Franchise update

2011 | Q4

BUSINESS INTELLIGENCE FOR GROWING FRANCHISORS

Lead! *Leadership lessons from a franchisee-turned-franchisor*

Market! *Wendy Odell Magus talks customer acquisition*

Grow! *Leveraging people, budgets, brands, and resources*

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- **Validation:** Who does it best?
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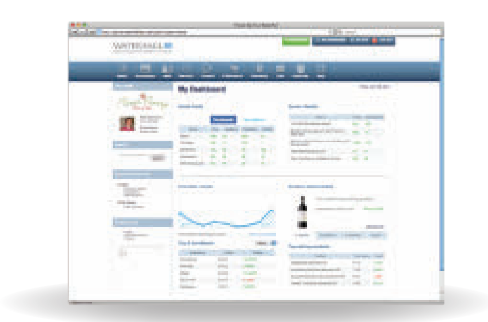

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Franchise update | Q4

BUSINESS INTELLIGENCE FOR GROWING FRANCHISORS

From the editor's desk

BY KERRY PIPES

Building a Growth Machine

Franchise brands drive growth through building customer counts and loyalty. But customer acquisition often is not the primary focus of brands. That distinction goes to the art of franchisee acquisition. However, as successful, growth-oriented franchise executives know, the two go hand in hand.

These two important themes (missions, really)—which in the Digital Age have more in common than ever before—are the focus of this issue of *Franchise Update*.

Whether it's a quick stop for a frozen yogurt or a cup of coffee, or a weightier decision such as daycare for your child or home care for an aging parent, customers have choices, and they make them every day. That's why franchise brands spend millions of dollars to attract and retain customers—including helping their franchisees do the same at the local level. Increasingly, brands are targeting and engaging customers through powerful tools such as social media and loyalty programs.

While franchisors need a solid operating system, products and services, and a brand identity that differentiates them from the competition, they also need a corps of dedicated franchisees who will work tirelessly to market those products and services by developing ongoing relationships with customers—and it's these often far-flung franchisees who hold the key to true brand success. Your franchisees—and their front-line employees—are the face of your brand in cities and towns across the country.

Throughout this issue, you can read about franchise executives who understand the importance of recruiting customers *and* franchisees. Their backgrounds may be different and their brands diverse, but successful franchisors understand the importance of these two critical groups, and how they work together to deliver brand growth. They also understand that experimenting with unique and innovative methods and strategies can help them improve the ways they simultaneously attract customers and recruit franchisees.

At the end of the day, successful brands know how to generate the best leads, recruit the best franchisees, and help them build customer bases with state-of-the-art tools and marketing strategies, and the support they need to get the job done on the local level. These are the cornerstones of great franchise brands.

This has been a challenging and exciting issue to organize, and I hope you find a little something in this issue's group of franchising experts and executives that makes you sit up and take notice. That "little something" just might be the flicker of an idea that changes the way you find new franchisees and build raving customer fans. ■

Franchise update | Q4

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Lead

Franchise leadership and management

> **Taking on a leadership position can certainly be difficult at times. But it can also be personally and professionally rewarding as a leader to be partially responsible for creating opportunities for others. Whether it is a customer note about an exemplary experience, a job for a new staff member that provides stability to a family, a development agreement for a multi-unit franchisee looking to expand their portfolio, or a company investor looking for a safe and promising return on investment, all are constant reminders that I am making the right decisions for the right reasons.** —RANDY MURPHY, PRESIDENT AND CEO, MAMA FU'S ASIAN HOUSE

BY JOHN CARROLL

CEO profile: Man on a Mission

Building an empire on a foundation of smiles

Name: Amit Kleinberger	
Title: CEO	
Company: Menchie's Group Inc.	
No. of units: 118	
Age: 31	
Family: Wife	
Years in franchising: 4	
Years in current position: 4	

Amit Kleinberger rattles off the business start-ups he's launched like a general listing the cities he's seized. There was the chain of cellular phone equipment stores, a window and glass distribution company in Los Angeles, and the assisted living building for Alzheimer's and dementia care.

He got each of the operations up and running and then sold them, restlessly moving on, looking for a new mission: that one big concept he could take global.

Then he got very, very interested in a partnership where he had invested a significant amount of time and money. Menchie's, a self-serve frozen yogurt concept, had all of one store open when Kleinberger got involved with the original two partners. It was close to four years ago when he decided to lead the company forward. Since then, he's devoted most of his waking hours to making it one of the fastest-growing franchise operations in the country.

"We have today over 200 franchisees in the United States and globally with 118 open stores," says Kleinberger. But the U.S. market isn't big enough to contain his ambition. "In addition we have 154 stores being developed as we speak. Within just shy of 4.5 years we should have 250 open stores in the U.S., Canada, and other countries, with our first store in the Middle East opening in three months."

Internationally, he says, Menchie's has stores being developed in the U.K., Mexico, Jordan, Saudi Arabia, Trinidad and Tobago, Australia, and soon China and India—and more countries are being added regularly to the development plan. He's made it his mission to make Menchie's the largest franchisor of self-serve frozen yogurt in the world by next spring, he says. If successful, he will lead an army of thousands.

Before he ever started a company, hired his first employee, or learned much about frozen yogurt, Kleinberger was a soldier in the infantry ground forces. At the end of his three-year-stint, the active duty combat sergeant had learned something about people, leadership,and inspiring people to do their very best. And he was determined to put some of those ideas to work.

"I call myself an optimist, a positive personality by nature, and I believe that business should focus around making people smile," says the franchisor with his trademark eagerness. "My other businesses were great, but none of them provided fulfillment from an inner perspective. I believe people buy the *why*—the reason for doing things—not the *what*. This is a business that can create positive feelings in the world."

That's why, when Kleinberger is asked how he measures success, he cites a favorite goal in life: sparking new smiles. He likes to see smiles, particularly when it's a customer or a franchisee. It's part of the *why*.

"The other businesses I started were just businesses," he says. "What we do today is a mission. Business is usually a way to earn a living, but here it's a cause, a reason for being. The most important thing in business is to love what you do and do what you love."

Kleinberger makes no apologies for being passionate about his goals. That kind of passion breeds success. And he is far from being close to achieving his goals for Menchie's, where today a franchisee can expect to spend, on average, $350,000 to $375,000 to open a new operation. "We've really moved mountains," he says. "We are driven by the cause, by the mission, and I could not have done any of this without my beloved team, as they all believe in making people smile."

"Be" the person with the values you believe in. "Know" what you are doing, how to be competent. And "do"—execute on the plan of action; don't let life pass while observing.

Leadership

What is your role as CEO? My principal role is to continuously strategize and propel the vision and the mission, and to cultivate the culture of the organization throughout all its members and aspects. That's the bottom line. At Menchie's, where we have more than 2,000 team members under our umbrella, it is our mission to make our stakeholders smile. How do we do it? By making sure the vision, mission, and values are being upheld.

Leadership style? I have to say a "thank you" to the military. In the military you deal with life-and-death situations, and you learn that people do things best when they believe in the common vision and in what you as a leader stand for. Successful leaders inspire people to action, rather than just tell them what to do. My style of leadership is leading by example and following the "be-know-do" leadership principles. "Be" the person with the values you believe in. "Know" what you are doing, how to be competent. And "do"—execute on the plan of action; don't let life pass while observing. Act! Most important, my team members come first and before myself, and they are the highest priority!

What has inspired your leadership style? A combination of two things. First, it was the military. As the world's leading leadership institute, it molded my leadership style as I learned from the best that people come first. I was privileged to be around leaders and see what it takes to become one. People don't do what they need to do; people do what they want to do. A good leader inspires people into showing them what the team members *want* to do—and *why*. When I have a task in mind, I show my team members why this may be the right thing to do, and what's the reason for doing it. Having your team's buy-in is a key element, as teamwork makes things happen. The second inspiration to my style was simply making leadership mistakes through the years and learning from them. Those who don't do, don't make mistakes. We need to learn and grow from each one!

Biggest leadership challenge? The one that most CEOs deal with: how to maintain a warm and friendly environment with a rapidly growing organization; how to maintain warmth with size. During the course of leading a company, CEOs face decisions that are either people- or business-oriented. My preference was, is, and will be people, and that is hard to maintain with a rapidly growing organization.

How do you transmit your culture from your office to front-line employees? Communication and people! We put an emphasis on communication and an open and safe environment to express opinions and thoughts. We recently implemented a weekly "all hands" meeting with team members to discuss strategy and provide a comfortable platform to bring up any topic the team may have on their mind. The culture will set the tone of the organization's behavior, performance, and long-term results. When we meet with team members, we get their buy-in, provide them with empowerment to make decisions, and cultivate our "we make you smile" philosophy throughout every aspect of our environment as best we can. Setting the culture is a constant work in progress.

Best place to prepare for leadership: an MBA or OTJ? Both are of high value. Yet, through the years, I have seen evidence that can support that the best place is often on the job. Though I do not have an MBA, I am aware that it's a valuable tool, yet I've come across enough MBA graduates alongside individuals with heavy experience and no MBA, and can almost categorically say that the on-the-job experience usually leads to better leaders and results.

Are tough decisions best taken by one person? No. Often my leadership team sits around a large table and we try to make tough decisions together. Not always is it doable, but as a general principle that is our preference. I like to get more people involved and opinions offered. When you create a group effort, you increase the probability for a better and more informed decision.

How do you make tough decisions? Large groups have a wide range. There's a spectrum of factors in making a decision and you can really think. We make collaborative decisions, and we make the right ones.

Do you want to be liked or respected? Respected first. I believe that wanting to be liked is a mistake that leaders sometimes make. When leaders are liked they are not necessarily respected. But when leaders are respected, most likely they are liked as well. I believe respect means the general consensus is that you are leading in the right way. Whereas,

I believe that wanting to be liked is a mistake that leaders sometimes make. When leaders are liked they are not necessarily respected. But when leaders are respected, most likely they are liked as well.

"liked" may not necessarily mean that—you may do things that can be wrong but that can get you liked.

Advice to wannabe leaders? Always set the example. People follow leaders that believe in what they do and set an example for the rest. Practice what you preach and preach what you practice. Be, know, and do. Second, you can't please everyone. Just try to do what you believe to be the right thing for the team that you lead.

Management

Management style? It starts with avoiding the word "management." We believe in leadership. To manage is to tell people what to do; to lead is to inspire people into the right action. We empower and communicate. We trust the team to make the right decisions. At the end of the day, you hired them to make decisions, to do the right thing, so you might as well let them do what you hired them for.

Management team? I hire character first. Our leadership team has a high level of character and mutually believes in our values. It's a strong leadership team that shares a passion for making people smile. The emotional intelligence and passion in our group is unparalleled. Building a good leadership team takes time and nurturing. Communication is key, and we meet every week religiously to touch base and connect with each other. We are a close group and the bond between the team is evident in their performance.

How does your management team help you lead? They follow the principles that they believe in, such as inspiring people into action. The team needs to believe in each other, coexist harmoniously with each other, and believe in the vision, mission, and values of the organization. My leadership team helps me lead by communicating to me the matters that are on their minds, and representing their team members' best interest, which is important. We believe in being unified and supportive, which helps all of us with leading the organization. I have a top-notch team that understands the importance of creating an environment that is warm and produces positive results.

Favorite management gurus, books? *How to Win Friends and Influence People* by Dale Carnegie, *Good to Great* by Jim Collins, and *The Seven Habits of Highly Effective People* by Stephen Covey.

What makes you say, "Yes, now that's why I do what I do!" I do things from the *why*, and not for the *what*. I do what I do because I believe that our mission is something that was engraved in me since my childhood. I remember that as a child I liked being around happy people and seeing good things take place. I love to do things that can help people. That's why I love franchising. It's the only business I know of where you can be an ambassador of the business and introduce more people into the entrepreneurial world. There is a multitude of positive things that our franchisees/entrepreneurs bring to the world: they provide jobs for the community, they propel small business entities that are among the highest collective tax contributors for our country, and they provide a pleasant environment for our guests to enjoy with their families. What is there not to like?

Personal

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

Exercise in the morning? Wine with lunch? Generally I do not consume alcohol. I exercise at night and my day spans from 8:30 to around midnight, 7 days a week.

Do you socialize with your team after work/outside the office? Not as much as I would like to. I'm still trying to find more time for those things. I believe that socializing with the team is fun as they are great people

What technology do you take on the road? I take my BlackBerry, my laptop, and my iPad.

How do you balance life and work? Most would say that I don't balance those two. In my view, I am one of those lucky people who is able to enjoy every minute of their work, and when you love your work you won't work a day in your life!

Favorite vacation destination: Europe.

Favorite occasions to send employees notes: Birthdays, significant accomplishments, celebrations, family occasions, and sometimes just the simple things can warm one's heart.

> **We do not just sell yogurt, we provide an experience that is complete and flawlessly fun. Menchie's will provide guests with the most interactive environment in the frozen dessert category.**

Favorite company product: I am a "cookies and cream" man in all my heart.

Bottom Line

Long-term goals for the company? We are going to be the next McDonald's, and put smiles on people's faces around the world.

Has the economy changed your goals for your company? Not at all. It encouraged them. We are a living and breathing proof that when things are done right and come from the right place that even in tough economies companies can make it.

Where can capital be found these days? Good companies should have no problem to source capital. The banking environment is becoming easier. We have our own personal resources.

How do you measure success? By how many people we made smile.

What has been your greatest success? Seeing our franchisees bring their business ownership dreams to life, and helping in making them smile.

Any regrets? Yes, we should have started franchising in the '90s.

What can we expect from your company in the next 12 to 18 months? First, you can expect us to continue to make our guests smile. We are a guest-experience-focused company, so you can expect us to advance and innovate our Menchie's in-store experience. We do not just sell yogurt, we provide an experience that is complete and flawlessly fun. Menchie's will provide guests with the most interactive environment in the frozen dessert category. It's not only about the product, it's about coming into our stores and leaving with a big smile.

We are in the process of innovating and reinventing our product line, placing community before commerce, and focusing on the highest quality out there, ensuring that we have the leading product and experience in the marketplace. From a positioning standpoint, we will become the largest self-serve frozen yogurt retailer worldwide by June 2012. There will be a lot of international expansion in the next year, with openings in more than 10 countries. Our guests can expect improved guest care programs with further interactive features and guest touch points in our stores that will make them smile even more. Bottom line: the Menchie's in-store experience will only get better in the year to come! ■

BY DEBBIE SELINSKY

CEO profile: Paying It Forward

Mentors have played a huge role in John Rotche's life

In 1985, after committing to play for the powerhouse University of Michigan Wolverines, high school football senior John Rotche suffered a career-ending spinal cord injury that left him a quadriplegic. Although the prognosis from the doctors was bleak at best, many weeks later Rotche regained full movement and was able to walk out of the hospital, with doctor's orders to avoid contact sports.

Recognizing his potential, legendary Coach Bo Schembechler named Rotche a member of his coaching staff, making him one of the youngest coaches in the NCAA. When Rotche graduated, he left with a degree in sports management, a Rose Bowl ring, and a life-altering philosophy on inspirational leadership. He believes sports has helped shape him into the leader he is today.

