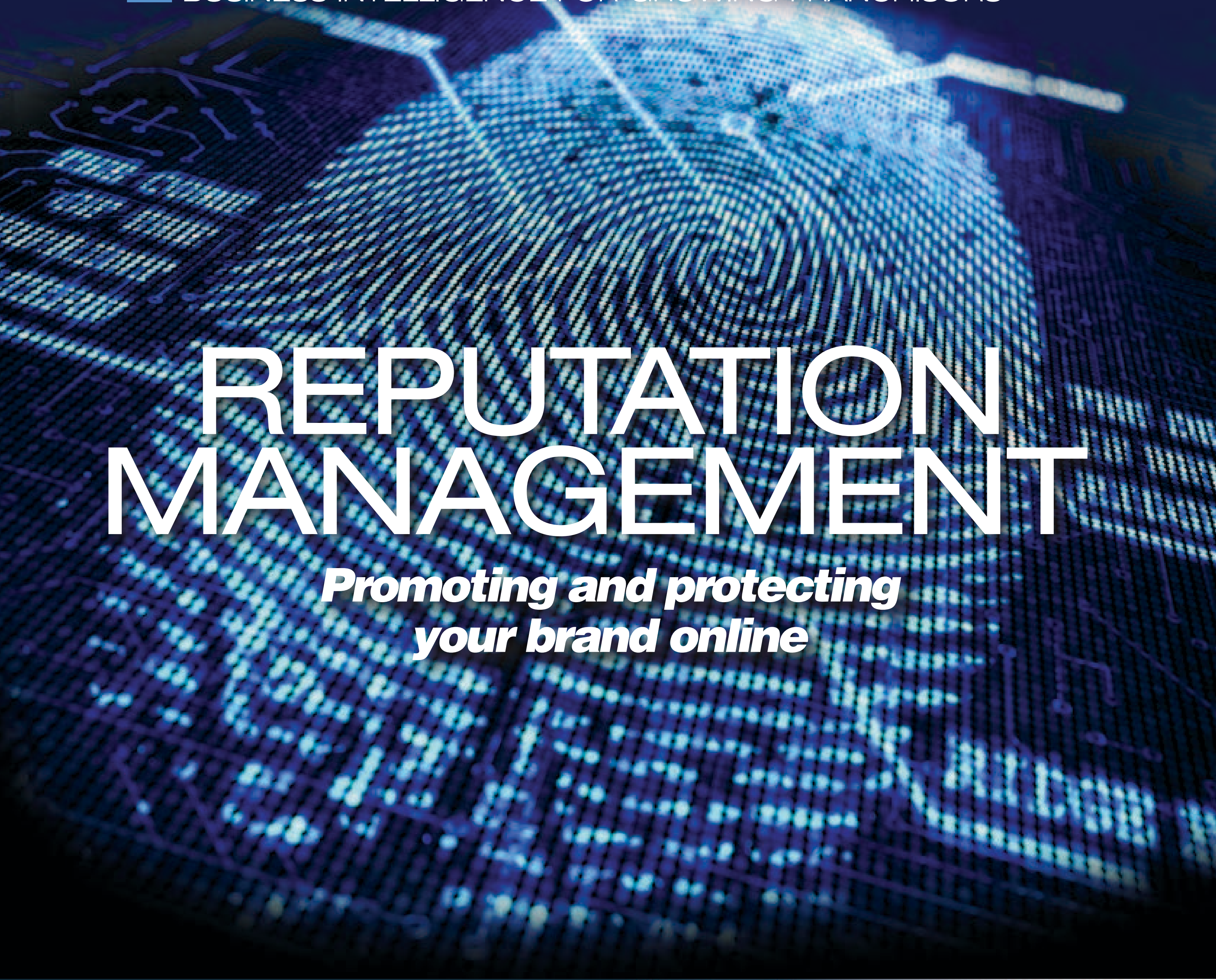
Franchise update | Q2 2011

BUSINESS INTELLIGENCE FOR GROWING FRANCHISORS

Lead! *Franchise leadership and management*

Market! *Consumer marketing initiatives*

Grow! *Franchise development intelligence*



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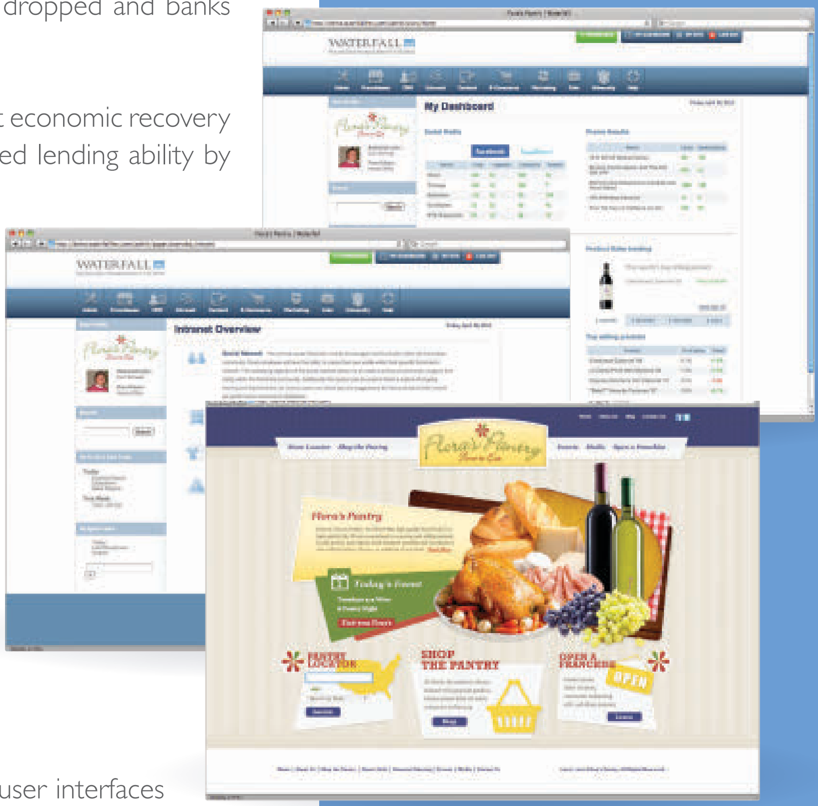

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Franchise update | Q2

BUSINESS INTELLIGENCE FOR GROWING FRANCHISORS

7. Lead

21. Market

37. Grow

From the editor's desk

BY KERRY PIPES AND EDDY GOLDBERG

Transformation!

Change is inevitable. It also is exciting. This is the atmosphere we've been breathing at Franchise Update Media Group over the last several months as we redesigned our flagship publication, *Franchise Update* magazine. It doesn't just look different, it is different. On the design side, we've given it a facelift. On the content side, we've expanded and reorganized the magazine into three distinct sections: Leadership, Growth (sales and development), and Consumer Marketing.

Beginning with this issue we've added two new sections: Leadership and Consumer Marketing. Times have changed, your needs have changed, and we're responding. You asked, we listened.

• **Lead!** Without strong leadership, no franchise brand or concept will go very far. The best franchise prospects and candidates are looking for a solid, proven system to invest their hopes, dreams, and hard-earned savings in. If you don't have it, they'll find someone who does. Look for leadership insights from top CEOs and presidents in every issue, along with guest columnists and leadership gurus who will share their insights and expertise about winning leadership techniques. Our first two interviews are with Paul Damico, president of Moe's Southwest Grill and Shelly Sun, founder and CEO of BrightStar Care.

• **Market!** Great concept, great sales team? Great! All you need now is customers—loyal, engaged, repeat customers. And unless you've been in a cave the past three years, you know that social media and Web 2.0 have changed the face of consumer marketing. Today, your brand is being built by what's being said online—and franchisors and franchisees alike are searching for insights (or even clues!) as they deal with the shift to consumer-generated content. Learn how social pioneer Naked Pizza changed its street sign to its Twitter handle and grew from one small store in New Orleans to having 400 stores in the pipeline—in only 18 months.

• **Grow!** Without a successful franchise sales and development process in place, managed and staffed by dedicated, well-trained individuals, even the best systems can't expand their brand. So not to worry: you will continue to find valuable sales and development-related content in each issue and online.

New Conference! Franchise Update Media Group is launching its inaugural Franchise Consumer Marketing Conference this June in San Francisco. If you're concerned with reaching consumers and maintaining brand growth (and who isn't?) this event is tailor-made for you—with expert help from our newly formed Franchise Consumer Marketing Advisory Board (see page 26). Franchise executives from the food, retail, and service sectors will attend this groundbreaking event June 14–15 at the Omni San Francisco. Technology, strategies, Web 2.0, and good old-fashioned face-to-face networking will be critical components of this conference (www.franchiseconsumermarketing.com).

We hope you enjoy the new look and feel of *Franchise Update*. Please let us know what you think at editorial@franchiseupdatemedia.com… where we're also learning to listen better to our customers—you!

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Q2 2011

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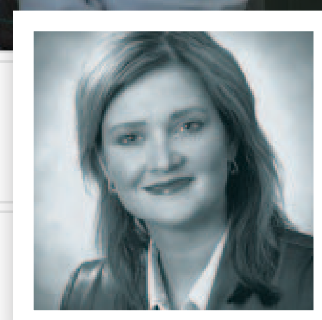
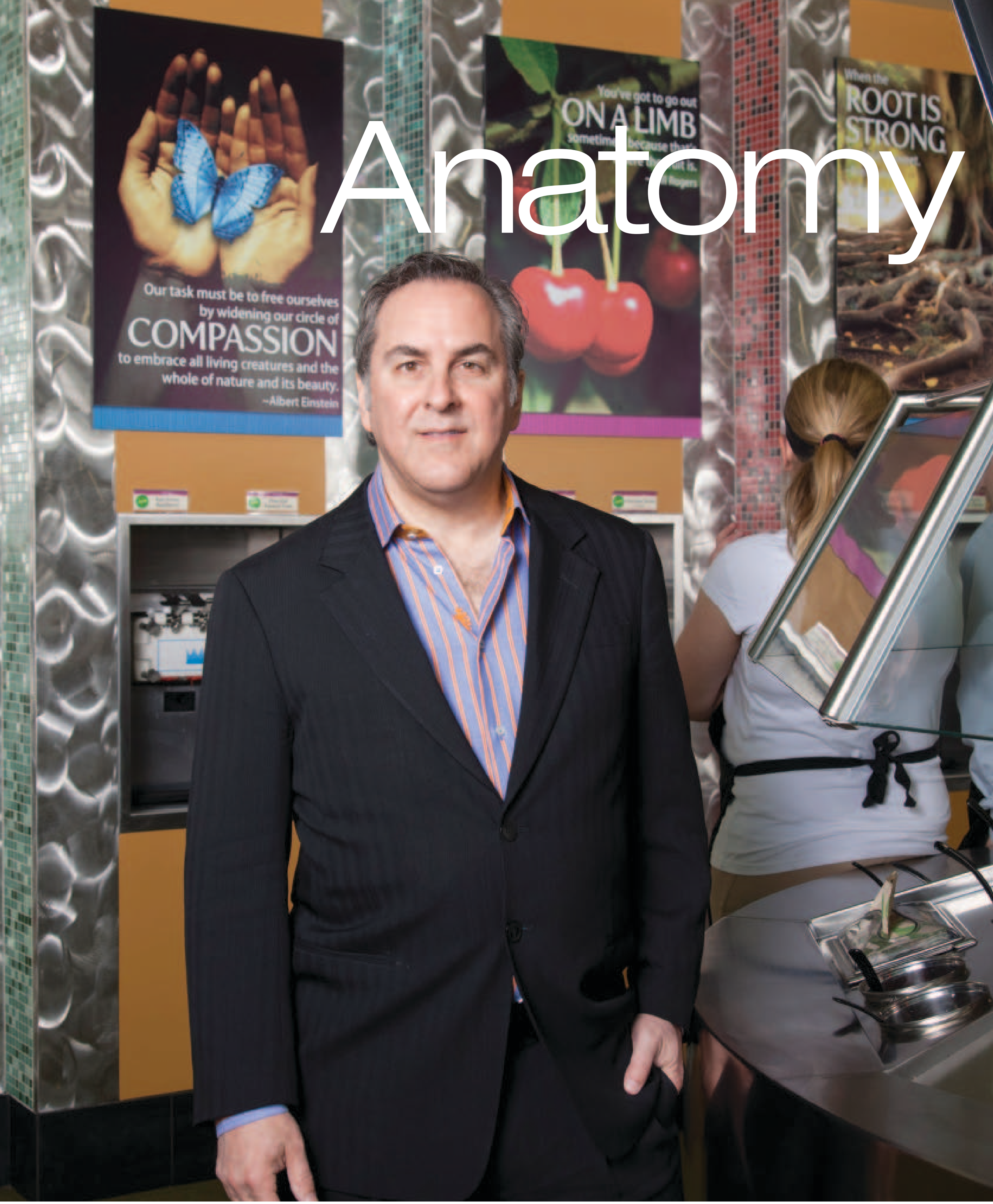
Lead

Franchise leadership and management



> **I would encourage any CEO… to stay connected with the lowest level of your organization. And don't be afraid to have conversations with those people. They are the future leaders of your company. We have regular one-on-ones. When a one-on-one is scheduled, you know that anything can be said. You can talk about challenges, talk goals, but it's not a review. This is not a boss talking to a subordinate. It's free of stress.** —PAUL DAMICO, PRESIDENT, MOE'S SOUTHWEST GRILL

Anatomy


Our task must be to free ourselves
by widening our circle of
COMPASSION
to embrace all living creatures and the
whole of nature and its beauty.
~Albert Einstein
You've got to go out
ON A LIMB
When the
ROOT IS
STRONG

BY KEITH GERSON

# of a Start-Up

Gerson's Got a Brand New Brand!

