Entrepreneur

Franchises Keep Buying Up Other Franchises. Here's Why the Big Are Getting Bigger.

Major acquisitions. Consolidations. Conglomerates. What's going on in franchising? The answer says a lot about where the industry is heading-and what growth means going forward

By Nate Hopper October 6, 2021

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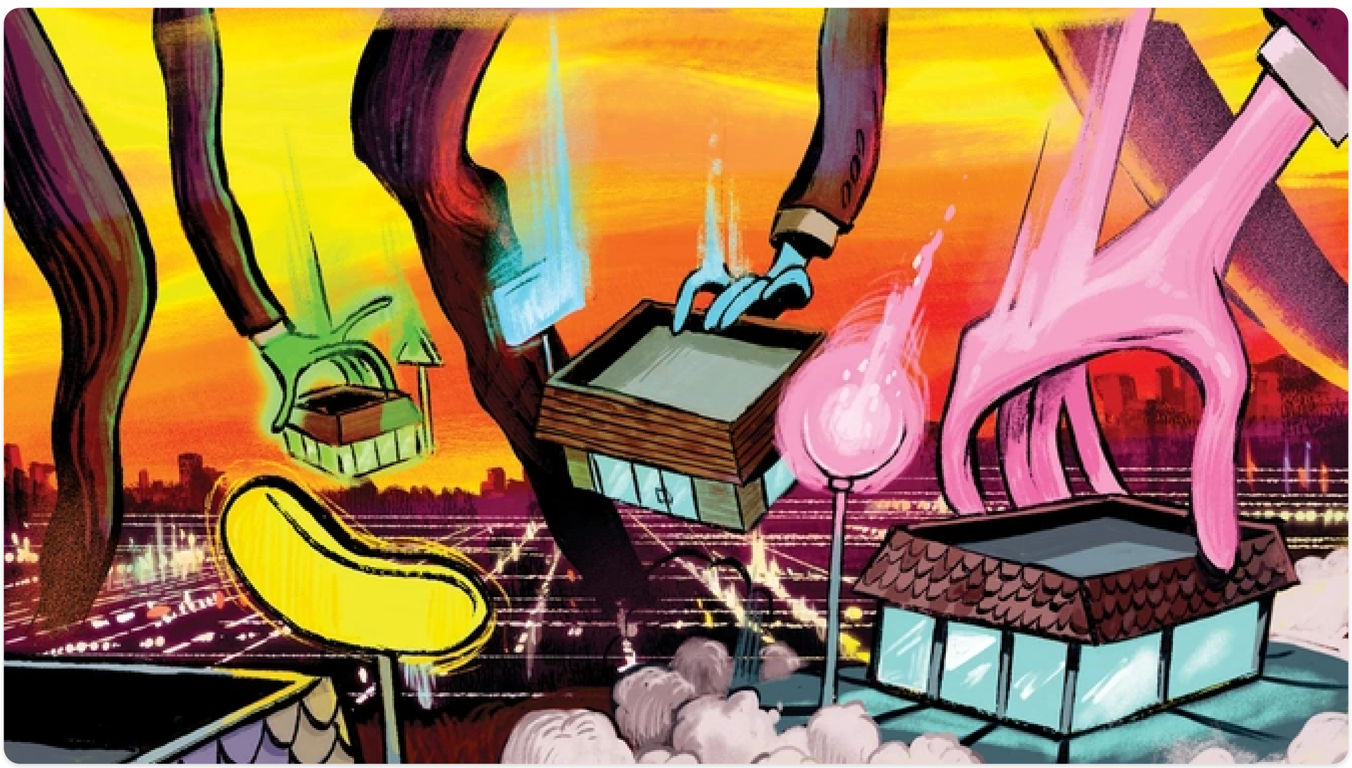
Eric Monroe had decided: He would not expand his business. He was fed up.