Name: John Rotche	
Title: President	
Company: Belfor Franchise Group	
Brands: Ductz (130 units), Hoodz (140 units)	
Age: 43	
Family: Wife Amy, children Payton, 10, and Quinn, 8	
Years in franchising: 20	

In 2002, Rotche, who began his franchising career with executive posts at Domino's Pizza and Krispy Kreme, bought a one-van duct cleaning company. Though he started out as a "passive" investor, his realization that duct cleaning could greatly improve indoor air quality for young children led him to leave his job at Krispy Kreme to grow Ductz. In 2007, he sold his growing company to Birmingham, Mich.-based Belfor, the world's largest property restoration company, and agreed to stay on as president and form the Belfor Franchise Group.

Two years later, Belfor launched Ductz's sister company, Hoodz. "In 2009, we recognized an opportunity that was synergistic with Ductz that would allow us to leverage our core competencies within the service sector. Like duct cleaning, kitchen hood cleaning for restaurants was a fragmented industry," says Rotche.

It took Ductz about four years to exceed 100 franchise units, making it one of the country's fastest-growing franchises. It took Hoodz only seven months to hit that number. Rotche attributes the success of both brands to its franchisees and staff.

Following his philosophy on building a strong company culture, Rotche spearheaded the creation of a 20,000-square-foot franchise facility in Ann Arbor, Mich. The facility includes corporate office space, a two-story house inside the building used for training Ductz franchisees, and a commercial kitchen used to train Hoodz franchisees. The space also houses a workout facility, a gourmet kitchen, locker rooms, and multiple coffee bars.

Rotche, who also spearheaded the IFA's Franship mentoring program and the MBiz mentoring program for University of Michigan student athletes, says he is grateful for the opportunity to give back. "I believe the two greatest moments in your life are the day you are born and the day you understand why. Many of my own mentors helped to shape who I am today, so paying it forward is just the right thing to do."

Leadership

What is your role as president? My job is to set the bar for integrity, accountability, and culture for our entire system so as to create an environment for people to succeed.

Describe your leadership style: I believe very strongly in inspirational leadership backed by accountability.

What has inspired your leadership style? Mentors like Bo Schembechler, the former and legendary Michigan football coach who taught me how to be an inspirational leader and not to settle for anything less than excellence; and Tom Monaghan, founder of Domino's Pizza, who taught me the power of honoring a model and keeping it simple.

What is your biggest leadership challenge? Any strength out of balance is a potential weakness. As an entrepreneur, it's easy to want to continue to evolve and make changes. Sometimes that's good, but you need to know when to stay the course.

How do you transmit your culture from your office to front-line employees? You have to know who you are and what you stand for, and your team needs to buy into that. That comes from bringing the right people into the organization. We strive for what we refer to as "Frantegrity." Our team understands what operating within a Frantegrity-based culture feels like.

Where is the best place to prepare for leadership: an MBA school or OTJ? On the job.

Are tough decisions best taken by one person? It depends on the situation. There's a difference between responsibility and accountability. Although I have a team of people who are responsible for making certain decisions, as a leader I need to be held accountable for the decisions they make—good or bad. My team needs to know that I'm willing to play that role.

How do you make tough decisions? I go back to that guiding principle of Frantegrity and ask myself: What's the right thing to do? I find that so many decisions can best be answered by that question. Very often I lean on and rely upon my team—they're a good sounding board.

Do you want to be liked or respected? I think you need both to be successful.

There's a difference between responsibility and accountability. Although I have a team of people who are responsible for making certain decisions, as a leader I need to be held accountable for the decisions they make—good or bad.

Advice to president wannabes: First and foremost, establish a foundation of what you want your organization to represent both professionally and culturally. Then you have to select, without compromise, the corporate staff and franchisees who will honor your organization's overall philosophy.

Management

Describe your management style: I am very culture-driven and prefer to inspire and lead through emotion rather than policy. I care deeply about the folks I have the privilege to work with every day and the franchisees we have the opportunity to support.

What does your management team look like? The Ann Arbor office is focused on support services such as development, legal, finance, and IT, whereas our regional offices provide more tech and field support. We treat our administrative side of the company as a stand-alone business entity that launches brands. Then each brand is run by a franchise operations director, a director of marketing, and an operations manager. As the system grows, we adjust the support team accordingly.

How does your management team help you lead? Through honest and open communication and feedback.

Favorite management gurus/books: I believe in former NFL coach Tony Dungy's philosophy on being a culture-driven coach and leader and enjoy his books. I also find myself going back and re-reading *Good to Great* by Jim Collins.

What makes you say, "Yes, now that's why I do what I do!" Our annual convention. Statistically within the franchise industry, less than 50 percent of franchisees show up for national conventions. We average close to 90 percent every year. When our franchisees want to come back and see our staff and their peers every single year, it says something. It's also wonderful to see our staff grow and advance their careers.

Personal

What time do you like to be at your desk? At work, the first thing I do is walk around greeting the team members in their offices. So depending on my "morning greet," my desk arrival time varies. The most important time for me to be at my desk is after the staff has left for the day. That's when I get the most done.

Exercise in the morning? Running

Wine with lunch? No. I'm a "runch" kind of guy. If I don't run in the morning, I do "runch." I enjoy running with team members. There's no better way to break down barriers than putting on a pair of running shoes and going for a run together.

Do you socialize with your team after work/outside the office? We occasionally have group dinners or celebrations.

Last two books read: *The Mentor Leader* by Tony Dungy, and *Good to Great* by Jim Collins.

What technology do you take on the road? iPad, iPhone.

How do you relax/balance life and work? Spending time with my children is always a stress reliever. I also drive up to our cottage in northern Michigan and go for a walk in the woods or do a little fishing.

Favorite vacation destinations: Our cottage, and then Siesta Key, Florida, just off Sarasota. My parents took me there as a child and now we're introducing our kids to it.

Favorite occasions to send employees notes: We have what we call "culture bucks," a system that reinforces our job to build our company culture. If any of us sees someone doing something that adds to the culture, from staying late to help with a project to cooking breakfast for the team, we give them a culture buck. Once a quarter, we put all the bucks in a bowl and have a drawing. The person who received the buck, as well as the person who gave it, gets a special gift. This shows it's as important to recognize as it is to be recognized.

When we were called to Louisiana after Hurricane Katrina, we had only six franchisees at the time and were asked to perform a project that was bigger than anything we'd ever done.

Favorite company product/service: The Ductz National Service Team is a unique part of our business model. When we were called to Louisiana after Hurricane Katrina, we had only six franchisees at the time and were asked to perform a project that was bigger than anything we'd ever done. We were successful and it became the launching pad for the nation's largest traveling team of commercial duct cleaners. Today we pull hundreds of franchise offices together and travel around the world after hurricanes, earthquakes, and wildfires.

Bottom Line

What are your long-term goals for the company? Successful franchisees, corporate staff advancement, and a growing portfolio of concepts.

Has the economy changed your goals for the company? Fortunately, our services aren't very dependent on the economy. However, with high unemployment, more people try to buy franchises—not because they want to, but often because they have to. That's where Frantegrity comes into play and keeps us focused on doing things for the right reasons. We're not just about adding units. We make sure people are the right fit, have the necessary working capital, and expectations in line with our business model.

Where can capital be found these days? Our parent company is a multibillion-dollar operation, so we are fortunate to be able to self-finance when necessary.

How do you measure success? By convention attendance, employee retention, franchisee retention, and what we call System Engagement Score. If all these numbers are high, it's an indication people are happy, growing, and engaged.

What has been your greatest success? Professionally, I've been fortunate enough to transplant many great leaders—people who worked for me, grew professionally, and moved on to other leadership positions. I think if you ask anybody who has ever worked within our organization, they would say positive things. On a personal level, I have a happy family.

Any regrets? Fortunately, no.

What can we expect from your company in the next 12 to 18 months? Ductz and Hoodz are going international, and we expect to launch or acquire a third concept. ■

BY KEITH GERSON

Anatomy of a Start-Up

Our Brand's Secret Ingredient

Part 3

EarthFruits Yogurt Café's HR recipe

It's not our products. It's not our price. Pay attention as I'm about to lay out our secret competitive weapon right here for all to see. Are you ready? It's our people!

Okay, not exactly a revolutionary strategy, but how many companies actually transcend their category through their customer service? I might be getting ahead of myself in the sequential story line, but we actually made a five-store franchise sale to a franchise prospect who completed the entire discovery process with a leading competitor and was given a contract to execute. Although she was passionate about the other concept, she realized she had been going to several of their yogurt shops at least five times a week for two years, and their employees never even bothered to learn her name, let alone her favorite products and preferences. Service is truly our advantage, from the executive level down through the employee ranks.

We believed a well-executed human resources plan, consistently delivered from location to location, would provide our EarthFruits Yogurt franchise system with its greatest competitive advantage—but it would have to become an inextricable part of our franchise culture and DNA.

In my experience, delivering the

highest and most consistent levels of customer excellence in our category is even more important than having the world's best yogurt (which I believe we have). I have stated that our vision is to become the Starbucks of frozen yogurt, and I am particularly focused on their most important recipe for success: their team members, known as baristas. Starbucks proved that in a category in which a cup of coffee is ubiquitous, they could bring a new level of service expertise that truly separated them from their competition. Besides incredible depths of product knowledge, the Starbucks baristas are coached on the heart of the Starbucks mission: Be welcoming. Be genuine. Be knowledgeable. Be considerate. Be involved.

Our team member mission can be summarized with an acronym named for one of our most popular product ingredients, acai (pronounced a-sigh-EE):

A - Acknowledge and smile
C - Compliment and converse
A - Above and beyond
I - Inform our guests

To secure employees capable of sustaining these simple but critical steps requires EarthFruits management to employ a discipline in recruiting that is a combination of behavioral science and perseverance. It requires focused training and ongoing reinforcement.

Besides incredible depths of product knowledge, the Starbucks baristas are coached on the heart of the Starbucks mission: Be welcoming. Be genuine. Be knowledgeable. Be considerate. Be involved.

The EarthFruits HR recipe

The specific elements in our approach are defined as follows:

1) Process. EarthFruits management recognizes that its employees are an integral element of the overall product. They have to be more than a customer service advocate; they must be knowledgeable about the product at the level of a nutritionist.

2) People. Incentives, growth opportunities, and recognition encourage EarthFruits team members to show up every day, do their absolute best, and be proud of the product they help create. We are finding that our team members are attracted to us and are staying because they have a sense of belonging. They take pride in their roles because of measurable performance standards and clear job descriptions with a defined advancement ladder structure.

3) Profit. By creating a positive work environment and offering bonus opportunities tied to bringing in more customers who spend more money more often, we are enjoying a low turnover rate. In addition to their hourly rate, employees have the opportunity to share the profits of the company as long as they have performed to the standards outlined by employment.

We are employing a technique that Debbi Fields of Mrs. Fields Cookies fame personally taught me for ensuring that we would have team members capable of creating a highly memorable customer experience. It's called "Singing, Sampling, and Selling." This process was based on a simple premise: You'll learn more by having candidates demonstrate their skills. After all, the best predictor of future performance is past performance, and your ability to see the behaviors being demonstrated gives you assurance that the skill is there.

Step 1. Each of our interview candidates is told by our interviewers that it is their birthday, and that it would mean so much if the candidate were to sing the song "Happy Birthday to You." Simple as it seems, you'd be surprised how few are willing or comfortable doing it. This is critical as we are looking for fun, outgoing, and self-confident employees. If your candidate is uncomfortable or unable to sing to you in your presence, it's highly unlikely that they will create an experience with your guests (or as we call them "tribe members") in our franchisees' absence, as our self-serve model often has team members working alone.

Step 2. Referred to as "selling," our candidates are asked if they are fans of frozen yogurt and, if so, to share what their favorite flavor is and to describe what they most like about it. Here we look for evidence that the individual is passionate about the products we sell and that they have the ability to describe it. After all, if we are looking for team members capable of being "barista-like" they will need to have a vocabulary broader than "I like it 'cuz it tastes good." Instead, how about, "I love the Acai Blueberry Yogurt because it tastes like a rich and smooth mix between blackberries and chocolate and it's full of vitamins and nutrients."

Step 3. "Sampling." Each candidate is given the opportunity to demonstrate that they are outgoing and capable of making a connection with our tribe members. We give them a tray full of sample cups filled with their favorite flavor, and we ask them to make our guests happy by handing out free samples. Some will prop themselves up against a wall and passively extend the tray as people walk by, and then there are our type of candidates who will quite comfortably go from guest to guest and table to table saying, "Have you ever tried the Energizing Pomegranate? You better sit down when you taste it, because your knees will buckle, it's so good."

To ensure we have access to the best talent, we offer a premium. Our employees are started at $10 per hour and, since they are primarily college students, we offer flexible schedules. Our employees are also offered a shift premium of up to an additional hour of pay for each hour worked retroactively for exceeding targeted sales goals over the previous two-week pay period. It can be earned only if the cafe achieves its total sales objectives for the two-week period. Therefore, each team member knows that they not only have responsibility for driving sales, they also have to help ensure that their fellow employees are doing suggestive selling and providing superior service that results in more tribe member frequency and referrals.

These simple steps really narrow the candidate field. As a result, we have opened with the best and most motivated team members I've ever witnessed in any retail operation. Another organization I admire for its commitment to creating a service experience is Chick-fil-A. You can check out an example of their commitment to excellence by doing a Google search for "Chick-fil-A—Every Life Has a Story." I experience over-full tear ducts every time I see this training video.

Aligning behaviors with brand promise

How are we ensuring that our team's behaviors align with our brand promise? Our new employees are being trained that we aren't in the business to make a sale, but to create experiences and build relationships. If we just sell a product, we will be known as a vendor, but if we sell a vision or experience we will be known as a brand and achieve our brand potential.

To that end, we have identified all touch points in the "customer corridor" to ensure that we can influence the customer through their experience. Indeed, every touch point has the potential to create an amazing and differentiated experience. These experiences can be as mundane as preventing customer frustration from not having their favorite flavors on hand, or as exhilarating as the customer's child receiving an unexpected extra like a free Acai Beaded Bracelet. We purchase these to help break the cycle of poverty of homeless children in Brazil (more than 7 million) through The More Project supported by EarthFruits co-founder Randy Larson.

Our future franchisees and employees will forever be trained on creating moments of truth defined as follows: any time a customer comes into contact with any aspect of a business, however remote, it as an opportunity to form an impression. And just as important, we are now beginning to install a system that will allow us to effectively measure our ability to deliver those moments through a process known as the Net Promoter Scorecard (check out satmetrix.com). This is critical to a business, as 60 to 80 percent of defecting customers described themselves as satisfied or very satisfied before taking their business elsewhere. Also, an average company loses 10 to 15 percent of its customer base annually, and almost half of buyers avoid a business based on someone else's experience. So we will have to get this right to one day jump to the head of our category.

Someone say Amen

In ending this month's column, I'll close with two quotes, the first from the book *Answering the Ultimate Question* by Owen and Brooks. "Marketing messages alone will not create the conditions for organic growth; it is the alignment between the brand promise and the actual customer experience that fuels positive word of mouth and growth."

