

## A Franchise Evolution

**Franchisor Sheila McCann recounts the highs and lows of the bread business.**

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**Editor's Note:** House of Bread owner and franchisor Sheila McCann has weathered several business challenges--from a shrinking bread market occasioned by the low-carb movement to skyrocketing rental rates that forced her to move her flagship bakery café to a new, smaller location.

McCann responded to the shrinking bread market by expanding her product line and finding new distribution opportunities. Those changes helped her business not only survive but thrive. In the few months since downsizing her San Luis Obispo location by 950 square feet, she's seen a profit increase of nearly 15 percent.

The new location has on-site parking and better merchandising opportunities, along with lower overhead. McCann seems to have found the perfect formula: making the flagship San Luis Obispo store a model for the nine other franchise House of Bread locations scattered throughout the U.S.

The following first-person article describes the evolution of House of Bread, begun in 1996, to today's House of Bread Bakery Café. It's both a cautionary tale and an inspirational story for entrepreneurs who need to reinvent themselves.

### Background

In 1996, I opened House of Bread to roaring success but without a clue about how to run the business or even how to bake. On top of that, I was completely undercapitalized. My initial achievements led me to believe that owning my own business was a piece of cake.

In a few years, I launched an overly aggressive growth strategy of opening multiple company units and franchising the House of Bread concept. This time, I was not so lucky. First, the mass producers of bread took note of the popularity of micro-bakeries and began increasing their own bread offerings. More competition from the supermarkets affected our sales only slightly. But in 2002, low-carbohydrate diets began sweeping the country. All of a sudden, the entire bread market shrank dramatically.

I was proud of my delicious, freshly baked breads and felt good about making them all-natural. I knew the truth about whole-grain breads; they help people lose weight and are truly a good nutritional choice. I naively thought the low-carb diet craze would fizzle out and that people would resist the new upscale breads offered at grocery stores. However, when my sales and those of my new franchisees started declining, I knew I had to do something fast.

### Expansion of the product line

My former career as a trial attorney taught me to fight hard and keep trying different plans of attack until something starts to work. I tried introducing some non-bakery items, with little success. One example was blended-juice smoothie drinks. Despite aggressive marketing and the fact that the drinks tasted great, they just didn't sell. My employees loved them, but that was not enough for a profitable rollout. I learned that people do not go to a bakery to buy a smoothie; they go to Jamba Juice or Planet Smoothie. Just getting customers to try the drinks was like running uphill against a headwind.

Having learned a hard lesson, I focused on products customers would expect to find at a fresh-bread bakery. I added items that would complement our bread. I ended up successfully expanding our product line to include gift baskets, a larger assortment of pastry items and a few deli offerings. We even started offering baking classes.

The new products sold well and helped increase our bread sales. At the same time, I began distributing my bread through farmer's markets and selective natural food markets. We didn't just survive, we thrived; and sales have been on the rise ever since.

### Continuous rent increases

In my market, rental rates began climbing in the early 2000s. By 2008, they had risen from about \$1.50 a square foot to more than \$3 a square foot. My original House of Bread was more than 2,000 square feet. When I signed the lease in 1996, the thought of having to squeeze into a smaller space never crossed my mind. I took the roomy space for granted. I never analyzed it from the perspective of sales and profit per square foot. As occupancy rates rose, it became difficult to convince prospective franchisees that they would be fine in a 1,200-square-foot space.

My lease was set to expire in March 2009, and I had an option to extend the term for a rental amount to be negotiated. My proposition to the landlord involved redesigning and improving the space by adding outdoor seating and new counters to better merchandize the new products. He agreed, but reminded me of his intention to bring the rent up to market, which he translated to mean monthly payments of more than \$7,000.

I knew I had to strengthen my position at the bargaining table. We both knew that moving a food service operation was arduous, expensive and risky; relocating a successful business from a proven location was typically ill-advised. I had to find an outstanding alternative location and let the landlord know that I was in negotiations for another space.

### Finding another great location

I found what I considered to be four excellent locations. Unfortunately, none of them was for lease. Undeterred, I wrote a letter to all four owners explaining my desire to lease their property. Two of them responded with interest.

It was becoming evident that my current landlord and I were not going to agree on new lease terms; we were just too far apart. Lesson learned: Failing to include a lease rate in the option to renew can be a real problem when the time comes. Landlords are typically willing to negotiate if rental rates are falling, but you can find yourself in dire straits if you're unprotected in a market of rising rents. Investing \$80,000 to \$100,000 in buildout costs without enough years in the lease to recoup your investment is not smart business.

So I signed a lease on a new space that I felt really good about; it was approximately 50 percent smaller, \$1,500 a month less and had an option to renew with a set lease rate. I was confident in the location; it had great visibility, parking (which was missing at my last location) and easy access to one of the busiest intersections in town. The location was right off a freeway exit, and the California Department of Transportation verified that this exit had the highest traffic count in the city.

### Designing the new concept

To find design ideas, I read industry magazines and websites, visited bakery cafés across the country and spoke to industry veterans. I drafted a rough space plan and shared it with my architect, along with some photos of designs that I liked. Together we came up with the current look and production flow. I also changed the name from House of Bread to House of Bread Bakery Café.

Some changes were necessary so I could squeeze into my new, smaller space. I determined that a smaller oven would be sufficient if I reorganized our baking schedule. I installed more space-efficient ingredient storage containers and floor-to-ceiling storage racks. The new design incorporated an outdoor patio to make up for the loss of indoor seating--space that's usable nearly year-round on the central California coast. I bought large, colorful patio umbrellas for the tables to communicate the "food" message to passers-by.

## Marketing the relocation

We hung a House of Bread Bakery Café "Coming Soon" banner on the exterior of the building during the buildout. I began collecting e-mail addresses from my customers as soon as I was certain that the bakery would be relocating. I sent an e-mail newsletter announcing the move to everyone who had signed up. I also sent press releases to all the major publications in the area announcing the move and the grand opening party (reporters love parties). The grand opening was a huge success; the bakery was packed all day with customers and friends enjoying each other, the new space and, of course, the free cinnamon rolls.

## Advantages of the new space

My new location has experienced a 14.9 percent increase in sales from previous years' comparables. There have also been other benefits to this smaller space: a more efficient production area, with fewer steps to the oven, mixer and ingredient bins. Initially the thought of having no office concerned me; I thought a small desk in the corner with only a computer and filing cabinet would be a major disadvantage. However, as it turns out, I can hear everything going on in the bakery--employees' interactions with each other and, even more important, their interactions with my customers. This has really proved to be beneficial.

The move has been a big success, and I'm very pleased with the results. The uncertainty I initially felt about moving is just a memory. My customers seem to enjoy the new design, products and ease of getting in and out. The excitement in the community regarding the relocation has really been fun, and I see a bright future ahead for my new House of Bread Bakery Café.

*Sheila McCann, a former lawyer, is founder and owner of the [House of Bread Bakery Café](#) franchise. The franchise, which features fresh, all-natural bakery products, has 10 locations throughout the U.S.*