

Chick-fil-A: A Wonderful Business That's Not For Sale

January 16, 2020

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Overview

Truett Cathy is one of my favorite entrepreneurs. His story began in 1946 when he and his brother Ben borrowed money to build a single mom-and-pop diner called the Dwarf Grill in Hapeville, Georgia. Their total capital outlay was \$10,600.

However, it wasn't until 1967 – 21 years later – before he opened the first Chick-fil-A. He was 46 years old and he built the company based on Biblical principles.

Today, Chick-fil-A is a multibillion-dollar restaurant chain with over 2,400 restaurants and over \$11 billion in system-wide sales. The company is known for its delicious chicken sandwiches and waffle fries. The business is family-run and privately owned by the second generation of the Cathy family.



Closed on Sundays

Truett Cathy has often said that the closed-on-Sunday policy was the best business decision he ever made. He wanted his employees to rest, be with family, and worship God if they chose to. Here's an excerpt from his book *How Did You Do It, Truett?*:

Some have suggested that we lose a lot of money by closing on Sunday. After all, I've been told that 20 percent of all sales at other quick-serve chains are generated on Sunday.

I think that's the wrong way of looking at it. Everybody needs a break – Operators, their team members, our corporate headquarters staff. I also believe that the store itself needs a break. Even the equipment needs a rest after working hard for six days. The only way to make sure we all get at least one day off every week is to close.

Business Model

There are two models in the fast-food restaurant industry:

1. Franchised
2. Company-owned

Companies such as Restaurant Brands International and Domino's Pizza have a near fully franchised model whereas In-N-Out Burger and Chipotle own all their stores. Most fast-food restaurants have a combination of franchised and company-owned units.

Each model has its pros and cons.

Chick-fil-A has adopted a 100% franchised model. Truett Cathy was heavily influenced by his early experience in running the Dwarf Grill where he ran a single restaurant and was on-site working alongside employees to service customers. As a result, he created a very unique franchise model that generously favors the franchisee over himself. Here are the key aspects of a Chick-fil-A franchise agreement:

- No up-front franchise fee. Franchisee make a \$10,000 refundable commitment
- No up-front capital investment by the franchisee
- Only one restaurant per franchisee

Besides, Chick-fil-A will select the site, build the restaurant and furnish it with equipment. Once up and running, Chick-fil-A collects a brand royalty fee of 15% of the restaurant's gross sales. Net income is split evenly between Chick-fil-A and the franchisee.

Truett Cathy limited each franchisee to a single restaurant because he wanted them to be focused and involved with the team members in operating the restaurant – just as he was at the Dwarf Grill.

Chick-fil-A's franchisee selection process is extremely rigorous and can last up to a year. I believe the company has over a 95% franchisee retention rate.



Best-In-Class Restaurant Economics

When it comes to restaurant unit economics, Chick-fil-A is in a league of its own. The company is by far the most profitable fast-food chain on a per-unit basis.

Company	2018				
	US Systemwide Sales \$M	Avg. Sales Per Unit \$000	Franchised/Licensed Units	Company Units	Total Units
Chick-fil-A	10,000	4,167	2,400	0	2,400
Raising Cane's	1,185	2,963	70	330	400
Whataburger	2,416	2,929	126	699	825
In-N-Out Burger	950	2,794	0	338	338
McDonald's	38,524	2,769	13,229	685	13,914
Panera Bread	5,735	2,740	1,131	963	2,093
Jason's Deli	654	2,520	105	173	278
Culver's	1,580	2,390	680	6	686
Zaxby's	1,850	2,060	757	141	898
Chipotle	4,800	2,000	0	2,491	2,491
El Pollo Loco	870	1,798	271	213	484
Bojangles	1,296	1,741	440	319	759
Steak 'n' Shake	1,035	1,739	185	409	594
Wendy's	9,994	1,636	5,825	353	6,711

In 2018, each Chick-fil-A restaurant averaged \$4.2 million in sales despite being open 52 fewer days a year (they are closed on Sundays). The nearest peer with over 1,000 restaurants is McDonald's which did \$2.8 million/unit.

