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Franchise update | 2013 Q1

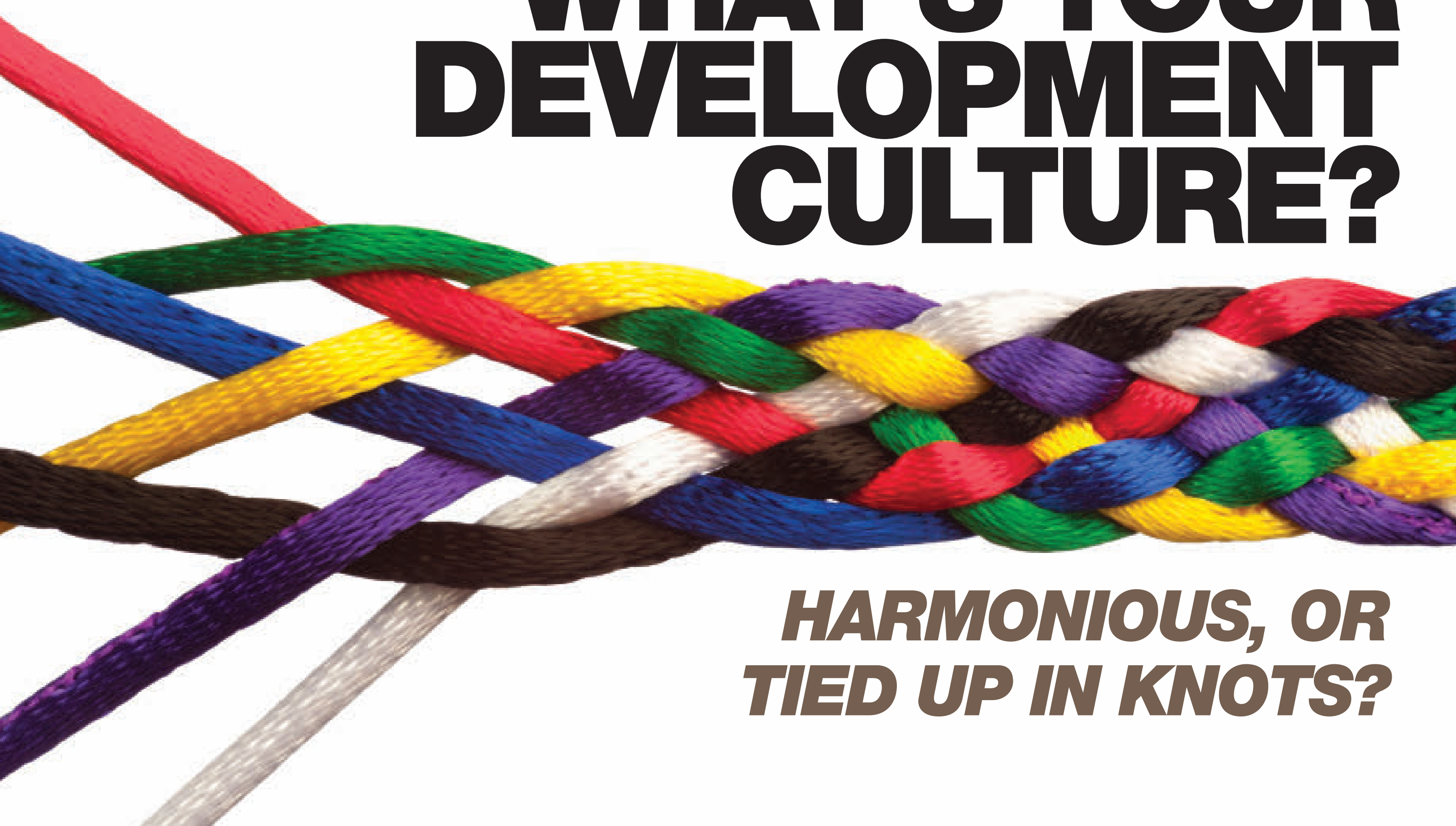
BUSINESS INTELLIGENCE FOR GROWING FRANCHISORS

Lead! *How to make your franchisee conventions last year-round*

Market! *Jersey Mike's creates a culture of giving*

Grow! *Navigating the waters of international expansion*

WHAT'S YOUR DEVELOPMENT CULTURE?



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Denise Vizzini
Owner
Hand and Stone
Royersford Pa.

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Franchise update | Q1

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From the editor's desk

BY KERRY PIPES

No Place for Silos

To most of us it would seem counterintuitive to have separate "silos" of departments and managers who exist in their own bubbles independent of one another. Yet, some organizations continue to operate in just such a vacuum. Tearing down internal silos and replacing them with a "development culture" is the focus of this issue.

Eliminating silos and the boundaries they create can have a critical, positive impact on organizational success. And not just at the corporate or management level. A silo mentality, culture, and structure can affect everything from internal operations and recruiting to field support, training, and ultimately, customers—as well as the morale and retention of both franchisees and corporate employees.

We spoke with several leading franchise executives while working on this issue. Time after time, their thoughts and comments became clear and aligned: there is no place for silos in franchising (or in most businesses today), regardless of brand, size, industry, or philosophical or strategic approach.

I love what Jamie Davis, executive director of business development at Donatos Pizza says about silos. "Silos are good for one thing, and one thing only: holding stuff back." How true. As he points out, franchising *is* fragmented and disconnected by its very nature. Nevertheless, brands must change their internal thinking and structure so that sales, marketing, operations, real estate, construction, training, and every other department interact more and support one other in the greater pursuit of unit-level profitability and system growth.

It's all about getting everyone on the same page, with the same information, and rowing in the same direction.

Franchising executives who "get it" understand that eliminating silos allows organizations to better communicate, focus more clearly on system-wide goals and objectives, empower innovation and continuity, shed light on what is expected, increase accountability, and propel successful brands for years to come. What are you doing to break down your silos?

In this issue, we also introduce two changes. First, *FranchiseLawNews* is now part of *Franchise Update* magazine, rather than a separate, standalone publication accompanying the issue. The rationale is that legal issues confronting franchisors are part and parcel of operating a franchise system, and should be included as part of franchise executives' everyday thinking. *FranchiseLawNews* begins on page 49.

The second change is the re-introduction of regular coverage of international expansion as a growth strategy (page 41). Operating overseas involves differences in laws and regulations, customs about doing business, cultural preferences and tastes, and a host of issues most U.S. companies are unfamiliar with. Opportunities abound for U.S. brands to expand internationally. Many large brands have led the way in Europe, Latin America, and Asia, and new inroads are being made into Africa. But as with learning to speak a new language, there is nuance and idiom beyond the basics of spelling and grammar that take time and experience to learn. We've begun with a single article by Bill Edwards, CEO of Edwards Global Services, who shares a perspective gained from his 40 years of international business experience, including more than a decade as a master licensee in China and Eastern Europe. ■

Franchise update | Q1

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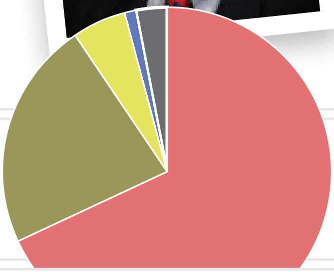
Lead

Franchise leadership and management



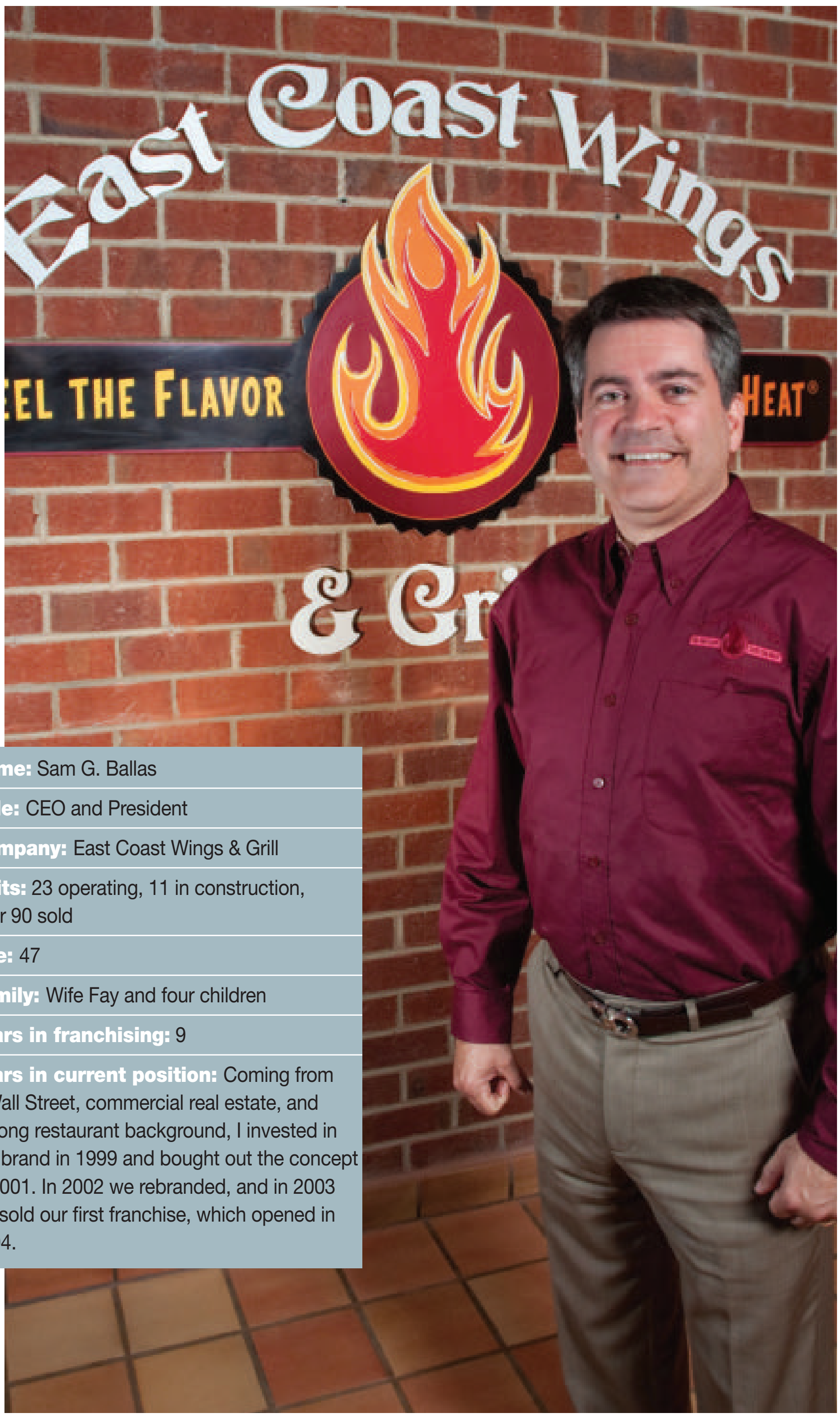
> **Serve the customer in a way that you would want to be served as someone else's customer. And if you're not directly serving the customer, you had better be serving someone who is. The true test of a company is its ability to respond appropriately when things don't go well. (It's easy when everything goes well.)**
>
> —BILL SWANSON, NORTH AMERICAN CEO AND GLOBAL CFO, CARTRIDGE WORLD.

CEO profile:

Franchisees First!

Building a winning wings brand, one unit at a time

BY KERRY PIPES



Name: Sam G. Ballas

Title: CEO and President

Company: East Coast Wings & Grill

Units: 23 operating, 11 in construction, over 90 sold

Age: 47

Family: Wife Fay and four children

Years in franchising: 9

Years in current position: Coming from a Wall Street, commercial real estate, and lifelong restaurant background, I invested in the brand in 1999 and bought out the concept in 2001. In 2002 we rebranded, and in 2003 we sold our first franchise, which opened in 2004.

Sam Ballas waxes eloquently—and passionately—about East Coast Wings & Grill, the company he acquired in 2001. As CEO, he preaches the product's quality and the menu's diversity, lauds the devoted team of professionals he's assembled in the corporate office, and talks about his careful system growth strategy that emphasizes quality over quantity. But he sums up the brand best when he says, "We get it. Franchisees first, then corporate success will follow."

Ballas grew up in a Greek immigrant family that operated restaurants. "By the time you were 12 years old, you were shoved into a restaurant busing tables or running a cash register," he recalls. But he also was learning how businesses operate. His parents wanted him to go to college and have a better life than they had. Ballas did just that, but says, "The restaurant is bloodline to me."

His college years revealed a love and understanding of numbers. That led to investment banking jobs with American International Group Inc. and Interstate/Johnson Lane Securities. Ballas was always looking for opportunities, and before long he found himself involved in "side businesses" that included real estate and development. One such side business was investing in a startup wing restaurant company called East Coast Wings & Grill. He eventually bought out his partners, learned all he could about the franchising model, wrote his own UFOC, rebranded, and dove into franchising in 2003.

His credo, he says, is always to consider the franchisee first. "I'm a micromanager and I like to say I manage from the outside in," he says. "I'm always looking at how I can help the franchisee be more successful because that's going to make us all successful." He speaks of communication, transparency, ongoing support, and training—all buzzwords, but as he says, "It's often tougher to *do* this than it is to *say* you're going to do it."

Today, Ballas is overseeing a conservatively growing brand that has 23 units open, 11 more under construction, and more than 90 sold. His strategy boils down to one successful unit at a time, and he says his franchisees are leading the sector with an average 19 percent EBITDA. He's so dedicated to seeing his franchisees succeed that he recently created a new position: director of unit-level economics. It's an innovative move that demonstrates his dedication to assisting his franchisees in reaching their maximum potential. "It's really a game-changer and, I like to say, an epiphany for CEOs who realize you should really be investing in the thing you say is the most important part—the franchisee."

LEADERSHIP

What is your role as CEO? Having developed my career path from highly regulated industries, I am a micromanager. I spend lots of time with my corporate team supporting their development. I also spend ample time with our franchise system, helping our franchisees build their business. I get it: support my chosen management team and our franchisees as the vision of the brand unfolds.

Describe your leadership style. "Never be satisfied." This means I instill a philosophy with my team that every day offers new challenges, and every day we can get better at what we did yesterday.

What has inspired your leadership style? I was born to immigrant parents who arrived in the USA at age 12, and I lived the dream of watching my parents build a business without an education and funding. I was able to watch them better their business day after day.

What is your biggest leadership challenge? I allow my team and support staff room to function, to do their duties and develop their departments/divisions. I find myself in their space more than I should be. It's the hands-on in me, I guess.

"I invested in the brand in 1999 and bought out the concept in 2001. In 2002 we rebranded, and in 2003 we sold our first franchise, which opened in 2004."

How do you transmit your culture from your office to front-line employees? Our/my message is consistent throughout our system: Never be satisfied, franchisees are our lifeline.

Where is the best place to prepare for leadership: an MBA school or OTJ? A formal education is a good way to start. But I will yield, in my experience, and take OTJ experience over an MBA degree all day long. The ability to deliver results is faster with OTJ experience hires.

