Franchise update

2011 | Q3

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Franchise update | Q3

BUSINESS INTELLIGENCE FOR GROWING FRANCHISORS

From the editor's desk

BY KERRY PIPES

Getting To Buy-In

Today's changing consumers, along with the wide variety of marketing tools and techniques now available, are making marketing managers rethink their old strategies. That's why it's important now, more than ever, to stay on top of the latest trends and developments. It takes a well-planned and executed marketing strategy to grab the attention of today's media-overloaded consumers. From managing social media tools and your online reputation to franchisee buy-in and customer loyalty and retention, only the savvy will survive.

That was the thinking behind this June's inaugural Franchise Consumer Marketing Conference in San Francisco. A stellar group CMOs, franchise executives, and service providers gathered to take part in the first-time event. Judging by participants' comments, the conference struck a chord with franchise marketing and branding pros, who not only said a conference like this has been needed for years, but were already asking how to sign up for next year.

We began planning this issue of Franchise Update right after the conference, with the sessions, panels, and attendees' feedback still fresh in our minds. One issue in particular came up repeatedly throughout the conference: franchisee buy-in. Keynoters, speakers, and marketing executives discussed the importance of getting franchisees to buy in to franchisors' marketing efforts and strategies. And since all sales are made at the unit level, without committed franchisee buy-in, even the best-designed marketing plan is bound to underperform.

But as most seasoned CMOs will admit, getting franchisees engaged and working the local marketing angle in their territories and locations is challenging. In today's economy, many franchisees are focusing on basic survival—despite their understanding that marketing and customer service are the keys to sales growth and profitability. And from where the franchisors sit, effectively communicating with and educating franchisees on the importance and the "how-to's" of local marketing require time and effort to implement in a way that boosts local sales and expands the brand as a whole.

Throughout this issue you'll find insights from franchising marketing executives on these very topics. In our CMO Q&A, Susan Boresow, Massage Envy's CMO, tells how she has created franchisee buy-in at the brands where she previously held marketing and leadership roles. And our Roundtable discussion focuses on how four marketing directors have succeeded in involving their franchisees in local-level marketing.

We've also landed a couple of fabulous leadership profiles: Brent Alvord at Lenny's Sub Shops and Jack Riggs at Pita Pit. Family connections led both into their franchise leadership roles, and talk from the top is always inspiring for both perspiring and aspiring leaders.

We also feature a case study on Sizzler's remarkable turnaround in recent years, written by the brand's vice president of marketing, Michael Branigan, who joined Sizzler in 2004. And this issue's Leadership Guru, Carl Howard, who joined Fazoli's as president and CEO in 2008, writes about management change and "Five Ways To Instill Confidence in Franchisees."

Now in our second issue of our retooled format and expanded focus, you'll discover much meaty content in our Lead, Market, and Grow sections. We hope you like the new material and look… and that you're "buying in" to it! ■

Franchise update |Q3

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SEND MANUSCRIPTS AND QUERIES ABOUT STORY ASSIGNMENTS TO:
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Franchise UPDATE magazine is published four times annually.
Annual subscription rate is $39.95 (U.S.)

For subscriptions email
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"I consider the CEO summit a must-attend event for executives. It is rare to have such an open conversation with other C-level leaders where the opportunities and challenges are discussed and best practices shared." – **Shelly Sun**, *Co-Founder and President,* BrightStar

Produced by: Franchise update magazine | FranchiseUpdate MEDIA GROUP

Lead

Franchise leadership and management

> **"With any business, at any stage, you need a great leadership team if you are going to gain a competitive advantage, grow market share, and build your business. With franchisees, you must gain their trust and meet their performance expectations... Franchisees are quick to blame the franchisor, and rightly so, for a brand that is underperforming. They lose trust in the company's decision-making, which can create a dangerous spiral of brand inconsistency."** —CARL T. HOWARD, PRESIDENT AND CEO, FAZOLI'S

BY KEITH GERSON

Anatomy of a Start-Up

Building a Brand New Brand

Part 2

Differentiating from the start(up) in a red-hot category

In this issue's glimpse into a franchise start-up, I'll share the challenges and the victories I've encountered in attempting to differentiate our emerging EarthFruits Yogurt brand within its red-hot category and the resultant commoditization occurring within the space. I'll also make the case for augmentation of critical staff members through outsourcing for non-recurring functions, in order to get a better end result while preserving precious capital.

Evolution, not revolution

Starting with our product development, we are the first to admit that we are not rocket scientists. We aren't creating any new products or services here as frozen yogurt has been in the marketplace for decades. We are far from first in our category. For that matter we aren't even second, third, or fourth! That certainly didn't keep Burger King from taking market share from McDonald's back in the day by narrowing their focus with "flame broiling vs. frying" and "have it your way." And now it's happening again as Five Guys Burgers and Fries is evolving the category with its "better burger" concept.

Okay, back to product development. We discovered that 90 percent of our category is using the exact same product from the exact same manufacturers. So it appeared obvious that we needed to narrow our focus by having a manufacturer that could produce the yogurt equivalent of the "better burger." Our plan was to have a proprietary blend of exotic, super-healthful fruits imported from the Amazon Rainforest versus the more common shelf-stable synthetic flavors and syrups out there. In this way we could establish our role as the highest-quality provider, with the added benefit of being "champions for the preservation of the rainforest."

It's not what we say it is, it's what they say it is

We worked with our internal team on flavor and taste formulations and brought in a couple of suppliers from our fruit importer and our yogurt manufacturer to help us refine our recipes. We thought we had a winner. But it didn't matter what we thought, what would the public think? We contacted a local university that offered to conduct a taste panel and focus groups to help us ensure we were on point. In turn, we would pay them an honorarium of only $1,500 (talk about value)! Our focus groups loved most of our flavors, and sent us back to the drawing board on a few others that were a little too exotic for the American palate. Out of this discipline came a few important critical lessons:

1. People may have good intentions when it comes to health, but not at the expense of taste. "If I want healthy, I'll go to GNC," said one participant.
2. A defensive wall goes up as soon as customers feel that you are simply trying to capitalize on a "cause célèbre." You better be authentic and committed to the long haul, even when it's no longer the cool "cause du jour."
3. Think global, but act local. Our focus on preserving the rainforest and helping the poorest of the poor in Brazil was appreciated, but "What about the ecology and needy here in our town?" said others. This got me thinking we should contribute 25 percent of the ad fund back to our franchisees to spend within the local market on qualified "giving back" initiatives and events.

Finding the right distribution partner

We now had high-quality, differentiated recipes in hand that we were proud of. But as a start-up, we were just too small to be able to have custom production runs with the limited quantity we needed during our proof-of-concept stage. We had to make a larger commitment to production runs, and we needed to be able to store the product and ensure we could use it before its expiration. Enter our food distributor. We contracted with Sysco. They agreed that, even though we couldn't turn our frozen products initially within their required four-month period (well within our shelf life), they were willing to roll the dice and store and deliver our product based on their high regard for the concept, belief in our management team, and our commitment to growth. It's amazing how far you can go with a vision, a good team, and passion.

Impulse vs. destination

It was time to choose the site of our first location. We wanted a corporate-owned site in Utah where we are headquartered to continuously monitor service, customer wants and needs, and as a future training and R&D center. Selection of our first site was quite a wake-up call.

In order to thrive, and given the impulse nature of our high-end super-premium products, we would need to be located in an area where people live, work, and do their daily shopping, as well as where they go for entertainment and casual dining. Our type of business is typically driven by evening and weekend traffic, and further requires the density of the everyday shopping traffic or generic foot traffic to support a viable EarthFruits café. Unfortunately, many of these lessons were learned *after* we chose our first site. We got the visibility and traffic part right, but we learned a few very important lessons after the fact.

Specifically, we would need: high foot traffic; above-average demographics; adequate amounts of pull-up parking; ideal night-time activity generators including grocery stores, higher-end dining, theaters, performing arts centers, walking paths, etc.; and a tenant mix that supports the same types of customers who support our business model (higher-end specialty retail).

Our very first market and site was lacking in many of these essentials. It was going to take some world-class marketing, social media, community involvement, and PR to make up for these specific deficits. Fortunately for the franchisees who would follow in our pioneering footsteps, we developed one of the best community and site selection workbooks in the business.

Outsourcing to free up capital

My initial start-up team consisted of a director of operations, a marketer, a café manager, a vice president of franchise development, and a project manager. Every other function needed to be accomplished initially through outsourcing. "There is a growing realization in the business world that many—perhaps most—jobs can be done cheaper, more efficiently, or both by outside providers," says Michael Corbett, executive director of the Outsourcing Research Council.

"Every dollar a company does not have to spend on an internal function unrelated to its core business is another dollar it can devote to improving its competitive position in the marketplace," says Stephen McClellan, an analyst with Merrill Lynch.

For illustrative purposes, an initial professional site inspection firm and use of an outsourced company specializing in value engineering could have saved, by our calculations, in excess of $100,000 as we might have been alerted that we had inadequate power within the site and ultimately had to bring in 220-amp power from the street—which, combined with the panel, added nearly $40,000 in extra unbudgeted expense alone.

Outsourcing can free up capital to be applied to a company's mainstream strategic activities, such as marketing, new product development, and customer service. It can also provide a means for a small company to stay on the cutting edge of new technology without the kind of infrastructure commitment that normally entails. To this end, we made the decision to go with an outsourced back-end office solution (FranConnect), which included a module on construction management, in addition to a framework for financial management, franchise information management, document library, and franchise intranet system made readily available through a network of other approved IFA suppliers. Offering systems often found only in more mature franchise systems gives us a further degree of credibility.

We also made the choice to use an outsourced provider for defining and documenting our operating procedures, compiling them into an operations manual, and using this as the basis for our initial training and development.

Coming up next...

With 75 days from our soft opening, it was time to put together our franchise offering and the strategic marketing plans to achieve our goal of becoming the "Starbucks of the Frozen Yogurt Industry." Stay tuned to *Franchise Update* magazine for our next update on our human resources plan, and the plan we have for hiring team members who will be able to provide the highest level of customer satisfaction and loyalty in the business. ■

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.*

BY JOHN CARROLL

CEO profile: The Doctor Is In

Jack Riggs, M.D., leads a healthy, growing brand

Jack Riggs didn't follow a simple straight line to franchising. In fact, it was rather crooked. But as it turned out, every twist and turn in his life helped him become the successful entrepreneur he is today.

After becoming a doctor and an expert in emergency medicine, he spent three years as director of an emergency room for the U.S. Air Force before returning to his home town of Coeur d'Alene, Idaho, where he worked as an ER doctor.

In 1986, he opened an urgent care center of his own, then added a couple more locations. He gradually migrated from the practitioner side to the business administration and numbers side of healthcare. From there, with the Clinton administration pushing healthcare reform, he developed an interest in the policy side, which inspired him to run for the state senate.

The soft-spoken doctor was good at this next career as well, and rose to Lt. Governor. He kept his care centers, but opened the door for the doctors to step up as partners before turning his attention in yet another direction after leaving office in 2003.

