Franchise update | Q1 2012

BUSINESS INTELLIGENCE FOR GROWING FRANCHISORS

Lead! *Doubling the marketing fee at Firehouse Subs pays off*

Market! *Auntie Anne's Heather Neary on franchisee partnerships*

Grow! *The connection between franchisee satisfaction and unit sales*

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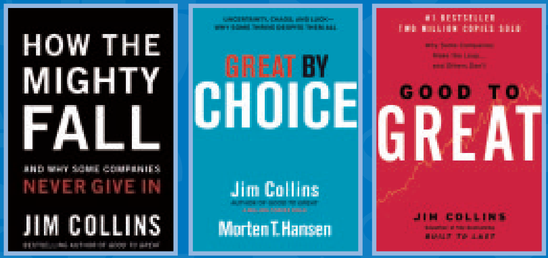

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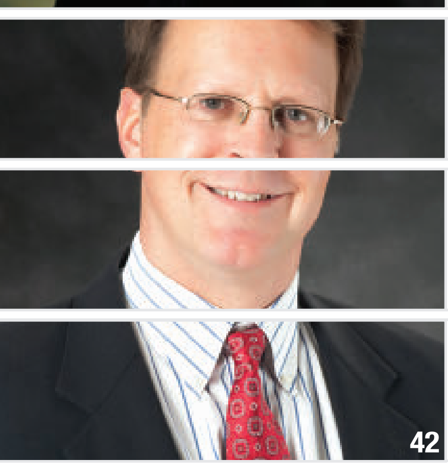

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From the editor's desk

BY KERRY PIPES

Satisfaction Guaranteed

Mick Jagger of the Rolling Stones famously sang, "I can't get no satisfaction." How frustrating that must have seemed for the budding rock star in 1965. Somehow I doubt he really had trouble with this particular topic.

Satisfaction can be frustrating for a franchise brand ignoring the needs and desires of its franchisees. On the other hand, brands that are working to create a culture of satisfied franchisees are reaping the benefits. And it's to this topic—franchisee satisfaction—that we have devoted this first issue of *Franchise Update* for 2012.

Clearly, franchisee satisfaction is a big subject whose significance cannot be overlooked or ignored. After all, satisfied franchisees are generally happier and most likely more successful. Franchisee success means a stronger brand with stronger validation and more referrals. And we haven't even touched on how all of this creates happy customers who continue to visit the brand time after time. That signifies dollar signs.

Perhaps your leadership is focused on franchisee satisfaction and actively pursues solutions toward that end. That's great. But if you could use a refresher course, I think you may find a few good ideas in this issue.

For example in our Challenge the Pros section, we asked three development executives to tell us how franchisee satisfaction affects their referral programs and how that relates to their overall development planning and process. All three said franchisee satisfaction was a cornerstone of their referral and development strategies. Themes like "listening and responding," "open dialogue," and "franchisee recognition" were just a few of the sentiments opined by these execs.

Elsewhere in the issue, we asked some CMOs how significant franchisee satisfaction is to their brand's overall marketing strategy. Not surprisingly, it's huge. When you consider that your franchisees are the front-line "face" of your brand—the people your customers interact with daily—why would you *not* want to be doing everything you can as a brand to keep these franchise "partners" satisfied?

We also spoke with Auntie Anne's CMO Heather Neary about franchisee satisfaction. Perhaps she summed it up best when she said, "In order for our franchisee partners to be satisfied, we need to go above and beyond on every facet of our business operations. When our franchise partners are satisfied, they are able to focus on their day-to-day operations in their store(s) and can better serve our customers, which means greater success and profitability for all parties."

Mick Jagger aside, satisfaction can be found. Just add it up—satisfied franchisees, cheerful employees, and happy customers—and you have a formula for franchise success. ■

Franchise update Q1

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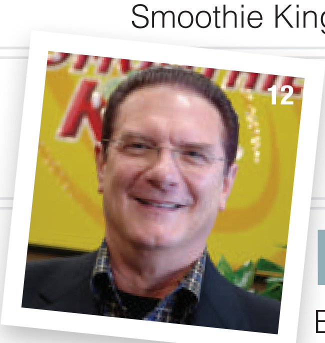


BY KERRY PIPES

CEO profile:

Way To Grow!

AlphaGraphics CEO focuses on transformation

Kevin Cushing began delivering newspapers in Chicago when he was in second grade. He eventually delivered more than 1 million. "I knew I had to get those papers out or the readers would not know what was going on in their world," he says.

Lofty goals for the lad, who says it was during these early years that he became what he calls "a lifelong small businessman." Today Cushing is CEO of Salt Lake City-based AlphaGraphics, where he has held the reins since June 2004.

Cushing graduated from college in 1978 and began working with a shopping center leasing company called Terratron, which oversaw retail properties in Wisconsin and Minnesota. Some of the shopping centers' tenants were independent restaurants, and when they would go out of business Terratron needed something to replace them. That "something" turned out to be franchised Hardee's restaurants.

"We started with just a couple of units and did well with them," says Cushing. Eventually, Terratron oversaw 81 Hardee's units in 7 states. In 1991, he became president of Terratron and began to experience the itch for owning his own business.

Name: Kevin Cushing	
Title: CEO	
Company: AlphaGraphics	
No. of units: 282	
Age: 55	
Family: Wife Jill; children Jack, Patrick (PJ), Claire, and Sean	
Years in franchising: 33	
Years in current position: 7.5	

"I had a good friend who was an AlphaGraphics franchisee," he says. "I did some due diligence before deciding this was for me." It was a good move. Starting in 1995, Cushing was a successful franchisee and recognized by AlphaGraphics as one of their Gold Circle winners for strong system performance.

By 2004, he was eager to be "more aggressive" and was searching for ways to do so. A call from AlphaGraphics corporate, asking if he'd be interested in leading the organization, solved that problem. He was hired in June that same year.

> **"Together with our franchisees we are writing the story of one of the greatest transformations of a brand in the history of small business and franchising."**

At the helm, Cushing is characteristically pushing for change, growth, and system-wide advances. Technology is changing the way marketing and printing are done, and he is busy incorporating these progressions into AlphaGraphics.

"We're focusing on taking our product from a print-centric approach to one of multi-channel communications," he says. "We're going beyond just providing mail flyers for customers. Now we can help them acquire new customer databases and design specific marketing campaigns to help them reach customers in a more focused way."

His goal for AlphaGraphics? "To become the largest provider of marketing services to small and medium-sized businesses."

Leadership

What is your role as CEO? Visionary, architect, builder, and captain. (1) Visionary: define a unifying direction for the organization; evolving the brand to maintain relevancy and appeal as a franchising business opportunity. (2) Architect: develop strategy for achieving the vision. (3) Builder: form the team that is inspired and motivated by driving the strategy. (4) Captain: drive the execution of the strategy through all levels of the organization. Accountability through franchisor and franchisee teams.

Describe your leadership style: Constructively challenging and collaborative. Continually leading and mentoring team members to grow and evolve our organization and themselves to the next level.

What has inspired your leadership style? Great mentors. I've been lucky to have many great mentors in my life who have helped me grow into who I am today. I can only hope that I can provide a similar service to those I lead.

What is your biggest leadership challenge? Franchisees are "entrepreneur-like" in that they possess the independent thinking and drive of CEOs. They have the ambition, risk profile, and desire to own and build a business, but within the context of a well-designed business model with like-minded business owners. The best franchisors successfully draw on those attributes while delivering a top-notch brand experience that offers a high level of consistency across the network. The reality is that every brand has a bell-shaped curve, and we strive to have a "tight" bell that is well to the right of other brand averages. This represents a high degree of consistency and financial performance. Easier to say than to do, but our franchisees get high marks from me in this regard.

How do you transmit your culture from your office to front-line employees? Passion. I love what I do, and my management team loves what they do. It is genuine and contagious. This passion trickles down and creates something truly special among our 3,000-plus AlphaGraphics employees worldwide. People see how jazzed we are, and they want to share in that excitement.

Where is the best place to prepare for leadership: an MBA school or OTJ? Even more important is self-awareness and a thirst to learn. Couple that with experience and great mentors, and it is hard for any degree to match that. I benefited from that as well as a great education, and each experience contributes in its own way. Since this is an either/or question, street smarts edge out book smarts. Both are valuable. An active learner will augment their OTJ with outside learning opportunities to develop a broader perspective.

Are tough decisions best taken by one person? No. Surround yourself with bright individuals that you trust, and honest conversations amongst the group will typically render the best results. It doesn't mean it's a democracy where everyone's vote counts equally, but you have to trust those you put around you. At AlphaGraphics, we are highly collaborative with our colleagues and franchisees. It develops a better decision rather than compromising the best. I have no problem making tough decisions, nor do my executive teammates.

How do you make tough decisions? I have a great team that I have worked very hard to build. When making tough decisions, I work with my team and our Network Leadership Council to make sure that I have all of the information. I collect their feedback, ask for recommendations, and make the decision that I think is best based on the vision of our company and then go the extra mile-plus to communicate the decision and enlist support. In a network like AlphaGraphics, we have more than 260 CEOs with valid concerns and insights. We draw out their thinking, make the decision we feel is best, and move forward as a network.

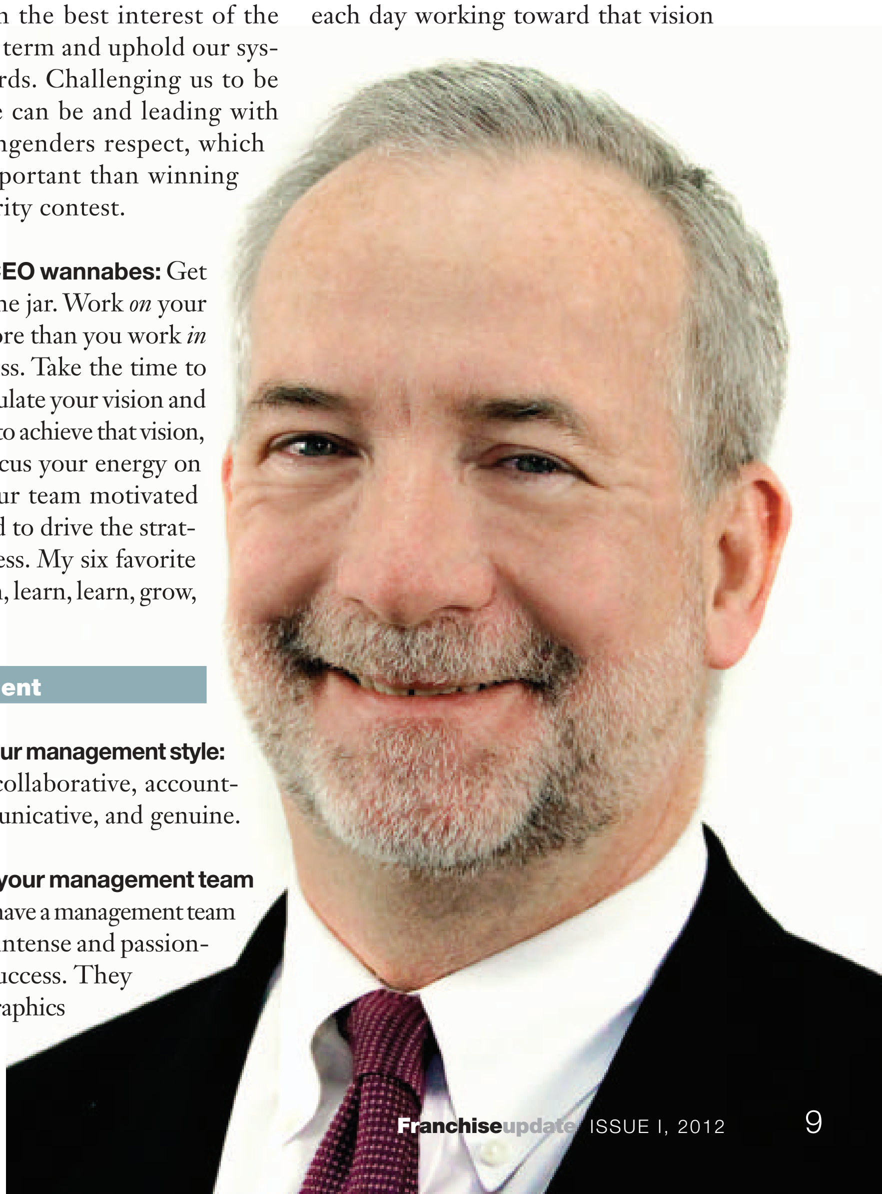
Do you want to be liked or respected? This may sound strange, but I am generally a likable guy by nature and I don't worry too much about that. I think I am trusted by our franchisees and my team because we encourage authenticity in our interactions. I work hard to make well-informed decisions in the best interest of the brand long term and uphold our system standards. Challenging us to be the best we can be and leading with integrity engenders respect, which is more important than winning the popularity contest.

Advice to CEO wannabes: Get outside of the jar. Work *on* your business more than you work *in* your business. Take the time to clearly articulate your vision and the strategy to achieve that vision, and then focus your energy on keeping your team motivated and inspired to drive the strategy to success. My six favorite words: learn, learn, learn, grow, grow, grow.