Are tough decisions best taken by one person? How do you make tough decisions? I feel the CEO should have debated all the necessary facts and issues with any tough decision and react accordingly. In our world at East Coast Wings & Grill, when it comes to franchisee changes, I like for there to be a voice from our franchisees. Many times if an issue affects the franchisee, especially their EBITDA, we will call a Franchise Advisory Council meeting for further discussion.

Do you want to be liked or respected? Respected.

Advice to CEO wannabes: Assure your vision is attainable with the correct management team hires. Develop trust, transparent and clear communication among your team and franchise system. Ultimately, you are as good as your system's delivery of results.

MANAGEMENT

Describe your management style: I view myself as the coach of the team, empowering my assistant coaches (management team) with calling the plays from the brand's playbook. As my team performs, I spend time balancing the need for directing the team and supporting their ideas… ultimately enhancing their development and the brand's ability to serve our franchisees.

What does your management team look like? I picked terrific people. As the brand began to grow, I looked for people who enhanced my ability to deliver the vision for East Coast Wings & Grill. They are extremely efficient, loyal, and understand what we do.

How does your management team help you lead? The team understands the basis of our existence. It makes it easier in holding accountability and they in turn accept the liability of performance.

Favorite management gurus: Do you read management books? I read quite a bit. I prefer business-style autobiographies, like *Winning* from Jack Welsh, and I enjoy authors like Patrick Lencioni.

What makes you say, "Yes, now that's why I do what I do!"? Every time a franchisee reports their P&Ls and they are in line with the brand's metrics. I am a CEO of a franchise model. Seeing the model perform is our validation and inspiration to grow.

PERSONAL

What time do you like to be at your

desk? 7:30–7:45 a.m. I get a ton of work done by 9 a.m. After 9, I am visiting my department heads.

Exercise in the morning? No. I usually spend 2 to 3 days a week in the late afternoon.

Wine with lunch? A few times a month.

Do you socialize with your team after work/outside the office? Occasionally. In many of these occasions, I will spend some time with a team member or two and talk about some corporate strategy.

Last two books read: *The Advantage* by Patrick Lencioni and *Onward: How Starbucks Fought for Its Life without Losing Its Soul* by Howard Schultz and Joanne Gordon.

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

How do you relax/balance life and work? Boy, I could do this better. It gets tricky, as my wife, Fay, is our director of human resources. So our home time sometimes extends our workday. At minimum, I try to save the weekend for family time, even though being a restaurant concept we have our biggest sales over the weekend, so I do get calls from time to time.

Favorite vacation destinations: Aruba and Disney.

Favorite occasions to send employees notes: I communicate with my team daily. I specifically send notes on performance-based action.

Favorite company product/service: A new position, director of unit-level economics/QA. This is the brand's statement, the brand's investment in our philosophy in driving unit-level economics: a full-time director salary assisting our franchisees with driving the bottom line-EBITDA. This director will also hold our preferred vendors and suppliers accountable in serving our franchisees and system.

"The recession had a positive effect on the company. It allowed us to secure favorable cost of goods pricing, as well as manufacturing of goods opportunities."

BOTTOM LINE

What are your long-term goals for the company? Keep opening 12 to 15 new units per year by recruiting top-tier franchisees, and supporting them in developing the brand nationwide.

How has the economy changed your goals for your company? The recession had a positive effect on the company. It allowed us to secure favorable cost of goods pricing, as well as manufacturing of goods opportunities. We shot to the top of our sector in unit-level economics. From 2009 to 2011, same-unit operations grew their EBITDA by 58 percent (these are units with full operating years). Our real estate executive also drove landlord tenant improvement contributions to levels in many cases as high as $32 a square foot, while decreasing rent rates by 12 percent a square foot (we nicknamed her the "Honey Badger"). Going forward, we drive by bottom-line delivery on the unit level and by providing our patrons an exceptional dining experience. We will continue driving these points.

Where can capital be found these days? The brand is SBA registered and we have funding available through The Bancorp Bank through Franchise America Finance; we received approval for $7.5 million for franchisee development. East Coast Wings & Grill Corp. pays the origination fee for approved franchisees with the Bancorp facility.

How do *you* measure success? Bottom line, EBITDA on the unit level, ancillary to the corporate level. There is no "us vs. them" in our franchise system. Our franchisees know their ECW corporate team works for them first every day, managing from the front lines first. With this said, I do understand the balance of team/personnel development, franchisee development, etc. In a business, bottom line assures another day.

What has been your greatest success? There are many business successes I could share. Building a franchise system from a single store is a great achievement. At the end of every day, my family is my greatest story.

Any regrets? No.

What can we expect from your company in the next 12 to 18 months? Sixty percent new unit growth. Sustaining the top position of unit-level economics in our space. The continued evolvement of our menu selections assuring market share growth in sales, thus sustaining a positive same-store sales growth story. ■

CEO profile:

Never Sold a Franchise in His Life

Ralph Askar is building a successful brand… again

BY KERRY PIPES

Just as history has a way of repeating itself, Ralph Askar has a way of leaving his mark on organizations. He's doing it again with Instant Imprints.

In his more than 25 years in franchising, the former civil engineer from Chicago has been one of the most successful area franchisees and international master licensees for Mail Boxes Etc. (MBE) and The UPS Store, working to build the brands in the U.S., Canada, Europe, and Australia. He's also been on both sides of the fence, as franchisee and franchisor. At MBE, he was a corporate executive, serving as vice president and as president and CEO for the brand in Canada. In 2005, under his leadership, MBE rebranded as The UPS Store and went on to enjoy significant growth as a franchise.

In 2008, Askar became a shareholder and board member of Instant Imprints Franchising, and in May 2011 became president and CEO. And now he has growth on his mind again.

Throughout his career, Askar says he has been consistent in his approach. "I have never sold a franchise," says the 67-year-old. "But I have presented opportunities to the right people who then desire to be a part of the brand." He's also worked hard to create franchise cultures that people believe in and want to be part of—and that's just what he's doing today at Instant Imprints.

The brand dates back to the 1950s when co-founder Lev Kats began screen printing with homemade equipment. The family business grew to include multiple locations in San Diego. Today the "one stop branding shop"—which began franchising in 2002—offers its customers embroidery, screen printing, heat transfers, signs, banners, wraps, and promotional items. And thanks to Askar, there are big plans for growth and expansion.

Name:	Ralph Askar
Title:	President and CEO (aka Team Leader)
Company:	Instant Imprints
Brands:	Instant Imprints and The UPS Store
Age:	67
Family:	3 children, 5 grandchildren
Years in franchising:	25-plus
Years in current position:	2

In 2012, Askar launched a five-year, strategic expansion plan to grow Instant Imprints from its current 40 locations in North America to 500 locations globally. The strategy projects new units in Instant Imprints' North American markets, as well as crossing into new international territories.

To execute these plans, Askar has handpicked an executive team and begun making the kind of bold moves that have become characteristic for him. "We've completely redesigned our stores," he says, "and reduced the cost of startup by 35 percent." The brand also has introduced more advanced and efficient technology and equipment for the stores. And new vendor relationships are making it easier for franchisees to stay focused on their business. With these fresh changes

in place and existing stores doing well, the expansion is on.

He says that one of the draws of the brand for its franchisees is enjoying a business that provides not only great products and solutions, but also a healthy work/life balance, because the centers are typically open from 9 a.m. to 6 p.m. five days a week. He says their products and services are generally sold at a "very attractive gross margin, and the large average order transaction is also an appealing advantage of our franchise concept." The model allows franchisees to build significant repeat business and ongoing relationships, and to keep growth on an upward trajectory, the brand provides both up-front and ongoing franchisee support and training.

Askar says the company is focused on the area developer model as the primary mover for its U.S. expansion efforts. "It's the best method for us, giving us support on the ground and still allowing us to be involved in recruiting," he says. However, the company also will work directly with single- and multi-unit operators.

Whether it's been as a franchisee (he still operates his own franchise location in downtown San Diego), an area developer, or franchise executive, Askar says, "I love to create and be a part of something I really believe in."

LEADERSHIP

What is your role as CEO? Coaching and mentoring a team of great people who are instrumental in seeing through my vision.

Describe your leadership style. I believe in horizontal organizations whereby all members of the management team are treated with utmost respect and on an equal footing. Using "we" as opposed to "I" is my style. Together we are smarter and achieve more!

What has inspired your leadership style? Teamwork creates rewarding learning opportunities for all members of our organization. My role is to facilitate and encourage brainstorming and sharing of ideas. There is nothing more

inspiring than when we are successful as a collective unit. The creation of winning teams and building rewarding lifestyle opportunities for my team and our franchisees also brings tremendous joy.

What is your biggest leadership challenge? Need to listen more and communicate more effectively.

How do you transmit your culture from your office to front-line employees? Sharing and exposing my vision through open communication with our management team gets our culture exposed to their respective team members.

Where is the best place to prepare for leadership: an MBA school or OTJ? In my opinion, having OTJ training (getting in the trenches) is the most effective approach. Having basic education in management training and attending self-improvement courses/workshops is also very important. Technology and communication advancements will require further education and training.

Are tough decisions best taken by one person? How do you make tough decisions? We learn and grow from our mistakes. Tough decisions need to be made by every member of our team, but the ultimate responsibility is mine and I accept success or failure of all decisions.

Do you want to be liked or respected? Respected first!

Advice to CEO wannabes: Don't be afraid of exposing yourself. Be open-minded, delegate responsibility at every level, and lead by example. Be caring, recognize and reward often.

MANAGEMENT

Describe your management style: Leading by example.

What does your management team look like? We have a small team with key people in responsible positions. However, we all wear multiple hats.

How does your management team help you lead? Sharing joint responsibility in every aspect of our business makes my job easier.

Favorite management gurus: Do you read management books? My favorite management gurus are Michael Gerber and Robin Sharma. Sharma's approach is: first improve the quality of your life, which in turn will help you achieve success in your business life. Sharma's *The Leader Who Had No Title* is one of my favorite books. Gerber's *The E-Myth Revisited* is a great business book. Other favorite books are: *Steve Jobs*, *The Mirror Test* by Jeff Hayzlett, and *The Colour of My Underwear Is Blue* by Danny Lyon.

What makes you say, "Yes, now that's why I do what I do!"? When our franchisees are jazzed and happy, when our customers see value in our services, and when our management team is praised for their uncompromising support, I say Yes and Yes!

PERSONAL

What time do you like to be at your desk? Around 6:30 a.m. I am an early riser and get approximately six hours of sleep. With my heavy travel schedule and having two offices in two time zones, I start my work from home and get to the office between 8:30 and 9 a.m.

Exercise in the morning? Wine with lunch? Yes I do exercise regularly, and no wine at lunch!

Do you socialize with your team after work/outside the office? Yes, not as often as I would like to. We play golf once in a while, and do lunches more often than after work activities.

Last two books read: *The Go-Getter* by Peter Kyne and *Discover Your Destiny* by Robin Sharma.

What technology do you take on the road? iPad and my laptop. I recently traded my BlackBerry for an iPhone.

How do you relax/balance life and work? I like walking and playing with my dog, yoga, and golfing when I have some spare time. Work hard and play hard and relax by taking a power nap.

Favorite vacation destinations: Mexico, Hawaii, and the Caribbean.

Favorite occasions to send employees notes: Acknowledging when they follow through with timely completion of tasks. Also around birthdays and holidays!

Favorite company product/service: We offer six core services. My favorite is embroidery. Our team is proud of our logo and we wear logo apparel that features our brand. We make people look good with fine logo attire!

BOTTOM LINE

What are your long-term goals for the company? My long-term goal (vision) is my "5-5-5" Plan: award 500 franchises within 5 years with each doing $500,000 in annual sales.

How has the economy changed your goals for your company? It gave us an opportunity to change and test our new model. We are building good momentum and are ready for any challenge.

Where can capital be found these days? Smaller banks and third-party financial institutions are a good source.

How do *you* measure success? By getting and keeping satisfied franchisees, satisfied customers, and satisfied team members.

What has been your greatest success? Creating thousands of jobs and raising a wonderful family.

Any regrets? No regrets, but I would like to spend more personal time with my family and friends.

What can we expect from your company in the next 12 to 18 months? Double the number of franchised units, and create 100-plus happy lifestyle opportunities. ■

BY EVAN HACKEL

OPTIMIZE YOUR FRANCHISEE CONVENTIONS

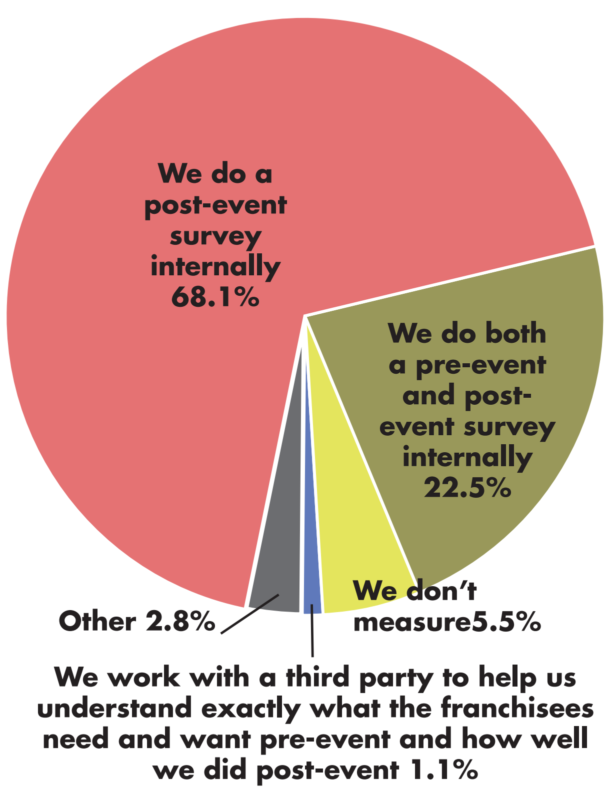
Part 3: Year-Long Results!

Part 1 of this series addressed how to improve attendance at franchisee conventions. **Part 2** discussed how to maximize the benefits to your franchisees. This final article explores strategies for taking the momentum generated at your convention into your franchisee operations and using it as a recruiting tool for your next convention. As with the first two parts, we drew on the results of an online survey conducted by Speak!, Ingage Consulting, and Franchise Business Review, which drew responses from nearly 200 franchisors.

Hosting a top-quality, exciting conference can do many things for your organization. For starters, it inspires your current franchisees, sparking and renewing enthusiasm for the business and for the relationship between the franchisees and franchisor. Additionally, a great conference can be a fantastic recruiting tool for new franchisees. If you have candidates you want to close, bring them to your conference. The energy can be contagious and you can close more sales on the spot. Most of all, a great conference can provide the tools for improvement that can permeate your entire organization.

Survey your attendees
One important tool in that process is the conference survey. According to our survey, more than nine of 10 franchisors surveyed undertake their own survey as part of the conference, typically following the event (see chart).

How do you determine the overall success of your meeting?



Whether you survey your franchisees as they leave the conference or through an email survey a week to 10 days later, your post-conference survey should include the following questions:

- What were the top two highlights of the conference for you (e.g., speaker X)?
- How can we make the conference better (e.g., more/fewer speakers, more networking)?
- Do you feel you received a good return on your investment in coming to the conference?

