Franchise update | 2012 Q4

BUSINESS INTELLIGENCE FOR GROWING FRANCHISORS

Lead! *Arby's refranchising effort is paying off in brand turnaround*

Market! *Terri Snyder, CMO at Checkers/Rally's, on brand leadership*

Grow! *Highlights from the14th Annual Leadership & Development Conference*

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TOWN PLANNER
"Streamlined our process to engage more candidates"

Franchise update | Q4

BUSINESS INTELLIGENCE FOR GROWING FRANCHISORS

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From the editor's desk

BY KERRY PIPES

Growing Better, Not Bigger

How do *you* measure growth?

It's an interesting question. As I flew home from our recent Leadership & Development Conference, I found myself reflecting on the numerous conversations I had (and overheard) with some of franchising's most savvy professionals. CEOs, presidents, and development executives from brands both large and small, food and non-food, retail, and service rubbed elbows during the event, spoke up during sessions, and conversed in the hallways from early morning to late at night. Time after time, discussions turned to growth and brand development. Interestingly—and I'd say positively—many execs were more interested in growing better, not just bigger.

I think this is a natural and progressive shift in corporate strategy in franchising today. When you stop to consider the importance of unit economics and the sophisticated franchise buyers in today's market, it really makes perfect sense to focus on quality over quantity. If I were buying into a franchise brand, I'd be a lot more concerned with how many units were running efficiently (i.e., profitably) than in the total number of units throughout the system. After all, as a buyer. I'm interested in what's in it for me!

Further, I believe this business approach provides more assurance and security for both new and existing franchisees. Every unit is important—at least it should be. Sure it's important to expand the brand, establish marketplace dominance, and beat competitors to the punch. But the brand's units must be strong and healthy or it all turns into a house of cards and collapses.

Rather than spend energy and dollars building out new store after new store, many brands are investing in revamping existing units.

Perhaps this new "unit-focused" strategy helps explain why some established brands are beginning to implement remodeling and redesign policies for their units. It's important for franchises to offer their customers the best of everything and do it in a clean, refreshed environment. Rather than spend energy and dollars building out new store after new store, many brands are investing in revamping existing units.

Let me give you an example of someone who is letting this very type of strategy do the talking: Doug Pendergast, who took over as president and CEO of 80-year-old Krystal Burger earlier this year. I had the pleasure of interviewing him for this issue and was impressed with him right off the bat. Sure, he has big goals and objectives for the brand (such as growing from 400 to 500 stores in the next 5 years), but one of the first things he said to me was, "We're more focused on being better than being bigger."

If you ask me, *that's* the way to measure leadership these days.

Franchise update IQ4

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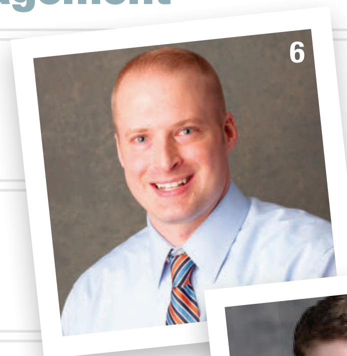

> **"Everyone makes mistakes—no business venture is perfect. Look at your previous failures to avoid falling into the same patterns. Juice It Up! closed 79 stores between 2008 and 2010 because of the struggling economy. I look at this as a positive experience: it allowed us to rethink our expansion strategy and showed us where we went wrong."** —FRANK EASTERBROOK, PRESIDENT AND CEO, JUICE IT UP!

Executive profile:

Youthful Enthusiast!

33-year-old presides over Two Men and a Truck

BY KERRY PIPES

This past August marked a milestone for Randy Shacka and for Two Men and a Truck: Shacka not only became the first non-family president of the Michigan-based franchisor, he also did it at the only company he's ever worked for—and at just 33.

"I started out in 2001 as an intern in the marketing department while attending Michigan State University. I was an engineering student with no background in moving or franchising," he says. Then he "fell in love" with the company, the brand, and the founding family members, especially the brand's attention to detail and its unwavering customer service model.

Name:	Randy Shacka
Title:	President
Company:	Two Men and a Truck
Age:	33
Family:	Wife Becky, son Will
Years in franchising:	11
Years in current position:	2 months

A year later he moved to Florida to open a Two Men and a Truck franchise in Seminole County. "I was two classes short of obtaining a degree in engineering sciences at the time and I came from a conservative home, so my parents weren't particularly thrilled with my decision," he says today. He promised his parents he would finish his degree, and did so in 2004.

Shacka succeeded in Florida but longed to return to family and friends in Michigan. An opportunity opened up in the corporate office, and he jumped at the chance to become a franchise development specialist. From there, he flourished, advancing to vice president of operations, COO, and now president.

The company has been on a roll the past couple of years, growing to 222 locations in 34 states—with 33 straight months of record growth and two thirds of its U.S. locations up by double digits in 2011. During this time Shacka has been front and center, leading a couple of technology initiatives, including a system-wide move to the cloud and a reinvention of their website and lead generation systems.

"One goal is to continue to invest and grow the brand while strengthening the bottom line of our franchise owners," he says. Another goal is to grow their franchise network by 40 new locations over the next 18 months. "We have a very strong management team and we're on track to hit the quarter-billion revenue mark by the end of the year. I couldn't be more excited about the direction of the company."

LEADERSHIP

What is your role as president? Well, I'm only 48 days into this, but my job is to help execute the vision of this family business. I have been overseeing the implementation of new technology tools here that will enable us to improve and centralize our operating systems. It's also my job to build the brand and leverage growth.

Describe your leadership style. I believe leadership starts with your brain and mindset. I try to lead by example with the energy, work ethic, service, and hard work I bring each day and to truly try and help paint a picture for others of where we are headed. I'm not sure there is a classical term for this. I have a degree in operations, but I believe I learned how to lead from working on my visionary master's, I guess. Part of leadership is having an understanding that you are never "there"—you never arrive as a leader—you must commit to working at it daily.

What has inspired your leadership style? I have had a lot of positive influences in my life, starting with the work ethic instilled by my parents from a very young age. I have also had great mentors from the family of Two Men and a Truck as I started here as an intern at MSU. They were instrumental in developing me as both a business person and family man.

What is your biggest leadership challenge? My biggest challenge is to help grow our brand while still maintaining the agility and flexibility to adapt to our ever-changing world. We must all work toward becoming comfortable being *uncomfortable* with the world we live in today. My challenge is to maintain our vision and course in uncharted waters ahead—an exciting challenge for sure!

How do you transmit your culture from your office to front-line employees? It starts with our core purpose, mission statement, and core values. Clarity, communication, and consistency in actions help synthesize our culture organization-wide. Since day one we have focused on customer service; this is the foundation for all our decisions relative to how it affects the customer. We are also very transparent and share many key metrics across the franchise system. This transparency from day one has helped instill a culture of openness, as well.

Where is the best place to prepare for leadership: an MBA school or OTJ? I do not have an MBA so I can't speak directly to that experience. I started as an intern and grew with the organization, so I definitely see where on-the-job experience is key—particularly in operations. I am always learning and reading, so I think you need a good balance of academia and experience to prepare you to lead. In my opinion, leadership is a mindset that starts with the individual making the choice first then selecting the avenues to get there.

Are tough decisions best taken by one person? I believe there should be an owner for every decision made. That is leadership, but we have a saying around here that our founder Mary Ellen Sheets coined: "All of us are smarter than one of us." I firmly believe in obtaining input from key subject matter experts before making a tough call.

How do you make tough decisions? Being an engineer by education, I always try to review each decision objectively. For tough decisions, I seek to involve key people from the organization for their input and expertise, look at factual information surrounding the system, and at the end of the day I look at the pros and cons and consider the worst-case outcome as the result of this decision. Beginning with the end in mind sometimes makes it easier to figure out how to respond in a tough situation.

Do you want to be liked or respected? I think human nature tends to drive people toward wanting to be liked, but I believe that, from a business perspective, Bill Cosby is right on with the quote, "I don't know the key to success, but the key to failure is trying to please everybody." I hope through my actions I will be respected for the value I bring to the organization, and if I make some friends along the way, even better! In fact I already have some friends for life in our system.

Advice to president wannabes: Lead by example, serve others, and put the organization first before yourself. I also remember this adage from a colleague, and it still resonates with me: "If you own something, own it; if you own it, measure it; and if you measure it, improve it."

MANAGEMENT

Describe your management style: I like to work in a collaborative environment where accountability and empowerment prevail. My job is to help foster this with the teams we are building here.

What does your management team look like? We have really reshaped our management group here at the home office, and I'm very proud of our current team. Our CIO, CFO, along with our directors and managers, are taking a proactive stance on our business. I'm very satisfied with the direction we are headed with our entire team at the home office in Lansing.

How does your management team help you lead? Through feedback! This new structure is new for everyone, and we can only get better through candid feedback and working as a team to achieve our goals.

Favorite management gurus/books: I am an avid reader of business books including management and leadership. My favorites are Peter Block, Stephen Covey, Bo Burlingham, and John C. Maxwell.

What makes you say, "Yes, now that's why I do what I do!"? There are moments in the day when you are able to help someone, either through clarity of communication, completing a key project, and recognizing, or just sharing general appreciation. We are growing at a record pace during a time the moving industry is relatively flat. In fact, Two Men and a Truck had a record year last year, and we have averaged close to 60 percent growth during the past two years. We are all busy as a result, but just being able to recognize someone for their part in this growth is very rewarding.

What time do you like to be at your desk? 7 a.m. I am a morning person.

Exercise in the morning? Wine with

lunch? I have a goal to hit the gym before heading in for the day and am truly learning more the value of a strong mind and body! I prefer working lunches!

Do you socialize with your team after work/outside the office? With a two-year-old at home and the demands of my position, my first priority is family. We have many great leaders in our organization, so I have a goal to do more outside our four walls.

Last two books read: *Zingerman's Guide to Good Leading Part 2: A Lapsed Anarchist's Approach to Being a Better Leader* and *Man's Search for Meaning* by Viktor E. Frankl.

What technology do you take on the road? iPod, laptop/iPad, and smartphone.

How do you relax, balance life and work? The biggest challenge while working in a fast-paced, growing organization is adherence to the principle of balance. You have to stop and celebrate victories and special occasions as much as possible. I learned from my wife Becky the importance of recognizing key events and the little things. She is great about that. I don't have much time at night to spend with our son Will, but I try to be there and invest 100 percent focused time with him each night. I always come away from this time a better person. Being outdoors, whether fishing on my own for a couple hours or with friends and family, cannot be beat.

Favorite vacation destination: Northern Michigan in the fall with my family!

Favorite occasions to send employees notes: After accomplishing a key project or just for simple areas where someone went the extra mile to get something accomplished.

Favorite company product/service: Besides Two Men and a Truck it would have to be St. Croix Fishing Rods. I definitely would have to pick a company related to a passion of mine, fishing, but St. Croix provides a superior product backed with their customer experience and service culture. Another brand I admire is Holstee. Their company has created a lifestyle through their clothing line and if you are familiar with the Holstee Manifesto you know what I am talking about in regards to their brand!

"My goal is continue to honor our history and the tenets that got us to where we are, but also to paint a vision with the leadership team of where we are headed as a company."

BOTTOM LINE

What are your long-term goals for the company? My goal is continue to honor our history and the tenets that got us to where we are, but also to paint a vision with the leadership team of where we are headed as a company. We have achieved 33 months of consecutive growth, and my job is to help ensure this trend continues. My job also is to continuously challenge myself and our team to change while still digging deeper into our markets. The future of business is chaos, which I mean in a good way. There is so much change taking place with the pace of technology, social media, and regulations that the crystal ball is shattered. The best we can do is focus on areas we can control and build a concerted plan around these areas. We have 300-plus marketing areas still available in the United States and we are actively partnering with franchisees to fill these.

How has the economy changed your goals for your company? I think it has helped us sharpen our saws to be better. We went through a challenging time just as many others have, but I believe the power of our brand helped mitigate more substantial challenges. It gave us a chance to look in the mirror and evaluate ourselves versus worrying about the economy. It was a blessing for us candidly as a company, and we are much stronger from going through 2008 and 2009. Our vision will remain regardless of the economic conditions surrounding us.

Where can capital be found these days? I believe banks are starting to open up more and capital can be found. Obviously, the uncertainty with the pending fiscal cliff, taxes, and elections makes it harder to grow and will play a critical role in the future of small business success.

How do *you* measure success? I measure success by doing what you love and constantly progressing. A great friend shared this with me and I have it on my desk: "Always move forward regardless if the winds are to your back or blowing in your face." At the end of the day whether it's work, life, or fun, if I love it and am adhering to the above quote, I am on the right path.

What has been your greatest success? Building a loving family with my wife while taking on critical leadership roles at Two Men and a Truck and helping grow this brand.

Any regrets? None, and work constantly to never have any.

What can we expect from your company in the next 12 to 18 months? More growth and focus on people (and our communities in which we do business) and our core purpose, which is to move people forward. We have invested significantly in new technology and the overall philosophy of how technology will help bring customers closer to our brand. We have a lot of key initiatives being rolled out in the next 18 months that will truly reshape our brand! ■

CEO profile:

Krystal Klear

New CEO and private equity investor team up to reinvigorate 80-year-old brand

BY KERRY PIPES

Doug Pendergast makes no bones about it when he says one of his goals for Krystal Burger is to focus the brand on being better, not bigger.

"We're excited to take this established brand that has a great history and make it even more relevant for existing and new customers," says the president and CEO who's been on the job only since last April. Following the recent acquisition of Krystal by Argonne Capital Group, Pendergast says this relationship will help refresh and reinvigorate the brand. "I hope we can look back in five years and see what a turning point 2012 was," he says.

Pendergast, who holds an MBA from Harvard, first dipped his toe in the waters of franchising in 2001 with AFC Enterprises, where he was vice president of corporate strategy. At AFC, he helped lead the brand to divesting its Seattle Coffee Company, Cinnabon, and Church's Chicken brands, which generated a 130 percent increase in shareholder value when the company sold in 2005. He then became the chief franchise officer for Church's Chicken, overseeing significant new store growth and unit returns.

He stepped outside of franchising for a spell in 2010 to work with a private equity firm putting together a deal to create CraftWorks Restaurants & Breweries Inc., whose brands include Old Chicago, Gordon Biersch Brewery Restaurants, and Rock Bottom Restaurant & Brewery. He then served as chief franchising and development officer for the new company. It was during this time, he says, that he really saw the positive power of private equity. "PE can provide a very disciplined focus with a medium- to long-term perspec-

"PE can provide a very disciplined focus with a medium- to long-term perspective on ROI."

Name: Doug Pendergast	
Title: President, CEO	
Company: The Krystal Company	
Brand: Krystal Hamburgers	
Age: 44	
Family: Wife Jennifer, and twin 10-year-old daughters, Reagan and Laine	
Years in franchising: 11	
Years in current position: Less than 1 year	

tive on ROI," he says. Additionally, he says, private equity often can provide a brand with more tools and resources and an ability to pay down existing debt.

This past April, Pendergast took over as president and CEO of The Krystal Company, which has about 350 locations in 11 states throughout the Southeast. Once again, private equity fueled the deal when Tennessee-based Argonne Capital Group purchased Krystal and Pendergast took the reins.

Pendergast believes that his own progression through the "development" side of franchising benefits him as CEO. "That experience provides a growth-oriented focus to leadership," he says. "I think about expanding the business while fully aware of top-line sales and unit growth." He says he also has an eye for eliminating waste and improving productivity. "I think my experience allows me to balance an understanding of the bottom-line efficiency with the importance of top-line growth."

He's excited about his new role at Krystal and the future. "Energy and attitude are important intangibles in leadership," he says. "We are looking for these traits as we build our new management team because they're really top-down characteristics that benefit the entire organization."