In 2004, with plenty of spare time on his hands, he took a trip to Santa Barbara, where his son and son-in-law were opening the city's first Pita Pit restaurant. Healthy, fresh, and fast was exactly the kind of fast-food alternative many people in the area were waiting for.

"People loved it," says Riggs. "It was a great concept." From there it was a natural progression to start talking with the owners of the concept—who were operating two companies, one in Canada and the other in the U.S.—about investing in a bigger territory. The idea took a major leap in scope when the possibility of buying the entire U.S. company came up.

"Nine months later," says Riggs, "that was that." Growth followed: since 2005 the company has swelled from 70 to 187 locations, with 20 company-owned locations in a 39-state mix, with a solid presence on college campuses.

Looking back on all the steps he's taken along the way, Riggs says: "It all adds up to what I do and how I think today."

Right now his thinking turns a lot to additional growth, watching Pita Pit locations grow in both number and revenue as the company adds new units across the U.S. It's not always easy, especially in this economy, but his easygoing style can't mask a personality that's always open to another fresh, healthy step forward.

Name: Jack Riggs	
Title: CEO	
Company: Pita Pit USA	
No. of units: 187 in 39 states	
Age: 56	
Family: Three grown children and four grandkids. Also, I'm engaged.	
Years in franchising: 6	
Years in current position: 6	

Leadership

What is your role as CEO? When we took over the company we had to create a new U.S. management team and a system for growth. The core is me, Nelson Lang (the original founder), and three vice presidents (including my son and son-in-law). We've added 117 locations, created a more complete team, and set the goals of where we want the company to go.

Leadership style? I have a deep faith, and a servant style. I simply ask myself, How can I help franchisees and the corporation succeed? It's up to them to be successful and for me to help them be successful.

What has inspired your leadership style? Maybe reading books like *The Servant*. I think also that my Scandinavian heritage has had an effect. Of course, there were my own life experiences, full of odd transitions to seemingly unrelated positions.

Biggest leadership challenge? I don't hold people as responsible as I should. I'm not as disciplined as I should be at really challenging them. But I try not to be too hard on people and to set a good example.

How do you transmit your culture from your office to front-line employees? That is not easy. We try to constantly communicate. And communication is not just sending out information. You have to make sure that people understand. Often it's not received. That's a challenge.

Best place to prepare for leadership: an MBA school or OTJ? For leadership I would probably go with on the job. Leadership is more inborn and learned. I think an MBA is great for analytics, but to me that doesn't describe leadership.

Are tough decisions best taken by one person? I would say yes, after input from the advisors one trusts.

How do you make tough decisions? I avoid snap decisions. I prefer to think things through. That can take a while.

Do you want to be liked or respected? Respected.

Advice to wannabe leaders? Set clear expectations and be consistent. Adhere to fundamental principles and be fair.

Management

Management style? It's probably a participative style. I like to talk to the vice presidents and staff and ultimately there's a decision made. I like lots of input. If the executive team reaches consensus, great. If not, I make the decision.

Management team? They all have franchise experience. I have the least experience actually working in a Pita Pit restaurant. The three vice presidents are all former franchisees. With Nelson Lang, the founder, part of the deal was that he would stay active in the U.S. with us. I probably have more of the systems background. It's a good blend. We usually come to a consensus.

How does your management team help you lead? By providing their experience, the discussion, the pros and cons that hopefully lead to the right decision.

Favorite management gurus, books? One was *Good to Great* by Jim Collins. One I haven't started yet is by Howard Schultz: *Onward: How Starbucks Fought for Its Life without Losing Its Soul*. Starbucks is one of my favorite corporate models to emulate.

What makes you say, "Yes, now that's why I do what I do!"? Two things. First, I'm always amazed when I hear from customers who use the word "love" to describe us. Every time I hear that, certainly that's something that sticks with me. Second, last summer my son did a pop-up restaurant in New York City, for eight Fridays. We were interviewed on "Fox & Friends" each week. They have a plaza right outside of the set. That kind of exposure is very positive. We were on the street at 6 a.m. and there were long lines every morning.

"I'm always amazed when I hear from customers who use the word 'love' to describe us. Every time I hear that, certainly that's something that sticks with me."

Personal

What time do you like to be at your desk? I like 8 to 8:30 a.m., but 9 a.m. is more realistic.

Exercise in the morning? Wine with lunch? No to both. I play basketball in the late afternoon. It would have to be after seven at night for wine. I'm more of a night person.

Do you socialize with your team after work/outside the office? I do with the family that I work with at the office, which now includes a second son-in-law. We also have a men's league basketball team sponsored by Pita Pit that I play on with the three VPs and a few other staffers. Other than special occasions, no, I tend to not.

Last two books read: *The Servant* by James C. Hunter. *Make Today Count* by John C. Maxwell.

What technology do you take on the road? I have a smartphone, the Droid version. And I usually take a laptop. I just changed to the Xoom, the smaller Droid tablet computer.

How do you balance life and work? One of the big advantages to living in northern Idaho is that there are a lot of outdoor activities. We live on a lake. Coeur d'Alene is a resort area, so I have lots of things to do outside of work locally and with my family; plus I like to travel with my fiancée.

Favorite vacation destination(s): There's no place I'd rather be in the summer than in Coeur d'Alene. Having said that, in the winter I like warm, so Mexico, the Caribbean, is where I like to be. Hawaii can work. A few years ago we went to Africa. That was quite an adventure.

Favorite occasions to send employees notes: I try to send personal notes, sometimes electronically, any time something is well done, there's a birthday or an anniversary.

Favorite company product: This spring we started something new, called the Ultimate Choice. In addition to our core ingredient options, we have added 15 additional topping choices: artichoke hearts, jalapeños, cilantro, all sorts of things that can be added to your pita.

Bottom Line

Long-term goals for the company? Number one would be growth as a brand and as a franchise system, with individual store success. You want every location to be successful, combined with national familiarity and positive name recognition.

How has the economy changed your goals for your company? It actually hasn't changed the goals but it has changed the timelines. Over the last three years the growth rate has been cut in half, but we continue to grow. It has slowed us down.

Where can capital be found these days? It's hard. The SBA seems like it's helping out in conjunction with community banks. As a company we're not really interested in private equity firms, selling off the company.

How do you measure success? For me it's not a specific metric, but rather being satisfied. For the franchisees, if they're happy, making money, then to me that's a measure of franchisee success. For me, I ask myself if I feel satisfied. If there are lots of problems, I don't feel successful. And I have a fairly high bar to reach to feel satisfied.

> "If the banks open up a little and start lending again our growth will accelerate. And, hopefully, we'll add two more new states with Pita Pits in the next year."

What has been your greatest success? I think it was the challenge of putting a group together to acquire the company in 2005. And then to grow from 70 to 187 locations.

Any regrets? No, not really. (laughs) I had no control over the economy in 2008, so no personal regrets but more of a global financial regret.

What can we expect from your company in the next 12 to 18 months? I think we will continue to have positive growth. We have at least four new locations opening up in the next two months. If the banks open up a little and start lending again our growth will accelerate. And, hopefully, we'll add two more new states with Pita Pits in the next year. ■

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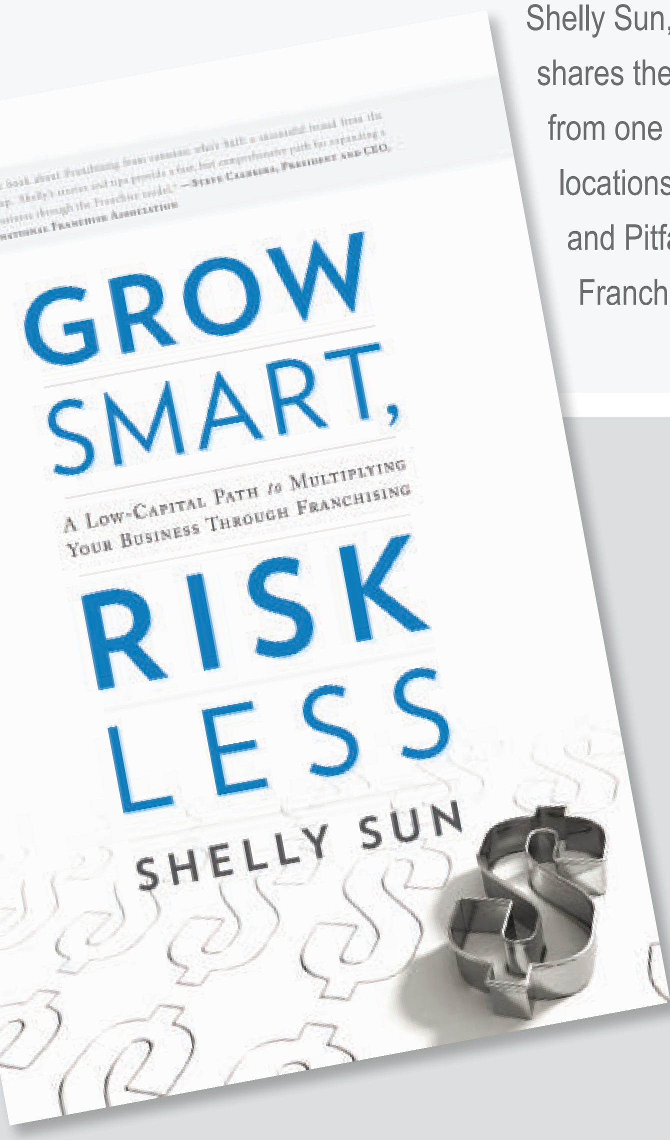

Shelly Sun, CEO and Co-Founder of BrightStar Care℠ shares the lessons learned from explosive growth from one Corporate location to 250 Franchise locations in just 5 years. Learn the Bright Ideas and Pitfalls to Avoid to drive faster Franchisee/ Franchisor mutual success.

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– Fred DeLuca, Founder of Subway

BY DEBBIE SELINSKY

CEO profile: A Passion for People

Multi-skilled Lenny's Sub Shop president leads by example

Lenny's Sub Shop President Brent Alvord lends new meaning to the term, well-rounded: an MBA in finance from the University of Memphis, 15 years as an executive with organizations such as Burger King, FedEx, and America Online, and a hands-on understanding of the restaurant industry he acquired as a youth working at Subway, Ruby Tuesday's, and Chili's. On top of that, he can quickly decipher a spreadsheet, design software to assist the business, create a marketing campaign, and motivate employees to do their best work.

So when he and his father, food and hospitality industry veteran George Alvord, acquired Lenny's in 2004, he was ready to jump in and help build the six-year-old sub sandwich business. Since then, along with their partners, they have grown the 40 shops to 150 increasingly popular restaurants in the southeastern U.S.

What motivates Alvord, a karate and photography buff, to succeed in business and life is his passion for people, as evidenced by his bachelor's degree in social work, his service on several nonprofit boards in the Memphis area, and his dedication to his wife and three children. "I really believe that with great success comes great responsibility. Because of all the blessings I have in my life, I continue to ask myself every day at work and at home: Am I living up to the potential God has for me?"