"You want your survey to provide genuine feedback on your conference and not restrict the commentary," says Eric Stites, founder and CEO of Franchise Business Review. "In fact, quite often the people providing the most significant and constructive comments are also people who gave the conference a favorable review and want it to be a success."

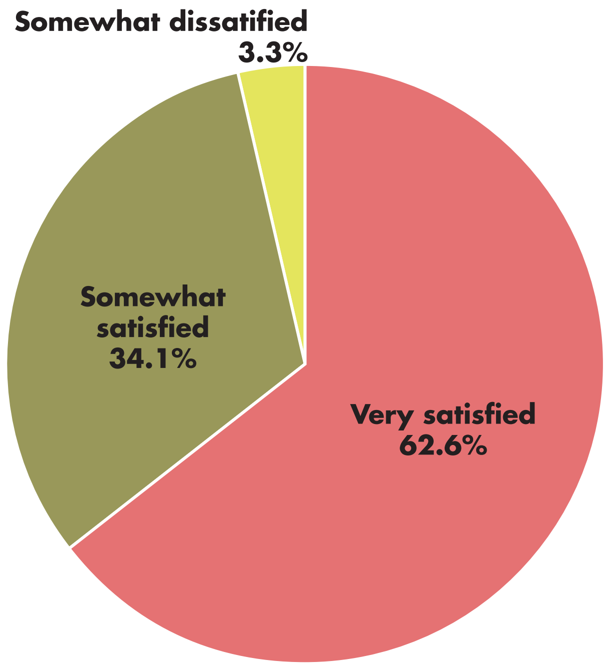
Attendee satisfaction
In general, the vast majority of survey respondents reported that their franchisees were satisfied to a certain level with their conferences (see chart).

Franchisor satisfaction
However, the nearly 200 franchisors who responded to the survey were not quite as satisfied with how their conference resulted in improved franchisee performance. While nearly half were "very satisfied," more than half were only "somewhat satisfied" (see chart).

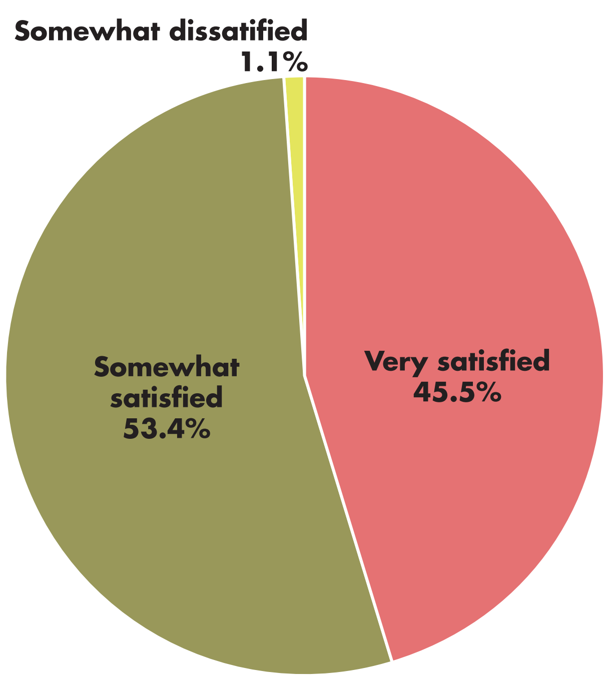
Post-conference follow-up
So how do you make your franchisee conference a winner after the event as well as during it? The key is in the follow-up, and that starts with the takeaways from the conference. These can include:

- **An implementable action plan.** During the course of your conference, incorporate time in between speakers and events where your franchisees can draft an action plan based on the ideas being discussed. By the end of your conference, your franchisees should have a plan of ideas they can implement.
- **Provide presentations for franchisees to share with their organization.** Whether it's a PowerPoint, DVD, or YouTube video, franchisors should provide some sort of takeaway where franchisees can share what they learned at the convention with their staff. Franchisees, in turn, should schedule time to review with staff what they learned at the convention.

From a franchisee motivation and inspiration perspective, how satisfied are you with your conventions?



How satisfied are you with your conventions from an operational perspective, helping the franchise system operate better?



- **Give them a scorecard.** In addition to the action plan, your franchisees should leave with a scorecard they can use to track how well they are progressing in incorporating the ideas learned at the convention and to track results. The scorecard is also something franchisees should be sharing with their franchise consultant to chart progress and ensure they are meeting their goals.
- **Reward conference attendees.** Part of your conference follow-up should include "earlybird" discounts for the franchisees who attended. This can start by offering special discounts at the conference for the next year's event and continuing those in your marketing efforts. Do not extend discount offers to franchisees who did not attend the previous conference.
- **Review with non-attendees.** Schedule time for your franchise consultant to review the content from the conference for franchisees who did not attend. Be sure to bring them takeaways from the conference to bring their staff up to speed, as well as providing them with the scorecard described above.

In many ways, the follow-up work you do with your franchisees is as important as the conference itself. Granted, there is nothing like a live event to fire up your franchisees. Proactive and consistent follow-up can carry that torch to improved results during the ensuing year and at the next conference. ■

Evan Hackel, *CFE, is the principal and founder of Ingage Consulting and 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@ingage.net.*

PART 2

BY HALA MODDELMOG

REFRANCHISE-READY

Arby's taps refranchising for growth strategy

When I joined Arby's as president in May 2010, I was eager to once again work with the roast-beef sandwich leader and pioneer, where I served as vice president of product marketing and strategic planning in the early 1990s. This time I had a much greater task at hand. Through the collaborative effort of a new leadership team, we succeeded in restoring the confidence of our franchisees and their employees and reinvigorating our menu. With eight consecutive quarters of same-store sales increases, we are laying the foundation to start growing the brand again.

Part 1 of this series (*Franchise Update*, Q4 2012) explored the strategic steps taken to bounce back from four years of slumping sales and profits. In Part 2, I discuss how Arby's refranchising strategy contributed.

Why refranchising?

Arby's is a 48-year-old quick-service restaurant chain with more than 3,400 restaurants system-wide. For us, and for most established franchisors, growing the brand is not just about adding new locations. For us to bolster our image and sales in both saturated and underserved markets, we needed to adopt a strategy that would put more capital to work in the system. So we developed a refranchising program to attract multi-unit restaurant operators with access to capital to a) acquire and operate a group of corporate Arby's restaurants, b) complete a remodel program of existing locations, and c) open new units to further develop the market.

Finding the right partners

The success of any refranchising deal requires that a franchisee not only has the financial means to purchase existing stores, but also the experience within your industry to run the operations efficiently and profitably.

In July 2012, Arby's announced its first multi-unit franchise transaction since the company was acquired in 2011 by Roark Capital Group, an Atlanta-based private equity firm that specializes in investing in franchised companies and brand-building. Arby's sold 51 company-owned locations and extensive development rights for Dallas/Fort Worth to Guillermo Perales, the nation's largest Latino franchisee and one of the pre-eminent multi-brand franchisees in North America. In addition to remodeling Arby's restaurants purchased in the Dallas/Fort Worth market, Perales committed to building 15 new Arby's over the next 5 years.

In November 2012, we announced our second major deal with another seasoned, multi-brand restaurateur, Tony Lutfi, who purchased 42 Arby's units in the Seattle and Portland markets. He committed to remodeling at least 17 locations and building 5 new Arby's locations in the next several years. Both Perales and Lutfi have extensive backgrounds in restaurant operations and collectively operate more than 500 restaurants in their portfolios.

But beyond industry experience, franchisors need to ensure that franchisees who gain such a large stake in the company are also in sync with their company's core values and philosophies. Perales, for example, shares Arby's mission of community support. As co-founder of the Latin America/DFW Fund that raises money for Latino-based programs and initiatives, president of the International Hispanic Franchisee Association, and a supporter of many programs that encourage Latino students to stay in school, Perales says he felt a synergy with Arby's philanthropic commitment. Last year alone, the Arby's Foundation raised $2.2 million for Share our Strength and the No Kid Hungry Campaign to end childhood hunger in the U.S. And each year, Sun Holdings, Perales's restaurant group, distributes 5 million certificates for free kids' meals and 50,000 free meals on Veteran's Day.

Keeping skin in the game

Arby's refranchising campaign will allow us to expedite brand growth and revitalization in key markets across the country. However, we will always retain a healthy percentage of company-owned Arby's locations and continue investing in our brand. Franchisors are responsible for providing franchisees with proven products and services, marketing campaigns, and operating systems. So before we roll out any significant new initiatives to the system, they are first tested at Arby's corporate stores. Part of the reason we were able to attract high-caliber franchisees like Perales and Lutfi is the significant investments we've made in all facets of the business, from research and development of new products to operations and advertising and marketing.

While refranchising is a strategy that can make sense for many established franchisors looking to accelerate the growth of their brand, timing is indeed everything. Attracting qualified franchisees is possible in any economic climate, but only if the franchisor has a clear vision for the successful future of the entire system. Franchisors considering launching a refranchising program should also be prepared to address questions from franchisees, investors, and the media about the program. It is critical to clearly communicate your intentions, why the strategy will help the brand meet its growth goals, and how the franchisor will continue to invest in the brand. ■

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: *Cartridge World*

A Vision of Success

Strong workplace values drive growth culture

BY BILL SWANSON

A strong leader needs to define their vision for success, effectively document it, and communicate it over and over again.

We have two jobs: 1) providing the tools, systems, and products for our current stores to succeed; and 2) spreading the Cartridge World message so more entrepreneurs join our franchise. Motivated entrepreneurs who seek a path to fulfill their financial goals and are able to communicate the value of a product and service will succeed.

We are reinvigorating both our current business support systems and franchise development efforts with the help of focused internal and external people power. We have partnered with a very strong franchise development organization to jump-start this process.

8 values driving success

Defining, communicating, and living specific values create the culture of an organization. At a company earlier in my career, we took the time to discuss and crystallize our values. To this day, they remain an important influence on me, and on Cartridge World's daily business decisions.

1. Customer service. Serve the customer in a way that you would want to be served as someone else's customer. And if you're not directly serving the customer, you had better be serving someone who is. The true test of a company is its ability to respond appropriately when things don't go well. (It's easy when everything goes well.)

2. Hard work. Nothing good comes to those who are lazy or only wish for good things.

3. Accountability. Clearly defined and communicated roles, responsibilities, and expectations of performance.

4. Teamwork. 1 + 1 > 2. Together, we can come up with a better answer than either of us would have come up with on our own.

5. Fiscal responsibility. Too many businesses and business people don't have the capability to understand the financial consequences of decisions made. We always have to ask ourselves: Is this action or this decision going to create value or destroy value? What are the cash-flow implications in the near term, medium term, and long term? How is our capital structure affected by this decision?

6. Integrity. Without integrity, nothing else matters. It is the foundation on which the house is built. It is the basis on which trust is formed.

7. Continuous learning and improvement. Formally and informally, we should be learning each day. Sometimes we learn by our mistakes. I like to say that the only person who doesn't make mistakes is the person not doing anything. You just don't want to make the same mistake over and over.

8. Empowerment/enablement. By sharing the vision, understanding capabilities, and creating an environment that rewards initiative, much greater outcomes are created than by trying to control the processes. Managers control processes. Leaders provide vision and inspiration.

Additional success factors

1) The business proposition. Cartridge World sells remanufactured laser and ink printer cartridges, printers, and related products. The business model is successful because it is so logical. We sell products that are consistently used in nearly every business and home; that are lower cost than the OEM; that have a 100 percent satisfaction guarantee; and that are environmentally friendly. We're in an $80 billion industry with an incredible opportunity for growth.

2) Community involvement. In addition to selling ink, toner, printers, and related service solutions, Cartridge World is involved in the communities we serve. We offer a recycling/fundraising program for schools and community organizations. We also support Earth Day, America Recycles Day, Veterans Day, local business organizations, and philanthropic causes. This year we launched a national breast cancer awareness and fundraising drive in conjunction with the National Breast Cancer Foundation.

3) Earth-friendly. We use state-of-the-art remanufacturing processes and inks and toners, resulting in an economically and environmentally responsible business model. We offer a variety of recycling programs, annually recycle about 4.5 million printer cartridges, and many stores are e-waste recycling centers. ■

Bill Swanson *is North American CEO and global CFO of Cartridge World. The brand has 600 stores in North America, 1,600 total, and hopes to add 1,000 more in five years.*

BY BILL WAGNER

Measuring Up

Applying metrics to the "people" side of franchising

As CEO of a firm that creates behavioral metrics and benchmarks, I'm constantly conducting research into the behavioral patterns of successful people. The question that always provokes the most telling information for a franchisor is: "If you had a do-over and could reselect any of your current franchisees, how many of them would remain part of the company?"

We asked this very question to hundreds of franchise executives in the form of a survey. The results stated that an average of one third would be kept as franchisees, one third were mediocre at best, and one third were outright failures. Clearly, this was a telling conclusion about room for improvement in the franchisee selection process.

Perhaps it's the perceived ambiguity of measuring a job candidate's personality that discourages franchising from applying metrics to the hiring process. If franchisors are on the fence about investing in a new piece of equipment, they are well-served by calculating the potential return on the investment. Or, if they're having trouble reducing sales cycle time, they might analyze their sales margins. A variety of monthly and weekly reports help franchisors make decisions with greater confidence. Yet there's never been strict emphasis placed on measuring the financial impact of people decisions.

Franchising is all about metrics: royalties, growth, conversion percentages, net promoter scores, etc. Although often overlooked, the most important metric is the quality of work franchisors can predict or expect from their franchisees. Ultimately this leads to the quality of work franchisees can expect from their employees. Productivity drives revenues, and sound productivity drives profits *and* royalties. It's all about people.

Fortunately for franchising in general, the benefits of personality testing are being realized at an increasing rate. It's been only 10 years since the industry began looking at behavioral assessments as a cornerstone of its operational definition. Now franchisors' eyes are open wider to the stunning impact the right personality makes when placed in the right position.

Styles of Communication and Behaviors of Different Personalities

Personality Factor	Favorite Question	Characteristic Behavior	Behavior if low on scale
Dominance	Why	Dominant, competitive	Accepting
Sociability	Who	Sociable	Analytical
Relaxation	When or what	Relaxed	Driving
Compliance	How	Compliant, conscientious	Independent

The people metric

So what happens when a franchisor has five franchisees with virtually identical situations (all paid the same fee, have virtually identical build-outs, similar locations, and the same training), yet three are performing at much higher levels?

This type of scenario screams personality mismatch, which helps explain the challenge that comes with hiring the right franchisee. Really learning who franchisee candidates are is paramount to learning almost anything else. Behavioral analysis measures personality by looking at four basic factors: dominance, sociability, relaxation, and compliance. The table lists each personality factor, showing typical styles of communication and behavior.

Different strokes

Each personality type renders a completely different franchisee. Take one trait for example: relaxation. The scale for relaxation (or work pace) runs the gamut, from the tortoise to the hare. Scoring on the high side of relaxation (the tortoise) tends to coincide with franchisees who are calmer, more methodical, and patient professionals who can do repetitive tasks and never get anxious. However, go to the opposite side of relaxation (what we call "drive") and you'll find franchisees who work with a high sense of urgency, enjoy multi-tasking, and feed off pressure.