Laying the groundwork for a new franchise concept

It was my first week as COO of Sopra Brands. My job was to oversee the company's existing franchise brands (no small task), and to oversee the development and implementation of a brand-new frozen yogurt franchise from its inception—in a crowded category, during a full-blown recession, for an opening date that was already months behind schedule.

I've spent decades in the franchise business, holding responsibilities for everything from branding, marketing, training, operations, franchise development, and more. And Sopra is no stranger to franchising. They own several successful established franchise companies, but these were established chains that were acquired and had existing teams, products, and systems with programs already in place.

So in preparing for the launch of a new brand, I wasn't interested in reinventing the wheel. I embarked on a scavenger hunt to find everything I could in print and on the Internet. What I found was limited, highly theoretical, and not very helpful. I was hungry for a practical view of what was really involved. I like a good challenge.

My experience was the genesis for this column. Each quarter I'll share what are nearly real-time revelations, successes, failures, challenges, and insights I'm gaining from overseeing a new franchise start-up called EarthFruits Yogurt. I hope my transparency can help others learn what it takes to build a successful, world-class franchise system starting from that very first "Aha!" moment.

More than a great idea

It's been said that Albert Einstein had more than 1,000 patents to his name, yet only a small percentage ever found their way to commercial success. Did we have a great premise that could find a marketplace?

It was Randy Larsen—a successful businessman with a franchisor and franchisee (including Subway) background, and the founder, vice chair and president of MonaVie Asia Pacific, a billion-dollar exotic fruit health drink company—who first thought of the idea of EarthFruits Yogurt. He was importing exotic "superfruits" from the Amazon Rainforest and converting them into powerful, nutritious fruit juices high in antioxidants. With so many wonderful, healthy, and flavorful fruits yet to be discovered by North Americans, why not introduce them in the form of a delicious, healthy yogurt, into a category experiencing unprecedented rebirth? But was this idea enough to attract franchisees and, in turn, customers who would come back often and spread the word?

1) Developing the plan People who write business plans get more done. The best of class happen to be available for free at www.gazelles.com. These tools are focused on helping you develop a clear outline for growth, and they follow Verne Harnish's *Mastering the Rockefeller Habits* book and DVD. These best-in-class tools have helped us develop a focused company with a clear outline for growth. They include a free Rockefeller Habits Checklist that can lead you to an aligned, accountable, and enthusiastic leadership team.

2) Bootstrap boogie To get the idea from its genesis stage to the marketplace was going to take more than the personal funds the company had available. To do it right we needed venture capital for those additional start-up funds. Our organization's founders reached out to a casual acquaintance and highly regarded entrepreneur in our local market, and within three weeks of making their pitch, the deal was done and funds were secured!

What was the investor looking for? He told me that since he receives one or two investment requests daily, he developed a litmus test, known as The Four C's, to weed out the unworthy: 1) Competitiveness of the concept; 2) Character of the individuals involved; 3) Chemistry with his potential partners; and 4) being associated with the right Cause. He wasn't looking for an investment, but rather a partnership that had the potential not only for success, but for significance. Our founders definitely passed with flying colors. It was time to get started.

3) Assembling the right team So there we are with a great idea for a concept, a passion for the business, working capital, and a lot of entrepreneurial drive. What we didn't have yet was a team to see it through. I was recruited in part to strengthen our bench with franchise experience. I was fortunate enough to have Chuck Jones, a CFE with two decades of franchising experience, including seven years with a leading franchise ice cream brand, as part of our team.

We also owned a brand that featured a limited frozen yogurt menu, so we weren't complete strangers to the business. This is an important distinction according to the *The Business Planning Guide* by David H. Bangs, Jr., because 98 percent of small business failures stem from managerial weakness (incompetence, unbalanced expertise, and inexperience). According to the author, only 2 percent of failures stem from external factors. After all, in a start-up, you don't need to know everything, but you need access to those who do. If you don't know the business you hope to enter, it's time to gain that experience first.

So, was our idea for a franchise replicable? Did we have the right strategy? Were we made of the right stuff to succeed? Could we generate enough funds to see it through? As we were starting from scratch with no systems, processes, or product, it was going to take a lot more than sweat equity if we were going to build our vision on a solid foundation.

4) Developing the brand Though the process is not always linear, the next item on our list was to ensure that we had a unique and compelling brand story, culture, and image to compete against the big guys.

Have any of us ever attended a Discovery Day with any brand where the candidate didn't want to know "How are you different?" Our management team felt that our competitors were lacking in a clearly stated vision, purpose, and articulated brand story. So our next step in the journey was to engage an outside branding company to ensure that we could convey our winning and marketable idea and meet the "four C's" requirement (which would also be a prerequisite for our potential franchisees).

A member of our advisory team had a good experience with such a company, and made the referral. As is often the case with a great specialist, they certainly weren't the cheapest. Spending too much money up front was going to put too much of a strain on cash. Our new branding company fell in love with our concept from the get-go, so much so that we were able to negotiate a substantial portion of the costs in exchange for two EarthFruits franchise agreements (with a combined value of $80,000) that had to be executed within the first 12 months of our franchise existence. Our total cash outlay ended up being $75,000.

Though one of our biggest initial cash expenses, it was one of the most important. In exchange, we were to receive deliverables including branded imagery, our brand story, the logo, a store design, packaging design, uniform design, tagline, and marketing messaging. Most important, we now had a company working with us with "skin in the game."

5) Taking it to market Approximately four weeks later, it was time for unveiling our brand story and brand image (www.earthfruitsyogurt.com). Everything looked wonderful and included an amazing store design and a well-articulated brand story. Our brand book included Randy's original vision of a unique and healthy lineup and a strong "giving back" component. This was Randy's desire to help save the rainforest through a "green" concept, as well as a "giving back" focus to help break the cycle of poverty that results in 48 percent of Brazil's children living in poverty (1 out of 8 live on the streets). Our new tagline resonated with all: "Fuel your body. Feed your soul." Sixty days from start to finish and I was holding our "brand book."

But a nagging question remained: How pragmatic was our design, and could it be built within competitive ranges? I needed to learn more about our competitor's costs. A custom report from FRANdata showed us, among other things, whether we were able to meet or beat the ranges of our competitor's start-up costs. On average they were running total start-up costs ranging from approximately $250,000 to $550,000. Could we build and deliver our model cost-effectively?

Next time I'll speak to our challenges with site selection. We initially got burned in our build-out costs, but ultimately achieved value engineering. I'll also share how we achieved the creation of our proprietary recipes and overcame the production challenges that plague any chain with a lack of scalability. Is that a light at the end of the tunnel or is it a train? ■

Keith Gerson *is COO of Sopra Brands, whose parent company, Sopra Capital, operates the brands EarthFruits Yogurt, HouseMaster Home Inspection Services, Teriyaki Stix Japanese Grill, HomeServiceNet.com, GFEazy, lunchboxers, and Hogi Yogi. Contact him at 801-503-9214 or keith@soprabrands.com.*

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BY DEBBIE SELINSKY

CEO profile: "Grow Smart, Risk Less"

BrightStar CEO builds on her rapid success

When Shelly Sun and her husband JD founded BrightStar Care, their full-service healthcare staffing agency in 2002, the concept was rooted in their experiences searching for quality care for JD's sick grandmother.

"We were managing multiple relationships and thought how great it would be to have one company handle the entire continuum of care," says Sun, CEO of BrightStar.

In forming the company, she conducted research on aging and health trends and drew from her background as a CPA, corporate controller, and executive at two major insurance companies. And after she and JD became franchisees for two hotels, a Choice Hotels property and a Carlton Suites unit, Sun began to see how well franchising would work for their emerging concept.

In 2004, while on bed rest awaiting the birth of her twin sons, she wrote the franchise operations manual. In January 2005, the franchise was established, becoming the first franchisor in the country to specialize in both medical and non-medical care and healthcare staffing. She jokes that was the birth of her "first baby," followed days later by the twins.

Since then, BrightStar has grown from one company-owned store in the Chicago area to more 160 locations in 31 states.

Sun, who was named IFA Entrepreneur of the Year in 2010, says she expects to have 400 franchise units sold by the end of 2012. Her "2019 plan" is ambitious (see below) and includes launching a total of eight franchise brands, a technology company, and a franchise consulting company.

Name: Shelly Sun
Title: CEO and co-founder
Company: BrightStar Group Holdings, Inc.
Brands: BrightStar LifeCare, BrightStar KidCare, BrightStar Staffing, BrightStar Senior Living
Age: 40
Family: Husband JD Sun (co-founder of BrightStar) and twin boys, Mike and Luc, 6
Years in franchising: 5
Years in current position: 8

Leadership

What is your role as CEO? I oversee the strategy and innovation plans for the enterprise, including the development and launch of new brands. I also engage with all departments, plugging in with them continually to keep our ship pointed toward our goals at all times.

Leadership style? First, I seek to attract world-class talent. Core philosophies also include finding people with a true passion for the business, an undeniable work ethic, and the potential to move to the next position within 18 to 24 months. Second, my team understands that this is hard work and we have particularly high standards as an organization.

What has inspired your leadership style? I've had great success building a team by hiring world-class talent, and we have developed fairly rigorous recruiting practices that help us ferret out individuals who don't share the same passion for building a great business. The result is a team that is empowered and engaged, and one that shares a passion for continuing to innovate when it comes to serving our franchisees.

Biggest leadership challenge? Not taking on too much. I am very driven, and with the quality expectations I have for myself and my team I try to be first whenever possible. Innovation is also extremely important to me, and we are always searching for new ways to better our organization and our franchisees, and to provide more to our customers.

How do you transmit your culture to your front-line employees? We take prospective franchisees through a long vetting process where we get to know each other really well. With the constant training and support of our franchise family, franchisees then become responsible for carrying out the BrightStar vision.

Where is the best place to prepare for leadership: an MBA school or OTJ? I believe the best place to prepare for leadership is on the job. Leading is about assessing individuals to determine how to motivate them to get the best results for the organization. MBA school can't teach you that.

Are tough decisions best taken by one person? I've had positive experiences with both: tough decisions determined by a committee, and those that landed solely with me. At the end of the day, I take full responsibility for the tough choices we make.

How do you make tough decisions? I try not to react, but instead to respond to situations, giving thought to all possible outcomes. Because our organization functions under a "no surprise" rule of full disclosure, it allows me to digest challenges as they arise.

Do you want to be liked or respected? Both… but who doesn't?

Advice to CEO wannabes: Surround yourself with mentors, remain tenacious, and never be afraid to ask for what you want. Set new personal and business goals every year that stretch you and enable the business to grow. Find a peer group to be a sounding board and offer encouragement.

Management

Management style? Hire right. Share and reinforce the vision clearly. Empower.

What does your management team look like? My senior leadership team is composed of seven individuals representing the operational facets of our organization. They understand my vision for the future and are strong, unified, and committed to our franchisees and staff in a way that continues to inspire me.

How does your management team help you lead? They work diligently to achieve our organizational goals and are adept at taking the ball and running with it. Knowing that I have the right people in the right seats on the bus allows me to drive without pulling over to adjust seatbelts.

Favorite management gurus, books? My favorite books include *Good to Great* by Jim Collins, *The Breakthrough Company* by Keith McFarland, *Making Ideas Happen* by Scott Belsky, and *The Ultimate Question* by Fred Reichheld.

What makes you say, "Yes, now that's why I do what I do!" One example is our annual Caregiver of the Year program. The stories our clients submit bring me to tears, because each is a personal account of how a BrightStar caregiver went above and beyond to make a difference in the life of somebody's loved one. We fly six regional finalists to our Annual Franchisee Conference, where they are recognized in front of our franchise family. Each finalist receives $500, and one is awarded a $5,000 BrightStar Care Scholarship. Knowing that our caregivers are having such a positive impact on their clients and that we can make such an impact on the caregivers' lives makes me proud to do what I do.

> **"Hire right. Share and reinforce the vision clearly. Empower."**

Personal

What time do you like to be at your desk? I like to see my boys off to school, but I strive to be there by 7:30 or 8 a.m.

Exercise in the morning? Wine with lunch? My husband and I work out three mornings per week before heading into the office. We're on a high-protein, low-carbohydrate diet, so no wine at lunch. However, I try to reward myself with a glass in the evening now and then.

Socialize with your team after work/outside the office? I like to celebrate company milestones with my senior leadership staff. For major accomplishments, I treat them to a weekend with our families.

Last two books read: Scott Klososky's *Velocity Manifesto* and Ram Charan's *Boards that Deliver.*

What technology do you take on the road? I always take my Sony Vaio laptop, my iPad, and my iPhone.

How do you relax, balance life and work? It's a challenge, especially because I'm wired to work and am pretty driven.

Favorite vacation destination(s): We love traveling as a family. It's our rejuvenation time after working so hard. We love traveling to Turks and Caicos and had a wonderful time taking a cruise last year.

Favorite occasions to send employees notes: I like to personally sign anniversary cards for all of my employees.

Bottom Line

What are your long-term goals for BrightStar? We will launch a total of eight franchise brands, a technology company, and a franchise consulting company. We're going to launch our second franchise brand within the next 12 months, and then add one new franchise brand approximately every 18 months through 2019. We'll launch our technology company to take on third-party clients in 2012, and our franchise consulting company in late 2011. We are building toward a system-wide revenue potential of $2 billion by 2014, and $4 billion to $6 billion by 2019, with 12 to 20 percent year-over-year growth through 2030.