LEADERSHIP

What is your role as CEO? A CEO has four main roles: 1) People: recruit, support, and develop a senior team of A-players. 2) Strategy: lead the development and ongoing refinement of a winning value proposition for team members, customers, and franchise partners. 3) Execution: drive the management processes and secure the financial investments necessary to consistently execute the strategy. 4) Culture: foster a culture that is aligned with our mission and consistent with our values.

Describe your leadership style. My goal is to lead the organization in a fashion that is customer-driven, fact-based, personally engaging but demanding, collaborative and transparent, and fueled by rapid experimentation.

> **"My goal is to lead the organization in a fashion that is customer-driven, fact-based, [and] personally engaging."**

What has inspired your leadership style? I learned at Procter & Gamble the power in engaging your customers in every aspect of one's business and investing the time, energy, and money to deeply understand your customers' perspective and experience. I learned at McKinsey & Company the power of fact-based decision making. With the right set of facts and analysis, you can change the mind of even the most stubborn senior executive. I learned from Harsha Agadi, my CEO at Church's, the power of combining deep, genuine engagement with each individual on your team with demanding high (and continually increasing) levels of performance. I learned from Aslam Khan, my largest franchise partner at Church's, the power of sharing detailed results across the organization and the impact of leveraging the energy and insights of your entire team. Finally, my girls have taught me the power of performing and learning from rapid experiments and learning from both successes and failures.

What is your biggest leadership challenge? To instill in every manager in our company the importance of building a team of A-players and to equip every manager with the resources needed to do so.

How do you transmit your culture from your office to front-line employees? 1) Make hiring and promotion decisions based on capability, commitment, and cultural fit. 2) Communicate and reinforce your company's values, plans, and performance at every opportunity. 3) Ensure the senior management team visibly "role models" expected behavior. 4) Recognize and reward behaviors that support your culture (in addition to bottom-line results).

Where is the best place to prepare for leadership: an MBA school or OTJ? It's not an apples-to-apples comparison. I've had some sort of job for the last 20 years, but spent just 2 years at Harvard. In total, the OTJ has taught me more about leadership, but the MBA was a great accelerator.

Are tough decisions best taken by one person? Tough decisions, by definition, don't lend themselves to unanimous agreement. These decisions are made better when informed by group discussion. Ultimately, however, one person makes the call and takes responsibility.

How do you make tough decisions? When possible, I take the following approach to making tough decisions: 1) Go and see the problem/situation firsthand. 2) Clarify what decision really needs to be made. 3) Gather and verify the critical facts. 4) Seek diverse and dissenting opinions. 5) Think through the implications of potential outcomes. 6) Make the call and measure the outcome.

Do you want to be liked or respected? Respected.

Advice to CEO wannabes: 1) Be excellent in your current role. Don't get ahead of yourself. 2) Hire or develop your replacement. You can't get promoted if you're indispensable in your current job. 3) Build your network and never burn bridges. You never know who might influence your next big opportunity. 4) Clearly communicate your goals to others and have the confidence to ask for what you want.

MANAGEMENT

What does your management team look like? It's composed of Al Ryan, our VP of operations; Craig Barton, our chief people officer; Brian Blosser, our VP of development and construction; Tom Peterson, our CMO; and Partha Mukherjee, our CIO. We are currently looking for a CFO. All of these individuals have years of experience in the foodservice industry with brands like Church's Chicken, Hardee's, and others.

How does your management team help you lead? They help in multiple ways. 1) They are significantly more talented and capable than I am. 2) They know much more about their functional areas than I ever will. 3) They challenge and improve my thinking and decisions. 4) They role-model our values to their organizations and carry our message to the field. 5) We share a common goal for our company and we're working together on the best plan to get there.

Favorite management gurus. Do you read management books? I actually far prefer to read management books written by proven business leaders (vs. those written by "gurus"). My favorites include: Gordon Bethune (former CEO of Continental Airlines) wrote *From Worst to First*; Gary Loveman (CEO of Harrah's Entertainment) wrote *Putting the Service-Profit Chain to Work*; Larry Light (former CMO of McDonald's) wrote *Six Rules for Brand Revitalization*.

What makes you say, "Yes, now that's why I do what I do!"? When we can help create "life changing" success for our people and franchise partners. One example is a franchise partner at Church's Chicken. We were able to structure a deal that enabled him to buy his first Church's restaurant. Three years later he tracked me down at our annual convention and gave me a giant bear hug. He told me how he had grown his business to three restaurants and, because of his success, how he had been able to move his entire extended family from Pakistan to Texas. I was elated to have played a minor role in his huge success.

"We're more focused on being better than being bigger, and we look for a greater margin of safety for investments."

PERSONAL

What time do you like to be at your desk? 5:00 a.m.

Exercise in the morning? Wine with lunch? I find some way to exercise every day. I only drink wine when there's a reason to celebrate.

Do you socialize with your team after work/outside the office? We socialize at the office, in the field, and when we travel together.

Last two books read: *Different: Escaping the Competitive Herd* by Youngme Moon; *This Time Is Different: Eight Centuries of Financial Folly* by Carmen M. Reinhart and Kenneth Rogoff.

What technology do you take on the road? Laptop, iPhone, back-up charger.

How do you relax/balance life and work? I use a combination of intense exercise and quiet meditation to relax. As for work and life, we pursue more of a blend than a balance. For example, my girls and I mystery shop stores together on the weekends. My wife takes our girls on her business trips. We add a vacation day on the tail end of a franchise convention.

Favorite vacation destination: Anywhere in Italy.

Favorite occasions to send employees notes: I love to send a handwritten note and a gift card to someone immediately following their demonstration of a core value.

Favorite company product: For breakfast, low-carb Scrambler with sausage; for lunch, the double bacon-cheese Krystal burger; for late night, share a 12-pack of Krystals with friends.

BOTTOM LINE

What are your long-term goals for the company? In 5 years: 1) become the favorite QSR in the South; 2) sell out all development territory in our current 11 states; 3) grow to over 500 stores; 4) double the profit margins in company and franchise stores; and 5) generate a 10X return for investors.

How has the economy changed your goals for your company? We're more focused on being better than being bigger, and we look for a greater margin of safety for investments.

Where can capital be found these days? Capital is available from traditional sources. However, loan-to-value ratios have dropped dramatically. We see the best terms from banks with which franchise partners have long, established relationships.

How do *you* measure success? We teach our kids that success is the ongoing process of giving your personal best in pursuit of worthwhile goals in a manner consistent with your values while helping others to do the same.

What has been your greatest success? Convincing Jennifer to marry me.

Any regrets? No. My mistakes and missteps have taught me more than my successes.

What can we expect from your company in the next 12 to 18 months? From the outside, you should see the first wave of a fundamental brand renovation (new products, new promotions, new store designs, etc.) and a major relaunch of our franchise development program. ■

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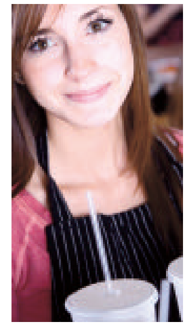

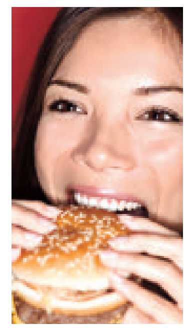

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By Robyn Gault, Vice President of Strategic Accounts, Direct Capital Franchise Group

Franchisees face a myriad of unique challenges in the pursuit of gaining or maintaining market position. There are the equipment and technology updates, marketing needs and labor costs, brand reimaging, and the many opportunities that come hand in hand with the opening of a new store location. Though every situation is different, there's always one underlying question – how will you pay for the necessary projects while still maintaining the cash flow that you need to keep your business growing?

Financing as a Franchise Need

As a franchisee, in order to succeed in today's challenging marketplace, you're going to need to consistently put your best foot forward. According to industry data, a remodeled restaurant may achieve a nice lift in same store sales, as high as a 10-15 percent increase to AUVs. These proven results spark many franchisees to start thinking about their own remodels, oftentimes much earlier than they may be required to per their Franchise Agreement.

There are some unforeseen benefits that result from replacing those "back of the house" pieces that the customer might never see, as well. There are certainly increased operational efficiencies that can come from more current and advanced equipment, not to mention the possibilities of improving product quality and speed of service. At the end of the day, any franchise modernization is about the franchise brand image, and staying relevant with the customer. If you're not current with the brand standard, the more likely customers may be to visit a more current location or another brand entirely. So where do you turn when you need help raising the funds to accomplish your goals?

Traditional Financing Options

Historically, franchisees found the major source of their financing in just a few places—the local bank, their own credit cards or perhaps some smaller loans from friends and family. Or, if they were lucky, their Franchisor might be one of the few offering incentives or financial support.

Over time, the marketplace for financing has grown, and franchisees are turning more regularly to direct lending partners who have continued to provide loans and financing even after the banks have tightened their purse strings.

The Financial Relationship

When it comes to financing, the franchisor likely already has a plan in place to help its franchisees get the financing they need to come out ahead. The franchisor should therefore be the first stop for any franchisee on the hunt for financing. The majority of franchisors maintain strong working relationships within the franchise lending community, likely a company like Direct Capital that is very familiar with the brand and has an understanding of the franchise system and business model. The franchisor will probably have also performed strong due diligence on the lenders and finance programs they recommend to their franchisees.

These relationships often result in the creation of custom programs tailor made to suit the brand's specific needs. At a time when it is especially difficult for small-to-mid size brands to obtain financing, Direct Capital's goal is to work with the Franchisor to understand the lending needs of the brand - to perfectly align products and capital to keep the brand on pace with their reimage, development and capital equipment upgrade projects, forming a relationship that's a win for the Franchisor, Franchisee and the Lender.

The Future of Financing

Ultimately the future of financing is all about the lender making it easier and more convenient to obtain financing that meets the needs of your brand. It's technology that's leading the way in making obtaining financing a painless process.

With online portals becoming the norm, oftentimes customized by the lender to suit the particular brand's image and programs, approvals can happen faster and more efficiently than ever before. The growing acceptance of e-signatures has taken it a step further. Gone are the days of sending stacks of documents back and forth through the mail, shortening the process from several days down to just a couple of hours – a time savings that could be crucial to a franchisee with a key piece of equipment that may need immediate replacement.

While no one can predict where the economic landscape will turn over the next several years, one thing is for sure, franchisees will always need competitive finance options to maintain brand standards and expand their business. Luckily, lenders and franchisors are waiting in the wings to provide a safety net to help franchisees fuel their way to success.

Robyn Gault *is the Vice President of Strategic Accounts for Direct Capital Franchise Group. Direct Capital Franchise Group is a national direct lender with 20 years of experience. The firm partners with Franchisors to provide competitive financing to support new store development, remodels, relocations, store acquisitions, equipment upgrades, and more. For more information, please call: 603-433-9476, email: rgault@directcapital.com or visit: http://www.directcapital.com/franchise/*

BY EVAN HACKEL

OPTIMIZE
YOUR FRANCHISEE CONVENTIONS
Part 2: Delivering maximum benefit

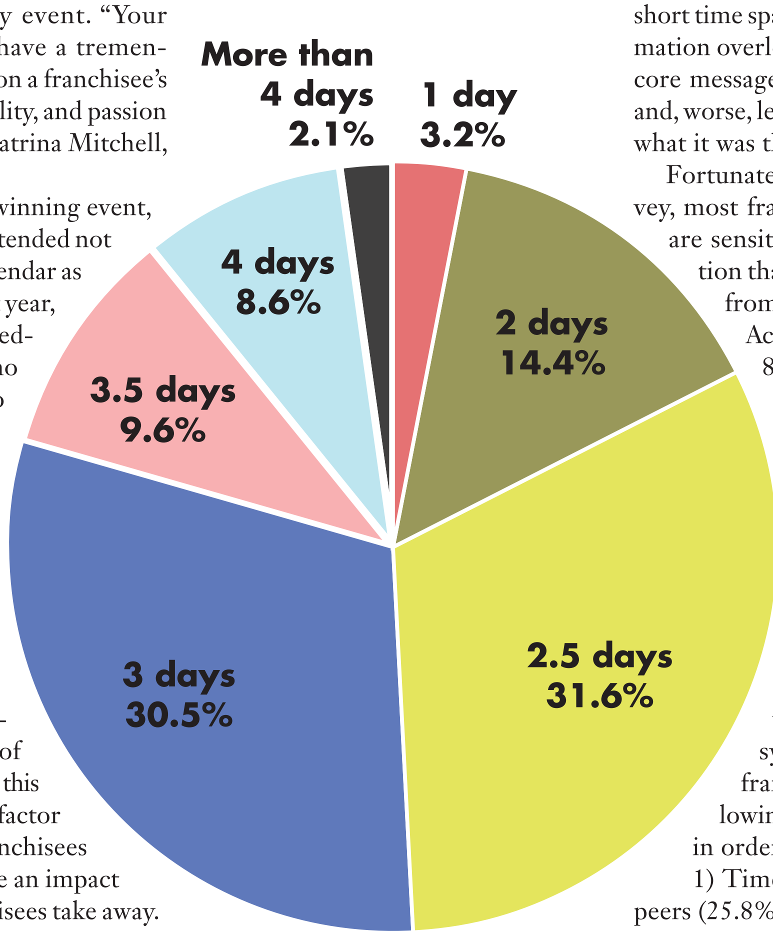
Part 1 of this three-part series addressed how to improve attendance at franchisee conventions. In part two, we discuss how you can make your convention an event that provides the maximum benefit to your franchisees. As with part one, we use results gleaned from an online survey conducted by Speak!, Ingage Consulting, and Franchise Business Review, which drew responses from nearly 200 franchisors.

There is no better advertisement or promotion of your convention than having a top-quality event. "Your annual meeting can have a tremendously positive effect on a franchisee's productivity, profitability, and passion for the brand," says Katrina Mitchell, CEO of Speak!

When you have a winning event, the franchisees who attended not only put it on their calendar as a must-attend for next year, they pass along that feedback to franchisees who did not attend, and to new franchisees. But how to determine the right mix of speakers, networking, vendors, and other intangibles to make your convention a winning event for all involved?

• **Length.** One factor not to be underestimated is the length of your convention. While this can be a determining factor in whether or not franchisees attend, it can also have an impact on the benefits franchisees take away.

How long is your convention?



Even the most attentive listener can be overwhelmed by too much information presented within the relatively short time span of a conference. Information overload can detract from the core message you want to get across and, worse, leave attendees wondering what it was they heard.

Fortunately, according to our survey, most franchisors understand or are sensitive to having a convention that is not too long, at least from a calendar perspective. According to those surveyed, 80 percent said their convention was three days or shorter.

• **Agenda.** While creating a convention that minimizes time away from the home office is important, the most crucial element of a convention is the agenda. According to franchisors who have surveyed their systems pre-conference, franchisees expect the following from their convention, in order of ranking:

1) Time to network with their peers (25.8%)

2) Business skills training from expert outside presenters (20.3%)

3) An open forum to exchange concerns, ideas, and suggestions with the corporate team (20.3%)

4) Training on new systems and products (14.8%)

5) Updates from the corporate office (10.4%).

With this in mind, your event should have an agenda that's at least 50 percent interactive, with networking opportunities, group activities, Q&A sessions, and other activities that promote discussion of the core messages you want to get across. Most important, while you want to have high-quality content throughout the event, hold back the highest-quality material for the end of the conference. This will give attendees a reason to stay for the entire event. Also, if you spread out the high-quality content, it makes it easier for attendees to absorb the material.

• **Speakers, experts, and presenters.** Survey respondents indicated their organizations value what professional speakers and outside experts bring to their conferences. While more than a quarter of survey respondents admitted to having no budget for external speakers, nearly 75 percent allotted some conference budget for speakers. "Selecting the right speakers to kick off and close your meeting might just be the most important marketing decisions of the year," says Mitchell.

• **Education, training, and networking.** Whether you have a high-priced keynote speaker or not, you still want to give your franchisees the convention experience while incorporating educational, training and networking opportunities into the program. Here are some things you can work into your franchisee convention to ensure attendees are getting what they want out of the experience, while ensuring that your core messages and themes come across:

Focus your key messages. Narrow the core messages of your conference to three key points or fewer. Activities and speakers over the course of the conference should reinforce those points. Avoid the trap of trying to communicate too much. Delivering too many messages almost always assures poor communication.

