



A Franchise Profile by: Kevin Wolff



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ENTREPRENEURSHIP

THE STORY:

Cinnabon began to conceive their success story in Seattle, Washington during the 1980s when the two founders, Rich Komen and his son Greg from “Restaurants Unlimited” decided that they wanted to develop “the world’s best cinnamon roll.” After several months of perfecting their recipe with hired native connoisseur, Jerilyn Brusseau (“The flavor of,” 2010), and spending many hours travelling to Indonesia for the most perfect cinnamon tree breed, the Komens finally realized their goal and opened the first Cinnabon store (“Cinnabon: About us,” 2012).

THE FRANCHISE CHOICE:

Since the idea of franchising, a multitude of parent businesses have decided to turn toward the contracting concept as a means of swift brand spread with most of the brick-and-mortar physical labor controlled by the franchisee. As the parent company of a franchise business, one can successfully control the brand from a main office, while offering their licensees a quick return on their investment. Franchisees will flock to the parent company’s offerings because they will be offered access to a fully-established system of marketing tools, powerful retail concept, and proven-effective set of company equipment to thrive after initial venture. Although franchising is a wonderful option for well-established brands, setting up the licensing system for a company such as this requires years of well-known brand awareness, the capital to provide marketing tools and assistance, as well as a sturdy infrastructure for training employees or shipping goods.

MARKETING & ADVERTISING

DEPLOYMENT STRATEGY:

The Cinnabon brand franchise is a globally-known brand for their sweet treats and universally-loved product lines. You can enjoy a delicious baked sweet roll or coffee beverage in over 40 countries as of this year, spanning up to 900 bakeries across the world. As the company puts it, their vision is “to be a global player in the snack industry and a best-in-class bakery and coffee shop franchise” (*Cinnabon franchising*, 2012). Due to the cross-cultural accessibility and popularity of sweet bakery goods such as cinnamon rolls and coffee, Cinnabon has relatively easy access to the many countries around the world for franchise expansion opportunity which result in the perfect landscape for a globally-spread company.

ADVERTISING ARRANGEMENTS:

Franchisees of Cinnabon, Inc. who own a full-size bakery are subject to an advertising fee of 1.5%-3% of their net sales, while express bakeries are exempt from any advertising payments. All financing is done through a third-party whom Cinnabon contracts out for their franchisees to report.

OPERATIONS MANAGEMENT

PRODUCT PROCUREMENT:

The Cinnabon parent company controls all aspects of their supply chain via a partnership with a cooperative producer called Supply Management Services, Inc. (SMS) for the highest possible quality of ingredients and end products. One of the Cinnabon franchise's main selling points is their world famous breed of "Makara" cinnamon. This specific tree species only grows on plantations owned by Cinnabon in Indonesia and is maintained by SMS. When franchisees are in need of product from Cinnabon, Supply Management Services heeds their call, managing "the entire supply chain... from the fields, from the farms, through production, through distribution, to the restaurant" ("Supply management services").

ADVANTAGES & DISADVANTAGES:

The corporation's current supply chain management solution is effective, in that it saves Cinnabon franchisees substantial amounts of money spent on the Cost of Goods Sold (COGS) by outsourcing their entire production line to SMS, a cooperative owned and funded by Cinnabon and Popeye's franchise members. Via their current producer, Supply Management Services, Cinnabon franchise licensees only pay \$600 per-restaurant per-year in surcharges for utilizing the cooperative solution, rather than the \$1,500 service fee incurred by other franchisors that use typical supply chain management services run by the parent corporation. Despite SMS' commitment to giving Cinnabon complete control over strategic direction, product specifications, and food quality standards, a full in-house supply chain would allow for the company to own more of the business operations and ensure functionality whether the franchisees own and operate the dependent SMS cooperative or not. Aside from this factor, Cinnabon's supply chain management plan is ultimately one of the most effective and low-cost systems in place throughout the franchising industry today, recently turning out a simple ROI of approximately 630%.

OPERATIONAL COSTS

FINANCIAL REQUIREMENTS:

The Cinnabon Corporation requires an upfront initial fee of \$30,000 to open a full-size bakery shop, and \$7,500 for the conception of an express outlet. In addition to these costs, each franchisee is required to hold a cash liquidity of at least \$120,000 and net worth of \$400,000. Considering all other miscellaneous start-up fees and payments, the total amount to begin a full bakery franchise with Cinnabon will cost anywhere from \$191,800 to \$392,989, while an express mini shop will reach a grand total of somewhere between \$36,126 and \$95,470.

FINANCIAL ASSISTANCE:

Because of the high costs associated with beginning a store franchise license, Cinnabon plug-'n'-play bakeries do not offer parent company financial assistance, yet they come with access to a third-party fiscal aid company that can help to figure out a method of payment for each specific franchisee client.

ROYALTY FEES:

The Cinnabon Corporation franchisor understands their licensee's need to produce a viable income from each bakery, however, in return for the simplicity of store development and the toolkits included as a franchisee, Cinnabon requests that their individual full bakery outlet partners return a monthly royalty fee of 6% on their net sales. As for express bakeries, the corporation only asks a total royalty of \$15-\$20 per case of freezer-to-oven rolls purchased from them.

BREAK-EVEN ANALYSIS:

Considering Cinnabon, Inc.'s 50% profit margin, \$1,500 in retail space leasing fees and \$5,000 per month in staff payroll, a Cinnabon franchise could cost around \$84,000 each fiscal year. Assuming the above details, a franchisee would need to produce sales of \$168,000 per year to break even, minus their initial investment of the bakery outlet itself.

HUMAN RESOURCE MANAGEMENT

CORPORATE TRAINING:

Running a franchise is not an easy task, even with all the support given from a parent corporation. It is for this reason that individuals without previous restaurant

experience can receive a comprehensive and mandatory 3-day internship session at the company headquarters in Atlanta, GA before one can purchase a franchise license and begin their business. In addition to this extended training program, all prospective franchisees will need to attend Cinnabon's "WoW University" training series before embarking on their business journey. During these sessions, Cinnabon will ensure that their clients complete 12 to 16 days of classroom and hands-on bakery training in an attempt to arm their franchisees with the managerial skills to control employee behavior and morale, baking experience to safeguard brand quality levels, understanding of product promotion to protect a consistent sales stream, and customer service techniques in order to encourage return visits and satisfaction.

ADVANTAGES & DISADVANTAGES:

Human resource training programs are of utmost importance to the parent company of their franchisees. Such platforms are essential to protecting the company's brand name and upholding the perception of that brand as one of high quality and service. In Cinnabon's case, this could not be any more pertinent since they provide licenses to franchise for a food service considered to be the zenith of sweet bakery goods in America. Although trainings can be a great shield for the corporation's well-being, forcible education is not something that sounds appealing to many people, especially those who have had years of experience and must still attend Cinnabon's "WoW University" preparation assemblies when all they want to do is get started with the business.

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