Getting the people side right

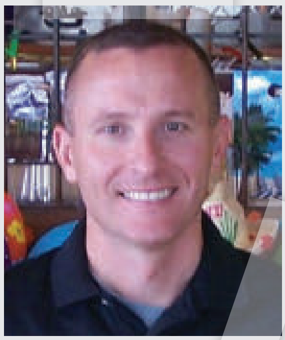
When it comes to getting the people side of your business right, there *is* a better way: to measure the personalities of the applicants or incumbents, as well as the job roles. As a loyal proponent of sampling, I extend this offer: Send an email to info@accordmanagementsystems.com and write "I am a member of the 3% club" in the subject line. You'll receive two complimentary personality assessments. (They will arrive as links by email.) The first will specifically measure the behavioral requirements for any position you have in mind, and the second will measure your own personality.

Surely you must wonder how I can make this offer. It's like this: I know the value of this process and I know that only three percent of you will have the curiosity to follow through. Hence, the "3% club."

For those of you with any question about the value of personality assessments, remember that the people in your organization making the least amount of money have the greatest impact on the retention of your customers. ■

Bill Wagner *is CEO and co-founder of Accord Management Systems Inc. Based in Westlake Village, Calif., the firm assists franchisors and other industry professionals get the people side of business right through behavioral assessments. Contact him at 800-466-0105 or info@accordsyst.com.*

DRIVING PROFITABILITY 2013



SEAN FALK
2013 Conference Chairman

Owner, WolFTeaM LLC
President, Nachogang LLC,
Marine

When I started in franchising more than 14 years ago, the "normal" at that time was to open a location, work it, and be successful. Today, there is a higher expectation–that you're going to come in and be a multi-unit owner right from the start whether you are an existing franchisee of another brand or a new franchisee. And with that, come some challenges.

Most franchise systems have franchisees who have already figured out how to operate the business model they have in place. Franchisors have operations manuals, site selection committees that help you find a good location, and marketing campaigns that help you be successful. The one thing they don't have is a process to teach and train you about multi-unit ownership. The Multi-Unit Franchising Conference fills this void.

This conference is completely focused on multi-unit franchisees. That's why attending each year is so important to me. In today's competitive business environment, our margins continue to get squeezed from every direction. Wages continue to inflate, commodities continue to soar, and utility costs fluctuate wildly. The focus of the 2013 convention is "Driving Profitability". As a group, we recognize the challenges we are facing every day as franchise business owners. Together, we have the resources to develop strategies that will continue to drive profit to your bottom line!

The networking at this event is incredible. The peer-to-peer contact with other multi-unit franchisees is invaluable. You will receive so much–both resources and education–you can't possibly learn on your own. And the content the conference has to offer is premium; no other conference in the nation covers this type and range of content. The Advisory Board, composed of multi-unit franchisees, develops programming that will be valuable to multi-unit operators from all industries and sizes because we have all levels of franchisees here.

At the Multi-Unit Franchising Conference, there is the knowledge base for wherever you are in the spectrum of ownership. As a result, year-over-year attendance at the conference has been expanding, even during the deep recession we just came through.

I am really looking forward to seeing all of you at Caesars Palace in Las Vegas, March 27-29, so we can learn great things together.

CONFERENCE SPEAKERS

Adams, Steve
CEO, U.S. Retail

Albert, Cary
President, Albert Restaurant Group LLC

Allen, Randy
CFO/Member Manager Morelock-Ross Group of Companies

Amato, Cathy
Franchisee

Balen, Alan
President, I.B Corporation

Ballas, Sam
President/CEO, East Coast Wings & Grill

Barr, David
Franchisee

Baxter, Steve
General Manager, Global Mid-Market Solutions, Satmetrix

Beshay, David
President, Beshay Foods Inc.

Branca Jr., Robert
President, JLC Donuts, Branded Realty Co., Batista Management Co.

Bruce, William
CEO, Abundant Brands LLC

Burrell, Dan
Area Developer, Jersey Mike's Subs

Chase, Bob
President, Money Mailer Response Marketing

Cunningham, Ryan
President, Javelin Solutions

Cutchall, Greg
CEO, Cutchall Management Co.

Dady, Michael
Founding Partner, Dady & Gardner P.A.

Davey, Don
Founder/Senior Portfolio Manager, Disciplined Equity Management

Donohoe, Mike
Franchisee

Dunn, Steve
Senior VP of Global Development, Denny's

Dwyer-Owens, Dina
CEO, The Dwyer Group

Falk, Sean
President, Wolfteam LLC, Nachogang LLC; 2013 Chair, Multi-Unit Franchising Conference

Fiorentino,Rocco
President/CEO Benetrends; Chair, First Multi-Unit Franchising Conference

Fisher, Lane
Partner, Fisher Zucker

Gilleland, John
Franchisee

Grace, Gary
President, GG Enterprise; 2009 Chair, Multi-Unit Franchising Conference

Grimaud, David
President/Franchisee Grimaud Enterprises Inc.

Grimaud, Maureen
Principal/Franchisee Grimaud Enterprises Inc.

Griparis, John
Managing Member, Paragon Management Group LLC

Hall, William G.
President, William G. Hall & Company

Hashim, Aziz
President/CEO, National Restaurant Development

Helton, Glen
Senior VP/Global Operations Burger King

Hotchkiss, John
Partner, L&M Restaurant Group

Hui, Ellen
Former CEO, EBR Investments

Jakes, Van
President, Jake 22 LLC

Jobe, Madison
Senior VP/COO, Pizza Inn Holdings Inc.

Johnson, Darrell
President /CEO, FRANdata

Johnson, Lyndon
President/CEO, Reciprocity Restaurant Group; 2010 Chair, Multi-Unit Franchising Conference

Jordan, Martha
Franchisee

Kenisell, Chet
CEO, Sugar on Top Corporation

Khan, Aslam
CEO, Falcon Holdings

Kleiman, Mel
Founder/President, Humetrics

Knobelock, Michael
President/Owner, SMSK Enterprises Inc.

Kolton, Jeffery
Principal, Franchise Market Ventures LLC

Koning, Giovana
CFO, Falcon Holdings

Kulp, Michael
President, KBP Foods

Kuryllo, Michael
Franchisee

Lacerte, Rene
CEO/Founder, Bill.com

Lafreeda, Dawn
CEO/President, Den-Tex Central Inc.

Leese, Ken
President & CEO, The Tax Authority Inc., The Video Game Developer Inc.

LeFever, Steve
Chairman, Profit Mastery

Lindsey, Pete
VP of Franchising, Sport Clips

Lucas, Seth
Franchisee

Lungren, Jeff
Director of Congressional & Public Affairs, U.S. Chamber of Commerce

Lutfi, Tony
CEO/President MarLu Investment Group

Mann, Jason
President FSSG/Mann's Diversified Industries

Metz, John
President, RREMC Restaurants; CEO, Hurricane AMT; Director, Meyer Metz Capital Partners; *2012 Chair, Multi-Unit Franchising Conference*

Millard, Ron
Partner, Redstone Capital Partners

Miller, Keith
Owner, Subway of Aubern and Grass Valley; *Chairman,* Coalition of Franchisee Associations

Mongeon, Roger
CEO, Turf Holdings Inc.

Mueller, Glenn
Founder, RPM Pizza

Novack, Stan
President, Novack Consulting; 2007 Chair, Multi-Unit Franchising Conference

Ostrowe, David
President, O&M Restaurant Group

Pendlord, JD
President/CEO, Sun Holdings LLC

Perales, Guillermo
Franchisee

Pye, Andy
Director of Operations, Augusta Burgers Exp.

Rinna, Mark
President, RRG Inc.

Robins, Gary
President, G&C Robins Co.

Robinson, Cheryl
Owner, Sapphire Ventures

Rodriguez, Al
Franchisee

Rucker, Clyde
Franchisee

Salle, Dennis
Franchisee

Selden, Bryan
Partner/General Partner, Lone Star Restaurants/ Dough Rollers

Simon, Grant
President, Simon Clips

Smith, David
CFO, AmRest USA

Smithgall III, Charles
Chairman/CEO SEI, Aaron's Inc.; 2011 Chairman, Multi-Unit Franchising Conference

Stark, Stephen
Franchisee

Sugarman, Lloyd
Franchisee

Swanson, Ruth
VP Marketing, Fantastic Sams Int.

Tanner, Greg
National Director of Franchise Development, Aaron's Inc.

Thomas, Greg
Franchisee

Tokatly, Marilyn
Franchisee

Torres, Ted
President, Caerus Hospitality Partners

Umphenour, Russ
CEO, Focus Brands

Warman, Ricky
Partner, Chalak-Miami

Wemple, Steve
President/COO, Sailorman Inc.

Werner, Eric
President/CEO, Texas Subs

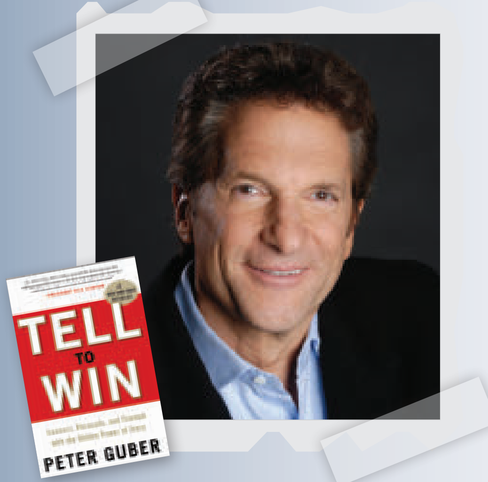
Wilder, Roger
Franchisee

Yadav, Anil
President, JIB Management Inc.

Zuccarello, Dean
President, Cypress Group

**At press time*

KEYNOTE SPEAKERS



Peter Guber

#1 NYT Bestselling Author of *Tell To Win*
Legendary Sports Team Owner, and CEO,
Mandalay Entertainment

Peter Guber has produced or executive produced several box office hits that include *The Color Purple, Midnight Express, Batman, Flashdance* and *The Kids Are All Right.*

Guber is the Owner and Co-executive Chairman of the NBA franchise, the Golden State Warriors. He is also Co-owner of the Los Angeles Dodgers.

Guber is a noted author, with his most recent business #1 New York Times bestseller book, *Tell To Win - Connect, Persuade, and Triumph with the Hidden Power of Story.*

Mark Kelly

Commander of Space Shuttle
Endeavour's Final Mission, Author

Mark Kelly is an American astronaut, retired US Navy Captain, best selling-author, prostate cancer survivor, and an experienced naval aviator who flew combat missions during the Gulf War. The winner of many awards, including the Legion of Merit, two Defense Superior Service Medals and two Distinguished Flying Crosses, Kelly was selected as an astronaut in 1996. He flew his first of four missions in 2001 aboard Space Shuttle Endeavour, the same space shuttle that he commanded on its final flight in May 2011. He has also commanded Space Shuttle Discovery and is one of only two individuals who have visited the International Space Station on four different occasions.

FEATURED SPEAKERS

Russ Umphenour
CEO, FOCUS Brands
Closing Presentation –
Franchise Partner Profitability

Jon Dorenbos
NFL Long Snapper, NFL Pro Bowl 2009
Franchisee Luncheon –
Franchise Magic Presentation

David Akers
Six-time Pro Bowler, NFL Kicker
Franchising Cares Presentation

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Del Taco
Denny's
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East Coast Wings & Grill
Einstein Noah Restaurant Group
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Fazoli's Systems
Firehouse Subs
First Watch Restaurant
French Fry Heaven
Fresh To Order
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Global Franchise Group
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Golden Corral Buffet & Grill
Huddle House, Inc.
Hungry Howie's Pizza, Inc.
Hurricane Grill & Wings
Interstate All Battery Center
Jackson Hewitt Tax Service
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Jimmy John's Gourmet Sandwiches
Liquid Nutrition
MAACO
Mama Fu's Franchise Group, LLC
Marco's Pizza
Massage Envy Spas
Meineke
MOOYAH Burgers Fries & Shakes
Muscle Maker Grill
Newk's Express Café
Nothing Bundt Cakes
Old Chicago Pizza & Taproom
Oxi Fresh
Pancheros Mexican Grill
Papa Murphy's Pizza
Penn Station
Pie Five Pizza Co.
Pita Pit USA
Qdoba Mexican Grill
Quaker Steak & Lube
Retro Fitness
Salsarita's Fresh Cantina
Save-A-Lot
Sears Home & Business Franchises
SEARS Hometown and Outlet Stores
Shula Burger
Sizzler USA, Inc.
Smoothie King
Sonic Drive-In
Steak 'n Shake Enterprises, Inc.
Stevi B's Pizza
T.G.I Fridays
The Brass Tap
Tide Dry Cleaners
Togo's Franchisor, LLC
Which Wich Superior Sandwiches
Wild Wing Café
Wireless Zone
Yogurt Mountain
Yogurtland
Zaxby's Franchising, Inc.
Zinga! Frozen Yogurt

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Western Elite Insurance Solutions
WEX rapid! PayCard

*At Press Time

AGENDA
AT A GLANCE

TUESDAY, March 26 | *Pre-Conference*

12:00PM TO 6:30PM	**GOLF TOURNAMENT**
7:30PM TO 9:30PM	**MULTI-UNIT FRANCHISEE COCKTAIL RECEPTION & WELCOME** *(Franchisees Only)*

WEDNESDAY, March 27 | *Main Conference*

7:30AM TO 7:30PM	**REGISTRATION DESK OPEN**
7:45AM TO 8:45AM	**CONTINENTAL BREAKFAST**
9:00AM TO 10:30AM	**OPENING GENERAL SESSION** **Welcome:** Therese Thilgen, *CEO* and *Co-Founder*, Franchise Update Media Group Sean Falk, *2013 Conference Chair* **Keynote:** Leading In Uncertain Times: What's Your Story? - Peter Guber, #1 NYT Bestselling Author of *Tell To Win*, Legendary Sports Team Owner, and CEO, Mandalay Entertainment
10:30AM TO 11:00AM	**COFFEE BREAK**
11:00AM TO 12:00PM	**GENERAL SESSION:** Healthcare Reform Exchange – Protecting Your Hard-Earned Profits
12:00PM TO 1:30PM	**FRANCHISEE ONLY LUNCHEON** – Conversations & Franchising Magic *(Franchisees Only)*
12:00PM TO 1:30PM	**FRANCHISOR FOCUSED LUNCHEON** – Building Successful Programs for Multi-Unit Growth – Lead Generation Best Practices *(Franchisors and Suppliers Welcome)*
1:45PM TO 3:00PM	**CONCURRENT BREAKOUT SESSIONS:** Mega Franchisee Summit: Lessons Burned and Lessons Learned *(Discussion)* Growing to 10 Units *(Case Studies)* Creating Infrastructure to Support 20-30 Units *(Discussion)*
3:15PM TO 4:30PM	**CONCURRENT BREAKOUT SESSIONS:** Silver Bullets for Selecting Additional Brands Building Customer Loyalty and Profits Show Me the Money: Franchise Finance Pitch Session Franchisee Exit Strategies & Succession Planning
4:30PM TO 8:00PM	**EXPO HALL OPEN**

THURSDAY, March 28 | *Main Conference*

8:30AM TO 7:00PM	**REGISTRATION DESK OPEN**

AGENDA
AT A GLANCE

THURSDAY, March 28 | *Main Conference*

8:30AM TO 9:15AM
CONTINENTAL BREAKFAST

9:15AM TO 11:15AM
GENERAL SESSION:
Franchising Cares
Industry Trends - Darrell Johnson, President, FRANdata

Keynote: Endeavour to Succeed - Captain Mark Kelly, Commander of Space Shuttle Endeavour's Final Mission

Multi-Unit Franchisee 2013 MVP Awards

11:30AM TO 12:10PM
CONCURRENT BUSINESS SOLUTION ROUNDTABLES:

Technologies that Drive Profitability	Customer Building and Retention	Accelerating the Process of New Store Openings	Human Resources

12:15PM TO 2:00PM
LUNCH IN EXHIBIT HALL

2:15PM TO 3:15PM
GENERAL SESSION: Leadership Panel - Driving Franchisee & System Profitability with Private Equity

3:30PM TO 4:30PM
CONCURRENT BREAKOUT SESSIONS:

Financial Dynamics and Valuation Trends for the Franchise Industry	Driving Profitability through Cost Controls	Expensive Pitfalls to Avoid when Negotiating New Leases or Renegotiating Existing Ones	ROI Growth Strategies for Integrating Additional Brands	Franchisee Associations and Advisory Councils that Drive System Profitability

4:30PM TO 5:30PM
CONCURRENT BUSINESS SOLUTION CASE STUDIES:

Increasing Local Store Sales: (Delivering marketing and customer service on steroids)	Financing Franchisee Growth through Private Equity and Other Capital Sources	Profit Mastery: Focus on Unit Profitability and Performance	The 10 Commandments of Top Performing Managers

5:30PM TO 8:30PM
COCKTAIL RECEPTION IN EXPO HALL

FRIDAY, March 29 | *Main Conference*

9:00AM TO 11:00AM
CLOSING SESSION:
Great Brands + Great Franchise Partners = Franchise Partner Profitability
Russ Umphenour, *CEO,* Focus Brands

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MUFC 2013

VISIT MUFRANCHISEE.COM/2013 FOR MORE INFORMATION OR TO REGISTER TODAY!

