Franchise update

BUSINESS INTELLIGENCE FOR GROWING FRANCHISORS

Q1 | 2018

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Franchise update

BUSINESS INTELLIGENCE FOR GROWING FRANCHISORS

Q1 | 2018

From the editor's desk

BY KERRY PIPES AND EDDY GOLDBERG

30 Years Strong

In 1988, a husband-and-wife team began a journey that began with a dream. Therese Thilgen and Gary Gardner took that dream and a modest sum of capital and started Franchise Update. In the 30 years since, through good times and bad, their dream has grown into one of the most recognized and respected voices in franchising by providing honest, reliable information through its publications, conferences, and website.

The dream began simply, with a four-page newsletter that provided very basic information to franchise executives. It slowly grew, through their vision and perseverance, into a company that now publishes two quarterly magazines, holds three annual conferences, and provides a website so rich in content and resources that we're redesigning it again.

Franchising was smaller then, a closer-knit community where the "dynamic duo" got to know many of the players and built relationships that have remained strong through the decades. En route to building a successful company, their contribution to the growth of franchising is considerable. Just ask anyone who knows them.

As editors of this, the company's flagship magazine, we are continually impressed by the goodwill they've generated throughout the franchising community. We hear it at conferences, from the people we interview, and we are proud to contribute to their dream, as are the rest of the dedicated Franchise Update team. The years have brought many changes to franchising, but what persists is Therese and Gary's genuine interest in and caring for people they meet, and in building the franchise community by supporting the dreams of everyone they encounter.

• • •

For the fifth consecutive year, we've devoted our first issue to women in franchising. In a time marked by lurid news of sexual harassment in the workplace, we thought it fitting, as the old song goes, to "accentuate the positive." And in a world still over-burdened with patriarchal beliefs, Franchise Update Media stands with the #MeToo movement.

We found 8 accomplished female franchise leaders willing to tell their stories of perseverance and success, of how they rose through the ranks to achieve their own dreams—and continue to dream of further accomplishments—making franchising, and the world, a better place in the process. These are inspirational stories in a time when that is very much needed.

We hope this issue of *Franchise Update* offers inspiration and encouragement to you, the reader, as we look ahead to a future filled with personal and professional growth and fulfillment for everyone willing to work hard and long to make their own dreams real. ■

Leadership

FRANCHISE LEADERSHIP AND MANAGEMENT

Women in the C-Suite

Lessons from 8 outstanding franchise leaders

BY SARA WYKES

In a pivotal year with women's issues at the forefront and in the headlines for the wrong reasons, we've dedicated this issue and cover story to women who have persevered through obstacles of all kinds, made their way to the top of their profession as franchise executives, and who have set a positive example in the world of business and the world in general. Inspired by their stories of success in both business and in life, we asked them how they got to where they are today. Here are their stories.

SUSAN BORESOW

President, Title Boxing Club

In her career as a franchise marketing executive, Boresow has steered marketing and strategic planning for some of the best-loved and most-recognized brands in franchising, including McDonald's, Sport Clips, Cold Stone Creamery, Pump it Up, Massage Envy Spa, and Godfather's Pizza. Melding traditional and digital/social media, she has launched initiatives to enhance brand awareness, drive leads, deepen customer relationships, and bring the brand promise to life. She earned her bachelor's degree in advertising/journalism from the University of Kansas and her master's degree in marketing from Webster University in Kansas City, Mo.

What drew you to franchising—and to your specific franchise focus? I began my career in franchising in an entry-level position in the marketing department at McDonald's in 1985. Being on the ground level with franchisees for almost 20 years taught me a great deal about how franchisees and corporate can work together to achieve their goals. From McDonald's, I continued my career in franchising with other iconic brands. In 2015, I joined Title Boxing as president.

What have been the greatest challenges you've faced, and the solutions you developed to overcome them? Some of the most common challenges I have faced involve franchisees whose sales figures are not where they would like them to be. This challenge could be an individual franchisee's issue, or co-op, or even market-wide. The solution is always to listen, understand the issues, and work with other team members and the franchisee to develop a problem-solving plan.

What successes have been the most satisfying for you? For me, success is measured in results that include seeing our franchisees achieve their goals and increase their overall financial wealth. When our franchisees succeed, the franchisor does too. Seeing my team grow and succeed is very rewarding. Success is also measured by adhering to your company's core values. When you hold yourself, your team, franchisees, and vendors accountable to live the mission and values of your brand then there is alignment—and alignment is always a good thing!

What have been your most important lessons learned? If you want to understand your franchisees, your brand, and how to grow, you need to get out in the field and build relationships with your franchisees. Another important lesson is instilling a sense of culture among your team. I believe the best cultures start with the people. Cultures have to be organic, authentic, and not forced. Another key lesson I have learned over the years is that you can control your own destiny. I haven't let other people define my boundaries in my career.

KAT COLE

COO and President–North America, Focus Brands

Cole was named to her current position at Focus Brands (Auntie Anne's, Cinnabon, Moe's Southwest Grill, Schlotzsky's, McAlister's Deli, and Carvel) in June 2017. Previously, in 2015, she had been named group president for Focus, following 4-plus years as president of Cinnabon. Before that, she spent nearly 15 years at Hooter's of America, rising through the ranks to become vice president before moving on to Cinnabon. She is a past chair of the Women's Foodservice Forum, and a member of the UN Foundation's Global Entrepreneurs Council. She received her MBA from Georgia State University.

What drew you to franchising—and to your specific franchise focus? I started in food franchises as a hostess as a teenager. I've remained in franchising ever since. Franchising is an art and a science, and I love the tension and the harmony in that.

What have been the greatest challenges you've faced, and the solutions you developed to overcome them? The greatest challenges in franchising are balancing short term with long term and maintaining the pace of necessary change at a speed the organization and franchise system can handle. Businesses today

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CONGRATULATIONS ON FRANCHISE UPDATE MEDIA'S 30TH ANNIVERSARY!

From one leader to another: Your visionary approach to franchising has been an inspiration throughout the years.

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must be nimble. That means change. For owners of small and mid-sized businesses that can be scary and difficult. Leading through that dynamic is a great challenge. Confront reality, lead with courage, educate and inform, and partner along the way. Honor emotions without getting bogged down in them. Find a coalition of the willing to quickly test concepts. Reward risk takers.

What successes have been the most satisfying for you? Seeing employees, team members, and franchisees reach and exceed their own personal and professional goals, and knowing my teams and I had something to do with that.

What have been your most important lessons learned? Keep the "true north" clear to myself and to others. It is the responsibility of the brand leader to have the humility and curiosity to learn and grow, but also to have the ability to see around corners and to lead with courage and confidence in tough times.

LAURA REA DICKEY

CEO, Dickey's Barbecue Pit

Specializing in the intersection of data, IT, and marketing, and in turning data insights into brand and business solutions, Dickey previously served as the brand's CIO for 8 years. During that time she established Dickey's as a technology leader in the restaurant industry through the development of proprietary big data and enterprise management systems. Her first "real" job was as a hostess at Lone Star Steakhouse in high school. Her post-college career began in advertising and web design, where her first three clients were restaurants.

What drew you to franchising—and to your specific franchise focus? I do not have the most conventional introduction to franchising as I worked heavily in the IT and marketing world before coming to the Dickey's team. After marrying into the Dickey family, I was "drafted into service," first consulting and then working full-time for the brand in many areas of the company. I never saw myself as CEO, but now there is nowhere else I would rather be. I have a passion for the food, our slow-smoked barbecue, and the folks, our amazing team. I consider myself incredibly lucky to lead the largest barbecue chain in the world.

What have been the greatest challenges you've faced, and the solutions you developed to overcome them? The biggest challenge we have faced is also how we have achieved our greatest accomplishment, and that is balancing our evolution as a barbecue brand without changing what's made Dickey's Barbecue successful. We have had to "evolve or fail" as a brand in response to growth, competition, and changing guest expectations. We haven't changed that our barbecue is slow-smoked in every restaurant daily, but we've completely redesigned and opened our kitchens and incorporated technology in every corner of the restaurant and the business.

What successes have been the most satisfying for you? I think a huge success is our position as a technology leader. We have created our own proprietary data warehousing system, our own online ordering system, a consumer app that incorporates loyalty and delivery, and we are in the process of creating our own POS system.

What have been your most important lessons learned? Success is valuable, but failures are the most valuable teacher.

DONNA JOSEPHSON

Chief Marketing Officer, Corner Bakery Cafe

As CMO since September 2017, Josephson is responsible for all brand marketing, advertising, new product development, menu strategy, pricing, public relations, communications, field marketing, and franchise support at Corner Bakery Cafe. Previously, in 2015, she was recruited to spearhead strategic marketing initiatives for Fazoli's aggressive growth strategy. She also served as vice president of marketing for McAlister's Deli. Other restaurant experience includes Chick-fil-A, where she pioneered the company's local marketing programs. She also has held several executive and senior-level marketing roles at Applebee's and Wendy's.

What have been the greatest challenges you've faced, and the solutions you developed to overcome them? Work/life balance was a challenge. Early in my career, I felt pulled between what I thought was expected of a young mother and wife and the desire to be at work and contribute. The solution was understanding that my family supported my career aspirations. My daughters were, and are, proud of my work and my husband has been very supportive. The biggest challenge today is the constant work required to keep up with technology and changes in the competitive landscape, as well as consumer needs and wants. Be open to learning and to change. It's crucial to surround yourself with great people and outside resources to help navigate the changing landscape.

What have been your most important lessons learned? That there is always more to learn! The landscape is constantly changing. You can never sit back. Change is constant and you have to continue to learn and be willing to change to maintain relevance. Another key lesson is that great ideas come from a multitude of places. Always listen to other's problems, ideas, and solutions. Often the best solutions or ideas come from franchisees or operators who are on the front lines daily.

JO KIRCHNER

President and CEO, Primrose Schools

In 1988, Kirchner signed on with Primrose Schools as a consultant. Two years later she became vice president. In 2006, when Primrose was sold to American Capital Strategies for $63 million, Kirchner continued in her role as president and CEO. In her time with the organization, she has helped Primrose grow from 4 schools in Atlanta to more than 260 nationwide. In 2013, she was named winner of a Gold Stevie Award in the Female Executive of the Year Category for Women in Business.

What drew you to franchising—and to your specific franchise focus? When I first joined Primrose, the company wasn't a franchise yet. As a working mother who had struggled to find high-quality early education for my own children, I was attracted to the company's vision to provide the best and most trusted early education and care for children and families.

What have been the greatest challenges you've faced, and the solutions you developed to overcome them? Like so many working mothers, maintaining a work/life balance when I had young children was a challenge. I struggled to find the right childcare provider, which is why I was so attracted to the high-quality environment Primrose offers. I've learned that you can't be a perfectionist and attempt to do it all. The key is to set high expectations and surround yourself with like-minded people who can help you achieve your goals and the mission for the company.

What successes have been the most satisfying for you? Navigating the company through the recession was challenging, not just for me, but for our family of franchise owners as well. Instead of resting on our laurels, we took an aggressive approach. During a time of uncertainty for many companies, that was a difficult decision to make, but we launched a comprehensive brand refresh and set a top priority to invest in our people with expanded online training programs for school management and staff, and larger service teams to support franchise owners. We also launched a pilot school in an urban area, which despite the economic downturn broke even in its seventh month after opening.

What have been your most important lessons learned? Love what you do. Do something that makes a difference. Build a high-quality approach to something. I also encourage people not to be afraid to take risks! It can often be difficult for leaders to do this—it takes great fortitude—but I've seen firsthand how it can pay off in the long run.