Improve networking opportunities. Include team-building activities as part of formal networking sessions. This can include group or table discussions after each speaker to review key points and help attendees develop an action plan to take home from the conference.

Orientation session for new franchisees. This kind of session not only makes new franchisees feel more at ease, it also forges relationships with other new franchisees that can be invaluable both personally and as a resource to more senior franchisees and councils.

Buddy system for new franchisees. Pair up veteran franchisees with new franchisees at the conference through a buddy system. While this is not necessarily for formal mentoring, it will help break the ice for new franchisees.

Include more meals. Meals are an excellent time for networking, and a great way for management to spend quality time with the franchisees.

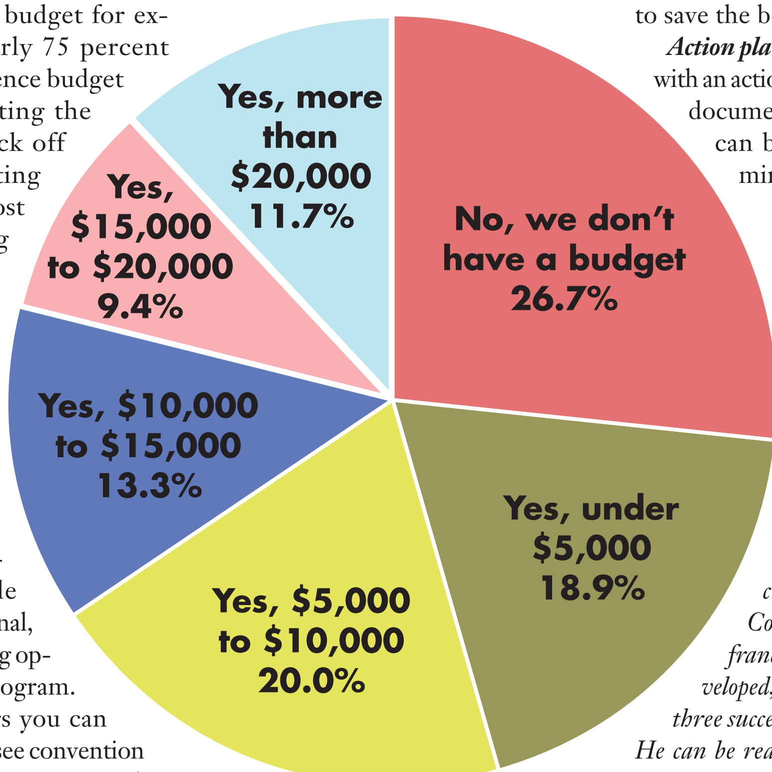
Involve your franchisees. Great motivational speakers are important to conference success, but sitting in your chair listening to others talk all day can wear out even the most attentive franchisee. You want attendees actively participating at least 50 percent of the time.

Give suppliers and vendors a larger role in the event. Franchisees like spending time visiting with suppliers and learning what is new. Encourage vendors and suppliers to have special offers that are available only at the conference. Better yet, encourage them to save the best deals for the last day!

Action plans. Send franchisees home with an action plan—an actual physical document that they create—and can begin implementing the minute they get back.

In the final installment of this series, we will look at how you can extend the life of your conventions and ensure that you—and your franchisees—derive maximum benefit from them. ■

Do you have a budget for outside speakers and experts?



Evan Hackel *is the principal and founder of Ingage Consulting. He has 25 years of franchise experience having developed, implemented, and managed three successful new franchise systems. He can be reached at 781-569-5900 or ehackel@ingageconsulting.com.*

EIGHT WAYS DIGITAL MARKETING DRIVES BUSINESS THROUGH THE HOLIDAYS AND BEYOND

By Wiley Cerilli, Vice President and General Manager of SinglePlatform

Right now, there are literally hundreds of sites and applications that consumers are using to answer the question "where should I eat"? This scenario will multiply during the holiday season, especially when you consider restaurant industry sales are projected to reach a record high of $631.8 billion in 2012.[1] As a restaurant owner, you have an enormous opportunity to seize the upcoming holiday season as consumers dine with colleagues, friends, and family.

Here are eight ways to use digital marketing this holiday season.

1. Pay attention to search engines: To rise to the top of search engine results, have fresh content on your site that's optimized for keywords. This could include new menu items, specials or even events that you are hosting at the restaurant. Keeping this content fresh will help your restaurant get found by customers searching for the type of dining experience you provide.

2. Check out review sites: You want to be sure your business is on the relevant consumer review sites such as Yelp. Ask loyal and satisfied customers if they would consider writing a review after they have a fantastic experience at your establishment.

On the other hand, if you find there are dissatisfied customers that have posted to the site, reach out to them publicly, address their concerns and ask if you can follow up with them personally to rectify the situation. This is a great way to demonstrate your commitment to customer satisfaction.

3. Update your business profile on travel sites and city guides: Holiday travelers will be looking online as they map out their trips, so you'll want your business to be on their "must do" list. The more information readily available to lure in diners, the greater the chance that you'll be on their list.

4. Make sure your information is accurate: Customers do a ton of research online prior to selecting a restaurant. Information like the menu, specials, and hours of operation all influence where diners choose to eat. People expect the information they view online to match the in-person experience which is why it's critical to make sure all your information is accurate everywhere.

5. Accommodate mobile consumers: To reach the growing number of smartphone users -- 115.8 million by the end of 2012[2] -- make sure your business is discoverable and accessible via mobile devices. This means enabling your website for mobile devices as well as being up to date with relevant mobile apps so that you'll be found no matter where consumers are searching. You'll also want to participate in location-based services like Foursquare and Facebook Places. This allows you to reward loyal customers, increase awareness, and reach your next great customer through those all-important word-of-mouth referrals.

6. Update your holiday specials: Consumers are looking for holiday specials, so you must reflect this in your content. As you know from point number one, fresh content also helps boost search engine rankings.

7. Host a charity event: To bring out the true spirit of the season, work with a charity that you're passionate about and host an event where a percentage of the proceeds benefit the nonprofit organization.

8. Dedicate time to social media: You can amplify your messages and increase awareness of your business through social media and it doesn't need to be time consuming. You can see results by spending a few minutes every other day, such as when you have a lull or are in line at the market.

SinglePlatform is focused on helping restaurants as well as all local businesses easily attract customers online. When you combine your business experience with online tools like SinglePlatform, you'll be able to make the most of the holiday season and grow your business through satisfied customers.

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1. National Restaurant Association, "2012 Restaurant Industry Forecast."
2. Source: eMarketer

PART 1

BY HALA MODDELMOG

ARBY'S RE-ASCENDANT

Step 1: Rebuilding the foundation

In July 2011, Atlanta-based private equity firm Roark Capital Group purchased Arby's Restaurant Group, Inc. The industry and media came abuzz about the future of Arby's—and if and how the brand would bounce back from four years of slumping sales and profits that were compounded by the economic downturn in 2008.

What wasn't public knowledge was the behind-the-scenes work that had been taking place for more than a year to restore the company's profitability and growth. Not even the second-largest quick service sandwich chain in the U.S., with more than 3,600 restaurants, can expect to sign franchise agreements based on brand recognition alone.

We recognized that many stores in the system, including corporate stores, needed a facelift to keep up with the competition. To bolster our remodel strategy and put more capital to work in the system, we developed a refranchising strategy that includes attracting multi-unit restaurant operators with access to capital to not only acquire and operate a group of restaurants but also to open new units and complete a remodel program. But before we could launch our refranchising efforts, we had to prove there was a reason to invest in the Arby's of the future.

Upon joining Arby's as president in May 2010, I immediately got to work on restoring the confidence of the many employees and franchisees who were affected by the downturn. Together, we had to work to rebuild consumer appeal before we could even think about attracting new franchise partners to grow our system.

Laying the foundation

To lead what essentially was a turnaround of the brand and make refranchising efforts feasible, we needed to develop a strong, clear vision for the Arby's of the future. Once that was established, effective communication and collaboration, from the top down, were essential to achieving our mission of a brand resurgence.

We first leveraged the expertise of our franchisees and employees by setting up informal "get to know you" sessions. By traveling to visit with both large franchisees and single-unit restaurant owners, I learned a wealth of information about where we should focus our energy and strategies. They knew, from the ground level, what resonated with consumers and what didn't.

Throughout the process, franchisees needed to understand what we were doing to grow the business and gain their buy-in and trust. Most important, we needed to instill confidence throughout the system about our plans to grow Arby's. Through a weekly series of webinars, teleconferences, and email communications, the executive team worked to firmly convey the growth plan to our franchisees and employees.

Of course, no plan can be executed properly without an excellent team of passionate and smart people. We developed a great leadership team that was highly accountable for growing the brand. With the help of Roark, we assembled a new Arby's board of directors composed of seasoned franchise and restaurant executives. The board is led by Chairman Jon Luther, a veteran of the restaurant industry credited, most recently, for leading the transformation of Dunkin' Brands. The team is collaborative and has been instrumental in the Arby's turnaround.

All of these efforts went a long way to boost morale through the system, a less tangible but immensely important goal. We make it a point to celebrate victories together, large or small, to show appreciation for all the hard work that goes into an undertaking like this. A team that can laugh together and enjoy one another's company is more likely to quickly work through the inevitable bumps in the road.

Getting back to basics

Whether you are part of a public or private franchise, large or small, you can never sacrifice the quality of what you're delivering to the consumer to appease your other constituents and investors. You must always innovate to meet consumers' changing lifestyles and budgets, but you also have to remain true to the products and services that served as the foundation for your brand. We needed to innovate and reinvigorate our menu, but we did stick to what Arby's has always been known for: wholesome and tasty comfort food.

Arby's is known for its Roast Beef and Beef 'n Cheddar sandwiches, but to attract new and different diners to Arby's staples and capture higher profits, we introduced Ultimate Angus, a premium, 100 percent Black Angus beef featured in freshly prepared sandwiches. Within months of the Angus sandwiches appearing on the menu, they accounted for 8 to 9 percent of Arby's overall sales.

A new national marketing and advertising campaign touting our new menu items, including the relaunch of our Market Fresh line and more extensive snack offerings, was integral in spreading the message to consumers and boosting our margins. Arby's was back on the map.

Of course, countless hours were spent mapping out the execution of the new menu items and local marketing strategy. Collectively, the team's turnaround efforts led to seven consecutive quarters of same-store sales increases. We were now ready to launch Arby's refranchising strategy. ■

Hala Moddelmog, *president of Arby's Restaurant Group, was hired in May 2010 to lead the transformation of Arby's. She can be reached at hmoddelmog@arbys.com.*

Leadershipguru: *Juice It Up!*

Changing Course

"Change is hard, but it doesn't have to be painful."

BY FRANK EASTERBROOK

Like most U.S. business sectors, the smoothie industry was hit hard during the recession. To remain competitive in a growing market we needed to start 2012 with new initiatives to ensure we were a key player. As president and CEO, I can tell you that reinvigorating a brand is tough. To successfully implement changes and set up your franchise for long-term growth, it's vital to be accessible to your employees, honestly analyze every aspect of your company, and set realistic goals.

Analyze the situation. Evaluate your company's strengths and weaknesses and focus on leveraging what you do best. Figure out what sets you apart from the competition and capitalize on that. For example, consider selecting one or two of your current offerings to improve upon and eliminate the excess. To get an idea of brand perception, do market research and listen to both the potential customer and someone who is not likely to use your product. When developing new products, we use sensory panels and other focus groups to get feedback on what works and what doesn't from a consumer perspective.

Create new initiatives. Put new ideas into place to differentiate your brand from the competition. For example, our Raw Juice Bar initiative reflects our healthful approach to food, and we hired a brand ambassador who embodies our values and provides a way for customers to relate to us on a very human level.

Learn from your past. Everyone makes mistakes—no business venture is perfect. Look at your previous failures to avoid falling into the same patterns. Juice It Up! closed 79 stores between 2008 and 2010 because of the struggling economy. I look at this as a positive experience: it allowed us to rethink our expansion strategy and showed us where we went wrong. For us, aggressively breaking into new markets was not the best decision, and we are now going in a different direction. For your company, another approach might make sense. Maintaining a positive mindset during challenging times will show others, especially your franchisees, that you believe in the company and will do what it takes to succeed.

Clearly communicate the goals. Share your expectations and project a long-term vision with short-term milestones to keep employees and franchisees in the loop. Encourage open and honest communication and provide positive feedback. Juice It Up!'s corporate headquarters has an open office concept, meaning that everyone works in the same space. This is great because I'm able to interact with my staff, answer questions, and get input from others. For small companies, I highly recommend this setup. If it isn't feasible for your company, find other ways to make yourself accessible. This will go a long way in establishing trust and creating a collaborative environment.

Believe in your company and new initiatives. Consistently projecting the idea that "We are all in this together" will go a long way in motivating employees and boosting morale during difficult periods. This works the same way on the franchisee level. In my experience, the stores that do best are run by truly passionate people. In my first 12 years of franchising, successes were hit and miss. The common thread among the high-performing stores wasn't the amount of startup capital they had, or the owner's previous business experience. It was a passion for the products we offer and a desire to see the company succeed. When considering franchisees we now look for that zeal, because it's a key indicator of future growth potential.

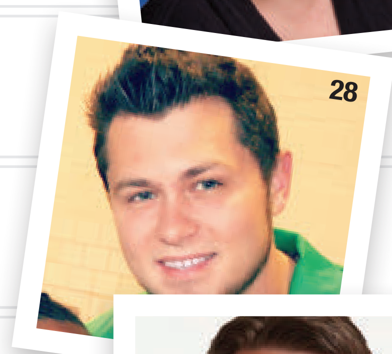
In the end, all the textbook advice in the world won't make a difference if you don't take a practical approach in your business strategy. Make sure that franchisees maintain their required liquidity from signing all the way through opening. This will ensure a higher degree of stability and a greater chance of success in the future. If franchisees don't have that liquidity when they open the store, they will run out of money fast.

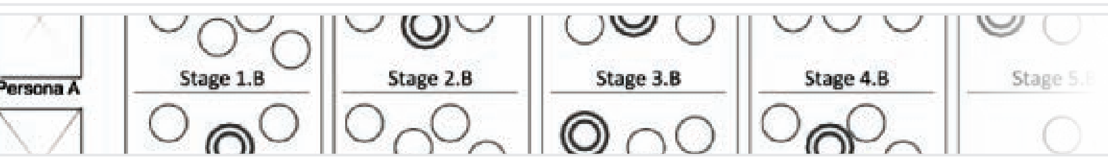
Change is hard, but it doesn't have to be painful. By maintaining clear lines of communication, analyzing your brand's position, and being realistic about your goals, you will set up your company, employees, and franchisees for long-term growth and successfully revitalize your business. ■

Frank Easterbrook is the president and CEO of Irvine, Calif.-based Juice It Up!, a franchised smoothie and juice bar chain that specializes in blended-to-order fresh fruit smoothies, fresh-squeezed juices, and other healthy beverages served in a relaxed, family-friendly environment. Following their recent initiatives, sales are up 600 percent. For more information, visit www.juiceitup.com.

Market

Consumer marketing initiatives





> **"Customers connect with us and we connect with them in ways that were not imagined 10 years ago: through Groupon, social networking, smartphones, and online reservations and ordering. We must manage these new developments in addition to providing a superior customer experience inside the four walls, which is more important than ever before."** —JACK MACKEY, CHIEF EVANGELIST, SMG

BY KERRY PIPES

Marketing Leadership

Checkers' Terri Snyder on the growing role of the CMO

Terri Snyder's 30 years of experience in foodservice marketing include stints with Pizza Hut, Domino's, and T.G.I. Friday's. During the past 5 years, she has served as CMO of Checkers Drive-In Restaurants (which also includes Rally's). Under her watch, the nearly 800-unit brand has received some of the restaurant industry's most prestigious awards including "Best Drive-Thru in America" from *QSR* magazine, and the "Hot! Again" award from *Nation's Restaurant News*. Since the marketing director and team play a vital role in the ongoing health and prosperity of a brand, we asked her to discuss leadership and development from a marketing perspective.

