

# Subway analysis

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Subway has now become the world's largest fast food chain in the world, surpassing McDonalds with over 39, 500 restaurants in 102 countries. I felt that the success of this business and the motivating story behind founder Fred DeLuca, this was a very aspiring business to select. DeLuca and a family friend opened up a sandwich shop in 1965 with only a loan for \$1, 000. DeLuca hoped the tiny sandwich shop would earn enough to put him through college. After struggling through the first few years, the founders changed the company's name to Subway and began franchising in 1974.

Subway earned its success by offering a fresh, healthy alternative to fast-food restaurants. Rationale for Business Selection: Subway has had much success in the past few decades, but its room expansion continues to be hopeful. The Bloomberg Business reports that about half of Subway's roughly 200, 000 franchise inquiries each year come from North America. However, the company sees most of the growth opportunity overseas. Don Fertman, Subway's chief development officer, expressed his excitement around new opportunities in sub-Saharan Africa amid ongoing growth in South Africa, Tanzania, and Zambia. Subway shops in Kenya will also open soon.

There are still some potential U. S. targets, he says, namely in Philadelphia, New York City's outer boroughs, and Boston. Subway has been recognized Subway regularly for awards for being the most effective, supportive franchise system. The past 3 years, Subway has been awarded the Number One ranking in the Franchise Direct Top 100 Global Franchises Rankings, which recognized the brand for possessing " a clear business plan, a commitment to training and support, an ability to innovate and sensitivity to

environmental issues. " Delcua and Fertman both take pride in investing and providing support for its franchisees.

These men both have stated that, " It's because of the franchisees! They're the heart and soul of the Subway family. We know that our success depends upon their excellence in operating their restaurants. We take great pride in the hard work and effort made by the thousands of franchisees throughout the world and in the millions of customers that they serve. " With this type of encouragement, it markets Subway as a great business opportunity for starting a franchise. Subway also has offered many opportunities for jobs for people in the United States the past couple of years.

In a difficult job market, it is estimated that approximately 24, 000 men and women looking for work were able to find positions at Subway restaurants last year. So far this year, the chain's franchisees have been credited for the creation of nearly 8, 000 jobs. The total number of people employed throughout the company chain-wide is about 370, 000, not including those working for vendors, suppliers, and contractors to help the business continue to grow and be successful. Opening a Subway franchise, also offers the possibilities of not being opened as just a traditional restaurant.

There are many options to open up a franchise, beyond the traditional way. One of the ways that the chain has had continued success by opening up non-traditional spaces, which would often be considered by others to be too small, inconvenient or impractical to set up shop—such as at airports, convenience stores, hospitals, factories, department stores, train stations, museums, hotels, and movie theaters. Currently, the restaurant chain recently reached a milestone of having 8, 000 such non-traditional locations

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in early 2012. " Non-traditional Subway restaurants come in all shapes and sizes and can be found just about anywhere, says Don Fertman.

" Because of the concept's flexible floor plans, minimal space and equipment requirements and popular menu offerings, Subway restaurants are uniquely suited for these special sites, which are integral to the chain's overall development strategy, and are a large contributor to the chain's record breaking growth. " Protocol for Starting the Business: In order to open a Subway franchise, you must first request an information brochure on the website. From there, you are able to access a Franchise Application through a secured link.

Once approved, the potential franchisee must meet with a local development agent to consider location and options in the preferred franchise location. The Developmental Agent is a local, on-site representative of the Subway concept. Your DA will be your primary contact in your local area and will be able to provide local support not only throughout the application process but continued support as you operate your restaurant. The DA will also review the disclosure statement with the franchisee and also help conduct local research in picking a location for the new Subway restaurant.

The Federal Disclosure document is of great importance to prospective franchisees because it contains important information about the franchise. The document provides key financial information such as the initial fees payable to the franchisor, annual royalties, likely start-up costs and probably most importantly, likely earnings from owning a franchise unit. The next step in the process would be to secure financing and sign the franchising agreement. Subway offers an equipment leasing program available to all

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franchisees in the United States, except those who own an existing restaurant that is not in compliance with the Operations Manual.

Subway has expectations that the equipment lease is to be a true lease and not a financing lease. Subway offers to finance \$10, 000 of the initial franchise fee under its minority loan program for qualified franchisees purchasing their first franchise at the full franchise fee in the USA only. Subway also offers finance programs for leased space and construction programs through Subway affiliates, and may loan money to franchisees in connection with a Subway restaurant. In addition, Subway may guarantee a loan for a franchisee in connection with a Subway restaurant.

Subway may change or eliminate these loan programs and equipment leasing program without any prior notice to franchisees. Subway also offers options to several financing companies to help get the new franchise program off the ground if one of their programs doesn't work out. When signing the franchise agreement, it is important to note that Subway franchisees pay 12. 5% every week (gross sales minus the sales tax); 8% goes toward the franchise royalties and 4. 5% goes towards advertising. Total initial investment can range from \$85, 000-\$262, 000.