MARCI KLEINSASSER

Vice President, Marketing, Handyman Connection

In her more than 25 years in marketing, Kleinsasser has led the marketing teams for several franchise brands, including PuroClean, Coverall Cleaning, Benihana, Kenny Rogers Roasters, and Domino's Pizza. She worked on the agency side at Tinsley Advertising and BBDO South for brands including Premier Cruise Line, Mayors Jewelers, and Burger King, and in partnership marketing at Alamo Rent A Car. She earned a BS in communications, advertising, and marketing from Florida International University, and a Mini MBA from Nova Southeastern University's International Institute for Franchise Education.

What drew you to franchising—and to your specific franchise focus? When I was in college, my dad bought a pharmacy franchise. I thought it was fascinating at the time—the whole concept of "buying a brand" and an operating system, especially for my dad, who had owned his own pharmacy and worked for other chain drug stores. After college, I started out on the agency side. My first introduction to franchising was a test project for Burger King. Our marketing agency was hired to help launch table service in the Miami locations. The launch failed. I learned so much about how all the moving parts of a franchise organization worked, how they should work, and maybe how they shouldn't.

What have been the greatest challenges you've faced, and the solutions you developed to overcome them? Franchising is a people business, no matter what industry or discipline you are in. While technology may have changed the way we communicate and conduct business, it is important to understand how people want to be communicated with. Consider technology a support tool, not a replacement, for building relationships. There have been times throughout my career where different departments in a company or different franchisees struggled to effectively communicate and/or agree on the best method of communication. As a result, certain important messages were lost. That caused big gaps in effectiveness for departments and the company overall. The best solution was to make time to talk and listen. When you schedule the time to do that, company connections grow deeper, which ultimately benefits the business.

What have been your most important lessons learned? Never give up. I had a few important forks in the road in my career and could have given up on franchising, and even marketing at one point, but I knew it was my passion and that I didn't want to do anything else. I believed in my abilities. No franchisee is created equal, so be flexible and adaptable. While each franchise owner may have a similar goal, they may go about achieving it very differently. How you coach and interact with each person may need to be very different.

HEATHER NEARY

President, Auntie Anne's

Neary joined Auntie Anne's in 2005 as a marketing manager. She rose through the ranks to become director of marketing and vice president of global marketing. In 2015 she was named president of the company, and today manages all budgets for the $547 million company and its more than 1,300 U.S. locations. Before joining Auntie Anne's, she held roles in marketing and as a managing editor for a business magazine. She earned a bachelor's degree from Millersville University and an MBA in finance/marketing from Penn State University.

What drew you to franchising—and to your specific franchise focus? When I came to Auntie Anne's, it wasn't for the franchising component. I came because I loved the pretzels and had heard great things about the company and wanted to work for a great organization. I'm not even sure I completely understood the franchising model at the time. I knew what it was at a basic level, but not much beyond that. Now I love the diverse group of people I get to work with, the idea sharing, and the passion for the brand. The food is amazing.

What have been the greatest challenges you've faced, and the solutions you developed to overcome them? Franchising involves a lot of great people—really smart people with great ideas. It can be a challenge to filter through all of the great ideas to ensure I'm looking at the big picture and making strategic decisions accordingly. While everyone may not always agree with my decisions, by being transparent and honest and communicating constantly, I try to make sure everyone understands the rationale behind them.

What successes have been the most satisfying for you? When you're working with a franchised brand that is nearly 30 years old, it's important to keep things fresh, and to keep the lines of communication open with the franchise system. I'm glad that we've continued to maintain a high level of support to our franchisees while also challenging everyone to think differently about the brand as we and our guests evolve. I'm very pleased that we continue to earn high marks for franchisee satisfaction. We conduct surveys annually with an outside firm to help us see where we're excelling and where we can improve. We've achieved "world class" franchise status for the 12 years our franchisees have rated us. During those 12 years, we have changed a lot. It's satisfying to know that as we change, we are keeping the system engaged and excited about our future.

MARTHA O'GORMAN

Co-founder, VP of Marketing, and CMO, Liberty Tax Service

In her multiple roles, O'Gorman is responsible for developing brand awareness in every major market in the U.S. and Canada. Since the franchise's birth in 1997, Liberty has expanded to more than 4,400 locations with nearly 2,000 franchisees. She is a member of the Franchise Consumer Marketing Conference Advisory Board and a member of C-Suite Advisors. She is a Liberty Tax area developer and franchisee in the Fort Myers, Fla., region. She earned her B.A. in communications and English from Denison University.

What drew you to franchising–and to your specific franchise focus? In 1987, I was working as an account executive at an ad agency and Jackson Hewitt was my biggest client. I asked the CEO, John Hewitt, if he would be interested in setting up an in-house ad agency. He said yes. I really didn't know much about franchising at the time, but I learned quickly and was enthralled with the business model. It gives so much opportunity to people who want to own their own business focused on something they are passionate about. I have been able to work with and help hundreds of people who are searching for the American Dream. I have personally owned Liberty franchises during the past 10 years and that experience, combined with my corporate work, has made me so much better at my job as CMO. I understand the pressures and rewards of being a business owner. I will always be involved in a franchise concept. It gets in your blood.

What have been the greatest challenges you've faced, and the solutions you developed to overcome them? My biggest challenge was leaving Jackson Hewitt to start Liberty Tax with four other people. It was scary but something told me we could do it! We didn't have much capital, no offices, no employees, and only one computer between us all. We worked really hard and didn't let personalities get in the way. We wrote a mission statement that says: Set the Standard. Improve Each Day. Have Some Fun! Having those few words as a driving force helped us grow and prosper. I really believe that the mission statement was the catalyst for motivating me and helped me keep my eye on the ball.

What successes have been the most satisfying for you? Growing to such a large franchise entity has been very satisfying. I really get a charge from people in the franchising world who ask how we grew Liberty so big. I love to tell our story. I also believe our Statue of Liberty wavers have brought a unique and fun aspect to our marketing that's been instrumental in growing the brand. Everyone knows who we are when we say, "Have you seen the Statue of Liberty wavers during tax season?"

What have been your most important lessons learned? Don't ever count on things staying the same. Life is full of changes and you must be flexible and courageous enough to carry on in adverse times and flourish during the fruitful times. Don't be afraid to try new things. Test them first, but always try them. Be a leader, not a boss. People want you to care about them. I practice the "six-foot rule": I never let someone get within six feet of me without speaking to them. ■

ADVICE FOR C-SUITE ASPIRANTS

"This business, like many, is rooted in successful relationships and partnerships. Have both the culture and the reputation of doing the right thing for the right reasons." *—Kat Cole*

"Be the person who makes the coffee or be the person who develops the winning initiative, but take both to completion with equal commitment and excellence and you'll rise and take those around you with you. Seize every opportunity to work harder. Don't look around. Look forward." *—Laura Rea Dickey*

"Be yourself. Advocate for yourself and make your voice heard. Don't be afraid to make mistakes–and when you do make them, learn from them. Identify a mentor, someone who will be honest with you and give you advice and encouragement. Join groups that support women leaders. The Women's Foodservice Forum is an invaluable resource to me. Go above and beyond. When I was CMO, I told our president that I wanted to lead the operations team. While he was skeptical at first, he eventually acquiesced. This was a huge growth opportunity out of my comfort zone that taught me how to be a more effective leader. Live by the Golden Rule and treat everyone as you want to be treated. And make sure you're having fun!" *—Heather Neary*

"Speak up. You don't have to be obnoxious, but use your voice and your wisdom to create positive change in your organization. Be honest and sincere. And, most important, do what you say you are going to do." *—Martha O'Gorman*

"Don't let anyone define your true potential. Only you can do that. We all have mentors in our life, and I encourage you to find the mentors who will help you and believe in you. If you enjoy learning and working shoulder to shoulder with franchisees, while providing guidance, leadership, and support, then you will enjoy the ride." *—Susan Boresow*

"Do not be afraid to ask questions and keep the mindset that everyone has something to teach you. Listen to your key business partners and franchisees. No marketing idea or program will ever survive without cross-functional support." *—Donna Josephson*

"Find your passion. If you are not happy, make a change now! Always be true to yourself and never stop learning." *—Marci Kleinsasser*

BY KERRY PIPES

FAZOLI'S TURNS 30

Every dish, every table, and every day

Carl Howard has served at the helm of Fazoli's for the past decade. In that time, he has helped lead the brand through numerous challenges and successes, helping it become America's largest fast-casual Italian brand, a thriving and growing franchise with more than 200 locations in 26 states. Another three dozen restaurants are set to open over the next 2 years. During his tenure, a rebranding effort has brought a fresh, more modern feel to the chain's restaurants and revitalized everything from the decor to the menu.

Founded in 1988 in Lexington, Ky., Fazoli's continues to show tremendous sales momentum. Its franchised restaurants are currently experiencing triple the sales growth rate of the industry, have posted 16 consecutive quarters of same store sales growth, and have seen sales remain positive for 78 of the past 82 months, according to Howard. In January, Fazoli's said its franchised locations closed out December with a 5.1 percent increase in same store sales and a 2.5 percent rise in guest traffic.

NAME: Carl T. Howard
TITLE: President and CEO
COMPANY: Fazoli's
UNITS: 209
AGE: 52
YEARS IN FRANCHISING: 32
YEARS IN CURRENT POSITION: 9.5

Brand growth will be a primary focus during 2018, says Howard, with 8 openings scheduled for the first half of this year. "We are moving into a growth phase again. The goals are to continue to add great franchise partners, keep current with the change in consumer behaviors, and to remain a 'Best in Class' brand!"

After more than 30 years in the restaurant industry himself with brands including bd's Mongolian Grill and Damon's Grill, Howard says his goals and standards remain the same: focus on service, quality, and the customer experience. That's why he's constantly thinking about ensuring that every franchisee, company operator, and team member "is passionate about the goal of great guest service. We can beat anybody in our space if we deliver the brand promise."

With Howard at the helm, expect a hard-working team from top to bottom to continue growing sales and adding new locations in the years ahead.

Leadership

What is your role as CEO? To continue to foster the relationship between our guests and the brand. Being guest-centric is critical in today's rapidly changing economy. My overall responsibility is very broad, but besides our passion of exceeding our guest expectations we want to provide a great experience for our team members and investment partners. When you can hit the trifecta of happy guests, happy employees, and happy investors it is a very fun role.

Describe your leadership style. I am very analytic in nature so I am always digging into new guest data and working on the mathematical equation of our model. Overall, I am a hands-on leader and I like to participate in decisions, but I let my team really drive the brand.

What has inspired your leadership style?

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Wow! I have had some great mentors but I am most like Ken Cole. Ken was the CEO of Damon's when I was growing up and working my way up in the Damon's system. Ken taught me to be a leader, a great operator, and really explained the sacrifices I would have to make to become truly great. I also know that I would not have grown my career as fast had it not been for my father-in-law Angelo Ron Salvi, who owned several Italian restaurants in Columbus, Ohio, and who had a true zero defect standard. He taught me to be passionate about excellence: Every Dish, Every Table and Every Day. Nothing less was acceptable. There are so many others, like Mike Tortoise, Will Liphart, John Votino, and several more who were influential in my career.

What is your biggest leadership challenge? Making sure that every franchisee, company operator, and team member in our business is passionate about the goal of great guest service. We can beat anybody in our space if we deliver the brand promise. No one in our industry can deliver our experience at a $7 price level.

How do you transmit your culture from your office to front-line employees? We try to treat all of our people with respect, and we want to hear their thoughts as well. I think just the way we communicate to our teams helps build a culture of trust and commitment.

Where is the best place to prepare for leadership, an MBA school or OTJ? OTJ by a mile.

Are tough decisions best taken by one person? How do you make tough decisions? Sometimes it does come down to me making a final decision, but that is rare. Our senior team works so well together—we are very collaborative and we all just want to win. We take that same approach with our franchisees, and we want to hear their input on key decisions as well.