The second quote is from Jeff Bezos, founder and CEO of Amazon.com: "If you make a customer unhappy in the physical world, they might tell six friends. If you make customers unhappy on the Internet, they can each tell 6,000 friends." Clearly our success depends on getting this strategy and implementation right!

In my next installment I'll discuss the development of our franchise offering and FDD, and how we simultaneously launched our franchise sales endeavors along with our model cafe. I'll also explore the challenges and victories we are experiencing in overcoming the concerns of potential prospects joining a brand new franchise concept. ■

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.*

Leadership guru

Lessons from Leadership

Mama Fu's franchisee-turned-franchisor on his new role

BY RANDY MURPHY

A leader is formally defined as *a person who guides or directs a group.* In growing up, however, leadership is typically correlated with the first one to make it across the monkey bars in kindergarten, or later simply leading by example in sports, school, or social circles.

In the business world, there are many more definitions of leadership we have all seen and heard, such as leaders surround themselves with quality individuals; have the ability to make rational decisions in emotional situations; possess an undying passion coupled with an acute ability to motivate; and have high levels of integrity and a well-defined moral compass. I am not truly sure which is correct, or even if leaders themselves know what it takes to lead, as they just do it.

That is how I feel about the firsthand experience I received when, in 2008, my partner and I acquired Mama Fu's Asian House. Formerly the largest franchisee of the failing Asian franchise system and now president and CEO of the growing new company, I have had to convince company investors, legacy franchisees, new franchise prospects, employees, suppliers, and in some ways customers, to follow me as we reengineered the brand and readied ourselves to franchise again—all during the worst recession of our time.

One thing that is very clear now from the leadership definitions above is that *who* you lead is as important as what you are trying to accomplish. The internal and extended teams assembled to rebuild Mama Fu's infrastructure, reduce start-up costs, increase top-line sales, and to improve marketing, branding and the franchise base, are at the highest levels of skill and reliability, and one of the main reasons we have been successful to date.

In addition to the people around you, a network of mentors is also imperative: be wary of any leader making decisions in a vacuum! This network can be made up of board members, investors, direct reports or staff, members in professional organizations, or even close friends, but all should have in common some knowledge or experience that can contribute to your development in becoming a better leader. I have used this approach thoroughly during my professional career and have found it invaluable, especially during critical times when a sounding board is most needed.

Taking on a leadership position can certainly be difficult at times, with tough decisions, constant examination, and ultimate accountability to what is typically a diverse group of shareholders. But it can also be personally and professionally rewarding as a leader to be partially responsible for creating opportunities for others. Whether it is a customer note about an exemplary experience, a job for a new staff member that provides stability to a family, a development agreement for a multi-unit franchisee looking to expand their portfolio, or a company investor looking for a safe and promising return on investment, all are constant reminders that I am making the right decisions for the right reasons.

As I wrote this article and reflected upon what I have contributed to—and, more important, learned about leading—Mama Fu's, I have come to the conclusion that what it takes to be a leader is everything that I mentioned before and more—and in my opinion the *more* part is the most important element. *The individual leading the effort has to care as much—if not more—about who they are leading and what is important to them than the overall goal itself.*

This desire to see others succeed has been critical to our success since the brand acquisition, and paramount to our ability to thrive moving forward as we build out 29 new store rights and expand our brand regionally and nationally with additional franchise partners. ■

Randy Murphy *is president and CEO of Mama Fu's Asian House, based in Austin, Texas. In March 2008, as the brand's largest franchisee, he formed Murphy Adams Restaurant Group and acquired Mama Fu's from Raving Brands. Since then, he has re-engineered the brand, which currently has 13 units (9 company owned and 4 franchised) and 29 new store rights in various stages of development. Contact him at 512-949-3221 or rmurphy@mamafus.com.*

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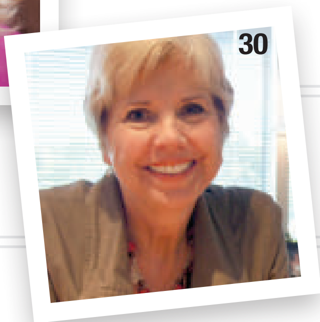
"We use a mix of traditional channels, such as direct mail, print advertising, grassroots marketing, and broadcast to 'surround' our prospects and reinforce the values of the brand for existing customers. We then layer in newer media elements and aspects of interaction into traditional media to help drive engagement." —Wendy Odell Magus



Multi-Faceted Marketing

Kiddie Academy's Wendy Odell Magus talks customer acquisition

Wendy Odell Magus is quite familiar with consumer and franchise sales marketing strategies. She has worked in both corporate and agency marketing roles and for more than 20 years has developed marketing and communications strategies that have gotten results. She has served as senior director of marketing at Sylvan Learning and is currently the vice president of marketing for Kiddie Academy, a child care franchisor with 110 locations in 24 states.

Magus also is familiar with the types of strategies—and how to implement them—that can help franchise brands acquire and retain more customers. We asked Magus for her thoughts on today's rapidly changing customer acquisition strategies and techniques.

What customer acquisition strategies are you using at Kiddie Academy? Driving growth in our brand through customer acquisition and customer loyalty is a multi-faceted process that continues to evolve as our customers' behavior changes and new channels of communication and engagement emerge. The principles of going where our customer is going and surrounding the customer with opportunities to gain information and engage are the two constants.

Since selecting the right child care provider is a very considered decision, it is important for us to cultivate brand affinity with our target audience. Our customer acquisition strategies are focused on keeping the Kiddie Academy brand front and center so that we are the first provider they think of when they begin their search.

We use a mix of traditional channels, such as direct mail, print advertising, grassroots marketing, and broadcast to "surround" our prospects and reinforce the values of the brand for existing customers. We then layered in newer media elements and aspects of interaction into traditional media to help drive engagement. These strategies include social media, QR codes, customized online destinations, and in-person events.

Describe your customer loyalty program at Kiddie Academy. Because we are not a transactional business, our customer loyalty programs are all about personalized interactions. Some of our locations provide child care so parents can go on a date night. Some locations will take children early or stay late to accommodate a parent's schedule. The loyalty perks are as unique as each of our customers and each of our franchisees.

How do profiling, targeting, and loyalty programs drive greater revenue and market share? The ability to understand who our customers really are, through psychographic modeling, has a major impact on every aspect of our business. It certainly drives our customer acquisition efforts, all the way from channel selection to messaging. It also enables us to take our direct marketing to a whole other level.

How do you create "fans" that talk up your brand and send new customers your way? Creating fans begins with great customer experiences. We have to delight our families with our services and develop strong relationships with them. Then we empower those happy customers to share their enthusiasm for our brand. We motivate fan behavior through tuition incentives, with thank-you events, and by making it easy for them to share through social networking. Certain social networking activities can be directly tracked back to our fans through our online customer satisfaction program with Systino. This measurability extends all the way to the bottom line, which is a powerful metric for our franchisees.

In what ways can "revitalizing" your brand help build your customer base? We continually look for ways to differentiate our services and brand. For instance, four years ago we introduced Life Essentials—Kiddie Academy's curriculum, supporting programs, methods, activities, and techniques that help better prepare children for life.

It was amazing how quickly our internal audience adopted Life Essentials, and how quickly our customers clearly understood the value proposition for them. It continues to be a differentiator for us, and it's given our customers a shorthand way to describe our services.

We also keep our brand fresh and relevant to our customers through value-rich experiences and programs that extend beyond our traditional 6:30 a.m. to 6:30 p.m. business hours. Whether it's a weekend event where they can invite friends along or use-at-home educational resources, we work to give our customers new and enriching experiences they can share with their children.

The ability to understand who our customers really are has a major impact on every aspect of our business.

What role do your franchisees play in the customer acquisition process? Franchisees are a vital part of the customer acquisition process because they are the local embodiment of the brand. The reputation of the academy is a key element of prospect receptivity. The interaction of positive grassroots programs with efficient national marketing amplifies the impact in a way that neither channel could accomplish by itself.

Are you using any unique or innovative customer acquisition techniques/tools? Recently we launched a new customer acquisition campaign using a system-wide event to engage current and prospective customers. We focused messaging in every marketing channel on building awareness and attendance and used direct marketing tactics to specifically drive prospects to participate. The campaign was a success on every level that we measured. It was easy for our franchisees to implement. It was universally well attended. We drove equal numbers of current and prospective customers to the event, where our fans were able to sell the brand for us. And most important, we were able to measure a strong ROI through enrollments.

How do you establish franchisor and franchisee roles in customer acquisition strategies? From day one, we establish clear parameters around the roles and responsibilities for different levels of marketing. From a franchisor perspective, we focus on efficiently driving leads from a national perspective. This means implementing programs that are either too complex or too costly for our franchisees to do locally. Franchisees are coached on the most effective local tactics that complement the national campaign. There is an unbeatable positive interaction between these two levels of marketing that drives educated prospects into our individual locations.

How do you support franchisees in acquiring and building a customer base? Because there is some seasonality to our business, we provide three comprehensive seasonal promotion kits to franchisees and support them in their local implementation. The kit has many turnkey elements, and everything is easily customizable. The messaging and creative for each promotion is consistently carried through all of our national strategies as well. So no matter how a prospect experiences our brand, it's consistent and motivating.

What's the cost-to-investment factor of acquiring customers? The lifetime value of a Kiddie Academy customer is significant. So we *could* justify a relatively high acquisition cost. However, we are consistently able to keep our acquisition cost fairly modest by having a well-rounded strategy that includes a strong grassroots marketing program and multi-faceted brand awareness and direct response strategies. ■

Connecting with customers

BY JACK MACKEY

Defying Gravity

Innovating to keep pace with change

I don't think I'll get much of an argument if I try to convince you that innovation is important. But let's take a minute to remind ourselves why innovation is so critical now.

The customer today is not the customer you knew five years ago. The year 2010 marked the point when the Millennial population—the age group from 16 to 34—surpassed both Baby Boomers and Gen-Xers to assume the coveted mantle of most significant consumer sector in the U.S. The sheer size, spending power, and affluence of the Millennials cannot be denied. The business challenge is communicating with this technology-savvy, socially aware audience in a way that builds brand loyalty and connectedness.

American Millennials: Deciphering the Enigma Generation, is an in-depth study conducted by Boston Consulting Group, Barkley, and SMG. The research, based on more than 5,000 consumer surveys, presents a fascinating profile of the Millennial consumer as well as insights showing how these younger consumers are different. Bottom line: To capture a chunk of this newer consumer market, you'll have to change. (Those who are interested can get the report from www.smg.com/research).

Of course it is no surprise that the economy booms and busts and that generations evolve new buying habits. Business, like life, is cyclical: birth, growth, maturity, and decline. The storyline is predictable.

1) Market Introduction: A new product/concept is introduced into the market. Sales and profits are low and demand must be created.

2) Fast Growth: With success, sales grow, and with economies of scale, profits grow as well. But competition develops too.

3) Maturity Stage: Growth slows, sales peak, and then sales flatten. Lots of competition limits pricing power and profitability.

4) Decline: Sales and profits decline from their previous highs. Market forces work like gravity to restrict growth.

Despite this natural business lifecycle, "no growth" is simply not an acceptable option. It is management's responsibility to anticipate these cyclical forces and to take action to generate sustainable growth. Sales and profits must be growing for the brand and the vast majority of franchisees. Here are three reminders why:

Satisfying a shrinking group of customers is a losing hand.

1) Cost of sales and operating costs go up annually. Even in an era of 2 to 3 percent inflation, the cumulative impact of cost increases demands continuing increases in revenue. Cost-cutting may improve the numbers for a time, but no franchise shrinks its way to greatness.

2) Managers and employees expect more every year. This isn't just a cost issue; it affects morale and retention. The best people won't continue to work for a loser, or even for an also-ran. Winners want to play for winners. The war for talent inexorably pushes wages upward.

3) Investors and franchisees demand increasing returns on their money. Investors move their resources away from stagnant investments to better risk-adjusted returns. The same is true with franchisees, especially big, multi-unit operators.

To sum it up, a successful franchise requires continuous growth in sales and profits. "No growth" means being consigned to the heap of "has-beens" on the way to "gone." The only way to defy gravity and avoid becoming a dying concept in a saturated market is to get out in front of the business lifecycle by constantly introducing new offerings and appealing to new customers. To guide your innovation initiatives, here are some customer measures to analyze:

- How many of your target customers are aware of your concept, relative to the competition?
- How many customers like your brand, versus how many have tried your brand?
- What percentage of the total purchases in your market category are you winning compared with other brands?
- What percentage are outright brand rejecters? What are their reasons? What are their demographics?
- What is the mix of positive versus negative comments about your brand in social media? Are you even in the conversation?

With Millennials growing in influence, you must look outside of the four walls of your business more often. Otherwise, you could end up like some franchise companies that have improved their customer satisfaction measurements over the last few years, even as their transaction counts steadily declined. This data anomaly occurs when the customer base implodes, leaving only a diminishing base of hard-core customers who will buy. That situation demands innovation. Better execution is not enough.

Customer satisfaction among existing customers will always be an essential measure of success, but satisfying a shrinking group of customers is a losing hand. It means your brand is out of touch with the times. If you don't face those brutal facts and figure out the reasons why, you become irrelevant. ■

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

Legal perspective

Q&A WITH ATTORNEY KEITH KLEIN

BY KERRY PIPES

Driving Online Traffic

Establishing an online brand presence demands careful navigation through practical and legal waters. In the past, hanging a shingle was an easy first step in driving customers into a business. Similarly, launching a website is relatively easy—but driving traffic to your website and social media pages involves keeping up with a rapidly evolving area of law. We asked franchise attorney Keith Klein to provide some advice. Klein is a partner at Bryan Cave LLP and is certified by the California Board of Legal Specialization as a specialist in franchise and distribution law.

What are the most common legal issues involved in driving online traffic? In addition to social media marketing, search engine marketing (SEM) and search engine optimization (SEO) are two significant tools for increasing the visibility of websites. SEM is an Internet marketing strategy that includes, among other things, the purchase of keywords and contextual advertising to heighten the visibility of a website in response to pre-designated search terms. SEO is the organic process of embedding a website's content with words, hyperlinks, and other mechanisms to ensure that the website appears higher in search engine results. Both methodologies may have legal ramifications, most prominently in the trademark area. Keyword advertising is the process by which, when the keyword is used in a query, the advertiser's website will appear at the top of the search results under "Sponsored Links" or a similar category.

The most common legal issue arises when one advertiser purchases a competitor's trademark as a keyword. The current trend recognizes that use of a trademark in keyword advertising is sufficient to establish infringement to the extent that the resulting search listings would likely cause confusion among consumers as to the source of the ad. The law continues to change, however, requiring marketing departments to remain vigilant in monitoring legal developments.