"You have a unique opportunity to develop lasting relationships with amazing business leaders and their families."

Describe your role as a franchise CMO. Serving as a franchise CMO is a broader, more complex, and, I believe, more gratifying role than that of a traditional CMO. It requires significantly more listening, openness, consensus building, and communication. But in return, you have a unique opportunity to develop lasting relationships with amazing business leaders and their families, and to help franchisees build successful businesses that create family legacies.

In what ways do you lead the marketing department at Checkers? I focus on the following: 1) Hiring and growing the very best talent. 2) Defining a compelling and differentiated brand and revenue growth strategy. 3) Leading marketing executional excellence. 4) Effectively representing marketing and the consumer on the company's executive team to assure strategic and executional alignment across all functional groups. 5) Leading highly effective franchise marketing leadership and communication processes (marketing subcommittee, marketing co-ops, and ongoing marketing communication). 6) Continuously growing to assure that my leadership is challenging and compelling.

How has your marketing/branding strategy developed, and how does it flow through the system? Our marketing strategy was developed with significant input from our executive team, franchise advisory council, and franchise marketing subcommittee based on a deep understanding of brand, consumer, and competitive data. It takes significant planning to communicate, gain alignment for, and fine-tune a brand's marketing strategy in a franchisee system. We talk a lot about the number of "TRPs" (targeted rating points) our messages are receiving among franchisees. Much as it takes a significant number of TRPs for a message to be effective in TV or radio, it takes a significant amount of communication and discussion to gain alignment among an entire franchise community. So our communication and discussion process is robust. Every quarter, we hold a system-wide conference call with the entire franchisee community to review our results and discuss the next quarter's priorities. The last part of that call is dedicated to Q&A, and the entire executive team stays on the line until all questions are answered. In addition, we lead quarterly local market business and co-op meetings to discuss local trends and opportunities. With the launch of each promotional event, we hold a system-wide call to review the promotion in detail. And every week we send a comprehensive communication to the entire system to provide timely updates and information.

What are the three most important keys to being an effective CMO today? 1) Earn the trust and confidence of the CEO, board, franchisees, and executive team. 2) Consistently produce profitable sales results while building a compelling differentiated brand. 3) Be a strategic business leader as well as a functional marketing leader. In today's business environment, successful CMOs do more than just lead the marketing and advertising function. They also support the CEO and management team as broader business strategists as well as business process and cultural leaders.

How do you manage costs and budgets for the marketing department? Like most franchised brands, our marketing production budget is funded directly from contributions from both franchisees and the company. So strong oversight, transparency, and budget control are critically important. At Checkers, our National Production Fund is managed by a board consisting of three of our most respected franchisees and two corporate representatives including our senior accounting and advertising officers. The board meets quarterly to review the budget line by line and make timely spending decisions.

How are you using different media channels to reach today's franchise prospects? Our objective is to surround our prospective franchisees with Checkers' sales and profit successes, compelling investment returns, and exciting brand news. To do that, we leverage earned, owned, and paid media. Our biggest successes in generating qualified leads have come from traditional trade publications as well as from non-traditional media like public relations and the right franchise portals. Checkers' franchise marketing and PR efforts, especially the exposure on Fox News and "Undercover Boss," drove a seven-time increase in qualified franchise leads this year.

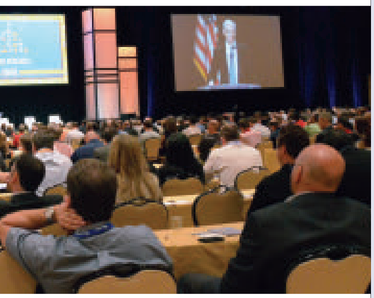
"I am most excited about the opportunity social/digital media affords smaller, fighter brands like Checkers."

Do today's franchise prospects expect more from the franchise marketing department? How do you provide more? Definitely! Today's franchise prospects are seasoned business leaders, many with operations experience in some of America's best restaurant and retail brands. They expect a compelling, well-positioned brand, differentiated products, well-tested and proven promotions, and the support to maximize all of that locally. As Checkers has significantly accelerated new restaurant growth, we've also significantly expanded our field market function. Today, we provide hands-on PR and marketing support for new restaurant openings from pre-opening through the first full year of operations. In addition, our field marketing group works with franchisees and company operators in our 35 active TV co-operatives and our non-TV markets to regionalize and localize our national marketing plan for maximum impact.

How have marketing strategies and tools changed over the past decade, and how have you adapted? For me, this is the most exciting time to be in marketing. Economic downturns and new technologies drive disruption. And disruption inherently produces opportunities for those nimble enough and forward-thinking enough to seize the opportunity. I am most excited about the opportunity social/digital media affords smaller, fighter brands like Checkers. Traditional media favor the biggest brands in every category; huge media budgets win. But with social/digital media, it's not just about big budgets. Creativity, innovation, and the connective tissue of a brand are what matters most. At Checkers, we continue to accelerate our social/digital investment, focus, and learning.

How do you measure marketing results and effectiveness? We measure both lag (long-term brand health) and lead (short-term sales and profit) indicators. In the restaurant industry, the key lead indicators of success are sales, traffic, check, and profitability compared with last year's performance. For smaller brands it's difficult to measure all of the longer-term brand health indicators that you want to. Research budgets are just too limited. At Checkers, we focus on social media engagement levels; advertising/brand awareness and brand perception tracking from NPD/Crest; and guest metrics from our operations-led guest satisfaction study.

What's the most challenging part of being a CMO today? This is clearly the most challenging and prolonged economic downturn in my career. Its impact is broad and deep. The uncertainty of the economy continues to have an impact not only on consumer behavior, but also on franchise investment and corporate decision-making. Hopefully, the presidential election will stabilize the economy, provide investment confidence, and accelerate the recovery. ■



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CMO roundtable:

"How do you stage a successful new store grand opening, soup to nuts?"

David Buckley
Chief Marketing Officer
Sears Hometown and Outlet Stores

The first step to a successful franchisee grand opening is disciplined advance planning. Our planning begins with a review of our cadence for chain-wide promotional offers to select a date where we will have the most attractive offers in the marketplace. A successful grand opening is built upon a solid promotional offer. Once we have selected a date for our grand opening, we will execute multiple grand openings on the same date to drive operational efficiencies. This allows us to increase the effectiveness of our budgeted investment for the event. With advance planning we are also able to leverage our existing media, versioning the advertising to support grand opening markets.

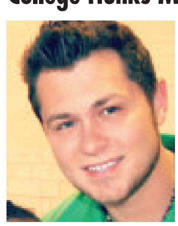
With the national support media and promotions finalized, focus turns to building local awareness and hype. Franchisees are provided with a complete grand opening signing package that includes interior signing, exterior banners, and adversails. To prepare locally for the event, the franchisee plays an important role in engaging with the community. As the grand opening may be the franchisee's first retail store in our business, their district sales manager plays a significant role in building a local action plan to ensure a successful event. To aid the franchisee in promoting the event, we have developed an online portal allowing the franchisee to customize a wide variety of local marketing assets. The assets to be activated locally are selected by the franchisee and include ROP templates, EDDM (Every Door Direct Mail), local flyers, real estate signs, and door hangers.

Digital advertising and social media also play an important role in a successful grand opening. Pre-opening, we ensure data is correct and that the location is properly represented in more than 30 different major websites including Google, Yelp, Yahoo, Superpages, MapQuest, and Yellowbook. As the event approaches, promotional messaging is posted to each of the sites that have that capability. For social exposure, each store launches with a Facebook page, which the franchisee is encouraged to use to engage fans with pictures and stories from their journey of building their store.

The final piece to kicking off a strong grand opening includes a local radio station remote broadcast. Partnering with a radio station builds awareness through the associated radio commercials and promotional mentions, and the radio station also builds some excitement on the day of the event. Great radio partners will help make the event come alive with high-visibility tents and vans, as well as activities and giveaways throughout the day.

For our business, the successful event combines advance planning, strong traditional and digital integration, local excitement, and most important… franchisee engagement.

Christopher Jackson
Director of Marketing and Branding
College Hunks Hauling Junk and College Hunks Moving



Franchisees are out on a limb when it comes to launching a new location. They've often invested an incredible amount of their personal savings and aren't yet sure how exactly they're going to earn it back. It's natural for even the most confident entrepreneur to experience some level of ambiguity and anxiety.

A large piece of this puzzle is the marketing and branding. I liken the launch to throwing a party. If your franchisee doesn't have the invitations posted in the right places, no one is going to show up. "Will people buy?" is often the question that causes any rational new owner to lose sleep. The franchisor (specifically the marketing team) must be cognizant of this and work hard to help the new team member overcome it.

Consequently, it's essential to make sure the franchisee and the franchisor are on the same page prior to launch. That means a lot of back-and-forth phone calls and emails and plenty of in-person meetings and training sessions. This should be an ongoing process to make sure that both parties share the same expectations at every stage.

Among the in-person training sessions, there should be a full day of marketing training and a full day of sales training. You need to break down the recommended grand opening marketing budgets and explain the best way to use that budget to maximize brand exposure and generate leads in the local territory. How much should be spent on print ads compared with online marketing? What works best for your brand? It's helpful to create marketing buckets to show the ideal budget split so the franchisee has a reference sheet to check with often.

Meanwhile, the press release is an important part of the process that can't be overlooked. It's an announcement to the world that your company is growing, evolving, and making forward progress. More than that, though, it lets the masses get a glimpse into who the new franchisee is. If written correctly, it should convey the fact that the new owner is not unlike the interested prospect who may be reading it, deciding whether or not to become the next new franchisee to climb out on that limb and go through this process with you. ■


1/8
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Connecting with customers

BY JACK MACKEY

Maps and Legends

Using customer journey mapping to manage the customer experience

Customer journey mapping is a hot topic for the leaders of franchise organizations. Why now? For one reason, because customers connect with us and we connect with them in ways that were not imagined 10 years ago: through Groupon, social networking, smartphones, and online reservations and ordering. We must manage these new developments in addition to providing a superior customer experience inside the four walls, which is more important than ever before.

Customer point of view

There are so many customer touchpoints through various channels and at different stages in the customer lifecycle that you almost have to *see* what's happening to really wrap your mind around all the ways customers perceive your brand today. Thus the rise of customer journey mapping. The purpose of developing a customer journey map is to help franchisors document *visually* all the possible ways customers are engaged with your brand at each stage of your customer development process: 1) attraction, 2) interaction, and 3) cultivation.

When you break the customer journey down this way, it is crucial to "walk a mile" in your customer's shoes. By taking the customer's point of view you can more accurately understand your true competitive position—the same way successful franchise brands now use Voice of the Customer systems to understand reality, which is the customer perception.

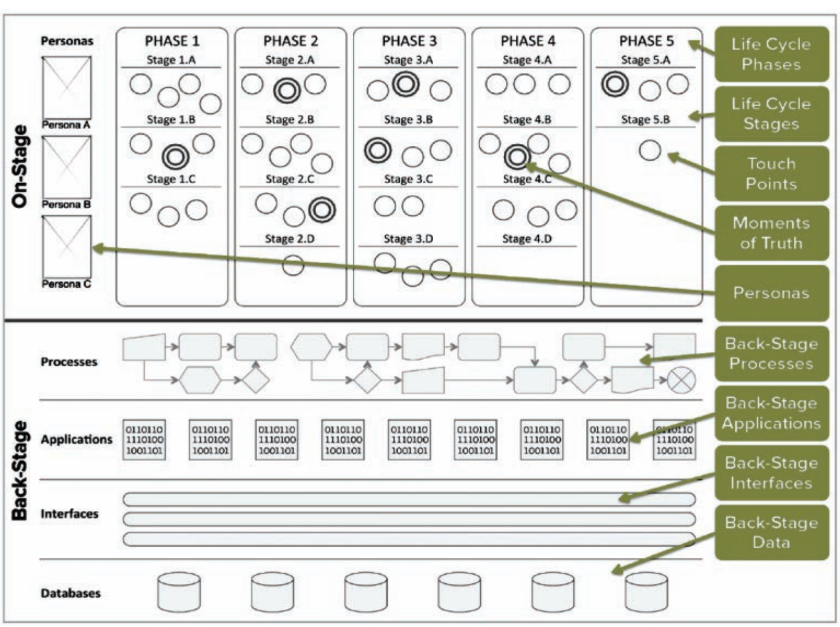
Customer journey mapping expands this approach of looking at your business through the eyes of the customer to discover new ways to build brand equity and drive sales growth.

Customer personas

There are multiple versions of "the" customer, depending on their goals and skills, as well as their circumstances and behavior patterns. A 16-year-old boy with his high school basketball team out for a pizza celebration at CiCi's wants something different from his experience than a single mom out for dinner with her young children at CiCi's. Customer journey mapping includes the development of different customer personas and customer experience scenarios. That leads to improved customer experience design for the types of customers being sought.

On stage and back stage

In considering the customer journey from end to end, how do you ensure execution, both on stage and back stage? Most companies develop service expectations for employees and performance standards that enable consistent on-stage processes; that's what customers see happening. By mapping back-stage processes, franchise systems can identify the crucial enablers that influence the customer experience—processes like employee selection, applications for scheduling labor, integrated ordering/inventory management systems, and real-time access to customer satisfaction data and authentic customer comments.



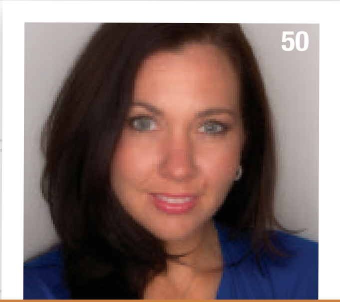
Sample customer journey map

The graphic incorporates the customer point of view, customer personas, and on-stage and back-stage enablers.

The customer experience is more complex than ever. There are considerably more touchpoints we are just learning how to manage. (A cynic might say more chances to fail the customer.)

Without a clear understanding of the customer journey, you can be left flying blind. A customer journey map adds clarity by creating a comprehensive and illustrated model that can unlock hidden insights that inform a winning strategy. ■

SMG Chief Evangelist, **Jack Mackey,** *CFE, helps companies transform the customer experience. To request more information on Customer Journey Mapping, contact him at jmackey@smg.com.*



Grow

Franchise development intelligence

BY EDDY GOLDBERG

2013: PERFORMANCE REQUIRED

It's not what you say, it's what you do—and measure!

You can't improve what you don't measure, the old saying goes… which is one reason so many in franchising eagerly anticipate the release of the Annual Franchise Development Report (AFDR) at Franchise Update Media Group's annual Leadership & Development Conference. Things change from one year to the next, in life and in franchising, and the AFDR provides franchise sales and development executives an annual benchmark of best practices, along with a slew of other development-related data and analysis.

This year's survey gathered data on sales and recruitment practices from 106 franchisors representing 43,497 units (34,566 franchised and 8,931 company-owned). Participants consisted of franchisors who registered for the annual conference in Atlanta and filled out a lengthy survey online in advance. The responses—analyzed to provide an in-depth view into the recruitment and development practices, budgets, and strategies of a wide cross-section of franchisors—provide the basis of the AFDR.

"Today performance is required. You're out of the race unless you're growing forward," said Steve Olson, president of Franchise Update Media Group, who presented the results to a general session of about 350 franchise sales and development executives at the conference in early October, where the theme was "Winning the Race" (see page 38).

Growth plans for 2013 among the 106 respondents target a total of 4,675 additional franchised units from 3,095 franchisees. That compares with 8,262 new franchise units and 4,441 new franchisees last year (from 110 franchisors), and with 3,850 new units from 3,100 franchisees in 2010 (from 126 franchisors).