Zohar Lazar

Monroe owned a Martinizing Dry Cleaning franchise in Fort Worth, Texas, which was supposed to free him from the frustrations of being an employee. He previously worked in corporate regional sales, but in 2017 he decided to make the switch to franchise ownership. He knew he'd need lots of support, which Martinizing promised. After a short honeymoon, though, that support stopped. "The only person I consistently heard from was the lady who collected my weekly franchise royalty," Monroe says. But this past April, that all changed — because Martinizing and several of its sister companies were bought by a competitor.

The buyer was Lapels Dry Cleaning. When the deal closed on April 5, it went from having about 100 locations to more than 500. It suddenly possessed an array of brands that spanned from traditional retail storefronts and plants to pickup and delivery to locker--based services: Martinizing, 1-800-DryClean, Pressed4time, Dry Cleaning Station, and Bizziebox. They now all existed under one franchisor entity, called Clean Franchise Brands.

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This form of franchise consolidation seems to have grown more popular in recent years, though the trend spans decades. There have been the stalwarts in the traditional multi-brand franchisor spaces, like hotels and food service. Yum! Brands, for instance, traces its history back to PepsiCo's purchases in the late '70s of Pizza Hut and Taco Bell and, in 1986, KFC. There are newcomers as well, like Inspire Brands, which was founded in 2018 when Arby's bought Buffalo Wild Wings and Rusty Taco (and then bought Dunkin' Brands in 2020, with plenty of acquisitions in between). But starting in the '90s, consolidation began in more and more nontraditional markets too, according to Mark Siebert, CEO of the iFranchise Group, a franchise consultancy. This has been exemplified by what is now known as Neighborly, which started as a stand-alone carpet dyeing and cleaning brand in 1981 and now is a holding company for 28 brands, amounting to more than 4,800 franchises in nine countries. Nowadays, brand conglomeration is seemingly everywhere: in workout classes, hair salons, real estate, and, of course, dry cleaning.

What is causing this steady rise of mega-franchisors? To understand that is to understand what drives the franchise industry today — including a shift in how it is financed, how big companies grow, and what franchisees want.

For Monroe, this sprawling consolidation reached him just in time. The Monday after he'd gotten the news, communication with the Clean Franchise Brands team opened up — and the support he had been missing arrived in abundance. And he would need it. Within weeks, a freak accident broke both of his legs. He came to rely largely on the phone, and he called Clean Franchise Brands headquarters for advice so often that he began apologizing for it. "But every single time I do that," he says, "they stop me midsentence and say, 'Eric, that's exactly what we're here for.' "

An individual franchise may have dozens or hundreds of locations, and a conglomerate may have many thousands, but the basic value proposition remains the same: It is a systematic alternative to the messiness of individual business ownership.

"I [first] opened a restaurant when I was 18 years old," says Kevin Dubois, CEO of Clean Franchise Brands. "I think what happens a lot of times in small businesses is you have those visions of being very strategic. And then it's very easy to open the doors and get stuck in running the business."

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Franchising, in theory, should be less sticky. Franchise brands find what works, and they repeat it. When a franchisee buys into the system, they effectively buy access to that know-how. In turn, an economy of scale kicks in: Ingredients and materials become cheaper when purchased across an entire system, and efficiencies become easier to find — say, by using the same point-of-sale tech across hundreds of pizza shops. And if you just keep expanding a franchisor's centralized functions across a conglomerate's worth of brands, you can find that they can be tweaked to apply to several brands in a similar space, even if they do slightly different things. Digital marketing practices and search engine optimization, for instance, have applications across a respectable spectrum; a flooring company might find a customer similarly to how a carpeting one would.

So that's the first explanation for why brands are buying each other up: efficiency scales. But franchise insiders say there is a timelier reason as well. Acquisition accelerates growth, and growth has become an even more essential part of the game.

"Initially, we started brands up from scratch," says Mike Bidwell, who became president and CEO of **Neighborly** in 1995. "But it's just too slow." Bidwell treasures speed to market. As he sees it, society changes too swiftly nowadays (especially when it comes to digital marketing) to be able to take one's time building a new brand — at least if they're aiming for scale. The five years Bidwell believes it takes to know whether one can expand their concept to another market no longer appeals to Neighborly. That's why Neighborly has bought 16 brands in the past six years, each of which then presents its own franchising opportunities. "If you have one company that's franchising, you can grow that at a certain rate of speed," says Siebert. "If you've got 10 companies that are franchising, you can grow that much faster."