Management

Describe your management style: Informed, collaborative, accountable, communicative, and genuine.

What does your management team look like? I have a management team that is very intense and passionate about success. They are AlphaGraphics evangelists. Together with our franchisees we are writing the story of one of the greatest transformations of a brand in the history of small business and franchising. That's worth getting out of bed for every day! We are very proud of and grateful for our franchisees. My management team is made of seasoned, skilled individuals. We have great empathy for small-business owners. I am currently a franchisee while also being CEO. Our team has a healthy mix of real-life business experience and ownership, industry-specific experience, and franchising experience. We're all reaching toward a common goal. And we're all in agreement that we will be the leading provider of marketing and business communications services to small and medium-sized businesses in the world. The team comes to work each day working toward that vision



and rallying their teams to be as fanatical about reaching goals as they are.

How does your management team help you lead? I can be very hands-on if needed, but my preference is to work "on" our business and "what's next." I tend to be an effective delegator, and my team is thirsty to take on responsibility and be held accountable. They aspire to grow in their ability to lead organizations and I want them to succeed, so I take mentoring as one of my key responsibilities. I give them a big picture and a goal and they work together to achieve it. It is the best group I have *ever* worked with! They help spread the vision and strategy to their teams. They help hold their teams accountable for reaching specific goals. They are really the ones who execute the strategy. They are instrumental in our success.

Favorite management gurus: Do you read management books? I am an avid reader. Some of my favorites are: *The Path of Least Resistance* by Robert Fritz; *The Fifth Discipline* by Peter Senge; *It's Not What You Sell, It's What You Stand For: Why Every Extraordinary Business Is Driven by Purpose* by Roy M. Spence, Jr.; *Groundswell: Winning in a World Transformed by Social Technologies* by Charlene Li and Josh Bernoff; and *TPS-Lean Six Sigma: Linking Human Capital to Lean Six Sigma* by Hubert K. Rampersad and Anwar El-Homsi.

What makes you say, "Yes, now that's why I do what I do!" I help enable the dream of successful business ownership for our franchisees and engage in meaningful work… that's pretty special.

Personal

What time do you like to be at your desk? Between 5 and 6 a.m.

Exercise in the morning? Absolutely. I love to ride my bike to and from work, about an hour each way. My new hip will allow me to resume that!

Wine with lunch? No. Never even thought about it!

Do you socialize with your team after work/outside the office? Yes. I surround myself with individuals who share the same values as I do. Naturally, there is some overlap. We enjoy being together. AlphaGraphics is a special group of people.

Last two books read: *Steve Jobs* by Walter Isaacson, and *Jack Kennedy: Elusive Hero* by Chris Matthews.

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

How do you relax, balance life and work? Exercise, play on a men's hockey team, golf, ski, cycle, read, travel. Family time.

Favorite vacation destinations: Maui, Europe, anywhere with mountains and water!

Favorite occasions to send employees notes: Birthdays and service anniversaries, special times, or challenges.

Favorite company product/service: I hate to shop but love Nordstrom, Amazon, and Apple.

Bottom Line

What are your long-term goals for the company? To be the leading provider of business and marketing communications services to small and medium-sized businesses in the world. This means helping business owners maximize their profitability and return on marketing investment with trackable and measurable marketing programs.

How has the economy changed your goals for your company? Both positively and negatively. Positively, the downturn has encouraged us to take a closer look at our business model and value proposition. Because of this, we have evolved our brand and service offerings to be more relevant to our customers. We are shifting from being a print service provider to being a business and marketing communications provider.

Also, we have seen a number of independent printers looking to become a part of our brand because of the systems and procedures we have to encourage success. Many independent printers have seen business decline drastically in recent years. By joining AlphaGraphics, they adopt systems and procedures that help maximize profitability and success. Because of this, we have added a number of what we call "conversions" to our system.

Negatively, we have seen many candidates for new start-up AlphaGraphics centers struggle to get financing. Individuals who used to be very bankable are now getting turned down by banks. That makes growing the brand a challenge. Luckily, we've always prided ourselves on having top-tier franchisees, and these challenges haven't affected us as heavily as they have others in our space.

Where can capital be found these days? Finding capital can be a challenge these days. We've experienced it firsthand while working with lenders on financing packages for potential franchisees. Thankfully, we have a proven business model with sound operating procedures, and that's what lenders want to see. The money is out there, you just have to work harder to get it.

How do you measure success? We have a strategic roadmap that our company lives by. While it is a living strategy that is frequently updated, it has specific goals and milestones that must be reached at specific dates. We define success by our ability to reach the goals and milestones spelled out in that document.

What has been your greatest success? As mentioned earlier, AlphaGraphics is in the process of authoring one of the greatest transitions of a brand in the history of small business and franchising. We're in the middle of this process, but I am confident that our journey will result in unbelievable success and will be the defining moment for AlphaGraphics and myself.

Any regrets? You can't move at the speed required to build and grow an industry-leading brand without making some mistakes. Regrets only come when you make the same mistake twice.

What can we expect from your company in the next 12 to 18 months? It will be an exciting time at AlphaGraphics. The launch of our new branding will position us much differently in the marketplace. With an expanded service offering, our franchisees are no longer having conversations about paper color and quantity; we're now having conversations about business growth and profitability. We're being seen as a strategic partner in our customers' eyes. In 12 to 18 months, we're going to be even closer to reaching our vision of being the leading provider of business and marketing communications services to small and medium-sized businesses. Check back with us, or better yet, hop on board—it's going to be a wild ride!

BY KERRY PIPES

CEO profile: The Original Smoothie King

Bringing health and wellness to QSR

Steve Kuhnau's struggles with food allergies in his teen years led him to a lifelong fascination with nutrition. So much so that he began blending fresh fruits, proteins, vitamins, and mineral supplements, eventually developing the first nutritional smoothie in 1967. His growing passion for health and nutrition led him to a job in nursing while stationed at Fort Sam Houston in Texas, and later to open Town & Country Health Foods in Kenner, La., where he sold what would become the first Smoothie King smoothie.

Kuhnau and his business partner Cindy quickly realized how popular their smoothies were, and on May 5, 1987 Smoothie King was trademarked, incorporated, and officially born. The first Smoothie King franchise opened in 1989 on Baronne Street in New Orleans. Two years later the two were married.

"The beginning is always the hardest. Most of the time success doesn't come fast or easy," he says. "We were the first to do what we do, so getting off the ground and opening our first 40 stores was our biggest challenge." They not only did it, they did it well. To date, they've steered the brand to more than 600 locations worldwide and would like to see 10,000 before they step away from the blenders.

Today Kuhnau remains the driving force behind the Smoothie King brand. A self-proclaimed team player, he works tirelessly for his brand and expects his team members to do the same. He remains positive about his organization and its direction, and says he loves "being the healthiest QSR focusing on nutritional/functional products for an on-the-go healthy lifestyle."

Name: Steve Kuhnau
Title: Co-founder, president, and CEO of Smoothie King; originator of the nutritional fruit smoothie
Company: Smoothie King Franchises
No. of units: 602 worldwide
Age: 64
Family: Wife, Cindy, co-founder of Smoothie King Franchises; 2 daughters, 2 sons, 10 grandchildren
Years in franchising: 24
Years in current position: I've been making smoothies since 1967. In 1973 I opened Town & Country Health Foods, and finally Smoothie King in 1987. So in total, 44 years in the smoothie business.

Leadership

What is your role as president and CEO? Over the course of more than four decades in the smoothie industry, I've worn many hats—from blending and mixing the smoothies myself to creating new flavors to launching our franchise strategy and coming up with interesting marketing initiatives! As the business has grown I've definitely moved into more of a big picture and managerial role, strategizing on where we will go next.

Leadership style? I'm definitely a team player, and I surround myself with a team that is committed to the brand. A lot of our employees have been here for a long time and have grown with the company, and I trust them. Rather than making decisions totally on my own, I involve the leadership team, get their input and ideas, and from there the creativity flows.

What has inspired your leadership style? Walt Disney. He was a true visionary.

What is your biggest leadership challenge? I see the good in everyone and give everyone a chance, which is a great thing. But at times it can distract me from the bigger picture.

How do you transmit your culture from your office to front-line employees? By being an embodiment of the Smoothie King brand; being an example of good health, showing it and sharing it with everyone involved.

Best place to prepare for leadership: an MBA school or OTJ? I'm not discounting the importance of education, but nothing quite compares to rolling up your sleeves and getting dirty—so definitely on the job.

Are tough decisions best taken by one person? Decision-making at Smoothie King is generally a collaboration between the franchisees and the corporate office. We hold weekly franchise advisory committee meetings to share ideas, plans, and goals—and we take all suggestions and feedback seriously. At Smoothie King we work as a team, and that is what makes us so successful.

How do you make tough decisions? Tough decisions aren't easy, but in life we all have to make them. The best thing to do is make a decision and then move forward and don't look back.

Do you want to be liked or respected? Both!

Advice to president and CEO wannabes: Set the example you want to see. Walk the walk, talk the talk.

Management

Management style? Simply leading from example. I like to bring in experts to educate our employees and franchisees on best practices and new ideas. We always strive to bring in the best ingredients and continue to promote better health within all of our stores.

What does your management team look like? A diverse group of fine professionals who each bring something unique to the table, making this company what it is. I've had employees who have been here for 15 years, so we've all grown together.

Tough decisions aren't easy... The best thing to do is make a decision and then move forward and don't look back.

How does your management team help you lead? They are driven, professional, and work hard. They know what they have to do and they make it happen.

Favorite management gurus/books? *The One Minute Manager* and *Who Moved My Cheese?*

What makes you say, "Yes, now that's why I do what I do!" It's definitely all about our guests. Hearing some of these amazing testimonials—whether it's how Smoothie King helped them with weight loss goals or was their favorite meal during a battle with cancer. It feels great to know you are putting a product out that people really love. I also enjoy meeting new franchisees who have as much passion as I do.

Personal

What time do you like to be at your desk? The early part of my day usually consists of meetings, so I typically don't sit down at my desk for the day until about 1 p.m.

Exercise in the morning? Absolutely. I walk 5 miles a day, rain or shine. Chasing my 10 grandchildren around is also great exercise.

Wine with lunch? More like a smoothie at lunch!

Do you socialize with your team after work/outside the office? Everyone has a life outside the office—their family, groups of friends—so I generally keep our relationships professional.

Last two books read: *The pH Miracle* and *Change Your Water, Change Your Life*.

What technology do you take on the road? Can't live without my iPhone.

How do you relax, balance life and work? My ultimate pleasure consists of quality time spent with my grandchildren.

Favorite vacation destination: Destin, Florida

Favorite occasions to send employees notes: Birthdays—it's all about them.

Favorite company product/service: Immune Builder with extra immune powder.

Bottom Line

What are your long-term goals for the company? Growth and more international expansion! I'd love to live to see 10,000 stores around the world.

How has the economy changed your goals for your company? It has definitely taught me patience. It takes more time to find quality franchises, meaning it takes a bit longer for new stores to open and growth doesn't come quite as fast.

Where can capital be found these days? I wish I knew. If anyone knows, give me a call!

How do you measure success? One smoothie at a time.

What has been your greatest success? Creating the nutritional fruit smoothie way back in 1967.

Any regrets? I don't live with regrets.

What can we expect from your company in the next 12 to 18 months? International expansion, new franchisees, a focus on health and wellness, and new products to support it.

BY DEBBIE SELINSKY

Switch HITTERS

Why franchisees make great franchisors

There's something to be said for having walked for years in another person's shoes, for having come up the ranks to a leadership position. Empathy and understanding come to mind, as well as the hard lessons that can be gained only from years of hands-on experience. That's one big reason so many successful franchise executives agree that their past (and for some, still current) lives as franchisees have informed the way they lead their brands. We asked five franchise executives to tell us how their past experiences as franchisees inform their role as franchisors today.

Lifetime of preparation

Russ Umphenour was an Arby's franchisee for 32 years before selling his nearly 800-unit company, RTM Restaurant Group, to Triarc Systems in 2005. During his time as

"Since I still think a lot like a franchisee, I could easily identify with the needs and wants of our 1,100 franchisees at Focus Brands."

—Russ Umphenour

Arby's largest franchisee (more than $900 million in sales), he also owned two other franchise brands: Mrs. Winner's Chicken & Biscuits and Lee's Famous Recipe Chicken, with both corporate and franchised stores.

In November 2008, Umphenour was named CEO of Focus Brands, the Atlanta-based franchisor and operator of more than 3,300 Carvels, Cinnabons, Schlotzsky's, Moe's Southwest Grills, and Auntie Anne's. Big change? Not so much as it might appear.

"Everything I'd done for 32 years had prepared me for the franchisor role," he says. "In the last two or three years at my old company, I had presidents of two brands under me, as well as 775 Arby's units, so I had already begun the transition to franchisor leadership. Since I still think a lot like a franchisee, I could easily identify with the needs and wants of our 1,100 franchisees at Focus Brands."