Zero Debt

Truett Cathy's business philosophy was to "climb with care and confidence." As a result, the chain added restaurants slowly. The company could have easily borrowed money since the economics supported it. However, they chose not to. He believed that relying on internally generated cash flow for growth made the company less likely to outgrow its infrastructure.

He also believed that Chick-fil-A was God's company, and he saw himself as a caretaker of the assets. Being debt-free has allowed the Cathy family the flexibility to reinvest in the business and increase their charitable giving.

Servant Leadership

Truett Cathy practiced what is today referred to as “servant leadership.” This is when leaders lower themselves by seeking to serve others in the organization. They flip the traditional pyramid-shaped “A” hierarchy in which the CEO is depicted at the top.

Many very successful organizations such as Southwest Airlines, Costco, and Chick-fil-A have “inverted the hierarchy” so that the org chart looks like a “V” with the leader at the bottom. This “employee first” mantra transfers over to how employees treat customers. At Chick-fil-A, the home office’s job is to support the franchisees. Here’s what Bernie Marcus, the co-founder of The Home Depot said:

“You [former Home Depot CEO Frank Blake] now have a prominent job. But you don’t have a significant job. Don’t confuse the two. You have a prominent job because you’re the one who talks to investors, does interviews and so on. But you don’t have a significant job, because the only significant jobs are the ones that help customers.”

Bet on Talent

Chick-fil-A does not hire people. They select *talent*. And there is a big difference between the two. The mindset of “hiring” is all about *quantity*. Do I have enough people to cover the shift? On the other hand, the mindset of “selecting talent” is all about *quality*. What unique skills does this person bring to serve my customers better?

It is well known that Chick-fil-A has the best customer service among its fast-food peers. This is because they have outstanding talent across the board – all the way from the C-suite to the restaurant level team members. And this not an accident. Chick-fil-A is not in the chicken business. They are in the people business.

Furthermore, the company has a very high-quality franchisee base. Their franchisees are entrepreneurial leaders with strong work ethics and a deep desire to operate a business but lacked the financial resources. For them, running a Chick-fil-A is more than a job – it is a calling.

The added benefit of having great talent is that like attracts like. Extraordinary talent wants to work with extraordinary talent. This is something Truett Cathy understood very early on.

“The most important decision we make here is who we invite to join the business. Because if you join Chick-fil-A, my goal and expectation is you will never leave here.”
– Truett Cathy

Fans, not customers

Chick-fil-A has fans instead of customers. Customers are fans because the restaurant chain is clean, serves a quality product, and customer service is first-class.

People love Chick-fil-A so much that they camp outside the night before to be among the first 100 customers of a new restaurant to receive free Chick-fil-A for a year.

It's My Pleasure!

At Chick-fil-A whenever a customer says "thank you", the employees are conditioned to respond with "my pleasure." When said, you almost always get a smile back. Try it.

Make Second-Mile Service Second Nature

"If anyone forces you to go one mile, go with them two miles."

- *Matthew 5:41, The Bible*

Second-Mile Service means doing things that are above and beyond for the customer. Things that a typical fast-food restaurant won't do. For example:

- Greeting each guest with a smile
- Learning names and ordering preferences
- Refreshing a drink
- Giving a surprise dessert after a meal
- Carry eat-in meals to the table
- Check-in with guest for any needs
- Carry large orders to the car
- Walk guests to their car with an umbrella when it's raining
- Changing a guest's tire
- Driving for miles to return an item left by a guest at the restaurant

Here, Chick-fil-A has taken a page from service orientated companies such as Apple, Disney, Southwest Airlines, and Zappos. The result is that customers reciprocate by visiting more often, by spending more per visit, and by telling their friends.

Click on these links to see Chick-fil-A's amazing customer service in action.

https://www.youtube.com/watch?v=2Vu_fgE9hxc

https://www.youtube.com/watch?v=u7bhfp8c_Ks

<https://www.youtube.com/watch?v=fECpXAUE3cY>

Conclusion

Chick-fil-A is chock-full of unusual qualities that cause it to stand out from its peers. The company sells an ordinary product – the chicken sandwich – in an extraordinary way. The uniqueness of its culture is only surpassed by its industry-leading unit economics.

I believe that the company's competitive advantage is its special culture. A culture of love, respect, trust, and grace. If I could only invest in one fast-food company, it would be Chick-fil-A.