QSR®

TOP 9 FRANCHISES

2018

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Arby's

U.S. UNITS: 3,237
U.S. FRANCHISED UNITS: 2,193
SYSTEM-WIDE SALES: $3,600,000,000
FRANCHISE FEE: $6,250–$37,500
TOTAL STARTUP COSTS: $271,950–$1,773,000
ROYALTY: 4% of net sales
RENEWAL FEE: 10% of then-current license fee
MARKETING FEE: 4.2%

Arby's remarkable resurgence continues. The 53-year-old chain has, at press time, racked up 25 consecutive quarters of same-store sales growth, 16 consecutive quarters of outperforming industry norms, and 11 consecutive quarters of transaction growth. Compared with 2012, AUV is up more than 25 percent and is above $1.1 million.

Arby's franchisees, meanwhile, are singing a happy, hopeful tune. Ninety-seven percent say they believe in the company's long-term growth potential, according to FBR data. That's a striking turn from 2013, when only 67 percent saw brighter days ahead.

From a bold marketing approach unapologetically focused on the chain's meat-focused menu (including options like venison and pork belly) to its modern Inspire restaurant design that has helped drive a 15–20 percent spurt in sales, Arby's continues its ascent from the doldrums.

"The level of healthy growth we're experiencing—sales growth from existing restaurants and sales growth from new restaurants—is paying huge dividends for our brand and our franchisees," says Greg Vojnovic, chief development officer.

The results are propelling expansion beyond Arby's base in middle America, including abroad, where Arby's has signed international development agreements for the first time since 2010 and looks to expand into four new countries in thecoming years.

Captain D's

U.S. UNITS: 516
U.S. FRANCHISED UNITS: 226
SYSTEM-WIDE SALES: $544,428,000
FRANCHISE FEE: $35,000
TOTAL STARTUP COSTS: $781,000–$1,013,000
ROYALTY: 4.5%
RENEWAL FEE: $17,500
MARKETING FEE: 1.1% of gross sales (subject to increase up to a maximum of 2% of gross sales)

It's been a steady run of success at Captain D's. The Nashville, Tennessee–based chain has recorded six consecutive years of same-store sales increases, as well as four successive years of record-high AUV. In fact, AUV is nearing $1.1 million, a figure above the top level of Captain D's reported startup costs and a main reason why the company has enjoyed a 225 percent jump in new store openings since 2015.

As the nation's leading fast-casual seafood restaurant, Captain D's represents an alternative to burgers, pizza, and sandwiches, leaning instead on mindfully sourced seafood—specifically Alaskan pollock—and fresh vegetables.

"We're seeing the health trend continue to rise, and it's become increasingly important to provide a set of options for consumers that are satisfying in taste and in line with a low-calorie diet," says Captain D's chief development officer, Michael Arrowsmith.

And with about 60 percent of the company's 516 units being corporate-owned stores, Captain D's leadership has a substantial stake in getting things right.

"We don't ask franchisees to do anything we're not willing to do," Arrowsmith says, noting that about two-thirds of the company's units have been reimaged in recent years to carry Captain D's vibrant coastal design theme.

Checkers/Rally's

U.S. UNITS: 840
U.S. FRANCHISED UNITS: 537
SYSTEM-WIDE SALES: $837,355,456
FRANCHISE FEE: $20,000–$30,000
TOTAL STARTUP COSTS: $96,414–$1,501,265
ROYALTY: 4%
RENEWAL FEE: $15,000
MARKETING FEE: 4.5% of net sales

Bolstered by six consecutive years of same-store sales gains and AUV topping $1.2 million, Checkers/Rally's makes a repeat appearance on the Best Franchise Deals list.

The Tampa, Florida–based enterprise has 840 total units between its sister concepts—about two-thirds of them run by franchisees—and aims to have 1,200 units running by 2020. It's an ambitious plan, company leaders acknowledge, but one supported by some 250 restaurants in the company's development pipeline.

FBR's Stites says Checkers/Rally's particularly impresses with its deep focus on securing franchisee buy-in and stimulating improved performance.

"They try to engage franchisees at every level of the company, and that seems to work well for them," Stites says, adding that the company's many large multiunit owners reflect a strong system.

In March, Oak Hill Capital Partners purchased the sister brands for a reported $525 million. Checkers/Rally's CEO Rick Silva described the deal as "throwing gasoline on a fire."

"Our growth as a brand will be strengthened by the depth of Oak Hill Capital," says Checkers/Rally's chief development officer Jennifer Durham, adding that franchisees overwhelmingly applauded the transaction.