As a franchisee, Umphenour was something of a "benevolent dictator," he says today. "But when I became a franchisor, I became an influencer and a facilitator. When you're dealing with your franchise partners, they are independent business people who run their own show. We may control the brand, but we don't control our partners," he says.

Some leadership traits and values have remained constant through both his franchisee and franchisor roles. "It's always been about having integrity, working hard, building teams and relationships, and doing what you say you'll do," he says. "As a franchisee, I was always service-minded toward our guests. Now, as a franchisor, I'm service-oriented toward our franchise partners."

"Successful franchisors are sensitive to the needs of their franchisees, but also recognize that the good of the system as a whole takes precedence over... individual franchisees."

—Gordon Logan

The leader he has become to his brands' franchisees has been lent credibility by his decades as a franchisee. "Contrary to a lot of the leadership at some brands, I have had the experience of making payroll and making a business successful. My franchisees know I've walked in their shoes, and that it affects the way in which I lead and work with them," he says.

"The right kind of leadership for me as a franchisor includes setting a good example and influencing franchisees to do the right thing for the brand and for themselves. Now I have only one purpose: to help my franchise partners make money. If they do well, all our other problems go away."

Big hat, bigger picture

Gordon Logan, CEO and founder of Texas-based Sport Clips (840 locations in 38 states), always saw his role as a franchisee as more than just taking care of his own units. "As a franchisee for Command Performance Styling Salons, I was actively involved in the Chapter 11 process as a member of the creditors' committee. We renegotiated the franchise agreements and the franchisees came out of

Chapter 11 owning 40 percent of the franchisor and having two seats on the board of directors," he says. Logan served as one of the two board members and later became president of the franchisee association.

In 1991, when he and another franchisee bought the brand (which would become Sport Clips), he not only carried with him the trust of the franchisees who had been his peers, he'd also learned some tough lessons about being a franchisor.

"Successful franchisors are sensitive to the needs of their franchisees, but also recognize that the good of the system as a whole takes precedence over bending to the whims of individual franchisees. A franchisor has to be willing to take necessary actions to protect the brand when appropriate," he says. "I learned that lesson as a franchisee when I saw the result of a weak franchisor that lost control of the system, leading to a lack of consistency and brand identity that was eventually the downfall of that system. I also saw the detrimental effects of a franchisor that played favorites with franchisees: resentment, pushback, and a general lack of mutual respect."

He's no longer a franchisee, but Logan describes his brand's philosophies and agreements as franchise-friendly. "I've continued to be sensitive to the needs of our franchisees, developing national buying programs to give them better pricing, instituting national styling competitions to encourage technical excellence, and manager training programs and national manager meetings to build their leadership abilities, creating a strong company culture, and initiating a cost-effective store re-design to bring the salons up to industry standards with a distinctive look."

Sport Clips has 22 company-owned stores used for testing innovations before introducing them to the system, as well as to demonstrate the correct way to run the business, he says. "We operate only in markets where we control the entire market. It is our policy not to compete with our franchisees. When franchisors operate stores in the same markets as franchisees, there are potential conflicts that can damage the relationship."

It's no accident that Sport Clips' legal fees are probably as low as any franchise out there (mostly for FDD preparation), says Logan. "We test our actions against our values—do the right thing, do your best, and treat others as they want to be treated—with the result that we have minimal friction within the Sport Clips system." And to keep the communication clear and open, the company has a Team Leadership Advisory Council and an Area Developer Advisory Council.

Logan says that both sides of the franchise fence require leadership by example, team development, and successful planning and goal-setting. "At the franchisor level, a 'bigger picture' outlook is required since franchisees are depending on their franchisor to have the vision necessary to move the system forward and to identify and stay ahead of developing trends. But both franchisor and franchisee need to be able to inspire people to follow them and go the extra mile."

Learning as She Grows

Shelly Sun, co-founder with husband JD Sun of BrightStar Care (250 locations), sees many similarities in the leadership styles required for both franchisees and franchisors.

When she began as a hotel franchisee, she says, "I sought to understand what it took to be successful in the industry as well as within our franchising system. I went to all the training sessions our franchisor offered and followed the model they provided. I networked with fellow franchisees to learn everything I could from them. It's the same model I follow as a franchisor. Benchmarking with my peers, regardless of industry, is how I consistently evolve our model and ensure we're supporting our franchisees at a high-quality level."

In 2005, when she began life as a franchisor, there were some adjustments in leadership style needed, she says. To achieve them, Sun says she became a "student of franchising," joining the IFA, attending conferences, and networking with established franchisors. "I had to roll up my sleeves and learn to wear multiple hats. To grow and expand at the rate we wanted, I needed to transition out of the day-to-day tasks of our franchise and entrust them to our employees."

Sun, who remains a franchisee of a couple of hotel brands, believes her time as a franchisee has made its stamp on how she relates to BrightStar's franchisees today. "It frames the lens through which I look and understand the investment and risk my franchisees take. This drives my willingness to invest for the long term in people and technology."

Doing it right

John Metz, CEO of West Palm Beach, Fla.-based RREMC and franchisor of Hurricane Grill & Wings (48 units and expanding rapidly), has a fundamental goal as a newly fledged franchisor: to treat his franchisees the way he always wanted to be treated by his franchisors. That is, fairly, up-front, and as a true partner in the shared goal of unit-level and system-wide profitability.

Metz says he had an "Aha!" moment as a franchisee years ago when he watched fellow franchisees facing bankruptcy because of a clause in their franchise agreement that allowed the franchisor to collect royalties on future or failed stores. "I disliked that clause so much that I got them to waive it in my agreement. But I worked with a

"You have to invest in the success of others. I consider our franchisees to be our partners."

—John Metz

lot of other franchisees who didn't have that waiver and lost everything," he says today. "It didn't affect me financially, but I thought it was a travesty—kicking some good people when they were down."

Based on that experience, as well as that of being a franchisee for multiple brands, Metz is convinced he can do things better as a franchisor—a lot better. "I felt there needed to be more disclosure and cooperation between the franchisee and the franchisor, which is exactly how we do it now," he says.

Still a franchisee of several hotel brands as well as 36 Denny's and a Dairy Queen, Metz says he's been called a "rogue" franchisee over the years because he has "pushed the envelope" on what franchisors were doing to support him as a franchisee. "But I did it within the system," he says with a grin. Today, as a franchisor, he is well-prepared to deal with any future rogues of his own, but he has bigger things in mind as he works to fine-tune and rebuild a brand.

Metz brings a canny insider's knowledge of what it takes to implement change in a system—especially when there's a price tag attached. For example, he took an innovative approach to making system-wide menu changes at Hurricane Grill & Wings. "Instead of sending a memo to everybody to buy this and that, we sent out the equipment they would need. We want to be consistent, and it's hard for anyone to refuse to conform when someone is sending you the piece of equipment you need to do it," he says.

Then there's the big picture: money. "The fact that I never could grasp was that I, as a franchisee, had more money invested in the company than anybody at corporate. There were bureaucrats and corporate executives making decisions based on the benefit to the franchisor—not on how it affected the bottom line and the franchisees," he says.

"As a franchisor, you have to keep all your stakeholders in mind—your owners, employees, franchisees, and suppliers. You have to invest in the success of others. I consider our franchisees to be our partners. If they have financial difficulties, we try to solve the problem. If we can't, we grant royalty relief for underperforming franchisees. It's the right thing to do." ■

Mutual Respect

Jim Rudolph, vice chair and minority owner of Rita's Water Ice Franchise Company (about 550 franchise locations in 18 states), says that although franchisee interests must be a priority for a franchisor, the franchisor's role must be respected.

"When I was a franchisee, there was no way I was going to pay the royalties and then not listen to my franchisor," says the former franchisee of Wendy's, Chuck E. Cheese's, and other brands. "Yes, I wanted to go beyond that—to be even better—but I always did it within the boundaries of what my agreement required."

For Rudolph, the "zeezor" relationship boils down to three essentials. "I say it all the time: it's about trust, respect, and belief. And it has to go both ways—100 percent. If we can do that together, we'll have a great relationship."

BY KEITH GERSON

Anatomy of a Start-Up

A New Brand Sets Sail

Part 4

EarthFruits Yogurt pursues its dream

Welcome to the final installment of "Anatomy of a Franchise Start-Up." EarthFruits Yogurt, which began its journey in mid-2010, now has one and a half years under its belt. Over the course of this series, I've done my best to give you a transparent glimpse into our new system. In this last article, you might begin to draw your own conclusion as to whether or not we have any chance of achieving our lofty vision of becoming the "Starbucks of the Frozen Yogurt Industry."

Franchising sounds great: you go first

Few of us would disagree that franchise sales in today's economy is challenging at best. But how much more so for a new and emerging brand that few have even heard of? I believe the economy is definitely creating challenges for those looking for franchise financing, but it also has created unprecedented levels of interest for those looking to break their reliance on the job market by being in business for oneself.

I believe that the term "franchise sales" is a misnomer. You can't "own" the brand. In my estimation, what we are doing is helping to match our brand vision with the goals and aspirations of franchise prospects. We can create the environment, but it's typically your existing franchisees who "make the sale" through their goodwill and positive validations. This can be extremely challenging when you have no (or a limited) proven history, no brand awareness, limited press, and no validators. Now, allow me to turn convention on its ear.

A contrarian's point of view

Experience is a great teacher, but there are times you must blaze your own trail. Many of my seasoned franchise friends have offered advice, including: "Don't franchise abroad until you have a significant North American presence"; "You'll need to rely on lead generation websites"; "Don't use brokers"; and "You'll need at least 100 leads a month to generate one sale."

We politely decided that what got you there yesterday may not get you there tomorrow.

A few steps were critical, starting with our investment in a great-looking and informative website, complete with a "brand video" (which we created and executed on our own), and a plethora of multimedia with pictures and videos of great-looking product, videos of a store vibrant with happy customers and the surrogate representations that spoke to a business that, for all intents and purposes, appears to have been there for years.

The economy is definitely creating challenges for those looking for franchise financing, but it also has created unprecedented levels of interest for those looking to break their reliance on the job market by being in business for oneself.

This was critical in winning the support of brokers, who could see we had a going business and a clearly differentiated brand. Now, our broker strategy won't work for all; we were fortunate to have a previous and proven reputation of being straight shooters and closers. We, every bit as much as our concept, were part of the initial appeal. Not all franchise brokers invited us in at first. Two firms wanted us to have several franchisees open and operational for at least six months before they would invite us into their portfolio. The brave brokers who opened their hearts to us initially have been amply rewarded. We made our decision to favor the broker approach, following a decision to not overspend on portals to less-than-likely stellar results. We concluded that, as a start-up, we didn't need a lot of tire kickers—we needed the highest level of pre-qualified prospects possible. This approach has paid dividends. Now that we are finding our mojo, it's time to diversify by employing a pay-per-click and microsite strategy that we are highly optimistic about to round out our franchise marketing strategy.

Validating in a new franchise system

One of our biggest challenges as a new system was answering questions related to earnings potential. We had but one corporate location, and every candidate invariably wanted to know how much they could make, or at the very least information about the margins. Without any franchisees initially, we purchased an industry report from FRANdata (also available from organizations such as Franchise Help and

Anatomy of a Start-Up

OpenFran.org) for a fee that included Item 19 earnings representations in some cases. Making prospects aware that they could acquire these types of reports on their own and referring the candidates was invaluable. There is even a database of free FDDs available online at Cal-EASI (California Department of Corporations). At this point, it may feel like you're selling the invisible, and though you may have limited information to share at this stage, there are no negatives.

Through the end of our first full year of franchising, we have licensed 30 U.S. locations and have commitments for 13 more.

Progressive discovery

Following a comprehensive and proven process to qualify candidates, we culminate in a discovery day at our Salt Lake City headquarters. As it is in our EarthFruits cafes, it's all about the experience. As candidates enter our offices, they are greeted with a physical lineup of all of our extremely approachable executives and employees in branded dress shirts, their sole purpose to convey that we can find our success only by helping them to find their success.

It has been critical to convey that we are focused more on their success than on the physical growth of our system. Ours is a very relaxed environment where we place no pressure on the candidate to "buy": it's a great fit, or it's not. These potential franchisees always leave saying that one of the deciding factors was the honest, authentic, knowledgeable, and caring manner in which all of our employees and management conducted themselves. We've learned that one of our greatest assets as an emerging brand is our ability to provide direct access to members of our executive management team.

Choose wisely

If there is anything we've learned during this journey, it's not to be too anxious to secure that first franchisee. Your first few franchisees will determine your success. If you decide, as we did, to provide those early adopters with certain advantages for being pioneers (such as a larger territory and extra support), be sure to ask for a favor in return. Seek in exchange their commitment to speak with other qualified candidates and to serve as a promoter (if and when deserved). It's the classic law of reciprocity, and all of our initial franchisees were more than happy to do what they could to help the brand grow.

Each Tuesday night, these franchisees (on their own) host a call for candidates where they share their experiences, projections, business plans, and answers to questions. We were quite fortunate that all of our new franchisees were intelligent, charismatic, open, communicative, and passionate about what we stand for. They all were willing to share their experiences and, as a result, have contributed to more than 90 percent closing rates for candidates who actively enter our process.