Do search engines address trademark infringement with keywords? Major search engines have established trademark policies that seek to address infringement with respect to keyword purchases. Thus, when a competitor purchases a trademark as a keyword, the first step in evaluating legal recourse options should be consultation with the particular search engine's policies. Microsoft adCenter, for example, does not permit advertisers to bid on keywords infringing a third party's trademark unless their use is truthful, lawful, and the bidder is a reseller of goods distributed under the mark; the website provides information about goods or services represented by the trademark; or the bidder is using the "ordinary dictionary use of a term" and the site does not sell a competing good. Google, conversely, implemented a less stringent policy, as it does not "investigate the use of trademarks as keywords" and will not disable keywords using the trademark of another in the United States. It only investigates ad text that uses another's trademark and is "competitive, critical, or negative."

Do keyword issues exist that are particular to franchising? Yes. The keyword situation is more complex for franchise systems, particularly with the increased presence of franchisees on the Internet. Unlike other companies, franchisors and franchisees must be concerned about keyword strategies implemented by each other. While it may appear innocuous to allow the franchisor and multiple franchisees to purchase keywords for the brand's trademark or other, non-proprietary words, the repercussions are more troubling.

The positioning of sponsored links is determined through a bidding process. Advertisers willing to pay more can receive priority in the listing. For companies with one advertising agent, the bidding should be relatively straightforward. With franchises, however, there could be thousands of franchisees bidding on the same trademarks or keywords. This leads to an increased per-click cost—benefiting only the search engine company—and will dilute the effectiveness of keyword advertising for the entire system.

What are the best practices to avoid these issues? The franchisor should stake out the trademarks and other keywords it intends to purchase, driving traffic to the company's website which, in turn, enables consumers to connect to local franchisees. This generates two benefits: first, it advances the interests of the brand over the interests of particular franchisees; and second, it may enhance SEO for both franchisor and franchisee sites by including multiple hyperlinks. Franchisees, conversely, should focus keyword bidding on words particular to their locations, such as nearby intersections, city buildings, or other widely recognized landmarks.

The same is true for search engine marketing. When using a competitor's trademark to drive traffic to your website, the best practice is to clarify to consumers the source of the content and website—even before they arrive. Franchisors and franchisees are encouraged to coordinate regarding the manipulation of their metadata to ensure that each does not have a dilutive impact on the others. To avoid confusion, franchisors should include provisions in franchise agreements or operating manuals expressly prohibiting franchisees from bidding on keywords containing the franchisor's trademarks and/or that are not approved in advance by the franchisor. ■

CMO roundtable: What are some fresh, innovative ways you are using profiling, targeting, and loyalty programs to acquire and retain more customers?

Linda Fierce, Regis Corp. Director of Marketing, Franchise Brands

At Regis, our marketing team and franchisees are always working together to further meet the needs of our customers. Our strategies are informed by customer feedback from all brands, and with the strength of our franchisee network we are able to share successes and ideas between multiple brands.

One of our most popular loyalty programs is the Supercuts email haircut reminder. As a loyalty program, it not only helps us stay in touch with our customers, it helps our busy customers stay on a haircut schedule they have chosen.

Another popular loyalty program is the First Choice Haircutters student discount card in Canada. We've partnered with a company that offers students 10 to 15 percent savings in a variety of areas, including fashion, dining, and more, every time they show the lifestyle discount card. Students have embraced the option—they can sign up online and receive information, offers and reminders from participating First Choice Haircutters in their area. We began the program on August 1, 2006 and have seen it grow 33 percent in 5 years.

Another method we're exploring to meet customer needs is targeting through email couponing and social networking. Supercuts is studying Groupon, the "deal-of-the-day" email couponing phenomenon that offers deep discounts to local and national companies. Supercuts is looking into methods of turning the waves of people generated from Groupon's "first trial" effect into loyal, long-term customers.

In addition to Groupon, many of our brands are testing Foursquare, the location-based social networking channels where members "check in" at their location with a mobile phone, find out where friends are, and see offers in and around areas they are shopping.

Finally, when it comes to customer profiling, Regis Franchise learns from listening. Salon stylists, managers, our marketing team, and franchisees are constantly engaged with customers, listening to what they like about the salons (flexible hours and good service as well as accessibility and affordability). By listening to what they like, what they'd like to see change, and what they'd like more of, we're able to continually expand and strengthen our services.

Linda Shaub, Interim HealthCare Vice President Marketing

In a service franchise it's important to remember that you have two customers: the people who use your services and the people who provide them. Building loyalty with both customers is critical. What builds loyalty? All the studies indicate that it's not so much compensation, although you need to provide competitive wages. What helps build loyalty is when people feel they are being heard and appreciated.

One way to accomplish this is through an internal contest. We launched our own internal "Day in the Life" contest for the network. Each office that chose to participate shot and submitted their own video of a "day" in the life of their employees. As part of the contest materials, we supplied a set of criteria for what the video should portray. These criteria were the key messages that we were using as the platform for our employment branding.

As a guide, we produced and posted a sample three-minute video that included caregivers and client or patient testimonials. We posted the sample on an Interim HealthCare-branded site we called "InterTube," where each participating office uploaded their videos. The proprietary site allowed every office to view and comment on other videos, creating a strong sense of community and fostering a little competitive spirit. The response from the participants was overwhelmingly positive. Some franchisees said that even though they didn't win the contest, the process of creating the video generated a spirit of pride that boosted morale and fostered loyalty.

Greg Allison, Mrs. Fields Famous Brands, Senior Director of Marketing, Consumer Insights, and Product Innovation

We are in the unique position of having two globally recognized brands—TCBY and Mrs. Fields—with customer retention and acquisition strategies designed to leverage consumer preference and accessibility for both brands. Starting with Mrs. Fields, our business originated by developing a loyal customer base with fresh-baked cookies from the oven at our brick-and-mortar stores. With retail stores serving as the foundation for the brand, we have been able to extend our products to other customer segments through a cross-channel retail strategy that incorporates our online gifting division and consumer packaged goods division.

For example, as the Internet empowered online shopping, we were able to automate our business model into an effective e-commerce catalog play for increased convenience and value to a diverse customer base. With loyal customers across three channels (catalog, packaged goods, and retail), we have been successful in scaling our business and focusing our marketing efforts by channel and the unique needs of each customer segment.

Today, we operate two effective email clubs for Mrs. Fields and TCBY that offer consumers the chance to take advantage of exclusive promotions, special discounts, product facts, and invitations to local events. We create a sense of exclusivity by providing customers with first glances at new products or major product initiatives. Both email clubs enjoy above-average delivery rates by industry standards, with approximately 90 percent of all messages reaching the intended customer. As an added feature to TCBY's loyalty program, stores and franchisees are given the ability to create targeted and inexpensive email messages customized to their specific trading area and customer profile. This turnkey program equips franchisees with additional marketing tools needed to win in an increasingly competitive and connected marketplace.

TCBY also offers the myTCBY loyalty program, something we are exploring on the Mrs. Fields retail side as well. The myTCBY card can be used as a gift card or as a loyalty card. Customers earn points when their loyalty card is swiped at the register and is redeemable toward a future store purchase as points are accumulated. To receive store credit, customers must activate and register their loyalty card on TCBY.com, which allows us to capture customer data and track purchase behavior.

To address the needs-targeted messaging of our Mrs. Fields retail stores across the country, we developed a robust local-store digital platform. For example, since the Internet is usually the first place people go for information, we felt it was critical to offer our franchisees a localized way to target customers and tailor promotions that consider seasonality, events, and even flavor palettes within a specific region or community. In 2010 we launched a store micro-site program with Mrs. Fields and TCBY franchisees that has been highly received.

Franchisees are empowered not only to manage their sites and leverage them as an extension of the corporate brand, but also as a supporting vehicle for their localized social media efforts, such as with Facebook and Twitter. Micro-site analytics also allow franchisees to customize promotional offers to their market as they identify and better understand the needs and interests of their customers.

One thing we have learned across both brands and the multiple channels of Mrs. Fields is that we will always need a multiple-touch, multiple-reward strategy to maintain relevancy with an increasingly evolving and changing customer base. By continuously measuring, validating, and refining marketing activities with our target audience, our ability to enhance product mix, service platform, and communications enables us to reward our most loyal customers and create new ones every day. ■

Consumer data

BY TOM EPSTEIN

Durbin Revisited

The *real* costs of revised debit card fees

The discussion in D.C. went something like this…

With debit card use on the rise it made sense to help consumers indirectly by capping the debit fees charged to merchants by Visa and MasterCard. Merchants could then take these new savings and pass them on to consumers in the form of lower prices at the POS. Sounds good, right? Not so fast!

Beginning October 1 (under the "Durbin amendment" to the 2010 Dodd-Frank Act), new rate caps for the cost to processors (pay attention here, I said to *processors*, not to merchants) for both signature and PIN debit cards were capped at 22 cents per transaction plus 5 basis points (0.05%).

If your franchisees have an average ticket above $20, you will be able to reap the rewards of the new rates. But what if you are a QSR with an average ticket of $10 or less—which many franchisees are? Before October 1, a $10 transaction cost a QSR 20.6 cents in total interchange fees. Now that same $10 will cost 22.5 cents. If the transaction is $5, the cost was 12 cents; as of October 1, it will be 22.2 cents.

Just one or two cents per transaction for a small ticket can have a huge impact on your bottom line. Remember, the smaller the average ticket size, the more likely the consumer will be to use their debit card instead of their credit card (65 percent of all electronic transactions at the typical QSR are debit).

Remember what I said about the rate being capped to the processor? *There is nothing in this bill that caps what your processor can charge you or your franchisees.* This could mean your processor will not do anything and just pocket the additional margin. Watch your statements closely when they come out in November for October sales!

What can a franchisor do to help its franchisees? Several strategies, depending on your average ticket and customer makeup, might help. One worth exploring is a little publicized provision in the reform act. Merchants can now charge a different amount for goods and services based on the type of card presented at the POS. You cannot add on a fee to cover your payment processing expense, but you can charge less for your products or services based on the customer using certain card types, or even cash.

Just one or two cents per transaction for a small ticket can have a huge impact on your bottom line.

Also, there is no longer a requirement that merchants accept all cards. You could choose not to accept debit cards at all, if you do not think it will affect your sales. (Be careful here, as my advice to franchisees has always been to accept any kind of payment a customer is willing to give you. I would rather pay 22 cents in fees for a sale than not get the sale at all.)

Good news/bad news

As a result of lowering the amount the issuing banks will get from debit transactions at the POS, major U.S. banks began charging consumers for using their debit cards (either a monthly fee when the card is used, or individual transaction fees). By early November, following consumer pushback, all the big banks had retreated from charging customers fees to access their own money. However, confusion may reduce debit card sales, at least temporarily, driving down the number of such transactions over time.

It will take consumers some time to catch on to these new fees. If you have a franchise system where debit cards are used and you have an average ticket higher than $20, you have a short window of opportunity to benefit from the lower fees until consumers stop using them as much. It is important that you jump on this with your processor as quickly as possible and negotiate a lower debit rate. Conversely, if you are a QSR you need to act equally as fast to mitigate any damage these new rates will do.

Of course the really bad news for us all is that this is causing an inflationary change when the intent was the opposite. Debit was already 20 to 25 percent cheaper for merchants than credit. But D.C. has now created an environment where there will be less debit card use, which means there will be more credit cards used—at the same higher rate they were before October 1. Some merchants may save some fees for a little while, but it is highly unlikely that any of them will pass those savings on to consumers. Consumers will be paying higher fees to use their debit cards, and rewards programs are disappearing as a result. All this adds up to higher costs to the consumer for goods and services at a time the economy continues to struggle. ■

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.*

2012 Multi-Unit Franchisee

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Franchise development intelligence

BY EDDY GOLDBERG

2012: TAKING CONTROL

You can't change the economy, so change yourself!

Last year the headline on our Annual Lead Generation Survey story read: "Adapt or Die." Responses to two new questions this year indicate franchisors have taken this lesson to heart.

In responding to the question "Do you believe the fundamental lead generation process used before the recession must be changed to effectively recruit today's buyers?" three out of four (77 percent) said Yes. And to a similar question about the franchise sales process, 74 percent said Yes.

"Don't wait for the recruitment environment to change. You need to change your approach to succeed in this environment," said Franchise Update Media Group President Steve Olson, who unveiled the results of the 14th annual survey at the Franchise Leadership & Development Conference in October.

This year's survey gathered data on sales and recruitment practices from 110 franchisors representing 109,936 franchised and company-owned units (79,254 franchised and 30,682 company-owned). Participants consisted of franchisors who registered for the conference and filled out the forms of the in-depth survey. The responses—which are analyzed to provide an in-depth view into the recruitment and development practices, budgets, and strategies of a wide cross-section of franchisors—provide the basis of our Annual Franchise Development Report (AFDR).

"It's not just catching up with where you were before," says Olson. "If you have 30 percent fewer buyers in the market, you have to improve your recruitment performance." Today's potential franchisees, he adds, are asking not "How much can I make?" but "How fast can I get to ROI?" And franchisors better have a good answer, or those prospects will find another brand that does.

Many of the changes in the recruitment environment, of course, are the result of the economic shifts of the past few years. "The impact of the recession on the buyer has created caution and shrunk the pool of buyers, so you have to get a much larger slice of the pie to continue to grow—or fish in different ponds," says Olson. "There are fewer buyers in a shrinking pool, and we don't know when it's going to change, so we have to change our processes to more effectively target our audiences."

This is not simple. It means, among other challenges, overcoming the fear factor in buyers, the ongoing lack of financing, more attention to unit economics and validation, and increased use of technology tools to monitor and quantify results of lead generation and the sales process. "It's not the go-go days any more, so measurement is more necessary than ever and the tools are improving every year," he says. Compounding the challenge, he adds, there have been more closings of franchise units in recent years, so brands first have to catch up before they can grow.

One way to fish in new ponds is to expand your pool through outbound prospecting. "This has never been done before, it's always been inbound," says Olson. Examples include calling on local chambers, attending industry trade events, and exploring vertical markets. Fishing in vertical markets involves learning the characteristics and traits of your most successful franchisees and going where they go, finding people in vertical industries with the same skill sets.

Growth plans for 2012 among respondents target a total of 8,262 new franchise units and 4,441 new franchisees; that compares with 3,850 new units 3,100 franchisees targeted for 2010. To hit those goals, says Olson, franchisors will have to provide a compelling business opportunity, which involves strong unit economics, transparency in Item 19 (including costs, as well as sales numbers), and refining their recruitment process to match what potential franchisees are looking for, not only in content and tone, but also in using every available channel to present their offer.

The following is a high-level summary of some of the in-depth findings from the 2012 AFDR. To order a copy of the complete report, see page 39.

• **Recruitment budgets.** In one of the more interesting changes from the past two years—when median recruitment budgets dropped from $88,000 in 2010 to $80,000 in 2011—2012 median recruitment budgets are $125,000, an increase of more than 50 percent. That number, however, is still below the $138,000 medians of 2008 and 2009. "Franchisors have recognized the changes," says Olson. "To grow again franchisors have to invest again—in lead generation and in improving the efficiency of their sales process."

