



# Franchise Report

R.M. Marketing Consultancy

**John Floyd-** [jefloyd@radford.edu](mailto:jefloyd@radford.edu)

**Diana Gertscher-** [dgersche@radford.edu](mailto:dgersche@radford.edu)

**Stephen MacNeil-** [smacneil@radford.edu](mailto:smacneil@radford.edu)

**Kelly Motley-** [kemotley@radford.edu](mailto:kemotley@radford.edu)

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## **I. Executive Summary**

Huddle House is a diner style, 24 hour restaurant that serves breakfast, lunch, and dinner all day. They are known for their great customer service, innovative ideas, and new concepts that keep their customers coming back. The franchise is provided with the tools they need to thrive and become successful. Due to the growing trend in family style restaurants, the ideal location would be in Radford, Virginia in the New River Valley. Huddle House would sit on a lot in Fairlawn on the corner of Nicewander and Lee Highway. This location is centrally located to our target markets, college students and families with children under the age of 18. Through an efficient marketing strategy Huddle House will be able to reach its customer base through Valpak, signs, posters, and advertisements through the local high school and universities. With all of these factors, Huddle House is a great business venture for the New River Valley.

## **II. Franchise Background Information**

*"Each store strives to deliver quality service to every customer, every meal, every day."* ("About Huddle House- History & Mission", n.d.) This is Huddle House's mission statement and customer pledge. Huddle House was established in 1964 in Decatur, Georgia by the Sparks family. They came up with this idea so that "local high school football fans could "huddle up" and eat after Friday games" ("About Huddle House- History & Mission", n.d).

The Sparks' goal was twofold: "to create a restaurant that serves any meal, all day and to help others who wanted to start their own business". Almost 40 years later there are just about 400 restaurants in 14 states. These states include "Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Missouri, Mississippi, North Carolina, South Carolina, Tennessee, Texas,

Virginia and West Virginia”. “Huddle house looks to open new markets in Illinois, Indiana, Ohio, Kansas and Oklahoma” (“About Huddle House- Highlights”, n.d.).

Huddle House is open 24 hours providing that old-fashioned diner feeling from the past. They serve a wide selection of cooked to order family meals. Customers can choose from breakfast, lunch or dinner items that are served all day long (“Menu Home”, n.d.). Huddle House serves a wide variety of food choices that includes choice steaks, chicken, seafood and the heartiest "Big House" platters in America.

Huddle House provides franchisees with what they need to be successful. They “provide support in training, operations, and marketing and advertising” (Franchise Information- The Support”, n.d.). “The initial term of the franchise agreement is typically 15 years. There is the option to renew and extend the franchise for three additional five year periods” (“Franchise Information- FAQs”, n.d.). To be accepted as a potential franchisee, Huddle House requires business partners have a minimum of \$200,000 in liquid assets and access to a building site. The average costs to start a Huddle House franchise include: franchise fee \$25,000, property \$250,000, construction \$270,000, on site improvements \$85,000, equipment \$132,000 and miscellaneous expenses \$15,000. Total average costs average \$800,000 for the business and development of a Huddle House franchise (“Franchise Information- The Elements”, n.d.). Other typical costs that may be incurred in opening the franchise include:

<b>Element</b>	<b>Typical Cost</b>
Security Deposit	\$5,000
Starting Inventory	\$13,000
Store Insurance	\$3,000
Utility Deposits	\$2,500

Petty Cash	\$500
Business License	\$200
Transportation/ Lodging (while training)	\$4,000
Operating Capital	\$7,500
Signs	\$26,000
Site Plans/ Engineered Drawings	\$10,000

There are two ongoing costs of owning the franchise. Huddle House charges a royalty fee and a marketing royalty fee. “The royalty fee is 4.75% percent of gross sales, exclusive of sales tax. The advertising fee is 1 percent of gross sales, exclusive of sales tax” (“Franchise Information- FAQs”, n.d.). Both of these continuing fees are to be paid weekly.

Huddle House implemented to a Best of the Best reward system for restaurants that “deliver the best customer service and execution on an every day basis” (“Best of the Best Awards”, n.d.). The winning Huddle House will be given a check for \$15,000. In 2005, #520 Greenwood, SC was announced the First Place Best of the Best Huddle House and in 2006 Magee Huddle House was named National Winner of the Best of the Best Competition. The *Nation’s Restaurant News* recognized Huddle House in 2003 and 2004 with its “Hot Again” award. This award “recognizes brands that have successfully introduced innovative ideas and new concepts to attract and return customers and remain competitive in the marketplace” (“Media Center - 3/9/2004 Press Release”, n.d.).

