Fee: $20,000

Total Start-Up Costs: $128,760–$1,160,900

Royalty: 6% of net sales

Renewal Fee $10,000

Marketing Fee: 5% of net sales

By the end of 2016, Firehouse Subs is slated to have more than 1,000 restaurants in operation, a tally that not only puts the Jacksonville, Florida–based chain in elite company, but also spotlights its substantial growth since firefighting brothers Robin and Chris Sorensen founded the chain 22 years ago.

Billing itself as “The Hero of All Subs,” Firehouse enjoys systemwide AUV of more than $726,000 and happy franchisees; according to an FBR survey, 87 percent of Firehouse franchisees enjoy being part of the organization.

Vice president of franchise development Greg Delks says the concept employs extensive training programs and operating systems to help build each franchisee’s business, which, in turn, builds loyal customers. “Everything we do is about reaching out to new guests and making them Firehouse Subs fans,” Delks says.

The Firehouse Subs Public Safety Foundation, meanwhile, has served a special connection point to local communities. Over the last decade, the foundation has donated more than $18 million in life-saving equipment to public safety organizations throughout the U.S.

That do-good spirit resonates with many consumers and helped Firehouse capture the National Restaurant Association Educational Foundation’s Restaurant Neighbor Award in April.

Fuzzy’s Taco Shop

U.S. Units: 84

U.S. Franchised Units: 78

Systemwide Sales: $109,697,935

Franchise Fee: $35,000

Total Start-Up Costs: $329,260–$1,068,210

Royalty: 3.5–5% of net sales

Renewal Fee: $2,500

Marketing Fee: None

Fuzzy’s Taco Shop, the Fort Worth, Texas–based restaurant chain with an edgy attitude, enjoys a cult following among consumers, solid AUVs topping $1.3 million, a five-year annual run of same-store sales gains, and an all-in collection of franchisees.

Every one of Fuzzy’s franchisees, according to an FBR survey, believes Fuzzy’s senior leadership team operates with a high level of honesty and integrity, a spirit that surely inspires cohesiveness and, quite often, additional investment. Fuzzy’s executive vice president Mel Knight says many multiunit Fuzzy’s franchisees began as single-store operators.

Though Fuzzy’s has a set of core brand items it requires, franchisees are encouraged to put their personal mark on the store, particularly emphasizing their local community.

That freedom delivers some innovative developments, such as the full-service bars in operation at some Fuzzy’s units that Knight says company leadership will continue to explore as the concept develops.

In another sign of the concept’s flexibility, Fuzzy’s recently entered the nontraditional space with a unit inside the student union at the University of North Texas in Denton, Texas.

McAlister’s Deli

U.S. Units: 361

U.S. Franchised Units: 318

Systemwide Sales: $547,678,335

Franchise Fee: $35,000

Total Start-Up Costs: $579,000–$1,457,500

Royalty: 5% of net sales

Renewal Fee: 10% of current franchisee fee

Marketing Fee: 0.75–3% of net sales

In the crowded and competitive sandwich category, McAlister’s has found a successful niche—to the tune of $1.6 million AUV, to be exact—peddling genuine Southern hospitality and sweet tea alongside deli-made sandwiches and baked potatoes.

McAlister’s is on its way to becoming a $1 billion national enterprise spurred by a growing franchisee base attracted to the concept’s simple operating platform, guest loyalty, and strong franchisee peer group.

The Atlanta-based brand has refused to rest. Last year, McAlister’s launched its new restaurant design featuring flexible dining options, including a WiFi bar as well as more group and family seating. To date, more than 50 existing locations sport the new look. McAlister’s also debuted its new loyalty app in 2015, and it’s loaded with online ordering, loyalty rewards, and special offers.

“We are challenging ourselves to create an atmosphere where high-touch hospitality and high tech can coexist,” says Frank Garrido, vice president of operations for McAlister's.

Penn Station

U.S. Units: 298

U.S. Franchised Units: 297

Systemwide Sales: $188,000,000

Franchise Fee: $25,000

Total Start-Up Costs: $313,725–$588,911

Royalty: 4–8% of net sales

Renewal Fee: $1,000

Marketing Fee: 1% of net sales

Headquartered in Milford, Ohio, Penn Station East Coast Subs celebrated its 30th birthday last year and continues to post noteworthy results, including a seventh consecutive year of same-store sales growth and systemwide AUV approaching $650,000.

Penn Station president Craig Dunaway says his company is obsessed with franchisee profitability and ROI—so much, in fact, that only two franchised units have closed over the last three decades. Even more, three out of four franchisees own multiple units, while 41 percent own four or more locations, FBR reports.

To fuel the success of its franchise partners, the chain reinvests its supplier rebates back into the system, maintains a simplified menu, furnishes custom predictive analytics software for scouting the best locations, provides a custom-built POS system that guides general managers and managing owners, and shares a comprehensive monthly operating income statement that allows franchisees to benchmark their performance against the system in an effort to highlight opportunities for growth.

“We use unit-level economics, opening one successful store and then another instead of trying to open as many stores as possible without regard for those that never make it,” Dunaway says.