Do you want to be liked or respected? Both. You do not need to be a jerk or remind everyone you're the CEO of the organization. They get that, so being very humble and willing to talk to anyone in our organization is important. I think I have accomplished both.

Advice to CEO wannabes: Find a good mentor, work tirelessly when you are young, self-educate, set career and personal goals, and always have a good attitude.

Management

Describe your management style: It is very transparent and organized, and I expect or want the same from the team. No false agreements can exist between my team and me. The team and I want to win. We set goals, we have places we want to go, and we have fun in the process.

What do you think makes up a good management team? A group that can respect each other, all rows together, and pushes each other for greatness. Also, a great team that lives under the no false agreement structure and is focused on the right priorities can really accomplish great things.

How does your management team help you lead? I am a tireless worker and I think my team appreciates my commitment. If they need an answer to something, they know they can stop in my office, call, or email me and I will get back to them very quickly. I also live under no false agreements, and that creates a good culture because everyone knows where they stand at all times.

Favorite management gurus: Do you read management books? It's been a while, but I was always a huge Zig Ziglar and Jim Collins fan.

What makes you say, "Yes, now that's why I do what I do!"? So much of my job is rewarding, but I am most happy when I can help people rise in their career or see my team and franchisees make a lot of money.

Personal

What time do you like to be at your desk? Eight-ish. I'm not the first in, but I am on email and text by 7.

Exercise in the morning? Wine with lunch? No, wine gives me a migraine and no one since the '70s drinks at lunch. Can we skip the exercise question until after the holidays?

Do you socialize with your team after work/outside the office? I do occasionally after a board meeting or franchise meeting, but not very often. They see me enough and have families to go home to, as do I.

Last book: I listen to 10 to 15 books a year on Audible. It is a great way to end your day before bed. Right now I am on *Harry Potter and the Deathly Hallows.*

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

How do you relax/balance life and work? It is more difficult than ever before because everyone is plugged in 24/7. I try and go quiet and wind down my work afternoons on the weekend.

Favorite vacation destinations: Somewhere warm. Grand Cayman is one of my favorites, but we try to hit a new island destination once a year. Also, Italy is a favorite and I cannot wait to go back.

Favorite occasions to send employees notes: Anytime someone exceeds the guest expectations and on our employees' work anniversaries.

Bottom Line

What are your long-term goals for the company? We are now moving into a growth phase again. The goals are to continue to add great franchise partners, keep current with the change in consumer behaviors, and to remain a "Best in Class" brand!

How has the economy changed your goals for your company? We are moving into a stay-at-home economy today, and we are working on every possible way to allow our guests to order and receive our products.

How do you measure success? I am not sure we spend a lot of time measuring success as we are too busy working on the next brand evolution. For me it is seeing someone advance to a new position in our organization or leave for a better opportunity. That is true success when you can help change someone's livelihood.

What has been your greatest success? Marrying my wife Rocchina. Not only is she my biggest fan, but she is so supportive, knows the industry better than most, and I would not have had this level of success without her.

Any regrets? Not really.

What can we expect from your company in the next 12 to 18 months? We will continue to work on enhancing the next level of the consumer experience. We will continue to work hard to be great, grow sales, and add new locations. It is a very fun brand! ■

BY KERRY PIPES

HE'S GOT THE FIX

Serial entrepreneur at your service

David Lopez made a bold move when he was 19 years old. He quit college, borrowed money, and opened his first business. Turns out he was pretty good at being an entrepreneur. At just 36, he's been a part of founding and operating Froots, Dr. G's, and Battery Fix, and he's invested in numerous others. But it's Dental Fix Rx that he leads today with a passion and optimism that's making the industry sit up and take notice.

It all started in 2009, when he was looking for a recession-proof business model and recognized a common pain point in the dental profession: equipment repairs, the length of repairs, and lost income from down machines, says Lopez, today CEO of Dental Fix Rx. So once again, he did what he does best—built a business plan for a new company that could solve all these issues and then launched it.

NAME: David Lopez

TITLE: CEO

COMPANY: Dental Fix Rx

UNITS: 200+ franchises granted

AGE: 36

YEARS IN FRANCHISING: 15

YEARS IN CURRENT POSITION: 8

Lopez, along with friend and business partner Mike Parker, started the business with a single repair van. Since then the brand has grown to award more than 200 franchises serving more than 20,000 customers through North America—no surprise, considering the dental equipment repair sector is a whopping $38 billion industry.

Lopez, who prefers the title "entrepreneur," says he is driven by strategy, execution, and results. "We look at performance, KPIs, and I look to see if we are hitting our goals," he says. "This allows me to pinpoint where the bottlenecks are within the business so I can prescribe a solution." He likes to measure his results over 90-day periods and then readjust when and where necessary.

With the business landscape changing so rapidly everywhere today, Lopez says he even has an eye on online giant Amazon as a potential competitor. "Amazon is starting to come into the dental industry by giving dentists more choices of who to purchase their supplies from," he says. "Dentists will now be able to go directly to manufacturers and find their affordable service companies elsewhere." But Lopez believes Dental Fix Rx will make the necessary marketplace adjustments and be just fine.

When asked about what else the company is planning in the near future, Lopez only said, "We will soon be announcing some strategic partnerships we have in the works." With Lopez behind the wheel they will surely be interesting.

Leadership

What is your role as CEO? I oversee the strategy and drive the vision and actionable steps needed to move the company forward. My main role is strategic planning and sitting the team down with a 90-day road map on a quarterly basis. I'm always looking 3 to 4 years ahead, and this allows me to present the trends, the strategy to address what is and isn't working, and understand the opportunities available. Once the 90 days are up we review how we did and map out the next challenge.

Describe your leadership style. I'm driven by the strategic plan we set out to achieve that is managed by numbers. We look at performance, KPIs, and I look to see if we are hitting our goals. This allows me to pinpoint where the bottlenecks are within the business so I can prescribe a solution. My leadership style is holding people accountable to the numbers that they were assigned within the plan. If there needs to be modification, I will troubleshoot within the review of the 90-day plan to leverage improvement.

What has inspired your leadership style? I appreciate that each individual brings something different to the table. Some people bring strategy and others are the ones who execute it. I've learned that my value is knowing my next three chess moves. I've found that once you put the plan on paper, it exists and everyone hears how it's going to get done; the game plan is set and everything is recorded. The plan distinguishes any excuses my team might bring to me because everyone is accountable for the number set out for them. It requires them to take ownership for any successes or missed targets.

What is your biggest leadership challenge? Managing people and finding the right talent and team. Once you have the raw talent, the challenge becomes getting them to work together. A way to get forces to work with one another is by aligning financial interests. If your sales person and operations person are motivated by different avenues, they don't see the need to work together. When everyone is working toward the same goal, that's where you see the increase in performance and faster moves to solutions. I believe in paying lower base salaries but very high variable compensations. It's challenging, but every job should be measureable to avoid employees filling the day with only meaningless tasks. You can measure the quality and quantity of the work everyone is doing by putting a number to each employee. This speaks volumes to the impact they have on moving the needle for the brand. While there is the surface level of success, I do have a business intelligence team that digs deeper into how many leads turned into applications, etc. They help address how employees can leverage and increase their performance.

How do you transmit your culture from your office to front-line employees? Our culture comes through during training and on how we work with our franchisees. However, the nature of our culture is not forced on any of our franchise partners. As a Dental Fix franchise owner, you need to have an effective culture on your own. If you manage based on relationships and our corporate office is more driven by metrics, that is not going to influence your performance, and we are not one to say one is better than the other. We do go over our values, vision, and mission with them but that's the extent of it. The culture of our South Florida franchisees is completely different than how things are run in Houston and in our corporate office.

Where is the best place to prepare for leadership: an MBA school or OTJ? There's no right or wrong answer. I dropped out of college when I was 19 to start my first business, Froots. I work with a lot of people who come with an MBA background, but at the end of the day it comes down to the person who is willing to put in the work. I find education is often based on opportunity. Not everyone can afford to get a quality, high level of education, or others take on a lot of debt in the process.

Are tough decisions best taken by one person? How do you make tough decisions? Sometimes the tough decisions happen when culture and financial factors cross one another. You can't just make a decision based on data when there is a human aspect that needs to be taken into consideration. It's best to gather as much data as possible, have a team to listen to for additional insight, and try to understand how the decision is going to affect everyone else.

Do you want to be liked or respected? I want to be effective with everyone I interact with. My management style changes based on who I'm working with. With my own kids, how I influence my son to get what I want out of him is different than how I interact with my daughter. You can be consistent with everyone you encounter or you can customize how you act with certain people to get more effective results.

Advice to CEO wannabes: I don't believe in titles. My title is entrepreneur. A lot of people want to be a CEO for different reasons. Function is more important within an organization over title. I would say if you want to go into business for yourself, you need to look at the reasons you want to do this. Then make sure what you're going to be doing will fulfill that. If you're someone who enters an organization and rises through the ranks to become someone in a leadership role, then you're in the right business because it's not something you wanted to do, it's just who you are. When people gravitate toward you, you're a good decision-maker, and have strong leadership skills, people will follow you. If you want to be a CEO to "make a lot of money," this isn't for you. There are

plenty of times that I can remember when I wasn't making a lot of money.

Management

Describe your management style: Similar to my leadership response, I manage by holding people accountable to the 90-day plan entrusted to them. Every quarter I want to know what we can learn from the team's results or lack thereof and what we're going to do to improve the next 90 days.

What do you think makes up a good management team? Diversity in personalities and skills. I don't try to change anyone or force them into a mold of any kind, as long as they're being effective with their own set of skills. Carolyn Bolton is our chief of staff who oversees the role of management execution. Her function is to make sure that the strategic plan is being executed and to help everyone manage what needs to be done to see the plan through. Her background experience is 25 years working directly with Fred DeLuca, the founder of Subway. She is cool, calm, and collected. My CFO, who is a private equity guy, is 100 percent driven by data, and his decision-making is strictly based on if numbers are being met. The most effective management are the people who mastered how to use their skill strengths.

How does your management team help you lead? I lead them so that they can better lead their own teams. They have helped me by challenging me to be a better leader. I evaluate them and learn from each of them. When I started working with my VP of business development, I was 21 years old and he was running circles around me. I had to fire him. Looking back on it, it was because I didn't have the skill set at the time to manage someone like him. Today I do, and he taught me how to manage someone of that magnitude. I'm a sponge—I listen and assume I do not know how to do something. The people and companies that get stuck in the mindset that they know everything are the ones that go out of business because they stopped evolving.

Favorite management gurus: Do you read management books? I read a lot of biographies from entrepreneurs to pull as much insight out of them as possible. I read about two books a month.

What makes you say, "Yes, now that's why I do what I do!"? I love winning and being on a team. When you grow your company, it's just that—you're working toward an end goal together. You hope to make a lot of money along the way, but it's not motivated by just that. I own a share in several companies, but I don't have an ego and for a lot of the brands my name is nowhere associated. I would rather be the man no one knows than the one that lets my ego get in the way of the business.

Operations

Are there any trends in the dental industry that you foresee having an impact on the Dental Fix Rx brand? Amazon is starting to come into the dental industry by giving dentists more choices of who to purchase their supplies from. Supplies typically have been tied to service, so more supplies will open the door to more needed services. Dentists will now be able to go directly to manufacturers and find their affordable service companies elsewhere. Typically, how most dental offices are set up is that the dentists purchase their supplies from a large company that then bundles the services for a low price.

Personal

What time do you like to be at your desk? I'm not a desk guy but I start looking at my computer at 7 a.m. I don't go into the office. I like to take my kids to school and then work in my home office.