To hit those goals, says Olson, franchisors will have to provide a compelling business opportunity, that features strong unit economics, transparency in Item 19 (including costs, as well as sales numbers), and a supportive culture that today's quality buyers are looking for in a franchise system. The following is a high-level summary of some of the in-depth findings from the 2013 AFDR. To order a copy of the complete report, see page 36.

• **Recruitment budgets.** On the whole, 2013 median recruitment budgets are holding steady with those in 2012, at $125,000. While median recruitment budgets for the past two years are above the $80,000 recorded in 2010 and 2011, they are still below the $138,000 in 2008 and 2009. Average recruitment budgets continued to rise, following a drop in 2010 and 2011.

Recruitment Budgets

	2013	2012	2011	2010	2009
Average	$208,625	$197,000	$152,800	$162,000	$175,000
Median	$125,000	$125,000	$80,000	$88,000	$138,000

• **Where the money goes.** The distribution of development spending has remained fairly steady over the past 5 years or more. Internet spending is projected to rise in 2013 to 46 percent, returning to its historical levels after falling to 40 percent in 2012. One likely reason is the increase in quality prospects from Internet sources, following the consolidation of portals, as well as improved SEO on brand websites, better designed franchising websites, and the continuing increase in buyers using the Internet for researching brands. "In today's environment, it's all about generating applications from quality prospects," says Olson. "That's the benchmark, not inquiries and leads. Especially with the funding concerns in franchising today, why waste your time?"

Where the Money Goes

	2013	2012	2011	2010	2009
Internet	46%	40%	47%	50%	47%
Print	15%	17%	18%	16%	17%
Trade Shows	15%	14%	13%	13%	13%
Public Relations	12%	15%	10%	11%	13%
Other	12%	14%	12%	10%	10%

• **Top sales producers.** The Internet, at 42 percent, regained its top standing among sales channels in 2012 after dipping into second place (behind referrals) in 2011, following years of ascendancy. Referrals, at 32 percent, placed second, remaining about the same as 2011. Brokers, at 16 percent, remained about the same as in the past 5 years. Print, at 3 percent, was up slightly, but still below its historical levels. "Where the money goes is interesting, but it's all about what vehicle or channel is generating the deals," says Olson. "Franchisors, after heavy experimentation, are going back to traditional sources. Social media is 'traditional' now, no longer the new kid on the block. Now it's about trying to figure out how to make it work."

Top Sales Producers

	2012	2011	2010	2009	2008
Internet	42%	30%	36%	34%	35%
Referrals	32%	31%	25%	28%	28%
Brokers	16%	17%	17%	17%	16%
Print	3%	2%	5%	8%	6%
Other	7%	20%	17%	13%	15%

• **Top Internet sales producers.** In a surprise to many, portals showed a "significant bounceback from previous years" as a sales producer in the most recent survey, says Olson, jumping from 32 percent in 2011 to 43 percent in 2012. An indication that franchisors are improving at tracking the results of their Internet spend, the percentage of those answering "Don't know" and "Other," at 8 percent and 7 percent respectively, continue to fall or remain much lower than in preceding years. "It's really about ongoing optimization and ad portals," says Olson. And although pay-per-click and social media showed a lower return per budget expenditure (consistent with previous years), "There are certain franchises where pay-per-click does work," he said.

• **Online alternative resources.** While sales originating from "alternative" online sources (as opposed to company websites and portals) continue to remain low as a percentage of total franchise sales, the good news is their numbers also continue to rise from previous years. Respondents from 14 franchise companies reported 46 sales in this category: Facebook, 19;

Top Internet Sales Producers

	2012	2011	2010
Online ad portals	43%	32%	35%
Search engine optimization	31%	34%	28%
Pay-per-click	10%	5%	11%
Social networking	0%	5%	2%
Don't know	8%	7%	24%
Other	7%	17%	

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

LinkedIn, 11; YouTube, 9; Craigslist, 4; and blogging, 3. One unexpected observation: since the survey began measuring social as a sales source, Craigslist has made the list every year. Olson compared using Craigslist to placing a classified ad—relatively simple, inexpensive, and available 24 hours a day. As for using social media as a franchise sales tool, he says, "Everybody's interested in it, but the cautionary note is that this is not a recruitment source for most franchisors to count on. It is great for brand engagement, and can be a much better resource for the retail side of your business."

• **One-to-one marketing.** This is a new category for the AFDR, as the concept of one-to-one marketing makes its way into the franchise development toolbox. Calling it "the new kid on the recruiting block," and "today's newest recruiting source," Olson notes that 40 of the franchisors surveyed have tried it, with 18 generating sales. "It started on the consumer side, drawing more new customers to different chains. So is it going to work for recruitment?" Because one-to-one marketing tools provide hundreds of customizable variables, allowing micro-targeting of an exact household or individual, franchisors are now applying them to find new prospects in local markets. "If 45 percent of 40 franchisors have done a deal, it is really something that franchisors must consider," says Olson. "It's a low-cost lead generator compared with other media. It's no magic bullet, but it's worth a try."

• **Overall closing ratios** noticeably jumped across the board this year, compared with the two previous years. At 2 percent, the ratio of leads to sales increased from 1.5 percent in 2011 and 1 percent in 2010, gains of 50 percent and 100 percent, respectively. "For franchise closing rates, the recession is definitely over," says Olson. "The increase to 2 percent represents a return to traditional, pre-recession numbers. As we know, the challenge is continuing to find more funding sources." The ratio of applications to sales is on a steady upswing, rising from 8 percent in 2010 to 10.5 percent in 2011 and to 13.5 percent in 2012. Olson calls this a dramatic increase from 2 years ago. The ratio of discovery days to sales has climbed to 75 percent, up from 65 percent in the previous 2 years, which Olson said was the benchmark in pre-recession days. "Best practices companies continue to elevate their performance standards as they move into 2013 recruitment. There's definitely a new, widening gap between the winning and losing brands in the development race. Franchisors that don't wake up are headed for disaster."

• **Brokers.** The results on the use of brokers by this year's survey participants are mixed. The number of respondents using broker networks declined to 44 percent (from 56 percent in 2011 and 57 percent in 2010). However, the number of those closing deals through brokers rose to 70 percent, from 67 percent in the two preceding years; and the median broker commission of $13,500 dropped from the $15,000 reported in the previous two years. The median of applications to sales (5 percent) was up from 3 percent in 2011, but lags the 8 percent reported in 2010. Two ongoing advantages in working with brokers: 1) with budgets still tight, franchisors don't need to invest as much up front, and 2) brokers bring in additional qualified buyers franchisors would never have gotten otherwise.

• **Profiling tools.** Almost half (48 percent) of franchisors reported that profiling tools have helped increase the quality of their new franchisees. That compares with about 20 to 30 percent of franchisors using profiling tools just a few years ago. This is good news in a time when vetting candidates is more critical. An additional one in four (23 percent) are also using profiling tools, but say it's too soon to report the results. That leaves three in 10 (29 percent) not currently using profiling tools to screen and evaluate new franchisees. Using these tools, says Olson, "provides a definite edge to franchisors in getting the right buyers. They're better quality, better cultural matches, and produce better unit economics."

• **Younger buyers on the rise.** As the economy continues to move ahead slowly and the unemployment rate remains high, franchisors are seeing larger numbers of younger people looking at franchising opportunities. Fifty percent reported they have franchisees in their 20s, and 97 percent have owners in their 30s. "We're seeing younger buyers than ever," says Olson. "I expect we'll see a lot of growth in the younger generation in the coming years." These buyers, he says, are often out of college, have no jobs, and are getting financing help from their parents. Franchisors, he recommends, should examine this newer market if they haven't yet, to see if there's a fit for their opportunity.

• **Measuring costs.** Surprisingly in this age of data, metrics, and increased use of technology for tracking spending, the numbers of those who track cost per lead (69 percent) and cost per sale (65 percent) both fell about 3 percent from last year. "Thirty to 35 percent of those surveyed still don't know!" says Olson. "They haven't a clue as to what's working. It's like being in the boxing ring blindfolded." If they keep this up, he adds, they'll get knocked out. As for costs, the $50 median cost per lead is down $10 from the previous year, but the median cost per sale rose $887 to $9,452. Finally, he says, in a time of tight budgets and a pool of cautious applicants, you must measure your marketing ROI. "You will save thousands of dollars per year by determining where your best *sales* sources are. Too many companies continue to base their advertising buys on cost per lead."

• **Referrals.** About six of 10 (58 percent) reported that referrals have the highest close ratios of all lead generation sources. This is both good news and bad. "What this means is for 42 percent of franchisors, referrals do not generate their highest closing ratios. That signals likely trouble for some of these brands that have challenges with their franchisee validation, which scares away buyers," says Olson. Calling this "the great divide," he sees two separate camps evolving among franchisors: those who are accelerating growth by building team cultures, holding everyone accountable, and who have developed high franchisee satisfaction; and the others, who are failing to break through critical barriers that jeopardize their future expansion. "They're either growing or they're going. If you're not generating referrals, you have a problem—or if you're generating referrals and it's not generating sales, you have a problem." Further findings: six of 10 (61 percent) respondents offer some type of incentive to franchisees for prospects that sign up, and the median referral fee of $3,500 remained about the same as 2011.

• **Factors in development success.** In an open-ended question, this year's AFDR survey asked participants to list the most important factors in franchise development success. Franchisee validation was listed by one in three (34 percent), followed by unit economics at 25 percent, a strong sales process at 15 percent, quality leads at 11 percent, and the sales person at 10 percent. Commenting on the results, Olson cautioned about a possible over-reliance on the many excellent sales automation tools franchisors are using. "I sometimes find franchisors can become too dependent on the technology to do the sales person's work. Technology can't sell deals, people do. Technology by all means helps, but don't depend on it to compensate for a sales person's poor performance—because it can't."

• **Start-up costs.** No surprise: they're down this year. Four in 10 (41 percent) of franchisors in the survey reduced startup fees in 2012. Among that 41 percent, seven in 10 (69 percent) lowered the investment amount, one in four (23 percent) reduced the franchise fee, and one in 12 (8 percent) lowered the royalty fee. While this might be bad news for franchisors, it's great news for franchisees. "The continuation of this trend makes this the best time ever for new and existing franchisees to buy because of the ongoing incentives, the commitment to better unit economics, improved support services, lowering startup costs through smaller footprints and build-outs, and better deals available with suppliers," says Olson.

• **Franchise sales performance.** Goals (and expectations) are tricky: franchisors must set them, but with so many variables to consider it's a combination of the science of metrics, economic forecasting, and some art. Overall, 50 percent of respondents met or exceeded their goals in 2012: 34 percent met their goals and 16 percent exceeded them.

• **Franchisors exceeding goals by category.** Two sectors—food and service—stood out by exceeding their goals in 2012, food brands by 24 percent and service brands by 16 percent. Retail brands in the survey also exceeded expectations, by 7 percent, while retail food brands hit their goals, but did not exceed them.

• **Franchisors exceeding goals.** What makes franchisors excel? We can find good clues among those who exceeded their goals in 2012. Nine in 10 (88 percent) have higher budgets allocated toward achieving their goals. Three in four (73 percent) provide FPRs. One in three (33 percent) increased their sales staff. All reported that conditions are good or neutral at the unit level. Seven in 10 (69 percent) said leads were up over 2011. Their median cost per sale of $5,000 was just 53 percent of the median cost reported for all respondents ($9,452, see above). They also pay higher sales commissions and bonuses, which clearly helps them attract a stronger sales team. Finally, four in 10 among this group of "excellers" are former franchisees; food for thought when building a sales team.■

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BY KERRY PIPES AND EDDY GOLDBERG

FINDING THE WINNING FORMULA

14TH ANNUAL LEADERSHIP & DEVELOPMENT CONFERENCE SETS THE PACE

"Winning the Race" may sound like a simple enough theme, but the key to setting the proper pace and passing the checkered flag is all in the execution. It was with this (and more) in mind that nearly 350 franchise development executives and suppliers from across the country gathered to talk shop and explore new trends and directions in lead generation and development at the 14th Annual Franchise Update Leadership & Development Conference.

Franchisor executives, franchisees, and suppliers alike talked strategies, tactics, and execution throughout the three-day event, held at the InterContinental Buckhead in Atlanta October 3–5. Recurring topics included unit economics and ROI, validation and referrals, technology and franchise development, and the growing importance to system growth of multi-unit franchisees (whose organizations are sometimes larger than the franchisors they partner with). Retail, service, and food brands, both established and emerging, were well-represented. And the Exhibit Hall, packed to maximum capacity, was abuzz with 142 sponsors representing 70 companies.

2012 CONFERENCE NUMBERS

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142
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70
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Start your engines!

The conference kicked off Wednesday morning with an all-day CEO Summit, along with four half-day workshops focused on franchise sales, high-performance sales management, and area representation strategies. One of the recurring themes that emerged at the half-day workshops is how technology is continually changing franchise recruiting.

"Franchisors need to realize that lead generation today is digital and that they must use proper tactics to reach their best prospects," said Kurt Landwehr, vice president of franchise development at Regis Corp., who moderated a workshop called "Mastering Franchise Sales." Another theme was the importance of developing and cultivating relationships with prospects. "It's important to have a conversation with your prospects," advised Landwehr.

Those themes were also hot topics at the CEO Summit, where some three dozen franchise CEOs and presidents gathered for an all-day closed session called "Building a Truly Great Franchise Empire." Topics on the agenda included culture and leadership, franchise development, unit

economics, franchisor/franchisee relations, royalties and incentives, communication and transparency, and legal issues. Guaranteed confidentiality, attendees let their hair down and shared both company details and personal stories with their C-level peers.

After the day's sessions wrapped, attendees filled the Exhibit Hall for a welcome reception. PowerPoints, panels, and handouts gave way to cocktails, hors d'oeuvres, and spirited conversation as attendees mingled with suppliers and networked with fellow franchisors and franchisees.

Day 2

The Exhibit Hall reopened early Thursday morning for breakfast and additional opportunities to rub elbows before the opening general session. Following opening remarks by Franchise Update Media Group CEO Therese Thilgen and event sponsor Steve Baxter from Satmetrix, FRANdata CEO Darrell Johnson took the stage to offer his annual state of the economy and franchising overview.

Johnson said that like it or not, economically speaking, 2013 should be very similar to 2012 because the economy is in the second phase of a predictable cycle of recovery that will take 2 to 3 more years to play out. While he acknowledged the ongoing headwinds of public and private debt, global economic weakness, and changing demographics as "outside our ability to change," he also pointed out a couple of bright lights on the horizon. "Small business confidence remains high," he said. Uncertainty, he said, is "the biggest enemy we're facing in the next years," and he urged franchisors to focus on what *is* in their control: their brand, unit performance, franchisee recruitment, site selection, and training.

Prospects, he said want to know how much they can make and their probability of success. Lenders care about getting their money back, and are looking at unit continuity and unit cash flow, so franchisors should 1) do what they can to minimize unit closings, or be able to explain why, and 2) focus on their franchisees' unit profitability. "Franchisors must not only have good performance in these areas, but be able to *show* it—to prospective franchisees (especially multi-unit operators) and to lenders. For 2013, he predicted modest growth for most brands, and faster and easier growth for those showing good performance. "There is no rising tide for all, so performance

matters," he said.

Following this sobering dose of reality, keynote speaker Robyn Benincasa energized the room with her unique motivational presentation on leadership and teamwork. Benincasa, author of *New York Times* best-seller, "How Winning Works," is a full-time firefighter in San Diego and a world champion adventure racer who has competed in Ironman and Eco-Challenge events across the world. She used her own grueling experiences to form a backdrop for how leaders must create a team atmosphere, which she called human synergy. "It's not about getting superstars, but creating teams of great teammates," she said. "The greatest teammates create the greatest outcomes." Using stories and videos from her years of global competition and personal challenges, Benincasa illustrated five essential keys of human synergy:

1) Total commitment: "Commitment happens when the fun stops."