Donatos Pizza

U.S. UNITS: 155
U.S. FRANCHISED UNITS: 100
SYSTEM-WIDE SALES: $186,000,000
FRANCHISE FEE: $30,000
TOTAL STARTUP COSTS: $361,360–$697,400
ROYALTY: 5%
RENEWAL FEE: N/A
MARKETING FEE: 5%

With a loyal following for its famous Edge-to-Edge pizza, Columbus, Ohio–based Donatos continues its winning ways with delivery, catering, and an enhanced dine-in experience that provides its franchisees various paths to profitability.

Vice president of development and franchising Jeff Baldwin says the company's net annual same-store sales grew more than 14 percent from 2013 to 2016, while AUV is now nearing $1.1 million. Those metrics continue to drive the 155-unit chain's development with both internal and external partners.

"In addition to organic restaurant growth from current franchise partners, we have 10-plus new multiunit franchise groups building restaurants in our growth territories, with several other prospects lined up in the franchise pipeline," Baldwin says.

And though Donatos has been around since 1963, leaders continue to modernize the restaurant to secure relevancy with today's consumers. Donatos, for instance, has upgraded its dine-in experience by pairing reclaimed wood, black brick, and red glass with live entertainment, local beers on tap, and a semi-open kitchen that injects transparency and flair into its eateries.

"All of our new restaurants have the new image, and we are now beginning to refresh some of our more mature locations," Baldwin says.

Kona Ice

U.S. UNITS: 818

U.S. FRANCHISED UNITS: 798

SYSTEM-WIDE SALES: $144,000,000

FRANCHISE FEE: $15,000

TOTAL STARTUP COSTS: $120,225–$143,025

ROYALTY: $3,000

RENEWAL FEE: $5,000

MARKETING FEE: $500

Kona Ice founder and CEO Tony Lamb anticipates having more than 1,000 Kona Ice trucks on the road within the next year, impressive growth for a brand that's only 10 years old.

The tropical shaved-ice concept, a modern spin on the ice cream truck of yesteryear, offers patrons more than 500 flavor combinations alongside new flavor lineups. Those lineups include Fruit First, which meets FDA Smart Snack guidelines, and Kona Krafted, which appeals to a more sophisticated crowd with innovative flavors like Lavender Lemonade and Bourbon Black Cherry Vanilla.

In addition to its standard trucks, Kona offers a trailer, a kiosk, and a mini format, options that afford operators flexibility to exist in different venues, including indoor spaces. Franchisees also have the ability to set their own schedule, choosing to take off certain months or to hustle from one location to the next seven days a week.

The company's philanthropic slant, meanwhile, further boosts its neighborly appeal. Since its debut in 2007, Kona Ice has returned more than $40 million to the communities it serves, including schools, youth sports, and local nonprofits.

"Kona Ice is more than just a business; it's a way to take ownership and find value in your career while improving your local community at the same time," Lamb says.

Penn Station East Coast Subs

U.S. UNITS: 310
U.S. FRANCHISED UNITS: 309
SYSTEM-WIDE SALES: $195,426,000
TOTAL STARTUP COSTS: $313,725–$588,911
ROYALTY: 4–8% of net sales
RENEWAL FEE: $2,500
MARKETING FEE: 1% of net sales

Known for its grilled sandwiches, fresh-cut fries, and fresh-squeezed lemonade, Penn Station has more than 300 units in operation, and president Craig Dunaway calls each shop's success the most important thing to the company.

"With only one company-owned location … we're investing our resources in helping franchisees maximize their profitability," Dunaway says, noting that 20 of the 30 corporate employees at Penn Station's Milford, Ohio, headquarters are focused on operations.

The company, which has scored seven consecutive years of same-store sales growth, offers vast corporate support to its franchisees. Area representatives, for instance, visit stores six to eight times each year to conduct a 1,000-point performance evaluation, while Penn Station also invested about $400,000 last year to create a regional franchise consultant program. This new level of field-based management helps franchisees assess their business—P&L, balance sheets, and more—and makes specific recommendations for improvement.

Last year, the chain released its first-ever loyalty program and mobile app, while continuing its long-running legacy of minimizing controllable costs like food and paper and boosting revenues. AUV now hovers near $645,000.

"Penn Station is a quiet giant, and they make it go year after year with good unit-level economics," Stites says.

