QSR

Dairy Queen Invests in its Own Growth

The classic chain is offering a quartet of new rewards to drive expansion—but do hefty financial incentives really work?

By Jessie Szalay | June 6, 2019

As a legacy brand, Dairy Queen has made its share of strong moves over eight decades, from doubling down on savory items like GrillBurgers and 5 Buck Lunch to rolling out its own R&D center with the DQ Bakes Institute.

The chain's latest push is less consumer-facing, but no less impactful. Early this year, Dairy Queen announced four new incentives for prospective and existing franchisees, including timeline incentives, multiunit opening incentives, year-on-year incentives, and repurposing incentives. While brands often offer one or two incentives at a time, Dairy Queen's decision to present four simultaneously turned heads.

"Dairy Queen has a very aggressive program relative to what others are doing," says Daniel Boutarel of the New England Consulting Group. "There are always advantages to offering franchisees what they want, so it's good to have multiple incentives. Though if you have too many, it can get confusing."

The financial rewards associated with these programs can reach up to $30,000 for new operators who open a DQ Grill & Chill within 32 weeks of signing their franchise agreement (it's $15,000 for those who open within 40 weeks). New or existing franchisees who open multiple DQ Grill & Chills within the same calendar year receive $10,000 per opening; that same amount is awarded to operators who open units over consecutive years. Franchisees who develop and open a DQ Grill & Chill in a closed quick-service facility will receive $10,000. The initiatives stack.

“They’re putting their money where their mouth is, and it’s obviously very much in line with their goal and aligning their goals to their franchisees’ goals,” Boutarel says. Though it may seem like both franchisors and franchisees always want the same thing—profitable stores and growth—Boutarel argues it’s not always the case. Third-party delivery, for example, can bring money to corporate but can be very hard financially on franchisees. Misaligned goals can lead to an atmosphere of distrust.

The Dairy Queen incentives were designed to bring together franchisee and franchisor wants and needs, and to build trust. The incentives attract new operators in order to achieve corporate growth goals, “reward folks for taking a chance on a new brand,” and assuage some of the ever-rising real estate and development costs, says Julie Davis, franchise development director of Dairy Queen. “It’s a winning combination for them, as well as for us.”

For Dairy Queen franchisee December Herrera, the incentives were helpful. She was able to take advantage of the timeline incentive when opening her first DQ Grill & Chill in San Bernardino, California, and is now on track to earn a multiunit incentive when she opens her next store in six to eight months. She also has her sights set on a Victorville store in 2020, which will give her the year-on-year incentive. But while Herrera describes the financial rewards as “awesome,” she emphasizes that they were not the sole reason she chose to partner with the brand.

Herrera began working at Dairy Queen when she was 15 and quickly grew to love the brand and industry. For a time, she bounced around to other brands, working in management and helping open stores, but nothing quite compared to her Dairy Queen experience. When she decided to open a store of her own, there was no question which concept she would go with. “The incentives are great. They really drew me back to the brand,” she says.

For many operators, like Herrera, real support goes beyond the financial considerations. For example, Dairy Queen helps franchisees find sites in markets that have been thoroughly researched to ensure they can support a DQ Grill & Chill. The brand also provides 18 months of support for new franchisees. The opening consultant helps the franchisee navigate staff hiring, crew challenges, marketing, and the many other tactics necessary to make the restaurant successful.

“They’re critical,” Davis says. “They’re assigned to the franchisee as soon as the site is approved, so they become engaged very early on, before we even start bidding. Then, after 18 months, when things are running pretty smoothly, franchisees get a long-term business consultant who can help them determine how to build out. We break it down so they’re always being supported where they are.”

This hands-on support is essential to brands wanting to successfully implement incentive programs—especially aggressive ones. To wit, Dairy Queen’s quadruple incentive lineup coincides with a strong push into 10 major metropolitan areas, such as Baltimore, New Orleans, Orlando, and Sacramento, California.

But dangling the proverbial carrot does come with potential pitfalls. Rewarding rapid expansion may tempt some franchisees to grow faster than they can manage, Davis says.

“You want to be very careful, because you might get what you ask for,” says Gary Stibel, founder and CEO of New England Consulting Group. “At some point they may expand so quickly that the entire franchise suffers as a result.”

To prevent those situations, brands must work hands-on with franchisees. Franchisors should advise operators regarding when to grow and when to stop. That requires a more intimate knowledge of the market and the franchisees, who may overestimate their own abilities and underestimate challenges on the horizon.

Ultimately, Davis sees Dairy Queen’s incentives as an extension of the entire franchisor-franchisee approach, which is based on providing the support necessary for profitability far beyond the early excitement of opening a new store. “We want to show that we’re here for our franchisees long-term,” she says. “Their success is paramount and very much at the forefront of our initiatives and our philosophy.”