Name:	Brent Alvord
Title:	President
Company:	Lenny's Sub Shop
No. of units:	150 stores in 18 states
Age:	39
Family:	Wife Yendry, and three children: Gatlin, 8; Benjamin, 5; and Amberlyn, 2
Years in franchising:	15
Years in current position:	7

Leadership

What is your role as president? I'm directly responsible for franchise development, marketing, finances, and IT, including building our own POS software program. My father, George Alvord, is chairman and CEO, and Carl Jacobson is general counsel and chief administrative officer.

Leadership style? I strive for excellence and expect those around me to strive for the same, knowing we're not always perfect. I'm direct, honest, and offer constructive feedback.

What has inspired your leadership style? My father, and Paul Sherman, my boss at Burger King. But I also took an important message from the movie "Babe." The pig was trying to be a sheep herder and barked at the sheep that didn't do what she wanted. She learned that if she asked nicely, she'd get what she wanted. I've worked with people who barked first and it doesn't work. I ask nicely, try to take care of the employees, be flexible, and meet their needs. Servant leadership, rather than being the boss, is my philosophy.

Biggest leadership challenge? In the franchising space, it's the adage "You can lead a horse to water but can't make it drink." We've set up our system to get the "horses" as close to drinking as we can so they can be successful. That means they need to do their P&Ls and finances and marketing on a regular basis. We point out that this will help them tremendously, but they don't always get it.

How do you transmit your culture from your office to front-line employees? They see me out and about, visiting the restaurants, and they know we're nice guys but tough if we have to be. We have a very positive relationship with our franchisees. They have invested their life's savings, so we listen intently, strive to satisfy their needs, and treat them as we would like to be treated. When we hire in the corporate office, we make sure that every person cares over and above their own job. Our value statements focus on honesty, respect, and commitment.

Best place to prepare for leadership: an MBA school or OTJ? I have an MBA, but I believe the answer is OTJ. I joke that I use 5 percent of what I learned at school, and the rest comes from surrounding myself with great people, who end up rubbing off on me and making me live up to my higher potential.

Are tough decisions best taken by one person? Generally speaking, no. Our company runs with an executive team of my father, my other partner Carl Jacobson, and me. We sit down and hash out the issues. I have opinions but I can be swayed by others. This is always a good plan no matter your company structure.

How do you make tough decisions? I try to be guided by what is best for the individual or situation and to come up with as much of a win-win as I can.

Do you want to be liked or respected? Both.

Advice to wannabe leaders? Lead by example and learn a little of everything, from building a spreadsheet to understanding marketing strategies.

Management

Management style? I'm hands-on when I need to be. If I detect that someone is not delivering to our level of excellence, I'll dive into the micro level of detail. If the person is sharp, I'll offer edit checks, but I'll let them take the ball and run.

Management team? Sharp people with fantastic experience and personalities.

How does your management team help you lead? It comes back to caring. They bring a passion and enthusiasm to their jobs above and beyond the paycheck. By putting service first, they're effectively driving the business where it needs to go.

Favorite management gurus, books? I like Shep Hyken's *Moments of Magic*, Eric Chester's *Generation Why*, and Richard Branson's *Business Stripped Bare*. I also like Zig Ziglar, Dale Carnegie, and Malcolm Gladwell.

What makes you say, "Yes, now that's why I do what I do!" Six years ago, I had conversations with a franchisee whose store had abysmal weekly sales. I said, "Look, you've got to make something happen or you're going to be closing your doors." I explained that he needed to focus on marketing and to be persistent in that arena. The last four years in a row, he's won top sales gross awards. The store that was doing $3,000 a week is now doing $15,000. He's making money and he's happy. It's rewarding to see someone on the verge of nose-diving turn it around to where he's living the American Dream. I like to see others succeed.

Personal

What time do you like to be at your desk? 8:30 a.m.

Exercise in the morning? Wine with lunch? I exercise several days a week. No wine with lunch—not a drinker.

Do you socialize with your team after work/outside the office? If we're on trips, yes, but usually not locally. We believe people need time with their families.

What technology do you take on the road? iPhone

How do you balance life and work? When I'm not working, I'm with my family. I try to dedicate the same passion I give on the job to my time with my kids.

Favorite vacation destination(s): We like going to the beach and our favorite amusement parks.

Favorite occasions to send employees notes: I'm not super-organized on sending notes, but I try to acknowledge birthdays.

Favorite company product: As for product appeal, Lenny's hot pepper relish is awesome. My favorite service is that in all our sub shops, except for the Memphis airport store, there are no trash cans for guests. We bus tables for them so they can get up and walk out and others can sit down to a clean table.

Bottom Line

Long-term goals for the company? I'd like to see us hit 1,000 units and continue building our brand presence and fan following out there.

How has the economy changed your goals for your company? It has made us more introspective in determining how to drive unit economics and more disciplined in monitoring the business.

Where can capital be found these days? We're getting funding from SBA loans and 401(k)s.

How do you measure success? The quick answer is happiness. Personally, I'm successful if I'm genuinely happy, meeting my goals doing what I want to do. But the personal mission that permeates every aspect of my life is my commitment to having the greatest impact that God allows me in my life.

What has been your greatest success? The fact that my family loves me and believes I'm a great dad and husband. My wife was in a store with the kids, talking to some firemen just before Father's Day. When a fireman asked my 5-year-old son if he wanted to be a fireman someday, he answered, "No, I want to be just like my dad." Life is fleeting, and your impact on others is the legacy you leave behind.

Any regrets? There may be a few, but I also believe my experiences have made me who I am today. I don't dwell on the past but try to learn from my mistakes.

What can we expect from your company in the next 12 to 18 months? Further growth and involvement in franchise development as well as an interesting referral program we're starting. ■

Building a New Management Team

And getting franchisees to buy in to change

BY CARL T. HOWARD

When I joined Fazoli's as president and CEO in 2008, the nearly 20-year-old QSR brand was at a crossroads. Traffic and sales at the once high-flying Italian concept were spiraling downward, with franchisees fleeing the system.

Today, Fazoli's is in growth mode. We replaced cost-cutting with innovation, overhauling the menu, adding limited table service, and developing an all-new prototype. For the first time in a decade, guest counts and sales are consistently positive. Both the company and franchisees are opening new units.

Five Ways To Instill Confidence in Franchisees

Turning around an ailing brand requires a strong leadership team capable of simultaneously driving change and winning franchisee support.

1) Earn trust. With any business, at any stage, you need a great leadership team if you are going to gain a competitive advantage, grow market share, and build your business. With franchisees, you must gain their trust and meet their performance expectations. This is even more critical in a franchise system that has recently fallen on tough times. Franchisees are quick to blame the franchisor, and rightly so, for a brand that is underperforming. They lose trust in the company's decision-making, which can create a dangerous spiral of brand inconsistency.

2) Focus on innovation. Brands in almost every industry must constantly evolve to keep pace with the changing consumer and the hypercompetitive marketplace. You must consistently focus on meaningful innovation and brand positioning. What can you do to gain market share and position your brand to last? This is what franchisees pay for—and expect—when they send in their royalty checks. They expect the franchisor to set the proper strategies so they can focus on running their business. Even when you are doing well, franchisees expect more and are never satisfied. As a former franchisee, I understand this. You are playing with real money here: family fortunes or, for the smaller franchisee, maybe even the family home.

3) Demonstrate success. The franchisor must not only set the final strategies, but prove that they work in a practical environment. This includes building a business case for implementing them. It's much easier to launch programs—whether they're new products, limited-time promotions, or changes and enhancements to facilities—when you can show a franchisee a fast return on investment or limited risk. When the ROI is not instant, or even guaranteed, it takes the full confidence of the franchise community to make changes. Fazoli's is about 50/50 franchised, so we have a lot of "skin in the game." We test and refine a lot of concepts in company units before introducing them to the system.

4) Collaboration is critical. No one likes a dictator, and everyone wants a voice. Working with the franchisees and constantly keeping them in the loop of key strategies goes a long way. I stress to my team the need for consistent communication and respect for franchisees' opinions. Like many other brands, we meet with our key franchisees quarterly, but we often consult with them on major projects along the way. We do so not only to update them between meetings, but to gain more field-level opinions and establish buy-in. Although we don't always agree 100 percent, at least this allows everyone to be heard and eliminates unwanted surprises.

5) Disagreements are okay. There is going to come a time in every franchisor-franchisee relationship where the parties are not aligned. The franchisees and the company are not always going to agree on a new service program, brand change, facility requirement, or some other required investment. Even when you have proven ROI and provided favorable empirical data and other supporting metrics, you sometimes cannot convince everyone. A word of advice: going to the franchise agreement to solve this issue is not the way to gain franchisee support. It's your responsibility to make sure you keep the brand moving forward. If you don't, someone else will! ■

Carl T. Howard *has spent his entire 25-year career in the restaurant industry, starting out as a busboy while a teenager His experience includes serving as president and CEO of Damon's International and COO of bd's Mongolian Grill. He also was president and partner of a multi-unit restaurant company based in New York.*

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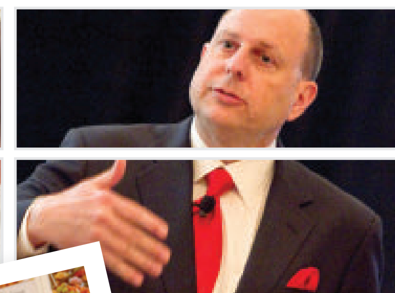
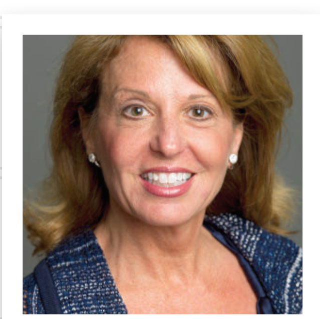




Maiden Voyage

First Consumer Marketing Conference sails into San Francisco

BY KERRY PIPES AND EDDY GOLDBERG

The advent of social media has changed the rules of consumer marketing.

In a groundbreaking event this past June, the first-ever Franchise Consumer Marketing Conference attracted marketing executives from 57 franchise brands with more than $11 billion in annual system-wide sales—all seeking better ways to connect with customers in today's digital marketing environment. CEOs, presidents, chief marketing officers, ad directors, and more gathered in San Francisco's elegant Omni Hotel for an open, intimate, in-depth examination of the latest consumer marketing techniques and strategies.

The inaugural event, hosted by Franchise Update Media Group (FUMG), is the first to focus exclusively on how franchise brands can more effectively reach consumers in today's rapidly evolving marketplace—and provided an unprecedented opportunity for franchise marketing executives to meet with leading marketing experts, engage with their peers, and discover new strategies for reaching consumers and maintaining brand growth. Attendees also took advantage

of the networking area where suppliers ranging from social media experts and agencies to mobile marketing leaders and technology innovators explained how their solutions can help brands connect with consumers.

An advisory board of CMOs and other marketing and branding pros helped shape the content and direction of the conference, focusing on how brands can reach consumers today and maintain growth. And, in a survey of more than 250 franchise CEOs and CMOs, we found respondents most interested in: 1) acquisition of customer knowledge, 2) consistent messaging in brand awareness efforts, and 3) franchisee buy-in, engagement, and execution of local marketing plans. (For a look back at the agenda, topics, and speakers, www.franchiseconsumermarketing.com.)