Exercise in the morning? Wine with lunch? I frequently do yoga at lunch. I've been doing yoga for 6 years and it's another passion of mine. I own a yoga company called the Yoga Joint.

Do you socialize with your team after work/outside the office? I go out with some members of the team.

Last two books read: *Never Split the Difference: Negotiating As If Your Life Depended on It* by Chris Voss and Tahl Raz. And *Titan: The Life of John D. Rockefeller, Sr.* by Ron Chernow. I wouldn't recommend the latter, it was way too long.

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

How do you relax/balance life and work? Hot yoga.

Favorite vacation destination: Colorado, in the mountains.

Favorite occasions to send employees notes: When they achieve results.

Bottom Line

What are your long-term goals for the company? To be the best solution for dentists' repair needs, the fastest fix, educated resource, and affordable option. Dental Fix Rx owners are equipped to handle some of the latest dental equipment such as handpieces, chairs, x-ray systems, ultrasonic scalers, and much more. The modern service van and business model provides the franchisee with all the resources needed to better serve the current dental practices and the future offices that will evolve with the changing pieces of equipment.

How do you measure success? I measure success by three categories: business, family, and personal. I set goals for each of them each year to keep myself accountable. Every month I have a meeting with seven other entrepreneurs through the Entrepreneurs' Organization (EO), and we start the meeting off by discussing and ranking each category. As a group, it's a way for us to hold ourselves accountable, and once a year we do a retreat where we set goals for where we want to improve in each area of our lives. When I look at where I spend my time and energy, it's around those three goals, and to me those areas are the most important that shed light on how successful one is.

What has been your greatest success? Has to be my family and children.

Any regrets? No. I focus on the future and being better than who I was yesterday, 90 days ago, etc.

What can we expect from your company in the next 12 to 18 months? We will soon be announcing some strategic partnerships that we have in the works. ■

BY ED YANCEY

PizzaRev-olution

Now poised for national expansion

It's a deliciously simple and satisfying concept: pick your dough, sauce, cheese, and toppings and watch your pizza get made right before your eyes, flame-fired in a 900-degree oven in under 3 minutes.

At PizzaRev, we took the world's most popular food and dared to revolutionize it, offering a better pizza for less, and creating a business opportunity for operators ready to become ambassadors for a new pizza concept in their communities.

As the "Craft Your Own" fast-casual pizza concept that gives guests the opportunity to customize their pizzas with everything they want for a single price, we have had no shortage of transformations and adjustments along the way as we worked to strike the right balance between affordability and a truly revolutionary pizza experience. We've achieved the operational success with the highest-quality product and the most distinctive dining experience in our category. Now the PizzaRev franchise opportunity has been positioned for accelerated growth across the country.

Our story

When we got our start in 2012, the founding father-and-son teams of Rodney and Nicholas Eckerman and Irv and Jeff Zuckerman opened a string of pizza restaurants to fill the void they saw for faster, better-quality pizza in Southern California. The brand quickly expanded, adding locations and drawing the attention of major restaurant industry investors, who saw the interest the public had and felt ready to spread our concept even further.

By 2014, the company had 10 locations and was primed to continue its growth. But the ensuing years brought major competitors in the fast-casual pizza space that were quickly gaining steam alongside us. It was clear we needed to focus on the differentiators that made PizzaRev the top healthier alternative for quick-serve customizable pizza—with the guidance and support of a major restaurant incubator.

Acquisition

In May 2017, Cleveland Avenue became a majority partner and strategic investor, focused on facilitating PizzaRev's growth through expanding both its franchised and corporate footprint. As an accelerator that strategically invests in innovative, consumer-focused restaurant, food, and beverage concepts, Cleveland Avenue has made a swift and measurable impact on our expansion and brand equity. Under the supervision of Don Thompson, founder and CEO of Cleveland Avenue and former McDonald's CEO, PizzaRev is aimed at becoming a leader in the fast-casual pizza industry. Together with our revolutionary approach, the added leadership team has helped us stand out in the crowded arena of make-your-own pizza concepts.

The competition

Our goal has been to separate ourselves within the pizza industry by providing a personal-

ized, customer-oriented dining experience along with top-quality ingredients, from toppings to sauce to cheese and homemade dough. Our biggest area of opportunity is to make the experience as personalized as possible for each customer who walks in the door, building dedicated fans who become brand advocates. We continue to push the envelope in fast-casual pizza through beverage and menu innovation, transforming the digital ordering experience, and testing direct delivery to our customers.

With a minimal time commitment for the customer, we focus on providing pizza that fits individual tastes and dietary needs, while empowering each customer to craft their own pie and watch it cook quickly in our proprietary 900-degree stone ovens. As a relatively new concept in the pizza world, we also have the flexibility to continue to transform and evolve our customer experience, our product and, in turn, the franchise opportunity for prospective owners looking to open a PizzaRev in their own community.

Concept evolution

As we continue to add new locations, we remain focused on transforming the classic pizza joint into a modern take on what a local neighborhood hot spot looks like for young professionals and their families. With a new decor concept and in-store layout, we plan to draw in a local crowd with updated lighting and counters that make our locations feel like an extension of home, making customers immediately feel welcomed and inspired.

It's a willingness to evolve and prioritize innovation that elevates restaurant concepts into iconic brands—in both the restaurant industry and in franchising. Customers want to experience the personality and creativity that makes a brand unique, and in turn earns their trust and loyalty. The PizzaRev mission has always been rooted in the idea that there's a better way to deliver a quality product, even a juggernaut favorite like pizza, leaving us exceptionally situated to capture the spirit of communities across the U.S. and appeal to a broad cross-section of local pizza lovers.

Strategic expansion

With the support and expertise of a world-class partner like Cleveland Avenue, what started off as a family business is well on its way to becoming a household name across the country. Today we are operating across 11 states. The next step is to continue to expand our family through focused, goal-driven growth. With the right pieces in place, from a keen eye to customer satisfaction to unmatchable ingredients on a quality product, PizzaRev is looking to make 2018 the year that the brand refines its differentiators and grows its fan base with a targeted brand message and purpose, emphasizing the PizzaRev-olution. ■

Ed Yancey is franchising and operations director at Cleveland Avenue.

BY EDDY GOLDBERG

PERMANENT... FOR NOW

The 2018 legislative outlook is mixed

For business in general, 2017 began with hope that Republicans, in charge of all three branches of the federal government, would bring much-wanted relief from burdensome regulations and legislative overreach. For franchising in particular, the hope included relief from joint employer liability and the passage of business-friendly tax reform.

However, with disarray in the White House and a polarized Congress, relief from external threats and uncertainty came more slowly than many expected. Nevertheless, 2017 did deliver several victories important to franchising, some permanent and some temporary. We asked people involved in these issues what's ahead on the legislative and regulatory fronts and the likely effect on franchising in 2018.


Gary Robins

"Certainly the environment has changed—in good ways, I think," says Supercuts franchisee Gary Robins, who operates 55 salons and employs 400 people. For example, he described the rollback of the NLRB's Browning-Ferris joint employer ruling as a "little bit of a veil lifted for us."

However, he adds, preventing a new administration from reversing this will require statutory action to make the change permanent. This means bringing back HR3441, the Save Local Business Act (SLBA), which passed the House in early November, but not the Senate as the year's legislative session expired before a vote. "We need to keep fighting for it," says Robins.


Shelly Sun

"We need a legislative fix," agrees Shelly Sun, last year's IFA chair and CEO of BrightStar Care. She says the IFA is continuing "full steam ahead" to find support for the SLBA in the Senate in 2018. The goal, she says, is to make the standard of direct control permanent through legislation, "as it had been for decades."

Another aspect of the SLBA is that it also would apply to the Fair Labor Standards Act (FLSA). Where labor organizing is the domain of the 1935 National Labor Relations Act (NLRA), the 1938 FLSA deals with minimum wage, overtime, sexual harassment, and other workplace issues.


Michael Lotito

"We currently have the NLRA addressed, but the FLSA is still an area of considerable concern with differing local court opinions as to what constitutes joint employment," says Michael Lotito, a franchise attorney who co-chairs the Workplace Policy Institute at Littler Mendelson and is labor counsel to the IFA.


Matt Haller

"This certainly is a big positive step by the NLRB to reverse the joint employer ruling, but the issue remains very uncertain," says Matt Haller, senior vice president for government affairs at the IFA. In addition to the rollback not being permanent, he says, courts will have different interpretations on what constitutes joint employment.

This poses a particular problem for franchisors and franchisees operating in multiple states across different jurisdictions. "The patchwork of FLSA interpretations is a legal minefield we're trying to clean up through federal legislation," says Haller, specifically through passage of the SLBA. "Now is not time to take our foot off the pedal."

In fact, says Haller, until federal legislation is enacted, in certain jurisdictions some attorneys will have an *easier* time bringing allegations against franchisors if franchisees violate any laws or regulations. Issues still in the "uncertain" department include providing scheduling software or an employee handbook to franchisees, common branding and uniforms, and other forms of franchisee support. This support, which is at the heart of the franchise business model, is being used by plaintiff attorneys and labor unions in some cases to get at the deeper pockets of the franchisor.

The franchise contract, Haller reminds, states that the franchisee is responsible for employees, while the franchisor has rights to address franchisees not complying with those laws. "The SLBA would create a federal definition of who is a joint employer under NLRA and FLSA—and supersede any court decisions," he says.

"While we have a good decision from the NLRB dealing with Browning-Ferris, restoring us back to sanity, that's good news," says Lotito. "But we still need legislation."

Tax reform

The short version of what franchisees should do following December's Republican tax reform bill (the Tax Cuts and Jobs Act) is simple: get professional help. The choices are complex, with all situations different. Also, the "technical corrections" process is still under way as various constituencies lobby to tweak the bill in their own preferred direction.

One of the questions franchisees must resolve is whether or not they should change the legal structure of their business in light of the new tax law. Should you change your S Corporation, LLC, or partnership to a C Corporation to reduce your tax bill? It's a veritable Rubik's Cube of new rules that trade off gains in one area for reductions in others. Do you own your real estate? Are you planning to expand? Sell some units? Buy new equipment?

About 80 percent of franchisees are

pass-through entities, says Haller. He says that while the new, more business-friendly tax rates went into effect on January 1, 2018, franchisees have until March to switch to a C Corp if their circumstances dictate the change.


Rob Branca

"One of the things I'm looking at is how different sources of income are treated," says Rob Branca, a large, multi-state Dunkin' Donuts franchisee and chair of the brand's Government Affairs Committee. Most of his Dunkin' units are in the higher-tax states of Massachusetts and New York, with others in Ohio

"You have options on which form your income can take," say Branca, who says he had to call his CPA to understand the new rules. For now, "We're busy analyzing how to best protect ourselves from increased taxes." Specifically, he says, if you're a multi-unit franchisee it's likely you have a large number of entities and can take income in ways that are more favorable from a tax perspective.

"Everything is individual," agrees Jeff Tubaugh, a CPA and tax partner at BDO in Columbus, Ohio. "You need to look at your situation specifically—21 percent is not automatically the way to go. Talk to your tax advisor." In terms of write-offs, he says the equation is different for franchisee organizations that are expanding, versus those who are not. It's also a different game in states with no income taxes, such as Florida, Texas, or Tennessee.


Jeff Tubaugh

Other factors to consider include the reduced corporate tax rate of 21 percent; the $10,000 cap on state and local income tax deductions (for individuals); and for pass-through entities such as partnerships and S Corps, the 20 percent reduction on qualified business income. But as noted, says Tubaugh, seek professional advice, as there are many inter-related factors that enter into the calculations behind deciding how to move forward in the new tax environment.