Recruitment Budgets

	2012	2011	2010	2009	2008
Average	$197,000	$152,800	$162,000	$175,000	$175,000
Median	$125,000	$80,000	$88,000	$138,000	$138,000

• **Where the money goes.** Internet spending, which held steady in the 47 percent to 50 percent range from 2008 through 2011, is projected to fall to 40 percent in 2012. Spending on print (17 percent) and trade shows (14 percent) has remained fairly steady since 2008, and is expected to remain so in 2012. One change: public relations spending is budgeted at 15 percent for 2012, up from 10 percent in 2011 and 11 percent in 2010. "Other," at 14 percent, has risen steadily in the past 5 years, most likely from increased spending on social media and optimization of franchisors' own websites.

Where the Money Goes

	2012	2011	2010	2009	2008
Internet	40%	47%	50%	47%	48%
Print	17%	18%	16%	17%	20%
Trade Shows	14%	13%	13%	13%	12%
Public Relations	15%	10%	11%	13%	11%
Other	14%	12%	10%	10%	9%

• **Internet spending.** The most notable shift here is the decline in spending for online ad portals, which fell from 61 percent in 2010 to 51 percent this year; 2012 projections are about the same, at 50 percent. Spending on search engine optimization (SEO), after rising from 18 percent in 2010 to 24 percent last year, is budgeted to fall slightly in 2012 to 21 percent. Pay-per-click spending, at 15 percent and 14 percent in 2010 and 2011, respectively, is expected to climb to 19 percent next year. Spending for social networking is expected to remain at this year's level of 10 percent, up from 6 percent in 2010.

• **Top sales producers.** For the first time since 2007, the Internet was not the top lead producer, falling to second place (30 percent), just behind referrals at 31 percent. Sales produced through external Internet sources have fallen steadily from the 41 percent level recorded in 2007. Referrals, which produced 37 percent of sales in 2007, dwindled to 25 percent in 2010 before rebounding to 31 percent this year. Broker sales remained steady at 17 percent for three consecutive years. In a puzzling development, especially in an era of improved metrics and technology tools to track sales sources, the "Other" category has risen steadily from 4 percent in 2007 to 20 percent in 2011. In other words, one in five respondents either doesn't know where sales are coming from, or the choices of Internet, referrals, brokers, and print did not apply; or perhaps more sales are coming from franchisors' own websites, thanks to improved SEO.

Top Sales Producers

	2011	2010	2009	2008	2007
Internet	30%	36%	34%	35%	41%
Referrals	31%	25%	28%	28%	37%
Brokers	17%	17%	17%	16%	14%
Print	2%	5%	8%	6%	4%
Other	20%	17%	13%	15%	4%

• **Top Internet sales producers.** In terms of sales (versus spending), for the first time ever, SEO topped the list at 34 percent in 2011, up from 28 percent in 2010. "That's good," says Olson. "SEO should be the top sales tool for franchisors, especially with the increasing use of Google Analytics. All roads lead to your website." One strong indicator that franchisors have improved at tracking the results of their Internet spend: the "Don't Know" category fell significantly from the previous year, dropping from 24 percent to just 7 percent in 2011. Online ad portals, at 32 percent in 2011, were down from 35 percent in 2010, but still ranked near the top. Pay-per-click and social media provided the lowest return, but while PPC dropped from 11 percent to 5 percent from 2010 to 2011, social networking rose from 2 percent to 5 percent.

Top Internet Sales Producers

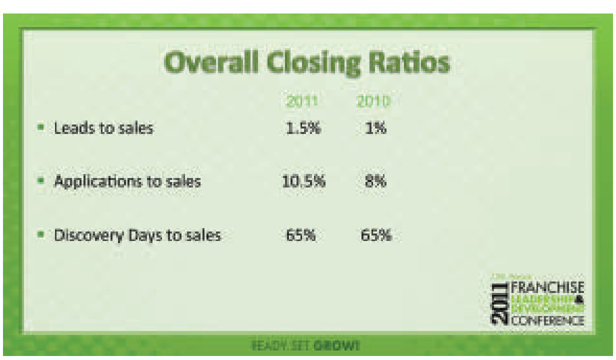
	2011	2010
• Online ad portals Internet	32%	35%
• Search engine optimization	34%	28%
• Pay-per-click	5%	11%
• Social networking	5%	2%
• Don't know	7%	24%
• Other	17%	

Pay-per-click and social media lowest return per budget expenditure

• **Online alternative resources.** One important trend to note here, says Olson, is that this category is beginning to produce more sales. Selling franchises through social media platforms still ranks quite low on the totem pole in terms of total sales, but the numbers are climbing as franchisors learn to use these new channels. In 2011, 90 of the 110 respondents (82 percent) placed online ads, videos, or press releases on social or business networks, blogs, YouTube, Craigslist, etc., compared with 58 of 126 respondents (46 percent) in 2010. In 2011, 13 of 110 franchisors (12 percent) reported sales from social media, compared with only 5 of 126 (4 percent) the previous year. Olson says franchisors should continue experimenting with social media as a sales tool, integrating it into their overall sales strategy.

• **Social media deals in 2011.** The trend here is the gradual growth of social media as a sales source. Although the totals are still small, they are steadily growing. Facebook led the way with 11 deals, followed by LinkedIn (9 deals), YouTube (8 deals), craigslist (6 deals), and blogging (3 deals). Facebook showed a dramatic upswing, says Olson, climbing from no sales in the previous two years to lead the category in 2011. Interestingly, he notes, "Craigslist has produced sales every year since we started monitoring it. You don't have to optimize it, just post 'Franchise Opportunity Available.' It doesn't require the same upkeep and staff time adding content as other online resources. It's low maintenance, like an old classified ad. Everyone should be on it."

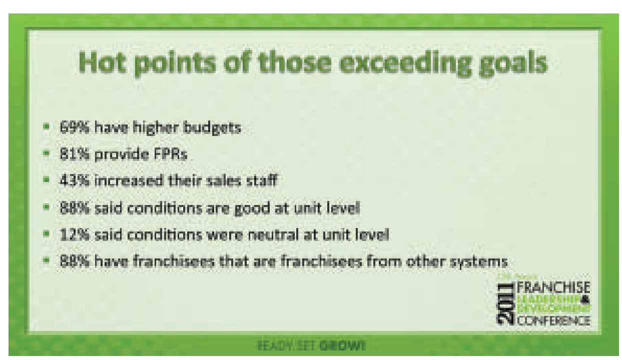
• **Overall closing ratios.** Survey respondents reported a modest improvement in 2011. Leads-to-sales ratios rose to 1.5 percent, following a 1 percent rate in 2009 and 2010. Applications-to-sales ratios rose to 10.5 percent, compared with 8 percent last year and 10 percent in 2009. And discovery days-to-sales ratios remained at 65 percent, the same as each of the previous two years. Commenting on the improvement in applications-to-sales closing ratios, Olson says, "In my opinion, this means better qualification of candidates by franchisors, as well as more efficient use of sales staff. There's more quality on the front end. Don't start them and keep them moving through the pipeline when you know it's not going to be a deal because they need more capital." During the boom years of easy credit, he says, the application-to-sales ratio was about 20 percent.



• **Brokers.** The use of broker networks (56 percent), the percentage of franchisors closing deals (67 percent), and the median broker commission ($15,000) remained level from 2010 to 2011. The big change is in the median of applications resulting in sales, which fell from 8 percent in 2010 to 3 percent in 2011. The lesson here, says Olson, is that 2012 will require more applications from brokers to hit 2010's numbers. "Don't be too hard on brokers," he says. "It does require more applications to make the same number of deals. For those particular brokers not qualifying your candidates, just fire them. It immediately solved the problem when I was selling." One continuing advantage in working with brokers: with budgets still tight, franchisors don't need to invest as many dollars up front, and brokers bring in additional qualified buyers franchisors would never have gotten otherwise. And, as noted above, the percentage of sales produced through brokers has remained steady at 17 percent for 2009 through 2011.

• **Franchise sales performance.** Setting sales goals has become more challenging in the uncertain economy of the past several years. In 2009, only 9 percent of respondents exceeded their goals, and in both 2009 and 2010, 59 percent fell short. Optimism based on the go-go years, combined with an expected economic recovery, produced goals that were too high. In 2010, sales forecasts improved slightly in terms of matching goals with real-word results: 19 percent exceeded goals in 2010, though in 2011 that number fell to 15 percent. However, the percentage of franchisors meeting their sales goals improved from 2010 to 2011, rising from 21 percent to 33 percent. Other positive news: the percentage of franchisors falling short in 2011 fell to 52 percent from 59 percent the previous year, and those meeting goals in 2011 rose to 33 percent from 21 percent in 2010. Buyer uncertainty, tight credit, and a lack of savings, family, friends, and home equity as a source of start-up capital continued to slow franchise growth, an environment not expected to change significantly in 2012.

• **Franchisors exceeding goals.** Franchisors that surpassed their sales goals in 2011 shared several important characteristics: 69 percent have higher budgets; 81 percent provide FPRs; 43 percent increased their sales staff; 88 percent said conditions at the unit level are good and 12 percent said they are neutral; and 88 percent have franchisees who own brands with other systems. "Unit economics is critical to successful growth, in that all of those exceeding goals had unit economics that were either good or neutral," said Olson. "This slide is a picture of best practices in development."



• **Measuring cost per lead and per sale.** After years of sub-par performance, franchisors are continuing to improve in these two categories. In 2011, 72 percent tracked cost per lead, up 3 percent from the previous year; the flip side, of course, is that more than one in four still don't. Among those who do, their median cost per lead of $60 rose $6 in 2011 from the previous year. Looking at cost per sale (the more important number), 68 percent of respondents track that, also up 3 percent from 2010. The flip side here is that one in three still don't—a deficiency almost unconscionable in today's competitive, cash-strapped environment.

Some good news: median cost per sale fell significantly in 2011 among those who track it—from $10,000 in 2010 to $8,565 in 2011. "A lower cost per median sale reflects a combination of technology, measurement tools, and better sales and marketing performance," says Olson. Many also are using outside firms to help them manage and track their ROI on sales expenditures.

• **Referrals.** "Referral programs have grown tremendously," says Olson, "not only to franchise owners, but also to suppliers and employees." As noted, referrals took the lead as the top sales producer at 31 percent, displacing the Internet as number one. This, says Olson, is due to more franchisors offering referral fees, promoting them more aggressively to franchisees, and increasing fees (or other rewards) when a referral signs on. Referrals, he says, also are three times more apt to buy than a non-referral. "These are much stronger leads," he says, and the numbers back this up: at 54 percent, referrals have the highest close ratio of all lead generation sources. More franchisors are getting with the program and offering incentives: in 2011, 67 percent provided incentives to franchisees who referred prospects that buy, up 5 percent from the year before. The median referral fee of $3,500 remained level from 2010. While referrals still haven't regained their 37 percent share of sales producers (2007), the trend is clearly upward.

• **Qualifiers.** In the quest to make the sales process more efficient and productive, more franchisors are turning to qualifiers to screen leads before turning them over to their more highly paid sales team. "The use of qualifiers has continued to creep upward," says Olson. Last year the number of brands employing qualifiers was 38 percent. "Forty-one percent employ one today, the first time qualifiers have broken the 40 percent level," says Olson. Why? Simple: It saves time and money and boosts productivity.

At this year's Franchise Leadership & Development Conference, the session on high-performance sales growth generated a flurry of questions from attendees. In a lively discussion about the pros and cons of using brokers, panelists noted that in-house qualifiers serve one of the same purposes brokers do. "The broker does a lot of legwork to qualify leads and answer all the big initial questions," said Steve Dunn, vice president of franchise development at Denny's. Panelist JD Sun, co-founder of BrightStar Healthcare, where the use of a pre-qualifier has been highly successful, put it more bluntly: "You don't want your sales people wiped out from stupid calls." A franchisor in the audience said, "We hire a $27,000 lead qualifier who gets $1,000 per sale. It's worth it." Qualifiers can also be outsourced, but the result is the same: better prospects and a more productive sales team. ■

13th Annual 2011 FRANCHISE LEADERSHIP & DEVELOPMENT CONFERENCE

BY KERRY PIPES AND EDDY GOLDBERG

CONFERENCE VALIDATION—AND GROWTH

The official theme of Franchise Update's 13th annual Leadership & Development Conference was "Ready. Set. Grow!" But the unofficial themes on the ground in Atlanta throughout the three-day event (October 12–14) were "Lead Generation. Unit Economics. Validation." And a strong dose of taking control in an uncertain economic landscape.

Facing an economy seemingly unable to pull itself back into shape, many of the nearly 350 franchise executives, suppliers, and franchisees remarked throughout the event how validation was key to continued and sustained growth for brands across all sectors and price points. And to have strong validation, brands need strong unit economics—and an ever-shortening timetable to ROI to attract new franchisees, as well as to promote referrals from existing franchisees.

Perhaps nowhere were these sentiments more clearly expressed than in the all-day Franchise CEO Summit held on Wednesday, the conference's opening day. Nearly three dozen franchise presidents and CEOs met for a day-long session that examined what brands could do to ensure their franchisees are highly successful, since healthy, happy, profitable franchisees are the basis of a growing franchise system. Right off the bat, facilitator Otis Woodard polled the executives by positing, "Franchisee success is a dominant competitive advantage for my company." More than 60 percent agreed or strongly agreed. As a follow-up, he said, "Franchisee success will be a core strategy in our 2012 strategic plan." A full 100 percent agreed, 76 percent strongly.

CONFERENCE BY THE NUMBERS

340
ATTENDEES

187
FRANCHISOR EXECUTIVES FROM

200-plus
BRANDS

136
SPONSOR ATTENDEES REPRESENTING

69
COMPANIES

Highest attendance
SINCE THE 2008 RECESSION

Ready. Set. Grow!

The conference kicked off Wednesday morning with the CEO Summit and a concurrent general session on mastering franchise sales. Two afternoon sessions focused on achieving high-performance sales management, and developing successful programs for multi-unit franchise growth. Panels of experienced franchise sales executives and franchisees shared insights from both sides of the franchising equation.

After the sessions, attendees filled the Exhibit Hall for a welcome reception. Cocktails and hors d'oeuvres mixed with conversation as attendees quizzed suppliers and networked with other franchisors and franchisees.

Thursday morning began back in the Exhibit Hall with breakfast followed by the first general session of the conference. After opening remarks by Franchise Update CEO Therese Thilgen, FRANdata CEO Darrell Johnson took the stage to share his thoughts on the state of the economy and franchising.

Johnson said that although there are no silver bullets to change the economic realities affecting business over the next couple of years, the news is not all bad. "The economist in me sees the same troubling, challenging economic factors we've all been painfully aware of for the past few years. But as a businessman, I see some reason for optimism," he said. For example, franchise unit openings, which had dropped from 2007 through 2009, turned positive in 2010, with about 13,000 new openings. The continuity rate for open units is also improving, he added, a key factor in attracting new franchisees.