Brand recognition

The event kicked off Tuesday morning with breakfast in the networking area, an ideal venue for meeting new partners and suppliers, including social media experts, agencies, mobile marketing leaders, and technology innovators. This was followed by the opening general session.

"Never have technology and marketing been so intertwined," said Therese Thilgen, CEO of FUMG, in her welcoming remarks. "The next digital decade will be disrupted—in fact, we already have been disrupted," she said, noting that the challenge for CMOs is how innovative and adaptive they can be in the face of rapid, ongoing change.

Next, keynote speaker Rick Barrera presented strategies from his book *Overpromise and Overdeliver.* In an overcrowded marketplace, he said, "Take the time to define and articulate your overpromise. It will help you determine, internally, what to do and what not to do. The same goes for your franchisees. It's your North Star," he said.

"What is your articulated brand promise, and how do you align everything you do and everything your franchisees do

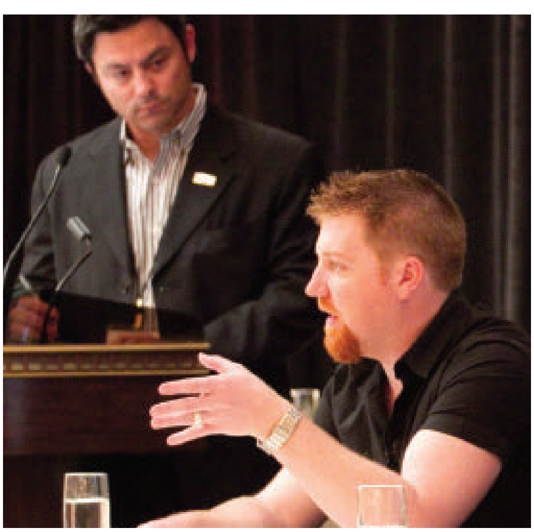
around that?" he said. "Whether you manage it or not, brand happens."

Next came a CMO Panel of the Pros—Susan Boresow CMO at Massage Envy, Terri Miller, vice president of marketing at Great Clips, and Greg Regian, CMO at Schlotzsky's—who fielded questions from FUMG President Steve Olson and provided insights into how they are addressing issues such as franchisee buy-in and how national marketing campaigns affect local franchisees. "Ask every time: how many will this truly benefit?" said Regian. "If the franchisees aren't part of the national decision, the 20 percent can cause a lot of problems for the 80 percent."

Reputation management and more

The afternoon kicked off with a general session in which another CMO Panel of the Pros tackled reputation management. This topic is being dramatically affected by social media, as consumers take on more power through their online postings, comments, and reviews of products and services.

Ed Waller, vice president of customer relations management at CertaPro Painters, Heather Neary, CMO at Auntie Anne's, Linda Shaub, vice president of marketing at Interim Healthcare, and Wendy Odell Magus, vice president of marketing at Kiddie Academy, stressed the importance of franchises being actively engaged online through tools like Facebook, monitoring what's being said, and having an active and engaging strategy.



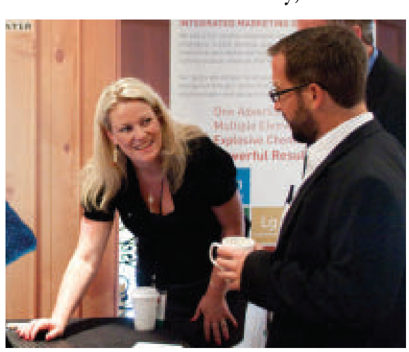
When it comes to reputation management, said Shaub, "The best defense is a good offense."

Sales and marketing guru Bob Phibbs (The Retail Doctor) addressed the general session late in the afternoon. His enthusiastic approach kept attendees on their toes as he explored the topic of competing without discounting. Roundtables followed by a cocktail reception in the networking area completed the day's events.

Franchisee buy-in

Day 2 of the conference kicked off with a keynote address by Rohit Bhargava, a strategy and marketing expert at Ogilvy 360 Digital Influence. His talk was based on a list he created: "10 Unexpected Social Media Lessons for Franchising."

He began by asking attendees who had a social media strategy—then quickly noted that this is *not* the way to think about marketing in 2011. Rather, he said, the question franchisors should be asking themselves is, "How do we socialize our business?" In other words, integrating social media into an overall branding and marketing strategy is much more effective than focusing overly much on social media and succumbing to GMOOT (get me one of those) thinking. "Solve a real need and create some utility," he said.



Next up was online marketing. A Panel of the Pros—Peter Riggs, vice president of corporate development at Pita Pit, Jayson Pearl, senior vice president of marketing at BrightStar Healthcare, and Tim Collins, senior vice president of experiential marketing at Wells Fargo—tackled how to integrate social media into an overall marketing plan, customer retention, toolkits for online marketing, and whether the franchisees or franchisor should control the brand's Facebook presence.

A late-morning breakout session examined the emergence of mobile technology and its tremendous marketing potential. Since most people carry a cell phone everywhere, what better way to engage customers, said Tom Harrington, senior vice president of sales at Franchise Payments Network. "It's another great tool for your marketing mix," he said.

Lunch in the networking and supplier exhibit area was followed by afternoon breakout sessions before the day ended with a Mindshare Power Session, where attendees broke into small groups to brainstorm on selected topics.

That evening, a closing celebration and final networking opportunity—with a plentiful supply of food and drink backed by a stunning view of San Francisco Bay at sunset—was held at the Waterfront Restaurant on San Francisco's Embarcadero.

The immediate and overwhelmingly positive feedback from attendees at this inaugural event has Franchise Update executives already busy planning next year's Franchise Consumer Marketing Conference. Stay tuned. ■

Case study:

Putting Sacred Cows Out to Pasture

And six other ways an aging restaurant chain found prosperity in a recession

BY MICHAEL BRANIGAN

Having survived five decades, including eight recessions, a bankruptcy, the closing of nearly half its restaurants, a reputation-killing E. coli outbreak, and multiple ownership changes, Sizzler, the original "American Family Steakhouse," was on the mend as it celebrated its 50th anniversary in January 2008.

Prospects for the venerable steakhouse were good, very good in fact. For the first time in years, the executive suite was stable. Having evolved from a failed buffet concept, Sizzler was now successfully competing in the casual dining segment against the likes of Olive Garden and Applebee's. Sales and profits were strong. Existing franchisees were making money and investing in remodels and new restaurants, and new franchisees were enthusiastically signing on and entering the system.

To say things quickly cooled off for Sizzler would be an understatement.

Suddenly, gasoline prices spiked, hitting Sizzler's middle-class guests right in their dining wallets. To make matters worse, California—where the majority of Sizzler restaurants are located—experienced the nation's highest price run-ups. Sizzler's beloved CEO, on the job for seven years, was recruited to run another casual dining chain. The Australian equity group that owned the brand announced Sizzler was for sale. Next came California's housing crisis, followed by the full-blown nationwide recession.

Restaurant industry analysts predicted the massively overbuilt casual dining industry would lose thousands of units and that some well-known brands would disappear altogether from America's street corners and strip malls.

Faced with declining sales, increased costs, bad debt, and unprecedented competition from far larger chains (some spending in excess of $250 million in advertising), Sizzler's future was uncertain. To make matters worse, many franchisees were falling behind on royalty and advertising co-op payments—the lifeblood of any franchise system.

With a depression potentially brewing and nationwide de-consumerism on the rise, some within the Sizzler USA system wondered if the brand could survive yet another blow. If it were to be saved, every aspect of the 50-year-old business would need to be transformed and retooled—and fast.

Saving Sizzler USA: Seven lessons from deconstructing and rebuilding an American icon

The first eight months of 2008 brought continuous sales declines—some as much as 20 percent compared with the previous year. We had to apply the defibrillator paddles to the brand's heart and enter the age of re-consumerism.

The shock treatment worked. After those 8 months, Sizzler's California restaurants experienced their first sales increases. Since then, Sizzler USA has posted continuous sales increases, some in double digits, with only a single month exception. During the same period, the restaurant industry as a whole suffered consistent monthly sales declines of as much as 15 percent, according to Knapp-Track, a widely watched restaurant sales and guest count report.

The multi-million-dollar questions

The effort to save Sizzler began in June 2008 with the arrival of a new president and CEO, Kerry Kramp, a highly regarded restaurant executive and strategist. His priorities focused on long-term investment and brand stability, and on spending the necessary human and financial resources. In the first two days of his new assignment, everything revolved around two basic questions: *1) What will drive sales?* and *2) What will it take to improve profitability?* This was a dramatic shift from the past, with previous Sizzler management known for running a very lean operation, with cost controls the only priority.

We also challenged ourselves to pursue "You're crazy, you can't do that" ideas. Once somebody said, "You're crazy, we can't do that," we went on a mission to explore the idea and prove to everyone that we could. In fact, one of those "crazy" ideas was the bundling of Sizzler's Endless Salad Bar (a value accelerator) with an entrée for $9.99 (it previously sold as a $3.99 add-on). This action is credited with significantly turning around the company's ailing sales. When first proposed, the idea was deemed too expensive and many thought the franchisees would never go for it.

Sizzler's transformation was a "ground-up restoration," a car collector term for taking a beloved classic apart piece by piece and putting it back together, making it better than new. But as any mechanic will tell you, putting something back together is much harder than taking it apart. Here are seven lessons Sizzler learned while deconstructing and reassembling an American icon—lessons that can apply to virtually any business.

1) Put the right team in place, right away. Despite numerous ownership and leadership changes over the years, the Sizzler home office staff included a number of longtime managers, including some who resisted Kramp's ideas. "That's how we do it here," was an all-too-common chorus. Initially, I was among the naysayers—there was somebody new playing in my sandbox!

Some members of the management team were retained, some reassigned, and others replaced. This was a major shakeup for a group of people who had been together for a long time, but change is imminent with a new leader at the top. Kerry understood and identified talent quickly and, most important, knew how the chemistry of this new talent would be a major force in the quick reconstruction of a major brand.

2) Look back and to the future, but understand the current marketplace. Sizzler had taken many twists and turns during its five decades. The new management team studied the past—even examining the last 30 years of recipes—looking for clues to the brand's core success and longevity. Yet, the environment in 2008 was far different from any experienced before. In a way, we were a 50-year-old brand starting from scratch. Sizzler's best chance for survival required a step back to a simpler menu with fewer items, more freshly prepared food, greater focus on its popular salad bar, and prices that would resonate with cash-strapped, middle-class guests. The brand's successful new market position: Sizzler understands its guests' pain and delivers the undeniably best steak, seafood, and salad bar value. In other words, "We get it!"

3) Force change. Like most franchisors, Sizzler historically relied on input and buy-in from franchisees, using franchise advisory committees that met on product development, marketing, advertising, purchasing, remodels, and other topics. But given the brand's declining sales and need for a rapid transformation, management put democracy on hold. We went to the system and said, "This is what we are going to do and, specifically, why."