For restaurants, says Tubaugh, the biggest benefit probably is the change to bonus depreciation. Under the new rules, through 2022, a 100 percent deduction is allowed in a single year, up from 50 percent. After that, it will be phased out at the rate of 20 percent a year, vanishing at the end of 2026. More good news: this includes used equipment, where the previous rules applied only to new. Even more: there is no annual limit to this deduction—especially helpful to larger franchisees. The new bonus deprecation rules apply not only to furniture, fixtures, and equipment, but also to landscaping and parking lots—just about everything except buildings and real property.

These changes for eligible assets took effect retroactively on September 27, 2017. So in addition to boom times for tax advisors, the coming 5-plus years are likely to see sharp increases in restaurant and other retail improvements, as well as the strong possibility of an accelerated timetable for building out multi-unit agreements.

"This is a boon to franchising because franchisees have to remodel constantly," says Branca. "The extent to which you can expand your deductibility could generate a fair amount of cash for expansion."

For restaurants, Tubaugh notes, successful industry and association lobbying against changes to the FICA tip credit and Work Opportunity Tax Credit in earlier versions of the House bill were "two nice wins for the restaurant industry we thought we'd lose."

The cost of compliance

Despite progress on several fronts, complying with the multiplicity and overlap of federal, state, and local regulations remains a problem, especially for franchisees with operations in different states and municipalities—and so does the cost.

"Today I feel as a business owner that I run two companies," says Robins. "I run my operating company, and then another entire company that's an administrative compliance company. This certainly diverts focus from creating growth and opportunity."

Still, the changes wrought by the new tax law and other pro-business actions in 2017, he says, are "relieving some pressure on the regulatory side, and now we're giving more attention to the operating side."

For Robins, the most important issues to deal with will be at the state and local levels. This aspect of doing business, he says, "continues to be challenging, whether it's states or city councils with minimum wages, predictive scheduling, the soda tax for fast-food operators, paid

COALITION OF FRANCHISEE ASSOCIATIONS

Keith Miller, a 3-store Subway franchisee who has served as chair of the Coalition of Franchisee Associations (CFA) for the past 6 years, says the organization will continue its goal of protecting the rights of franchisees, with a particular focus on three areas in 2018:

1) Termination rights. "No one wants a bad franchisee in their system, but even a bad franchisee should have due process," says Miller. He points to the Protect Florida Small Business Act of 2017, which the CFA supported and the IFA opposed. The bill, intended to prevent a franchisor from terminating or not renewing a franchisee except for good cause, died in committee. It was reintroduced this January as SJ 81.


Keith Miller

2) Nonrenewable rights. The goal here, says Miller, is to protect the property and equity rights of franchisees in cases of nonrenewal. He says California was the first state to mandate that if a franchisor took possession of a business it would have to buy the equipment and assets at a depreciated value—as opposed to paying nothing.

"If you're a franchisee who gets terminated and the franchisor in essence seizes your equipment and fixtures, either they stole it, or they're basically stating that all along they had joint ownership," says Miller.

3) Transfer rights. A longstanding bone of contention for franchisees is the franchisor's right of first refusal in a sale or other transfer. Under the California Franchise Relations Act (which Miller, whose stores are located in Northern California, worked to shepherd through the state legislature), franchisors are held to stricter standards, including paying a price equal to or greater than the price offered by a potential buyer.

Miller is seeking to expand these protections for franchisees to additional states in 2018.

time off, or paid family leave." With municipalities continuing to increase their local regulations, Robins avoids certain cities when he looks to grow. "I think this is going to continue to be a challenge in 2018," he says.

Predictive scheduling

In efforts intended to improve the lives of retail and fast food hourly employees, cities across the U.S. are passing "predictive scheduling" laws. However, as we've seen with the unintended consequences of some aspects of the ACA—for example, defining "full-time" as 30 hours—these good intentions can have negative effects on the hourly workers they're intended to help.

"New York City just passed laws that are impossible to comply with," says Branca. One big complaint from retailers and fast food operators is the difficulty in predicting customer demand, especially in northern cities, where severe winter weather can reduce customer demand to a trickle. Early January's "bombogenesis" storm along the East Coast is a good example of un-predictable scheduling.

In previous years, Branca says he would go into a store and work it himself, rather than endangering his employees by asking them to drive to work in a blizzard. If he did that under some of the new laws, he could face fines and penalties for not providing sufficient advance notice to the employees he felt he was protecting.

Other requirements that rankle franchisees where predictive scheduling laws are in place include: loss of flexibility (for both employers and employees) from having to schedule two weeks ahead; having to offer full-time work to existing employees before hiring new part-time workers; how to fill a schedule when an employee calls in sick (or goes to the beach) with no advance notice; and flexing around medical appointments or school meetings a parent must attend.

Predictive scheduling rules also could also make employers think twice before offering extra shifts on short notice to employees—even if they request them—to avoid being fined or penalized for last-minute schedule changes. It also takes away some of the decision-making from hourly employees who would like to work an extra shift or put in some additional hours.

Some of the penalties for noncompliance with New York City's new "Fair Workweek" laws are downright onerous, including $200 to $15,000 for a pattern of infractions—levied on a per-employee per shift basis. If a business shuts down because of fines and penalties for scheduling violations, how does that help its (former) employees?

There will always be businesses that take advantage of hourly employees, but why penalize operators who treat their employees well? Branca says his best employees have had a good night's sleep, are healthy, and have good morale—which is better for them, for him, and for the customers. In the attempt to protect hourly workers from bad actors, he says, "You don't legislate to the lowest denominator."

Group health insurance?

After yet more failed attempts to "repeal and replace" the Affordable Care Act (with more emphasis on repeal than replace), the Republicans continued to whittle away at the ACA in 2017. Included in the tax reform package was an option to allow small businesses to band together in so-called association health plans, allowing them to buy coverage in the "large group" insurance market.

The IFA, in a January 4 press release, said the organization "applauds" the proposed rule and praised the DOL for the proposal, "which will allow small-business owners to join together to buy health insurance."

Issued in early January, the proposed rule would amend current regulations to allow more groups to qualify as associations—allowing them to buy coverage outside the ACA markets. While some claim this would benefit smaller employers and franchisees, critics have warned the new rules could result in health plans that offer limited coverage and are poorly regulated. Specifically, they say, it could allow plans that don't cover pre-existing conditions and eliminate other benefits required under the ACA.

One potential result down the road: a majority of voters don't like the tax reform and do like the ACA, worrying Republicans that they will be swept out of power in November's mid-term elections. Continued attempts to rush legislation through Congress before year-end could backfire. On the one hand, this might produce positive changes for franchising and business; on the other, hastily written legislation pushed through Congress without proper review might result in unintended consequences that harm smaller businesses, as well as the Republican majority in both houses of Congress come November.

Overtime rule

The DOL's May 2016 ruling to raise the threshold for overtime from $23,660 to $47,476 (or from $445 to $913 per week) was immediately challenged, including 21 states filing suit against it. Many franchisees raced to meet the December 1, 2016 deadline, but a court injunction at the 11th hour put the increase on hold. The Obama administration appealed, but the current administration dropped the appeal.

The current overtime test will stay in place for 2018, says Lotito, with a final ruling expected in 2019. Last July, the DOL issued a call for comments, with more than 200,000 received. Lotito says there are a number of open questions about what the new threshold will be, including regional differences. He expects the new overtime number will be in the $32,000 to $35,000 range. This is in line with the $33,000 figure Labor Secretary Alexander Acosta suggested during his confirmation hearings in March 2017. ■

GET INVOLVED!

There are many ways for both franchisees and franchisors to get involved with the legislative and regulatory process, whether at the local, state, or federal levels.

- The **Coalition of Franchisee Associations,** whose CFA Day Forum includes lobbying visits to Congress.
- The IFA's **Franchise Action Network** (FAN), which hosts state and federal legislators in their districts.
- Joining the IFA's **FranPAC** political action committee and contributing to pro-franchising lobbying efforts.
- The **Coalition to Save Local Businesses,** working to fix joint employer permanently.
- Spreading the word on how franchising is the best training and apprenticeship program in the country because it pays so many young people to learn how to work in a business with other people, treat customers well, and advance through hard work.
- Telling the story of franchising to everyone you can—starting with your employees (many still think they work for the franchisor, not the franchisee) and your customers (many think franchises are corporate stores, not locally owned small businesses).

Regulatory Update

ASC 606 and You

Changes in reporting initial franchise fees

BY RICHARD PAWLOWSKI

The upcoming adoption of ASC 606 ("Revenue from Contracts with Customers") and its impact on the financial reporting of revenue from initial franchise fees has, understandably, been a hot topic recently. It affects every franchisor that collects an initial franchise fee (IFF), so almost everyone. Its real impact depends on how much of your reported revenue is generated by IFFs today. Here is how we at NRD Capital Management view it as investors in franchisors and related businesses.

Please note that we are not accountants or lawyers, and so nothing here should be regarded or relied upon, in any way, as accounting or legal advice. Please consult your qualified professional advisors before making any decisions.

At a high level, ASC 606, when adopted, states that you must now recognize the revenue from IFFs *over the life of the franchise contract*. For example, today, if you sell a 10-year franchise agreement and collect an IFF of $50,000, you can recognize the entire $50,000 as revenue upon opening of the franchise unit and reflect it as such on your financial statements. After ASC 606, you would be required to report $5,000 of revenue a year for 10 years. As always, there are ways to offset the impact and recognize more of the IFF as revenue sooner, but all else being equal, that is what would be required. ASC 606 does not affect revenue recognition for the periodic royalties collected once the franchise unit is in operation.

If your documents are drafted such that the IFF is completely non-refundable, you can still use the cash to fund your business. That's the "good" news. But you will be restricted to reporting only a portion of the IFF on your income statement in any given year.

If you are a franchisor that has not reached royalty self-sufficiency and are, therefore, reliant on recognizing your IFF in full to bridge the gap to profitability, then the impact is potentially very dramatic. You might change from being a "profitable" and growing franchisor to being an "unprofitable" but growing franchisor (although possibly still cash-flow positive because of the IFFs you've collected).

At worst, this change could dramatically affect the growth and success of your business.

This could potentially affect your ability to attract qualified, experienced, high-quality franchisees; to secure lending relationships for yourself and your system; to secure good terms from vendors, suppliers, and professional advisors (or to secure their services at all); and may limit the universe of potential equity capital partners to more sophisticated investors.

At best, you have some explaining to do. At worst, this change could dramatically affect the growth and success of your business. Who really wants to partner with an unprofitable franchisor with no clear path to profitability?

Adapting to the change

Recent clarifications from the Financial Accounting Standards Board (FASB) suggest you can offset the impact of ASC 606 in ways that are fair, justifiable, and straightforward. Your professional advisors should be able to help you identify, and quantify the value of, specific performance obligations that would allow you to recognize portions of the IFF as these obligations are satisfied. That will certainly help. But, more importantly, you need an achievable, executable plan to get to royalty self-sufficiency as expeditiously as possible.

And that comes back to the fundamentals: Is your franchise opportunity a sufficiently compelling investment, with sufficiently compelling risk-adjusted returns, *at the individual unit level* to be attractive to potential franchisees? If so, you will be able to attract franchisees to help grow your system. In addition, you should be willing to actively develop company-owned units to demonstrate performance, and the profits from those units should help fund your business. If you aren't willing to develop company-owned units, why should you expect franchisees to?

At NRD, we are maniacal about franchisee success, which is ultimately driven by demonstrated unit-level returns. Unit-level performance is our "true north." Although we review a range of metrics to assess the attractiveness of investing in a franchisor, as experienced multi-unit franchisees and operators ourselves, we intimately understand that attractive cash-on-cash returns (both levered and unlevered) are critical to growing and sustaining a strong franchise system.