### **III. Product/Service Description**

Huddle House offers a variety of food, all under \$12, for breakfast, lunch, and dinner that are served at any point during the day. A featured breakfast item is the “Build Your Own Big

House Breakfast Platter” with includes three eggs (any style), hashbrowns, bacon or sausage, and a choice of a biscuit and gravy or grits and toast. Huddle House also serves an assortment of different omelets and golden waffles with a multitude of side items including bacon, sausage, and ham. (“Menu Home”, n.d.)

“Big House Platters” are considered World Famous and consist of different style burgers such as the Country Fried Steak, Grilled Chicken Club, and Giant Southern BBQ all served with a large helping of fries. Huddle House serves their Signature Sandwiches all day. These sandwiches are served with your choice of potato (fries, hashbrowns, or baked). Some of their feature sandwiches are Philly Cheese Steaks, Chicken Melts, BLTs, and Grilled Cheese to name a few. They also feature a “Lite House” dietary choice. These products consist of chicken salads and sandwiches. (“Menu Home”, n.d.)

Dinner is served 24 hours a day so customers are able to get a ribeye steak, butterfly shrimp, and country fried steak either day or night. All dinner entrees come with fresh salad, choice of potato, and Texas toast. To top of your meal Huddle House provide finishers such as cheesecake, pecan or apple pie, and chocolate or lemon meringue pie.

Last year Huddle House served more than 125 million cups of coffee, 29 million orders of hash browns, 26 million strips of bacon, 11 million pieces of shrimp, and 6 million chicken tenders. (“Media Center”, n.d.)

In 2007, restaurant sales are said to increase 5% (“News Release- Press Room”, n.d.). This increasing trend is due in part to the fact that eating out is less of a hassle. These days most people either do not have time to cook or just do not want to. By eating out families are still able to keep up with each others loves, even with their busy schedules. (“Restaurants rising trend in family dining”, n.d.)

It is reported that 47.9% of people spend their food budgets in restaurants (“News Release- Press Room”, n.d.). This growing trend in family style dining means that people are coming in more often, spending more, and even eating with a larger number of people. Experts classify restaurant users into three categories. Light users eat out 1-4 times in a two month period, moderate users eat out 5-11 times in a two month period, and heavy users eat out 12 or more times in two months. (“Traffic Trends”, n.d.).

Customers decide where they will eat based on affordability and balanced menu options (“Restaurants rising trend in family dining”, n.d.). Advertisements also create customer traffic. Customers come in and use promotions from newspapers, banners, signs, direct-mail fliers, and television. This is especially popular in older folks. (“Traffic Trends”, n.d.).

#### **IV. Situation Analysis**

Huddle House, like any other business, has internal strengths and weaknesses, as well as uncontrollable external factors that affect their business. There are also direct and indirect competitors that could pose a substitute to the Huddle House.

##### Strengths:

- Experienced with over 40 years in the business.
- 24 hour service.
- Huddle House backs its franchisee’s. They provide a handbook that provides “strategies and procedures” to help with the creation of new Huddle Houses. Their marketing team will help you from start to finish.
- Very high customer reputation and great customer service is recognized through their Best of the Best Awards.
- Family friendly environment allows for a great place to hangout after football games.



- Wide variety of food choices served all day- breakfast, lunch or dinner.
- Affordable menu selection.
- Swift service with an at home feel.

#### Weaknesses:

- Jack-of-all-trades so they do not just specialize in one group or type of food.
- Do not see a lot of advertisements for Huddle House. Therefore you are not aware of what it is and might be less likely to stop and eat.
- Turnover rates for employees are high because the majority of the employees would be college students that would leave after they graduate.
- It costs a lot of money to start a franchisee.

#### Opportunities:

- Sales for family style restaurants are expected to increase.
- Not a great deal of competition for 24 hour diners in the area.
- Due to fast passed life styles, more people are eating out for convenience.

#### Threats:

- Not well known; people maybe more likely to go to IHOP or Waffle House.
- More competition in more populated areas like Christiansburg or Blacksburg.
- Competition has "To-Go".

With the Huddle House franchise being set up in the New River Valley there are some direct and indirect competitors. The New River Valley has a variety of dining places as well as other convenience shops. There are different threats to Huddle House depending on where the franchise is located.

Locating Huddle House near Radford University poses many threats. The direct threats would be the dining halls which would be easy and convenient to students. The dining halls serve a wide variety of foods and students can use their meal cards instead of money out of their pocket. Another direct threat would be Joe's Diner which is a 24 hour diner that has a wide menu selection at a low cost. Other direct threats would be places such as Highlander and Mike's Pizza. These places can serve as a direct threat due to the fact that they deliver and would therefore take away from some of the late night customers.