Now expanding worldwide!

Through the end of our first full year of franchising, we have licensed 30 U.S. locations and have commitments for 13 more. We are closing in excess of 90 percent of everyone who becomes actively engaged in our process. We've licensed the rights to Qatar and are nearing completion of international development in the United Arab Emirates, for the whole of Canada, and at least a half dozen other international markets. I don't believe that any other frozen yogurt franchise experienced this level of development in their first year as we have. As a result, I'm certain both our early adopters and we are going to enjoy the "fruits" of our labor. ■

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

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BCR

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In the words of Shelly Sun, CFE, CPA, and CEO of Brightstar Franchising, "with hundreds of loan requests, the ones who make it easier and show they have nothing to hide, get the loans."

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Leadership by Example

Earning the confidence of franchisees

BY DON FOX

Leadership is a fundamental ingredient for the success of a franchise concept. When franchisees invest in a brand, they are casting a vote of confidence in the leadership team. After all, if the franchisees don't believe in the leadership team, why would they put their financial resources at risk with the brand? So, what might a franchisee be looking for in terms of brand leadership?

The franchisee's first impression may be of the leadership styles of the CEO and executive team. Is there any one *right* or *best* leadership style? The short answer is "no." Every leader, in some form or fashion, blazes their own trail. But at the root of great leadership must be the belief that *before* you can lead others, *you must lead yourself, and hold yourself accountable for your own actions and decisions.* Leadership by example is a critical trait within a franchise system.

Franchisees also look at the executive team's track record. They evaluate the way the brand is managed, as it affects their operation of the business. But more important, they are looking for brand leadership. The distinction between management and leadership is significant. Great management is functional in nature, while great leadership is inspirational and drives the people within the brand to achieve at a level higher than they might do on their own.

Great leaders restore calm and reason when the team is under pressure and duress. Great leaders create an environment where team members have mutual respect for one another and put the success of the team ahead of their own interests. Great leaders inspire people to act because of a sense of purpose, not out of fear of retribution. The qualities a leader needs to instill this sort of drive and motivation are far different than the recipe for a successful manager, and your franchisees will certainly look for these points of differentiation.

Prospective franchisees will look at your track record of critical decisions. Existing franchisees will judge you on the basis of their direct experience under your leadership, and their commitment to the business will be directly shaped by that experience.

As the leader of a brand, you must not dismiss this dynamic. You should be thoughtful and reflective, do your due diligence, and consult with others as part of your decision-making process. But there will be times where expediency is of greater consequence, and it is at these moments great leaders really shine.

General Patton once said it best, and I will paraphrase: A plan that is 80 percent right, executed at the right time, is better than a plan that is 100 percent right executed too late. In business, this translates into the old saying "paralysis by analysis." There are times in many walks of life where leaders must seize the moment. But never forget that it should *always* be a calculated risk. A bold plan without contingencies risks crossing the boundary toward recklessness.

I have faced moments like this in my own business career. In 2008, Firehouse Subs was faced with the challenge of declining comparable sales. In the absence of a plan that would lift sales, I allowed the franchisees to stop sending in their 2 percent advertising fee. Instead, I told them to keep their money. In the absence of a winning advertising campaign, I would empower them to market their business locally.

But before I had ever made that decision, I thought through the contingency plans. If the franchisees failed to lift sales through their own local store marketing efforts, I would have to be prepared to step back in with a solution.

Empowering the franchisees didn't work. But within six months, we were well on our way to selecting a new agency. I later announced to our franchisees that I would not only start collecting the marketing fee again, I would also ask them for an *additional* 2 percent that would enable us to purchase sufficient media. We demonstrated leadership by testing the program in our 25 company restaurants, a classic case of leading by example.

The franchisees placed their trust in the leadership of the company. Since that strategy has been implemented, we have enjoyed more than 2 years of comparable store sales growth, reached an all-time high average unit sales volume, and have grown our system by more than 130 restaurants. This is the result of leadership at a critical time in a company's history.

Without effective leadership, and without the accompanying confidence of your franchise community, your brand will never reach its full potential. ■

Don Fox *is CEO of Firehouse of America. Under his leadership, the brand has grown to more than 475 restaurants in 28 states and one U.S. territory. He sits on various boards in the restaurant community and is a respected speaker, commentator, and blogger. He was named one of 10 Executives to Watch in 2011 by* Nation's Restaurant News, *is a 2011 Golden Chain honoree, and was recently recognized by NRN as 2011's Operator of the Year. Contact him at 904-886-8300 x248.*

Human resources

Potential for Greatness

Now is the time to train your talent

BY STEVEN S. LITTLE

"All of us do not have equal talents, but all of us should have an equal opportunity to develop our talents."
—John F. Kennedy

"Our people are our greatest asset."

If somebody were ever to build the Hollow Business Phrase Hall of Fame, this one stands right up there with "Your call is very important to us." Everyone says it because it makes sense. Yet when times get tough, too many businesses abandon investment in their people. Studies and surveys for years have shown that business leaders recognize the value of training. You don't need me to regurgitate these consistent findings to tell you something you know is true.

Developing your internal employees and your franchisees should never be viewed as a cost center. Like marketing communications, when done properly, it is an investment in your business's future success that is directly measurable.

Devoting time, money, and effort enhancing the skill sets of your entire work force helps your system in so many ways. Bettering your employees and partners betters your chances for innovative problem-solving, customer retention, employee retention, and ultimately, sustainable and profitable growth.

Conventional wisdom about training in an economic downturn says it's too important to cut off abruptly. Unfortunately, many franchisors have been forced to do it anyway. I maintain that their behavior is simply a survival instinct. They know it's only a short-term cash-flow fix, but they believe they have no choice. Therein lies your opportunity for a long-term competitive advantage in today's market.

I sometimes have a problem with the word "training." The concept is so general it doesn't really mean anything. I am concerned that too many franchisors focus their training investment in the wrong areas. I call it push-button training: "Here's how you push the button on that point-of-sale system to make it work. Here's how you push the button on your computer to produce this report. Here's how you push the button on the phone system to transfer a call." Too often "training" means teaching new hires and new franchisees how to work with your internal processes and procedures. Obviously, some of this is necessary for any system, but it's not the opportunity.

Here's your real training opportunity: Be sure that everyone who works with and for you is steeped in *customer-driven training*. What satisfies your ultimate customers and potential customers is never obvious. Your entire team benefits from training systems that continuously teach them what really matters to those they purport to serve. Answers to the following questions are what effective employees at all levels really need to know:

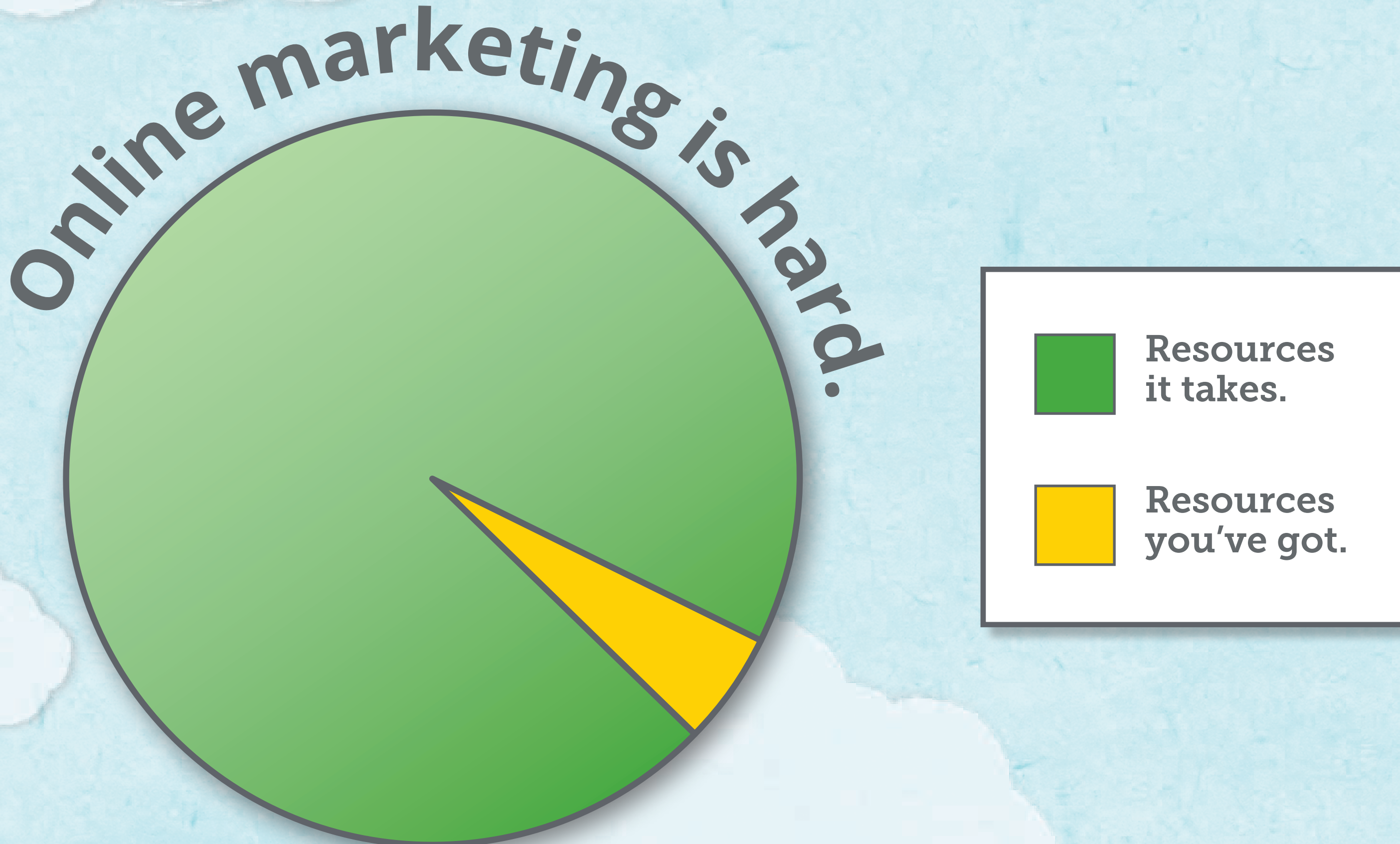
- Why do people buy from us?
- How do we do things differently than anyone else? What makes our brand and our system unique?
- When people buy from our competitors, why do they do it?
- What do our best customers and potential customers care about most?
- What are the primary tasks an individual needs to master to deliver on total customer satisfaction?
- After someone has mastered the primary tasks related to a specific job, is there an opportunity to cross-train on other tasks to ensure even better customer experiences?

When you can identify the answers to these questions and effectively train people on them, you will have earned a distinct and sustainable competitive advantage in any market. Regardless of what is happening in your product or service category, company, or community, investing in your system's talent always makes sense… and it makes even more sense when others aren't doing it like they should.

Here's one final training opportunity. No matter how hard I've tried in the past, there are two things for which I can't really train: innate problem-solving ability and general pleasantness. I can't train someone to be smart and I can't train someone to be nice. I can improve their acumen on specific skills and I can increase their respect for other people to a degree. However, it is always better to train smart, pleasant people to do their jobs better. People who struggle with learning have trouble grasping what you need them to know. People who don't have good people skills can improve those skills, but they never approach the level of "great."

Never settle for less than potentially great people in your company—and be sure this notion carries through to your development strategy. It will be next to impossible to get less than great franchisees to attract, train, and retrain truly great personnel. ■

Steven S. Little *is a sought-after expert on business growth and the future of opportunity. He is the author of three books on business growth and was a keynote speaker at Franchise Update's Leadership & Development Conference in October 2011. Visit him at www.stevenslittle.com.*



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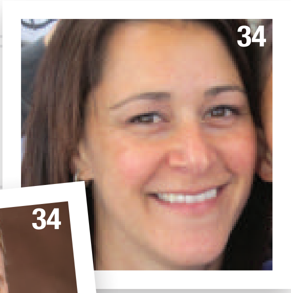
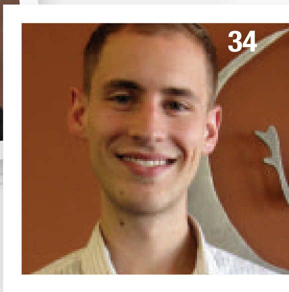
"At the end of the day, as a franchisor, we need to consistently make sure we are placing ourselves in our franchise partners' shoes and fully understanding the challenges they are facing."
—Heather Neary





BY HELEN BOND

Grow Market Lead

Local Marketing Rules!

Ratcheting up unit-level sales

When Lenny's Sub Shop offered fans who "liked" its Facebook page a free half-pound sandwich as part of a Valentine's Day promotion last year, the Memphis-based franchise felt the love. In just one week, this 21st-century word-of-mouth campaign attracted 40,000 new social media fans eager for a coupon to gobble down a Philadelphia-style sub on the house at their local Lenny's.