2) Adversity management: "Pain is mandatory, suffering is optional."

3) We thinking: "Understand that nobody wins alone."

4) Ownership of the project: "Hire the inspired, inspire the hired."

5) Kinetic leadership: "Allow for leadership by strengths, not titles."

Benincasa cited numerous examples of how she had been a part of international teams competing in extreme environments that required everyone to work together through the most physically, mentally, and emotionally challenging circumstances to invent solutions in mid-course and succeed in completing the race. Motivation, inspiration, and dedication to a cause—your team—were cornerstones of her dynamic presentation.

Next up, Franchise Update President Steve Olson presented the findings of the 2013 Annual Franchise Development Report, or AFDR, and the Mystery Shopper survey (see page 42). This year's results show some improvements, but again include many reminders of sales and development shortcomings. The 2013 AFDR also includes new categories and findings (see page 32).

A series of concurrent sessions filled the remainder of the day, with tracks for food, retail, and service brands. Themes included "How Do You Score?" and "Building Your Winning

Team." Moderators and panelists led attendees through the sessions and lively Q&A discussions. Topics covered sales and development areas such as sales process automation, benchmarking, profiling, legal ramifications, and international expansion. After the first round of sessions, attendees broke for lunch in the Exhibit Hall and one more opportunity to meet suppliers and connect with each other before moving on to two more concurrent sessions in the afternoon.

The day wrapped up with an hour of business solution roundtables addressing more than a dozen topics related to franchise sales and development. The evening offered a welcome chance to kick back and enjoy the annual STAR Awards banquet at nearby Maggiano's Little Italy, honoring this year's champions in franchise sales and development (see page 46). Following the dinner, dozens of attendees trooped down to Loco's to listen and dance to the music of the Franchise All-Star Band.

Friday morning

The final day of the conference kicked off with breakfast and a panel of four successful multi-unit franchisees discussing how they have grown their organizations and what they look for in franchise brands. Aziz Hashim (Popeyes, Subway, Checkers/Rally's), Sean Falk (Great American Cookies, Mrs. Fields Cookies, Pretzelmaker, Salsarita's), Mike White (Dunkin' Donuts), and Michelle Deraney (Great American Cookies, Pretzelmaker) delivered straight talk to the audience on everything from how they research new brands to how those brands can do a better job of communicating.

The final session of the conference was devoted to the all-important topic of money, specifically, who's getting capital these days, and how. FRANdata's Darrell Johnson moderated a large and diverse panel, offering his own perspective as participants provided a diverse array of possible funding sources and solutions.

Next year's Leadership & Development Conference is already on the planning board and will return to the InterContinental Buckhead in Atlanta. ■

BY KERRY PIPES

Mystery Shoppers Speak!

Analysis and recommendations from our research team

When Steve Olson stepped onto the stage at the Leadership & Development Conference in Atlanta in October, he once again had the unenviable job of reporting the good, the bad, and the ugly in franchise development as seen through the lens of Franchise Update Media Group's annual Mystery Shopper survey. There was a lot of bad.

"Only 19 percent of sales staff were available for our first telephone call. That's down 22 percent from last year," said Olson, president of Franchise Update. He went on to point out that 57 percent of the calls resulted in messages left on voicemail or with the receptionist. Incredibly, 24 percent of the sales staff never returned the call from our mystery shoppers, who posed as qualified prospects.

Website-driven leads didn't get any better service or attention. "Your website is the most important marketing tool in franchise history," said Olson. Still, the research found that 49 percent of franchisors never called the qualified prospects, 49 percent never sent emails, and 10 percent did not call *or* email the prospects.

Toward the end of his presentation Olson quipped, "Was your sales team on summer vacation?"

The mystery shopping was carried out for the franchise brands that pre-registered for the conference and chose to have their sales teams evaluated. Their phone response and website effectiveness were then evaluated by the mystery shopper team. The results of this exercise provide valuable insights on how brands can build on what they're doing properly and shore up areas where they are weak. The data is also included in Franchise Update's Annual Franchise Development Report (see page 32).

To elicit real-world responses, the mystery shoppers posed as qualified prospects making phone inquiries or filling out application forms on franchisor websites. The telephone mystery shoppers evaluated sales team performance in critical areas such as response time, what information they requested, how they controlled the conversation, and how they directed the prospect.

Other researchers evaluated franchisor websites in areas that included SEO and navigation, how compelling, organized, and informative the content was, and how effective the design, multimedia components, and direct response elements were in driving qualified inquiries to the sales team. Researchers recorded the brands' ease of access, timeliness, responsiveness, and follow-up, which were then aggregated, analyzed, and presented at the conference.

For the inside scoop, beyond just the numbers, we went directly to the sources for further insights. We asked all research participants about their methodology and for their thoughts, observations, and suggestions on how franchise sales teams can improve their performance and effectiveness. Here's what they told us, in their own words. ■

Mystery Shopping by the Numbers

Number of franchisors evaluated by our team of mystery shoppers in 2012, by category:

116
Telephone mystery shopping

112
Website mystery shopping best practices

81
Website mystery shopping response to inquiries

Mystery Shoppers Speak!

Website Response

Jeff Sturgis,
Franchise System Advisors

I submitted information on franchise information request forms on franchisor franchise opportunity websites (responding as a qualified lead).

The biggest finding is that of the 81 forms submitted (i.e., franchisors shopped), only 41 called me, about half. Seventy-two did send me an email, so I know they got the form. Doing the math, this means that 31 of the 72 people who emailed me didn't bother to call at all. In the past, this "no-call rate" has been closer to 25 percent, so for some reason franchisors feel less need to contact leads than in the past.

In addition to the lack of callbacks, the other surprising finding was the use of more links, videos, attachments, virtual brochures, etc. in the email I was sent. While I do believe it is good to provide information to a prospect, I would be concerned that franchisors think this supply of information replaces the need to actually pick up the phone and call the lead.

Overall, the franchisors that did make the calls seemed to do a pretty good job of engaging the prospect on the first call and asking some good questions. Most did a good job of keeping that initial call short and then setting up for the next step.

But it seems to me that most franchisors are still relying too much on the next step in the process being an application, rather than having a second, more involved phone call. I understand the philosophy of not wanting to waste time with a lead that is not serious or qualified, but I think franchisors are really missing an opportunity to engage people on a personal level earlier in the process. People still buy from people, and in the current and recent environment where most franchisors are saying leads are down, I don't know why they wouldn't take time to engage on a more personal level with a prospect.

■ **Recommendation:** I would encourage franchisors to be more diligent in developing a rapport with a prospect, asking questions, getting to know them through conversation and good questioning and listening rather than relying on automated processes or administrative steps, especially early in the process.

Telephone Response

Marc Kiekenapp,
Kiekenapp & Associates

First, we searched company websites for a franchise opportunity phone number. We then called to speak with a franchise salesperson and inquire about general franchise ownership.

We were surprised by the increase in "no callbacks." We also were surprised by the decrease in the amount of information salespersons gathered on the first call: the percentages were down in every category of information gathering.

Franchisors did pretty well at sending requested information, and also at returning calls in a timely manner once a message was left. This year, I was getting messages or callbacks more often within an hour or a few hours after the initial call (with the exception of the increase in no callbacks).

The higher-scoring franchisors seemed to stick to a guide for the first call: they asked for initial information, outlined next steps, and requested a follow-up for a second conversation to discuss the business and details. When next steps were presented, most were consistent with emailing general information and an application, wanting to schedule a longer conversation, and then sending the FDD with completed app.

However, franchisors did not do so well at building rapport. They were excited about the brand and shared information, but conducted less information-gathering about the prospective candidate: not keeping the first phone conversation short; rambling on about the product rather than talking about franchise ownership; and, in some cases, getting very specific on business operations.

■ **Recommendation:** I would suggest that franchisors refine their process and purpose for the first phone call. I'd also suggest setting up a phone system and designated person with backup for incoming calls.

Franchisee Satisfaction

Michelle Rowan, Franchise
Business Review

We surveyed franchisees using our standard satisfaction evaluation, which asks franchisees to rate their systems in the areas of financial opportunity, training and support, leadership, operations and product development, core values, general satisfaction, and the franchisee community. Each participating franchisor received an FSI (Franchisee Satisfaction Index) score as well as the average FSI for their particular industry.

The overall survey results for Franchise Update attendees were in line with our findings across the industry. Relationship (between the franchisees and franchisor) was one of the highest-rated sections. Franchise development teams are doing a good job at supporting both single- and multi-unit franchisees, even though the two groups require different types of support.

In terms of areas for improvement, setting realistic financial expectations with candidates is a common cause of franchisee dissatisfaction, and our survey for Franchise Update reflected this. Franchisors need to be realistic with the financial expectations they set for prospective franchisees. All too often, development teams (and Item 19s) paint a picture that is too optimistic—especially when it comes to earnings potential. Even if your top franchisees are pulling in huge numbers, it's important to "sell" candidates on the most likely scenario. When it comes to franchisee satisfaction, it's better to undersell your concept and have it over deliver.

We were surprised that only 60 franchisors participated in this free survey—even though franchisee satisfaction is a leading indicator of brand strength and performance.

■ **Recommendation:** If you aren't already assessing your franchisee satisfaction, you need to be—even if it's through an internal, less formal survey. Prospective franchisees want this information and, with more and more brands offering it, it's become a competitive advantage for brands that do. And, if your satisfaction comes back low, you need to address these issues *before* you sell more franchises.

Mystery Shoppers Speak!

Social Media

Jon Carlston, Process Peak

We conducted the social marketing benchmark analysis. This entailed research on the franchisor/franchisee presences on Facebook, Twitter, LinkedIn, and blog networks.

As expected, Facebook continues to make the most impact. Despite the significant audience Facebook represents, 68 percent of franchisors did not mention the franchise opportunity on their page. Only 17 percent had a franchise request form on their Facebook page. While Twitter can play an important role in consumer marketing for select brands, it represents only about 2 percent of the total social audience.

The most surprising finding in our research was the lack of consumer marketing fundamentals on the franchisor Facebook pages: 60 percent did not provide a link enabling visitors to search for a location.

In general, franchisors are doing a much better job of engaging their audience. The engagement percentage averaged 1.5 percent in 2012, compared with 0.6 percent the year before.

Most brands are still not leveraging their social presences to bring exposure to their franchise opportunity, and have not implemented programs to ensure that brand integrity is intact at the local level.

■ **Recommendation:** We encourage franchisors to develop a plan for franchisees to execute effectively and appropriately at the local level, therefore demonstrating to potential candidates the opportunities they would have to drive local business as a franchisee. Last, we would encourage them to work with marketing and ensure that the ability to request information on ownership is available through all their local presences.

Mobile Response

Michael Alston,
Landmark Interactive Franchise Group

Using proprietary web server and tracking data, we analyzed mobile and desktop usage patterns across our network of online franchise recruitment sites, or portals (Franchise.com, FranchiseOpportunities.com, FranchiseSolutions.com, FranchiseGator.com, and BusinessBroker.net). The research covered more than 15 million online and mobile visits since we started adding mobile features more than 2 years ago.

We found that mobile channels are now a significant segment in the franchise recruitment/sales process. The mobile share of visitors to franchise portals has tripled since January 2011, and mobile phones and tablets now account for 20.7 percent of all visitors to the group's websites. Within that mobile segment, phones account for 57 percent of visitors and tablets for 43 percent. Tablets are the faster-growing category, with a share that has more than quadrupled since January 2011.

The number of mobile franchise prospects submitting online leads has tripled in the past 18 months, reaching 20.2 percent of online investment inquiries. Mobile users are high-value prospects and were 8.7 percent more likely to request franchise information with $100,000 to $500,000 in available capital to invest.

We were surprised that mobile lead submissions grew just as fast as mobile browsing and research. The smaller screens were not a barrier to filling in lead forms with investment information.

We were also surprised at how fragmented the mobile "audience" is. The different devices, screen sizes, apps, and browser choices are far more complex to develop for than the desktop web. Lead submissions were spread out among all of these different platforms.

■ **Recommendation:** Because no single mobile device or format is dominant, and because mobile activity is spread out over many platforms, our best advice is to avoid putting all of your mobile eggs in one basket (i.e., don't develop an iPhone app and call it a day). In fact, research suggests that users are using multiple screens at once (PC and phone, tablet and television) or switching between mobile phones, tablets, and the desktop web as part of the same research process, so an integrated solution seems best.

Fast Response by Franchisors

Jeff Gooch, eMaximation

As the data suggests, companies with marketing programs that respond to candidates quickly are poised to reap the benefits: 61 percent of applications are submitted within the first 24 hours following a brand's quick response.

Things move quickly and attention spans are short. Franchisors should check to ensure that their lead sources are passing their leads to them in real time and that they are marketing to their leads as quickly as possible, *even on weekends and off hours.*

Additionally, a significant number of applications are being completed within the first week. Companies would do well to establish lead nurturing campaigns that reach candidates several times within the first seven days. A drip email campaign that sends out relevant content at predefined intervals can help a franchise build trust and credibility and can serve to keep a company "top of mind" so that a potential franchisee will be motivated to take the next step.

Finally, we see an opportunity for franchisors to improve application rates among prospects who have been in their system for some time. Given the rising cost of acquiring leads, it makes sense for savvy franchise marketers to redouble their efforts to connect with prospects who have already declared their interest.

■ **Recommendation:** We suggest that franchisors create dedicated re-engagement campaigns targeting these cold leads. Companies should get creative in their marketing efforts to colder leads (a survey or a unique promotion, for example), though their message should remain relevant and should prompt prospects to take action.

BY MICHELE CHANDLER

All STARs!

Recognizing excellence in franchise recruitment

What makes a franchise All-STAR? A passion for excellence. That's the premise behind the STAR Awards (Speaking To And Responding), presented annually at Franchise Update's Leadership & Development Conference, held October 3–5 in Atlanta. The awards recognize franchise companies for best practices in lead generation, follow-up, and recruitment practices.

STAR Award recipients are scored and rated based on results compiled by mystery shoppers who pose as qualified prospects and contact franchisors by phone and online. Franchise recruitment websites were also analyzed by online experts. (See page 42, where this year's mystery shoppers discuss their methodology and experience.)

This year, mystery shoppers called 116 franchisors and submitted applications on 81 franchisor websites to judge how well—and how quickly—the companies' sales and development teams responded to inquiries. To learn more about their winning strategies, we caught up with some of this year's honorees to hear how they do it.

BEST OVERALL PERFORMANCE
1. CertaPro Painters
2. Brightstar Care

BEST FRANCHISEE SATISFACTION
1. Auntie Anne's
2. Fastsigns

BEST TELEPHONE PROSPECT FOLLOW-UP
1. Pizza Ranch
2. Denny's

BEST RECRUITMENT WEBSITE
1. Retro Fitness
2. FirstLight HomeCare

BEST WEBSITE PROSPECT FOLLOW-UP
1. Great Clips
2. PostNet

BEST SOCIAL IMPLEMENTATION
1. Glass Doctor
2. Mr. Handyman

HALL OF FAME AWARD
1. MSA Worldwide
2. Martinizing Dry Cleaning

CERTAPRO PAINTERS
Best Overall Performance


Peter Barkman

There isn't just one reason for this painting franchise firm's success, but there are plenty of reasons, and this year they added up for the Pennsylvania-based painting franchisor, which has about 330 franchisees in the U.S. and Canada.

"I don't know that we do anything special," says Peter Barkman, vice president of franchise development. "What we do well is practice continuous improvement," he says. "There doesn't appear to be a silver bullet in franchise recruiting. It really seems to be a bit of a moving target, so you really need to stay on top of things, see where things are headed, and move in that direction."

Being able to recognize trends has helped attract a new category of franchisee: military veterans, whose leadership skills, personal discipline, and comfort with technology make them exceptionally prepared to run their own franchise business.