If you have demonstrated unit-level performance (perhaps clearly disclosed in your Item 19), along with a well-articulated plan to achieve royalty self-sufficiency, then the adoption of ASC 606 should hold no concerns for you. Its impact might be dramatic on the face of it, but the strength of your concept, along with your plan and pipeline of new company-owned units, should enable you to attract strong franchisees and value-added capital from both lenders and investors.

For us, ASC 606 was more of a useful 411 call than an emergency 911 call. For many reasons, not least of which is the increased transparency and explicit clarity brought by ASC 606 into a franchisor's financials, we regard its adoption as a positive change for franchising. ■

Richard Pawlowski is a director with NRD Capital Management. Before joining NRD, he was CFO of Famous Dave's of America and a manager with Bain & Company. Before that, he co-founded a successful multi-unit, multi-brand franchised restaurant development acquisition and operating company. Contact him at 404-865-3356 or email receptionist@nrdiusa.com.

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CONSUMER MARKETING

CMO Q&A

Juiced for Growth

Redefining a legacy brand for continued success

BY KERRY PIPES

This past November Jamba Juice made a bold move, bringing in a new CMO with a 20-year track record of marketing innovation and success. Claudia Schaefer has worked on the client side with such brands as Cheddar's Casual Cafe, Brinker International, TGI Fridays, and on the agency side with Leo Burnett. No matter the address, Schaefer has successfully led departments and developed an expertise and reputation for marketing, innovation, and business development.

In her new role at Jamba Juice she oversees all aspects of global marketing, consumer insights, public relations, product innovation, and research and development. Jamba Juice now has more than 800 company-owned and franchised locations worldwide.

"With our loyal customer base, premium product, and high brand recognition, I see an amazing opportunity to reimagine this legacy brand and redefine what it means to consumers today," says Schaefer.

The brand relocated from California to Texas about a year-and-a-half ago, and Schaefer says there are many new faces and fresh excitement about the future. Together, she says, the team is focused on being "data driven" in an effort to better understand the customer, what they want, and how to best deliver it.

Says Schaefer, "I'm passionate about healthful living and am excited to work for a brand that's appreciated for inspiring and simplifying a healthy lifestyle through high quality, hand-crafted blends and meal replacements." Below, she shares more about her team, how the brand's departments work together, and the challenges and opportunities she sees the brand facing as it looks ahead to 2018.

Describe your role as CMO. I lead brand marketing and innovation. My priority is to grow sales while redefining Jamba's brand positioning through a consumer data and insights-driven approach.

What's unique about the CMO position at Jamba Juice? Jamba is an iconic global brand with a footprint of more than 800 stores and over 25 years of history. With our loyal customer base, premium product, and high brand recognition, I see an amazing opportunity to reimagine this legacy brand and redefine what it means to consumers today. Additionally, Jamba moved its headquarters from California to Texas in October 2016, so most of my team has been with Jamba for just over a year. Since we are all relatively new, we are learning the ropes together while laying the groundwork for the future.

What's the most challenging part of being a CMO today? One of today's challenges as a CMO is being able to find the perfect balance and methodology in driving sales and transactions for the short term, while revolutionizing the brand for the long term.

What are the 3 most important keys to being an effective CMO leader today? 1) Being consumer insights-driven: it is imperative to know who your current consumer is and who your potential consumer could be. 2) Being data-driven: to fully recognize and capitalize on the brand's opportunities, and mine and understand the data. 3) Connecting the company to the data: for the company to be focused on the same goal, it is imperative that each team member understands and aligns with the data and results from consumer insights.

How do you prepare a marketing plan and execute the strategies? We begin with an annual marketing calendar that outlines the high-level plan for the year. Our marketing team develops four to five campaigns each year. For every campaign, we use a collaborative and consumer data-driven process designed to anticipate trends and understand the void in the consumer need state. We then determine how Jamba can support the demand through product innovation and an integrated marketing strategy that will drive sales while continuing to build an iconic brand.

How do you measure marketing results and effectiveness? We use strategic KPIs dependent on the channel and initiative. For a new item rollout, we may look at the product mix and units per day to gauge traction. On social media, we place a large focus on engagement, while also measuring impressions, share of voice, and fan growth. In public relations, we consider impressions, share of voice, and sentiment. On a higher level, we reference industry benchmarks and look for a lift in sales and traffic.

How do you go about creating a customer-centric marketing and brand philosophy? We make it a priority to listen to the consumer. I have found that you will quickly understand what consumers would like from your brand if you root your approach in consumer insights and data.

Describe your marketing team and the role each plays. We have built an integrated marketing team that works in tandem with our agency partners to carry out national programs. The brand team is responsible for managing brand perception through social media and public relations. Consumer insights provides us with a quantitative and qualitative understanding of the consumer, brand, and opportunity within the industry. Marketing services handles the execution of all marketing campaigns, including strategy, creative development, production, and project management. Our digital team is responsible for all content on our website, mobile app, email, and loyalty program. Field marketing serves as the liaison to franchisees and executes all local marketing initiatives. We partner closely with the innovation team, which is responsible for developing new products that cater to ever-changing consumer needs.

Why is it so important for the marketing department to have a "personal touch" when it comes to helping the brand connect with franchise prospects? Our marketing team partners with the franchise development team to introduce our brand and culture to prospective franchisees throughout the franchise recruiting process. For potential owners and representatives of Jamba, it's important that prospective franchisees align with our mission to inspire and simplify healthy living, and are passionate about sharing our nutritious and flavor-forward blends made from nature's best ingredients, served with an infectious energy. As the front line to consumers, franchisees are responsible for carrying this on through the in-store experience.

What ways/tools do you rely on to do this? We have a team that specializes in the recruitment, onboarding, and training of franchisees. Our franchise recruitment team and outside partners work together to develop educational tools and assets to help prospective franchisees understand the brand and business opportunity.

How is today's consumer and marketing data helping you fine-tune your marketing initiatives? Our consumer insights team conducts both qualitative and quantitative research so that we can better understand our opportunities and how to optimize our products and campaigns for maximum success. With consumer insights and the latest digital capabilities, we are able to clearly understand who our consumer is, their purchasing behavior, habits, and preferences, which ultimately allows us to be targeted with our marketing approach and efficient with our investments.

Describe the evolving role of social media in your brand's marketing efforts. Social media is an integral and ever-changing platform for online marketing and communication, particularly among Millennials and Gen Z. Brands are able to carry on two-way conversations with consumers at minimal cost. This not only connects guests to the brand, it also gives the brand powerful insight into guest perception and need state. We make it a priority to engage with every guest who interacts with our brand while proactively reaching out to inspire new or lapsed users to Jamba! Most important, we use social media as a real-time tool. We know that online trends can start and end within hours, and social media offers a way to activate quickly and create meaningful moments with followers. It's also important to use these platforms to drive business results. Social media is the fastest way to bring time-sensitive promotions and messages to market. It offers a frictionless way to drive results in real time while shaping brand perception through a collection of interactions.

How are you assisting your franchisees with more contact and transparency? What are their immediate needs? We're committed to supporting and listening to our franchise partners. We've made it a priority to connect with them regularly in an effort to understand their immediate needs, challenges, goals, and recommendations. We provide communication portals to offer real-time updates and tailored training to both employees and franchisees. We host an annual franchisee conference, where all owners have an opportunity to directly connect with Jamba's leadership, share ideas, and align on organizational goals and future plans. We offer a team of passionate marketers who develop fully integrated campaigns that drive national brand awareness. Furthermore, to ensure that we are always meeting the needs of our franchisees, we assign each franchisee to a franchise business consultant who is the main point of contact and liaison within the company.

How do you work with other internal departments and does technology help? We have found that working cross-departmentally is key to achieving success and unity in the planning and execution of campaign rollouts. From campaign webinars with franchisees and video meetings with our field teams, to Skype Messenger and our online training portals, technology plays an integral role in keeping departments, franchisees, and field team members aligned, on track, and connected.

Do you see vendors as business partners? Why/why not? Absolutely. We are intentional about who we work with, as we believe they are an extension of our brand.

How have marketing strategies/tools changed over the past decade? How have you adapted? Everything has become digitized. It is an extremely fascinating time to be a chief marketing officer, as you are able to read results immediately and are able to optimize campaigns in real time. We are able to better understand consumer behavior and quickly use this data to inform our decisions and offerings. ■

CONSUMER MARKETING

CMOroundtable

"DOES YOUR MARKETING DEPARTMENT COLLABORATE IN THE SALES AND DEVELOPMENT PROCESS?"

Shelley Young
Vice President of Marketing
Freddy's Frozen Custard & Steakburgers

Absolutely. Because marketing is one of those areas fortunate enough to interact with so many different aspects of the Freddy's family, our marketing team is constantly in communication with our owners, operations teams, franchisee groups, and many other areas of the company. When it comes time to collaborate on an upcoming menu item or promotion, each team brings their specific strengths, talents, and unique perspectives—decades of knowledge from many different backgrounds to help grow the brand. Regardless of the project, our shared goal is that our guests consistently enjoy a delicious meal with unmatched hospitality, and the successful collaboration of our teams is what makes this possible.

When planning our limited-time offers and annual promotions, we begin by digging into the analytics from previous years to determine which items our guests favored and why. Those menu items and promotions are initially discussed with our cross-functional development team to be sure we are meeting our guests' expectations and also returning their favorites. Then, we look to the many experts in our office as well as to our outside partners to help guide us in considering new ideas and ways to refresh previously successful promotions.

Of course, we always remember to consider the operational impact of these decisions. Since the operations team is at the table from the beginning, getting their input into the process is key. We never want to run a promotion that will cause a negative impact operationally. Operations and marketing should always work side-by-side, and when making decisions that will affect the way the business runs we all ensure that our guests and team members remain our top priority.

Because our franchisees are our Freddy's family out in markets across the country, their input is also extremely valuable in our decision-making process. We review our marketing initiatives with various members of our franchisee community and our franchisee marketing committee members. Their guidance on how our promotion and campaign ideas will affect the entire system is invaluable and helps shape our final product.

In the end, we include every part of the business in the conversation and maintain open communication to ensure the best impact. We are all part of the Freddy's family, which means working collaboratively, taking into account all ideas and feedback, protecting the brand, and most important, ensuring that our guests always have the best Freddy's experience.

Jason Anello
Chief Marketing Officer
Aurify Brands & Melt Shop

Absolutely. As we've grown from one location in New York City to eight across three states, and now as we begin to franchise, it's crucial that the marketing team works collaboratively with the sales and development teams. This ensures the brand is communicated to our customers in a consistent manner.

When Melt Shop launched its franchise development efforts in 2017, we underwent a rigorous process to translate our consumer messaging into something that would appeal to and resonate with our target multi-unit operator both domestically and internationally. Given that our development team is looking to expand across the U.S. and international markets like Mexico, South America, Canada, Western Europe, Asia, and the Middle East—nearly every corner of the globe—as a marketing team we needed to make sure our efforts to franchise in these regions wouldn't be all for naught. On the surface, a market can seem like the perfect fit for us, but when we do deeper dives into demographics and consumer behavior, we're able to eliminate some markets while adding others. It requires ongoing collaboration between marketing and franchise sales.

We've also had to recognize that until this point all of our restaurants have been corporate owned. As we begin to open franchised locations, our local store marketing and branding will need to be consistent with what we've had success with in our existing markets (New York, Pennsylvania, and Minnesota). We've needed to work with our development and sales teams to translate this to potential franchisees during the recruitment process. Understanding our proven strategies for choosing excellent real estate sites, executing grand openings, attracting customers, advertising, etc., is all critical to being a successful Melt Shop franchisee.