Smoothie King

U.S. UNITS: 743
U.S. FRANCHISED UNITS: 717
SYSTEM-WIDE SALES: $350,000,000
FRANCHISE FEE: $30,000
TOTAL STARTUP COSTS: $188,200–$414,050
ROYALTY: 6%
RENEWAL FEE: $5,000
MARKETING FEE: $5,000

From 2011 to 2016, Smoothie King's average annual sales per store increased 51 percent, an eye-catching run that has fueled franchising interest in the New Orleans–based concept. Last year, in fact, the company inked 111 franchise and development agreements that will add 172 stores to its system and push total unit count toward 1,000.

Just as important, chief development officer Kevin King says, is the fact that Smoothie King has a core product that is increasingly in demand year-round.

“We have a simple business model with a low initial investment, labor, and food costs, and we make great-tasting smoothies for people who want to live a healthy and active lifestyle,” says King, who bucks the idea that smoothies are a seasonal product.

“The consumption of our smoothies isn't based on weather; it's about lifestyle,” he says. “Our products help our guests fulfill their health and fitness goals, [and] this strategy drives our growth.”

Smoothie King's recent success, including AUV approaching $500,000, hasn't produced complacency. The company recently launched a new loyalty program, Smoothie King Healthy Rewards, as well as its first national TV campaign, which aims to drive new guest traffic and trials of innovative new products launching throughout 2017.

Wingstop

U.S. UNITS: 998
U.S. FRANCHISED UNITS: 977
SYSTEM-WIDE SALES: $972,270,000
FRANCHISE FEE: $30,000 ($10,000 development fee, $20,000 franchise fee)
TOTAL STARTUP COSTS: $370,000 (excluding real estate purchase or lease costs and pre-opening expenses)
ROYALTY: 6% of gross sales
RENEWAL FEE: 25% of sum of then-current development fee and franchise fee at time of renewal
MARKETING FEE: 4% of gross sales

With another appearance on the Best Franchise Deals list, its third since 2011, Wingstop continues to prove its mettle as a franchising powerhouse.

The Dallas-based concept, which is 98 percent franchised, has posted 13 years of same-store sales growth. Even more, Wingstop boasts some of the highest sales-per-square-foot figures around alongside a three-to-one sales-to-investment ratio and 35–40 percent cash-on-cash return for the average 1,700-square-foot unit. AUV, meanwhile, sits around $1.1 million.

From menu to operations, Wingstop CEO Charlie Morrison says, keeping things simple feeds the chain's ongoing success—though don't mistake simplicity for apathy.

To wit, Wingstop's advanced mobile, social, and online e-commerce operations have helped franchisees stay competitive in the increasingly tech-driven restaurant space. Digital sales now comprise nearly 20 percent of total sales, and Morrison says the brand will continue to develop its digital and social ordering capabilities. That includes voice-activated ordering with menu-item customization through Amazon Alexa and social ordering on Facebook Messenger and Twitter, as well as on the Wingstop app and website.

Building toward 2,500 U.S. stores, Morrison says, Wingstop is "constantly evaluating ways to grow and evolve so that we can best serve our fans and our franchisees alike."

Zoup! Fresh Soup Co.

U.S. UNITS: 77
U.S. FRANCHISED UNITS: 74
SYSTEM-WIDE SALES: $54,700,000
FRANCHISE FEE: $39,900
TOTAL STARTUP COSTS: $372,650–$568,750
ROYALTY: 6%
RENEWAL FEE: $7,500
MARKETING FEE: 1.5% of gross sales to national brand fund, 0.5% gross sales to training and customer service fund

Bolstered by AUV just under $630,000 and startup costs topping out at $568,750, Zoup! has itself well positioned to attract franchisee investment.

The nearly 20-year-old fast casual attracts prospective franchisees with a simplified menu, its leadership in a niche category, and "lifestyle hours" of operation.

Stites says he expects big things from Zoup! after years of relatively slow, organic growth.

"It's taken them a long time to get where they're at, but they seem poised to grow with their existing franchisees and new partners," he says, noting that Zoup! has earned top marks from its franchisees in areas such as financial opportunity, training and support, and core values.

In the near future, the 77-unit chain headquartered in Southfield, Michigan, will be rolling out a new POS system to give franchisees real-time data, as well as a proprietary labor management system and a new inventory management system designed to help franchisees better manage costs and more easily identify bottom-line-boosting efforts.

Zoup! founder and CEO Eric Ersher also touts a new store design, as well as formats that will allow for smaller footprints, lower real estate costs, and reduced start-up costs.