If Huddle House was to be located in Christiansburg's direct competitors would be places like IHOP, Denny's and Waffle House. These restaurants are also family friendly dining restaurants that serve breakfast 24 hours. Red Robin would be another indirect competitor because of their fast and family friendly service and wide menu selection. Most other restaurants in the New River Valley could be indirect competitors because most of them are specialty dining restaurants.

Locating the Franchise near the Blacksburg area creates threats to Huddle House as well. Direct threats would be the dining halls on the Virginia Tech campus because they are quick, affordable and convenient to students and faculty. Other direct threats would be fast food establishments such as Wendy's and Subway. These are direct threats because of the fast service and convenience. Family friendly restaurants such as Applebee's and Buffalo Wild Wings also serve as direct threats to this franchise.

Areas in the New River Valley such as Giles, Floyd or Pulaski poses other direct threats from there restaurants. Some fast food threats in these areas would be places like McDonalds, Hardee's and Sonic, all of which have extremely fast dining service. Also in these areas other

direct threats could be some of the mom and pop dining areas because local residences many want to keep their money within the community. ("Dining: Virginia is for Lovers", n.d.)

Indirect threats to Huddle House being placed in the New River Valley could be places like Sheetz because they are open 24 hours and not only sell food but other products. This would make it easy for a person especially if they were traveling. All of these places have interior, exterior, direct, and indirect factors that both positively and negatively affect Huddle House.

## **V. Target Market**

The New River Valley is made up of the City of Radford, Montgomery County, Floyd County, Giles County, and Pulaski County. Huddle House has focused on two target markets for their location in the New River Valley. Their primary target market is directed towards college students, while their second target market is focused on families with children under the age of 18. According to the U.S. Census Bureau, Census 2000 both target markets make up a large percentage of the population in the New River Valley.

	<b><u>Radford</u></b>	<b><u>Montgomery</u></b>	<b><u>Floyd</u></b>	<b><u>Giles</u></b>	<b><u>Pulaski</u></b>
<b>College Students</b>	6,952	26,224	405	504	1,296
<b>Families with children under 18</b>	1,091	7,845	1,683	1,964	3,934

The majority of the population in the New River Valley is due to the large number of college students from Tech, Radford, and New River Community College. This makes them a great primary target market for Huddle House. Students have a high disposable income and with Huddle House's low prices it makes it a great place to go for a quick bite to eat. Also with it

being one of the only 24-hour restaurants it makes it a great destination for students when they are up late at night looking for a place to eat.

The secondary target market is focused on families with children under the age of 18. This market is also a large percentage of people in the New River Valley making it another vast market for Huddle House. Huddle House creates a family, friendly environment. It is a great place to go and grab something quick to eat while spending being able to still spend time with the family. It is also a place for kids to go and just hangout on weekends or after football games.

There are many incentives to placing Huddle House in the New River Valley. Over the years the area has been both growing and expanding. With the region on the rise that means that both of our target markets will continue to grow as well.

## **VI. Site Location**

The preferred site location is a lot off of Lee Highway in Fairlawn on the corner of Nicewander and Lee Highway. This lot is estimated at \$375,000. The lot is 1.10 acres which



would be large enough to put a Huddle House and still have adequate parking space (“Retail land”, n.d.). An average Huddle House is typically a little more than 2,000 square feet (“Huddle House coming to area”, February 22, 2007.). The estimated building costs according to RSMeans on the medium level are \$284,839 for the total

building costs. This consists of a total of \$207,500, the contractor’s overhead and profit of \$51,875 and the architectural fees of \$25,464 (“Quick Cost Estimator”, 2006).

The preferred location for Huddle House has many retail advantages. This is considered to be an ideal location for another restaurant. There is enough space for parking and since it is located on a corner lot it will be easier for customers to access it. This area is well traveled and is well known throughout the area. It is also close to other food chains which will give customers a wider selection. The area is centrally located to the target markets, college students and families with children under age 18. On top of everything else it is a relatively good price for the land.

Along with the advantages come some disadvantages. The main disadvantage would be the fact that the franchise would be located in Radford so there would not be a great deal of traffic coming from outside the Radford area. Another problem is that the streets off Lee Highway can sometimes be difficult to enter and exit. Finally, even though Huddle House would be the only 24 hour restaurant in that area there are many competitors during the daytime and early evening hours.

The secondary site locations would be the old Chancey's location at 118 Tyler Avenue across from the Radford Campus and to the vacant spot left of Macado's on East Main St. Chancey's site location poses quite a few advantages. This area is located extremely close to campus which would make it an easy way to reach the primary target market, college students. The fact that students could walk to this location is ideal. Another advantage would be getting some of the 24 hour customer base. With students being out at all hours of the night, nothing would be more convenient for them than to walk to the Huddle House to grab a late night meal. One of the biggest disadvantages would be the fact that there is limited to no parking in this area. To park they would either have to park along the street or at the bottom of the hill next to the bank and walk up it. The size of the property might not be best suited for building a Huddle

House either, not allowing enough room for both the building itself. The fact that this area is located so close to Radford University there would be very little outside traffic coming to the restaurant.