This February, Lenny's planned to launch a different deal with the same goal: reward loyal customers and use the virtual world to bring new folks through the door, says Brent Alvord, president of Lenny's Franchisor, which operates 150 restaurants in 18 states. The successful sweetheart local store marketing strategy is part of Lenny's efforts to become a strong national brand.

In today's economy, minding the local store can go a long way toward boosting a brand's growth and nationwide image, says Sandy Lechner, president and CEO of Boca Raton, Fla.-based Synergy Brand Management, which provides turnkey branding solutions for franchises.

"The real focus in marketing has to be on the local level," says Lechner. "What we talk to our customers about is the 'war zone'—that one- to three-mile radius around their location. They have to win that battle every day."

Local marketing vs. branding

Historically, says Lechner, companies have taken a shotgun approach to marketing that can appear even more scattered than in past years with the advent of Facebook, Twitter, podcasts, and other digital tools that have put a new face on "guerilla marketing." This combination of new media channels, fierce competition, and consumers with less cash to spend, have made it vital for franchisors to assume a larger role in providing tools and formal support systems, such as local marketing plans, to ensure their franchisees' success through a consistent brand message.


Brent Avord

"A successful franchise is on top of their marketing," says Lechner. "Marketing is just one of those things that, traditionally, is ignored at the franchisor level. There has been a lot of focus on real estate and operations, but the best way to sell franchises is to have successful franchisees that can validate for you."

Most small to medium-sized franchise systems lack the market penetration and continuity, thus the economies of scale, for brand marketing to pay off. Unless a franchise is an equity brand that enjoys a Subway- or McDonald's-like market penetration, or a strong regional presence such as In-N-Out Burger, Lechner advises branding efforts to focus on trackable, wisely spent local store marketing (LSM) programs.

These ROI-based programs gather customer information, build strong customer relationships, bring in new patrons or buyers, and keep them coming back—or, in "marketingspeak," they drive traffic, trial, and retention.

Synergy, which counts Lenny's, Hungry Howie's, Pizza Hut, and Oxi Fresh Carpet Cleaning among its clients, works with companies to create formality in a brand's marketing message, offering franchisors a one-stop shop for driving traffic and building brand loyalty. Franchisees can then use an online portal to take advantage of company-approved direct mail, apparel, banners, grand opening kits, loyalty programs, and other in-store materials designed to provide a cohesive message that a local unit can use based on its demographic needs. Understanding those local needs is key to a campaign's success.

> **"The real focus in marketing has to be on the local level. What we talk to our customers about is the 'war zone'—that one- to three-mile radius around their location. They have to win that battle every day."**
>
> —Sandy Lechner

Mine every opportunity

Strong marketers know their local markets—those who live, work, shop, and dine in the primary area surrounding their locations—that "war zone" Lechner describes. Fortunately, with today's technology, it has become vastly easier to compile, slice, and dice demographic data to create a marketing plan, reach every potential customer, and evaluate the ROI. Even market mainstays can benefit from this approach.

Take Hungry Howie's, for example, with 575 locations in 24 states. When Lechner conducted direct mail and customer acquisition testing for the company's CEO, the data revealed that some stores did business with only 20 percent of area constituents. "He had successful units, but he was only skimming what he could be doing," says Lechner, who partnered with Hungry Howie's in its rebranding effort. In addition to creating a turnkey program for the chain, Synergy assisted in creating system-wide point of purchase, limited-time offers, and catering kits.

Once a company has the data in place, Lechner advises clients to create and track a marketing plan aimed at driving traffic, trial, and retention—with separate strategies and budgets for each. One of the biggest, most costly marketing mistakes a brand can make is to send the same message to everyone.

At Lenny's, Alvord rarely prints a coupon without plenty of forethought. The company uses "measurable marketing" techniques, tracking results through its proprietary point-of-sale system, which allows management to quickly assess the value of a strategy or program. For instance, marketing to local schools easily raised local store spirit, while a direct mail piece to pharmaceutical representatives for catering services fell flat, says Alvord, whose background at Burger King, FedEx, and AOL (who can forget those ever-present installation CDs?) makes him well-versed in the value of low-cost buzz.

"Most of the time, franchisees can see that marketing pays for itself," he says. In convincing his franchise advisory council to embrace the Valentine's Day giveaway, Alvord estimated most of the customers would buy chips and a drink, providing a margin that would help offset some of the cost of the free subs. All but a handful of Lenny's franchisees participated in the promotion, which garnered significant media attention and brought additional, new customers through the doors.

Lenny's has tried other social media methods to raise brand awareness and connect customers to local restaurants, including Facebook's "Social Wednesday" deals and "12 Day of Giveaways" campaign. During the December promotion, each day brought a new giveaway and reward, such as Day 11, when the first two people to post a photo of themselves in a Lenny's with their sub and a straw mustache received $50 in Lenny's gift cards. However, Lenny's, which uses heavy direct mail and customer loyalty and retention strategies, does not intend to be a "discount trough," says Alvord. The desired result, he says, is "creating long-term relationships."

No matter how you choose to market your franchise on the local level, in the end, each local franchisee must deliver to complete the sale. Lenny's encourages its franchisees to make customers feel at home, emphasizing the brand's sliced-to-order meats and cheeses and no-trash-can policy. Says Alvord, "The best marketing we can do is to provide service in our restaurant."

Local Marketing Rules!


Sandy Lechner

Local marketing winners

Local marketing methods make it easier than ever to build relationships. Lechner's take on the following strategies provides plenty of ways to build your brand at the local level.

• **Direct mail.** It may not sound as sexy as social media, but direct mail still delivers. Lechner considers direct mail to be the best, most cost-effective, and traceable way to reach prospective and existing customers—and says it should be the largest component of an LSM campaign. Use saturation direct mail campaigns for grand openings, new product launches, and limited-time offers. Targeted and personalized mail work for specific messages, such as "Happy Birthday," "Welcome to the neighborhood," "We miss you," and "Thank-you" programs. A database mail campaign also allows companies to select specific criteria and focus dollars on the targeted prospects to communicate specific messages at selected times.

• **Day and day-part promotions.** Since most of Lenny's customers dine before 4 p.m., Alvord is a big fan of specific day and day-part specials. These methods, used frequently by retail and food service businesses, work to build loyalty and traffic for selected groups, individuals, organizations, and cultures. Parents will drive across town to dine or shop at a place that benefits their child's team, group, or club. By singling out segments of a prospect or customer base, your system creates an emotional bond and sense of loyalty that cannot be replicated. Some examples: Military Night, Kids Eat Free, Teachers' Night, Student Night, Senior Night, and special nights for sports teams.

• **Loyalty programs.** A strong loyalty program is one of the easiest, most productive ways to create long-lasting relationships with customers and better understand their habits. Programs can be based on number of visits, dollars spent, specific products, and selected days or day parts. When Lenny's converted its loyalty program from a stamped card to an electronic format, nearly 120,000 customers opted to receive an email newsletter. This also provides an easy avenue for the company to send a free birthday sub coupon or an automated "We miss you" message when a customer hasn't visited in 30 days.

When Lenny's converted its loyalty program from a stamped card to an electronic format, nearly 120,000 customers opted to receive an email newsletter.

• **School and fundraising programs.** Fundraising programs create both emotional customer bonds and community loyalty. These programs, aimed at Girl Scouts, Boy Scouts, churches, synagogues, Little Leagues, school bands, and school sports teams and clubs are traditionally inexpensive, and outside groups can become part of your marketing team. Strategies include coupon books with weekly or monthly offers and special nights when a percentage of sales benefits a specific group, team, or charity.

• **Social media.** While the ROI from social media marketing is still a moving target, Facebook, Foursquare, or Twitter, for example, can be an important part of the mix for promoting new locations, new products or menu items, day-part specials, and events. While social media is about engagement, it can lack customer acquisition tools or the ability to distinguish between prospective and existing customers. The deal-of-the-day discount website Groupon, for instance, may attract new customers, but it also offers an unnecessary discount to those loyal to the brand. Lechner says the use of email and social media is smart, but it should be used for "customer loyalty, retention, and brand awareness—period."

• **In-store, four-walls marketing programs.** Your best prospects for loyalty and upsell opportunities are those already in your location. Walls, tables, counters, shelves, ceilings, floors, and sound systems all present opportunities to build customer loyalty and increase sales. For instance, food brand customers should never leave without to-go, catering, or delivery information. Limited-time offers should be promoted on window clings, table tents, counter cards, ceiling dangles, menus, bounce-back coupons, and employee uniforms. Customer data should be gathered at the tables, registers, and POS terminals. This information is invaluable and allows for targeted marketing messages and spending. In-store programs should also include bounce-back coupons, flyers, and brochures aimed at increasing loyalty and driving return business. ■

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BY KERRY PIPES

Franchise Partnership

Franchisee satisfaction is key at Auntie Anne's

Defining and executing brand strategy for more than 1,150 domestic and international Auntie Anne's franchise locations is no small task. But that's exactly what Heather Neary does as chief marketing officer for Auntie Anne's (acquired by Focus Brands in 2010). As a result, Neary has learned that happy franchisees make satisfied franchisees, and that makes everyone more successful.

Neary has been a part of Auntie Anne's marketing department since 2005, and under her leadership, sales grew from $275 million in 2006 to more than $370 million in 2010. We asked her to discuss franchisee satisfaction within Auntie Anne's and the types of business consultation and support services the brand provides for its franchisees.

What is your role as CMO? As a chief marketing officer, it is important for my role to work collaboratively with all internal departments to ensure that every decision we are making is in the best interest of our franchise partners' long-term success. It can be easy for organizations to fall into the trap of working in silos and developing territorial boundaries. A multidisciplinary approach is critical to having the best outcome of business strategies.

What does "franchisee satisfaction" mean at Auntie Anne's? Our franchise partners are truly our partners. For them to be satisfied, we need to go above and beyond on every facet of our business operations. When our franchise partners are satisfied, they are able to focus on their day-to-day operations in their store(s) and can better serve our customers, which means greater success and profitability for all parties.

What factors most determine franchisee satisfaction at Auntie Anne's? At the root of franchisee satisfaction is knowing our franchise partners are happy with the level of service we're providing them, whether it's in our responsiveness to a POS issue, our level of sophistication in our marketing efforts and reaching our target audience, or the expertise provided by our field operations/business consultants. These components, and more, lead to highly satisfied franchise partners.

How do "happy customers" affect franchisee satisfaction? Happy customers—those at the store level—are happy, no doubt, because the franchise partner is satisfied and is able to focus on service to the customers because of the high level of service they receive from the franchisor. It's a cyclical relationship: one misstep on any of three fronts (franchisor, franchise partner, customer) can cause an upset in the equilibrium of the service provided to the franchise partner and to the customer.

What are you doing to create happy customers? Fulfilling our founder's threefold philosophy of service, quality, and cleanliness. When we can serve our customers a great-tasting product with a smiling face and a clean store, we will continue to create a lifetime of happy customers.

How are you creating satisfied franchisees? By providing them with the same service we hope they provide to their customers. We treat them as true partners, offering them respect and timely responses to their concerns. Since 2006 we have partnered with The Franchise Research Institute and implemented its confidential FranSurvey evaluation tool to gain feedback from our franchise partner community. Auntie Anne's has received the World-Class Franchise distinction for its high marks in franchise satisfaction for the last five years. Key categories where we have consistently experienced high marks include overall quality of your franchisor; initial training and support supplied; quality of products and/or services from your franchisor; and "My franchisor and I are committed to a positive, long-term relationship." We closely evaluate this feedback on an annual basis and determine the areas where we can continue to challenge ourselves to improve in delivering support and services.

How does having satisfied franchisees affect your long-term success as a brand? The benefits are immense. We are a far more effective system when we are proactive in our relationships than when we are "fixing" issues. We listen to our franchise partners and work very diligently to create a relationship that allows us all to speak frankly about what's working and what's not working. This open dialogue allows us to focus on the future and continuous improvement all around.

How is your operational support strategy helping to create satisfied franchisees? Our field operations team spends their time in the stores every day, allowing them to truly appreciate what's happening at the store level. Our operational support strategy focuses on giving our franchise partners the tools they need to be their best. Each is at a different place in their Auntie Anne's journey. Our field team is trained to recognize this and appreciate that while one might want some additional operational training, another might want additional guidance on managing their cost of goods or labor rates, while still another might be seeking ways to better reach their target audience through local marketing. Our field team each has a set of stores, and each store is visited about five times a year with additional standard communications occurring between visits.

Do you require your franchisees to participate in local level marketing? How does this help with franchisee satisfaction? We provide several different tools to aid our franchise partners with their local marketing efforts. We do request that each spend 1 percent of their annual sales on local marketing efforts. To assist them in this effort, we provide a team of local marketing specialists who are available to help them create tactics that meet their defined strategies. We also have an "Idea Generator" resource binder each possesses and is encouraged to use that offers a plethora of tactical ideas for ways to increase sales at the store level. We also offer an online local marketing toolbox that gives them the opportunity to customize elements of our POP to meet their local needs. All these tools, as well as the collaborative nature we demonstrate with our leadership franchise partner group on constructing multi-layered marketing campaigns, help to drive franchisee satisfaction.

