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Restaurant Franchising in Small Towns *Trend in Co-Branding at Convenience Stores/Gasoline Stations*

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In many small towns, the local convenience store/gasoline station is a center of retail activity, 24-hours a day. Now, many of these businesses are expanding into a third area, fast food franchises.

Until recently, most towns with less than 2,000 people were too small to support a franchised restaurant outlet. Now, a business arrangement called co-branding has emerged in which fast food outlets are operated within an existing convenience store/gasoline station. These outlets are typically very small and efficient kiosks or counters, occupying as little as 100 to 200 square feet of the store. Cost of developing this type of franchise restaurant is a fraction of what it would cost to develop a free standing operation. These small outlets often do very well in rural areas because of the lack of competition.

Benefit to Franchisers

Many large, national chains are interested in expansion through co-branding. Examples include Baskin-Robbins, Burger King, Dunkin' Donuts, Hardee's, Little Caesars, Subway, and Wendy's. These chains are looking for joint opportunities with convenience stores because they have already saturated many markets.

Co-branding allows them to enter non-traditional markets, including small towns, as a way to realize new growth opportunities. Further, fast food chains acquire access to prime, high traffic retail locations, often "the best corner in town." The prime location, coupled with the fact that most convenience stores generate more traffic than free-standing fast food outlets, makes co-branding attractive to franchisers.

Benefit to Convenience Store/Gasoline Stations

Many of our small town convenience stores/gasoline stations are more in the grocery than gasoline business. As the profit margin on gasoline is small, they have found that grocery and other retail items are the most profitable parts of their business. Many convenience store operators are expanding into fast food via co-branding to increase sales and benefit from the marketing clout of an established national chain. A fast food outlet within a convenience store is synergetic to the business, as the demographics of its customers are similar. In addition, a fast food outlet brings in people at different times of the day, thereby expanding customer traffic significantly.

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Convenience store operators do not necessarily have to become fast food franchisees to take advantage of this trend. Many convenience store operators serve as a landlord and lease out space to another franchisee or to the fast food chain.

But adding a fast food outlet may not be appropriate for every community or convenience store. Store operators must realize that a fast food business is a hospitality business. High standards must be maintained by offering quality food, affordable prices, cleanliness, and customer service. Signage and parking are critical and physical changes must be made to the interior of the store and its product mix. And like most other businesses, if existing competition is already present and strong, or traffic count is low, co-branding may not be profitable.

Conclusion

Some very unique business combinations have developed recently. One gasoline station chain has expanded the concept to include food courts with numerous restaurant outlets, an indoor

playground, office/copying services and check cashing. Wal-Mart has a co-branding relationship with McDonalds. Other non-traditional franchise locations have emerged including supermarkets, college campuses, and company employee dining facilities. The trend is expected to continue.

The addition of restaurant franchising through co-branding does not add significantly to local employment or income levels. However, it does add an additional convenience to a community's retail mix. To the extent that these services satisfy local demand for "fast food," there is one less reason to make the journey to more distant retail malls and shopping centers.

Drawn from:

Abcede. Angel, P. Shook, D. Smith, "From Car Hops to Co-Branding," National Petroleum News, May 1994, p. 34-45.

Dwyer, Steve, P. Shook, D. Smith, "Branded Fast Food: A Boomlet Becomes a Boom," National Petroleum News, August 1995, p. 34-39.

"As Co-Branding Matures, Franchisees Go Deal Hunting," National Petroleum News, November 1995, p. 15.

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