How has the economy changed your goals? The downturn in the economy pushed us to institute new programs to accelerate sales results for our franchisees, enable access to capital for our franchisees, and drive accountability at the corporate level to support franchisee unit economics. Last, we knew we needed our franchisees focused on the mission and not worried about job security, so we made a decision not to lay off any employees, regardless of economic pressures. Instead we increased healthcare benefits and added an accountability program with a short-term bonus opportunity tied to corporate, departmental, and individual results.

Where can capital be found these days? In July 2010, BrightStar became the first franchisor to receive a credit facility from a new SBA-guaranteed lending program created by Franchise America Finance and The Bancorp Bank. The $6 million facility provides loans for start-up franchisees entering our system, as well as expansion funding for existing franchisees who are ready to expand their business. The lending program is the first of its kind, providing a collaborative effort between lender and franchisor to set up a predictable model for franchise financing.

How do you measure success? I measure success based on what my customers, my employees, and my franchisees say about me and my brand. If our customers, our employees, and our franchisees are pleased with the services they receive and would encourage others to join us, then we are successful.

Your greatest success? I have a wonderful loving husband and adorable twin boys, who define my personal success. Professionally, we've built a business from scratch to help people receive high-quality care and compassionate, dedicated service and then expanded that to allow individuals to own their own businesses through a franchise model. We have created thousands upon thousands of jobs across the U.S. and taken care of more than 10,000 families.

> **"I measure success based on what my customers, my employees and my franchisees say about me and my brand."**

Any regrets? My Dad passed away in 2009. I was with him two days before he died and then flew home to be at a Join the Team Day. I planned to fly back in two days. I regret that I left, because my Dad died before I returned.

What can we expect from BrightStar in the next 12 to 18 months? We will continue expanding into new markets domestically, and our international expansion will continue in Canada, U.K., and Australia. I am also in final edits of my first book, *Grow Smart, Risk Less* (out in October), which discusses my experiences growing our business through franchising. We will also launch our next franchise brand, BrightStar Senior Living, as well as our technology and franchise consulting companies in the next 12 to 18 months. ■

Bryan Cave's

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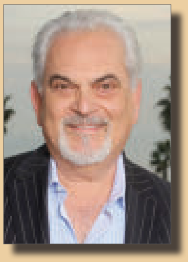

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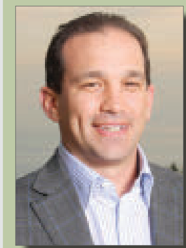

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- Member, California State Bar Franchise Law Committee
- Argued before California Supreme Court on key franchise-related issue
- Represents Start-up to Fortune 500 franchisors in hotel and food service industries
- Certified by the California State Bar as a Franchise & Distribution Specialist
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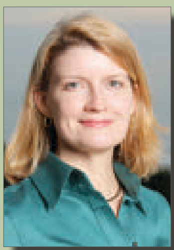
- 20 years experience in franchise and distributor litigation issues, commercial litigation, restrictive covenants and trade secret litigation
- Practiced before numerous federal courts, state courts, administrative bodies and arbitration panels
- Lieutenant Colonel (Ret.), Judge Advocate, USAR

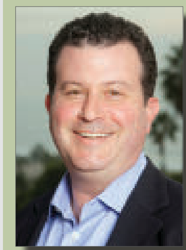


Rebecca A. D. Nelson
Partner, St. Louis

- More than 15 years experience advising franchisors about antitrust law issues, as well as a full range of franchise regulatory matters
- Frequently published author and invited speaker on franchise and distribution related topics
- SuperLawyer, Antitrust Litigation, Missouri/Kansas
- Experienced in a wide variety of industries including food service, automotive, hospitality, clothing/footwear, medical instruments and chemicals

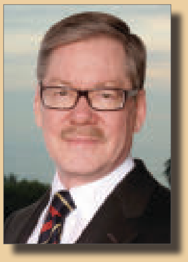
Glenn Plattner
Partner, Los Angeles

- Who's Who Legal – One of Top 20 Franchise Lawyers in California (2008-2009)
- *Los Angeles Magazine* –"Southern California Super Lawyers" List (2009-2011)
- *The Franchise Lawyer* – Associate Editor (2008-present)
- State Bar of California – Vice-chair, Franchise & Distribution Law Advisory Commission (2008-Present)
- State Bar of California, Business Law Section – Co-chair, Franchise Law Committee (2001-2004)
- Certified by the California State Bar as a Franchise & Distribution Specialist



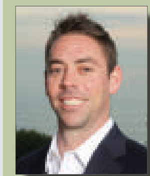
Anthony J. Marks
Counsel, Los Angeles

- State Bar of California, Franchise Law Committee - Co-Chair Franchise Law Committee (2007-2008)
- Co-Author of *California Franchise Law & Practice*
- *Law & Politics* – "Southern California Rising Stars" List (2006-2010)
- Represents start-up and mature franchisors in domestic and international franchising and merger and aquisition transactions
- Certified by the California State Bar as a Franchise & Distribution Specialist



Philip Haleen
Of Counsel, Hamburg

- 25 years professional experience in Germany
- Practice focus on distribution and franchise law
- Regularly establish distribution and franchise systems in Europe



R. Andrew Chereck
Associate
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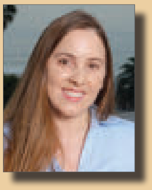
- Co-Author of *ABA Franchise Desk Book* and other publications

Shelly C. Gopaul
Associate
Los Angeles

- *Law & Politics* – Southern California Rising Star List (2010)



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BY JOHN CARROLL

CEO profile: Southwest Seasoning

Paul Damico puts his mark on Moe's Southwest Grill

In early 2008, Moe's Southwest Grill was still something of a newcomer in the Mexican fast-casual segment. But in the eight years since its founding, not much new work had been done on either the restaurant prototype or its menu. So when Focus Brands acquired the franchisor in August 2007, then CEO Steve Romaniello reached out to Paul Damico to see if he was interested in not just running the brand, but freshening it up and reenergizing it.

Recession or not, Damico was determined to hit the ground running. After gathering his executive team, he not only uncorked an aggressive game plan to grow the company at an unprecedented rate, he fine-tuned the brand's look and feel to ensure same-store sales were on the way up.

Name: Paul Damico	
Title: President	
Company: Moe's Southwest Grill	
Age: 46	
Family: Wife, Laura and three daughters: Taylor, 19, Samantha, 17, and Rachele, 15	
Years in franchising: 25	
Years in current position: 3	

"I spent 14 years with the Host Marriott organization working on travel plazas and airport development," says Damico, who was formally trained as a chef before he made the decision to dive into the world of franchising. "I cut my teeth on non-traditional. As we developed new concepts, we looked at productivity studies, volume, customer flow, and more."

Damico put that experience to work upgrading the aesthetics of the Moe's experience, focusing on color, lighting, materials, and furniture. "It is certainly brighter, with more sustainable aspects around things like the lighting," Damico says about the new look. "We're known for our 'Welcome to Moe's' greeting, and we reiterate that in graphics. The self-service, all-you-can-eat salsa bar has its own identity. And the furniture is cleaner, with a more ergonomic feel."

The new approach has paid off. "When we have gone in and remodeled existing restaurants with this prototype, we see a 15 to 20 percent increase in sales," he says. The staff and guests have been reenergized as well, offering an additional payback on the $450,000 cost range for the design. "That's still a very attractive sales-to-investment ratio," says Damico.

Leadership

What is your role as president? Our brand sits in the Mexican fast-casual segment. Those are both very exciting areas. Mexican food is one of the fastest-growing sectors, and casual is growing fast as well. I have the privilege of running a team of 56 people, with 4 company-owned restaurants and 424 franchisee restaurants in 32 states, Canada, and Istanbul. We're putting one restaurant a week in the ground, with a significant growth trajectory.

Leadership style? I believe in setting the strategy with the team, setting the vision and working together on the goals, and then I stand back. I am the opposite of a micro-manager. I believe in putting the right people in the right seats on the bus. Today, I have a high-performance team that excels in everything from franchise sales to culinary innovation to memorable guest and franchisee experiences.

What has inspired your leadership style? I believe it's a combination of what I did at Host Marriott, where I had bosses throughout the years who believed in me. When I left Marriott in '99, we started a restaurant company. Those behaviors became natural to me and they worked for me. I focused my time on the people in my group and made sure they were the right people for their role. I look for three things in the people I hire: levels of intelligence, levels of leadership abilities, and levels of energy.

Biggest leadership challenge? The biggest challenge I've had was during the time I was trying to bring significant talent into the group. The economy was down and comp stores had negative sales. It was really tough to recruit great people when there's not a lot of excitement around a brand. But we came out of this in 2009. Our comp stores became positive in the third quarter of 2009 when a lot of other brands didn't stay positive.

How do you transmit your culture to your front-line employees? We have different goals and philosophies that we make sure we communicate. They are in the form of artwork in the office. Our guiding values are pieces of art. Our goals are pieces of art, a constant reminder to everybody about what we're trying to achieve and why.

Where is the best place to prepare for leadership: an MBA school or OTJ? The leadership spot at any company has to be able to perform in all the disciplines. Getting a degree in school is important. Getting real-life experience is critical and I don't think you can get that from an MBA. I now have people in marketing, supply chain, franchise sales, and so on. They are my resident experts. And I have played in all these different disciplines throughout my 25-year career. That's how you can become the best as a leader.

Are tough decisions best taken by one person? I think a decision needs to be taken by one person, or there's no accountability. But before a decision is taken there has to be consultation with everyone on the team playing a role.

How do you make tough decisions? I have a senior leadership team of nine people. When those tough decisions need to be made—about a franchisee, entering a new market, or closing a restaurant—whoever the stakeholders are I'm going to have a significant conversation first. But I'll make the decision.

Do you want to be liked or respected? I want to be respected. I have an outgoing personality. I believe that everyone on my team should share my energy level and my passion. I open my home to my team on a regular basis. It's an opportunity to celebrate success. Our team outings are typically at my home, where you check your stripes at the door. We have attributes we look for. Most important: Can you play in the sandbox we've created here at Moe's? Opening my home, knowing everyone personally, is something I do well.

Advice to CEO wannabes: Stay connected with the lowest level of your organization. And don't be afraid to have conversations with those people. They are the future leaders of your company. We have regular one-on-ones where you know that anything can be said. You can talk about challenges, talk goals, but it's not a review. This is not a boss talking to a subordinate. It's free of stress.

Management

Management style? I'm told I can be intimidating. But I believe in setting goals and strategies. I'm not a micromanager. I let people deliver or fail against goals. We are a fast-paced brand. It's an environment I thrive in. If you're not a hard charger, this is not the place for you. My style is to be very direct at all times. Whether that means positive or negative feedback, you will always know where you stand.

What does your management team look like? I have nine direct reports, my senior team: a VP of franchisee sales, director of real estate, director of the supply chain, executive chef, VP of system-wide operations, VP of marketing, VP of restaurant development, director of public relations and social media, and senior director of creative services. Those disciplines are creating the future of the brand, executing day to day with partners.

How does your management team help you lead? As I said, the brand is only in its 11th year. There's a lot of evolution still occurring. There's a sense of camaraderie, that we get things done.

Favorite management gurus, books? I just got *The Mirror Test* by Jeffrey Hayzlett. He's a marketing guru. But most of my reading is done during downtime. I like John Grisham, James Patterson.

What makes you say, "Yes, that's why I do what I do!" That's a celebratory moment. I could say that when I see our brand as a whole achieve a milestone. I'd say that when I see someone on the team who has achieved a goal. Our goal this year is to sell 125 new franchises. That is going to be a milestone. We've never done that in the history of our brand. And we'll grow 18 percent this year. Those are big moments for us.

Personal

What time do you like to be at your desk? 7 a.m.

Exercise in the morning? Wine with lunch? I love wine, but not with lunch. I run every morning at 5 a.m. I'm actually training right now for my first half-marathon.

Socialize with your team after work/outside the office? I mentioned that earlier. It's important to stay connected with everyone on my team.

Last two books read: *The Confession* by John Grisham and Michael Levine's *Broken Windows, Broken Business.*

What technology do you take on the road? I stopped carrying my laptop six months ago when I got the iPad. I have software that gives me access to my laptop in the office. So whenever I am away I carry an iPhone and an iPad.

How do you relax, balance life and work? I coach 15-year-old boys in lacrosse four days a week. Tuesday and Thursday I'm out of the office coaching 5 to 7 p.m., and then we have games on the weekend.

Favorite vacation destination(s): I always thought it was the beaches in the Caribbean. Then I went to Istanbul, and that was spectacular. That was the first overseas opening for Moe's. The Outer Banks of North Carolina is a family favorite.

Favorite occasions to send employees notes: When one of our goals is achieved, they get a personal note from me. There are many occasions when I'll write a note, for example, to say I saw you present in a meeting, and you were the best.

Favorite Moe's product: Our burritos are the best in the restaurant industry. I like the Homewrecker with steak burrito.

Continued on next page.

Sixty percent of our growth is coming organizationally from existing franchisees.

Bottom Line

What are your long-term goals for Moe's? We have a 5-year plan we started last year. We want to get to 1,000 units by 2015, 100 new restaurants a year. That's a big goal.