Multi-Unit Franchisee 2013 MVP Awards

9:15AM | Thursday, March 28, 2013

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PRE-CONFERENCE GOLF TOURNAMENT
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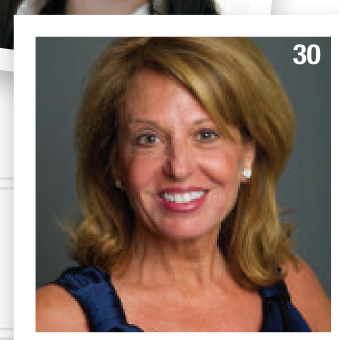
LAS VEGAS

Market

Consumer marketing initiatives



> **"If you and your franchisees are currently making a profit, let me remind you: There are people who are dedicating their lives to taking that profit away from you. (And no, I am not talking about the government.) I am talking about innovators: people who break with conventional industry practices while most players just maintain the status quo."**
>
> —JACK MACKEY, CHIEF EVANGELIST, SMG

BY KERRY PIPES

A Culture of Giving

Jersey Mike's gives and receives

Rich Hope spent three decades in advertising and is comfortable planning marketing strategies and executing successful campaigns. The former ad man learned how to reach customers and, perhaps more importantly, to create loyal customers. As CMO of Jersey Mike's Subs, Hope has been behind the wheel overseeing all brand management, as well as national and local marketing activities.

> **"We have great momentum going and there is an incredibly positive buzz around Jersey Mike's."**

Jersey Mike's truly has its own culture, as well as a grassroots base of passionate followers—which provides a great resource for Hope and his team to capitalize on. During the past couple of years, the brand has successfully used tools including social media to promote its message of giving back to the community.

Hope says Jersey Mike's is not interested in "quick fixes," but rather in creating relationships with people who buy in wholeheartedly to what the brand offers. We're looking at the idea of a "development culture" in this issue of *Franchise Update*, so we queried Hope on this theme, as well as gathering his thoughts on his role as CMO.

Describe your role as franchise CMO. I have the best job in the world. Because of Jersey Mike's focus on giving, I get to help people every day—and interact with passionate fans who love our fresh sliced/fresh grilled East Coast–style subs. My role at Jersey Mike's is a bit different from many CMOs. In addition to the standard executive duties, because of my experience running an ad agency, I also oversee our in-house ad agency.

What's the most challenging part of being a CMO today? Jersey Mike's has been around for more than half a century so we've seen a lot of ups and downs. It's been a difficult economy during the past few years and competition is fiercer than ever. Another challenge is operating as a marketer in a fast-paced, changing environment where tech advances are driving things more quickly than I've seen in my entire career.

What are the 3 most important keys to being an effective CMO leader today? 1) People – Attracting and keeping the right people. 2) Listening – To customers, the marketing team, franchisees, advisors, and conversations on social networks. 3) Alignment – When you have the right people and you've listened for feedback, it is critical that your team works toward the same goals, which takes careful communication. I've always believed that the team is more powerful than individuals and we must work together. We are fortunate because Jersey Mike's mission, "Giving… making a difference in someone's life," has always stayed the same and is the core of all our marketing efforts.

How do you measure marketing results and effectiveness? We look at two measures: numbers and the people factor. First, we use traditional metrics such as sales growth, customer satisfaction data, etc. However, just as important is feedback from our franchisees and team members. Are they content? Are they happy with their restaurants, with their careers? We have great momentum going and there is an incredibly positive buzz around Jersey Mike's from customers, franchisees, and others. We want that to continue and this is an important measure for us.

Define the marketing and development cultures at Jersey Mike's. We look for long-term, well-paced results. Our success has come because our culture has always been about trying to do the right things: keeping quality high, treating our customers, franchisees, and team members well, and giving back to our communities. On the marketing side, we do not believe in quick fixes like LTOs or discounting. We've always found that once people come in and experience our culture and taste our product they come back.

How has this "development culture" changed over time? From the beginning, our mission has been, "Giving… making a difference in someone's life." There is nothing about growth or profitability or even product in there. Our culture is first and foremost about giving, and serving delicious subs is part of the experience. We have been really fortunate to find newer multi-unit, multi-brand franchisees along with a terrific group of existing owners who are excited about this approach to business and want to be part of Jersey Mike's.

How does the culture at Jersey Mike's affect your marketing and branding strategy? We are a culture-driven concept (versus sales-driven). This culture is around giving. We truly believe that by helping more people, we can extend the brand. This approach comes straight from the top, from our CEO Peter Cancro, who has a knack for finding organizations that need a hand. Since 2010, locations throughout the country have raised more than $5 million for worthy local charities and distributed more than 500,000 free sub sandwiches to help numerous causes.

How is your marketing/branding strategy developed, and how does it flow through the system? Our brand strategy is created to stay consistent with our culture and is developed annually.

What are the keys to creating a more unified approach to the marketing efforts at Jersey Mike's? We believe in one brand, one message. This may sound easy since our messaging has stayed consistent for 56 years, but both nationally and on a local level we work hard to present a unified message around giving and our subs. As we grow, it is important that everyone who comes into the company understands our story and culture so they can share it with customers, store owners, or others. This is critical to protect the brand.

> **"We treasure our vendors as our business partners. We treat them well because we value their contribution."**

How does the marketing department interact with other departments (sales, training, operations, etc.)? There is continual communication between marketing and the other departments.

Has your marketing department bought into the concept of "tearing down the silos" to create more internal alignment? Marketing works closely with other departments, from provisions to operations. For instance, we have a weekly marketing meeting, and every two weeks that is open to all departments. We are more effective and creative when we align with all areas of the company.

How do you manage costs and budgets for the marketing department? We work from an annual budget and if new opportunities come up, we adjust as needed.

Do you see vendors as business partners? In our culture, we treasure our vendors as our business partners. Whether partners in technology, provisions, printing, or other, we treat them well because we value their contribution.

How have marketing strategies/tools changed over the past decade? How have you adapted? Our marketing strategies have stayed consistent over the years. However, the tools we use have changed dramatically. Technology has allowed us to reach our customers in ways never imagined 56 years ago when the company was founded. Today through database integration we know our customer in a whole new way and can cater to each based on their preferences. This year, we will introduce a new Super App that will bring "all things Jersey Mike's" to our customers in one place – on their computer or mobile device – and help remind them to stop in and have a sub. After all, our goal never changes: to motivate people to come into our restaurants.

Explain how you are using different media channels to reach today's franchise prospects. We use a variety of media channels to reach franchise prospects. These include banner ads, email blasts, an email development newsletter, and a special section on our website with information about our culture, testimonials from franchisees, territory information, and much more. Still, some of our best contacts come from one-on-one interactions at trade shows and other franchising events. There is great word-of-mouth about Jersey Mike's right now and we are fortunate to have qualified multi-brand, multi-unit prospects calling *us* to learn more.

Do today's franchise prospects expect more from the franchise marketing department? How do you provide that? One reason people buy into franchising is marketing and a strong brand identity. At Jersey Mike's we consider ourselves a service company, and marketing is one part of that. We are in a dual role of steering the brand and ensuring its growth. One way we help franchisees is offering an in-house graphics and marketing department where we provide customized jobs with no extra fees. This allows us to provide great service and ensure brand consistency. We also have a program called Mike's Marketers, where franchisees or co-op groups have a dedicated marketer working on their behalf in the local market. We work closely with our Mike's Marketers to train them, teach best practices, and communicate about upcoming programs. Our goal is to have a dedicated 20-hour-a-week marketer for every location. ■

CMO roundtable:

"How does the marketing department fit into the 'development culture' of your brand?"

Megan M. Conway
Director of Marketing
Service Brands International

I believe marketing is the heart of every successful franchise company. Marketing affects all customer and franchise development aspects of the company, including the sales process, building brand awareness, attracting and converting leads, building and maintaining customer relationships, and efforts to entice people who are no longer engaged.

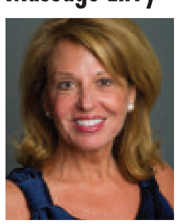
Within our organization, the marketing team is integral to the culture and pace of the business. When done right, our website, social media, online advertising, and public relations activities create "new news" to ensure we're getting noticed externally and by creating pride among our team and franchise owners. Excitement from an advertising, public relations, or social media campaign extends our brand's reach and brings operations, information technology, training, and owner support teams together to continually fine-tune our systems.

Most people see an online listing or a postcard and think it is marketing, when in fact it's advertising. Others get pulled into a sales gimmick or a fast-talking promoter and think that's marketing, when in fact it's sales. In reality, marketing is the entire process (including the advertising), with the end goal to drive sales or an exchange of goods or services.

Our marketing team's philosophy leverages both tangible and intangible tactics. The tangible is what we do through more traditional forms of advertising to target and win new customers, making sure the business can be found when customers have a need, and using come-back methods to improve repeat business. Intangible marketing is demonstrated by how we answer the phone, the experience in the home while we're performing work, and personal follow-up from the franchise owner following the service. Intangible is the energy equity we put into relationships to improve our customer satisfaction.

Success is defined by satisfying our existing franchisees with additional business, which then spurs positive validation and new franchise candidates' belief in our business opportunity. In a truly successful business, tangible and intangible activities promote growth, and can't survive without the other.

Susan Boresow
Chief Marketing Officer
Massage Envy



Founded in 2002, Massage Envy was created to provide a pathway to wellness, well-being, and worth through professional, convenient, and affordable massage therapy and spa services. In doing so, Massage Envy created a completely new category in the wellness industry. Guided by our vision statement, "Better lives. Better families. Better communities. A better world… through our hands," we are the national leader of therapeutic massage and spa services with more than 850 clinics in 46 states.

Our company is unified by our vision and mission statements. We are committed to helping our members and guests achieve wellness, and our marketing department ensures that this is incorporated into everything we do. This can be seen on our "Touch of Wellness" blog, our social media platforms, *ME* magazine, and through our partnership with the Arthritis Foundation.

We launched our Touch of Wellness blog in March 2011 and update it weekly with health and wellness tips about maintaining a balanced lifestyle. From inspirational stories to relaxation advice, our posts provide valuable information for our readers' personal health.

Through our social media sites, including Facebook and our YouTube series, we are committed to keeping our loyal followers informed about health and wellness. We actively update our sites with the benefits of massage and facial therapy, healthy eating recommendations, exercise regimens, motivational quotes, and more. We also host contests throughout the year where we offer complimentary massages, facials, and gift cards to our winners.

In addition, we produce a quarterly lifestyle publication, *ME* magazine. The magazine is distributed in all of our clinics and also can be found on our website.

In 2011, we formed a partnership with the Arthritis Foundation to raise awareness and funds to support the organization's mission to prevent, control, and cure arthritis. Through our fundraising event, "Healing Hands for Arthritis," we have raised more than $1 million in two one-day events for the organization. Our partnership is a natural fit because we both share a common understanding of the numerous health benefits of massage therapy.

From our CEO and franchisees to our therapists, estheticians, and clinic staff, we are dedicated to helping our members and guests live a healthier lifestyle and continue on the path to wellness. This is what drives the culture of our brand and has enabled Massage Envy to become the national leader of massage and spa services today.

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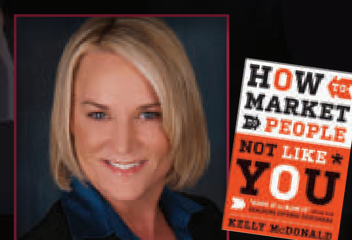
Erik Qualman
Social Media and Technology Expert
Author of Amazon's #1 Best Selling "*Socialnomics*" and "*Digital Leader*" – which helped earn him the selection as the 2nd "Most Likeable Author in the World."



Kelly McDonald
Nationally recognized, Multicultural Marketing and Business Trends Expert. Author of *"How to Market to People Not Like You: "Know It or Blow It."*

"IF MORE COMPANIES ADOPTED THE STRATEGIES FROM THIS CONFERENCE, THE U.S. ECONOMY WOULD SHOW IMPROVEMENT."

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BY JENNIFER KUSHELL

Managing Millennials

A quick “101” in generational understanding

If you are one of the countless franchisors struggling to make the most of your relationships with Millennial employees, here is a quick guide to turning those born after 1980 into some of your biggest fans—and assets.

• **Communicating.** They do it differently than you do. Let’s start there. Veterans like face-to-face meetings, Boomers like phone calls, Gen Xers prefer email, and Millennials do most of their communicating by cell phone, text messages, and social media. Their interpersonal skills and presentation skills often need work, so be prepared to explain what is important to you and what is expected in your line of work. But also be open to letting them develop relationships through the channels they’re most comfortable with. Their informality often can lead to more frequent contact and much faster relationship-building.

• **Recruiting.** When you set out to hire younger workers, consider your employer brand. What does your company stand for? What are your values? Young people want to work with people they like and for companies they believe in. Lead with that to make a strong impact and find better candidates. Also know that anything they find out—from LinkedIn, your website, to customer reviews on Yelp—will shape their opinions and interest about your company.