What role does your franchise advisory council play in franchisee satisfaction? Auntie Anne's has a unique approach to the role of our franchise advisory council. We engage with our council on every facet of our business. Weekly conference calls and email dialogues are supplemented by quarterly in-person meetings where the two-day agenda is jam-packed to discuss every topic, from equipment and distribution concerns to cost of goods and marketing efforts. Our level of engagement with our franchise partners, we believe, has had a direct impact on their satisfaction.

How does having satisfied franchisees affect your referral program? Our formal referral program is just getting started this year. In the past, however, many have joined our system as the result of a more informal referral from someone already involved with the brand. Across the system, many of our strongest franchise partners nurture and develop strong managers to eventually become franchise partners. In addition, we have several families who have all become active franchise partners.

How do you measure, determine, or monitor franchisee satisfaction over time? As I described earlier, we have found it beneficial to partner with an independent franchise research firm to conduct confidential surveys with our franchise community on an annual basis. We are able to secure a report of the cumulative experiences of our current franchisees. This information helps determine the areas where we need to focus our attention and/or have additional open dialogue with our franchise partners on specific topics. Taking this approach consistently gives us a solid snapshot of how they are feeling in terms of satisfaction with us as the franchisor.

Happy customers and satisfied franchisees result from a healthy and successful brand. What are you doing to create and maintain this? We focus on continuous improvement. Our processes are by no means perfect and are constantly evolving to meet the needs of a growing and diverse franchise organization. By being open to evolution, we are able to maintain satisfaction from our franchise partners, which leads to happy customers. We are accessible to our franchise partners and they know they can reach out to any individual on the corporate team if they have concerns or a question. We pride ourselves on providing the same level of care that Auntie Anne herself first demonstrated when she began the organization in 1988.

What is your single biggest challenge with respect to franchisee satisfaction, and how are you dealing with it? In general, we are burdened by factors that are outside of our control. The economy and the changing landscape of the malls (where we have our largest presence) have both presented challenges to our franchise partners and, in turn, to Auntie Anne's as the franchisor. We are addressing the poor economy by continuing to be innovative in our marketing and menu development efforts to make sure we are the number-one option for our target market. On the leasing front, we have continued to engage with our landlords and develop relationships with them so we can better understand where they are coming from when they make leasing decisions. By nurturing these relationships, we are able to work with our landlords and franchise partners to secure successful locations. At the end of the day, as a franchisor, we need to consistently make sure we are placing ourselves in our franchise partners' shoes and fully understanding the challenges they are facing. We can then together work on strategies to overcome the challenges. ■

CMO roundtable: What role does franchisee satisfaction play in your overall marketing strategy?

John Dillon, Denny's
Vice President, Marketing

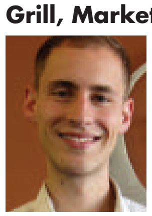
Denny's has nearly 1,700 restaurants worldwide, nearly 90 percent owned by our franchise partners. Our franchisees, composed of a diverse group of men and women who work tirelessly to satisfy our guests on a daily basis, represent the essence of the Denny's brand. They are on the front lines every day speaking directly with our guests, and their input is invaluable in the development of our marketing strategy. We strive to work in a collaborative manner and have developed a brand committee composed of a mix of franchise partners and corporate team members, who work together to determine the best marketing strategy for the brand.

We solicit the input of our franchisees very early in the marketing process to create a true partnership. For example, as we worked to develop our $2 $4 $6 $8 value menu, which we rolled out in 2010, we solicited the input of our brand council and franchisees early on to determine the most appropriate way to introduce the value menu to help stimulate sales in a way that would be manageable at the restaurant level. The feedback we received was invaluable in determining what products to offer and how best to market the value menu in our restaurants.

In 2011, we introduced our new diner positioning, which reminds consumers that "America's Diner is Always Open." We have incorporated that messaging into each of our product modules that rolled out this past year, working collaboratively with our franchisees through this process. Our brand council also plays a key role in providing input into our marketing calendar for the following year, helping to prioritize what our key initiatives will be and providing insight on what they believe will work best in the field.

Involving your franchisees in brand decisions is critical for the success of a brand. A company's franchisees are in the field operating a brand's restaurants on a daily basis and see and hear firsthand how marketing initiatives are received by the guests. Their voice is not only needed, but desired. For Denny's, inviting our franchisees to provide input and advice has played an important role in driving our marketing strategy. The satisfaction of the franchise community is crucial to the development of a cohesive brand and something that is front of mind at Denny's in all brand decisions. We'd like to extend a heartfelt thank-you to the franchisees who sit on our brand council to represent the opinions of their peers, as well as to the franchise partners and field team members who regularly provide input and advice on the brand's direction. We look forward to a collaborative and rewarding relationship for years to come.

Reid Travis, Panchero's Mexican Grill, Marketing Director



The satisfaction of franchisees in regards to a marketing campaign or strategy is crucial to the success of that campaign or strategy. Satisfaction can come into play during a few different points in a campaign. On one hand, the success of the campaign in the eyes of the franchisees is based on whether or not they agree with the campaign in general. This feedback and satisfaction come early on, in the strategy process. On the other hand, feedback and satisfaction also come at the end of the process, when it is ultimately decided whether the campaign was a success.

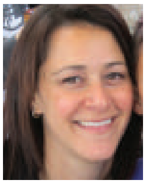
In the early stages of a campaign, when the details are still malleable, satisfaction and feedback can mesh together and alter the eventual outcome. I value the knowledgeable insight I get from my franchisees. However, in some situations I need to be the guiding hand who insists on keeping it about the brand and the consumer. In doing so, finding the middle ground can be a bit difficult. Finding that sweet spot, where franchisees are satisfied with the product and I am satisfied with how consumers will interpret and respond, is something that takes a lot of practice. The overall success of the campaign is contingent upon both of us working together toward this common goal.

When it comes to evaluating a campaign, we can finally see if the decisions we made actually paid off. Here, satisfaction is directly affected by ROI. Was this campaign something that made money? At this point, the satisfaction of the franchisee and my own satisfaction are easily one and the same. If the campaign was successful, we are both happy.

The best example I have of this would be during the grand opening of a new store. We leverage a pretty heavy radio flight during the first few weeks to announce to the public "Hey, we're here!" I often seek some input from the new franchisees as to what key media they think would be good to use. Sometimes I get recommendations for media they personally like. In those cases, I have to be the voice of reason to suggest that 18- to 30-year-old males probably aren't partaking in the same radio stations or programs they are. This is only the first step of many in getting franchisees to think like a consumer, not like themselves. This training is vital to building expectations for future marketing endeavors.

All in all, I would argue that franchisee satisfaction is key to marketing endeavors in a franchise system. All it takes is a little work with education, managing expectations, and being willing to take and respond to constructive feedback. When all of those points come together, a campaign has the ability to run more effectively.

Jodi Boyce, Camp Bow Wow
Senior Director of Marketing



We know from experience that if we don't have franchisee buy-in on a marketing program or promotion, the execution will fail and we won't get the results we want. Our marketing strategies are based on the business goals set by our corporate team, but for 2012 we looked only at marketing programs that require little or even no active participation by the local franchisees for the promotion to be a success.

Although it's difficult to satisfy every franchisee, we feel that our new direction of optional participation marketing programs will satisfy the majority. Optional participation, however, refers only to the amount of local promotion the franchisee is required to do. It does not excuse them from honoring the rules, offers, and program parameters that we set. They are part of the national promotion even if they don't have to do much other than know the details, and can reap the benefits of the national campaign with little or no effort on their part, apart from their marketing ad fund contribution. However, for those who want to participate further, we do provide all the local marketing materials, tools designed to enhance the results in their market. But the national promotion and results will not rely on them.

In 2011, we ran a promotion called the Furry Fitness Challenge, where pets and their owners had to lose weight together and the team with the greatest combined percentage of weight loss won. It was very involved and required a lot of work on the franchisees' part, including scale rentals, partnerships with local vets, database management, and more. We got a ton of PR exposure from the promotion. However, the franchisees and corporate team agreed that this particular promotion relied too heavily on franchisee participation.

For 2012, we are launching a contest called Bad to the Bone—the search for America's worst-behaved dog. Although all the same business strategies apply, the major component taken into consideration when planning this was for our franchisees not to have to actively contribute in order to participate. So far, their comments have been positive, and those who want to promote more to their customers and local market are doing their part and we are providing the tools.

So although our business goals will ultimately outweigh factoring in franchisee satisfaction, we are aware that it's a vital part of the planning process if we want the programs and promotions we create to be successful. ■

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The 2012 Annual Franchise Development Report (AFDR) delivers data from 110 franchisors with 109,936 units, with responses organized by industry, unit investment, systemwide sales, and more. Each year, the AFDR provides franchisors with the ideal tool for digging deeper into their own development practices, benchmarking their sales and recruitment budgets against their own industry categories, and setting goals and budgets for the coming year. The report also includes research into online recruitment practices.

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The complete report, with analysis and benchmarks, is available for $399 ($299 before 12/31). For ordering information, call Sharon Wilkinson at 800-289-4232 x202 or sales@franchiseupdatemedia.com, or go to www.franchising.com/franchisors/afdr.html.

Legal perspective

Q&A WITH ATTORNEY KEITH KLEIN

BY KERRY PIPES

Dot-Complicated

New domain names bring opportunities, concerns

In January ICANN began accepting applications for new top-level domain (TLD) names. We asked franchise attorney Keith Klein what this means for franchisors. 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.

New TLDs are now on sale. What should franchisors know? Currently, Internet domains consist of 22 generic top-level domains (gTLDs), such as .com, .org, .net, etc.; and more than 250 country code top-level domains (ccTLDs), such as .uk, .mx, .jp, etc. Starting this January, ICANN, the nonprofit that governs Internet domain names, began accepting applications for new gTLDs. ICANN expects to receive hundreds of applications for domains in four categories: 1) generic word TLDs (.shop, .radio, .franchise); 2) corporate or brand TLDs (.franchiseupdate, .bryancave) owned by trademark owners; 3) community TLDs (.historicpreservation) where domains are limited to members of a community; and 4) geographic TLDs (.omaha, .london) owned by cities and geographic regions. The new TLDs will also allow the use of certain non-Latin characters.

Can a franchisor buy the .brand TLD for their system? Yes, which means they will own and control their new gTLD. Franchisors not already in the domain name business will be entering into a new business line: domain registrar. Obtaining a gTLD is not inexpensive. Beyond the $185,000 evaluation fee and ongoing registry operating costs, applicants must demonstrate the financial depth to keep the registry fully operational for at least 3 years.

What are the benefits of owning a gTLD? There are many. The owner will be the domain registrar with the power to regulate both who can obtain second-level domain registrations and the cost of the registrations. Thus, franchisors who obtain a gTLD for their trademark can limit second-level domain registrants to authorized franchisees, employees, and others they want to allow into the brand community. Using a .brand gTLD may be the next opportunity to connect, socialize, and create a social community with a brand's customers and followers. Ownership of a brand gTLD may also be a way to ensure security with customers and contract counterparties. The franchisor could advise all customers and counterparties that they will receive electronic communications only from the .brand gTLD and should communicate with persons associated with the brand only through the .brand gTLD or through an email address using the .brand gTLD. It also may simplify trademark enforcement as brand owners will be able to quickly identify unauthorized uses of the brand (e.g., anyone not using a domain under the new .brand gTLD).

Using a .brand gTLD may be the next opportunity to connect, socialize, and create a social community.

Q: What about deadlines? The registration application process has the following milestones in 2012: 1) January 12, application window opens; 2) March 29, last day to register for access to the TLD Application System; and 3) April 13, application window closes. Before an applicant can complete and submit their application they must complete a registration, which consists of several steps. ICANN advises applicants not to wait until the deadlines to register and submit applications; and that the application evaluation process can take from 9 to 20 months (or longer) to complete.

How does a brand owner that does *not* buy their gTLD protect their brand? After the application process is complete, ICANN will publish portions of all applications, and there will be a public comment period and formal objection process that ICANN advises will last for about 7 months. Formal objections may be filed on any of four specific grounds, including legal infringement and confusion with an existing or applied-for gTLD. All franchisors are advised to monitor the application process, whether or not they apply for a new gTLD. A legal rights objection may be made based on registered and unregistered trademarks.

Following the launch of the new gTLDs, franchisors and other rights owners must continue to monitor and enforce their rights in the domain names registered under the new gTLDs. ICANN currently proposes to have a "trademark clearinghouse" to assist in the prelaunch sunrise period for the new gTLDs. Trademark owners will want to avail themselves of the clearinghouse so they may take advantage of the proposed Uniform Rapid Suspension System to challenge domain names identical or confusingly similar to their trademark.