But all this leads to another question: Why *so much* growth? Sure, plenty of entrepreneurs begin with big visions. (Siebert says that many franchisors to-be aspire from the start to franchise multiple businesses — "and we say, 'Let's slow down. Let's just do the first one.' ") The reason for this rate of growth, Dubois, Bidwell, and Siebert all say, has been the increasing interest from private equity in major multi-brand franchisors.

Private equity firms prize growth while offering their own tier of expertise, pricing advantages, and, yes, funding for acquisitions. To Bidwell, this is good for the marketplace: Neighborly can pay an owner for the sweat equity they've invested for decades (possibly for a higher price, given the increase in competition), then supercharge a business that may otherwise stagnate. To major franchisors, these purchases are a means of fueling the growth they desire; to smaller franchisors, it's a new exit strategy, if they want it.

Over the decades, Neighborly itself has climbed the private equity ladder, to larger and larger sponsors. In July, it announced it was being acquired by the international private equity giant KKR, which as of August had $429 billion in assets under its management, per Reuters. That ladder has also been supporting Lapels and now Clean Franchise Brands: Its April purchase of the five brands was in part fueled by its private equity partner, Greybull Stewardship, which invested in Lapels in 2018. "I was a little unsure of partners," admits Dubois. "I've heard the whole 'Partners are [only] for dancing' theory, but they have been awesome."

When a brand buys up many other brands, it creates benefits both large and small.

For Dubois and Clean Franchise Brands, the smaller-scale benefits looked like this: Different brands that do different things can now rely on one another, rather than duplicating infrastructure. For example, consider its Pressed4time franchise. It's a pickup-and-delivery dry-cleaning service brand, and opening in new territories used to mean setting up relationships with local dry cleaners (or opening one yourself). Now a new Pressed4time franchisee could more quickly launch and start using a preexisting dry--cleaning plant owned by a local Lapels franchisee. Or a new franchisee could own both parts of that business — and more. Clean Franchise Brands offers five different options for franchising within its system, ranging from a delivery service (for a total investment that maxes out around $68,000) to a full plant with a retail store (total investment can be more than $700,000).

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And then there are the big advantages. On its own, Lapels struggled for years to create partnerships with national brands. But now that it is part of a national brand itself, a whole new set of partnerships becomes possible. Clean Franchise Brands services Disney on Ice and military bases across the country; it tested a locker program with Target and is connecting Airbnb to its laundry program. “We can have this one-stop relationship from the corporate entities,” Dubois says.

For franchisees, the benefits of conglomeration are often more traditional — but still can be transformative.

For example, franchisees gain access to new revenue streams that would be hard to wrangle on their own. In Kansas City, Jill Meyer, who started what was originally a Pressed4time service (and has since become part of Martinizing) with her partner in the late aughts, explored a potential new partnership with a company called Homebase. The startup helps service providers access people’s homes — so, for example, it enables Walmart to deliver groceries directly into people’s refrigerators instead of their front steps. Meyer wondered about picking up and delivering dry cleaning straight from people’s closets.

For Todd Huston, who owned Lapels operations in Fort Mill and in Berewick, N.C., before the merger, the only big change has come in the form of additional optimism. He hopes the company’s greater scale will increase franchisees’ collective buying power, which will decrease his supply costs. “I think scale always brings to bear mostly good things in an operation,” he says.

If a demand for growth has created conglomerates, then a conglomerate’s next move is largely predictable: It will look to buy even more brands.

When Neighborly considers buying a brand, it starts by looking at the business's geographic coverage and its preexisting scale. Neighborly has a minimum number of locations it requires in order to consider buying a brand — and although Bidwell won't disclose the exact figure, he says things start getting interesting in the 50 to 100 range. Beyond that, he says, he looks at what any company should when considering acquiring a business, including how it treats the customer, how its brand is perceived, how good it is at what it does, and how high its net promoter score is. (On a smaller scale, Clean Franchise Brands VP of operations John Powers also underscores that mom-and-pop businesses looking to sell should have their paperwork in order and understand their financials.)