4) Simplify and consolidate. A few years ago, Helen Johnson, who founded Sizzler with her husband Del more than 50 years ago, commented, "They've got too much on the menu these days. There's too much going on in the kitchen. They've gotten away from the original Sizzler concept." She was right. As part of the transformation, Sizzler removed nearly a quarter of its products, worked to improve the quality of those it kept on the menu, and streamlined kitchen operations. Extra emphasis also was put on Sizzler's salad bar, its core value accelerator.

5) Send sacred cows out to pasture. A proud, 50-year history comes with more than a few sacred cows, some of which needed to be put out to pasture, no matter how difficult. Sizzler had long given franchisees a great deal of menu flexibility, which resulted in wide variations in food quality, national distribution problems, and confusion among guests. We had to get everyone on the same menu, and that was not easy. Then came changes to how Sizzler's storied Cheese Toast was prepared, and if the Malibu Chicken, Bleu Cheese Dressing, Seafood Salad, steaks, etc., etc. were viable for today's consumers. These were all core staple items Sizzler consumers had enjoyed for decades. This put the franchise community into a tailspin and created a firestorm. We have a large franchise system, with some of our owners around for 40 years, and this added fuel to the already fragile community who liked things just the way they were.

6) Fire bad customers. Sizzler took a firm stand with franchisees who were not paying royalties or upholding brand standards. In some cases, franchisees lost the right to operate as a Sizzler. When you are turning around a brand, you need to support the franchisees who want to be part of it moving forward. It's not fair to allow a small number of poor franchisees to drag down the entire system. Today, Sizzler numbers fewer restaurants, but a stronger financial position leaves it better prepared to grow as the economy continues to rebound.

7) Beware of blind euphoria. Restaurant chains live and die by daily sales data, delivered fresh every morning. Even when sales go up, make sure you truly understand what's really happening underneath the numbers. Challenge everything.

Sizzler opened its first restaurant amid the 1958 recession. With a restaurant chain, one spoke out of true makes the wheel wobble. Decades later, after examining every aspect of the company's operations, fixing what was broken and saving what was not, Sizzler's spokes are now properly aligned, and the luster has returned to this great American icon. ■

Michael Branigan *joined Sizzler USA in January 2004 as vice president of marketing. Before that, he served as chief marketing officer of bd's Mongolian Grill; director of operations at RPR Co.; vice president of marketing at Spectrum Restaurant Group; and vice president of marketing at Damon's International. He also has held executive-level marketing positions at Hooters of America, Carl's Jr. (CKE) Restaurants, and American Restaurant Group.*

Legal perspective

Q&A WITH ATTORNEY KEITH KLEIN

BY KERRY PIPES

Online Best Practices

Consumer survey results indicate that 97 percent of consumers investigate products and services over the Internet before buying. Many of these consumers rely on consumer reviews and social media for information. Approximately the same percentage of consumers place trust in the materials on brand websites and in other company-sponsored Internet content. Such impressive statistics highlight the importance of establishing brand Internet sites and social media pages. We asked franchise attorney Keith Klein to identify legal considerations associated with this. 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.

From a legal perspective, are there best practices for registering domain names and establishing social media accounts?

Yes, particularly for businesses launching high-profile brands or products. Because trademark rights are honored by most Internet and social media administrators, best practices include securing trademark rights to the brand or product before publicly registering domain names or social media accounts. After filing a trademark application with the United States Patent and Trademark Office (USPTO), businesses should move quickly to secure domain names for the primary-used Top Level Domains (TLDs, e.g., .com, .biz, etc.) and social media accounts. Social media accounts that match up seamlessly with a brand can be an invaluable asset in averting protracted legal issues by promptly addressing dissatisfaction by consumers or grievances by other third parties.

What are some potential consequences of first registering domain names?

The most significant risk involves would-be competitors or others first filing an application for the trademark with the USPTO. To secure trademark rights, a business must either be the first to use the mark in commerce or file an "intent to use" application for the mark with the USPTO. The mere registration of a domain name has not been recognized to constitute a "use in commerce," and the registration of social media accounts may be viewed in the same manner. As a result, first registering domain names or establishing social media accounts may allow others to be the first to file an "intent to use" application with the USPTO which, in turn, can establish senior rights to the mark. In today's business environment, this risk is much more than a hypothetical. I have been asked to provide counsel on this exact issue on a number of occasions and, frankly, the costs associated with resolution are often not insignificant.

What are the best solutions when .com domain names or social media accounts are taken by others in the same or other industries?

The apparent limitless resources of the Internet quickly narrow under the demands for unique domains, and the same issue has quickly developed in the realm of social media sub-domains. In either event, quickly assess the current use to determine whether it is being overtly used by a competitor or other party for an improper purpose. If the purpose appears legitimate, investigate whether the registrant is a person with whom the business can team to enhance the brand experience. Alternatively, consider alternate TLDs for domain names (i.e., .net, or .tv) and modify the social media account with a prefix such as My[brand] or Your[brand]); or with a suffix such as [brand]online or [brand]forum. If the purpose appears improper, ICANN's Uniform Domain-Name Dispute Resolution Policy, or commencement of an anti-cybersquatting lawsuit can be suitable options to address disputes over domain names. For social media accounts, review the particular social media site's terms of use, which typically establish procedures to address this issue.

Also, although not likely to be an option for new franchise systems, brands will likely be permitted to own and maintain a Top Level Domain incorporating its respective brand in the near future. On June 20, ICANN approved the creation of TLDs for brands and organizations. The process of rolling out the new TLDs, however, will be staggered over a number of years. ICANN will accept the first set of 500 applications for new TLDs between January 12 and April 12, 2012. After those applications are reviewed and processed, ICANN will set more windows for additional applications. Even after approval, significant work will be required before the TLD can be implemented. As a result, the first TLDs will not likely appear to the public until 2013. Owning and maintaining a TLD will not be inexpensive. The registration process itself is estimated to cost $185,000 per TLD.

What about sites set up to complain about a brand?

Many online brands will find themselves the subjects of so-called "gripe sites." For the most part, such websites are protected free speech under the First Amendment. However, if a brand can demonstrate that the gripe site has a commercial purpose (i.e., revenue generating), courts may apply First Amendment rights more narrowly, enabling the brand to shut down the website or take the domain name. The potential negative publicity of taking legal action to obtain the domain name for such a website, however, may be more detrimental than the existence of the gripe site itself. ■

CMO roundtable: What are some effective ways to get franchisees to 'buy in' and become actively involved with local-level marketing efforts?

Dianne Phibbs, President, Calabrand Marketing

Local marketing has always been an important part of individual unit growth, particularly in organizations that have not grown into co-op or national advertising. Franchisors must assume a leadership role in helping franchisees understand how to market at the local level. Franchisee success in local marketing has three important elements:

1) Franchisee involvement in local marketing efforts starts with a clear understanding of the roles of the franchisee and franchisor. So often franchisees join a concept thinking that because they're part of a franchise organization, everything will be done for them because they pay royalties. Local marketing is critical to individual location success as well as for the long-term health of the brand. It's important to be sure your franchisees understand their role in local marketing as well as that of the franchisor. Be sure to communicate this as much as possible, starting with the sales process.

2) Teach your franchisees how to plan, implement, and evaluate a marketing program. Make this a focus of your new franchisee training program. Start with a marketing calendar that will outline the revenue-generating initiatives for the first year of operation.

Help your franchisees understand how to evaluate marketing programs such as local print or community sponsorships so they may make good decisions for their location. Continue the process by offering user-friendly toolkits for marketing materials. Provide easy access to materials that have an impact and that franchisees will want to use. This will ensure that local use of marketing materials will be in keeping with the brand image.

Test new programs in company and franchised locations to provide an ongoing level of support. Then, teach your franchisees how to evaluate marketing efforts and measure success.

3) Share best practices and success stories of franchisees. Franchisees love to hear stories about other franchisees and how they're growing their businesses. This will create excitement within the franchise community and entice franchisees to try new things. Provide a forum for franchisees to share this information through a franchise marketing council or intranet.

Be sure to assume a leadership role in local marketing. Don't leave it up to your franchisees to develop and implement their own materials. It's the franchisor's responsibility to provide tools, information, and resources to help franchisees make good decisions and drive revenue at the local level.

Jayson Pearl, SVP Marketing & Franchisee Onboarding, BrightStar Care

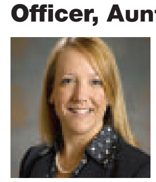
At BrightStar Care, our focus on helping owners become actively involved in local marketing starts with making programs as easy to implement as possible. We've seen much higher satisfaction and adoption of local marketing initiatives when the process is easy and the communication is clear for our owners. We work to make this happen by focusing in three areas: services, training, and technology.

1) Services. We try to offer the services that keep our owners and their staff focused on providing great care and community networking—not on printing and graphic design. Our Creative Brief System is one example of this: an owner can submit a design request for anything from an online advertisement to a car wrap, and our graphic designers will bring these to life. This provides a win all around as we add high value and ease for our owners, while ensuring consistency and quality in brand and legal elements. And by making the completed designs accessible for review by all BrightStar owners, they have access to more great ideas that we can more efficiently create with only customization, not starting from scratch.

2) Training. Training is a big part of engaging our owners in local marketing—making sure they understand the tools that are available, how best to portray our brand, and the best marketing investments for their stage of growth. We link the benefit and compliance of training for our owners by requiring "Brand Orientation Training" for all new franchisees before they are given access to the many marketing files and resources we've created for them.

3) Technology. Leveraging technology is key to franchisee local marketing program buy-in. Helping our owners create and thrive within new social platforms like Facebook, Twitter, and LinkedIn, as well as building their local online assets, is a top priority in our business. Making sure we help our owners establish and build their sites, pages, and accounts and then providing them with ideas for generating great local content is key. We also provide online dashboards for owners to monitor the results of their efforts and benchmark their reach against other BrightStar franchisees.

Heather Neary, Chief Marketing Officer, Auntie Anne's



When striving for franchisee buy-in, it is important to engage with franchisees when making your decisions. Franchise Advisory Councils (FACs) are powerful groups in your system—if you listen to them and use their knowledge and wisdom to develop initiatives for the entire system. By engaging with franchisees at every step, you make them part of the decision-making process. The initiative (whether it's a new product launch, a marketing campaign, or a new service) will be more successful as a result.

Throughout the collaborative decision-making process, it is important for the franchisor to understand what motivates the franchisees. If you don't feel like you have their support, ask them why. Talking to franchisees about their concerns (actually picking up the phone and talking to them, not just sending email) and then *listening* to them is powerful.

Making your case credible to franchisees is also a critical component to gaining buy-in. Explaining the "WIIFM" is effective when communicating with franchisees. When presenting the "ROI" of projects, make sure your FAC has thoroughly tested and vetted the project, and share those results with the rest of the system. It's important to talk to franchisees in a way that makes sense to them. Getting to know your franchisees as individuals is essential in helping to understand how to best communicate with them. For example, a franchisee may own one store and want to know how launching a new product will help them. For this individual, translate the test to actual store numbers, e.g., "Over the eight-week test, the average store increased sales by X percent, or Y dollars." If another franchisee is driven by margin, talk to that individual in margin terms.