What's next? Brand owners with the financial wherewithal and who see a business reason will have to go through the application process. Initially, all trademark owners will need to watch the proposed new gTLDs, and then expand their domain name registration procedures to include 1) registrations under the new gTLDs and 2) their policing of domain registrations under the new gTLDs they do not obtain. ■

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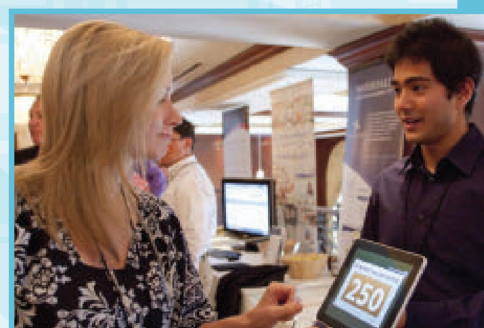

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Produced by: Franchise update magazine FranchiseUpdate MEDIA GROUP

Consumer data

BY TOM EPSTEIN

No Dips Behind

Retail sales, gift cards finished strong in 2011

Retail sales are back! And gift card sales are leading the way.

As of this writing, I still do not have all the holiday numbers—but what I have so far is looking very good for franchising. For the brands we work with, the overall sales increase was around 12 percent year over year.

We saw a good Thanksgiving weekend, with sales up around 9 percent. Usually we see a dip after Thanksgiving weekend until the week or so before Christmas. This year we did not see any dip; sales just kept on going. From the numbers we are seeing, it was not so much that there were more sales transactions—it was more that the sales recorded were for higher dollar amounts.

Compare this to what Target announced as a 1.6 percent increase in same-store sales over the holidays (driven more by grocery items than by electronics). And First Data Corp. (the largest processor of payments in the U.S.), in their *SpendTrend* indicator, reported an increase of 7.3 percent in same-store consumer spending. Combining this information, one could conclude that consumers preferred shopping at smaller businesses this year—which would seem to help franchisees, as most consumers view individual franchise locations as smaller, local businesses.

Gift cards rock

This trend was especially highlighted in the gift card sector. Note the increase in gift card dollar amounts this year over last in all sectors (see table).

Factor in the accounting principles of gift card acceptance (that you do not count a gift card sale as a sale on your books until it is redeemed), and this should lead to a good spring as consumers who received gift cards over the holidays begin to spend them.

From the numbers we are seeing, it was not so much that there were more sales transactions—it was more that the sales recorded were for higher dollar amounts.

Gift Card Sales

Sector	2010	2011
Fine dining restaurant	$54	$69
Fast casual restaurant	$33	$41
Quick service restaurant	$18	$21
Coffee shop	$21	$24
Specialty retail	$43	$52
Department store	$46	$57
Convenience store	$33	$52
Entertainment	$31	$37

Mobile on the move

Another trend we are seeing that seems to be helping traditional brick-and-mortar merchants is the increased use of mobile technology. As a result of consumers being able to download apps to their phones that allow them to price-check items in a store against both brick-and-mortar competitors and online merchants, consumers can now make better decisions about whether or not it is worth their time and effort to drive to another store or go online and deal with the uncertainty of holiday shipping or just buy in the store they are in at the time. According to recent studies:

- 29% of smartphone users look up products while in the aisles;
- 45% of those compare prices with those at other stores; and
- only 8% end up purchasing those same items elsewhere.

Smart retailers are embracing mobile commerce to attract customers into their stores and keep them there.

Card use trends

Another interesting set of numbers I saw in a recent payment trade publication showed the overall percentage of card transactions worldwide (see table below).

These trends are expected to continue, with Latin America and Asia gaining steam and reaching 10 and 20 percent of total worldwide card purchase volume, respectively, by 2015. This seems to support the strategy of many of our clients, who are looking for growth to continue to come from opening new locations outside the U.S. ■

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.*

Card Transactions Worldwide

Region	% of total (2009)	% of total (2011)	Change (%)
United States	48.8%	47.5%	-1.3
Europe	21.9%	22.7%	+0.8
Asia/Pacific	15.5%	16.0%	+0.5
Canada	5.7%	5.5%	-0.2
Latin America	6.6%	6.9%	+0.3
Middle East/Africa	1.4%	1.5%	+0.1

Connecting with customers

BY JACK MACKEY

Getting to First Base

"Moneyball" provides insight on customer loyalty

I recommend you get your management team together and take them to see the baseball movie "Moneyball," adapted from the book by Michael Lewis. You buy the popcorn and I promise you that "Moneyball" will deliver some powerful lessons about winning, and sustaining, customer loyalty.

If you're wondering what a movie about baseball has to do with customer loyalty, I can give you the answer in one word: insight.

The movie tells the story of how the Oakland Athletics first applied statistical analysis to winning major league baseball games. They built a predictive model where the key variable to winning was found to be getting on base. Lewis explained it like this: "… if you ran the analysis, you could see that the number of runs a team scored bore little relation to that team's batting average. [Runs scored] correlated much more exactly with a team's on-base percentage and slugging percentage."

That "Aha" discovery—what those of us in the customer analytics business call insight—was a game-changer.

By having the guts to act on this insight, the A's general manager, Billy Beane (played by Brad Pitt in the movie), was able to win the same number of games with a $39 million payroll as the New York Yankees were able to win while spending $141 million.

Oakland spent so much less on payroll than New York by changing the way they selected players. From Oakland's perspective, the patience to draw a walk (get on base) should be as highly valued as the ability to hit a single. But that was "hidden" value because it doesn't show up in hitting percentage. As a rule, the higher the hitting percentage, the higher salary a player commanded. That was the tradition in the business of baseball. Everyone—except Oakland—was missing the truth: that hitting percentage did not correlate to winning games nearly as much as on-base percentage. So Oakland did not just pay less for their players, they also got more for their money!

If you're wondering what a movie about baseball has to do with customer loyalty, I can give you the answer in one word: insight.

You can compete effectively with larger and richer competitors by changing the way the game is played. In Los Angeles, Kogi Korean BBQ-To-Go provides a great example. (By the way, you will not find Korean tacos in Korea. Kogi is credited with inventing them in the US.)

Kogi is famous both for their Korean tacos and for their use of food trucks instead of traditional restaurant buildings. One reason they draw crowds is because they have a unique and wonderful product. Their chef is a guy named Roy Choi who was valedictorian of his class at the Culinary Institute of America and was named Amercia's best new chef in 2010.

Kogi's first "big break" came when it got the idea to contact Los Angeles food bloggers about trying their wonderful tacos. The bloggers loved Kogi and became powerful advocates. Through their voices, the Los Angeles community began to hear about, and want to try, Kogi's food.

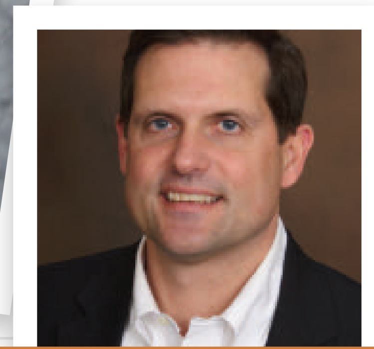
To enable customers to find them—and isn't that a delicious twist on the traditional problem of finding customers—Kogi used Twitter to announce which locations its food trucks were visiting next. This led to considerable buzz on many of the social networking services and ultimately generated flash mobs showing up to meet the trucks. *Newsweek* recently proclaimed Kogi "America's first viral eatery."

There is a definitely a parallel here about challenging the ROI on traditional marketing versus unpaid marketing through social media. But it isn't that simple, because social media only works positively for brands that *delight* customers.

If your franchise is still tracking and reporting the combined total of Satisfied "4s" and Highly Satisfied "5s," you are missing out on the biggest insight in customer analytics in the past 25 years: only Highly Satisfied (i.e., delighted) customers are loyal. The winning strategy for building customer loyalty is to increase the number of delighted customers—that is the percentage of "5s" on a 5-point scale. That metric, Top Box scores, is the one that matters. Think of percentage of Top Box scores as on-base percentage for franchise organizations trying to create raving fans for the brand.

For more information about how to shape your customer experience to create highly satisfied and loyal customers, request the free white paper "Driving Performance with Top Box Scores" at www.smg.com/research. ■

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



Grow

Franchise development intelligence

"Franchisee satisfaction is a pillar of our business. It is both a point of emphasis and a source of great pride for the our executive team and support staff."—Stephen Dixon, VP, Franchise Development, Children's Lighthouse Learning Centers

Challenge the pros

How does franchisee satisfaction affect your referral program and relate to your overall development planning and process?

Stephen Dixon
VP, Franchise Development
Children's Lighthouse Learning Centers

Franchisee satisfaction is a pillar of our business. It is both a point of emphasis and a source of great pride for our executive team and support staff. We've created a culture of compassion that encourages empathizing with franchisee concerns and providing solutions to challenges. Plus, we have proactive training and open dialogue to ensure our franchisees are satisfied. In sum, this effort has resulted in a zero percent failure rate and consistently positive feedback from our franchisees with regard to our support and marketing programs.

Since the brand owns and operates eight company units, we also have excellent business model credibility. Beyond that, franchisee satisfaction results from franchisor execution of three basic fundamentals: (1) comprehensive pre-opening training and support, (2) unencumbered two-way communication, and (3) effective business consulting for the life of the franchise partnership. In addition to the programs we have in place to guide and reinforce franchisee efforts locally, we continue to focus on our business model and its track record of success. If the model works and both parties execute the fundamentals, then high franchisee satisfaction will follow.

We annually survey our franchisees anonymously through an independent company. Our franchisees have given us high marks in key areas such as initial training, helpfulness of the field representative, and commitment to a positive, long-term relationship. The survey is an important benchmark that helps us ensure we are serving our franchisees well.

As part of the franchise awarding process, prospects make contact with as many of our franchise owners as desired. Franchise owners generally do not mind spending focused time with qualified candidates… they recall asking similar questions when making the decision themselves. As a franchisor, the only thing we can do to ensure this goes well is to provide strong support and a business model that delivers results for the franchisees. And we like to obtain the franchise owner's thoughts about the candidate. Their opinions are very important in our process.

Our franchise owners are active and well-networked in their communities. Should they recommend a prospective franchisee to us who eventually signs a franchise agreement we will grant the referring franchise owner a substantial referral fee. We truly appreciate the partnership with our franchisees in this area as they usually pre-screen the candidate before submitting them to us. The referral program is a substantial contributor to our growth. In any given year we can expect 10 to 20 percent of our new franchisees to emerge from this source.

When a franchisor develops a business model through operating experience and then executes well on training, support, and communication, it will receive high marks in franchisee satisfaction. Continuous improvement through annual, independent survey analysis is important. Asking for franchisee assistance and input during the candidate learning process helps everyone build a better franchise system. Finally, a referral program that rewards franchisees for their assistance if one of their contacts becomes a franchisee should be an important part of any development plan for growth.

Shawn Caric
Franchising Manager
Dunkin' Brands

Franchisee satisfaction leads to great validation. Additionally, satisfied franchisees share their success and experiences with family, friends, colleagues, and business partners. Traditionally, a greater percentage of referral leads become franchisees than any other lead source.

Your best franchisees provide the best referrals. It may seem obvious, but a referral candidate often shares the same core values, competencies, and past business success as the franchisee who referred them.

Ironically, it doesn't appear to me that monetary incentives are as important to existing franchisees as you would expect. The basis for most referrals is a franchisee's pride in their brand and joy in sharing their story of success.

Also, don't assume that your franchisee base can't help launch new, faraway markets. It's a small world, so don't be surprised when a Philadelphia franchisee refers a lead for Houston.

Finally, in franchise development, it's all about the validation. Nothing can shut down development like poor validation from existing franchisees. Therefore, don't spend a dime marketing your plan for growth and franchise opportunities if the validation isn't there to support it.

Mike Mettler
Director, National Franchise Sales
American Dairy Queen

Franchisee satisfaction is critical to the franchise development process because it is directly related to new franchisee validation and the ability for the brand to continue to develop new stores. One great new store opening will lead to more new store openings. It is that simple. At Dairy Queen, we focus on making the new store opening experience a positive one for the franchisee and the brand.

Our impact on franchisee satisfaction through the development process begins with a thorough and rigorous evaluation of every new store development "franchise application." We ask three basic questions.

1) Is it a great site and trade area? DQ has a proprietary demographic modeling system that evaluates both the trade area and the site by comparing the new location with our portfolio of similar operating restaurants. This sounds simple but it is not, and the brand has invested in leading-edge technology so we can open the right store in the right place.

2) Is it a strong franchise candidate? DQ looks for strong business experience and very relevant restaurant experience. The ideal franchise candidate is a multi-unit restaurant operator, but we also have had success recruiting local business leaders who are connected in their communities and who hire or partner with experienced restaurant operators.

3) Are there enough financial resources? DQ, like many brands, reviews the financial details of the franchisee and the transaction.

If DQ does not think the franchise application is strong in any one of these areas we turn it down and do not develop the store.

We provide a lot of resources to help franchisees open their new stores successfully, on time, and on budget. Regional development professionals who are real estate and development experts help franchisees evaluate and execute new store development opportunities. We also support new store openings with many other resources including architects, construction management, project management, marketing, and a new-store opening team that remains closely involved and monitors the operational goals of the restaurant for the first 6 months, and that supports every opening very closely until the store is ready to transition to our field business consultants (about 1 to every 50 stores), which allows us to work very closely with the franchisees on an ongoing basis.