Finally, Melt Shop is only one of six concepts under the Aurify Brands umbrella, which brings with it its own challenges and need for additional collaboration. While each brand is individually unique, from a marketing standpoint we needed to ensure that Melt Shop stays differentiated so our prospective franchisees understand why the brand is well-positioned for growth through franchising. ■

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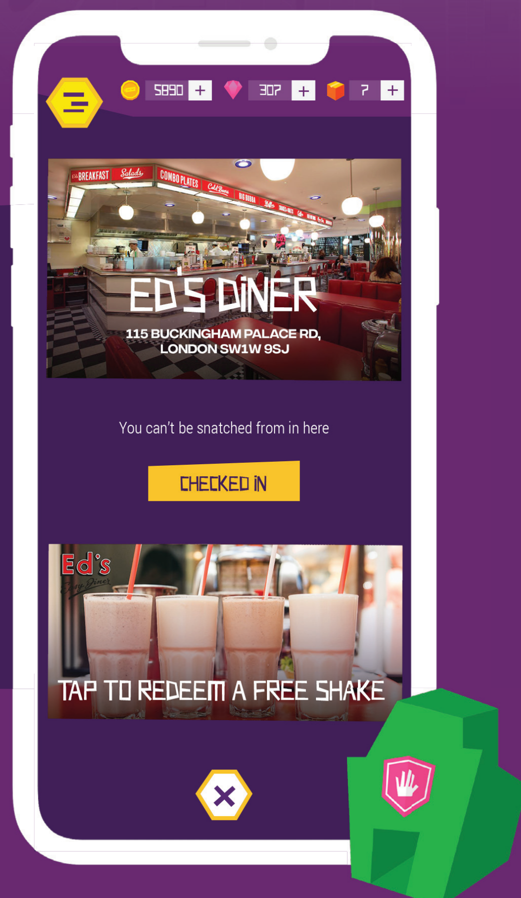

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CONSUMER MARKETING

Millennials

It's "Story" Time!

Using Instagram and Snapchat to tell yours

BY SHAWNA FORD

As of 2015, Millennials are the largest living generation in the United States. The generation doesn't currently match its money to its population numbers, however. They hold only about one-sixth of the country's wealth, but that will be changing quickly in the coming years.

By 2025, when Millennials will account for 75 percent of the workforce, their purchasing power and share of wealth will more evenly match their numbers. Millennials are finally seeing the light at the end of the economic tunnel, so to speak, and marketers should work to earn their loyalty and recognition now—before they really start spending those earnings. The easiest place to work toward that goal is social media.

Facebook and Twitter have been known players in social media marketing for a while now, but we're going to skip those two and talk about Instagram and Snapchat for the moment. Why? Because they're quickly gaining large numbers of followers, especially among Millennials. Instagram is currently ranked second for social media usage with this age group according to Pew Research. Snapchat, though not as large or well-researched, is gaining ground too.

The difference between these two sites and other social media is that they are geared specifically to promote images and video. Marketers, given fewer words to work with, must grab a viewer's attention with a simple image or the first frames of a video.

Many people feel this doesn't work for all products or services, but I'd like to disagree. Think back to some of the most innovative or attention-grabbing TV commercials you've seen. Not all of them, or even most of them, were for items that are easily shown with a video or image. I'm thinking of Apple's iconic Super Bowl commercial, Monster.com's "When I Grow Up" commercials, and Allstate Insurance's mayhem series.

With the semi-recent release of Story features from Instagram and Snapchat, brands can craft content and get it in front of consumers in a quick and easy format that caters to the mediums most young people are looking at anyway. Instagram stories come with notifications and the ability to link to other content or guide viewers to the link in your company's bio.

> Millennials are seeing the light at the end of the economic tunnel, and marketers should work to earn their loyalty now—before they start spending those earnings.

Snapchat has a similar Stories section that can be used in a very similar manner.

For example, I follow a popular cupcake bakery on Instagram, along with my friends and family. I follow it for the obvious reason that I like cupcakes a bit more than is probably healthy and I want to know when they're debuting new flavors. However, I've also found myself getting lured in by their Stories lately. They don't post every day, but when they do it tends to be a series of short clips about their flavor of the day or brand boosting videos of how their products are made or glimpses of their company culture. The clips are brief, eye-catching, product- or consumer-focused, and send a clear message. They're doing this the right way.

Here are a few things to keep in mind if you're thinking about jumping into Instagram advertising.

- Start your efforts with regular posts and gain followers that way.
- Make sure your images or videos are designed to quickly grab attention. Images should be sized to fit properly on the page.
- If you link, use a link shortening service that can track clicks, such as Bitly (bit.ly) or Google's URL Shortener (Goo.gl) to properly attribute traffic from your social efforts. I suggest using a different link for each social media site you post on.
- Make your videos work with or without the sound on. A lot of people watch videos in public or at work without sound, so you may need a bit of copy to make the message clear.
- In the copy that goes along with your standard Instagram posts, try to use trending hashtags if possible. However, make sure there isn't any controversy behind them. Many companies have fallen victim to this by jumping on a hashtag bandwagon without researching it first.
- Don't post excessively. If you have a great story to tell, tell it—but don't bog down consumers with filler material because you feel you must post every day.
- If you decide to use sponsored ads, make sure you nail down your targeting so you aren't advertising to people who are unlikely to need your product or service.

As with every other marketing effort, keep in mind that you want to plan, implement, test, analyze, and adjust as needed.

Instagram is a great way for nearly any business to get into the social marketing field with only a few images and a bit of copy. Even FedEx is doing it. Just keep in mind, as FedEx has, that your content must be engaging and share-worthy. If you're promoting trucks, you can't just put pictures of trucks on your page. You need to use a bit of creativity to pull consumers into the story behind the truck or its travels. Create a narrative with images and videos. That narrative is what will bring in the younger viewers and foster the loyalty you're looking for. ■

Shawna Ford is a marketing coordinator at Mindstream Media and has a background in social media marketing and copywriting. To learn more about Mindstream, call 800-548-6214 or email inquiries@mindstream-media.com.

Customer service

Rejuvenating Retail

Making it more about the experience

BY JOHN DIJULIUS

Why did the retail industry have a dismal 2017 despite high consumer confidence, historically low unemployment, and a growing U.S. economy? Typically these are the perfect conditions for retailers. However, retail brands are filing for bankruptcy and closing stores at historical highs. There are several reasons for this. One of the most obvious is the rise of e-commerce. Another is Millennials spending more on experiences than things. And let's not remove blame from the unsatisfactory customer experience the retailers themselves continue to deliver. Let's look at a few factors in retail's current decline.

Retail has become boring. The rise of mobile devices has ensured that retail will never be the same. Companies must deliver a new customer experience or risk falling into the retail chasm. The traditional retail model has become stale and unexciting. Many provide poor customer experience. Harris Interactive reports that customer service associates fail to answer customer questions 50 percent of the time. Bad service is made worse by bad revenue, as more salespeople are cut and fewer are left in stores to help customers.

Experience = entertainment and emotional engagement. The customer experience, when done correctly, is about entertainment and emotional engagement. Best Buy has embraced the showroom model. CNBC has called the company "a retail anomaly" because it's actually fun to shop there. Kids get to sample video games and adults get to play with the latest gadgets. For the digitally inclined, it's real-life virtual reality. Best Buy's stock rose more than 20 percent in mid-2017 after the company's in-store sales soared past expectations.

Best Buy is a wonderland for gadget geeks. The company has worked with partners including Google and Samsung to establish small sections of the store where each can show off their newest products. Visit a Samsung area, for example, and you'll find the latest smartphones and tablets, virtual reality headsets, and accessories. You can visit their gaming section to experience high-end mechanical keyboards, super-accurate mice, and fancy gaming headsets with surround sound audio.

> America's largest generation cares less about cars and houses and more about skydiving and touring foreign countries.

Best Buy faces its fair share of risks, too, with some shoppers coming into the stores to try products before buying them from competitors, whether brick-and-mortar or online. However, customers still strive for immediate gratification. We still need places we can go to see, feel, and play with the products. Amazon's physical stores tie the mobile device into the in-store experience so much that one cannot shop without it. You use the phone to enter the store, walk around, take whatever you want, and it is all recorded. When you're done, you just walk out and you're billed on your phone.

Millennials: money is made for memories. While many articles have been written on how to lead Millennials, not as much has been written on how to sell to them. A recent study by the Harris Group revealed that 72 percent of Millennials prefer to spend their hard-earned cash on experiences rather than on material goods. America's now largest generation cares less about cars and houses and more about skydiving and touring foreign countries. It's a trend that's ultimately helping fuel the growth of billion-dollar start-ups such as Uber, WeWork, and Airbnb.

Millennials, who have tremendous spending power that's expected to only accelerate, require more than the orderly exchange of money for value. Attentive customer service is key to earning their loyalty and stimulating a positive social response. It is also a trend many retailers haven't adjusted to yet. Those who don't will find themselves closing hundreds of locations or filing Chapter 11.

Experience beats "stuff." Millennials view ownership differently than previous generations did. While young adults traditionally have placed high value in a car and home, Millennials have commitment issues with these types of purchases (though recent data indicates this is changing as they age and become parents). Since 1987, the Harris Group found that the share of consumer spending on live experiences and events relative to total U.S. consumer spending increased 70 percent.

"Millennials aren't spending our money on cars, TVs, and watches," Taylor Smith, CEO and co-founder of Blueboard, told CNBC. "We're renting scooters and touring Vietnam, rocking out at music festivals, or hiking Machu Picchu." Blueboard ("Experiential Employee Rewards for the Modern Workplace") customers include Chick-fil-A, Lyft, and GoPro. The company designs experiences such as skydiving, cooking classes, and couples massages.

Is your company adapting the experience it provides to position itself to attract the Millennial generation? ■

John R. DiJulius III is the author of *The Customer Service Revolution* and president of The DiJulius Group, a customer service consulting firm whose clients include Starbucks, Chick-fil-A, The Ritz-Carlton, Nestle, PwC, Lexus, and many more. Email him at john@thedijuliusgroup.com.

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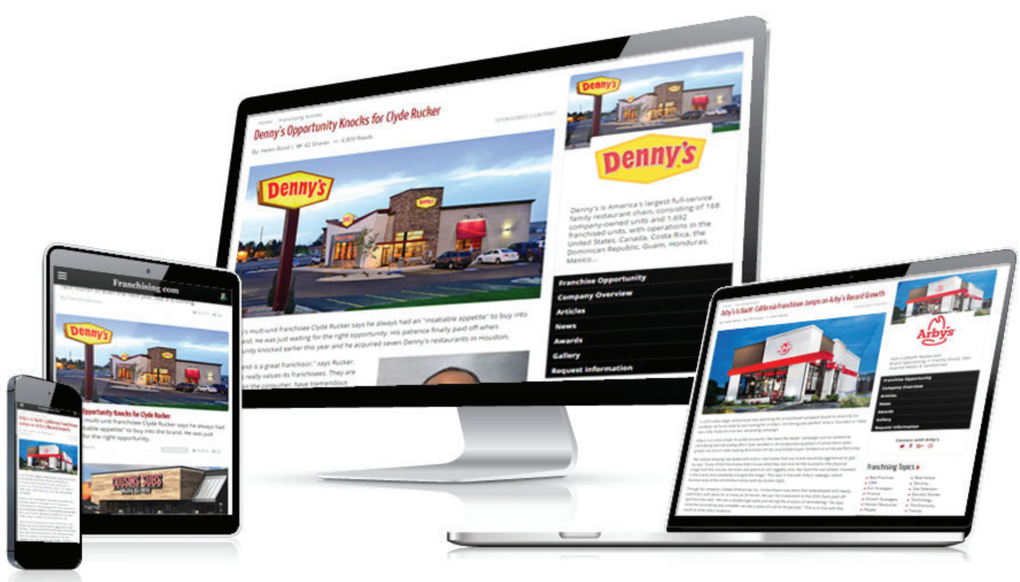

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BY HELEN BOND

GOING Brokers?