Getting to know your franchisees as individuals is essential in helping to understand how to best communicate with them.

Securing buy-in for local marketing is no different. Local marketing initiatives should be tested and then sold to the system by sharing the positive results others have experienced. Use your FAC, a group voted into their position by their peers, to test programs and share the results. Help them understand the unit-level economics at their store, and then help them understand how a particular program will increase sales, transaction counts, margin, etc.

At the end of the day, your success as a franchisor depends on the success of each of your franchisees. No franchisee-franchisor relationship is perfect. It is imperative for franchisors to consistently ask themselves what they could be doing better to encourage an open dialogue and success for both parties. ■

All Aboard!

Massage Envy's CMO Susan Boresow on franchisee buy-in

Susan Boresow has experience getting franchisees on board. As chief marketing officer for Massage Envy, she understands that engaging and supporting franchisees is imperative to getting them to buy in and play an active role in the brand's overall marketing efforts.

Before joining Massage Envy, she was vice president of marketing at Pump It Up and held marketing and leadership roles at Cold Stone Creamery, Godfather's Pizza, Mr. Goodcents Subs and Pastas, and McDonald's. We asked her about Massage Envy's strategy for building franchisee interest in marketing, the programs and support they offer, and what techniques work for getting franchisees on board for the brand's marketing initiatives.

How important is local-level and grassroots marketing to Massage Envy's growth and development strategy?

Local store marketing is very important in our growth strategy. We provide our franchise partners the tools and resources they need to implement a local-level campaign that will attract new clients, drive membership enrollment, establish a strong referral network, and encourage member retention. Community involvement is key to ensuring that people are aware that our services can help with overall wellness in individuals by relieving pain, stress, etc.

How do you get franchisees to truly, wholeheartedly buy in to the importance of local-level marketing?

Franchisees must be on board from the very beginning. We also must get their input along the way. This will ensure we are not only providing the resources and guidance they need, but also get a sense of their comfort level in implementing local store marketing strategies. The easier it is for the franchisees to implement, the more they are willing to use the tools we provide. We also have to demonstrate how these marketing strategies will grow their business, so they see the benefits of their effort.

Does the FAC offer a platform for engaging, encouraging, and supporting franchisees to get more involved?

Absolutely, our franchisee advisory council is a key sounding board for us and provides invaluable advice to fellow franchisees. They know better than anyone what the barriers might be and can help problem solve. They are always willing to provide solid recommendations on how marketing at the local level can be made easier and what resources are necessary to facilitate the process.

How do you establish franchisor and franchisee roles when it comes to marketing and getting franchisees on board?

As the franchisor, our role is to provide the tools, resources, and education to help support our regional developers and franchisees. The franchisees play a role in that they pay a percentage of their revenues to support their co-op and marketing efforts nationally and locally. Nationally, 1 percent is spent on national advertising, marketing, public relations, and social media to drive and promote the brand; locally, the franchisees spend their dollars on co-op advertising and local store marketing.

Discuss the importance of creating programs that are easy to implement.

We have tried to provide as many educational and marketing materials as possible, with step-by-step instruction for implementing the various programs. Our strategy is to offer a comprehensive selection of materials for our franchisees. In addition, we've increased the frequency of webinars and online tutorials, as well as opportunities to share best practices. Some franchisees may not need this level of support, but for those who do we want to make it readily and easily accessible. We want to provide tools and resources that the franchisee will use consistently and are continually fine-tuning our programs to ensure the greatest ROI for our franchisees, their guests, and the brand.

How do you show your franchisees the ROI that is (or potentially is) available to them?
With many of our marketing programs, like SEO and national promotions, we can provide quantifiable results for our franchisees. Measurement is central to many of our programs and we are constantly evaluating their success based on these metrics. For instance, if there's a promotion for gift cards, we can definitely show a direct correlation between sales and membership increases. We share many of these metrics weekly. We have always been very forthcoming with franchisees about potential ROI. We've proudly shared that our average unit volume (AUV) is more than $1 million so franchisees clearly can see what the potential is for their clinics.

As the franchisor, our role is to provide the tools, resources, and education to help support our regional developers and franchisees.

What are some examples of local-level and grassroots marketing best practices that have worked for Massage Envy?
Effective local store marketing efforts range from SEO and member communication like e-blasts and direct mail materials to PR, social media, and of course, fundraisers. Massage Envy recently launched a new digital campaign that includes new iPhone and iPad apps, a lifestyle blog, and enhanced, system-wide social media efforts. When we surveyed our members, we learned that approximately 70 percent own a smartphone. Our apps allow guests to not only request an appointment, but to specify the trouble they are experiencing so their massage can be customized before they even arrive at a center. Providing our franchisees with tools like these enables them to deliver optimal service to their guests and members.

How do you complement your national marketing campaigns and branding with local-level marketing strategies?
We provide both seasonal and year-round promotions, advertising, PR, and marketing strategies that can be used to complement the national efforts. Franchisees are provided press release templates, advertising and marketing collateral, social media ideas, and other PR tools they can use. We also provide best practices, media recommendations, creative, point-of-purchase kits, etc.—all designed to drive traffic and profitability in their centers.

What safeguards, systems, policies, and education are needed to keep franchisees in compliance?
The FDD clearly outlines these parameters for our franchisees. We evaluate systems and programs to ensure we have effective processes that are easy for our franchisees to understand and follow. Through a variety of communication and educational materials and tools, as well as our annual franchise conference, we share our branding and marketing standards and policies.

How do you monitor local franchisee marketing to ensure consistent brand messaging?
We have processes and education in place to ensure that our brand messaging is consistent. Through a variety of methods, like Google Alerts, social media monitoring tools, our PR and advertising agency partners, and a corporate approval process, we ensure brand integrity. Of course, our FDD states that only approved creative can be used. There are times when we must contact franchisees to inform them of our policies and provide approved creative materials. ■

Consumer data

BY TOM EPSTEIN

Mobile: Reaping the Rewards

Don't get left behind in the smartphone race

Each day you are flooded with articles about using social media and mobile technology, and how important it is for your company to keep up. However, few tell how to leverage this new world to enhance your overall revenue. FPN's Tom Harrington shared some of his insights at Franchise Update's Franchise Consumer Marketing Conference in San Francisco in June. Let's review some important stats from that presentation:

- By December 2010 more than 35 percent of all adults in the U.S. were using mobile devices for Internet access; that number is predicted to grow to 60 percent by the end of 2012.
- Today more Internet searches are conducted on a mobile device than on desktop computers.
- Smartphone usage of both mobile browsers and mobile apps increased by more than 110 percent in the past year.
- Of all mobile phones being deployed today, 99 percent can handle basic data functions such as sending and receiving text messages.
- And my personal favorite: 95 percent of all text messages are read within 5 minutes of receipt, compared with 17 percent for emails within 24 hours.

The mobilization of your customers is happening at a record-breaking pace. More businesses are accepting payments where the service is rendered by adding a credit card swipe to a smartphone or tablet. The app market is going crazy, with hundreds of new apps launched every day—apps that can not only help customers find you, but also facilitate the order and payment process.

Smartphone acceleration

In 1997 it took AOL three years to reach 3 million users. That same year, it took Netscape three years to reach 18 million users. In 2010 it took Apple three years to reach 85 million iPhone users. The growth curve in technology has sped up by roughly 10 times in the past decade. In 2012 there will be more smartphones shipped than desktop and laptop computers. Phones are rapidly becoming an electronic wallet: by the end of 2014, 25 percent of all phones will have an NFC chip embedded to facilitate tap-and-go payments at the POS.

The smartphone has become the one piece of equipment you are never without. If you are like me, you have at some point left the house and realized you did not have your phone, went into a panic, and had to turn around and drive back to the house to pick it up, no matter how late this was going to make you.

What can I do to monetize this?

Remember my favorite stat, that 95 percent of all text messages are read within 5 minutes? Right now you should be adding text to your loyalty program by including the cell phone number in your signup process. With text messaging you can affect today's business *today*.

Imagine a slow day at the yogurt shop, so the manager sends a text to all of his loyalty customers saying that if they come in by a certain time they can get a special offer or double points. If 95 percent of those people will read it within 5 minutes, how many do you think will come in? Depends on the offer, but your loyal customers received your message and know what to do. This is much better than running a radio ad in hopes that someone who wants your product is close enough to you at that point and wants your offer. This is much more immediate and cost-effective than sending your customers a postcard or putting a coupon in the paper. No deep discounting, like daily deals, to reach people you might have gotten anyway.

What about all those people doing Internet searches on their smartphones? You better have a mobilized website or app for them to access the information they are looking for. Nothing is more annoying than opening a web page on your phone and having to scroll around and make the image bigger and smaller, and to have to do this each time you go to a new page—not to mention when it comes time to actually enter something onto an order page.

With an app or a fully mobilized site that can be bookmarked you make the customer experience such that they will come back to you not only for your product, but also because it is easier to order from you than from a competitor. Plus, with both of these solutions you take your competition out of the mix. If I am searching for a pizza place to order from on my phone, both you and your competition will show up. Then I have to make a decision. If I have your app on my phone, I just have to touch the icon with your logo on it; or if I have bookmarked your site I can easily find that. You have just secured your customer's loyalty without having to give anything away.

Now is the time to mobilize your business or you will, quite literally, be left behind. ■

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

Who Manages the Customer Experience?

Operations, marketing—and customers

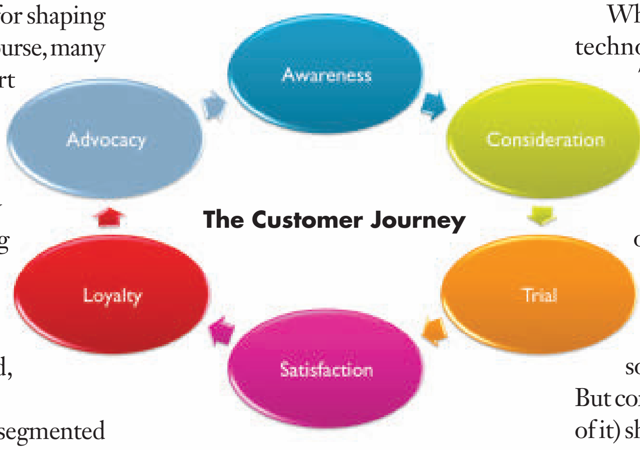
The customer journey is made up of the experiences that come from all interactions with your brand. Some customer experiences are created directly by marketing and some by operations. And some, such as how customers are exposed to your reputation, are not under your direct control. This has always been the case. Social technologies have dramatically amplified the importance of a timeless fact of business life: people talk. They talk to each other about your brand.

Within franchise organizations, marketing and operations are the primary functions with responsibility for shaping the customer experience. Of course, many other teams play vital support roles: store design, visual merchandising, and technology. But marketing and operations drive the brand energy in this area. The old saying is that "Marketing gets 'em in the door and operations brings 'em back." The reality is much more integrated, interesting, and dynamic.