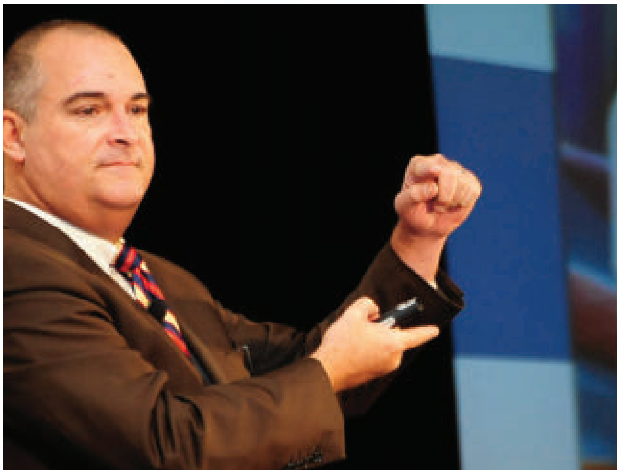
He also cited the example of public corporations, which "have tightened up, built reserves, and focused on operations." This, he said, was a business model franchises should imitate if they want to survive. He stressed that franchising was moving into an "era of quality over quantity" where it's more important to be "thoughtful than swift," which he said "implies that a business model built on growth needs modification." He also cited the need for "greater transparency in relation to performance" because "performance matters more now," both in terms of attracting franchisees and credit from lenders.

Next up was keynote speaker Steven Little, who offered his insights on The Future of Opportunity. "A new factor, that of rapid change, has come into our world," he said. "We have not yet learned how to adjust to its economic or social consequences." Building on Johnson's comments, he said, "The future of your opportunity is not about leads and lending, but about focusing on fundamentals."

Little highlighted seven areas in which franchisors must grow to adapt successfully to rapid change: a sense of purpose, outstanding market intelligence, effective growth planning, customer-driven process, the power of technology, hiring the best and brightest, and seeing more clearly into the future.

Referring to the troubling economy, he concluded his presentation with a quotation from Mark Twain: "I am an old man and I have known a great many troubles… but most of them never happened." Adding his own advice, he said, "I think it's more a crisis of confidence than one of fundamentals. Stick to the fundamentals and the leads and the growth will come."

Franchise Update President Steve Olson then presented the findings of the 2012 Annual Franchise Development Report



and Mystery Shopper survey. As they have been for several years now, many of the results were sobering, and some eye-opening (see related stories in this issue for details).

Three concurrent sessions followed focused on benchmarking for service, food, and retail brands, plus another on site selection and build-out programs that drive sales. Lunch was provided in the Exhibit Hall to digest a very full morning of statistics and data, inspirations and strategies, and practical tactics and tips.

The afternoon kicked off with a keynote address by futurist Scott Klososky, whose message centered on embracing newer technologies for operating and growing a business. "Either we're teaching our competitors how to do things, or our competitors are teaching us how to do things." He made a case for franchise brands fully deploying social media as part of their recruiting efforts, encouraged franchisors to actively manage and differentiate their brands online, and to respond quickly to incoming queries and comments.

His address was followed by concurrent sessions delving into lead and sales process automation and metrics; online lead generation; presenting compelling opportunities through marketing and sales channels; and qualifying and closing more deals. The day wrapped up with business solution roundtables addressing more than a dozen topics. The evening offered a welcome chance to relax and enjoy at the annual STAR Awards banquet, which recognizes the best in franchise sales and development (see page 48).

The last day of the high-energy conference began Friday morning with legal roundtables hosted by franchise attorneys well-schooled on topics such as multi-unit franchise agreements, franchise referral fees, and international expansion. A panel on franchise finance followed, moderated by FRANdata's Darrell Johnson. Panelists Ron Feldman, CEO of Siegel Financial Group, Mike Rozman, co-president and chief strategy officer at Boefly, and multi-unit franchisee Aziz Hashim, president and CEO of National Restaurant Development Corp., took on the 800-pound gorilla of how franchisors can help their franchisees find capital for growth.

The conference wrapped up on a lighter (but still serious) note with a group session where attendees helped plan the startup and development of a fictional franchise business, FranZoo. Franchise Update's Steve Olson and PostNet CEO Steve Greenbaum were the faux franchise leaders in need of growth and development advice—which they got in spades from the group.

Throughout the three-day event, the inter-related themes of lead generation, unit economics, and validation continued to crop up in every session. These issues will continue to have legs in the year ahead. Whether for incoming prospects, existing franchisees, or the health of the franchise system, they will carry a lot of weight in the minds of franchise development teams and executives.

Planning for next year's Leadership & Development Conference is already under way, and will return to the InterContinental Buckhead in Atlanta. ■

BY KERRY PIPES

No Mystery About It

Study finds franchisors still coming up short

There's good news and bad news for franchise sales and development executives. That's the way Steve Olson, president of Franchise Update Media Group sees it after reviewing the results of the company's most recent Mystery Shopper survey.

"My observation from the 30,000-foot level is the good news is that more franchisors are taking aggressive steps to close performance gaps and regrow their recruitment efforts," says Olson. "The bad news is 15 percent of our franchise community refuses to embrace best practices in our new environment. Clinging to yesterday's world, they will wither away."

A bold statement, but Olson says it's backed by the survey results, unveiled in October at Franchise Update's 13th Annual Leadership & Development Conference. Franchise brands that pre-registered for the conference can choose to have their phone response and website evaluated by a team of expert mystery shoppers. The results are used by those brands to measure their franchise recruitment efforts and to provide benchmarks to improve the performance of their sales teams. The results also become part of Franchise Update's Annual Franchise Development Report (see page 36).

The mystery shoppers pose as qualified prospects and go to work making phone inquiries and filling out application forms on franchisor websites. The telephone mystery shoppers call in as qualified prospects and evaluate sales teams' performance including their response time, information requested, how they control the conversation, and how they direct the prospect.

On the web side, researchers evaluated performance drivers including SEO and navigation, how compelling, organized, and informative the content is, and how effective the design, multimedia components, and direct response elements are in driving qualified inquiries to the sales team. The researchers record the brands' ease of access, timeliness, responsiveness, and follow-up, which are then analyzed and presented at the conference.

This year's results were based on 92 phone call and 107 website evaluations. New to the study this year is an analysis of how the brands are using social media in their recruitment process.

As Olson said to the crowd during his presentation of the mystery shopping results, "Don't wait for the recruitment environment to change. You need to change your approach to succeed in this environment."

Who's calling (back)?

First up for review this year was a look at franchisors' responses to the good old-fashioned telephone inquiry. Marc Kiekenapp, president of Kiekenapp & Associates, called 92 franchise brands. Surprisingly, he discovered that 20 brands either did not have a phone number for prospects to call in on, or worse, they had an incorrect phone number on their website.

"Maybe even more interesting was the lack of preparedness for incoming calls that we discovered among franchisors," says Kiekenapp. "Very few had a system

in place where a prospect could easily get to a live person. It seems technology has now taken over the phone systems for hot leads." (Remember, he phoned in to all 92 companies posing as a <qualified> prospect.)

When it comes to phone inquiry response, Kiekenapp says franchise brands must get back to the basics. "There should be a live person to get every call," he says—not a recording or a receptionist who simply dumps the call into a salesperson's voicemail. "If you don't get that lead, chances are another brand will."

Kiekenapp continued on that theme, noting that franchisors not only must develop systems that allow prospects to easily and quickly reach a live person, but also must work on the speed of their responses. "It really should be between two and four hours at most, and brands need an auto-responder in place for calls that come in after hours." He says brands should be able to engage candidates quickly and effectively through both phone calls and email.

His final bit of advice on how to improve your responses to phone inquiries: "Call your own recruitment number. How quickly and easily can you get to a live person? This will let you know where adjustments need to be made."

Website response

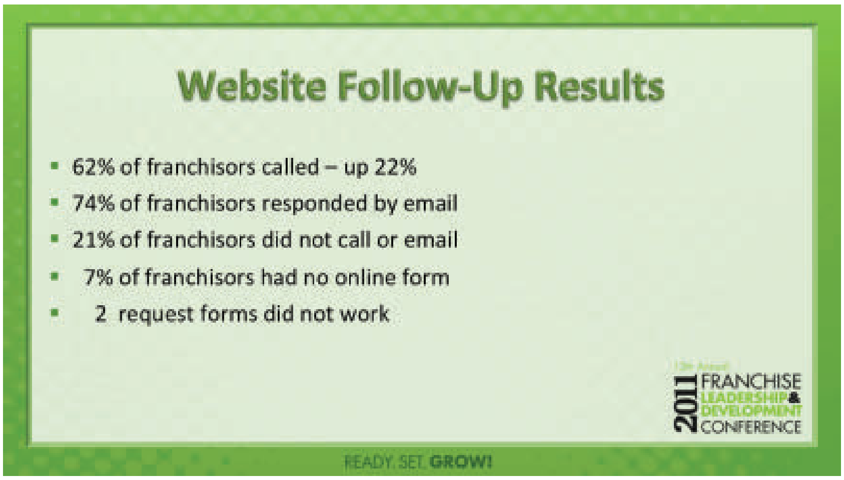
Moving to franchisors' online recruitment efforts, some of the findings were again surprising. Jeff Sturgis, president of Franchise System Advisors, shopped 107 franchise brands through their recruitment websites. Only three out of four called him back after his initial request was submitted online.

As for the timing of those responses, he says, "Most brands called me back within two to three days and a few got back to me within a couple of hours." And, he adds, the brands did a good job of sending follow-up emails when he completed their forms.

Sturgis found most of the sites were easy to navigate, clear to understand, and included a simple short form to get the process started. The goal of his research was to attempt to fill out the online form and then have one phone conversation with the franchisor. "I found most salespeople to be friendly, ask good questions, and they gave me the next step," he says.

The systemic problem Sturgis discovered time and again was the salespeople's lack of "real, quality questioning on that first call," he says. "They didn't do a very good job of engaging me to find out more about who I was. Rather, they just wanted to get into their process." Many sought to direct him into their system to fill out the next form, missing the opportunity

Jeff Sturgis, president of Franchise System Advisors, shopped 107 franchise brands through their recruitment websites. *Only three out of four called him back after his initial request was submitted online.*



to begin building a relationship.

His overall takeaway was that, from a process standpoint most brands are doing pretty well. "But there's a lack of personalization and relationship-building going on. I believe that good franchise recruitment is based on a conversation, not just a process."

Website content

Steve Kennedy, Web.com's director of business development, simultaneously was reviewing the content of the 107 recruitment websites. He identified several trends and benchmarks that shed light on best practices—based on both what franchisors have on their websites and what they don't.

For example, only one third listed the benefits of franchising, although two thirds addressed the benefits of joining their particular company. Surprisingly, just over one third of franchisors mentioned items critical to a prospect's decision-making process, such as available territories (37 percent) and the investment required (38 percent).

For his next set of criteria—which included financial requirements, FAQs, testimonials, and industry background and growth—about half of the 107 franchisor websites he surveyed got it right (or got it wrong, depending on how you look at it). Including this information on a recruitment website can play a big role in favorably influencing a prospect's decision to continue investigating that brand—or to click away and consider another brand whose website provides the information they are seeking. Only 30 percent included financial performance representations, while two thirds (68 percent) laid out their franchise award process.

Kennedy also found that the website bounce rate from the home page increased

For the first time, this year's study evaluated brands on how they are using social media.

Jon Carlston found there's much room for improvement.

from 55 percent in 2010 to 62 percent in 2011. Not a good sign. He also found the number of visitors submitting lead forms dropped from 1.9 percent in 2010 to 1.3 percent this year.

One conclusion that can be drawn from the Web.com survey: franchise recruitment websites need fresh content that provides answers and is updated regularly.

Social mystery

For the first time, this year's study evaluated brands on how they are using social media in their franchise recruitment efforts. Jon Carlston, vice president, social development at Process Peak, evaluated each of the 110 brands. He examined how brands are providing opportunities and information through social media tools such as LinkedIn and Facebook. He found there's much room for improvement.

"Despite LinkedIn being the social network that most franchisors believe has the most direct application to franchise development, 59 percent had never updated their profile," he says. (Kudos to the 41 percent who did.)

He also found that more than half of the brands he looked at don't mention franchise opportunities on their Facebook pages. "Given that Facebook represents the world's biggest online audience, we were surprised to find that franchisors were not taking advantage of this to grow their systems," he says.

Franchisors must be more active in allowing Facebook fans to "take action and inquire about a franchise," he says. Also, he recommends that franchisors should take advantage of the tools Facebook provides. "Facebook allows you to have custom-built applications on your pages to display franchise micro-sites, collect leads, and frame in map locators—all at no charge." Can't beat that! Stay tuned for next year's results. ■

BY HELEN BOND

STAR Power

Celebrating excellence in franchise recruiting

And the 2011 STAR Award Winners Are...

BEST OVERALL PERFORMANCE

FIRST PLACE **BrightStar HealthCare**
SECOND PLACE **PostNet International**

BEST TELEPHONE PROSPECT FOLLOW-UP

FIRST PLACE **Pillar To Post**
SECOND PLACE **Discovery Point Franchising**

BEST RECRUITMENT WEBSITE

FIRST PLACE **Tropical Smoothie Café**
SECOND PLACE **Action Coach**

BEST WEBSITE PROSPECT FOLLOW-UP

FIRST PLACE **PostNet International**
SECOND PLACE **Action Coach**

BEST SOCIAL IMPLEMENTATION (NEW)

FIRST PLACE **PostNet International**
SECOND PLACE **FranNet**

Great companies practice excellence… even when no one is looking. This simple, valuable notion is the premise behind the STAR (Speaking To And Responding) Awards presented each year at the Franchise Update Leadership & Development Conference. The annual award recognizes franchise companies for best practices in lead generation and recruitment.

STAR Award recipients are scored and rated based on results compiled by mystery shoppers who pose as qualified prospects and contact franchisors online and by phone. This year, mystery shoppers called 92 franchises and submitted applications on 107 franchisor websites to judge how well—and how quickly—sales and development teams responded to their inquiries (see page 44). We caught up with some of the honorees to learn more about their winning strategies.

BRIGHTSTAR HEALTHCARE

***Winner:* Best Overall Performance**

BrightStar knows how to make a shining first impression. When BrightStar sales qualifier Ruth Chavez was "shopped," she immediately followed up the web inquiry with a phone call—even though it was after hours. This type of "ownership mentality" is part of the corporate culture at BrightStar, a home healthcare staffing franchise founded in 2002 as a family business that now has more than 250 locations nationwide.

"Receiving the Best Overall Performance Award is a very high honor and distinct privilege," says Shelly Sun, BrightStar co-founder and CEO. "It is extremely rewarding to be recognized for our overall sales process, which validates what we do and also recognizes the high level of customer service that we strive to provide every day." (Sun is familiar with undercover work after an appearance on the CBS television program "Undercover Boss.")

When BrightStar began franchising nearly six years ago, one-on-one candidate calls, PowerPoint presentations, and mailed packets of printed materials were standard recruitment fare. Best recruitment practices have evolved with time and technology. "We rode the portal wave during the early days when the quantity *and* quality was better than today," says Sun. "In 2009, we implemented Process Peak, and that doubled our closing ratios and created a more predictable experience for the candidate."