How has the economy changed your goals? We slipped with our openings and we slipped with the number of franchise deals we sold in 2008 and part of 2009. But it came back so fast. Sixty percent of our growth is coming organizationally from existing franchisees. That has helped us avoid the capital challenges other organizations have seen. Our franchisees either have phenomenal relations with local banks or private investors and internal cash flow. The slowdown was more about the confidence level about the economy.

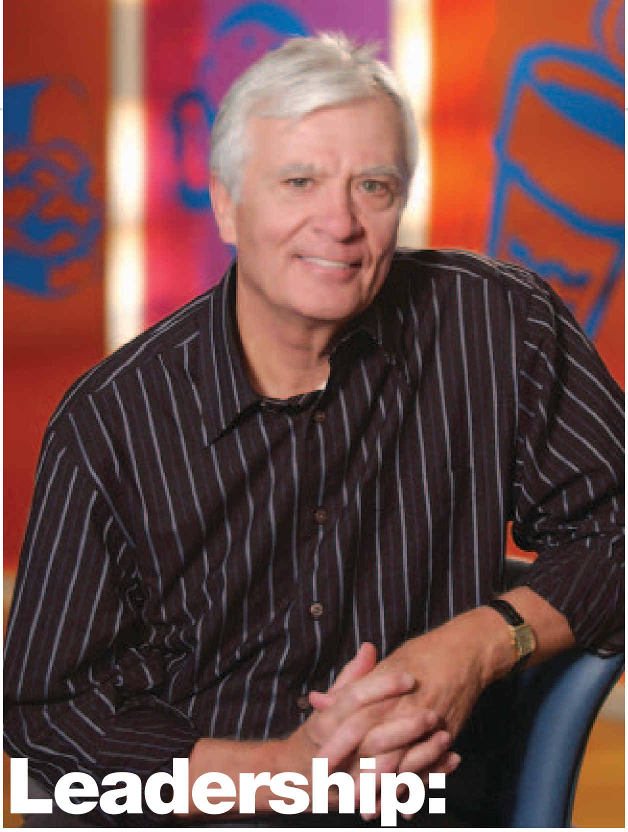
Where can capital be found these days? Local banks if you have a relationship and you've proven your concept can perform even with some of the dips in the economy. We use a broker that helps franchisees find capital, and the broker may have relations with 20 or 30 institutions. Depending on your net worth there are banks that are lending. Our biggest challenge is finding the real estate we need.

How do you measure success? I measure success on one thing: Are we exceeding last year's performance on every measurable attribute? That is the sole indicator of health and growth of the brand. Sales, food costs, labor costs, profit, unit sales, and so on.

Your greatest success? Professionally, being afforded the opportunity to lead a brand that was only 8 years old and really still in its infancy, struggling a bit, and turning the brand around so that the growth is exceptional and the health of the brand is at an all-time high. I didn't do this alone. I brought in the team.

Any regrets? I do not have a single regret.

What can we expect from Moe's in the next 12 to 18 months? You will see us expand the brand through licensed products, continued development overseas, significant growth in the U.S., and clever programs that will enhance the Moe's experience for families and kids.



Leadership: You Can Do It, Too

Five precepts for franchise executives

BY JON L. LUTHER

By its very definition, the word "leader" evokes the concept of change. Leaders take us toward or away from something, into a new reality. But change is almost always frightening, and leaders have to persuade their teams that the risks are worth taking, that the work is worth doing, and that the payoff will improve their lives. I've been through that process many times, and I'm here to tell you that it can be done—and that you can do it, too.

At three of the companies I have led—CA One Services, Popeyes, and Dunkin' Brands—I began by looking for the epicenter of the brand, the hidden or ignored "strategic heartbeat" that could be leveraged into a new or more powerful product or service. It's one thing to identify your company's strategic heartbeat, reset strategies, and transform your organization, but it requires the discipline of leadership. I have no monopoly on wisdom, but I have made enough mistakes to have learned a thing or two. Here are a few precepts I've drawn from my experience that may help you in your own role as a leader.

1. Leaders are optimists. Businesses never seem to run out of Doubting Thomases who will find reasons to throw cold water on any new idea. True, critics fulfill an important function, providing a skeptical point of view that any massive undertaking needs and deserves. But leaders have to be upbeat. If the leader isn't optimistic, who will be? How can you fire up others if you don't show some fire of your own? If I hadn't been upbeat about identifying the new strategic heartbeat of the Dunkin' brand as coffee-based, the idea would have stalled. Besides, being an optimist is more fun.

2. Leaders know when to stop. When you're in the midst of a turnaround, it's tempting to change everything. My advice: Avoid change for the sake of change. When I called for Dunkin's switch in emphasis to coffee, some colleagues urged me to "get Donuts out of our name." My answer was always the same: "Not on my watch." Dunkin' Donuts is not a product, it's a brand, and I wanted to protect the brand heritage. That's the name people associate with the good things they've experienced at our stores for 60 years. By the same token, although we have updated the look of the places, we've made sure to retain some of the traditional elements, including the DD on the door, an orange chair, and the framed photo of our original store. Those features are part of what keeps our loyal, long-term customers coming back.

3. Leaders sweat the details. A good idea is never enough; it takes meticulous planning and execution to put the concept into practice. If we hadn't insisted on getting the right coffee blends, the right espresso machines, and a speedy process for getting the coffee to the customer, the espresso initiative would have been a costly disaster. Never take execution for granted.

4. Leaders use their intuition. Scientists have spent centuries trying to describe and explain the workings of human intuition. It's not something most business people pay much attention to—it's too intangible. Not for me. At CA One, Popeyes, and Dunkin', I found intuition to be every bit as important as meticulous research in identifying the strategic heart of a brand, which is the first step on the road to corporate rejuvenation. Of course, you first need to steep yourself in the history and operations of your company and its industry. In other words, leaders need "informed intuition."

5. Leaders lead. As you go through your career, moving toward more responsible jobs, you're always advised to listen to what your seasoned leaders tell you so you can learn from their broader and deeper wisdom and experience. That's all well and good, up to a point. At some juncture your focus has to shift away from listening and learning—and you have to start leading. That happened to me at CA One, when I decided to execute my gateway plan, and at Popeyes when I moved us to "Cajun—Our Way," and at Dunkin' when we realized we were no longer just the little neighborhood donut store but, in fact, the chain that keeps America running.

Throughout all these transformations, I never stopped listening to and learning from other people—that's a process that should last all through your life—but when I had found what I believed were the right plans at the right times for these brands, then I was ready to lead, to stake my job and my career on that. Leaders have to do that. ■

Jon L. Luther *is chairman of the board of Dunkin' Brands. He became CEO in 2003, CEO and chairman in 2006, and assumed the chairman role in 2009. Previously, he was president of Popeyes Chicken & Biscuits and before that president of CA One Services. For more of his leadership insights, download his e-book,* What's Your Strategic Heartbeat? *Contact him at jon.luther@dunkinbrands.com.*

Market

Consumer marketing initiatives

Event: Franchise Update's first Franchise Consumer Marketing Conference is June 14–15 at the Omni San Francisco Hotel. This event is available to CEOs, presidents, CMOs, ad directors, and qualified supplier sponsors. **www.franchiseconsumermarketing.com.**

BY KERRY PIPES

Consumer Marketing Brand-Wagon

Survey shows brands embracing new strategies

Franchisors seeking to build a loyal customer following and remain competitive in 2011 must develop and deliver national and local marketing programs for their franchisees—deploying the latest social media tools in addition to their traditional methods.

Today's rapidly evolving consumer marketing strategies are relying less on traditional marketing channels and tools with each passing day—simultaneously sowing confusion and creating opportunity for franchise marketing and branding managers and staff, as well as for their franchisees.

To help sort out the current consumer marketing environment and where it's headed, Franchise Update Media Group conducted a survey (see next page for details) to measure franchise brand marketing, advertising, and branding efforts. As the results began to flow in, it became evident that social media is redefining how brands spread their messages, connect with customers, and measure the effectiveness of their strategy. The smart and savvy brands are doing this, while some others still need a little push in that direction.

How are your budget expenditures allocated?

National TV	**1.47%**
Local TV	**6.04%**
Print (Newspaper, Direct Mail/Circulars)	**20.29%**
Radio	**8.36%**
Online Radio	**0.11%**
Consumer Shows	**2.16%**
Social Media	**9.59%**
Online Advertising (streaming video, etc.)	**17.62%**
Public Relations	**8.74%**
Outdoor Advertising	**3.64%**
Welcome Wagon	**0.38%**
Couponing	**4.49%**
Co-op programs through vendors	**1.56%**
Customer Loyalty Program	**3.31%**
Other	**12.24%**

"Providing intelligence and franchisee support for attracting and retaining customers within their markets is critical to the success of all franchise organizations," says Therese Thilgen, president and chief content officer of Franchise Update Media Group. That's one of the reasons the company has set a date for its first Franchise Consumer Marketing Conference, June 14 and 15 in San Francisco. Chief marketing officers and executives from some of the largest, as well as upstart, franchise brands will gather for two days to get up to speed on—and out in front of—the latest tools and trends franchisors are using successfully to connect with their customers. For details, see www.franchiseconsumermarketing.com.

And, in tandem with this magazine's redesign and expanded focus (see page 4), Franchise Update has also just launched its newest monthly electronic publication, the *Franchise Consumer Marketing Report.*

And the survey says…

The 2011 Consumer Market Research Questionnaire was sent to franchise CEOs and other top franchising executives and chief marketing officers in early February. Franchise food, retail, and service industries all participated in the survey. Early responses have indicated some expected findings, some not so expected, and a few shifts in traditional consumer marketing strategies.

As you might expect, brands still rely on print media to get the message out: newspapers, direct mail, and circulars accounted for 20 percent of the marketing budgets of those companies surveyed. Online advertising (including streaming video) accounted for another 17.6 percent of the budget. Perhaps not so surprisingly, social media accounted for nearly ten percent of marketing budgets, and is expected to climb as the new technologies and tools take hold.

Indeed, one of the most striking results to be uncovered in the survey is the rising growth of social media in brand marketing. In effect, today's social marketing is the equivalent of yesterday's word of mouth. It's out there and it's everywhere—but unlike with word of mouth, when it comes to brand reputation and social media, franchisors can have a little more control.

Nevertheless, the survey found that consumer marketing continues to be fraught with challenges for franchisors. For example, when asked about the most pressing consumer marketing issues facing their systems, respondents raised issues including brand awareness, declining cost-effectiveness of print media, how to use social media and measure its ROI, and working within marketing budget constraints.

Asked what factors would help build consumer marketing success within their system, respondents said (no surprise here) identifying and marketing a consistent brand message, targeting consumers, building relationships, and creating loyal customers. But now they must balance their budget spend across more channels.

In essence, consumer marketing continues to play a significant role in franchisor strategies today. Asked about the importance of consumer marketing in building a brand and in attracting and retaining customers, more than 50 percent said it was "extremely important," the highest rating on the scale, and an additional 20 percent responded "very important."

The first-ever Consumer Marketing Research Questionnaire findings confirm that consumer marketing initiatives are indeed a cornerstone of successful franchise brands. ■

Forms of social media your franchise system is currently using

Blogging	**38.18%**
Micro blogging (e.g., Twitter)	**45.45%**
Product reviews (e.g., Amazon)	**9.09%**
Product design or co-creation	**9.09%**
Video and photo sharing (e.g., YouTube and Flickr)	**56.36%**
Podcasts	**3.64%**
Social networking (e.g., Facebook)	**78.18%**
Forums (e.g., Google groups)	**30.91%**
Social bookmarking	**14.55%**
Virtual reality	**1.82%**
Did not answer	**20.00%**

Multiple answers per participant possible. Percentages added may exceed 100 since a participant may select more than one answer for this question.

How does your company use social media?

Marketing research	**38.18%**
Brand promotions (contests, coupons, etc.)	**61.82%**
Brand awareness and brand-building	**72.73%**
Acquiring new customers	**61.82%**
Retaining current customers	**63.64%**
Improving current products or services	**23.64%**
Introducing new products or services	**45.45%**
Identifying new product/service opportunities	**25.45%**
Identifying new customer groups	**23.64%**
Did not answer	**21.82%**

Multiple answers per participant possible. Percentages added may exceed 100 since a participant may select more than one answer for this question.

CONSUMER MARKETING

Survey identifies "most pressing" factors

Franchise marketing executives from 54 franchise organizations took part in a recent survey conducted by Franchise Update Media Group. They were asked about marketing strategy, execution, and the outlook for their franchise organizations. Here are four of the most revealing finds of the study:

• The most pressing consumer marketing challenges for franchisors involve the performance of their advertising budgets, strategies, customer profiling, media selection, tracking, and ROI. Another area of primary concern: brand awareness, representation, consistency, differentiation, and protection.

• Franchisors believe the three most important factors for building consumer marketing success within their system are: 1) acquisition of customer knowledge, 2) consistent messaging in brand awareness efforts, and 3) franchisee buy-in, engagement, and execution of local marketing efforts. One area to look at: franchisors reported that only 30 percent of franchisees spend the local advertising fees required in the franchise agreement.

• Print is still a major force in generating new customers. The four most-effective media franchisees use to generate new customers in their local markets (most effective first): 1) direct mail, 2) coupon programs, 3) newspaper, and 4) local TV.