Customer journeys can be segmented into predictable stages. From the franchisor and franchisee perspective, gaining awareness among an ever-growing number of potential customers is the foundational experience of the customer journey. For example, think about your own experience as a consumer surrounded with restaurant choices. Obviously, you can't buy what you are not aware is available. Your introduction (awareness) to a brand that's new to you can begin with a billboard along the highway, or through a casual conversation with colleagues at work or with friends on Facebook. (Not your Facebook pages—theirs.)

The billboard that attracts your attention comes from marketing's initiative. But what about the positive word-of-mouth advertising that comes from your colleagues at work and your friends on Facebook? That mostly comes from proper execution by operations.

Your first purchase (trial) can begin with a Groupon that you are enticed to buy; or your trial can be induced by a raving fan literally driving you to a restaurant you never heard of to have lunch. It is not nearly so simple as "Marketing gets 'em in the door and operations brings 'em back."



Through trial, operations has a chance to create a satisfied customer. But to move that new customer from satisfied to loyal requires multiple satisfying experiences. It is a losing proposition to simply get new customers to trial. The economics of promotion just don't work without repeat business and referral business that comes from consistently delivering the brand promise through operations.

That's why the goal of customer experience management (for existing customers) is to move them from satisfaction to loyalty to advocacy.

When you achieve advocacy, it can be just as true that "Operations brings 'em in and marketing brings 'em back."

Every successful and growing brand has raving fans who act as an army of unpaid public relations representatives who bring in new customers. Advocates are a potent source of organic, profitable sales growth. Customers who have "been to the mountain top" and experienced how operations delivered on marketing's brand promise will be convincing sales people for your brand. Advocates are genuinely passionate, and their enthusiasm stimulates the awareness, consideration, and trial portions of the customer journey for many of your first-time customers.

Marketing has an important role in bringing customers back. That's why advertising and loyalty programs, birthday programs, and VIP clubs exist. You have to give customers reminders with reasons to come back again and again. Email and texting and Twitter technologies are driving the explosion of 1:1 marketing to existing consumers.

Why do you see such a rush to social technologies like Facebook and YouTube by the marketers at franchise firms? To engage *existing* customers! Not just to bring them back individually, but to attract them into a community of brand apostles. And by keeping that customer community talking with—and to—each other about your brand, marketing can take some control over your reputation. But consistency in operations (or the lack of it) shapes the tone and content of your customer community's conversation.

Clearly, marketing and operations are partners in managing the customer experience. And your customer community is your third partner! ■

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.*

Grow

Franchise development intelligence

Unit-omics

Your #1 sales key

BY JOE MATHEWS

Unit-level economics. This single key is the greatest predictor of a franchisor's future success! All enduring franchise brands are built on a foundation of both the consistent successes of its existing franchisees and almost certain financial successes of future franchisees.

As you read this, thousands of potential franchisees are online searching for a way to make a better life for themselves and their families. They may not contact you until they first satisfy three basic questions every candidate has:

1) Does your business make money?

2) Is the business sustainable? Will it continue to make money in the future?

3) Can I see myself in the business?

If, through your online presence, franchise candidates can predict that your model will satisfy these three concerns, you are much closer to your goal of filling your franchise sales pipeline with highly engaged and buyer-ready franchise candidates. Remember, these candidates often reach these conclusions through "guesstimation" *before* they talk to you.

So if candidates can't quickly and almost effortlessly determine that your franchise model satisfies these three concerns, they'll quickly dismiss your opportunity *before* you have the chance to share the rest of your story. Most won't ever fill out a lead form or call, and you'll never realize how close you might have been to a sale.

Play up the ROI

Consider your financial returns as your ante to the franchise poker game. If you don't offer franchisees consistently strong returns, you don't have the ante, and therefore you don't have a seat at the table.

Carrying this logic forward, Item 19 and FPRs are more important than ever. Make this information as public and as accessible as possible. On your PR materials, franchise opportunity website, and social media front (and under the scrutiny of your attorney), circulate stories highlighting your franchisees' financial success.

Keep in mind there is no universal measure for financial success. The financial results your opportunity predictably produces must meet or exceed the expectations of your target franchisees. However, in the present economy many franchise candidates seem to have higher financial demands than in the past. These include:

- **Rapid break-even.** Many current franchise candidates do not have as much financial staying power as they have had in the past. Because of their depleted net worth, reduced liquid assets, and possible absence of other sources of income, they often have less tolerance for risk and red ink. Many of the higher-growth franchisors in today's market offer franchisees the opportunity to cross the break-even point before month 6, and to be in sustainable cash flow positions by month 12.
- **Replacement income.** Many franchise candidates are willing to tighten their belts only for so long. They want to get back to past earnings levels as quickly as possible. (Keep in mind "the way it was" is relative to each candidate.) I believe many franchise candidates need to see a clear line of sight to "the way it was" between 13 and 24 months.
- **Equity.** Simply put, many of the franchisors we study produce little appreciable equity value. Many franchisees or systems are lucky to sell their business for the money they put into it. While cash flow seems to be higher on the candidate's radar screen than equity appreciation, more content and information than ever before will be posted by small business and franchising experts on blogs, online publications, and other forms of social media, waking up candidates to an important criterion they may be glossing over today.

Action items

- Bite the bullet and create an FPR, and introduce this information early in the recruitment process. Your target franchise candidates should find this information attractive, enticing them to take a deeper dive into your recruitment process.
- What is the typical entry cost for a new franchisee? What is the typical resale price of your existing businesses? Which is higher? If resale values are not higher than a new franchisee's entry cost, you have a unit-level economics problem. Address it.
- How long does it take for a new franchisee to ramp up? If a new franchisee is not crossing the threshold of breakeven in 6 to 12 months, you may have a unit-level economics problem. Take action.
- How long does it take for typical franchisees to replace their past income and "get back to normal?" If franchisees manage the business full-time and cannot return to their past levels of income within 18 to 24 months, you may have a unit-level economics problem. Take action.

Bottom line: your business needs to be producing acceptable returns for the vast majority of franchisees *according to the franchisees' definition of "acceptable."* Also, these success stories need to be heard. Franchisors and franchisees need to aggressively share their stories.

So dismiss the results of the best and the worst, and focus on the middle. If these franchisees are not producing acceptable results according to your typical candidate's definition of "acceptable," your growth will halt. If the franchisee is achieving a desirable outcome, you are well positioned for growth! ■

Joe Mathews *is a founding partner of Franchise Performance Group, which specializes in franchisee recruitment, sales, and performance. This article is from his free, downloadable e-book, The Franchise Sales Tipping Point: 10 Keys to Creating a Franchise Sales Breakthrough. Contact him at 860-567-3099 or joe@franchiseperformancegroup.com.*

Market trends

BY DARRELL JOHNSON

Mid-Year Report

Weak demand, confidence slow growth

A report produced for the IFA at the beginning of this year, the Franchise Lending Matrix, forecasted approximately 15,200 new units would be added in 2011. We're at the halfway point of 2011. It's a good time to check the progress.

The first half of the year showed a continuation of weak consumer demand. From the low point in late 2008, consumer demand had fairly consistently increased until mid-2010. However, it has been drifting downward since, which is at the core of the reasons for the weak recovery and persistently high unemployment numbers. In June unemployment ticked up to 9.2 percent.

Consumer expenditures compose about 70 percent of GDP, so where they go the economy goes. Fueling consumer expenditures is consumer credit. In June, for the first time since August 2008, revolving consumer debt rose. Perhaps that is the first signal of more consumer confidence, notwithstanding the recent declines in the Consumer Confidence Index (CCI). As long as interest rates remain low, there's a chance that consumers are beginning to come out of their contraction mindset. Revolving consumer debt is now at about the level of 2005.

Historically, all this was good for franchising. Higher unemployment and greater economic uncertainty motivated a lot of people to consider franchising. That hasn't happened nearly as strongly so far in this recession/recovery as it did in past economic downturns. Franchising continues to expand, albeit at a historically slower pace than history would suggest.

Two important culprits have created headwinds for franchise development this time around: capital access and consumer confidence. Where those two challenges go will substantially determine how fast franchise sales will grow in the next 18 months. The capital access issue has evolved into a competition for credit. Most banks have the money. The challenge is to get them to give it to your prospective franchisees.

Franchisors are at an immediate disadvantage with one of the two types of prospective franchisees: those with no previous franchisee experience. While existing franchisees have challenges with funding, they at least have a track record of revenue, income, and cash flow from which a banker can base a lending decision. A prospective franchisee coming from another profession and/or without unit operating experience is simply a harder risk for a lender to evaluate. Until lenders shift from risk minimization to a focus on risk/returns in loan committees, this drag on development will persist.

Feedback we get from franchise development people suggests that brands proactively addressing the competition for credit issue seem to have a stronger development push. Their efforts are centered on two activities: programs and information. Franchisors that have the capital reserves are providing some credit enhancement (such as pooled loan guarantees and equipment buybacks) and/or direct capital (such as equipment and working capital financing) in increasing numbers. Franchisors also are more actively assisting with credit risk information, such as the Franchise Registry and Bank Credit Reports.

None of these efforts will ensure credit availability, but they will increase the likelihood of winning the competition for credit. Simply put, information reduces risk. Of course, to win any race you need to be in good shape. Just like the role that conditioning played in the U.S. women's soccer team victory over top-ranked Brazil in the quarterfinals of the World Cup, having strong unit economics, good system performance metrics, and a supportive franchisor program help a lot.

If consumer spending is the vast majority of GDP, then how consumers feel should be a decent indicator of what to expect. In June, the Conference Board reported a decline in the CCI to its lowest level in eight months. This followed a decline in May. Although the great American capacity for optimism can kick in at any time, it does not appear to be imminent. During the economic recovery phase from recent recessions, optimism bounced up decidedly. Not so this time. Persistently high unemployment and a Congress that is increasingly polarized and hardened in its positions provide no cause for optimism.

However, the biggest psychological factor holding back American optimism is the lack of an economic leader to get us moving faster. I don't mean a person, but rather an industry or an event that provides economic leadership, which in turn would raise our collective optimism. Until something shows up, a slow grind interrupted by an occasional stimulus package or bad news event lies ahead for the next year or two.

Where does that leave franchise development? As best I can tell, it strongly indicates that the brands having better performance metrics and taking the right steps to validate that performance will dominate development in coming months and perhaps for the next few years. The first six months of this year so far are confirming this.

The competition isn't just for credit. It's also a competition to encourage prospective franchisees that, in a period of lowered optimism, taking the franchise leap is a good business decision. Performance will qualify brands to win. Finding ways to demonstrate and show better performance will lead to development growth in this economy. ■

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.*

Challenge the pros

"What are you doing to create a compelling, response-driven recruitment website for your brand?"

Brian Spindel
President and COO
PostNet International

Things are moving fast in new technologies and the ways people are using them to communicate. As a franchise organization, we continue to do our best to keep up with the changes in technology and how franchise prospects are using it to research franchise opportunities.

Increasingly, this includes not only using industry best practices to develop a compelling website that urges a prospect to inquire/respond, but also the best ways to increase traffic using social media, SEO, PPC, and integrating all of our consumer and franchising efforts to get the best results. For example, to get a franchise prospect to "like" your brand on Facebook is very valuable to keep and build interest, and more effective than the older "drip" email campaigns.