Upon signing your franchise agreement, it is important that the location for the establishment is secured and built. Subway does provide detailed blueprints from their Store Design team as well as recommended contractors that other owners in the area have used. However, the franchisee is responsible for hiring a contractor to build or update the location to Subway standards. All leases are corporately held and those will receive a sublease.

The average start up time in this process is about 7-8 months. Training and development is one of the last steps in the process.

All individuals who sign the Franchise Agreement must attend and complete the Worldwide Training program at Subway headquarters to the franchisor's satisfaction. Perfect attendance and a grade of 80% on all pre-requisite web-based training courses, in classroom quizzes and the final exam, as well as a passing grade on the in-store component of the course are required to complete the training course to Subway's satisfaction. Franchisees will be notified when additional courses become required. The franchisee is not obliged to personally supervise the Subway restaurant, but they must attend and complete the training program.

The person designated to actively work in the restaurant as the Person in Charge must become certified by completing the Person in Charge program. It is recommended that the franchisee devote a substantial amount of time to the franchised business. The franchisee must operate the restaurant in strict compliance with all required methods, procedures, policies, standards, and specifications of the Subway system in the Operations Manual and in other writings issued by Subway. Federal and State Requirements that must be met:

The following federal requirement must also be followed in compliance prior to opening up the Subway franchise location: Zoning Laws –If you plan to build or refit an existing restaurant, check local zoning laws to see if there are any restrictions in the area Commercial Lease negotiation – Terms must be met for signing a commercial lease and getting it approved from the state and federal level Licenses and Permits–Restaurants typically need a food

service establishment permit, an alcohol beverage license, a general business license, and a food safety permit Food Safety -While health codes vary depending on location, all codes require restaurants to safely handle, store, and prepare food. You will need to obtain a permit from your local environmental health department certifying that your restaurant has met county, state, and federal requirements. Restaurants are usually inspected once every two years after opening. Be sure to get a copy of your local health codes and refer to it frequently to ensure compliance.

Legal Considerations that must be addressed/Human Resources initial legal concerns: When opening up the new franchise location for Subway, it will be important to meet all of the above federal requirements, but to also stay in compliance while the business is in operation to remain on good terms and avoid any legal complications. Because the structure will run as a franchise, it is crucial to consider the Franchise contracts and its requirement because there are more restrictions to operate under. Along with the restrictions contained in the franchise contract, the additional financial costs of the contract should be evaluated. In opening a Subway franchise, you will be required to pay out a substantial amount of your profit to the franchisor.

More specifically, apart from a large initial franchise fee, expect to be required to pay the franchisor: a percentage of your profits as a royalty, an above-market cost for equipment, goods, and supplies purchased from the franchisor, finance charges on those same purchases, training fees for you and your employees, and contributions to a fund for group advertising. This is where review the Disclosure statement will be very beneficial in the start-up process. From a Human Resources perspective, another option that

should be considered when starting up the franchise is obtaining insurance to mitigate legal risk. Both property coverage and general liability coverage should be obtained. For property coverage, try to make sure that everything of importance, especially equipment, is fully covered.

For injuries to employees or customers, it is imperative to have an excellent general liability policy. Human Resource and management leaders, also need to consider the implications and needs of their employees. It is important be aware of basic employment law issues such as illegal discrimination, workers compensation, and how to handle the hiring process. For example, Full-time and part-time restaurant employees are entitled to certain wage standards. These requirements, regulated by the Fair Labor Standards Act (FLSA,) cover minimum wage, tips, food credits, and overtime: Minimum Wage - Currently the federal minimum wage for non-exempt workers according to the Department of Labor is \$7.25 per hour.

Food Credit - As an employer, you can take credit for food provided at cost. This is typically in the form of an hourly deduction from an employee's pay. If you just want to give your employees a discount on menu prices, you can't deduct this as a credit from their wages. Overtime - If you require your employees to work any time over a 40 hour work week, you must pay overtime at a rate of at least one and one-half times the employee's hourly rate. Reflections and Learnings: Throughout the research for this paper and finding a business to elaborate on, it was very interesting learning about the necessary steps that are involved when opening up some type of business organization.



I chose to research on Subway and its franchise locations because of their success story, but also how world renowned their sandwich business has become across the world. I knew that the franchise had significantly increased in the past five to ten years, but I had no idea it had surpassed McDonald's as the number one franchise in the world! I never really knew about the steps it would entail in starting up a franchise business, and while doing the research for this business endeavor, I was really able to see a new perspective of the steps that a potential business owner must take to get started. From a legal standpoint, there is a vast amount of paperwork and legal requirements that must be done initially to even begin the process.

The start-up fees and financial stability needed to start up a franchise business are also very important. Overall, after learning about the steps it would take and fees to start up a franchise, I would prefer in opening up an independent business. In my opinion, I feel that there are too many fees and requirements under a franchise, which can limit the profitability of the store owner. The process in opening a franchise can be just as long as opening your own business in some cases, so I would prefer to have something that I could call my own! I enjoyed looking at the legal complications and processes that also need to be considered in a business, especially as I am growing in my field as a new Human Resources manager.