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But as these mega-franchises grow, they say they're also mindful of growing smartly — and creating harmony among the brands they own.

That's why Neighborly has instituted a review process: After a year or a year and a half, it will ask the leaders of the purchased company, "What did we do right, and what could we have done better?" But a bigger question Bidwell tends to ask himself is *How do we scale culture?* He is blunt about that: "Ideally, you want to assimilate everyone, but it's not always going to work." It is important, he says, to identify the people who don't fit quickly and not spend too much time trying to save them. And for those who *would* be a good fit — be they leaders or cashiers — there is some fundamental messaging that needs to be shared.

"You have to explain to everybody in the business, 'Why are you here? How do you fit into our plans?' " says Bidwell. That can be particularly important to franchisees—some of whom may have become a franchisee partly to escape a mishandled merger at their old job. In fact, that's part of what inspired Eric Monroe, the formerly frustrated owner of a Martinizing Dry Cleaning business, to make his career change. "Everything you've done to build a personal brand is just basically tossed out the window," he recalls of a past experience in another industry. Stanching that sense of devaluation is essential. Bidwell explains, “We want them to understand that they’re an important part of what it is we’re setting out to do and why their job is important, why their role is important.”

Why is also the question Bidwell advises aspiring franchisors to ask themselves before they try to become a multi-brand operation. “Why do you want to have multiple brands? What are you going to do with them once you do? What’s your thesis?” he says. “It’s great to cobble businesses together because you can get some type of financial return from doing that. But it’s better if there’s a purpose for doing it that benefits the customer.” His advice: It’s often (though not always!) better to go deeper in your core business than to take on more overhead in another space.

But there is a personal consideration an entrepreneur should make when seeking growth. As one scales their business and, eventually, delegates the day-to-day, their domain becomes less about people and more about those often abstract realms of systems and strategy. “I’m excited about that,” says Dubois, the CEO of Clean Franchise Brands. “But what I am missing is, when I got here 15 years ago, when we opened a store, I would be the guy out there hanging the banners or helping get the POS system set up.” He’s wistful about driving around to visit his 24 total franchise owners — something he could never do with 500 locations in nine countries. “My task is just to make sure that our field service reps are doing that same thing and having that same personal connection with the franchise owner.”

In his 2015 book, *Entrepreneurial Insanity in the Dry Cleaning Business,* Dubois and his coauthor write that “entrepreneurs do not go into business to get rich; they go into business to gain freedom.”

The bigger the company, it seems, the more dreams of freedom can fit underneath it.

Right now, Eric Monroe is in growth mode. He's hoping to open a new store, add some technology, and make some capital investments — perhaps a new production facility. He is leaning on Clean Franchise Brands for advice on what others have done in similar situations. And in three years, as his oldest child enters high school, he wants to be in a financial position where his wife won't have to work and can focus on their family — if that's what she wishes, of course.

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For Jill Meyer, freedom has meant adapting her schedule so she can raise her children, and making her business support the causes she believes in: hiring women, and spreading awareness for neurofibromatosis (a condition one of her daughters has), and the charity the company works with. Todd Huston is hoping that the expansion of Clean Franchise Brands will mean the expansion of its eco-conscious practices — a set of values that drew him to franchise with them.

As for Dubois, he has moved his corporate headquarters and his family to Naples, Fla. — a meaningful place for him and his wife, whom he started dating in the ninth grade, not far away. Although when it comes to the business, he perhaps surprisingly has no end goal. The next target after 500 locations seems to be 1,000. "But it's not like, 'Hey, we'll get to 1,000, and we'll sell it, and I'll play golf every day,' " he says. "That probably would be great, but I think I'd be bored three days later." This is a unique, if unconventional, and arguably wonderful, freedom Dubois has found in all his franchising success so far: to not have to play golf.

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