It's also important to use Google Analytics to understand what content is most important and interesting to prospects who visit our website, and to narrow the places or information on the site that create distraction. In other words, the purpose of the site is to convert visitors into suspects/leads. So content that drives that behavior should be improved and enhanced, and anything else on the site needs to be evaluated and studied.

Another best practice is creating a clear and logical path for visitors that leads them to respond. This can be done with numbers, letters, colors, etc., but it should always be clear what you want the visitor to do next. Also, from a validation standpoint, online reputation management is becoming very important, if not critical.

Ongoing monitoring and adjustments to what you're doing are important. The "cycle of innovation" is always spinning. We tweak, measure, study, and then tweak again. We are always learning, and the pace of change has accelerated so much that this is now done regularly. I remember when you would launch a new site and be good for two or three years, and we changed more than most at that rate. Now we watch the usage weekly and make changes at least monthly.

Today, a franchisor needs not only to really think about having a solid response-driven website, but also about connecting all the digital marketing and advertising "dots" to make the website effective. Projects we are working on now include optimizing our sites for tablet devices, as well as a mobile version of the site so franchise prospects can easily learn about our franchise program on their smartphone—and, of course, respond!

Rob Goggins
Vice President of Franchise Development
Great Clips

The Great Clips franchise development website was originally designed to self-educate prospective franchisees. We included a detailed map with territory availability, franchisee testimonial videos, and an SEO-enhanced blog. We focused on aligning brand elements with our salon and consumer site to maintain brand consistency while creating a look and feel appropriate for our different demographics.

We review our analytics on a monthly basis, and we noticed some weak areas of the site after its initial launch. These areas were addressed, and we saw an increase in activity almost immediately. For example, we simplified our short-form application and added a long-form confidential application for candidates who were ready to jump into the investigation process without further research.

We also numbered the tabs across the top of the page, encouraging visitors to follow the numbered system to go through all of our information—but still allowing them an element of control as they browse. In addition to the numbered tabs, we also added "next" buttons on each page to provide simplicity of process for those who desire it. With the "next" buttons, we lead visitors through our site, guiding them through the detailed information, bringing them at the end to our full confidential application, which is the indicator that they are ready to start the full evaluation process.

We also have a "qualified candidates only" section on the site. The first part of this section (Welcome) is open to the public, and the rest are password protected, designed for our qualified candidates to work through with our franchise development managers. After they complete the Welcome section, candidates are prompted again to fill out the confidential application if they are interested in proceeding to the password-protected sections. This has also increased the number of applications we receive.

Over the past year or so, we have tweaked the long-form confidential application as well. We launched the site with a five-page form, but after seeing that candidates leave the application without completing it, we eliminated some questions, combined others, and condensed it into three pages. This change has made the form much less cumbersome and allows candidates to complete the form in a much more efficient manner. After making this change, we now see fewer abandoned applications.

Finally, we created a survey that goes out to candidates whether or not they join our system. We review their thoughts on the website and continually work on enhancing the site and creating a better user experience. Overall, our website has been a great resource and we've seen great results: an increase in applications and a record number of quality franchisees joining the system. ■

Sales smarts

BY MARC KIEKENAPP

Pick Up the Phone!

CRM systems are great, but…

Technology has allowed us to track our lead sources, assist us in buying advertising, organize our day, notify us when to make a call, and send emails. Some systems even dial the phone for us. Technology also gives us all the reports and information we can possibly digest to use for training, changing ad copy, and tracking our sales staff's activity. And it allows us to work more leads than we could handle with a paper filing system or a box of index cards.

But are we going too far expecting the CRM system to sell our franchises for us? Is it replacing the soft touch and individual contact with "people"? Or is the real purpose to manage the sales team? What about the candidate who wants to investigate at their own pace? Or the candidate who doesn't want to complete an application without feeling more comfortable with the new relationship? Without picking up the phone and communicating with candidates, important information, relationships, and trust aren't shared and created.

Technology can't replace relationships

Don't misunderstand me. CRM systems are a fantastic tool for working with our candidates! There are franchise suppliers with wonderful systems that assist in making contact with candidates who don't want to talk on the phone initially. But implementing a CRM system that is used to replace "good old-fashioned" hard work and dialing the phones is one of the biggest mistakes we see when mystery shopping franchisors' sales qualification systems. Let me explain with an example of how it feels to be the candidate trying to move forward without "human contact."

We called a franchisor and requested information. We were referred back to the website to complete an initial form and someone would contact us shortly. Okay, so they didn't want to talk to a prospect that called in? Hmmmm! They requested more information before we could have a phone conversation, so we completed the form, only to start receiving the first of 11 emails in 11 days asking us to watch a video that didn't load and to complete a full financial application form that no one in their right mind would complete without talking with someone first. We literally begged for a phone call, which was finally scheduled only by email communication and required homework to get to that point.

This was not an isolated case! Why do we torment candidates with information or processes they don't want? We can't forget that some candidates want to talk sooner rather than later, that not all candidates are created equal.

CRM systems have been one of the best innovations to assist in following up with candidates, delivering information, and creating reports to help us manage and train. If you don't have a CRM system, you need one. When checking references, research the options carefully. Talk with franchisors that have sales qualification processes similar to yours and that have a similar franchise offering. There are numerous choices, so make sure you purchase the system that best suits your franchise system.

People buy from people! If you want to outperform your competitors, pick up the phone and reach out to your candidates. If the reason you are using a CRM system is so the sales person can work 200 to 300 leads and cut down on outgoing calls, you are losing sales. Use the CRM system to assist your team to stay organized and deliver information. Your sales will increase incrementally with the number of outgoing phone calls your team makes. Do you have a report from your CRM system of how many outgoing phone calls are made each week?

Features needed in a CRM system

1. User-friendly for the sales staff; it shouldn't become additional work.
2. Provides the reports you need to manage, train, and fire.
3. Allows attachments of documents, within or outside the system.
4. Communication templates that can be sent in normal text or HTML.
5. A management dashboard for easy daily management.
6. Back marketing capabilities.
7. Allows the sales process to be adjusted to the candidate's schedule and needs.
8. A solid platform that is backed up and protected.
9. Permits changes to be made by your company, or at a low cost by the provider in a timely manner.
10. Mobile applications for access away from the office.

Happy Selling,
Marc Kiekenapp

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. The report 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.

The data and analysis in this 150-page report can help you accelerate your system growth, increase selling performance, and make smarter, more cost-effective advertising and marketing decisions.

Data-gathering for the 2012 AFDR has just begun. To participate in next year's AFDR, contact Therese Thilgen at thereset@franchiseupdatemedia.com. All data is aggregated and kept confidential. ■

SIGNIFICANT NUMBERS

Survey Participants

126 franchisors representing 46,091 units:
- **42,563** franchise units
- **3,528** company-owned units

Growth Plans for 2011
- **3,850** more franchise units (3,100 franchised)

Franchisors Exceeding Goals
- **21%** food
- **47%** service
- **11%** retail food
- **21%** retail non-food
- **89%** plan the same or higher 2011 expenditures
- **74%** have $100,000+ investment requirements
- **5%** decreased sales staff in the past 12 months (27% of those below sales goals decreased sales staff)
- **78%** reported business conditions at the unit level as good
- **0%** reported business conditions at the unit level as poor

Top Internet Sales Producers

	2010	2009
Online ad portals	35%	46%
SEO	28%	26%
Pay-per-click	11%	8%
Social networking	2%	2%
Don't know	24%	18%

Franchise Sales Performance

2010	2009
Exceeding goals: 19%	Exceeding goals: 9%
Below goals: 59%	Below goals: 59%
Meeting goals: 21%	Meeting goals: 33%

Franchise Lead Performance

2010	2009
Leads up: 39%	Leads up: 30%
Leads down: 39%	Leads down: 54%
Leads same: 22%	Leads same: 16%

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—and participation—to help us better shape the 2012 report.

***Note:** 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 46,091 units (42,563 franchised and 3,528 company-owned).*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It's closing time

BY STEVE OLSON

No Fare

How to help the wrong people off your bus

It's a smooth ride when you have the right franchisees in your system. But what do you do with those frustrated franchisees that "aren't making it happen?" The ones who don't fit your formula and, realistically, will never turn things around? How do you make the best of a bad situation?

Be responsive and take the lead. Clean house where necessary by providing exit strategies for unsuccessful operators. Struggling or problem franchisees are simply a drain on themselves and their franchise systems. They're not happy and are often resentful, worried, and have lost their motivation. They face growing financial difficulties, and have stressed-out families who share the burdens of their failing business.

Do nothing and you fuel the fire

Unfortunately, some franchisors tend to sweep these owners under the rug, hoping they will somehow go away by themselves. The less they hear about these unwanted stepchildren the more they procrastinate in confronting the issues. When calls come in from these operators everyone runs for cover. Defenses spring up on both sides.

Documented conversations and formal letters cross paths. The franchisor and franchisee have lost confidence, credibility, and trust in each other. Not a good situation.

Embrace the problem with solutions

Franchisors who proactively address failing locations minimize strained relationships and ugly conflicts with poor operators. Provide options and exit strategies to assist failing franchisees and help these owners cut their losses and move on as quickly as possible. It's your obligation to make this offer, if they haven't asked already. The why, what, and who is at fault makes no difference at this point and helps maintain respect for one other. Use a straightforward approach, whether your owner is still in compliance with your agreement or not. It certainly could head off painfully slow deaths or lawsuits that might ensue.

Establish a resale referral program so your struggling owners can turn to you for guidance in preparing, positioning, and selling their business. (Make sure you consult with legal counsel on how to advise these franchisees and avoid any potential liabilities.) Franchise owners sincerely appreciate a well-structured exit program. It's a significant franchise benefit you can sell when they are considering entering the business.

Franchise owners sincerely appreciate a well-structured exit program. It's a significant franchise benefit you can sell when they are considering entering the business.

The payoffs are well worth it

Those of you with successful resale programs know the value to both the system and the existing owners. I've used testimonials from former franchisees when recruiting new owners. In fact, I sold a new franchisee referred by a previous owner who struggled in managing her business! Our operations team had spent a lot of time helping her make her business marketable, and then we found her a buyer. She still believed in our program, but recognized the business simply wasn't right for her.

De-branding has become a franchisor alternative for resolving problems at certain locations. Simply stated, both franchisor and franchisee sign releases of liability and agree that the undesirable operator may convert the location to an independent business, eliminating all signage, identity, products, and proprietary procedures that are identifiable with the franchise brand. ■

This article is an excerpt from Amazon.com best-seller 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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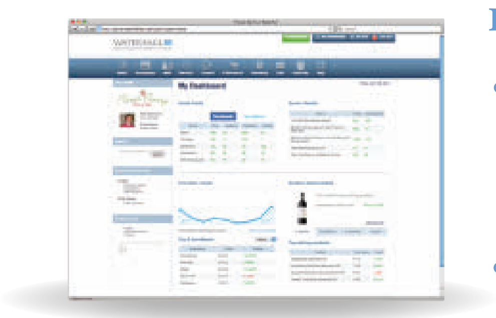

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