These days, sophisticated sales and development tools aid a highly selective franchise expansion process centered on prospect profiling. BrightStar has always looked for franchisees with a "heart for our business" says Sun, and has turned down candidates—money in hand—who failed the company's "No Jerks" rule. As the brand has grown, so has the company's desire to learn more about those heart-centered operators and further hone those qualities in its franchisees.

BrightStar knows how to make a shining first impression.

"We have spent a lot of time and money understanding our best-performing franchisees, and also those franchisees who struggle, looking for the differences in background, experience, passion, work ethic, attitude, ability to influence others, etc.," says Sun. "With the investment in Proven Match, a great profiling tool, we were able to detect statistically significant differences in profiles between top performers and others, and have redesigned our marketing messages, our screening process, and ultimately our selection to funnel more top-performer profiles into our system."

Along with its focus on profiling, BrightStar generates leads through social media, SEO/SEM campaigns, and public relations strategies, and uses Process Peak on the back end of the recruitment process to analyze which lead sources delivered in order to optimize the sales process by investing time and money where it counts.

The synergy between these sales and development tools gives BrightStar, a past recipient of multiple STAR awards, a competitive edge. Sun believes the company's investment in its franchisees makes BrightStar's sales and development approach unique.

2011 STAR AWARDS

"Knowing our investment and commitment to supporting franchisees in their journey to become successful entrepreneurs drives our continual review of our process to ensure we are *selecting* franchisees," says Sun. "As we learn about the types of franchisees who are the most successful, we build new approaches to find more of them. Conversely, as we identify profiles who struggle we stop approving them."

PILLAR TO POST

***Winner:* Best Telephone Prospect Follow-Up**

At Pillar To Post Professional Home Inspection, someone is always home. North America's leading home inspection company captured the STAR Award for best telephone prospect follow-up—the core tool of the company's franchise development process. For Dan Steward, company president and CEO, a fast response and effective, professional phone communication is an integral first step in finding the right franchisee fit in a business that is all about relationships.

"Candidates can then experience our 'Getting to know you' process, and we get to know them," says Steward. "Just holding a phone appointment says something about the quality of the other person. We do not hold discovery days, so the full sales process is largely conducted by telephone. We have to be good at this, there is no choice."

This personal touch is a reflection of the corporate attitude at Pillar To Post, a style that Steward calls a blend of "old school person-to-person and new technology." Technology allows the company to achieve its goals, but is not used for its own sake, says Steward. "We work to focus on technology being an enabler, not a definition of structure or process," he says. "This means that the process and structure are driven by the goals and the human interactions to follow, and define how we use technology to enable that to happen. It is especially useful to eliminate the barriers of time and place."

The company's service savvy is paying off with satisfied franchisees.

This philosophy is part of the franchisor's "candidate centered" recruiting process. Each lead has its own response plan based on the developer's read of the prospect. Pillar to Post's use of technology includes phones ringing directly with the recruiter whenever possible, no middle person or time delay, and a live, trained call center when direct answering is unavailable. "We try to be real simple in this and will often have the phone ring directly with the assigned developer so there is immediate response for the candidate," says Steward.

Other strategies include easily triggered email campaigns to augment phone communications, response triggers that indicate when a candidate has opened an email, and CRM tools to track, measure, and build predictive models.

The company's service savvy is paying off with satisfied franchisees. With the brand now up to more than 400 locations across 43 states and 9 Canadian provinces, Steward says the single largest source of new franchisees is referrals from existing franchisees. Pillar To Post also garners leads from online portals, its corporate website, public relations, trade shows, newspapers, and special events. Looking ahead, Steward is leading the charge to develop increasingly targeted, non-traditional sources of leads and to actively measure and refine the leads received.

Steward likes to keep his mind open to new ideas and is constantly striving to improve best practices learned from other franchisors. The STAR Award is external validation of the hard work of Pillar To Post's recruiting team, strategy, and execution.

"It is incredible to win this when you look at the quality of the other franchisors in this pool. The room [at the awards banquet] is filled with high-performance, driven people who operate some of the very best franchise brands in the country, so we have the greatest respect for this group of peers," he says. "On a personal note, it is also awesome that we can have some fun and gloat a little bit with some of my competitive colleagues who were part of this mystery shop pool."

TROPICAL SMOOTHIE CAFÉ

***Winner:* Best Recruitment Website**

At Destin, Fla.-based Tropical Smoothie Franchise Development, the vibe is "tropitude." This flip-flop wearing, laid-back corporate culture resonates online to produce a well-branded, easy-to-navigate, action-oriented online experience that earned Tropical Smoothie top honors for its franchise development website.

"The job of our website is to provide information to make them feel comfortable to get that one-on-one dialogue going, whether by phone or email," says Charles Watson, vice president of franchise development. The creation of a development site linked to a consistently branded consumer website was the first order of business for Watson when the hospitality industry veteran joined the company in January 2010.

Tropicalsmoothiefranchise.com greets candidates with whimsical fonts and orange, lime green, sunny yellow, and purple tones that make visitors want to grab a wrap and sip a smoothie (and, oh yes, follow up with an inquiry). Numbered

Lead volume is up 50 percent since the company launched its franchise-focused website 18 months ago.

tabs across the top of the page encourage visitors to explore "The Tropical Way." Firsthand franchisee stories, financial performance numbers, a virtual brochure, and a downloadable franchise kit are all available for visitors.

The idea behind the site design is to find the right balance between providing prospects with plenty of information (but not too much) and an element of control as they browse the site to discover the essence of the brand, says Watson. "I try to put myself in their shoes," he says. "We want to give them the download and print options to collect the information how they want to, on their own time, and even in their pj's."

These strategies, and their winning execution, provide a response-driven personal connection and follow-up through phone calls and email to quickly begin the quest to explore whether the budding business relationship is good for both sides.

Watson estimates that 90 percent of the company's leads—and the most qualified prospects—come from its website. Even more impressive, lead volume is up 50 percent since the company launched its franchise-focused website 18 months ago, he says.

Founded in 1993 as a smoothie shop, the company has been franchising since 1997, and now has 360 units in the U.S. As he looks ahead, Watson intends to increase Tropical Smoothie's investment in tools to help the company refine its search process and recruit the highest-quality, best-fitting prospects.

★ ★ ★ ★ ★

POSTNET INTERNATIONAL

***Winner:* Best Website Prospect Follow-Up**
***Winner:* Best Social Implementation**
(new category)

With a dozen STAR Awards already on display at PostNet's Denver headquarters, the design, printing, and shipping firm continually takes lessons they've learned at previous Franchise Update conferences to heart—and to the bottom line. This year PostNet received a STAR Award for its winning response when a prospect requests information from its website.

The company is focused on using best practices to create a compelling, response-driven website that matches the needs of potential franchise candidates. "We are making it easy on prospects to convert to an inquiry on our site," says Brian Spindel, PostNet's president and chief operating officer.

In the ever-evolving world of franchisor websites, PostNet's online strategies are purposeful and tweaked frequently to optimize recruiting efforts and turn visitors into leads. Spindel and crew monitor website usage weekly and make site changes monthly. Google Analytics offers insights into where visitors click—and where they leave. This constant analysis allows them to understand what content is most important and interesting to prospects and to uncover where there is a need for evaluation or enhancement.

Tiny tweaks can mean big changes online. A flashing button, making it easy to move pages directionally, and a change in the response form are just a few of the tweaks that have helped PostNet more than double its number of online inquiries and leads generated.

For example, PostNet's website, which features an inviting e-tour, previously offered both a long and short response form for potential candidates. Now, visitors fill out only a short form

PostNet's online strategies are purposeful and tweaked frequently.

to connect quickly to the company for their first discussion, which "sets the table" for the entire recruiting and qualifying process, says Spindel.

Much has changed since 1993 when the company was founded and employed newspapers, magazines, and a toll-free telephone line. These days, PostNet continually seeks ways to integrate consumer and franchise efforts and increase traffic to its website using social media, SEO, and PPC.

Facebook, for instance, is becoming more effective than the older "drip" e-mail efforts. "Many of our prospects who inquire 'like' us on Facebook," says Spindel. "It is a natural way to keep a person informed and involved in the brand and stay up to speed on PostNet."

Spindel credits the company's disciplined standard operating procedures in all areas for its sales and development success. "We set a high priority on responsiveness, being available, and making sure in the franchise development process that our promises are followed up by performance," he says. "That establishes credibility with prospects and builds a trust level that says we are going to do what we say we will." That's what follow-up is all about, both online and off. ■

Challenge the pros

"With 2011 winding down, how are you leveraging people, budgets, brands, and resources to meet development goals?"

Bill Knight, ChemDry
Vice President of Franchise Development

If I were to give you Chem-Dry's secret weapons for the fourth quarter, they would be the art of listening and team closing. As we work with different candidates we have found that the more we can align our sales team with the candidates' personalities, the more people we attract and the more obstacles we overcome. When you leverage people and encourage the whole company to sell, then productivity and problem-solving increase. This approach fits our culture: Chem-Dry was a company built on chemistry—the chemistry of our products and the chemistry of our people. Our 2011 numbers prove this philosophy works as we are up 91 percent over last year and 31 percent over this year's plan.

In addition, we have a lot of deals that come from our existing franchisees, and we specifically geo-target areas to create competition and urgency. We try to make selling fun, and we create competition where we focus on hitting specific goals. We offer company incentives if an employee gives a referral or if they tee up a franchisee who is ready for expansion. We openly expose our culture and get franchisees involved by sharing their success stories. When there are major layoffs within large companies we try to promote our opportunity. Through these tactics we are able to fuel our sales, create a department that is enthusiastic, and build trust.

A plethora of new marketing vehicles is available, with technology and social media resources making it easier to amplify our value proposition. We invest in the things that work for our brand. We have discovered a new and exciting non-traditional lead source that is a huge producer, and we are adding new self-directed technology making it easier for candidates to follow our sales process. We are also committed to giving back to our franchisees. We have a new program where new franchisees are given access to our call center, SEO team, and new booking software free for their first year. This not only serves as a sales catalyst, but also adds real value to their business.

A lot of our new messaging is focused around Chem-Dry being a safe investment for more than 33 years. We recently came out with an Item 19 that backs this statement and shows our unit-level economics. We are the industry leader and have strong brand power that screams sustainability; we plan to convey this message even more next quarter. We will continue to survey our franchisees so we can understand who our target audience is. I am confident that by continuing to do all of these things we will be able to exceed our development goals.

The greatest companies throughout history have always used economic downturns as an opportunity to market their brands, products, and services.

Charles Watson, Tropical Smoothie Café
Vice President, Franchise Development

In the current and challenging environment, franchise development executives must do more with less. Budgets have shrunk, but expectations have not. Whether we are in a "new normal" or not can be debated by those with economics degrees, but it is clear that the lack of franchise financing and the overall economic sentiments of the average American "would-be entrepreneur" are making it difficult to hit development targets for most franchise organizations.

At Tropical Smoothie Café, we are investing in people, namely sales associates whose job is to cold call and reach out to those prospects who do not know they are prospects yet! Franchising is a people business, a partnership, and we are focusing on developing relationships with our prospects. We want to hear what their goals, fears, hopes, and dreams are to see if it's a match for our franchise system from a capital and personality perspective. Given the lack of credit availability, more times than not our prospect does not qualify to be a franchisee… *yet*.

A positive and straightforward experience with a franchise development professional who is not afraid to say "You don't qualify right now" or "I don't think we would be a good fit for reasons X, Y, and Z" is the type of honest feedback prospective franchisees are looking for. The last thing I want an excited prospect to do is move all the way through our process and invest their time and resources if I know they do not have enough liquid capital or a credit rating to come close to qualifying for financing. Even exciting new technology and tools in this arena such as Boefly.com (who we are in partnership with) can't make a 500 credit score and $20,000 cash into a $275,000 quick casual restaurant loan.

The greatest companies throughout history have always used economic downturns as an opportunity to market their brands, products, and services "at a discount" and came out of those slow periods with radically increased brand awareness and customers lined up. We are doing the same at Tropical Smoothie, one prospect, one call, at a time. ■

BY MARC KIEKENAPP

Outside Opportunity

Franchise consultants can help you prosper

As all of us put our heads down and plow forward with our companies we sometimes can't see the forest for the trees. We deal with fires all day long, our staffs are stretched, and we have very little time to devote to standing back and taking a hard look at what we could do to make our business better for the franchisor and the franchisee. A franchise professional who has been exposed to hundreds of concepts may be just what you need. Franchise professionals with decades of experience can share what has worked for others over the years. Attorneys, system consultants, operational experts, and franchise consultants can all add valuable input to help your businesses prosper.

Use the resources of the IFA or Franchise Update Media Group to help you select a consultant.

Here are three key questions to consider before hiring a consulting firm to work with you:

1. Are you willing to make changes to become a better franchisor and have the best system possible for your franchisees?
2. Are you willing to provide the personnel and time to gather the information the consultant requests?
3. Does the consultant have franchise experience, references, and the same cultural and business ethics that you have created in your franchise network?

Understanding the sales formula

Increasing franchise sales is not always about more advertising, a better sales team, or lower fees. Today candidates are focused on making money first! If you remember just a few years ago, making money was third or fourth on the list of reasons candidates were investing in a franchise. So with that being said, the presentation of your company and systems must be delivered better than ever so candidates can understand (1) how and when they will make money, and (2) that other franchisees—a high percentage—have done the same before them.

An outside consulting firm can help you accomplish this by viewing your network through "night vision" glasses. What I mean by this is that a consultant hasn't been part of the history, politics, relatives, or other ideas and projects that internal staff said just won't work. A consultant should assist you in identifying the challenges and in mediating the changes between departments that can move your concept to a more compelling, correctly positioned offering. Granting franchises to the right candidate is a team effort, with most departments—legal (inside or outside counsel), finance, operations, training, and franchise development—in your organization participating at some level.

Are you willing and able to change?

Before starting your interview process with consulting firms, your management team must be in agreement that you will *seriously* consider implementing the suggestions that can improve the company and franchise offering. If not, the entire exercise will be a dismal failure. The reason you've hired a firm is because you haven't been able to make the changes on your own or haven't identified them. Change is difficult, so don't invest the money if you can't make the changes.

Commitment to process

The rub with hiring a consultant is that you are paying them to identify the company's needs, but they keep asking you or your staff for information. Get over it! How else can they discover what they need to know? If they aren't asking for tons of information you can probably expect to get a template report that was modified from another project. Done correctly, this process is a huge undertaking, so make sure you are ready to commit the time, money, and effort to do it correctly. To thoroughly go through all your systems and make changes could easily take 3 to 4 months. And last but not least, check your ego at the door.

How to choose a consulting firm

The beliefs of your company and the consultant need to be in alignment! Choosing the right firm for your company is the number-one key to a successful relationship that can turn out a great plan for implementing changes. Several franchise companies have hired outside of the franchising world with nominal results, because so much effort is expended on "franchise education" rather than your needs and challenges. Use the resources of the IFA or Franchise Update Media Group to help you select a consultant who has a track record of working with franchises.

Candidates invest money in your franchise system because they believe in the organization and that the business system, support, and franchisees are high quality. They make that decision around three key points:

1. Profitability (unit level and strength of franchisor)
2. Franchisee satisfaction (validation)
3. Support and training staff who are knowledgeable and care about their success.