• **Inspiring.** Don’t assume that the job itself, let alone a paycheck, is enough to keep them working at their full potential. You have to motivate them to *want* to give you their all. This concept bothers a lot of business owners, but this generation has a different work ethic: they have to be inspired. Show concern for their happiness and well-being, and

that attention will go a long way.

• **Training.** Turnover rates are higher with younger workers, so consider breaking training programs into segments that you deliver over different intervals. Have those programs correspond to increased responsibilities and compensation or benefits—so you both see the ROI from the investment. Also integrate as much experiential learning as possible, for example going to meetings or conferences together and talking about what worked and what needs to be worked on.

• **Rewarding.** Money is important to Millennials, but it is not what drives them. Before you start writing checks, find out what motivates them. Maybe it’s offering a 401(k) program, a gym membership, flex time, a chance to travel, or the opportunity for advancement. Ask the right questions and you even may find creative ways to cut the costs of keeping your staff inspired.

• **Mentoring.** This generation has been coached more than any other before it. Be aware that they require attention and frequent communication. Focus instructions on what you need done and suggest how, but give them the freedom to try new ways of achieving your goals. Review and judge the results, more than the methods, and you’ll probably end up learning from one another.

• **Parents.** Millennials are extremely close with their parents. What is appropriate for them to be involved in (interviews, discipline, contract negotiations, etc.) is a very gray and fuzzy area these days. It’s up to you to set boundaries, but making “helicopter parents” your allies can pay off too.

• **Retaining.** Don’t expect Millennials to be “lifers.” They typically change jobs every 1 to 3 years. But there are exceptions. Show them possible career paths, milestones to different levels in your company, and how staying with you will build their career. Give them big goals to achieve, then big rewards if they deliver. ■

Jennifer Kushell *is the founder of Young & Successful Media, YSN.com, and is author of the* New York Times *best-seller, “Secrets of the Young & Successful.” A globally recognized thought leader on the next generation workforce, she speaks around the world and helps organizations and governments inspire and leverage young talent. Contact her at customerservice@ysn.com or 310-822-0261.*

Connecting with customers

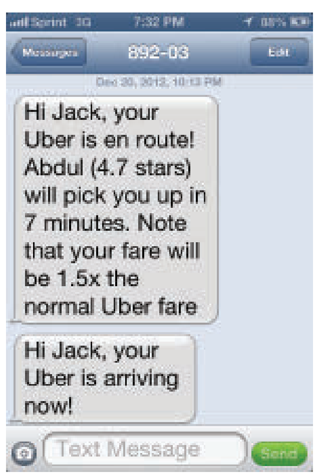
BY JACK MACKEY

Create Your Own Brand New Box!

Using innovation and technology to compete

If you and your franchisees are currently making a profit, let me remind you: There are people who are dedicating their lives to taking that profit away from you. (And no, I am not talking about the government.) I am talking about innovators: people who break with conventional industry practices while most players just maintain the status quo. I just had an amazing experience with a company called Uber, which is killing competitors with innovation.

My story starts at an out-of-town event held at an executive's home. When I needed a taxi back to my hotel, my host said, "You should use Uber. They are very fast and reliable. You download their app, sign up with your name and your credit card information, and it uses your smartphone's GPS to know exactly where you are. Then it shows you how many minutes it will take for the nearest taxi to arrive."



As soon as I confirmed my request, I got a text, "Hi Jack, your Uber is en route! Abdul (4.7 stars) will pick you up in 7 minutes." With the app, I could watch the taxi progressing toward me on a map. When he was 30 seconds away I got another text, "Hi Jack, your Uber is arriving now!" It sure was—right on time, as promised.

But that was just the beginning of my loyalty-inspiring experience. What I did not know was that Uber drivers have cars such as Lincoln Town Cars, Cadillac Escalades, BMW 7 Series, and Mercedes-Benz S550 sedans. My Uber "taxi" was a spotlessly clean black Lincoln Town Car with black-tinted windows.

As befitted a limousine-quality experience, Abdul wore a black suit and tie, greeted me by name, smiled, and opened the door for me. Maybe that's because I would later be rating him on his service and he wanted to improve on his 4.7 out of 5 star ranking.

First question I asked him was, "Why is my fare 1.5 times the normal Uber fare? Was it because of the neighborhood?" No.

Turns out Uber applies "surge" charges depending on taxi demand. That tiered-model pricing is crucial because drivers are not W-2 employees. They own their cars and Uber cannot tell them when to be available. The only way Uber can ensure there are enough drivers available is by giving them incentives to work more during the hours that have higher fares, like late Saturday night, Halloween night, New Year's Eve, etc.

Abdul said he loved the freedom to pick the hours he worked. And he made 25 percent more money working for Uber than he did in his regular job as a limo driver. Of course, customers also pay Uber more—at least twice as much as a regular cab fare—willingly!

Meanwhile, the big city taxi business is an industry that, except for accepting credit cards (grudgingly), has changed very little to benefit customers during my 40-year business life. As a result of this stagnation, the old-fashioned taxi business depends on positive macroeconomic conditions for growth.

In contrast, Uber was started in 2008—in the teeth of the Great Recession—with a premium-priced service that has already expanded to 14 cities, with plans to add 25 more big cities around the world. Uber attracts reasonably affluent customers with a superior customer experience they can't get anywhere else. And here I am, a customer, voluntarily recommending Uber to every reader of this column, providing free advertising and helping drive new business for them.

What are the principles franchisors can learn from this story of customer experience innovation?

- **Pay attention to, and respond to, changing customer needs.** Deep customer empathy allows Uber to capitalize on the frustrations and unmet needs of a target group of customers. The Internet and mobile devices and social networks quickly change expectations. Adapt.
- **Question your attitude about what customers will pay for.** It's not just about price. Uber proved there is a market for value that is not price-driven, but experience-driven. Didn't Starbucks prove that great customer experiences are seen by many people as small, affordable luxuries? Get creative.
- **Measure customer perceptions locally to ensure service quality.** Uber automatically adds a 20 percent gratuity to the customer fare, but they also have the customer rate each driver so that eventually only the deserving remain on the team. Reward those who deliver service exceptionally well.

One other bold innovation at Uber. The drivers also rate each customer. My guess is that abusive customers are disinvited from the community by one of the community managers assigned to each city. How smart is it to ensure a great work experience for, and loyalty from, your best service providers!? ■

SMG Chief Evangelist **Jack Mackey**, *CFE, helps companies transform the customer experience. Contact him at jmackey@smg.com.*

Grow

Franchise development intelligence

BY EDDY GOLDBERG

WHAT'S YOUR DEVELOPMENT CULTURE?

It's in the DNA at PostNet International

PostNet International Franchise Corp., which turns 20 this year, entered franchising with a development culture firmly in place. "We started as an independent consulting firm back in the '80s," says CEO and founder Steve Greenbaum, so a strong development culture was critical to its growth and success.

"When the business is dependent on growth, you learn very quickly," he says. "Ten years later, when we began franchising, we already had a very effective method of growth and knew how important it was to the culture of the business."

For Greenbaum, having a "development culture" means an organization supports, encourages, and embraces the idea that growth fuels the company and creates positive momentum. "Fundamentally, the idea is aligned with how important development is to the organization. Bringing in new people, ideas, and perspectives creates new opportunities to grow the business and revenue," he says.

When franchise development and system growth are part of a company's DNA, he says, each person understands that they play an important role in the company's success—from administrative positions through operations. That includes executives and other team members at headquarters, franchisees in the field, and even outside suppliers. "They see that the brand supports growth, which creates enthusiasm around the brand," says Greenbaum.

One difference today from his consulting company in the 1980s is that, as a franchisor, the company has two revenue streams: 1) adding new franchisees, and 2) increasing revenue and improving the profitability of every franchisee in the system. "Every franchise organization has that responsibility," he says.

"Some franchise organizations are focused on ensuring that profitability is not only achievable, but a critical, viable part of the company," says Greenbaum. "Growth should be the same, and franchisee growth is right up there. It becomes cultural, not aspirational, in the same way you'd support inclusion and profitability."

Everyone is important

One way PostNet creates buy-in to its development culture is by involving the corporate team beyond their departments, or "silos." For example, at discovery days, candidates not only spend time with the heads of different functional areas, they also meet every other support team member at headquarters.

"At the end of discovery day, everyone from the company welcomes the new franchisee into the system. Even if you're an administrative support person behind the scenes, you're a part of the team," says Greenbaum. The result: each person on the team feels valued for what they do for the organization.

"We're talking about culture, which lives within the organization. We're saying team members are important and valued as a member of the PostNet franchise family," he says. "It's as important for your organization and your organization's culture as it is for the new franchisee coming in."

Corporate employees and franchisees alike must understand "why growth is so important to us, why it's culturally ingrained in everything we do," says Greenbaum. "Great franchise companies are committed to franchisee inclusion. We know and understand that, and we want to provide opportunities for franchisees to have a voice, to be heard."

Internally, everyone must understand how important their role is in the organization and its culture. "It doesn't matter if they play a secondary role—it's important," he says. And it inspires the rest of the organization. "When franchisees see or experience growth and see people investing in the business and the brand, it creates a tremendous momentum."

That momentum, says Greenbaum is contagious. "People are investing in a franchise because they expect you to build the brand. 'Growth happens,' and when it does, it inspires people to see that's why they invested in the brand. Nobody buys a franchise unless they believe the organization will grow."

Making a development culture happen starts with communicating to everyone *why* development is important to the system. "It's not just about collecting another franchise fee or adding royalty revenue; it's also about bringing fresh ideas and innovation into the organization," says Greenbaum. New franchisees bring new ways of thinking that can constructively challenge how a brand has been doing things, resulting in improvements system-wide.


Steve Greenbaum

Awareness vs. integration

In creating a development culture, there's a delicate balance between the benefits of breaking down interdepartmental silos and maintaining individual and departmental responsibility and accountability.

At PostNet, "Franchise sales and anything related to growing the business and the brand does not interact with franchise unit economics and profitability in the organization. We have separate management teams for that," says Greenbaum.

"We are setting the vision for growth and profitability at the senior manager and department head levels. Then those ideas, plans, and objectives are filtered down through the organization," he says. However, he adds, although there is separate responsibility for each department's activities, "information and accountability flow at all levels." This way, everyone is *aware* of what other departments are doing, but they are not *responsible* for those activities.

"Awareness and integration are two different things," he says. "We own our projects and initiatives in our particular discipline, but all other departments benefit from the upward and downward flow of information." Says Greenbaum, "Everyone plays some role, but not everyone is responsible."

So yes to "silos" in terms of ownership and accountability, but not with information and communication, which must be very open and fluid, he says—and also encourages feedback between the various departments and disciplines. For example, "Our director of franchise development is not responsible for how long the real estate process is taking, so they're aware but not responsible." This builds alignment, enabling all the separate disciplines to pull in the same direction.

One more important component to keeping the organization sailing along harmoniously, says Greenbaum: "Accountability is critical."

Change vs. innovation

Today PostNet has more than 700 locations worldwide. Before the recession hit in 2008, the company was adding 35 to 50 new franchisees a year. But from 2008 to 2012, yearly growth slowed to single digits. Greenbaum says many factors were involved: the shift to digital in the mid-2000s, the company's business model, relocating from Las Vegas to Denver, and of course the economy and tight credit. All of this forced the company to take a hard look in the mirror.

"We had to change the business model," he says. "We had to blow up every idea we thought was good, dismiss a lot of what we thought, and focus on learning." One important lesson from this experience: learning the difference between change and innovation. "Innovation is improving what you've been doing, compared with doing something completely different. We innovated for a long time, but we didn't change." It took a perfect storm to shake things up enough to move from innovating to changing in a way that would re-establish growth and improve unit economics.

After some tough soul-searching, the company has turned things around, shifting from a pack-and-ship store to a "Neighborhood Business Center" that works with small businesses, instead of individual consumers, to provide a set of services that help those small businesses grow. "We've shifted our business model from transactional to long-term relationships and recurring revenue," he says. Another big shift: the new model draws heavily on outsourcing and developing partnerships with vendors, allowing franchisees to provide expanded services at lower cost.

"We're selling franchises again," says Greenbaum, who expects to see 24 to 36 new sales this year. The momentum is back. ■

Lead
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Challenge the pros

"How does eliminating the 'silos' of separate departments help integrate a brand's recruitment, development, sales, and marketing cultures and tasks?"

Jamie Davis
Executive Director of Business Development & PizzAmbassador
Donatos Pizza

Silos are good for one thing, and one thing only: holding stuff back.

I grew up in the Midwest, so silos were a familiar site to me as a child. These huge concrete structures held enormous quantities of grain to be shipped off to other parts of the country, and they never moved. Ever. Of course, the silos were doing exactly what they were supposed to: hold stuff back and not move.

In the dynamic world of franchising, silos have no place. By its nature franchising is fragmented and disconnected, which is why it is so important to tear down *all* of the silos.

Without those giant, immovable objects in the way, you can achieve three important keys to success for franchisee and franchisor alike: clear communication, level expectations, and focused execution.

Clear communication. If you can create a dialogue and have tough conversations, both internally and with your franchisees, you'll be surprised where it will take you. We've done it at Donatos. We involve all the key stakeholders in the recruiting process because we understand the impact this can have on successfully educating our franchise partner candidates.

Level expectations. Unless *everyone* in the organization understands what you are trying to accomplish, no one can truly understand what is expected of them and, more important, *why* it's expected. Since our business development team knows exactly what our operations and marketing professionals expect of our franchise partners, we begin educating them early in the process about the most important aspects of the business. It makes all the difference in the onboarding process after the sale.

Focused execution. This is where the money is made. With clear communication and level expectations, franchisees can execute the franchisor's proven system and everyone can be happy and successful. Without clear communication and level expectations, the whole system falls apart. It might not happen right away, but it will happen.

We call our franchisees "franchise partners" for a reason. There aren't any barriers to communication, expectations, or execution between us. Break down the silos in your organization, and you can drive results on both sides of the table. Do that, and there's no holding you back.

Brett Larrabee
Director of Franchise Sales and Development
Famous Dave's of America

How many franchisors are led by a singular, passionate founder who brought a great idea to market? If you answer "a lot," that would be an understatement! Of course there is nothing wrong with a "founder run" business if in fact they know how to share decision-making, authority, communication, and trust with others.

Of course one way of sustaining singular authority is to allow silos to grow and exist between departments. This is effective for the singular leader because that person becomes the only conduit between silos. I have seen this happen time and again in other brands, and not always on purpose. Department heads and singular leaders have built relationships over years, if not decades. These relationships sometimes create walls that lead to silos growing throughout an organization… which leads to a stifling of creativity, procrastination, and always a lack of accountability for the overall plan.

A well-executed plan and system are what franchisee prospects are looking for—from more than one person or department—which is always why well-heeled franchisees often ask the following question: *What plans are in place if the singular leader/founder leaves or sells the company for any reason?* The franchisee prospect is looking for a franchisor to answer with well-distributed, team-oriented leadership throughout the company; leaders who are not manipulated to work harder, but instead challenged to take command and lead without the restriction of silos.