Once company executives realized that military veterans who had purchased CertaPro franchises were consistently among the brand's highest performers, they sought to attract more of them by working with organizations including RecruitMilitary, a recruiting firm that aims to help enlisted people who are leaving military service find civilian jobs. Today, about 8 percent of the company's franchisees are military veterans, says Barkman.

"We have a very disciplined and systematic approach, and I think that lends itself well to military professionals. They enjoy the structure and the systems and they are open to the support," he says.

No matter what their background, CertaPro invites potential franchisees to their corporate headquarters to meet with current owners and the management team. They want prospects to have an accurate view of the company and encourage conversations that are candid and frank.

"It's not a dog-and-pony show," says Barkman. "We're not standing there right next to the franchisees saying, 'Please say something nice.' We're letting them have a real conversation. Nowadays, prospective franchisees respect and appreciate transparency."

AUNTIE ANNE'S
Best Franchisee Satisfaction


Valerie Kinney

In 1988, when she started with a single stand at a Pennsylvania farmer's market, Auntie Anne's founder Anne Beiler relied on strong relationships with relatives and friends to help her business grow.

Now owned by franchise operator Focus Brands, the international chain of pretzel bakeries has 1,200 locations in 46 states and 25 countries including Indonesia and Mexico. Nearly 25 years later, her farmstand has become a global enterprise, but the company is still doing business with franchisees in Beiler's personal way.

"Our management team still believes that our franchise partners are our customers, that they're our main priority," says Valerie Kinney, Auntie Anne's director of communications. Being attentive to franchisees is key. Their phone calls and emails to the corporate office are answered within 24 hours, Kinney says.

Franchisees also have an influential voice in developing new corporate rules. Fifteen of the company's 300 franchise owners belong to an advisory council, where they weigh in on everything from upcoming marketing campaigns to new equipment needs. Three additional franchisees, elected by their peers companywide, serve on a strategic leadership team that speaks with corporate executives every week. Depending on the topic, those conference calls can be as brief as 30 minutes or as long as two hours.

"Before anything goes out to the store—even a coupon offer—we get their feedback on it," says Kinney. "We realize we can't work in a vacuum; they're involved in a lot of decisions we make. If they're not successful, we're not successful as a corporation."

Over the years, the company has discovered that listening to its frontline operators pays off, as its most effective franchisees share several traits. "They love structure and the framework around that," says Kinney. "But they also have the creativity and passion on a local level to be able to grow a brand."

PIZZA RANCH
Best Telephone Prospect Follow-Up


Marilyn Mayberry

It's a small but devoted corps that helps find new franchisees for this expanding Iowa-based pizza restaurant chain. One of the most instrumental members of the franchise development team is Brenda Anderson. As a lead qualifier, Anderson helps determine whether applicants have what it takes to thrive as a Pizza Ranch franchisee.

This means assessing prospects in several areas. Do they show enthusiasm and passion for the brand? Can they operate in one of the markets the brand has targeted? Do they bring experience in the restaurant business or have they operated a franchise before? And, perhaps most important, do they have the financial capability to take on a franchise business?

Interest in a Pizza Ranch franchise often comes from people who have had a good experience in one of the brand's restaurants, says Marilyn Mayberry, director of franchise development at Pizza Ranch, which has served as a politicking site for GOP presidential contenders on the campaign trail and is distinguished by its folksy, Old West theme.

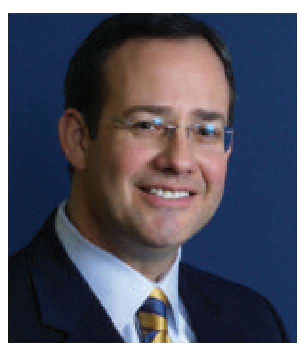
"Many of the people who contact us know our brand and have had a very positive experience," she says. "In franchise development, our goal is to continue that positive experience."

So when a potential franchisee contacts the brand, first impressions really count. "Certainly you can't deny the impact of a timely, professional, personal response to an inquiry," says Mayberry. "Those are things we are always trying to achieve."

Technology helps to monitor applicants' progress. Starting last year, the company adopted a management system from FranConnect "to help manage the sales process, keep it consistent, make sure we have good communication, and can track the results," she says. "We needed a tool that would help us better manage the process."

Tapping knowledge and best practices from other franchise experts also has nurtured the growth of the brand, which has 100 franchises operating 174 restaurants in 11 states. "Attending industry conferences has been instrumental for our concept, and for improving our processes and our systems," says Mayberry. "I find franchising just so amazing in how willing everybody is to share practices and act as a resource. So much of what we have put in place is a direct result of learning from others in the business."

RETRO FITNESS
Best Recruitment Website


Mark Mele

Two years ago, Retro Fitness revamped its website to include numerous videos informing prospective franchisees about the advantages of owning one of the gym chain's locations. Now, even in the middle of the night, anyone considering the brand can get a wealth of information through the company's website.

"We try to put out as much information as possible to get potential franchisees engaged early on," says Mark Mele, vice president of franchising. "We're pleased with the results."

In one video, CEO Eric Casaburi explains why the company is ideal for multi-unit operators. In another, a New Jersey franchisee testifies about the business support she has received. There's also an interactive map showing available territories, and anyone who submits a request for information is contacted within 24 hours.

It's all designed to help attract qualified franchise candidates to the New Jersey-based company, which has 60 franchisees running 100 gyms in 10 states, mainly on the Eastern seaboard. Expansion plans include opening seven new locations in California next year, says Mele.

The redesigned website also includes links to corporate webinars, press releases, and news stories about the company and the fitness industry. "It gives you a lot of information and you can look at it at your leisure. Prospects like that," says Mele.

Having so much information readily and continuously available also helps company executives determine which franchisee applicants are best suited for success at the company. "I get a lot of calls when reaching out to prospective franchisees, and one of the first things they say is, 'I watched all your videos and I'm intrigued,' and they want to learn more," says Mele. "For the guy who watches the videos and says, 'I don't get it,' that's okay too. If you don't get it, maybe it's not the right investment."

GREAT CLIPS
Best Website Prospect Follow-Up

Beth Caron

Persistence should be Beth Caron's middle name. As franchise development marketing coordinator at Great Clips, she's perfected the art of using technology to follow up with potential franchisees at the Minnesota-based hair salon chain, which has 1,100 franchisees in the U.S. and Canada.

In addition to phone calls, she relies on regularly scheduled emails to people who have expressed interest and filled in information on the company's website, but who haven't moved the process forward. To manage all the information collected from anyone who has inquired about franchising with the brand, she relies on salesforce.com, which Great Clips has used for the past five years.

It takes patience, since sometimes her relationship-building efforts don't pay off immediately. "We have had one or two situations where people, for whatever reason, couldn't act right away," she says. "Maybe the timing wasn't right when they initially inquired, or their job situation changed and they weren't ready to move forward. so they just kept it on the back burner for a year or two."

She keeps them engaged through her archive database. "Once a month, they'll receive an email that says, 'Hey, this is an interesting article about franchising,' or 'Here are some interesting facts about Great Clips,'" she says. "Whenever we send those out, we see an immediate spike in responses. People will say, 'Hey, has anything changed in my market? Is anything available yet?' Or they might say, 'I wasn't ready then, but I'd like to talk to someone now.'"

Recently, Caron's perseverance paid off after she worked back and forth for three years with two franchise candidates. "They were living in Canada and wanted to develop a franchise in Florida," she says. "However, we have a very stringent policy that people must be living in the market they intend to develop before we start our franchisee evaluation process, especially when they are crossing the border because there's so much that's involved."

Every six months for three years, Caron kept at it. Finally, mission accomplished: her prospects recently completed their move to Florida and operate a Great Clips franchise in Ft. Lauderdale.

GLASS DOCTOR
Best Social Implementation

Rebecca Broaddus

As more people flock to social media, executives at Glass Doctor spied an opportunity for a different way to attract new franchisees.

The Texas-based company, which supplies glass products for home, automotive, and commercial locations, began posting on Facebook and Twitter in 2009. While franchisees can link to those company pages from their own websites, more individual franchisees are taking the social media plunge themselves. About 60 percent of the company's 180 franchisees have set up their own page on Facebook, and 30 percent have Twitter accounts, says Rebecca Broaddus, a public relations specialist who directs the company's social media campaign.

Broaddus developed a guidebook for Glass Doctor that details everything from how often to post on Facebook (1 to 3 times a week) to a social media glossary. "With Facebook, they're pretty good at understanding the terms," she says. "With Twitter, it gets a little more difficult with 'hashtags,' or even using 'tweet' as a verb. But they catch on really fast." She says a Glass Doctor franchisee in Milwaukee attributes an additional $30,000 in sales to starting a Facebook account that helps him reach and keep in touch with customers.

Next year could bring even more on the social media front for Glass Doctor, possibly employing the online photo sharing site Pinterest. "Our guys can do some amazing stuff with custom mirrors, tabletops, windows, and especially frameless shower doors. It's a great place to showcase what we can do," she says. "A picture says 1,000 words, and it makes a lot more impact if you can see a really cool shower door rather than to just hear about one."

Since last year, the company has been using a lot more social media, search engine optimization, pay-per-click advertising, and email campaigns, says Mike Hawkins, vice president of franchising for Glass Doctor's parent firm, The Dwyer Group. "As a company we are always looking for a competitive advantage," he says. With this year's STAR Award, they seem to have found it. ■

JOHN C. MORGAN BRINGS

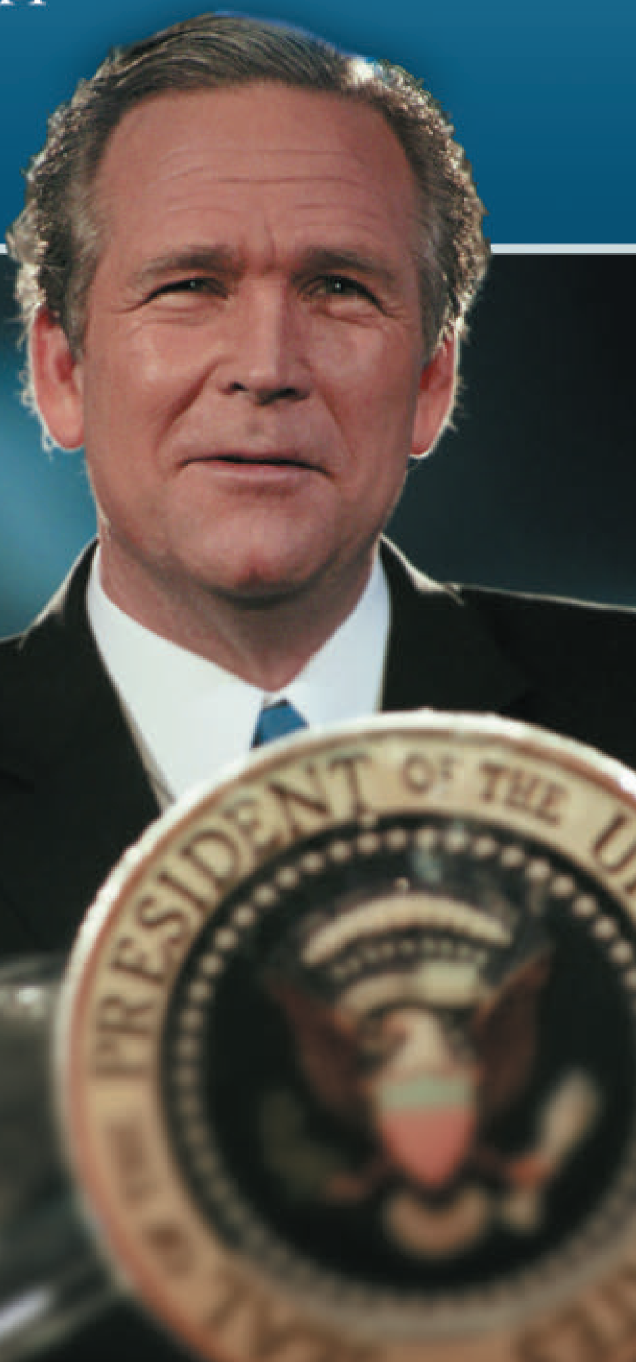
LAUGHTER, INSPIRATION AND MOTIVATION

AS PRESIDENT GEORGE W. BUSH

★★★★★

An Interview with Dina Dwyer

Chairwoman and CEO, The Dwyer Group®



Paul Moore: "This is Dina Dwyer with The Dwyer Group, a very gracious lady that we met tonight. She hired "W" for their Annual Reunion. Dina, did you enjoy having "W"?

Dina: 'He was amazing. It was just so much fun for me to look out into the audience of about fifteen hundred people, to see the look on their faces as he walked onto the stage, to "Hail to the Chief." It was like a look of awe, and then they were grabbing their camera and taking pictures. It was just amazing. I expected the best, and he gave us the best."

Paul: "Do you think anybody believed it was him?"

Dina: "Yes, I'll bet a good ninety percent, again just looking at their faces, I'd bet a good ninety percent believed it for at least the first three or four minutes."

Paul: "What kind of an impact do you think he had as he milled around with folks?"

Dina: "You know it's amazing, I think he made people feel very special. There's something about being around someone who looks and acts like a President giving you one on one personal attention, and I think he made a positive difference in a lot of lives today. They're still talking about it. And then the laughter, I think it's so positive for people to laugh and he had them just laughing and really enjoying themselves."

Paul: "Now you've met the real President, right?"

Dina: Yes I have I've met president George W. Bush.

Paul: "Wow, so this was special for you to have him here today?"

Dina: "It was just terrific, and they're a lot alike; really nice guys, funny, but down to earth."

Paul: "Would you recommend people hiring him for their event?"

Dina: "I would highly recommend hiring John Morgan for any event that you have. He will accommodate you no matter what it is. Whether it's a banquet, because he also performed at our banquet, or an opening session, a business meeting, a church meeting, he can fit any agenda that fits with his standards."

Paul: "Thank you Dina."

JOHNCMORGAN.COM

FOR INFORMATION ON **BOOKING JOHN C. MORGAN,**
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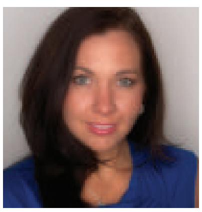
Challenge the pros

How can you help prospects with what questions to ask and what information they should be seeking from franchise development people and franchisees?

Erin Crawford
Director of Franchise Development
United Franchise Group



The following are five areas I believe are important for prospects to inquire about:

1) Costs and what's included (franchisor). It is important to ask a franchisor about the various costs associated with the franchise. A franchise fee usually covers the training, implementation, and setup. The total investment includes the franchise fee, working capital, inventory, and equipment costs. The initial investment is the amount of liquid capital required up front after all financing options have been applied. Ongoing costs include royalties, usually calculated as a percentage based on gross revenues, that will cover ongoing support programs from the franchisor. In some cases, the markup on products required to be purchased directly from the franchisor will constitute royalties. Very seldom, a franchisor will set a cap or maximum amount on royalties. Other continuing costs include national marketing or advertising fees and are calculated as either a percentage or flat fee.

2) Training and support (franchisor). Training should be well-planned, and prospects should receive detailed training and operations manuals. It is also good for a prospect to be prepared for additional expenditures if the franchisor does not cover travel and lodging costs during training. Further, they should ask what costs, if any, are associated with additional training for spouses, partners, or staff.

Prospects should ask about ongoing marketing and support provided by the franchisor. Often, an established field staff and/or mentor program can be crucial for a franchisee's initial success. The training will serve as a foundation. However, *local* ongoing support will definitely help a new business owner implement their new knowledge in the best practical setting… their own business!

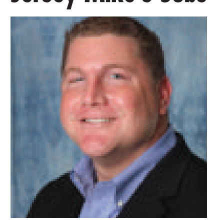
3) Expectations and financial questions (franchisee). We have a saying in our office for our prospects: "The best way to learn about this business is to sit down and talk to someone who does it for a living." Legally, franchisors can talk about earnings with prospects only when disclosed in their FDD. After a prospect has had a chance to speak with the representative from the franchisor, they should meet with existing franchisees to seek information relating to financial expectations.