Pieology Pizzeria

U.S. Units: 78

U.S. Franchised Units: 62

Systemwide Sales: $74,610,000

Franchise Fee: $25,000

Total Start-Up Costs: $450,000

Royalty: 5% of net sales

Renewal Fee: None

Marketing Fee: 2% of gross sales

In the soaring fast-casual, make-your-own-pizza category, Pieology has emerged an early leader.

According to Pieology's 2016 FDD, the chain has experienced 100 percent year-over-year unit growth with no closures, transfers, or terminations.

Though an admittedly short history, it's impressive nonetheless, Stites says. "Pieology's a smaller brand in a hot space, so it's easier to maintain franchisee satisfaction," he says. "That said, these guys seem to be doing a lot right."

Pieology founder and CEO Carl Chang is quick to highlight his chain's significant growth, an already devoted collection of multiunit franchisees, and its commitment to strategic growth, including maintaining 30 percent corporate ownership of restaurants.

Chang also notes the recent strategic investment made by Andrew and Peggy Cherng, founders of the Panda Restaurant Group (prg), which operates Panda Express. The relationship provides Pieology access to one of America's largest and most successful family-owned restaurant companies.

"With PRG's unlimited resources, from real estate and vendor relations to huge buying power, Pieology is poised to grow even stronger and more efficiently," says Chang, adding that his Rancho Santa Margarita, California–based company is on schedule to open 100–130 restaurants per year over the next five years.

Toppers Pizza

U.S. Units: 73

U.S. Franchised Units: 48

Systemwide Sales: $57,575,030

Franchise Fee: $30,000

Total Start-Up Costs: $260,000–$490,000

Royalty: 5.5% of net sales

Renewal Fee: None

Marketing Fee: 3%

Toppers has earned a cult following among Millennials alongside steady unit growth. Over the last three years, the chain has doubled its store count, while 73 percent of all Toppers stores scored record sales results in 2015. That sales success pushed Toppers' systemwide AUV above $872,000.

Toppers director of franchise development Mark Cairns says his chain, which favors experienced restaurant operators and successful multiunit franchisees, is built to scale and support its franchise partners. To wit: the Whitewater, Wisconsin–based company boasts a franchising support model that features a 2:1 ratio of stores to Toppers support staff.

"Toppers has already invested in IT, operations, and marketing support staff now to support the future growth [of its franchisees]," Cairns says, adding that the chain aims to hit 700 U.S. stores within the next 10 years.

According to FBR, 84 percent of Toppers franchisees own multiple units, while nearly half own four or more restaurants. Further, 100 percent of franchisees trust and respect the company's senior management team led by energetic founder Scott Gittrich.

"The company is really driven by his personality," Stites says of Gittrich.

Tropical Smoothie Café

U.S. Units: 465

U.S. Franchised Units: 465

Systemwide Sales: $261,300,000

Franchise Fee: $25,000

Total Start-Up Costs: $195,550–$427,130

Royalty: 6% of gross sales

Renewal Fee: None

Marketing Fee: 2% of gross sales

A few years ago, Tropical Smoothie Café was stumbling to define its identity.

Since Mike Rotondo took the CEO post in 2012, however, the brand has enjoyed an upward trajectory as Rotondo has engaged franchisees in the turnaround, executed a renewed focus on franchisee profitability, and simplified operations.

The results? Systemwide AUV reached $634,007 in 2015, the highest tally in Tropical Smoothie Café's 19-year history, while same-store sales jumped 11.25 percent. Over the last two years, meanwhile, the Atlanta-based chain has opened nearly 130 new locations and inked franchise agreements to develop about 200 more cafes across the U.S. Tropical Smoothie Café has also enjoyed three consecutive years on FBR's Top Food Franchises awards list.

Rotondo, however, continues pushing for improvements, including the release of a new mobile ordering and payment app for consumers, as well as a café management tool called Jolt designed to drive store sales, traffic, and profitability.

"We will be opening our 500th location this summer and are on track to exceed 550 restaurants by the end of 2016," Rotondo says.

Your Pie

U.S. Units: 24

U.S. Franchised Units: 20

Systemwide Sales: $11,128,910

Franchise Fee: $35,000

Total Start-Up Costs: $400,000–$450,000

Royalty: 5% of net sales

Renewal Fee: 10,000

Marketing Fee: 1% of net sales

Like Pieology and so many others, Your Pie is another member of the fast-growing fast-casual pizza category. But Your Pie also brings its own flair and some impressive street cred given founder Drew French's participation in the 2016 World Pizza Championship in Parma, Italy, as part of the U.S. Pizza Team.

Based in the college town of Athens, Georgia, Your Pie pairs its handcrafted pizzas with an assortment of paninis, salads, and craft beers. Franchisees, meanwhile, receive earnest encouragement from corporate to localize the brand to their market.

It's been a winning formula thus far, as Your Pie has captured systemwide AUV in the neighborhood of $800,000, is slated to double its unit count by the end of 2016, and claims a satisfied roster of franchisees. According to an FBR survey, 88 percent of Your Pie franchisees believe the company's leadership team cares about their success, which hasn't happened by accident, says Ken Caldwell, Your Pie's vice president of development.

"We want to provide [our franchisees] with systems to help them succeed," Caldwell says. "We have extensive pre-opening support and a well-developed ongoing support system that is overseen by our experienced franchise and management team."