The reason a franchise system is worth buying into is the fact that the "system" transcends any one human or department! In fact the bottom line is that the desired franchisee finds two enduring business metrics:

1. Positive unit-level economics.
2. The trust and synergy of the franchisee/franchisor relationship.

At our brand, Famous Dave's, we have a unique culture. We call it our "Famous Family." Families of all kinds, of course, are not perfect. What makes our family work is the fact that we continue to communicate and make an effort toward a common goal: growing the brand profitably for our franchisees and shareholders! We share this common goal without silos because we are passionate about the outcome. We share our message in a unified way because it provides security to large, multi-unit franchisees. Franchisees want to see a team of competent leaders rowing in the same direction.

Remaining flexible, resilient, and silo-free allows us to cement those relationships and bring new franchisees into the "Famous Family." ■

International

BY WILLIAM G. EDWARDS

Border Crossing

Navigating the waters of international expansion

Different types of international franchises are being granted today for U.S.-based education, food and beverage, retail, and service franchises. The level of franchisor investment and control for each type of franchise varies. How do you know which method to use when expanding internationally? Master franchises, area developers, company-owned stores, joint ventures, or direct investment ? We look at the five types in use today and the pluses and minuses of each.

Master franchise

Five to 10 years ago, the master franchise was the most common international type, used about 90 percent of the time. In this model, the franchisor grants exclusive rights for a country to one franchisee, often with the right to sub-franchise once the franchisee has shown they can operate the business correctly in their country. This type of franchise requires the least investment by the franchisor, but results in the least control of the brand in a country. The master franchise is used most often for education and service brands.

Examples of U.S. franchises that have used this model in recent years are Abrakadoodle, Mr. Handyman, Right at Home, and Two Men and a Truck.

The master franchisee pays an initial license fee for the country, which typically ranges from $150,000 to $750,000. This gives them the rights to build, to own and operate, and to sub-franchise the brand for a period of 10 to 20 years.

In the case of a master franchise (typically retail and service brands), initial fees are usually paid in full at signing. Subfranchise fees are shared (ranging from 60 percent to the master franchisee and 40 percent to the franchisor, to an 80/20 split). Royalties are shared the same way, often with monthly minimums.

Area franchise

The area franchise grants exclusive rights for part or all of a country, but does not allow sub-franchising. This is the most common method for food franchises, which seldom grant the right to sub-franchise, as time has shown this will lower the quality of restaurants. Large restaurant brands such as Applebee's, Carl's, Jr., Denny's, and The Melting Pot use this model. The control by the brand is higher than with a master franchise. The investment is more because the franchisor directly supports the franchisee.

Initial fees are often calculated on a formula using the number of units licensed in a country times the brand's U.S. single-unit franchise fee. These fees are paid on the signing of the area franchise agreement, or part on signing and part on the opening of each unit. Full U.S.-level royalty is charged to the area franchise to cover the direct support by the franchisor.

Direct franchise

When a franchisor enters a country, sets up an office, and directly grants local franchises (rather than a franchise for a country or part of a country), they are doing direct franchising. An example of this is Sign-a-Rama, which entered Australia several years ago and does direct franchising to local franchisees. This type of international franchise requires more franchisor investment than a master or area franchise, as well as an investment in another country, but it gives the U.S. franchise more control over the brand and its success in another country. An initial single-unit franchise fee and full royalties are charged to the local unit franchisee, just as in the U.S.

Joint venture franchise

We seldom see joint venture franchises, where the franchisor jointly invests, owns, and develops the business in a country with a local company. This model is used infrequently because of the challenge and potential downside of owning assets in a foreign country. And it requires considerable investment by the U.S. franchisor.

The amount of the investment by the franchisor varies, but often includes the initial license fee for the territory. Thus, this form of international franchising is costly up front to the franchisor at a time they are investing high levels of training and support in-country to get the franchise started correctly. At one time, Krispy Kreme, Outback Steakhouse, and Starbucks used the joint venture model.

Direct investment

For this type, the franchisor builds, owns, and operates all units in a country. This is often called the "McDonald's" model, as this brand often enters a new market directly, builds the brand, and eventually may offer franchises. Yum! Brands followed this model in China, and after opening about 4,000 KFC and Pizza

Hut units they are starting to franchise in smaller cities. Obviously, control of the brand is the highest for this type of international franchise, but so is the franchisor investment.

Other fees

In addition to the fees and royalties mentioned above, it is common these days to charge technology fees for use of a franchise's proprietary software or web-based management systems. Marketing fees are sometimes charged for development of marketing collateral. The franchisee also will be asked to spend 3 to 6 percent of their estimated gross sales in the country on local marketing.

A clear trend

While we continue to see all types of international franchises, master franchises and area franchises are the most common. They leverage a brand the most because of the lower up-front investment, but they also give away the most control to the franchisee.

One of the biggest challenges in international franchising is control of how your brand will be developed in another country—who will be representing your brand.

Increasingly, we are seeing U.S. franchise brands looking for substantial companies to acquire the rights to their franchise in a country through an area franchise that does not allow sub-franchising. This gives tight control of who is operating the franchise and also requires a franchisee with experience, infrastructure, management talent, and considerable capital to invest. For the franchisor, this means better brand control in a foreign country, less investment, and most revenue from direct royalties. ■

William G. Edwards, *with 40 years of international business experience, has lived in 7 countries and worked on projects in more than 60. In addition to having been a master licensee in 5 countries and in charge of international operations and development for a U.S. franchise, he has advised more than 50 U.S. companies on their international development. Contact him at 949-224-3896, see his blog at http://edwardsglobal.com/blog/, or visit www.egs-intl.com.*

Sales smarts

BY MARC KIEKENAPP

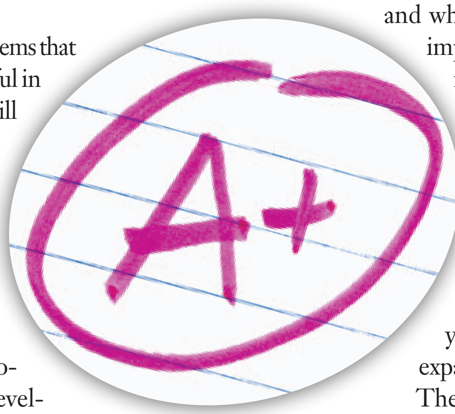
Grading Your Sales Effort

How will you score in 2013?

Are you making the grade? Is a "C" okay for your company? Are your competitors scoring higher?

With 2013 already trending to be one of the best years in the recent past, we need to make sure we are prepared to take advantage of the new year to grow our franchise brands. We need to take a look at our systems and procedures and create a "scorecard" for success. Today's franchise buyer expects the best in marketing materials, in systems, and in professional sales consultants who can guide them to a franchise that can meet their financial goals.

The franchise systems that will be most successful in the upcoming year will have taken the time and invested the capital to implement the critical changes they need for success. They will also have tracked these five key components to franchise development success (and more):



1. A profitable franchise system with happy franchisees.
2. A franchise development marketing program targeted for success.
3. An FDD that delivers a clear message to the candidate.
4. A CRM system that allows you to make informed decisions on marketing and sales consultant training.
5. A trained and informed franchise development team of professional consultants.

Profitable franchise units are the foundation of a successful development plan. When the franchise system is operating efficiently and the majority of the system is profitable, it allows the brand to move forward with the development effort. Too many franchise systems haven't taken the time to develop the proper systems and procedures that allow them to create the reporting systems needed to assist franchisees; these systems should not invest in franchise development marketing until they are confident these components are in place.

Understanding 1) the profile of your target franchisee, and 2) the geographical area you want to develop is the beginning of your marketing process. Once you have an understanding of whom, what, and where, you can then implement a targeted franchise development plan. There are several marketing strategies to help you focus your marketing budget wisely and not invest in areas you are not seeking expansion.

The FDD has become even more important as a tool when working with sophisticated franchise buyers. The FDD allows you the opportunity to present important information such as company experience, sales income, operational information, and many other key points to informed buyers in a legal format. The correct and legal disclosure of this information also will allow the franchisor to share this information in marketing materials, providing interested buyers with a faster, more organized document they can use to make an informed business decision.

A contact management system is critical for a franchise system committed to franchise development. Without gathering the information about advertising media results, sales team pipelines, and individual sales consultant results, it is difficult to determine what step (or steps) in your process is not working and needs attention and additional training.

The franchise sales team is the conduit through which all information is conveyed to the candidates. The franchise sales consultant is the face of the franchise company with prospective candidates researching the concept. The role of the sales consultant has always been 80 percent of the reason that a candidate chose your franchise concept over a competitor's. Professional relationship-building is a key.

During the past five years, my company, Kiekenapp & Associates, has conducted the mystery shopping for attendees at Franchise Update's annual Franchise Leadership & Development Conference. The results each year are shocking as we experience the same lack of professionalism, lack of follow-up, and lack of enthusiasm. In most cases, there's not even a simple, scripted first conversation with a candidate to assess their interest level and financial capabilities. While the same 15 to 20 companies score well year after year, others don't seem to improve.

We've made the investments in websites, CRM systems, and marketing plans to attract new franchisees—all without addressing the biggest key to success, our sales team. What are you doing to help your franchise sales team do a better job? Are you doing any or all of these five essential things?

1. Weekly sales meetings
2. Pipeline reviews
3. Training seminars
4. Role playing
5. Mystery shopping

Mystery shopping can be a positive exercise and help your system in granting more franchise units in 2013. Invest in your sales team, and the results will bring more qualified franchisees into your system. A customized training program can be effective only when you know what your team requires to do a better job. Help your team of sales professionals be the best they can. Institute your training program today!

Happy Selling,
Marc

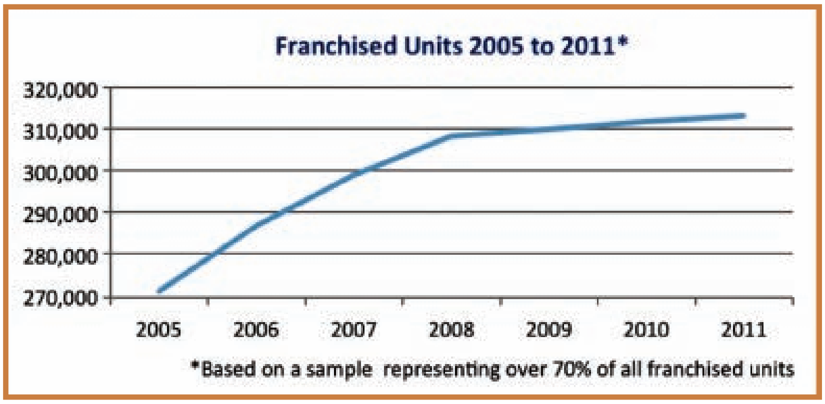
BY DARRELL JOHNSON

How's Your Industry?

Forecasting 2013's fastest and slowest franchise growth sectors

Does recent history give us a good basis for what to expect for franchise development in 2013? Certainly there is some guidance that can be taken from the past few years. After all, we're 3½ years past the technical end of the Great Recession, and we have data for the first 2½ years of the "recovery." (We're just starting to compile the 2012 results.) So let's see what the data might suggest for 2013.

Based on a sample representing more than 70 percent of all franchised units at the end of 2011, the number of franchised units increased at a compound annual growth rate (CAGR) of 2 percent between 2005 and 2011. As we know, and as the graph clearly shows, growth significantly slowed starting in 2008, the year the financial crisis hit.



Trends from 2006 through 2011

In terms of franchised locations, food brands lead the pack. As of 2011, Subway (25,285), McDonald's (12,544), and Burger King (6,299) are the three largest franchised brands, a position they have held since 2006. Among the non-food brands, Ameriprise Financial is the largest, with 5,222 franchised locations (despite having shed about 1,000 of them since 2006). Coverall (5,219) is a close second, followed by Jackson Hewitt Tax Service (4,846). Coverall is the only brand among the three largest non-food franchise brands to have added units in the 2006 to 2011 period.

Measured by the CAGR in franchised units between 2006 and 2011, the party-related goods/services industry grew the fastest, followed by clothing and accessories, and baked goods. The growth rate for party-related goods/services was driven mainly by two brands, Plan Ahead Events and BounceU. Both are relatively young, and as of 2011 operated a combined total of 114 franchised locations.

Despite being a mature industry, baked goods, at a CAGR of 6 percent, was the fastest-growing industry over the examined period. As of 2011, there were about 8,700-plus franchised baked goods locations. Dunkin' Donuts and Tim Hortons grew impressively at a CAGR of 8 percent and 21 percent, respectively.

On the flip side, the 10 industries that lost franchised units the fastest are all non-food–related. Real estate was the obvious loser, losing franchised units every year since 2006, a clear result of the burst housing bubble. Real estate was followed by printing brands, perhaps a sign of an increasingly soft-copy dominated world. At number three, decorating and home design brands decreased their franchised units at a compound annual rate of 3 percent, likely also because of the declining housing market; as did building and construction concepts, which lost franchised units at a rate of 3 percent.

There is one food sector among the weak performers. At number nine, health fast food decreased its number of franchised units at a compound annual rate of 9 percent between 2006 and 2011. The sectors with the fastest decline were monogram stores and discount retailers, both part of the retail stores industry. Given the economic environment, the drop in discount retail stores appears counterintuitive. However, there is only one brand included in the sample, which is not representative for the sector.

A general implication for 2013 that I would observe from these data is consumer willingness to spend money on themselves for both necessary and discretionary items, even in these still difficult economic times. Their willingness to spend money on larger ticket items, however, continues to be suppressed.

Looking at the sectors within industries paints a cloudier picture that warrants a deeper analysis in a subsequent article. For forecasting purposes, if you are associated with a brand in the personal satisfaction category (in which I would include many of the fastest-growing industries), a reasonably aggressive unit growth projection is certainly possible, based on recent new unit performance. If you are associated with a brand in the larger ticket category, perhaps continued conservative expectations are in order, unless you truly are a contrarian. I'll revisit and update this analysis later in the year when 2012 data become available. ■

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

Do Your Buyers Match Your Life Cycle?

As your company changes, so does your ideal candidate

With today's franchisees' greater demand for profitability, franchise sales executives must religiously vet prospective buyers to help ensure they have the financial requirements, culture compatibility, and necessary skill sets. Unfortunately, sometimes we overlook another key benchmark that could make or break a successful relationship with a franchisee: the reality that with your brand's evolving growth there's also an evolving transition of franchisee qualifications to consider.

The pioneer franchisee

Start-up franchisors often attract "go-getters" who are more independent by nature. They do not fit the classic franchisee model, but they can be a good thing for newborn concepts. These operators tend to be self-starters, take greater risks, embrace new challenges, and look for first-to-market opportunities that can offer higher financial and personal rewards. They are seeking the American Dream and want to be part of your franchisee launch team.

If these prospects sincerely believe in your franchise program, don't immediately dismiss their profiles—especially if they share your vision and passion to embrace your concept and reap the benefits along with you. The critical key to awarding these first franchisees is getting commitment to your business blueprint, policies, and procedures. They must understand their role is to execute your success formula, not to rebuild or change it. However, with best intentions from you and your franchise partners, a start-up often needs to modify and adjust procedures as you work together in your quest for glory. In this case, market pioneers are more open to help you "beta-test" new approaches than future generation franchisees.