• Franchisors are experimenting with social media, continually seeking knowledge on how to use it most effectively in terms of their goals. And they are diligently working to get their arms around all aspects of social media, with a growing emphasis on protecting their brands through reputation management. ■

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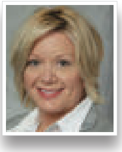

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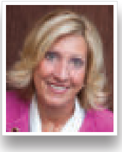
Vice President of Marketing & Communications
Great Clips



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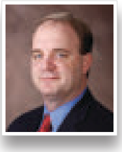

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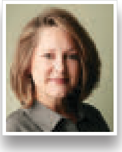
Denny's



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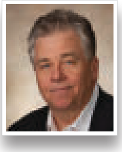

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Keith Gerson
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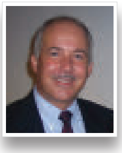
Sopra Brands



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Vice President of Marketing
Hungry Howie's Pizza

Rich Hope
Marketing Director
Jersey Mike's

“By focusing this event on senior level marketing executives, there is the added benefit of networking with peers in a variety of franchise concepts. Many of the strategies that will be discussed translate across different business models, so it's exciting to learn about what has worked for other franchisors.”

Wendy Odell Magus
Vice President of Marketing
Kiddie Academy

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BY KERRY PIPES

Conference Calling!

Board sets full agenda

Consumer marketing has emerged as a sizzling-hot topic in franchise circles. Reaching customers efficiently and cost-effectively is front and center right now. Strategies and tools are rapidly changing and those brands not keeping up will undoubtedly suffer at the hands of their competition.

Staying on top of consumer marketing means pursuing the latest consumer trends and news, social media, branding, public relations, customer acquisition, retention, and loyalty, direct and online marketing, technologies that drive performance, and greater market and consumer intelligence.

With these ideas in mind, Franchise Update Media Group began planning the first Franchise Consumer Marketing Conference and recruited an advisory board of marketing pros to steer its direction and content. Board members bring a wealth of franchise and consumer marketing knowledge and experience to the table and have been key participants in the conference's planning process over the past months.

The board is composed of franchise marketing executives from the service, retail, and food sectors. Their diverse marketing backgrounds and insights have helped create an engaging conference agenda. Franchise presidents, CMOs, and marketing directors who attend will benefit from a one-of-a-kind industry forum where they can share best practices in consumer marketing, discuss key trends, issues, and strategies, and network with other experienced marketing executives.

The inaugural 2011 Franchise Consumer Marketing Advisory Board:

• **Susan Boresow, Massage Envy,** Chief Marketing Officer. She has been with Massage Envy since last October. Previously, she was Vice President of Marketing at Pump It Up Management. Her background also includes marketing-management stints at Cold Stone Creamery, Godfather's Pizza, and Mr. Goodcent's Pasta and Subs.

• **John Dillon, Denny's,** Vice President of Marketing and Product Development. He has held marketing leadership positions with several organizations, including 10 years in multiple leadership roles with Yum! Brands and Pizza Hut. Before joining Denny's in 2007, he was Vice President of Marketing for the NBA's Houston Rockets.

• **Keith Gerson, Sopra Brands,** President and COO. Gerson was previously President and COO at PuroSystems. He has served as Vice President of Sales, Marketing and Development for AlphaGraphics, Senior Vice President of Worldwide Franchising and Licensing for Mrs. Fields Original Cookies, Executive Vice President of Sales and Marketing at Chem-Dry, and was responsible for operations at Jack in the Box in the Pacific Northwest.

• **Rich Hope, Jersey Mike's,** Marketing Director. He has extensive experience on the agency side, having owned his own ad agency for 22 years. He has worked with the Jersey Mike's account since 1992, when the franchise had only 30 stores, and became Jersey Mike's CMO last August.

• **Terri Miller, Great Clips,** Vice President of Marketing and Communications. She joined Great Clips in 2000 following a variety of agency and corporate marketing positions.

• **Wendy Odell Magus, Kiddie Academy,** Vice President of Marketing. Before joining Kiddie Academy in 2008, she was Senior Director of Marketing at Sylvan Learning. She has spent the majority of her career focused on marketing child-centric businesses, both in her current position and at Sylvan, Disney, and Kennedy Krieger Institute.

• **Jeff Rinke, Hungry Howie's Pizza,** Vice President of Marketing. He oversees marketing communications including branding, advertising, public relations, market research, and website design and content. He has been with the brand since 1987, where he has served as Director of Operations and was appointed to his current position in 1996.

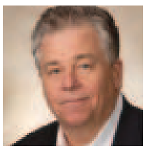
• **Linda Shaub, Interim HealthCare,** Vice President of Marketing. She has more than 30 years of experience in all aspects of marketing and has led Interim in the successful integration of new marketing channels over the last 11 years. Before joining Interim, she was General Manager of an advertising agency in South Florida.

• **Ed Waller, CertaPro Painters,** co-founder and Vice President of CRM. He oversees a centralized customer service department, all marketing activity, and the IT infrastructure. While he has been involved with all elements of the organization, including franchise marketing, his core interest and skill set keeps him focused on consumer marketing.

Franchise Update Media Group's premiere Franchise Consumer Marketing Conference will be held June 14–15 at San Francisco's Omni Hotel. Details at www.franchiseconsumermarketing.com. ■

CMO roundtable: Does your brand have an online reputation management strategy?

Ed Waller, CertaPro
Vice President, Customer Relations Management



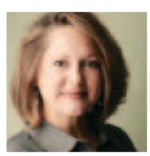
It is essential for brands, especially franchise brands, to have a reputation management strategy for the Internet. It has always been the role of the franchisor to promote and protect the brand. In the Internet age there are new challenges online that must be addressed appropriately. In the old days, you put up a website and you directed people to go there and learn about you. You probably had a way for them to send you an email and maybe you had a coupon to print or detailed request form to fill out. Those days are gone. People no longer want to see what you are saying about yourself on your website. Web 2.0 and social media have changed all that. The Internet is now all about individual content and peer-to-peer interaction. People are no longer reading your website, they are reading what other people are saying about you everywhere else. There are conversations about your brand taking place online—conversations you may or may not know about—and you need a strategy to deal with them.

Your brand core strategy needs to deal with three things: 1) finding the conversations, 2) inserting yourself in them, and 3) living with them forever. Finding the conversations is relatively easy. You can contract that out, subscribe to services that will find them for you, or assign the task to someone in your organization who is web savvy and lives online. Inserting your brand in conversations is a little trickier. When you find a conversation about your brand, think of how you would react to it if you were all at a wedding reception and you overhead the conversation next to you. How would you act? What would you say? That is how you need to act online when you are inserting yourself in a conversation about your brand.

Last, whatever you do, be prepared to live with it forever. Diamonds are forever, and what is put up on the web is a real close second. Worry as much about how your words will read in the moment as they will a year or two from now.

You can never start too early, and you can almost never say too much. Don't wait for the conversations to come to you, go start some. Facebook, Twitter, and Blogger make that pretty easy.

Wendy Odell Magus, Kiddie Academy
Vice President of Marketing



We have a multifaceted reputation management strategy. We believe it is important to know what people are saying about our brand so we can be smarter about how we communicate to our customers, and so we can proactively address opportunities that arise. We encourage and empower all brand stakeholders, whether they are employees or franchisees, to constantly monitor for coverage of our brand and to bring that intelligence back to the marketing team.

The marketing team, including in-house staff and our agencies, uses several different platforms and methods to aggregate coverage of the brand. We track all of the mentions and assign values to each: positive, neutral, or negative. We also track resolution of negative comments.

When coverage is negative, we engage the associated franchisee in responding. A variety of tactics are used, all of which abide by a high level of transparency. Ideally the person originating the negative comment is engaged directly in a one-on-one discussion to address the concern and rectify the base problem. The discussion should take place "off line" rather than in a public forum. Our goal is to have the negative mention removed or updated with an explanation about the resolution. At the same time, we work with the franchisees to ask their happiest customers to balance anything negative with positive input. We have a very good success rate with this strategy, though the tactic is intensive.

Marci Kleinsasser, PuroClean
Vice President, Marketing

Our brand is one of our most important assets. We leverage our brand and our reputation in the digital world as we do in the offline world with the ultimate goal to drive business to our more than 300 locations. We do this through our SEO-optimized website, blogs, social media marketing, and an integrated PR strategy. We then monitor and measure all of these efforts daily through both Google Analytics and our "listening" strategies on each social network. Should we discover consumer-generated media or posts, we will first investigate the facts and determine the best course of action:

1) Is the post true or a competitor spreading rumor, etc.?

2) Provide an honest response, always taking the higher ground.

3) Offer a resolution personally, and continue the discussion offline as necessary.

4) It is critical that a member of our Franchise Support Center engage in the discussion or reply to the blog post as soon as possible, even if it was a post to a local office.

At the brand level, we have a digital marketing firm partner to manage our social media and online marketing efforts. At the unit level, each PuroClean franchise owner has the tools to manage their online marketing efforts and reputation, and we provide them with ongoing training through bimonthly webinars and articles posted on our intranet. They also have a social media policy that includes a "how to use" section to guide them through the maze of social media as well as how to manage their reputation as a business owner (vs. their personal persona).

Warren Stoll, Maaco
Vice President of Marketing

Our brand is built on a very proud history that began with our founding nearly 40 years ago. A great deal of value is attached to this heritage, and we seek to enhance our image and presence as North America's body shop for all types of collision repair and auto painting, with everything we do.

Unlike most other automotive aftermarket providers, Maaco's 475 collision repair and auto painting centers perform repairs that are immediately visible to the consumer. In fact, you might say each consumer's vehicle is "transformed" at our shops. CSI Survey results reveal that more than 9 out of 10 customers say that Maaco shops have met, or exceeded, their expectations. But as we know, unhappy customers are much more likely to tell others about their experiences than happy ones are. Today, that effect is often multiplied on the Internet.

> **"Our brand is built on a very proud history that began with our founding nearly 40 years ago."**

For all these reasons, Maaco takes online brand reputation management very seriously. We have put in place a comprehensive social media management and publishing tool with the following objectives:

1) Brand reputation: prompt response to and resolution of all customer issues.

2) Positive message distribution: publication of favorable comments and franchisees' community-oriented activities.

3) Friends and followers: engagement and ongoing interaction with our expanding online community of friends and followers.

4) Promotions: posting of Maaco videos and other advertising and promotional content.

5) Lead generation: creation of a positive brand image that generates more calls and visits to our centers.

Maaco's online reputation management assures that we can create and monitor the social media buzz, immediately engage with people when necessary, and measure the results. ■

Point of Contact

CMO Terri Miller on Great Clips' innovative POS system

Terri Miller knows how marketing is supposed to work. She has served as the marketing director in the travel franchise division at Carlson Companies and spent time on the agency side where she worked with clients such as Century 21 and Toro.

She's been at Great Clips for the past 11 years, where she is vice president of marketing and communications—and where she's overseeing a technology evolution that's changing the way stylists and their customers do business. The brand has been refining its POS system over the past few years and is now using the technology in unique and effective ways. In the following interview, Miller discusses how the brand uses its POS system and the benefits the brand has reaped.

How does Great Clips use its POS system in its salons? We use it to track and report all of the customer transactions in the salon. It is also used for numerous other functions, such as scheduling, inventory management, employee time tracking, all POS functions (tender, discount/coupon tracking, etc.), and management reporting.

Are all stores required to use it? Yes, all salons are required to use this software. Having all salons on one software platform provides us with a distinct competitive advantage. We are able to implement innovations such as online check-in across all salons. We are able to pull data from all salons and use this for strategic analysis, marketing, and operations purposes. We are able to have all salons track and report information the same way, so we can have a consistent focus on our key brand measures and use these to drive our growth and profitability in our salons.

How was this system developed and how has it evolved? The system was developed by ICS in the early 1990s on a DOS platform. We transitioned to a Windows platform in 2003, and are currently working with ICS to move this to a web-based platform. The system is completely customized and continually enhanced to meet our changing business needs.

What are some innovative and strategic ways Great Clips uses its POS system? 1) Technical notes that record information on a customer's last haircut so we can provide them a consistently great haircut every time.

2) Online check-in, using technology to help our customers save a valuable commodity: their time.

3) Export all POS data from every salon into a data warehouse we use to analyze customer trends, data, etc. to understand what drives growth and profitability in our salons.

4) We have an incredible scheduler tool that helps our managers schedule the right number of stylists at the right time so we can deliver comfort, connection, and freedom to customers, and also manage a franchisee's biggest cost item: payroll.

5) We provide managers and salon owners with information on how they are performing on the key drivers of our business—along with standards for these key measures—so they can work to improve these measures and grow their salons.

6) Customer database, creating a profile for each customer we can use for targeted marketing, tracking their previous visit information and returns, and tech notes, which helps us to connect to our customers in a meaningful way.

Describe how your stylists and customers check into the system every day. Stylists check in by simply touching a few buttons on the POS screens. Our staff check in customers by searching for their phone number or name in the database, and then selecting the services they want.

What is the most important data you capture, and how do you use it? 1) Data related to analyzing and reporting our brand measures. We use this in our quality service reviews, business reviews, and recognition programs. These are the key drivers of our business and improving these measures drives growth for our salons. 2) Data for scheduling. This helps managers know how many stylists to schedule each day, and for each part of the day, so they can manage payroll expense, minimize waits, and make the best use of the franchisee's floor-hour investment.

How does this data benefit the franchisees? Brand measures give them a focus. They can compare their performance and trends against the standards, determine where they need to improve, and then put plans in place. Scheduling helps them deliver freedom to customers by minimizing waits, and also manage payroll, their biggest expense item.