The best measure of franchisee satisfaction as it relates to the development process is the number and type of new store openings. We continue to grow the number of new stores we are opening each year. We also are increasing the ratio of Dairy Queen Grill & Chill locations that offer both food and treat products. ■

BY KERRY PIPES

Developing Intelligence

Highlights from the 2012 AFDR

The 2012 Annual Franchise Development Report (AFDR) is a comprehensive research guide to sales and lead generation performance in franchise recruitment. The report drills down into industry categories, investment levels, and recruitment budgets; provides marketing cost data; reports the top-producing sales and lead sources; reveals performance evaluations of franchise websites and follow-up to prospect inquiries; and analyzes current and historical trends.

The data on current franchise sales and recruitment practices were collected in late August and September 2011, based on detailed responses from 110 franchisors representing 109,936 total units (79,254 franchised and 30,682 company-owned). The results and analysis contained in this nearly 200-page report can help you accelerate system growth, increase sales performance, and make smarter, more cost-effective advertising and marketing decisions.

In this issue we shine the spotlight on franchisee referrals. As the data show, referrals (31 percent) took the lead in 2011 as the top sales producer, dethroning the Internet as number-one. More franchisors are offering referral fees, promoting referrals more aggressively to franchisees, and increasing fees (or other rewards) when a referral signs on.

Last year, 67 percent of the 110 respondents provided incentives to franchisees who referred prospects that bought, 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.

At Franchise Update Media Group we continually seek ways to further raise franchisor awareness of development standards, and to create benchmarks to help accelerate the evolution and adoption of best practices in franchise recruitment. We welcome your comments—and participation—to help us shape the 2013 AFDR. Data-gathering has just begun. To participate in next year's report, contact Therese Thilgen at thereset@franchiseupdatemedia.com. All data is aggregated and kept completely confidential. ■

Top Sales Producers

Source	2011	2010	2009	2008	2007	2006
Internet	30%	36%	34%	35%	41%	45%
Referrals	31%	25%	28%	28%	37%	21%
Brokers	17%	17%	17%	16%	14%	21%
Print	2%	5%	8%	6%	4%	2%
Other	20%	17%	13%	15%	4%	11%

Where the Leads Come From

Source	2011	2010	2009	2008	2007	2006
Internet	51%	61%	60%	66%	77%	70%
Referrals	18%	10%	10%	16%	14%	16%
Print	1%	3%	5%	3%	3%	2%
Other	30%	26%	25%	15%	6%	12%

Do you provide incentives to franchisees who refer prospects that buy your franchise?

No incentive	34%
Cash	54%
Other	13%

If yes, how much per signed agreement?

Referral Fee	
Less than $999	3%
$1,000–1,999	25%
$2,000–2,999	22%
$3,000–3,999	8%
$4,000–4,999	3%
$5,000–5,999	20%
$6,000–6,999	2%
$7,000–7,999	0%
$8,000–8,999	2%
$9,000–9,999	0%
$10,000 or more	17%

Sales smarts

BY MARC KIEKENAPP

Mystery Shopping

A key to increasing sales

Over the past four years we've been honored to conduct the mystery shopping research for Franchise Update's annual Leadership & Development Conference. The results are used to determine the annual winners of the company's STAR Awards for best performance in responding to inquiries from qualified prospects.

While invaluable statistical data, information, and analysis of franchise sales performance can be found in Franchise Update's Annual Franchise Development Report, real-life responses to our inquiries shed another kind of light on what constitutes best practices by some—and on what, if not worst practices, are areas with plenty of room for improvement.

With the start of the new year, I want to share some of our more general, anecdotal findings—what we actually heard on the calls—in the hope it may help all of us do a better job at franchise sales.

We found a wide separation in the manner in which sales people handle candidates. Many sounded like robots making the 32nd call of the day (we've all been there), while others conveyed enthusiasm and professionalism in their messages and conversations. Year after year, the "pros" follow a written system with prompt and courteous follow-up.

Mystery shopping your sales team is an enlightening experience—and a valuable training tool for achieving better results. The personality of the sales person and their belief in the franchise system are still the most powerful marketing tools to possess.

What follows are some of the highlights from our mystery shopping phone survey:

1. Incoming toll-free development phone systems were marginal at best

• Have you called your own numbers lately? During business hours? After business hours?

• How many hoops do you have to jump through to leave a message?

Phones should be answered live during business hours. Record a concise, professional, and exciting message! At least 50 percent of the systems we called would turn away an interested candidate.

> **If you could only train and monitor these four key steps, I believe you will award more franchises in 2012 and also be in the running for the STAR Awards later in the year.**

2. Most franchisors had an auto response/initial email letter

• The quality and message varied from exciting to boring and run-of-the-mill, standard responses. "Boring" would be short, with no graphics, no industry statistics, and very little investment information. "Exciting" had nice graphics, a picture of the retail store or van, and a testimonial or short video that prompted prospects to want to learn more.

3. First personal contact

• Only about a third of the franchise companies we contacted chose to actually make a phone call after the initial letter.

• Another third used an automated CRM system with either an email string or private portals with educational information driving prospects to call back or complete a form.

• The other third did nothing. Yes, nothing!

4. Actual conversation on first contact

• The majority of sales consultants rushed through the call. Take your time, this is an opportunity to make a good impression.

• Others wouldn't shut up!

• Most didn't ask for enough information to know if they really had a buyer; nor did they take the time to build a rapport to do so.

• Make sure you have a written script or checklist to complete so you can accomplish a qualifying call. Don't read it, follow it!

• Take the time to talk about the candidate, why they want a business of any kind, what kind of support they have at home.

• After that, the number-one question to ask is why they feel that now is the time financially to invest in a business for them and their family.

Conclusion

I hope this is helpful to your franchise development department. If you could only train and monitor these four key steps, I believe you will award more franchises in 2012 and also be in the running for the STAR Awards later in the year.

Mystery shopping is a fabulous tool to keep everyone on track and to keep your skills—and those of your sales team—up to par. I would encourage you to mystery shop your team with their knowledge more than just once a year before the conference so you can make adjustments and grant more franchises. Role-playing has been overlooked for years. Working with your team and practicing your profession can reap big benefits for all.

Happy Selling,
Marc

BY DARRELL JOHNSON

Need To Know

Quality of information trumps medium

Long gone are the good old days of 2002–2007, when development jokes about fog-the-mirror tests abounded. As we all have learned over the years, good jokes have a foundation in reality. Development was too easy then, and for the last couple of years it's been too hard. We're gradually seeing an improvement in development activities. We won't have 2011 unit totals for a few months, but what we are seeing is more unit growth.

Where are the opportunities coming from, and how are they getting financed? According to Franchise Update's Annual Franchise Development Report (AFDR), some of the traditional development sources, including lead generation websites and expos, are declining in importance to franchisors.

The AFDR showed modestly better outcomes from search engines through purchased words and optimization, and organically through referrals and a franchisor's own website. While these developments clearly qualify as trends, they are rather subtle so far. I think the bigger implication of the direction suggested by these changes is around the quality of information being provided, not the way it is being delivered.

Development has been so defined by the FTC Rule that I believe we have allowed the Rule to override common sense. As a prospective franchisee, I may want to know how much can I make. What I need to know is whether I will be "successful" over time. If your system has a high percentage of units continuing to operate over time, isn't that the best proxy for success that I could judge from the outside looking in? Every prospective franchisee knows there's no guarantee of success. However, if most of your franchisees are still around after a few years, I can probably infer from that simple fact that your system is doing okay. Therefore, I am likely to do okay. I can't deduce that from an Item 19 or Item 20. I can't judge this fully by talking to a few of your franchisees.

Rather than being constrained by the FTC Rule, why don't you use common sense and develop a means of communicating what prospective franchisees need, regardless of what they are asking for? Wouldn't continuity rates defined around unit longevity be a really strong indicator of success over time? How about renewal rates? The number of units existing franchisees add to their current operations? I could go on. You get the message. This is less about thinking outside the box than it is about simply thinking using common sense.

I think the reason there are changes in the mix of lead generation sources with no clear-cut trend is that it isn't about the delivery vehicle any more. The information age has leveled that playing field to a large extent. It's about where I can get reliable and compelling information. Want an example? Look how banks are changing the way franchise information is being developed and used. Banks are forcing change on the type and quality of information that you produce, so you might as well get used to thinking differently about franchise information.

The limitations of FDDs for credit risk assessments have been clearly exposed through this financial crisis. Banks need information that isn't in FDDs; and the information that is in FDDs is, for the most part, misleading (if not irrelevant) for such purposes. Credit risk analysis wasn't the purpose of FDDs. While for years banks have tried to extract credit risk information from FDDs, in reality FDDs give banks very little useful and actionable credit risk information. And forget about asking a bank to validate anything by calling your franchisees unless you want to give them a good laugh.

Banks need a type and quality of information that addresses their credit risk decision-making questions. We're seeing the power of this today with Bank Credit Reports (BCRs), a specialized form of benchmarking designed specifically for banks. While BCRs compare brands within franchising, their real power is that they provide a level of credit risk information for banks that allows them to determine the likelihood they will get repaid; make portfolio commitments to specific borrowers, brands, and sectors; and develop term sheets appropriate for the risk profile that such information suggests. The result will be more capital for franchising. In the process, banks are disproportionately shifting the amount of capital away from independent businesses (where they struggle to have any predictive credit risk ability) and toward franchising (which has a lot of credit risk predictability).

Doesn't the same kind of common sense hold true for prospective franchisees? It certainly does for multi-unit operators, who have the knowledge and sophistication to understand the implications of such information. So why do we stay mired in old thinking?

That brings me back to what I think really is going on with lead sources today. Brands that have good performance are finding ways of communicating that performance to prospective franchisees, regardless of the lead generation vehicle. There are only three requirements: (1) have good performance; (2) find common sense ways to communicate that performance; and (3) when doing so, stay within the good graces of your franchise counsel and the intent of the FTC Rule. ■

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

It's closing time

BY STEVE OLSON

What Are You Saying?

Test yourself right now!

How do you promote your franchise to prospective buyers? Is it something like, "We offer an outstanding program, employ highly qualified staff, use state-of-the-art equipment, deliver excellent training, and help you grow your business every step of the way?" Don't feel bad if you are guilty of this!

Many of your competitors also bombard prospects with boring, meaningless content that lacks points of differentiation and noteworthy advantages that stir, attract, and excite buyers. Consequently, today's serious prospects are forced to wade through an ocean of similar opportunities to catch the few that truly speak to their interests.

Don't chase the masses

Most buyers won't find what they want in your franchise concept, so don't try to entice them with your messaging. Your challenge is to avoid these millions of opportunity-seekers who aren't the right match for you. Obsessively focus on crafting engaging content to attract candidates who can achieve success in your franchise—real prospects who will appreciate and embrace the ownership opportunities your business offers.

Ask your pros for help

Survey your top producers to find out "what is it" about your business that attracted them. Often you'll discover key motivators you didn't realize are important to your franchisees.

I previously consulted for a retail franchise that prepares standardized legal documents for much less cost than an attorney would charge. Interviewing their successful franchisees, we discovered a key selling benefit *not* promoted in their marketing. Owners enjoyed a strong sense of personal fulfillment, receiving heartfelt "thank-yous" from appreciative customers who couldn't otherwise afford the service.

If you haven't, ask your franchisees what they like about their business, what attracted them to your franchise, and how it has benefited them and their family. Include these buying motivators in your sales materials and you'll deliver a more convincing message to the right prospects.

Obsessively focus on crafting engaging content—real prospects will appreciate and embrace the ownership opportunities your business offers.

You'll pay for the wrong message

Years back, executives from a young franchise approached me in a state of total frustration, complaining about the poor quality of candidates they were attracting and the few qualified ones who weren't buying. Their entertainment rental concept "had legs," but it just wasn't promoted properly. Their marketing program featured semi-absentee ownership, promoting owners in t-shirts, sandals, and taking vacations.

This hobby-type approach turned off serious business buyers and attracted dreamers. Too much emphasis was placed on lifestyle, with little focus on the business model. The executives simply didn't do their homework in advance and needed to reposition their message to get back on track. This was an expensive lesson, costing thousands of dollars in recruitment advertising and turning off qualified buyers who could have been royalty-producing franchisees.

How high is your score?

1. Does your initial message promote your franchise opportunity rather than focus on details about what your business does? Yes ☐ No ☐

2. Do you use the self-serving nouns "we" and "our" in your copy more than the buyer-attracting language of "you" and "your"? Yes ☐ No ☐

3. Does your message define your specific business advantages and how your franchisees can profit from your products, services, and brand? Yes ☐ No ☐

4. Does your message feature lifestyle, family, and personal benefits your franchisees enjoy as business owners in your system? Yes ☐ No ☐

5. When highlighting your company awards and achievements, do you translate how these have benefited your franchisees? Yes ☐ No ☐

6. Do you attract candidates using compelling images, videos, and testimonials of franchisees, employees, or customers? Yes ☐ No ☐

7. Do you turn off candidates with promotional photos of empty stores, equipment, and service vans? Yes ☐ No ☐

8. Does your messaging reinforce what your franchise sales execs share with prospects, or are there serious "disconnects" between the two? Yes ☐ No ☐

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*