4) How long until up and running? (franchisee). It is important to know how long it will take before your doors are open, and even more important to know how long until your business is fully up and running. Asking a few existing franchisees how long it took to get off the ground will help prospects understand what factors influenced the time it took to begin operations.

5) Industry and territory (franchisee). Prospects should ask multiple existing franchisees what kind of growth or decline they have experienced. They should also ask what potential new products and services are on the horizon. Franchisees will be able to communicate the programs in place to encourage cohesiveness among other franchisees, as well as the marketing efforts that help the brand stand out in the marketplace.

"It is important to know how long it will take before your doors are open, and even more important to know how long until your business is fully up and running."

Brian Sommers
Vice President, Franchise Development
Jersey Mike's Subs



Ensuring the brand is the right fit for the prospect is essential. Prospects need to fully understand what they are getting into. They should investigate and figure out the business model, the franchisor/franchisee relationship, the franchisor's role and responsibilities, and the unit economics.

From the franchise development professional's perspective, it is important to understand the prospect's plans and manage their expectations beginning with their capital plan. Do they understand the capital requirements and the cost of entry? Where is their capital coming from? This is an area they *do not* want to underestimate.

The most important piece of any business is its people. Prospects need to be

"The best and most valuable information typically comes from existing franchisees. Before approaching them, the prospect should truly understand their *own* strengths and weaknesses."

able to attract the *best* crew possible to represent themselves and the brand. Up front, prospects should consider: What are their expectations for their involvement in the business? What do they see as a realistic work schedule?

What is their people plan? Who will be involved in daily operations? Will management be incentivized? What is a good crew? How are you going to recruit them? There *must* be a major focus on the people plan.

The best and most valuable information typically comes from existing franchisees. Before approaching them, the prospect should truly understand their *own* strengths and weaknesses to see how they line up with those of the franchisees. Are they similar?

The prospect should speak with as many franchisees as possible—single-unit, multi-unit, successful, and challenged—to begin understanding the common denominators. What do they like about being a franchisee? What do they not like? Are they satisfied with the franchisor? How are franchisor/franchisee relations? Remember to speak with franchisees who are new to the system as well as those who have been on board a while.

The best discussions happen when the prospect asks second- and third-level questions. When a franchisee answers a question, it is the prospect's duty to drill down to why the question was answered that way. For example: Are you happy with the franchisor? Find out why, or what makes them happy/unhappy. Then ask for real-life examples and situations.

Unit economics/ROI is critical. Find out if the franchisees are satisfied financially. Then, using second- and third-level questions, ask if they are above or below the system's average unit volume.

My favorite question to ask a franchisee at the end of the visit: Would you do it again? ■

Sales smarts

BY MARC KIEKENAPP

Everyone, Meet Norm!

Get to know today's franchise candidate

It's old news to all of us that franchising has evolved since 2007 with the changes in the lending environment, home equity, high unemployment rates, and lack of consumer confidence. What's amazing to me is that franchising has been talking about the "New Norm" for five years. Let's face it: This is not a new environment for business ownership any longer. It is just the Norm!

I would like to introduce you to "Norm" in this article, and how we might consider working with him. Norm is a franchise seeker with the same needs he has always had. Norm wants to find an opportunity that feels comfortable for him to operate, that can give him a reasonable return on his investment, and that will provide security and a future for his family. Norm has not really changed over the years. However, he has become more difficult to find than Waldo! At the end of the day, the information Norm needs to make a decision is the same as it was 20 years ago. We just deliver it differently. Norm still wants to develop a relationship with someone who has taken an approach of mutual exploration with Norm's best interest in mind.

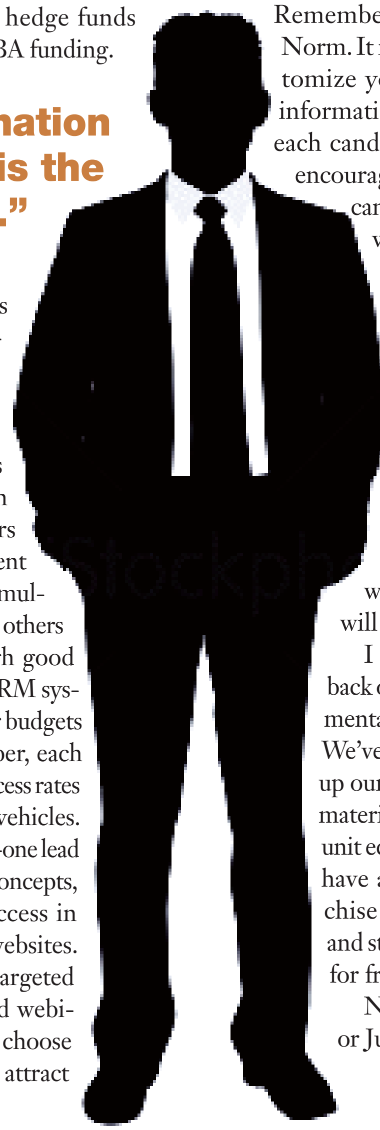
"At the end of the day, the information Norm needs to make a decision is the same as it was 20 years ago."

As we've all struggled to find Norm over the past several years, many of us attempted different approaches to bring him out of the woods. Many of us invested in powerful CRM systems that could walk Norm through the process and assess his interest by how much homework he did, or how long he viewed the pages and re-viewed the materials.

Others built websites with dedicated URLs for franchise development messaging. Some websites were built to provide extensive information to the candidate to make the research process easier. Others created websites that provided less information and created questions that directed the candidate to sales consultants to start building the relationship face to face.

Franchise professionals have always been a creative group overcoming each barrier placed in front of the franchise sales process. When SBA loans slowed, home equity picked up. When home equity disappeared, the 401(k) rollover plans took over and hedge funds were organized for SBA funding.

Lead generation is much the same. Proactive franchisors over the past several years have expanded their lead generation programs to more of a shotgun approach. Franchisors with larger development budgets started using multiple approaches, while others made choices through good reporting from the CRM systems and focused their budgets accordingly. Remember, each brand has different success rates with lead generation vehicles. Portals are the number-one lead generator for certain concepts, while others find success in SEO and company websites. Others with a more targeted approach use lists and webinars. Franchisors can choose from many options to attract quality franchisees.



Some things just don't change

Norm is still the same guy he was 10 years ago. He's a candidate who wants to research franchise opportunities with a helpful partner assisting him through a well-defined process. Today Norm is getting older, he has a larger net worth, his children have grown, and he is now looking for a lifestyle that allows him to enjoy his family and leverage his skills from his previous career. Norm has become more sophisticated with his research, and the changes we've made over the past few years with our systems, websites, and CRM systems will serve us well—as long as we use them correctly.

"Correctly" is getting Norm the information he needs to make a decision. There's only one Norm, but thousands of other candidates are similar to him.

Remember, everyone is not like Norm. It is critical for you to customize your presentations and information flow differently for each candidate you work with. I encourage all of you to ask your candidates what they want, what they are looking for, and how they want that information delivered. "One size does not fit all." Be flexible, be helpful, and make your process one of "mutual exploration" and fun. If you always have your candidate's best interest in mind, the process will work and your brand will grow.

I believe we will all look back on this period as a monumental change in franchising. We've all focused on buttoning up our processes, systems, and materials and have focused on unit economics in the field. We have all become better franchise companies, managers, and strengthened our systems for franchisee success.

New Norm, Old Norm, or Just Norm… you decide!

Happy Selling,

Marc

Market trends

BY DARRELL JOHNSON

Did the Election Really Matter?

Congress unlikely to act to help the economy

There's always more hype and more promises during a presidential election season. With all the rhetoric, expectations rise. The reality is likely to be quite different. I hope you liked 2012. In a nutshell, not much will change in 2013, as only two significant factors could alter this forecast.

One is unpredictable and largely out of the control of any of us: global conditions. The other is within our country's control: our own Congress. Unfortunately, even if the politicians in Washington somehow are overwhelmed by a strong dose of common sense (I hold out very little hope for this), the influence they can have in the next 12 months is rather limited. I'll look at the most important reasons why.

1) Public debt is more than 100 percent of GDP. Not only the federal government, but also some of the most populous states have no ability to spend their way back to economic health. Household debt has started to come down from all-time highs, but it is only at 2006 levels and still well above historical norms. We simply took about 10 years of normal consumer and government spending and compressed it into 7 years. Earning our way back to normalized spending levels is still a few years away.

2) Global weaknesses are outside our control but weigh heavily on the recovery. We can't expect much from Europe anytime soon. BRIC countries are unpredictable, led by China's apparent slowdown.

3) Demographics are working against a normal U.S. economic recovery. For Social Security, the ratio of covered workers to beneficiaries has dropped from four to under three since 1965. That ratio is headed lower, and we can't do anything about it, short of opening up our borders to massive immigration.

These are serious headwinds that will take a few more years to address. Finally, hundreds of years of economic history has shown us that rebounds from downturns caused by financial crises come in three phases and take 7 to 10 years to find a new normal. This time around, the first phase, marked by capital contraction from consumers, businesses, and the government, lasted until 2011. We're in the second phase now, revealed as a gradual willingness for capital providers to begin lending again, albeit very conservatively. That phase, by historical standards, should last another two to three years. Thereafter, we will reach a new normal where consumers are optimistic, businesses are expanding, and capital providers are willing to move out further on the risk curve, pricing loans to reflect differential risk.

> **"If Congress can remove the uncertainty that is within their power, we will have a rapid recovery in two to three years."**

All these factors lead me to conclude that we are two to three years away from seeing significantly improved confidence levels, the most reliable indicator of economic activity. Therefore, the ability of Congress to alter the 2013 economy is indeed limited on the upside. However, they can significantly affect this forecast on the negative side. The fiscal cliff is real and further delaying a willingness to meaningfully address the underlying issues—primarily tax policy and the social safety net—will only lead to further uncertainty. And uncertainty is the enemy of making job-creating investment decisions.

To be sure, the Federal Reserve has done all it can to buy time for Congress to get infected with common sense. Interest rates are at unprecedented lows. At first, this had a modest stimulus effect. However, few consumers or businesses are waiting for interest rates to drop another 25 basis points before making an investment decision. The cost of debt capital is so low right now that it isn't much of a factor in further investment decisions. This manufactured low interest strategy will work for only another year or two, at which time we are likely to see a rapid rise in interest rates, putting a big damper on the recovery.

Through all of this, consumers and businesses have remained quite optimistic, a clear cultural difference that Americans have always had. Taken as a whole, businesses have lowered their debt-to-capital ratios and are sitting on a lot of cash. Banks also are sitting on a lot of cash. If Congress can remove the uncertainty that is within their power, we will have a rapid recovery in two to three years. If Congress continues to perfect the business of finger-pointing and blame, it makes it very hard for businesses and consumers to make capital expenditure decisions that they will have to live with for many years to come. The enemy is uncertainty. It's up to Congress to attack the enemy that is keeping this recovery from taking off.

(For slides from my presentation at the 2012 Franchise Update Leadership & Development Conference in October illustrating the trends described above, go to franchisedevelopmentconference.com/ or contact me directly). ■

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

Team Cultures Revolutionize Franchising

Are you winning or losing the competition?

The Great Recession is the best thing that ever happened to franchising. The tight race for greater performance has spawned a new organizational mindset, as traditional corporate development cultures are now embracing a more holistic approach to growth. And it's working!

Most successful franchisors today have torn down their departmental silos and created system-wide collaboration and horizontal alignment within their organization. The adversarial mentality of "separation of state" and "us versus them" is gone. More CEOs now require participation, inclusion, and accountability from all disciplines; each must contribute to the successful health and growth of the brand.

Redirected focus on the franchisee

For today's qualified buyer, brand opportunities are more attractive than ever before. Savvy franchisor CEOs continue to strengthen their business models as new and growing franchisees capitalize on more incentives and lower cost structures. Along with that, these franchisors are delivering better training, operational support, communication channels, marketing programs, and ROI to their franchisees.

Today, "accountability rules." For example, performance bonuses for Checkers' consumer marketing team are now tied to the grand opening revenues generated for each new franchisee. Michael Manzo of Jersey Mike's engages with multi-unit operators at trade shows, fielding tough questions about their franchise offering. What's different? Michael is the COO of Jersey Mike's, not the sales executive. How about Marco's Pizza, which stepped up to the plate by providing partial financing for new, quality franchisees they want in their system? And there's Ray Titus, CEO of United Franchise Group, who has ignited his franchise systems with his team culture. Attending their national franchisee conference, Eddy Goldberg, our managing editor, described the event as "a universal celebration with all marching to the same drum."

Yes, it took the recession to create these powerful system synergies: CFOs, COOs, CMOs, and CDOs actively working in concert to build better franchise programs. Consequently, smart franchisors are profitably breaking away from the old-school brands still seeking "hope and change."

Synergies with business partners

"Franchise companies cannot survive without our professional suppliers," stresses Ed Waller, co-founder of CertaPro Painters, recipient of Franchise Update Media Group's 2012 STAR Award for best practices in franchise development. Waller recognizes his suppliers as key team players critical to the success of his franchise. Every one of them sits on his bus. "Technology intelligence is moving at warp speed, providing opportunities our brands must embrace to improve our franchisees' bottom lines as well as our own," he adds.

The Great Divide is here

More real than ever is today's growing separation of brand growth: franchisors that embrace the new era of team cultures sharing growth accountability, versus those that won't break the internal barriers of resistance to make it happen. New intelligence in our 2013 Annual Franchise Development Report and Mystery Shopping Survey supports this. As football legend Mike Ditka emphasizes, "Individuals don't win championships, teams do. Once Tom Landry taught me this, I celebrated three Super Bowl rings with my teammates as a player, assistant coach, and head coach."

Here's a starter list of growth "drivers" and "divers" that franchisors must address head-on in the coming year. Which side will you be on? ■

Steve Olson *is president of Franchise Update Media Group. He is the author of* Grow to Greatness: How to build a world-class franchise system—faster *(www.franchising.com/franchisors/growtogreatness.html). Contact him at steveo@franchiseupdatemedia.com.*

Drivers: What will work in 2013	Divers: What won't work in 2013
Satisfied franchisees	Mentality that franchisees just don't get it
Profitable franchise model	Mediocre unit economics
Performance required	Performance expected
Accountability for growth	Departmental attitude that franchise growth is not their responsibility
One team, one purpose	Belief that system unity is not "real world"
FPRs are essential	Item 19 is optional and too risky
Promoting your opportunity	Promoting what your business does
Assessment and profiling tools	Assumption the franchisor knows how to vet candidates (so why spend extra money)?
Riding on the winning bus	Riding on the losing bus

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- **Educational Childcare** - $340K+ investment, TX; 2 month sales cycle
- **Home Restoration** - $50k+ investment, OK; 12 month sales cycle
- **Home Services** - $25k investment, Montreal, QB; 6 month sales cycle
- **Kids Education** - $30K+ investment, FL; 3 month sales cycle
- **Kids Education** - $30K+ investment, FL; 2 month sales cycle
- **Kids Education** - $30K+ investment, CA; 2 month sales cycle
- **Kids Education** - $75K+ investment, Canada; 8 month sales cycle
- **Kids Education** - $75K+ investment, SC; 1 month sales cycles
- **Pack & Ship** - $200K+ investment, CO; 12 month sales cycle
- **Pizza Franchise** - $115k - $485k investment, CA; 2 month sales cycle
- **Pizza Franchise** - $210k investment, WI; 5 month sales cycle
- **QSR** - $200K investment, PA; 24 day sales cycle
- **Smoothies & Coffee** - $65K investment, NY; 2.5 month sales cycle
- **Specialty Retail** - $150k investment, GA; 6 month sales cycle
- **Specialty Retail** - $50K investment, TN; 4 month sales cycle
- **Specialty Retail** - $70K+ investment, CT; 6 month sales cycle
- **Vending** - $150K investment, NE; 2 month sales cycle

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