"First-in" successful franchisees can help jump-start a fledgling system for future growth and shepherd new prospects into your franchise. Let's face it, validation can make or break you at this early stage. Savvy young CEOs bend over backward to support and motivate these business-builders in any way they can. There isn't anything wrong with this, as the future success of the brand hinges on their success. However, once you establish a proven and credible franchise program, these legacy pioneers will no longer fit your new franchisee profile… and it's time for a change.

The opportunity franchisee

When franchisors conquer the "do or die" start-up cycle, recruiting more pioneer franchisees is asking for disaster. They're the wrong fit, now that your brand formula is successful and sustainable. It's time to switch gears and seek franchisees who require proven systems and processes and, as lower-risk operators, don't want to be brand "guinea pigs." They don't mind being the first on the block, but they need the security of an established, predictable business model that has ironed out the kinks and offers opportunity for growth.

During this life cycle, franchisors are recruiting franchisees for new markets while back-filling gaps in existing territories. These more disciplined franchisees represent the "sweet spot" of your brand profile, as candidates are more system-oriented and excited that prime locations are still available. More dependent than their legacy predecessors, they are ready to march with you in the same direction, and follow your business footprint.

The logo franchisee

Many "stage three" buyers are the me-too's, whose security needs steer them toward household-name franchises. They want the *Cheers* brand, "where everyone knows your name." They are more conservative, keenly focused on franchise track records and consumer recognition. There are two very different types of these "logo buyers": 1) large, successful multi-unit operators who seek predicable, established brands for their portfolios; and 2) small or first-time operators, who are the most risk-averse of all groups.

While multi-unit operators are highly desirable, they are the toughest to negotiate with and, rightfully, most demanding. New franchise candidates certainly don't have the same leverage, but at times can buy an existing franchise through a resale, and/or take a less desirable location that others have passed on. Franchise executives stress the need to carefully qualify these less-experienced buyers, who may suffer from "brand dependency syndrome." Expectations can run high… and they may over-rely on the efforts of corporate training, field operations, and marketing to drive and retain their customers for them.

If you are a start-up or emerging franchise, don't try to compete for "logo buyers" who ask for the world and constantly compare you with the big brands. If they use big brands as their evaluation benchmarks, let them go because you just can't win the race with them!

In closing, no matter what life cycle your brand is experiencing, stop for a moment and ask yourself, "Are the franchisees we recruited the past three years the franchisees we need today?" ■

This article is an excerpt from Amazon.com best-seller, Grow to Greatness: How to Build a World-Class Franchise System Faster *by* **Steve Olson.** *For ordering information, go to www.growtogreatness.net.*

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."

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FOR INFORMATION ON **BOOKING JOHN C. MORGAN,** PLEASE SEND AN EMAIL TO: JOE@JOHNCMORGAN.COM

INTELLIGENCE GATHERING

Highlights from the new 2013 AFDR

The 2013 Annual Franchise Development Report (AFDR) is *the* comprehensive research guide to sales and lead generation performance in franchise recruitment. Each year the report digs deep to industry categories, investment levels, and recruitment budgets; provides marketing costs information; reports the top-producing sales and lead sources; reveals performance evaluations of franchise websites and follow-up to prospect inquiries; and analyzes current and historical industry growth trends.

The data and analysis in this 150-page report provides a unique aggregation of data and analysis from more than 100 franchisors that can help you accelerate your system growth, increase selling performance, and make smarter, more cost-effective advertising and marketing decisions.

The Internet continues to dominate as the primary source of franchise leads (more than half of all leads). But as a sales producer, this year the data shifted the light away from franchisee referrals (tops last year) and back to the Internet. Referrals remain a good sales producer at 32 percent, but the Internet was back this year taking the top spot as sales producer at 42 percent.

Also of note in this year's report, the number of franchisors offering incentives to franchisees for referrals dropped slightly from the previous year, with six of 10 (61 percent) respondents offering some type of incentive to franchisees for prospects that sign up, down from 67 percent the year before. The median referral fee of $3,500 remained about the same as 2011.

We continually seek ways to further raise franchisor awareness of development standards, and to create additional benchmarks that will continue the evolution of best practices in franchise recruitment. We welcome your comments—and participation—to help us better shape next year's report. To participate in next year's AFDR, contact Therese Thilgen at thereset@franchiseupdatemedia.com. All data is aggregated and kept confidential.

Note: The results of the 2013 Annual Franchise Development Report were collected and analyzed in late August and September 2012, using data gathered on sales and recruitment practices from 106 franchisors representing 43,497 units (34,566 franchised and 8,931 company-owned). ■

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

	2012	2011
No Incentive	39%	34%
Cash	52%	54%
Other	9%	13%

Where the leads come from

	2012	2011	2010	2009	2008	2007	2006
Internet	52%	51%	61%	60%	66%	77%	70%
Referrals	15%	18%	10%	10%	16%	14%	16%
Print	6%	1%	3%	5%	3%	3%	2%
Other	12%	30%	26%	25%	15%	6%	12%

If yes, how much per signed agreement?

	2012	2011
<$999	5%	3%
$1,000–1,999	18%	25%
$2,000–2,999	18%	22%
$3,000–3,999	10%	8%
$4,000–4,999	10%	3%
$5,000–5,999	25%	20%
$6,000–6,999	0%	2%
$7,000–7,999	2%	0%
$8,000–8,999	0%	2%
$9,000–9,999	0%	0%
>$10,000	12%	17%

Top sales producers

	2012	2011	2010	2009	2008	2007	2006
Internet	42%	30%	36%	34%	35%	41%	45%
Referrals	32%	31%	25%	28%	28%	37%	21%
Brokers	16%	17%	17%	17%	16%	14%	21%
Print	3%	2%	5%	8%	6%	4%	2%
Other	7%	20%	17%	13%	15%	4%	11%

IS YOUR FRANCHISE SYSTEM CREDITWORTHY?

You may think so, but do lenders?

When a bank considers your mortgage application, it looks at your credit history. **When a lender considers your franchisee's loan, it looks at your Bank Credit Report.**

BCR

BANK CREDIT REPORT

The Bank Credit Report (BCR)

A Bank Credit Report (BCR) addresses lender's questions about the creditworthiness of your franchise system. In the current conservative lending environment, if you don't provide information about your system's performance history, lenders assume the worst.

Your BCR will provide lenders with an objective, 3rd-party evaluation of the performance of your system in comparison to your immediate peers and your industry. The report also **provides you with an opportunity to explain any risk issues that may be present** by allowing you to include appropriate Management Comments if you choose.

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

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FRANCHISE LAW NEWS

BRINGING FRANCHISORS AND LEGAL SERVICES TOGETHER

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Hot-N-Ready for Trade Secret Litigation?

CHENG COHEN

Improving the Franchise Buying Process

MSA WORLDWIDE

BY MICHAEL R. DAIGLE AND SAMUEL G. WIECZOREK

Hot-N-Ready for Trade Secret Litigation?

A recent federal case from South Dakota provides several important reminders for franchisors regarding protection of trade secrets.

In *Little Caesar Enterprises, Inc. v. Sioux Falls Pizza Company, Inc.*, Little Caesars sought a temporary restraining order against a former franchisee. Little Caesars was seeking to stop the former franchisee from offering "all day, every day ready-for-pick-up pizza" in the former franchisee's new pizza restaurant, which was located at the same address as the former franchisee's Little Caesars franchise, although the former franchisee had de-imaged the restaurant. According to Little Caesars, the system of offering all day, ready-for-pick-up pizza was a trade secret, which the former franchisee stole when it started operating in essentially the same manner it had operated as a franchisee.

The court in this case applied the South Dakota Trade Secrets Act, which (like most other states' trade secrets laws) requires that, to qualify for protection, the information sought to be protected must, first, derive economic value from not being generally known or readily ascertainable by other persons and, second, be subject to reasonable efforts to maintain its secrecy.

In denying the franchisor's requested relief, the court accepted the former franchisee's testimony that "hundreds" of other pizza restaurants employed the same system for preparing pizzas and for keeping hot and ready pizzas available throughout the day and concluded that Little Caesars presented insufficient evidence to show that its system was not generally known in the industry or was not readily ascertainable. The court also found Little Caesars' description of the system "too generic or general to amount to a trade secret."

The court also said that Little Caesars did not establish that it used reasonable efforts to protect its trade secrets. Under applicable law, efforts to protect trade secrets only need to be reasonable. In this case, the former franchisee clearly was under a confidentiality obligation because Little Caesars required all franchisees to sign confidentiality agreements to safeguard its system and business practices. However, that confidentiality obligation did not extend to the franchisees' employees, who also have direct exposure to the system in their day-to-day jobs working at each restaurant. In fact, the court found that those employees arguably had more detailed knowledge of the system than the franchisees, and those employees were not under a direct confidentiality obligation. For this reason, the court found that Little Caesars failed to satisfy the "reasonable efforts" element.

Like the tasty toppings on a supreme pizza, this case offers several tasty tips for franchisors.

Tip No. 1: Vigorously defend your noncompetition agreements. In previous litigation between the parties, the former franchisee sued for "declaratory relief." In a suit for declaratory relief, parties who have a dispute ask a court to determine the parties' respective rights and other legal relationships without providing for enforcement of the judgment. In that case, the former franchisee asked the court to declare that it could compete against Little Caesars despite noncompetition language in the franchise agreement. For reasons not explained in the court's opinion, Little Caesars did not oppose the former franchisee's summary judgment motion, and, consequently, the court found the noncompetition language unenforceable. The lesson here is, absent compelling reasons (which, in fairness to Little Caesars, might have existed), do not let a former franchisee's declaratory judgment action go unopposed.

Tip No. 2: Require your franchisees to get confidentiality agreements from their employees and *enforce* this requirement. Include in your franchise agreements the requirement that franchisees get confidentiality agreements from their employees. And, while it might be cumbersome, enforce that obligation. This is especially true since, as the court noted in the Little Caesars case, employees are often most likely to have day-to-day access to the franchisor's trade secrets and systems; requiring them to protect the confidentiality of that information will be an important factor in the franchisor's proof of reasonable efforts.

Tip No. 3: Make an honest assessment as to what portions of your system are really trade secrets before spending lots of money on litigation. In restaurant operations, there are unlikely to be many true trade secrets (other than perhaps things like proprietary recipes and ingredients). Commonly available information like how to make pizzas and provide ready-made pizzas may constitute nothing more than "generic knowledge," which is not protectable under trade secret laws. Franchisors should carefully analyze what portions of their systems are, in fact, trade secrets, and which portions fall under the category of generic knowledge of restaurant owners.

Like checking the temperature of your oven so you don't burn your pizza, checking your franchise system's trade secret processes is a good idea so your franchise doesn't get burned. ■

Cheng Cohen LLC *is a full-service boutique law firm, providing practical legal advice to franchise and distribution clients. For more information, contact* **Michael Daigle** *(michael.daigle@chengcohen.com) or* **Sam Wieczorek** *(samuel.wieczorek@chengcohen.com) or go to www.chengcohen.com" www.chengcohen.com.*

BY MICHAEL H. SEID AND MICHAEL E. SHEEHAN

Improving the Franchise Buying Process

We're going to say something here that at first blush may seem to be complete heresy to advocates of business format franchising: the process of selecting a franchise often can fail. It's not the franchise itself that may flunk. It's the regulatory components of the buying process that may miss the mark.

The regulatory process

The regulatory framework for franchising in the United States is somewhat out of date as it is structured around a formula-driven disclosure document, the FDD. The current FDD format and content goes back to the 1960s, before personal computers were common, before the Internet, and before franchising matured. Over time there have been relatively minor changes to the format of the FDD. The most recent changes took place in 2007 and many people believe that those changes actually weakened disclosure. The current FDD falls short of meeting the needs of first-time franchisees and franchisors in general, and its weakness is a root cause of much of the proposed regulatory fixes we have seen lately.

Franchisors are required to follow a fairly precise, uniform set of rules on how to inform prospective franchisees about their opportunity. In some states, for better or worse, franchisors must first present their documents for review and approval to regulators. The regulatory process can be very positive, but it also has serious limitations as franchisors often have to limit disclosure to meet the uncertainty and lack of uniformity of the state regulatory review process. For example, it's unlawful to "fail to include the information and follow the instructions for preparing" FDDs, and we are limited by the bulk-up provisions limiting information that might yield the best available disclosure.

Limitations of the FDD process

Let's take a few examples that illustrate how the FDD regime can fall short on its implicit promise of full disclosure.

Foremost among the instances of the FDD's information gaps is the muddle that constitutes the fees and estimated initial investment disclosures of Items 5 through 7. While you will learn a lot about the cost of investing in a franchise through these disclosures, you will certainly not learn what may be most significant to a prospective franchisee: the total investment. That's because Item 7 gives you only a *partial* picture of your *start-up* costs.

The information probably most important to prospective franchisees—historical or projected earnings data—also may be lacking, as Item 19 is a voluntary disclosure. Subject to very limited exceptions, franchisors are prohibited from disclosing *any* earnings information to prospective franchisees if they opt out of Item 19, and there may be solid reasons not to provide such disclosures. In an information world with data of every sort (accurate and inaccurate) available 24/7, did the regulators somehow believe that prospective franchisees would not marry up unit cost data with unit sales data from the Internet and reach potentially inaccurate or misleading conclusions?

The shortcomings of FDD disclosure reside primarily in its one-size-fits-all framework. Most reasonable people probably would agree that a freshly launched franchise presents different challenges than those faced by a seasoned brand. Also, information needed by a single-unit franchisee making an investment decision is substantially different than that required by a sophisticated multi-unit developer.

What may make more sense is blending some elements of a tiered disclosure in which franchisors might include a "principles-based approach" that permits some amount of discretion with respect to disclosure (in addition to the 22 specified areas). Rather than adhering mechanically to an inflexible set of rules, franchisors could instead rely on a road map for added disclosure composed of key disclosure objectives, guidance explaining the objectives, and some common examples that illustrate that guidance.

Under a blended approach that includes a principles-based disclosure component, franchisors and their counsel likely will have a greater challenge in crafting good disclosure, but the process will evolve over time. But many franchisors (and franchise attorneys) currently view the task of drafting disclosure as following a cookbook. Enhancing disclosure would enable franchisors, and not simply regulators, to decide what additional information is important and how best to present that information for the benefit of prospective franchisees.

The general approach to franchise disclosure needs to be revisited with a goal of improving clarity and understanding of the offering *for the benefit of both the franchisor and the franchisee.* Given the maturation of franchising, market forces will certainly need to drive the changes needed. ■

Michael Seid *is the founder and managing director of MSA Worldwide, a consulting firm specializing in franchising and other methods of downstream distribution. He is on the board of the IFA. For more information on MSA's services, including speaking or consulting services, call 860-523-4257, send an email to mseid@msaworldwide.com, or go to www.msaworldwide.com.*

Mike Sheehan, *a franchise consultant and attorney, is president of Focus Ventures. He formerly served as a securities attorney and as general counsel for a Fortune 100 financial services company. His Franchise Focus Blog (www.franchisefocus.blogspot.com) focuses on helpful information, tips, and current news for prospective franchisees. For more, visit www.focusonfranchise.com.*