How does this data benefit the franchisor? We use the data for numerous analyses to help franchisees with smart discounting, improving scheduling, and growing their salons. Brand measures give us a way to focus our nearly 3,000 salons, 3,000 salon managers, GMs, franchisees, our 25,000 salon staff, and corporate staff. We focus on these brand measures, and growing and improving performance on them, as we know that these drive our business. ■

Case study: Naked Pizza

Turning purchases into conversations

BY ROBBIE VITRANO

In launching Naked Pizza, our argument has never been that a healthier pizza is going to save the day, but rather that every "new" business should and can have a social strategy—a strategy that positively affects someone or something along the continuum. If you don't, then maybe you don't have a business. To us, mission, profit, and scale are inseparable. So far, so good.

Our thought process has been that as long as we execute on the disciplined business end of the arrangement—operations, operations, operations—coupled with a social consciousness and some science under the hood, customers will see a benefit. Combine this with cool technology and something we call "Cha-Ching 2.0" and purchases can now immediately be turned into conversations. At a minimum we would have a business that makes money, and possibly a new business meme altogether.

Naked Pizza was the first company to remove its name from the sign out front and replace it with its Twitter handle. That catapulted us onto blogs like TechCrunch and Mashable. It was part of gaining the backing of two billionaires (Mark Cuban and Robert Kraft), more than 6,000 franchising inquiries, and today, 18 months later, we're opening stores at a clip of 5 per month with more than 400 in the pipeline.

The velocity gained by having a mission and model that fits the social platform wins us investment and media interest, powers recruitment, sells pizza, and equally important, allows for a relatively small company to gain necessary leverage in establishing its supply network.

Remarkably, we have become an international case study for use of social media, featured in hundreds of blogs like Socionomics.com and even on Twitter.com for business alongside Dell, Starbucks, Levi's, and JetBlue for social media proficiency. We've received similar recognition for our embrace of social media from *The New York Times* to *Entrepreneur* and most recently *QSR* magazine, which named us the fourth most-influential brand in the category—an entirely new level of absurdity given that Starbucks with almost 20,000 more locations than us was ranked number one. So does that mean we're a more viable and thus valuable company? We think so.

Our view is that all transactions are conversations—social. In addition to what you sell, there is an equally intense interest in *who you are*—mostly because people are interested in what a purchase or brand association says about *who they are.*

To facilitate this level of interaction we've created a rich publishing platform that works across social sites ranging from Facebook to Flickr to YouTube, which allows us to post a variety of content that reveals our story and allows our customers to comment and contribute. These are contextually linked across a digital platform that includes our website and our blog, as well as our online ordering system that will extend across mobile, tablet, gaming consoles, social media, cable, etc.

The launch of our first international location in Dubai (we'll open six there this year) brought a new level of understanding to our social strategy. By setting up a social media platform and engaging with numerous audiences in the entrepreneurial, technology, marketing, health, and academic communities (months before anyone ever put a slice of our pizza in their mouth), we were able to ignite the conversation. Social was where we published that engagement. By the time we opened the doors on January 17, we had several thousand local Facebook fans/likes and Twitter followers. The sheer volume of online conversations was overwhelming. As I write this, that store will end the day with $5,000 in sales.

Cha-Ching 2.0

In the world of Cha-Ching 2.0, our relationship with a customer does not end with a transaction at the cash register—quite the opposite. It does not end until they share that activity with their friends through social media. According to an Econsultancy survey, 90 percent of purchases have some sort of social influence. Simply put, consumers want to share if there's a benefit and don't mind being identified with that brand. And it's the influence among those friends and secondary relationships that is the sweet spot—the Holy Grail. Becoming part of their identity drives frequency.

From day one, we have supported this conversation with fast delivery (averaging 23 minutes), transparency of operations, and product through short videos posted online, blog posts about our perspective on health, and so forth. In other words, we don't use social networks as a broadcast medium to pound out specials and deals. We have morphed from a retail brand into a publisher and woven ourselves into the fabric of the conversation.

The lament is that social media has caused marketers to lose control of their brand. The truth is that now, there's no BS-ing your brand to cultural salience. In our view, in the post-recession, post-mass media world, that's a very good thing. ■

Robbie Vitrano *is co-founder and chief brand architect of Naked Pizza. He is responsible for all branding, store design, customer experience, and digital strategy and has helped to position Naked Pizza as one of the world's leading practitioners of social media. He lectures and writes extensively on branding, entrepreneurship, and corporate social responsibility. Contact kathryn@nakedpizza.biz.*

Consumer data

BY TOM EPSTEIN

Cash or Credit?

Tracking the changes in how consumers pay

Franchise Payments Network processes payments for more than 120 franchise chains across the retail, restaurant, service, and lodging sectors. This makes us uniquely positioned to provide a snapshot of the economy in franchising. Over the next few issues we are going to drill down and decipher what we are seeing in payment trends in the franchise space, with the goal helping you make better operational and marketing decisions. Let's begin with a 30,000-foot look at how consumers pay for transactions in franchise businesses.

Payments Accepted

TYPE	2005	2010
Cash	21%	19%
Checks	28%	18%
Credit cards	25%	24%
Debit cards	13%	21%
Other*	13%	18%

**Other: ACH, prepaid gift cards, and EBT; gift card volume for 2010 was 10% higher than 2009; EBT doubled in 5 years.*

Here's what consumers typically spent in franchise businesses last year, by type of payment. In general, the forms of payments with lower average ticket size are increasing, and those with higher average tickets are decreasing.

Payment types, 2010

TYPE	TICKET SIZE (AVG.)
Cash	$32
Checks	$82
Credit cards	$75
Debit cards	$37
ACH	$110
Gift cards	$32
EBT	$29

Drilling down

• Same-store sales. In 2010, same-store sales were up 6.7% over 2009, in contrast to 2009's 8.1% dip from 2008. The increase in 2010 was driven primarily by two verticals: healthcare and service industries (handyman, plumbing, etc.).

Same-Store Sales, by Vertical (2010 vs. 2009)

Healthcare	+32%
Hair salons	+4%
Services	+23%
Lodging	–7.5%
Spa (tanning, gyms, etc.)	–15%
Restaurants (all)	–2%

Types of payments

Overall, we have seen a shift away from credit use to other, more economical payment types over the past few years.

• Credit card processing volume in 2010 was down about 0.5% from the previous year—the first time that credit card processing volume in the U.S. declined. Banks tightened credit limits of cardholders in the last half of 2009 and 2010 as a result of the Credit Card Accountability, Responsibility, and Disclosure (CARD) Act of 2009. This has driven consumers to more of a cash mindset.

• Debit use (both PIN and signature) increased over this same period by 8.9%. ACH use by our customers increased over this same period by 35%, as more merchants are relying on recurring payments to reduce their processing costs.

• Checks. Traditional check usage is pretty much nonexistent in our portfolio since most prefer to accept only signature or PIN-based debit at the point of sale. Check use is still widespread as a means to pay bills and for B2B invoicing.

• Mobile payments will continue to explode, and service companies will continue to adopt this technology. Restaurants will finally begin to go mobile to take advantage of the swiped rates.

• Alternative payments will continue to grow—PayPal, Google, and Bling. You will likely even see Apple get in the game.

What's ahead

Sen. Dick Durbin (D, Ill.) has introduced a bill that would limit debit fees to merchants (capping transaction costs at 12 cents, versus today's average of 56 cents for signature and 23 cents for PIN). This should be good for merchants, who should be able to push more transactions into the debit buckets and save processing fees, right? I don't think so.

Remember what happened with the CARD Act? This was one of the worst things to pass during a down-turning economy as it slowed commerce even further. Banks immediately reduced the "open to buy" on pretty much all cardholders (less credit = less sales). Card issuers are also the card acquirers, so they lost money on the consumer side and raised interchange on the merchant side by the most in history (higher cost of goods and services to consumers = less sales).

That's why I think the Durbin bill will actually have a reverse effect than intended and create more credit and fewer debit transactions. Why? The banks that issue free debit cards with each account are the ones making the lion's share of the debit interchange today. Under this bill, those banks will be losing around 70 percent of the revenue they enjoy today. I think the days of "everyone gets a free debit card" are over. Banks will not be giving these out any more, and the ones that do will attach some pretty substantial consumer fees. So while the merchants would like to take them because of their lower transaction cost, the fact is there will be fewer debit cards in the marketplace and consumers will be less likely to use them since it might be cheaper for them to use their credit card (which the banks will be pushing because of their higher revenue). ■

Tom Epstein *is CEO and founder of Franchise Payments Network, an electronic payments processing company dedicated exclusively to helping franchisors and their franchisees improve system performance, increase revenue, and reduce expenses. Contact him at 866-420-4613 x1103 or tomepstein@franchisepayments.net.*

Connecting with customers

BY JACK MACKEY

Customer-Driven

Your brand is built by what's being said online

Today's customers are omnipotent. It really is the consumer—customer or guest, however you name them—who owns your brand. They make the rules now. Then they sit in judgment and deliver the verdict to their friends and family, often with their opinions amplified on Facebook, Twitter, YouTube, and Yelp!

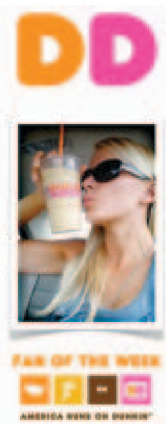
The actual experiences customers have every day in your franchise and company-owned locations create your brand as much as anything you do from the marketing department at headquarters. Sure, you can craft communications that attract customers and reflect the brand you aspire to be. But the voice of the customer is authentic. It's real. People ultimately believe what they experience—and they believe what their friends say about your brand.

When the franchisor marketing team succeeds in bringing customers to your brand, who are then disenchanted with a mediocre experience, nobody wins.

On the other hand, likelihood to recommend, which drives same-store sales growth, is determined by a positive customer experience. The data from SMG's Benchmark Database of 70 million customer experience metrics for multi-unit retail and restaurant firms confirms that as intent to recommend increases, same-store sales increase. This clear relationship to same-store sales growth is why the customer experience is inextricably linked to both marketing and operations.

Dunkin' Donuts is a great example of a brand that gets this. At the 2011 Service Management Forum, Dunkin's CMO and marketing champion John Costello made the comment, "Improving the customer experience has been an important part of my career and it's an important part of what we're doing at Dunkin' today."

In searching for the keys to customer satisfaction and loyalty, Costello says a winning strategy is to focus on your most loyal fans. In particular, find ways to engage with your most passionate customers.



I spoke with Mitch Cohen, a multi-unit Dunkin' franchisee, about how deeply customers identify with the brand. Someone backed a car into one of his New York locations, causing serious damage. While Mitch calmly cleaned up the mess, a regular customer went on a rant: "It ticks me off that someone would back their car into MY Dunkin' Donuts!" (The actual language was slightly more colorful.)

Dunkin' leverages extreme customer affinity for the brand by inviting their fans to upload a picture of themselves enjoying their favorite Dunkin' food or beverage. The incentive? A chance to be recognized on Facebook as Dunkin's Fan of the Week. More than 3 million fans share their love for Dunkin' on Facebook.

Dunkin's results square with SMG research that proves customers who are highly satisfied with their experience are the most likely to recommend. "In fact, they are three times more likely to recommend than other customers." This comes from Shelly Blair, the operations services manager at Qdoba Mexican Grill, which has grown from 19 restaurants in 1998 to more than 500 locations today. By consistently delivering a rewarding customer experience, Qdoba has earned a high percentage of loyal customers, which accounts for its sustained profitable growth.

Qdoba CMO Karen Guido said, "It's easy to identify which of our customers are true brand advocates. We ask them on our customer survey, 'How likely are you to recommend Qdoba to a friend?' Only those who are 'highly likely to recommend' are truly loyal."

Qdoba discovered the right time to ask customers to recommend is at the very end of their survey. Those customers have just been answering questions about their most recent experience at Qdoba. So Qdoba makes it easy for customers who are "highly likely to recommend" to join their loyalty program, engage on their website, and recommend Qdoba to their friends—directly from the customer survey.

A number of franchise brands within the SMG Benchmark Database have been early to adopt this marketing process. To date, these brands have engaged more than 723,000 unique respondents directly from the final page of their customer surveys. The number is growing dramatically, and more than 100,000 loyal customers each month are recommending or engaging with their loyalty programs and websites. (If you'd like to read the research on how others have successfully implemented this approach, please email me or go directly to www.smg.com to request the white paper, "Connecting with Customers Beyond the Survey.")

As much as the world has changed and gotten more sophisticated technologically, in other ways it is getting simpler and strategies are getting back to the basics. Deliver on your brand promises and your customers will build your brand. You just have to make it easy for them to do that. ■

Jack Mackey *is vice president of Service Management Group (SMG), a leading customer experience analytics agency that improves performance for franchise and multi-unit firms. You can reach him at jmackey@smg.com.*

Legal perspective

Q&A WITH KEITH KLEIN

BY KERRY PIPES

Reputation Management

Protecting your brand online

Online marketing, social media, and social commerce have created an environment that places an increased burden on franchise marketing departments. The task of effectively managing a brand's image is now so daunting that it has spawned an entirely and relatively new sub-industry called reputation management. We asked franchise attorney Keith Klein to provide some advice. Klein is a partner at Bryan Cave LLP and is certified by the California Board of Legal Specialization as a specialist in franchise and distribution law.

Define "reputation management" and its relevance to franchising.

Reputation management is Internet terminology for online brand management. It evolved as a result of the increasingly pervasive nature of consumer reviews about products and services through social media and customer review sites. Since its beginnings as a grassroots forum for consumer feedback, it has become a powerful commercial convergence of branding, marketing, and customer service. Developing a reputation management strategy is increasingly critical.

Are there general legal guideposts for franchise systems implementing a social media strategy?