Whether you take this on internally or hire a consultant, your franchise system will be on the way to granting more franchises to higher-quality owners. Problems lessen when everyone is making money!

Happy Selling,
Marc Kiekenapp

Market trends

BY DARRELL JOHNSON

Growing in a Changing Economy

Companies focus on the bottom line

As an economist, I see some really challenging times ahead. As a businessman (and professed contrarian), I see some interesting opportunities. Let's take a look at both.

The world economy will be fortunate to realize a 3 percent growth rate in 2012. Less than 2 percent and we'll see a global recession, something too close to call at the moment. Europe is a mess, China is slowing down, and Japan is close to returning to the economy of its lost decade. With most other economies substantially smaller, we can't look to the ones just mentioned to be the engine of growth to get the world humming again.

That leaves the U.S. We're in the aftermath of the "Big Party." You remember the Big Party, we all had fun in it. The 2002 to 2008 period was marked with unprecedented consumer and government spending. Consumers bought everything they could using home equity and credit cards. And the government managed to expand its spending across all continents and categories. Until both consumer and government debt get back to a more affordable level, the hangover will continue. It is going to take years—and it's not clear whether the government has the fortitude to deal with its portion of the tab and, if so, how it will do it. That uncertainty will further constrain business and consumer spending.

And before we get to a more robust economy, other fundamental economic issues must be resolved. The persistent unemployment and underemployment rates suggest we are in the midst of a structural change in employment ranks. There are many job openings in skilled and technical fields that only education and training can resolve. That's a long-term issue.

Housing is another fundamental economic issue that has a long path to balance. There are roughly 3 million vacant homes, another 3.5 million underwater mortgages, and about 2 million homes in default or delinquency. Until those are moved through the market (something the legal system currently is constraining), the market will not clear and we'll have flat and declining home prices and the accompanying uncertainty that produces in consumers' minds.

All the above would suggest it's time to hunker down and try to ride out the storm. If the storm were relatively short, I might agree. However, I believe we're seeing a gradual transition of the old guard (developed countries) toward the new guard (developing countries). In the next 10 to 15 years we'll see quite a few changes in the ranks of the top 25 economies.

For starters, China will overtake the U.S. as the world's largest economy in about 2022. I think that changeover will be marked by more dramatic swings in U.S. and global economies in coming years. In economic terms, the period from 1985 to 2007 could be considered the Great Moderation in business cycles, when dips were few and far between. From 1799 to 1929, nearly 90 percent of U.S. expansions lasted three years or less. With the Fed out of high-caliber ammunition and the political climate anything but conducive for a cooperative solution, it seems likely we're returning to the historical norm of more dramatic swings in economic activity.

What about a business perspective? Let's start with a look at the S&P 500. Do you know when more than half of those companies started? Good guess: during economic downturns. American business culture is built on entrepreneurism. The next wave of great companies has already been started. They're all around us. Bully for American business, but for many of you with growing or mature brands that just adds to the challenge. Even now we see new franchise brands being started, on average, every three days.

That leads me to a key driver for almost every company in the U.S. and certainly every franchisor: relentless pressure on spending your company's dollars wisely. In the economic turbulence ahead, companies will focus on the bottom line, not the top line. Whether marketing, franchise development, training, operations, or compliance, franchisors must be confident they are spending smartly and effectively. Having more and better information will guide franchisors through most decisions to a degree just barely being felt today. Picking the next area to develop will be made with forecasts of local, city, and county growth patterns 5 and 10 years from now, when your franchisees will still be running the businesses. Training will have more business-level skill development and information sharing to strengthen the franchisee overall. Support will find ways to overcome traditional legal barriers to do what's right and necessary with franchisees. And all of this will be benchmarked, not only internally but across brands and sectors.

We're seeing the power of this today with Bank Credit Reports (BCRs), which are a specialized form of benchmarking. While BCRs compare brands within franchising, their real power is that they provide a level of credit risk forecasting for banks that are shifting capital away from independent businesses (where banks struggle to have any predictive credit risk ability) toward franchising, which has a lot of credit risk predictability. In uncertain times, banks, franchise companies, and companies in general that can operate with better information will make better decisions and successfully navigate these choppier waters. ■

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Lead generation technology

BY JOHN JORGENSON

Faster, Cheaper, Better

Lead generation takes a technology leap forward

Traditional lead generation for franchise development has been a "they will find us" approach. The three most common sources of leads for franchise companies have been:

1) online portals that attract people to their site and shop an array of brands to see if a franchise opportunity suits their interests;

2) franchise brokers who screen online leads to provide franchisors with qualified candidates at a relatively high cost; and

3) the franchisor's own development website.

New technology now makes a "Let's go find our perfect candidate in an open territory" a targeted approach that is proving very efficient and economical!

We are now living in the Digital Age and, like it or not, there is a ton of electronic intelligence out there about you. Consumers leave their digital footprints everywhere: their car dealer's website, their favorite retail sites, their financial institution's site, etc. Our solution compiles that information and develops profiles around that intelligence. It is simple to plug in the ZIP Codes of an available franchise territory and then use demographic selectors to determine who the likely candidates are to purchase a franchise in that area.

The database selection can be targeted to specific financial and lifestyle characteristics that match the franchise opportunity. Sometimes this is difficult because it flies in the face of political correctness. Recently, we conducted a webinar with a group of area developers for a brand whose franchisees were predominately male. When we instructed the ADs to put only male contacts in their campaigns there was huge pushback, for example: *"Some of our best franchisees are women!"* or *"Why would you immediately rule out nearly 50 percent of the market?"*

It is purely an analytical math formula. Their system was 96 percent male, and when we go into a campaign we market to the most likely data set that will purchase a franchise from that company. We get paid to deliver new franchisees. We asked them, *"How great would it be if every lead you talked to was financially qualified in an open territory?"* That squashed the chatter.

Case study: early adopter

When we built our system (originally for franchisees to market their businesses), we integrated an email and postal address data pipe that provided access to more than 200 million "intelligent" records that can be filtered by geography, demographics, and lifestyle characteristics. The data is double opt-in and refreshed every six months to ensure very high delivery rates.

The first adopter was CMIT Solutions, a leader in the IT franchise space. CMIT, which had been using the program for their franchisees to market their businesses, recognized that the same technology was perfect for generating franchise development leads. Because a campaign can be targeted by ZIP Codes, CMIT targeted the Dallas/Ft. Worth area, where they had available territory and wanted to expand their footprint. The first step was an analysis of the demographic characteristics of what makes a good CMIT franchisee. The results of the analysis were six key demographic data factors that included age range, net income, discretionary spending, IQ, and so on, all of which are available as selectors.

Once the profile and geo-targets were established, CMIT purchased 15,500 records in the Dallas area and launched a three-email campaign (which repeats one time for a total of six emails) using the system's Automated Marketing Campaign (AMC) feature. Once the AMC is set up, the user does not have to touch it again. The emails are sent at a predetermined interval with a trackable link to a landing page to capture the contact information of exactly who has enough interest to click through, even if they don't complete the "request for information" form on the landing page.

The proof's in the data

"I was skeptical at first when my development team proposed the idea," says Jeff Connally, CEO of CMIT, "but they convinced me to give the program a try. I just didn't envision that the email campaigns would produce meaningful leads at an extremely attractive cost." He agreed to give the program a shot.

Anxious to get going, CMIT's development team launched its initial campaign in the dead of summer in Dallas. "This summer has set many temperature records in Texas, and our target demographic traditionally escapes to cooler climates," says Connally. In spite of this, the initial program produced more than 250 leads, with 52 engaging in the process. "We have already awarded one territory as a result of this campaign, and I fully expect to award another two to candidates we identified in this, our first use of the program," he says.

The cost of the campaign ended up to be less than $20 per lead and less than $1,000 per deal. However, says Connally, "As attractive as the cost is, what I am most excited about is the ability to target when and where we'll add to our 130 locations."

Says John Cohen, president and co-founder of Rhino 7 Franchise Development, which handles direct franchise sales for many companies, "It was only a matter of time until technology would provide a very efficient way to go after our exact prospect in a specific market." ■

John Jorgenson *is CEO of Easy Way Marketing, supplier of an online marketing platform that integrates all the marketing media channels, data pipe, and CRM tools franchisors need to provide franchisees with a turnkey marketing system. Contact him at johnj@fceasyway.com or 410-489-6555.*

It's closing time

BY STEVE OLSON

Winning Questions for Sales Success

22 ways to connect with candidates

One inexcusable deal killer is when sales execs don't establish a connection with their prospects. Franchise Update's annual mystery shopping survey of 100-plus brands identifies this as a chronic selling challenge. In most cases it isn't a personality issue, but the absence of understanding what their candidate is thinking. A one-way conversation of selling-by-telling spells disaster in today's fragile environment.

Focus on their world, not yours

Successful franchisors engage with their prospects to gather valuable information about their character, motivations, fears, wants, impressions, and goals. Move from your world into the world of your candidates. Find out what they see, feel, and think. Avoid being an "information pusher" and instead develop two-way conversations. Share thoughts. Importantly, smart probing will prevent delays and needless time spent working with unqualified prospects.

Concentrate your attention on your candidates, asking open-ended questions that give you valuable direction on their direction. This shows your interest in them and strengthens your personal connection. Your candidates appreciate that you want to know more about them and care enough to ask them revealing questions.

22 ways to learn about your prospect

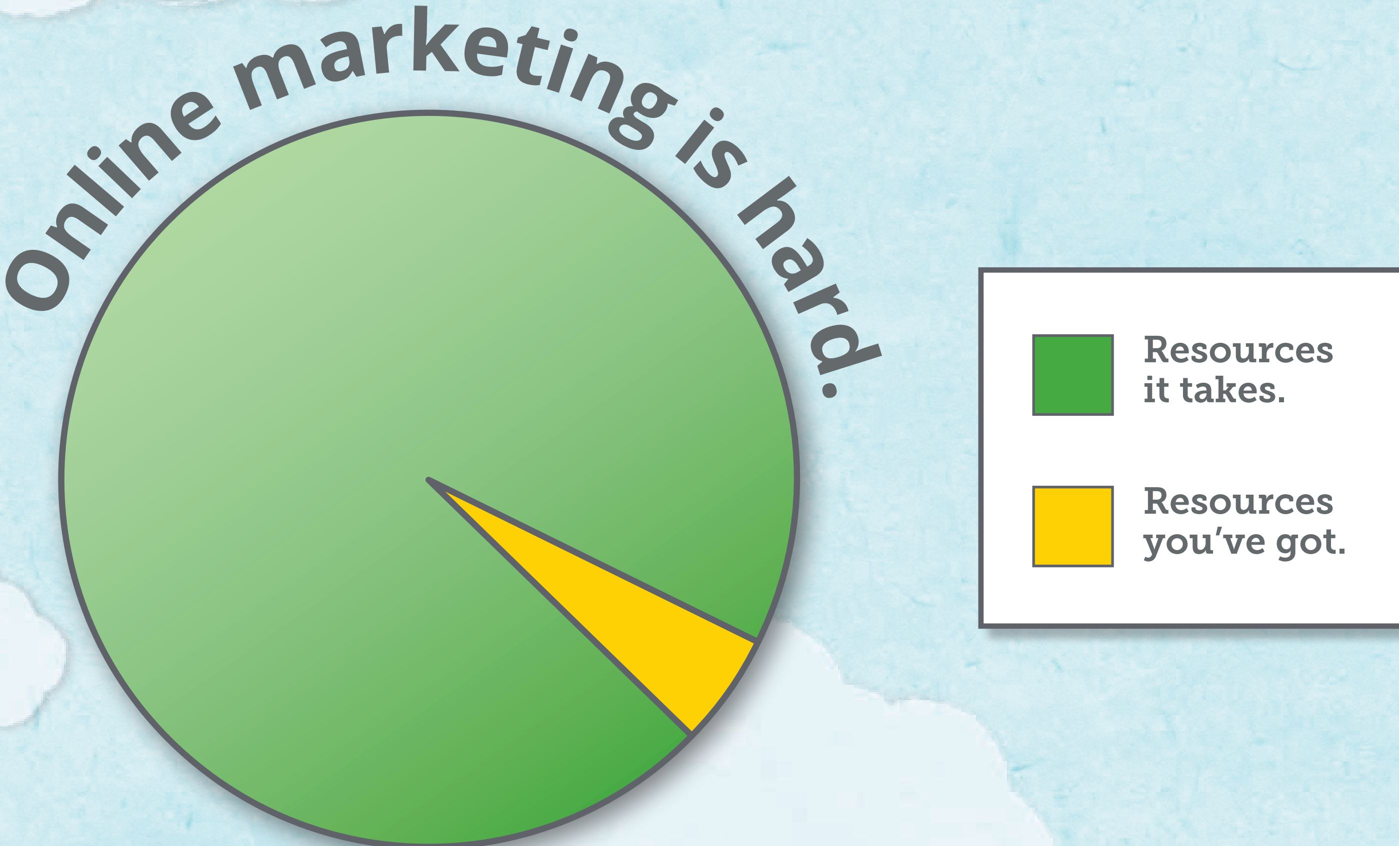
Below are some classic probes that have worked for hundreds of franchise sales executives. Pick your favorites and employ them throughout your recruitment process.

1. Why are you looking now?
2. How long have you been looking?
3. How did you hear about us? What in particular prompted you to respond?
4. What was it about our business that made you respond?
5. What other opportunities have you considered? What do you like and dislike about them?
6. How do you define success?
7. What do you want your business to do for you?
8. Are you really ready to own your own business? Why?
9. What don't you like about your current job? What do you like?
10. What has been your experience in managing other people? What are your strengths? Any areas needing improvement?
11. How will you know when you have found the right opportunity?
12. What gets you most excited about this franchise? What are your biggest concerns?
13. What do you expect to gain by making a career change?
14. What does franchising mean to you? What are the advantages and possible disadvantages?
15. What are your strengths that will help you succeed in your own business… during up and down economies?
16. What makes you believe you would be successful operating one of our franchises?
17. How do you see yourself in this business? What role will you play initially and long term?
18. How does your spouse or partner feel about this opportunity? What do they like? What do they dislike?
19. What contributions do you believe you can bring to our system?
20. What do you do for relaxation?
21. Tell me about some of your hobbies and activities outside of work.
22. What do you think about our opportunity so far?

Close more buyers now

Franchise candidates want you to address their hot buttons and build a relationship and true understanding of their interests and concerns. This mutual discovery will lead to greater success recruiting the right buyers for your franchise opportunity. ■

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.franchising.com/franchisors/growtogreatness.html*



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- **Senior Care** - $100k + investment; FL; 60 day sales cycle
- **Kids Education** - $75K+ investment; NY; 7 month sales cycle
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- **Home Improvement** - $20K investment; CA; 40 day sales cycle
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- **Mobile** - $65k + investment; OH; 3 month sales cycle
- **Auto -** $200K investment; WA; 2 month sales cycle, AND Onsite Service -- $150K investment; WA; 6 month sales cycle (same buyer)
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*Just a recent sample of franchises sold to our prospects

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