The vacant spot next to Macado's could also be another possible site location. This lot is a good place for the square feet needed to build a Huddle House and also have room for parking. Huddle House would be sure to generate customers from the traffic flow that Macado's receives. This location is relatively close to campus so students could walk if they choose or they would just have a short drive. A great disadvantage would be the competition they would receive from having Macado's right next store.

The site location that has been chosen for the new Huddle House is the best possible location for this franchise. The lot is large enough to allow for ample parking and it will be easily seen from the road. The location is centrally located and will be a great alternative for customers wanting something different than a drive-thru hamburger. Because of these great advantages it is felt that the Huddle House would do the best in this specific site location.

## **VII. Marketing Strategy**

The marketing mix is comprised of the place where the product can be found, the price of the product, the promotion of the product, and the product itself. Huddle House has over 400 locations within 14 states; including Virginia ("Welcome to Huddle House", n.d.). With a planned location on Lee Highway in the Fairlawn area of Radford, Huddle House will assist in the actual construction of the building. Through company hired architects, the building will take shape to Huddle House's standards. Pricing throughout the menu is relatively set by the franchise and leaves little room for change. Nothing on the menu is over \$12.00.

Promotion is always an important role in the marketing mix. If too much is spent on advertising, it is wasteful and expensive; if not enough is spent, there is a chance that a company's potential is not maximized. In areas with a smaller population base, it is easier to promote through word- of- mouth. Creating positive buzz about the new restaurant is relatively easy and inexpensive. Placing a sign on the lot as construction is underway is one possibility, as well as advertising through companies such as Valpak and through the high school athletic department. Once the existing car wash structure is demolished a sign should be erected at the front of the lot promoting the coming store. The sign should state:

**HUDDLE  
HOUSE.**      **Coming Soon**  
**3 Meals**  
**24 Hours**  
**What else do you need?**

A three foot by ten foot vinyl banner will cost approximately \$115 (“Build-a-sign”, n.d.). Also valpak.com offers an affiliation program in which the company receives a fifty cent commission on any coupon printed out. However, since the target market for this advertising will be families with children, coupons sent through the mail via Valpak would be a better idea. This costs \$355 per 10,000 people reached. With Huddle House's original concept of being a place to gather after games, advertising at the high school games, either through sponsorships or verbal announcement promotion to attract families, or even at some of the university sporting events to attract the college crowd could both be alternative routes of promotion. But again the main source in this area would be the publicity created through word- of- mouth. Added to all of the aforementioned ideas, Huddle House as a franchise sends out promotional items to each of its

stores. This includes posters, window clings and even a CD full of promotion goodies to print out (“Huddle House Franchise Information”, n.d.).

The goal is to market Huddle House as a family restaurant that will attract a nice local group for dinner, and bring in most of its late night business from the college crowd that reside in the NRV. What differentiates Huddle House from the competition is its operating hours, there are very few 24 hour restaurants in the area, and Huddle House intends to tap into that market. Another advantage over existing competition is the wide menu choices, whether you want breakfast, lunch, or dinner, they are all always available. Most of the customer service and retention will be attributed to the amazing customer service skills developed and passed down through Huddle House employees. Proud to be awarded the Best of the Best Award, every store strives to have the best customer service possible (“Best of the Best Award”, n.d.). With these marketing measures in place, the Valpak coupons and high school advertising targeting families, and the promotion through college events and promotional signs creating buzz through the college groups, Huddle House should be able to optimize to potential in this area.

### **VIII. Recommendation**

Based on the marketing assessment it is believed that this franchise is a viable retailing alternative for the New River Valley. Based on the statistics of the surrounding area it is believed that Huddle House would be a successful business venture in the city of Radford. The area shows that there is a large population due to families and students from the local universities. Besides a small number of fast food restaurants there are no other major threats on the highway that the building would be located. The main competitors would include: Joes Diner in Radford, VA and IHOP, Denny’s and Waffle House in Christiansburg. These restaurants are located a considerable distance apart and would not interfere with the traffic that Huddle House would receive. The site



location for Huddle House is located on an ideal spot of land that is situated slightly above the highway and adjacent to a gas station and grocery store. The location provides ample room for parking and the building and would be a good choice for this franchise. The rationale for this decision is the idea that the Huddle House, an immensely successful franchise in other similar areas, would be successful in the NRV. The consultancy supports the decision to continue the process of planning and building the new franchise.

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