Yes. The most widely discussed include the "Guidelines Concerning the Use of Endorsements and Testimonials in Advertising" promulgated in December 2009 by the FTC. The guidelines focus on the use of "endorsements," which, in turn, are broadly defined to include "any advertising message… that consumers are likely to believe reflects the opinions, beliefs, findings, or experiences of a party other than the sponsoring advertiser." Because virtually every form of social media may fall within this definition (whether by affirmative statements or omissions) reputation management strategies must ensure compliance.

A failure to comply with these FTC guidelines can result in significant fines and other consequences. A good example is the FTC's March 15th announcement that it had reached a $250,000 settlement of an enforcement action against Legacy Learning Systems. The FTC alleged that Legacy had failed to monitor members of its affiliate marketing program who endorsed its "Learn and Master Guitar" DVD program on their websites and blogs but did not disclose their financial connection to Legacy.

Affiliate marketing programs are not franchise systems, but they share some similarities. They work by generating endorsements of products through reviews in blog postings, website articles, and other online materials. Affiliate networks, such as Legacy's, run into trouble when the financial connection between the endorser and the seller is not adequately disclosed to consumers.

Are there specific examples of legal actions from a franchisor's reputation management efforts?

The FTC has become increasingly vigilant in the enforcement of marketing online as evidenced by the Legacy Learning Systems enforcement action, and franchise systems are certainly within the FTC's field of vision. For example, when the FTC promulgated the Children's Online Privacy Protection Act, it pursued an enforcement action against Mrs. Fields Famous Brands, Inc., with respect to its pursuit of an online marketing strategy. Mrs. Fields entered into a Consent Decree in which it was required to pay $100,000, to provide a copy of the order to all agents and representatives for a five-year period, and to submit compliance statements to the FTC.

The FTC's enforcement action against Mrs. Fields can provide guidance to franchise systems today as they develop and implement strategies for reputation management. Specifically, franchise systems should make sure the franchisor's employees and agents understand the FTC guidelines. Similar efforts may need to be made for franchisees.

Identify two key do's and don'ts for reputation management.

There is much to do so it is hard to limit or prioritize the do's. In my experience, two that scream out include: 1) establish a social media policy that sets forth system-wide policies that enable the brand and individual franchisees to pursue reputation management strategies collaboratively; and 2) implement a software system that enables the franchisor to monitor franchisee compliance. In pursuing both of these efforts, the best practice includes consulting legal counsel so the franchisor can avoid potential vicarious liability issues based on franchisees' conduct.

Two things to avoid: 1) implementing any obstruction in transparency to the consumer; and 2) attempting to enhance your brand's reputation by denigrating others. Both of the don'ts may put the brand on a direct course for litigation or other legal proceedings.

What developments are likely to affect reputation management?

As social media websites such as Facebook increasingly offer search capabilities, social media will likely become essential to maintaining a material Internet presence. A brand's implementation of an effective reputation management strategy may now prove vital to its survival online in much the same way real estate played an important role in determining which brands prevailed in the burger wars over the past 50 years. ■

DON'T ANALYZE THE UNIVERSE WITH A MICROSCOPE

DISCOVER THE SECRETS:

5 categories of the sales process! 3 dozen factors that influence results!

Unfortunately, when franchisors attempt to analyze the franchise sales universe, a microscope is often the only tool they use. Ad spend. Lead costs. Close rates. If we look closely enough at the statistics, the answers will magically appear, right?

WRONG.

As important as the statistics are in assessing the cause of franchise sales' underperformance – and they are important – a franchisor simply cannot hope to effectively analyze such a complex process with a single analytical tool.

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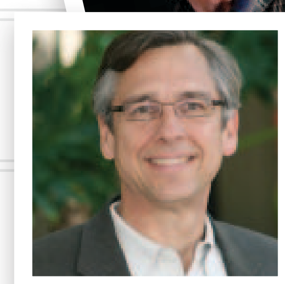

Event: Mark your planner now for the 2011 Franchise Leadership & Development Conference, October 12-14, 2011 at the InterContinental Buckhead in Atlanta.

BY JOE MATHEWS

How Strong Is Your Valida

Satisfied franchisees fuel franchise development

How happy are your franchisees? In an honest and lucid moment, would they encourage other candidates to invest in your franchise, or tell them to run like the wind? If given the chance, would they make the same investment again or hightail it in another direction—and how would you know? Have you anonymously contacted franchisees to pose these questions, conducted a franchisee satisfaction survey, or are you just relying on a gut feeling?

If 80 percent or more of your franchisees do *not* indicate that: 1) they either are successful or expect to become successful according to how they measure success, and 2) they would make the same decision again today, then 3) your franchise sales results will suffer.

Consistently positive franchisee validation fuels franchise development results. If franchisees paint a different picture than the recruiter presents, or dismisses the financial performance highlighted in the FDD, then the franchisor (not the franchisees) will lose credibility. Trust plummets and strong candidates seem to enter what experienced franchise salespeople jokingly call "the franchise candidate witness protection program" and stop returning calls and emails.

Franchising is ultimately a two-metric business: 1) franchisee unit-level economics, and 2) the quality of the franchisee/franchisor relationship. If you do not possess a community of happy and profitable franchisees *regardless of how many franchisees you are currently selling*, your business is already in decline.

Unpleasant truth

Recently, my company was hired by a high-flying franchisor to create a breakthrough in franchise sales results. When it came to franchisee satisfaction, the optimistic CEO proudly proclaimed, "We have the happiest franchisees in franchising."

When we conducted our research, including mystery shopping the opportunity, we found that a majority of franchisees, although initially happy with their investment decision, were becoming increasingly dissatisfied with the corporate culture. Franchisees posted strong financial returns, but no franchisee we interviewed enthusiastically stated they would make the same decision again. Many said the franchisor appeared to have stopped communicating with them and was more concerned with franchise sales than franchisees' profitability.

The franchisor was shocked by our feedback, but to their credit, took immediate and positive action, creating an outreach program to their franchisees, and turned around what would have been an increasingly negative situation. As a result, this franchisor continues to expand, even in the current difficult market.

An "Aha!" moment

One of the biggest "Aha!" moments I had about franchisee validation stemmed from a conversation I had several years ago with Eric Stites, president and CEO

tion?

of Franchise Business Review, about the results of his "Top 50" franchisee satisfaction awards. In one particularly crowded residential service category, I noticed that one franchisor was rated higher than two other stellar franchisors I had worked with in the past.

I said, "I have studied this category and these two companies have tremendous training, great financial returns, the highest sales in the category, skilled operational support teams, and visionary leadership. They are stronger money-making opportunities and better-run companies than the one you gave the highest marks to. How can this company be ranked number one?"

His response was brilliant. "Joe, satisfaction isn't about what the franchisors do more or better." He said satisfaction is about *what franchisees expect to receive in the beginning and what they end up experiencing in the end.* The top company promised little at first and ended up delivering more than they promised. The franchisees of the other companies entered the relationship with much higher expectations and thus demanded more. Stites added, "The two franchisors you mentioned have a harder time living up to their franchisees' heightened expectations."

Here are four tips on how to improve your validation:

1) Know what your franchise candidates will hear and read before they do. Do you know what expectations your franchise salespeople are setting? Are your salespeople setting up your franchisees for future dissatisfaction and killing your future momentum by what they are saying or doing today? Do you routinely mystery shop your franchise sales people and process and compare candidates' expectations against what franchisees actually experience afterward?

2) Monitor your online reputation. In the social media age, franchisees, suppliers, and customers can post anything on the Internet. While their attitudes may change over time, their blog posts, comments, and social media mentions can create permanent impressions, as their comments will circulate in cyberspace forever.

3) Drive your online reputation. Don't let it unfold favorably or unfavorably on its own. Know what information a candidate will find on the web *before* they talk to you. Actively work to shape their impressions *before* they make themselves known. Use Franchise Business Review, FranSurvey, or other franchisee satisfaction surveys.

4) Ensure your "average" franchisees are making the money they expected. If you were a franchisee, would you be happy with the returns? Could you run your household, send your kids to college, and save for retirement on the money they are making? If not, you have a unit-level economics problem you need to fix now. There is no higher priority. ■

Joe Mathews *is a founding partner of Franchise Performance Group, which specializes in franchisee recruitment, sales, and performance. He has more than 20 years of experience with national chains. He is a regular presenter at IFA conference, an instructor with the ICFE, and book author. This article is from his free, downloadable e-book, The Franchise Sales Tipping Point. Contact him at 860-567-3099 or joe@franchiseperformancegroup.com.*

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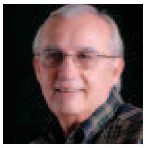
Challenge the pros

"How important is a conversion strategy to your development plans?"

Mike Hawkins
Vice President of Franchising
The Dwyer Group



Conversion franchising is the foundation for The Dwyer Group development plan. A franchise conversion program has allowed us to be proactive in generating leads for our franchise development team, rather than hoping enough leads come in through normal lead generation channels.

The key to implementing a conversion franchising program is for a franchise to have good systems, training, and support programs in place to offer existing independent business owners. With these three things in place, a franchise can look at what types of businesses and industries they want to do conversion with.

One type of franchise conversion is to find independent business owners already in their industry who can benefit by implementing better systems that can help their business grow. Most independent business owners don't have good systems, business skills, and usually don't have coaches to assist them in growing and managing their business. Another is to look for compatible businesses that can add your franchise as an additional division or profit center. Because of today's economy, many independent business owners are open-minded about finding additional ways to bring revenue into their business.

The principles for building a more successful business are the same whether it is a franchise or not. If a franchise has better systems than an existing business owner has, the business owner should see the value of joining a franchise company. They should determine that they don't have the time, money, or expertise to develop these systems on their own. If the franchise has a good vendor program for their current franchisees, these vendors can help an independent business owner bring more to their bottom line. Once a franchise identifies where they would like to do conversions, they can begin to take an aggressive marketing approach through direct mail, industry trade shows, and advertising in industry magazines.

There are special benefits that come from converting independent business owners to franchisees. First, the business owner already has a business generating revenue and income that is normally supporting their current lifestyle; they don't need the franchise to support their living standards. Second, many times they have existing sales volume they can roll in and begin paying royalties immediately; many conversions can have very large roll-in sales volume.

In addition to all of the current lead generation methods franchises have available today, adding a conversion program provides another avenue for finding and adding great franchisees. Also, a franchise's systems can change and improve an independent business owner's business and personal life for the better. It's a win-win for everyone.

Ken Hutcheson
President
U.S. Lawns

Conversion franchising played an important role in the early development of U.S. Lawns. The conversion "pioneers" and our customers validated our business model and were instrumental in testing the sales and operational systems unique to commercial landscape management. They were already committed to the industry and armed with a high degree of confidence.

The only hurdle to transitioning their business from an independent operator to a franchise was trust. Trust that the business model would take their business to the level they desired. Trust that the individuals involved would follow through with their commitments. It's an effective recruiting strategy if you can deliver on the trust factor. Conversions can still be challenging, however, if you cannot provide significant ongoing value to these formerly independent operators.

Today conversion franchising remains one of several important components of the U.S. Lawns growth strategy. Our vision 25 years ago was to be the industry leader. We succeeded, and it remains our vision today. We have respect for the independent operators who are the backbone of the fragmented landscape industry. We also see opportunity for them. Our market provides high-volume, year-round revenue, as opposed to seasonal or cyclical income available from residential market segments. For many independent operators, moving into the commercial management market can be the key to reaching their personal and business goals.

The transition from residential to commercial can be difficult if they don't have access to the resources required to satisfy the needs of the market and the customer. We supply these resources, such as the ability to efficiently serve multi-site customers nationwide, which will provide immediate impact and continued value to the independent operator's business.

Our challenge, then, is not in attracting conversion candidates—it's selecting the individuals who own these businesses who have the drive, passion, values, and personal skills to build the business at the pace, to the size, and with the values that fit the culture of U.S. Lawns and align with our overall development plans. This selection process, designed to "weed out" the complacent, unqualified operator, has become far better refined in our most recent phase of growth.

How important are conversions to our future development plans? As we move through the next phase of growth, they'll be as important as they have been in the past. They are only one component of a complex and magical mix of franchisees, home office team members, and customers that create the culture of our company and lead us to our vision. ■

Grow | Market | Lead

Sales smarts

BY MARC KIEKENAPP

Routine Maintenance

Quarterly training to tune up your sales team

Over the past several issues we've addressed tuning up our marketing campaigns, websites, and working with the operations teams to develop programs that conform to today's economic condition and the candidates' needs. I would like to share some ideas about tuning up our sales skills and techniques and creating an ongoing internal training program to maximize your team's efforts.

As most of you may have noticed, 2011 has started out with a bang! Lead flow is up, more candidates are in discovery days, and the general public is feeling better about the direction of the country and business trends. So it's time to get ready to be the best we can be.

Education and refining of our sales skills should not be practiced on candidates. Instead, try creating an internal sales training quarterly tune-up program, and increasing the sales skills of the team. These actions will be very productive in attaining more sales in 2011. Let's focus on two essential pieces of the puzzle: the telephone and objections.

1) The telephone (our first impression to the candidate):

- What type of message are you leaving?
- Is it the same each time?
- Is it too long or too short?
- Is there enthusiasm in your voice?
- Who on the sales team has the highest contact rate, and why?

2) Overcoming objections (without being defensive):

- Do you have solid answers for the candidate?
- Are you defensive?
- Have you "offensively" and adequately covered the concerns in your presentation so the objections don't come up later in the process?

Creating a meaningful training experience

As you review your numbers from 2010, you should look for positive trends for each sales person and be able to share that with the other team members. If someone has the highest contact rate, find out why. It is important to hold the team to the highest standards and to have a training program to assist the right people to succeed. Without this in place, you will lack continuity in your sales department. Hiring a new sales person is rarely productive during the first 6 to 12 months. Here are some exercises you may consider doing with your team to keep them at top performance levels.

1) Secret shop the sales team

- Record each call to share with the team on an individual basis.
- Let them know you are doing this as a training tool.
- Use results in finalizing the role-playing topics.

2) The telephone

a) Have the sales consultants record themselves on the initial call.

- Is the message consistent?
- Would you call based on the message left?
- Is there enthusiasm in your voice?

b) Record the program review.

- Is this a mutual exploration or is the sales person doing all the talking?
- Was an opportunity missed on the call that had gone unanswered?
- Were good notes taken for follow-up conversations, or do the notes not reflect the needs of the client?

c) As the manager:

- Don't ask to listen to all the calls.
- Have your sales professional play the best call once a month.

3) Role playing to overcome objections

Assemble the information you've gathered from secret shopping and the recordings.

- What topics did the sales team stumble over or not cover correctly?
- Role play the 10 most frequent objections.
- Praise the team for what they are doing well and train them where help is needed.

Implementing this process on a quarterly basis will improve your sales ratios, keep your team sharp, and identify the team members that could be costing you sales. Don't skip any of these steps because situations and people change. Each quarter you should use all three steps to identify your training opportunities.

Happy Selling, Marc

Market trends

BY DARRELL JOHNSON

Competition for Credit

Who gets capital now—and how?

Looking back over hundreds of years of economic downturns caused by financial crises reveals a fairly distinct pattern: on average, public debt nearly doubled within three years; unemployment rose an average of 7 percent above pre-downturn levels and took about five years to return to more normal levels; business and consumer deleveraging began within two years after the crisis and lasted six to seven years; and when public debt rose above 90 percent of GDP, the GDP growth rate for subsequent years was reduced by at least 1 percent.

How does the current economic downturn compare? Unemployment at about 9 percent is only 4 to 5 percent above pre-crash levels. Since we are in the second year of the recovery and unemployment hasn't decreased significantly, it does appear we are headed toward a longer duration employment improvement consistent with historical experience, albeit at lower overall unemployment levels than historically indicated. Deleveraging has occurred and seems to be continuing, although at a slower rate recently. It is reasonable to assume at this point that the choppy portion of the recovery will last another few years at least. With public debt hovering around the 90 percent tipping point, it's too close to call whether it will be a future drag on growth. That prediction mostly depends on what Congress does with entitlement program changes.

On the banking front, there are three distinct periods of lending recovery. The first is marked by lending contraction. Banks are more focused on capital preservation than on profits as long as the economy is contracting. Their willingness to lend is not a function of pricing but of fear of losses that further erode their capital bases. We have witnessed that in a big way between 2008 and 2010.

The second period is best characterized as a competition for credit, where the more creditworthy borrowers have access to capital and the less creditworthy are shut out. While banks are willing to lend, they are more motivated by lower risk than they are in pricing loans to perceived risk, so it also is not a price-sensitive period.

Third comes a period of lending activity where banks are willing to take on more risk if they are appropriately rewarded, which is to say they are operating in a period where better-perceived credit risks are offered more attractive terms and weaker ones are offered more challenging terms, i.e., it is a period of pricing (and term sheet) sensitivity.

The length of each of these periods is largely influenced by banking views of economic recovery. This time the first period (of banks fearing losses more than the need to make profits) lasted about two years, and we're definitely out of that period today. The next period, competition for credit, which we are now in, will last until either the next economic boom cycle is clearly under way or until banks feel that the pressure to make profits is greater than the pressure to not lose money. Based on capital levels and bank credit department sentiment as reflected in Federal Reserve and other surveys, it appears we will be in the competition for credit phase for a few more years at least.

The implications to the franchise community of the competition for credit phase are pretty clear. In addition to borrowers demonstrating they are creditworthy, franchise systems must demonstrate that their systems are creditworthy. The reason GE Capital has only 30 brands on its current approved list is that they view the performance history of those brands as indicators of an acceptable level of loan performance. It's the same reason almost all banks look at SBA franchise loan loss data. They are using a franchise system's performance history as an indicator of expected loan performance.

The challenge for most banks is that the amount of due diligence on a brand is not justified from a profitability standpoint unless they are going to do a lot of loans with that brand. Yet in this competition for credit period banks must do more predictive analysis of brands before that otherwise qualified borrower gets an approved loan. Banks know that SBA statistics are suspect and not a very good indicator of performance, and reviewing FDDs contributes only modestly to credit risk analysis.

The burden of solving this challenge lies with franchisors, not banks. If the amount of loan activity with any one brand doesn't justify the very credit risk analysis that banks need for loan committees and, equally importantly, for regulators, then franchisors need to find the solutions.

This economic period has led to bank credit reports on franchise brands becoming a normal part of most bank underwriting packages. Banks are accustomed to getting independent third-party assessments (audits, appraisals, and so forth) as part of the underwriting foundation leading to the structuring of term sheets and loan approvals. Bank credit reports will continue to be part of the foundation that helps banks decide which brands they want to commit portfolio dollars to, and on what terms. As we move on to the next lending cycle period marked by banks willing to take on more risk, bank credit reports will help banks with pricing as it becomes the differentiator for credit risks. ■

Darrell Johnson *is president and CEO of FRANdata, an independent research company supplying information and analysis for the franchising sector since 1989. He can be reached at 703-740-4700 or djohnson@frandata.com.*

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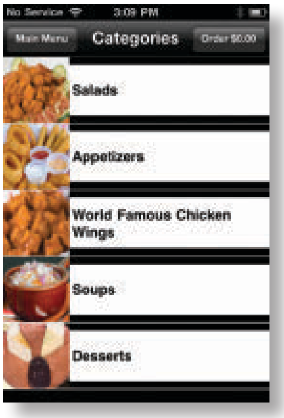

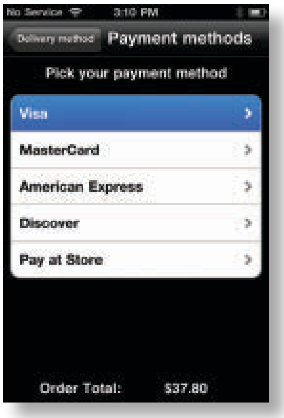

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Grow Market Lead

It's closing time

BY STEVE OLSON

Winning Leadership

Success starts at the top—and so does failure

I've had the pleasure of working with some extraordinary chief executives... leaders with open minds who re-energized their franchise development by breaking roadblocks and checking egos at the door. I've also worked with leaders who have sidestepped hard challenges and crippled their system growth. Too often, this reluctance in dealing with internal forces limits an organization's ability to reach its potential. What makes the difference between winning and losing leadership? Here are a few experiences I've witnessed.

Build a better franchise

Money Mailer, a national direct mail franchisor, aggressively grew to more than 400 franchises in its first 20 years. But as with nearly every franchise, the company finally hit rough waters in its life cycle. The company was reeling from an exodus of senior staff following two turbulent years of franchise losses fueled by disgruntled, struggling owners.

Then President Godfred Otuteye pulled out all stops to revive the organization. The franchise operation would be re-examined and re-engineered if necessary. He packed his bags and met with franchisees, diligently gaining their input, trust, support, and participation. To demonstrate his commitment, he hired a seasoned new executive staff and consultants to assist in what many considered a "Mission Impossible" campaign.

I learned in working with his "reborn crusaders" that achieving the impossible is possible. Within 18 months Godfred's leadership strategy kick-started a hemorrhaging franchise from negative growth to a 600 percent increase in new franchise sales. The executive team pulled off an amazing victory gaining buy-in from his franchisees, employees, and customers. He saved a sinking ship to build a much better ship.

Avoiding pain brings no gain!

Unfortunately, common management traps can ambush healthy franchise growth. A high-end landscaping company with successful branch offices throughout the U.S. decided to franchise in smaller markets. Owner-operators made better business sense than branch locations. Unfortunately, the franchising model wasn't succeeding as planned, so the founder asked for consulting assistance to help turn the situation around.

However, several meetings were suspiciously cancelled within a few weeks. The founder finally admitted his president didn't want the hassle of dealing with these "franchise stepchildren." *"He really doesn't care for or have time or energy to deal with them."* The pain wasn't worth the gain, and the founder backed off from battling with the president, who, incidentally, was married to his daughter!

Shatter the walls of resistance

I'll never forget trying to convince the corporate legal counsel of a 350-unit service franchise to add earnings claims to their Franchise Disclosure Document. Their franchisees' profitability was extremely impressive and certainly would be a key attraction to qualified candidates considering this franchise opportunity.

"Do you enjoy fishing?" was the initial response to my suggestion. I was taken aback, but it became clear this attorney wasn't about to rock the boat since he was retiring next year. The franchise would have to develop earnings claims on someone else's watch. The CEO should have stepped in, ripped the fishing rod from his fantasies, and instructed him to publish earnings claims in their documents. But he didn't.

Do-nothing management

A multi-concept retail franchise I had consulted ignored six months of supporting market studies and franchisee interviews. Research revealed one of their concepts should stop franchising. A problematic change in the marketplace was hammering their unit economics.

Franchisee satisfaction was tanking as technological improvements and price reductions no longer allowed their owners to compete in metropolitan areas. The concept screamed for repackaging, with desperate pleas to do so from loyal, victimized franchisees.

Rather than take corrective action, the executives ignored repairing the structural problem. They continued to waste marketing dollars and attempted to recruit more franchisees doomed for failure. The dying concept was sold several years later to a new owner who reinvented the franchise and began rebuilding the brand.

Realize dramatic increase

Radio Shack soared in the late '90s, transforming shrinking stores to explosive unit growth. Then President Len Roberts repackaged their franchise program by co-branding a new $60,000 "mini-Shack" in smaller markets with established retail businesses. This included a merchandise buy-back guarantee, which paved the way to their successful turnaround. Community home improvement centers, hardware stores, and other retail outlets embraced this winning opportunity to partner with this trusted household brand.

Like Roberts, today's leaders must continue to grow their brands in spite of their marketplace and internal challenges. As one savvy founder professed, "We cannot become our own worst enemy." ■

This article is an excerpt from Grow to Greatness: How to Build a World-Class Franchise System Faster *by Steve Olson. For ordering information, go to www.franchiseupdate.com/gtg.*

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Developing Intelligence

Highlights from the 2011 AFDR

The 2011 Annual Franchise Development Report (AFDR) is a comprehensive research guide to sales and lead generation performance in franchise recruitment. It drills down to industry categories, investment levels, and recruitment budgets; provides marketing costs information; reports the top-producing sales and lead sources; reveals performance evaluations of franchise websites and follow-up to prospect inquiries; and analyzes current and historical industry growth trends.

This data and analysis can help you accelerate your system growth, increase selling performance, and make smarter, more cost-effective development decisions. ■

SIGNIFICANT NUMBERS

Recruitment Budgets

	2011	2010	2009	2008	2007
Average	$152,800	$162,000	$198,000	$175,000	$165,000
Median	$80,000	$88,000	$138,000	$138,000	$100,000

Where the Leads Come From

	2010	2009	2008	2007	2006
Internet	61%	60%	66%	77%	70%
Referrals	10%	10%	16%	14%	16%
Print	3%	5%	3%	3%	2%
Other	26%	25%	15%	6%	12%

Top Sales Producers

	2010	2009	2008	2007	2006
Internet	36%	34%	35%	41%	45%
Referrals	25%	28%	28%	37%	21%
Brokers	17%	17%	16%	14%	21%
Print	5%	8%	6%	4%	2%
Other	17%	13%	15%	4%	11%

Where the Money Goes

	2011	2010	2009	2008	2007
Internet	47%	50%	47%	48%	45%
Print	18%	16%	17%	20%	18%
Trade Shows	13%	13%	13%	12%	16%
Public Relations	10%	11%	13%	11%	12%
Other	12%	10%	10%	9%	10%

Measuring Costs

2010	2009
69% track cost per lead	67% track cost per lead
$54 median cost per lead	$43 median cost per lead
$161 average cost per lead	$70 average cost per lead
65% track cost per sale	57% track cost per sale
$10,000 median cost per sale	$7,000 median cost per sale
$13,019 average cost per sale	$8,200 average cost per sale

Overall Closing Ratios

2010	2009
Leads to sales 1%	Leads to sales 1%
Applications to sales 8%	Applications to sales 10%
Discovery Days to sales 65%	Discovery Days to sales 65%
57% use broker networks	52% use broker networks
67% have closed deals	78% have closed deals
8% median of applications result in sales	8% median of applications result in sales
$15,000 median broker commission	$11,000 median broker commission

How Internet Dollars Are Allocated

	2011	2010
Online Ad Portals	51%	61%
SEO	25%	15%
Pay-per-click	14%	15%
Social Networking	10%	6%
Other	12%	10%

Source: The results of the 2011 Annual Franchise Development Report were collected and analyzed in late August and September 2010, using data gathered from 126 franchisor participants representing more than 42,000 units (38,563 franchised and 3,528 company-owned). We continually seek ways to further raise franchisor awareness of development standards, and to create additional benchmarks that will continue the evolution of best practices in franchise recruitment. We welcome your comments to help us better shape the 2012 report. Email them to editorial@franchiseupdatemedia.com.

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