HOW THEY CAN THEY HELP YOU MEET YOUR GOALS

Love them or hate them, franchise brokers can be an essential recruitment tool for some brands, depending on their stage of growth and timetable for expansion.

With today's low unemployment rates reducing the pool of potential franchisees (see page 51), franchisors are increasingly turning to brokers to help them grow. By some estimates, nearly half of all active franchisors use franchise broker networks.


Eric Little

"For me, a broker is kind of like a matchmaker," says Eric Little, chief development officer of in-home senior care brand Right at Home. "They find leads that meet the criteria I'm looking for, and then my internal sales team will work them through to a conclusion."

The right broker, for the right franchise, at the right time, can play an important role in uncovering pre-qualified prospects primed for ownership in a time when qualified leads are becoming harder, more expensive, and time-consuming to find.

"Brokers usually bring you leads that you are not getting from anywhere else," says Mike Hawkins, vice president of franchise development for The Dwyer Group's Five Star Painting brand. "The key is not to look at brokers as a replacement, but as an addition to what you are doing."

Hawkins is a relatively recent fan of using brokers for solid franchise leads. The franchising veteran began using brokers in 2015 after his Waco, Texas-based service brands holding company, The Dwyer Group, acquired Five Star Painting (and soon after, Service Brands International, operators of Molly Maid, Mr. Handyman, and ProTect Painters). Hawkins took advantage of existing broker relationships for expanding the brand.

"People who don't want to use brokers don't want to pay a fee," he says. "But what they are missing out on is an extra good candidate who is 99 percent of the time very well qualified." Also, he says, "99.9 percent of leads we get from brokers have never come in our site, and the closing ratios with brokers are higher."

Broker benefits

With brokers it is all about the lead. Seasoned franchisors say the decision to hire brokers requires weighing the costs of doing business on the road to meeting the goals of your brand, as well as the stage of your franchise system and available resources.

"If I was a young, emerging brand and needed points of presence to get my brand into a market, I think brokers could be exceedingly valuable," says Pete Lindsey, vice president of franchising at Sport Clips. "I think you are going to give away most of your franchise fee at that point, so you've got to be resigned to that fact."

[Editor's note: Since this story was completed, we've learned that Lindsey has left Sport Clips.]

Indeed, brokers can offer tremendous advantages—at a cost, up to a 40 or 50 percent commission from the initial franchise fee, depending on the franchise investment. Success fees typically range from $10,000 to $15,000 or more if the prospect signs on. Franchisors also can expect to shell out additional money for

BROKER OR CONSULTANT?

While franchise brokers often call themselves consultants, to understand the difference between traditional broker services and true consultants, it is important to follow the money.

Consultants work with would-be franchisees on a fee-for-service basis to find the right franchise fit based on the prospect's needs, experience, and budget. They look for all available franchise opportunities with the best interests of the buyer in mind.

Brokers are lead generators that franchisors hire to funnel potential buyers to their brand. They generally are paid a commission (or "success fee") when a sale closes.

Confusion about which is which is rampant in the industry. Beyond the distinction noted above, many brokers call themselves consultants because it sounds more impressive for marketing purposes.

broker conventions, and for communication and education strategies to keep the brand on the “favorites list” of their various broker networks.

Alex Roberts is an Ann Arbor-based consultant with FranChoice, which calls itself a “franchise consulting” firm, and its team “consultants.” There is no fee to the prospective franchisee; the franchise company pays any fees. Working with its consultants is similar to working with an executive recruiter, according to the company.

Roberts believes a solid broker-franchise fit is a wise investment. Before venturing into his current role, he spent more than a decade in franchise development, including stints as president of Mr. Handyman and ProTect Painters, and vice president of franchising for Pet Supplies Plus. He says that when he was on the franchisor side that his own relationships with brokers were “imperative for our growth.”

Alex Roberts

Roberts says the prequalified front-end filtering brokers provide can help a franchise grow exponentially, while saving a brand time and money. When the job is done right, Roberts estimates that 1 of 10 high-quality broker-generated leads will result in a sale, compared with 1 in 200 by a franchisor wading through internally driven leads.

“The nice thing about the broker is that it is a variable cost. You’re only paying if they do a deal,” says Roberts. “On the other side, you can spend $200,000 a year—and I have when I was a franchisor—in a lead generation budget, only get a couple of deals out of it, and your cost per deal is completely out of whack. It is nice to have a variable cost and know that with every commission you are paying you are adding unit count, value to your franchise system, and value to your individual franchisees by continuing to bring them new franchisees who are going to grow and prosper in the system.”

Cautionary advice

The rising use of brokers in franchising is not without controversy. While organizations such as the Franchise Brokers Association, founded in 2008, are hard at work to raise the bar for the franchise broker community, there are no licensing or certification requirements for the industry.

> **“The reality is that anyone can sign up to be a franchise broker.”**
>
> —Eric Little

“The reality is that anyone can sign up to be a franchise broker,” cautions Little, who has worked with franchise brokers in various capacities since 2002.

The growing number of franchise companies fighting over a limited pool of prospects has also made waves. Stiffer competition for prospects has resulted in some brokers commanding or demanding royalties and ongoing compensation following a sale, and stories of franchisors “enticing” brokers to send leads their way with top commissions and other incentives that create a less-than-level playing field. Brokers also have been known to make representations that may ultimately open up the franchise to liability or franchisee dissatisfaction.

While there are a lot of good business brokers out there, Lindsey says, Sport Clips uses only “go-to brokers” for one or two deals a year, down from broker-generated franchise sales of 35 percent when he joined the brand in 2011.

“We were paying a substantial amount of money on every broker lead that converted to a sale,” says Lindsey. “The challenge was that it got to the point where it wasn’t about the financial health of the franchisor or the unit economics of the franchise itself. It became about ‘How much money are you paying me to get this lead to convert to a sale?’ I felt like we were in an arms race. We decided we weren’t going to participate in that. Our brand was strong enough that we could get creative in our own lead generation activities and drive the brand growth that way, and that is ultimately what we have done.”

Due diligence

Whether you’re a new, emerging, or established brand, the competitive landscape and lack of barriers to entry make it crucial for franchisors to work with brokers and consultants who have a strong reputation. Do your homework. Ask lots of questions. And look for franchise experience and someone responsive to your brand’s and your industry’s specific needs.

“Find out how they value franchises, how they look at unit economics, and how they position the brand with any prospects,” says Lindsey, who recommends also getting a feel for compensation issues and possible competitors in a broker’s portfolio.

The top brokers are selective in the franchisors they represent. Roberts, whose experience as franchise development executive also includes retail, food, and health and wellness companies, looks for a proven model that has been successfully replicated, and for strong unit economics.

Pete Lindsey

“Ultimately, it comes down to your franchise system demonstrating success by selling units, opening units, launching them successfully, having their franchisees reach their financial and lifestyle goals, and by having strong validation in their system,” he says. “There is nothing greater from a franchise consultant’s perspective than to say, ‘I have all the confidence in the world introducing my candidate to this company because they are demonstrating this pathway of success.’”

With 500 Right at Home franchises operating and 400 territories available, Little stresses the importance of strong validation as vital to getting the franchisor-broker partnership off to a successful start. “If you launch with a broker network and make a big splash and get a bunch of leads, all of those leads will eventually talk to your franchisees," he says. "If the franchisees are not validating well, then all those leads will go away. Very seldom do you get the chance to rekindle that momentum with those broker networks."

A solid franchise-broker partnership is about relationships and mutual trust.

Challenges for new brands

Startup brands may need to work harder to find the right broker fit—or even a broker willing to work with them. The largest broker networks represent a relatively small number of brands, typically 100 to 200, a dilemma for new franchise companies that may get turned down for representation or find the use of brokers too expensive.

"As a rule, if you don't have strong unit economics and don't have a strong offering you are going to pay more to the broker community for leads," says Lindsey. "If you have strong unit economics and a strong profile, you are less reliant on brokers because franchisees are going to find you anyway. Unless you are working with a broker that you know is straight up and is actually looking out hard for you as a client, I would say buyer beware."

Emerging brands that lack franchising experience or whose units may not have been open very long, may look for leverage by partnering with franchise development companies to accelerate growth (see page 43).

Brokers aren't right for every franchise. The leads they generate are largely suited for lower investment franchises (roughly $150,000 and less), such as mobile, home, and office-based brands. Franchisors also must consider territory availability, an investment level consistent with the leads that brokers generate, and a franchise system with an internal infrastructure to work the leads.

"The last thing a broker wants is to send a really good lead to a bad or medio-

KEYS TO SUCCESS WITH BROKERS

Working successfully with franchise brokers and consultants as part of a larger strategy to boost franchise sales is more than just listing your company with a reputable broker. The more effort you put into the relationship, the more the brand will benefit, says Don Daszkowski, founding member of the International Franchise Professionals Group. He encourages franchisors to work with multiple franchise broker groups and consider the following tips to make the most of the relationship.

• **Keep franchise broker listings up to date.** Make sure your franchise listing is completely current and includes an accurate unit count. If you were selling your house, would you use outdated photos or leave off that new addition? Franchise brokers are busy, particular, and many require a franchise to meet specific requirements before presenting a brand to a client. For example, if a broker will only show a potential prospect franchises with 20 or more units and published information on your 35-unit brand still shows 15 units, you are missing opportunities for a sale.

• **Share any new updates about your brand.** Take advantage of every opportunity to boast about your brand. If your franchise is featured in a news article, don't just share this with potential franchisees, spread the word with your brokers too. Reading a print or online news story about your franchise can be invaluable to help brokers gain additional insights into your business model—and help them present your brand to candidates more effectively. "There have been times when I couldn't really connect with a concept by reading the franchise's own description of their company, but simply watching a one-minute news clip helped me to completely connect with what the franchise had to offer," says Daszkowski.


Don Daszkowski

• **Get the brokers to know you, not just the brand.** The franchisor-broker relationship is often more about the individuals involved than it is about the franchise itself. Meet the brokers face to face. Get to know them personally and deals will happen. Much like franchise sales, this business is about building relationships. Finding ways for a broker to get to know the people behind the franchise is just as important as educating them about the brand. If your CEO or other executives have a great story to tell, connect them with the brokers. Brokers need the same emotional connection to your brand that you present to your candidates. When they make this connection they are much more likely to present your brand well.

• **Meet the brokers in your area.** This is the easiest thing to do. "Often people will tell me they are 'too busy' to attend more meetings," says Daszkowski. "Find the time to get out every other week for a lunch meeting with a local broker. Use this time to get to know them and let them get to know you—no sales pitch or presentation, but rather more like a lunch you would have with co-workers." Brokers sometimes need to make a stronger personal connection to add your brand to their list of top franchises to present to prospects.

• **Invite brokers to your discovery day.** Extending an invitation to the same discovery day you host for potential franchisees is one of the best ways for a broker to connect with you and your brand. Offer them the same perks that you would potential franchisees (paid travel, lunch, dinner, etc.). The education they receive will be exactly what they need to understand your brand and present it accurately and effectively to their clients.

cre sales team," says Little. "They want to make sure the lead they send over is going to be very well taken care of; that the particular referral has a high chance of becoming a franchisee."

Playing well together

The best franchise brokers can balance working with multiple brands and giving your brand the care and attention it needs. However, the broker-franchisor relationship is a two-way street that takes work to maintain, and it is up to franchisors to consistently monitor their broker relationships and provide training and updates about the state of their brand.

Mike Hawkins

"You have to keep yourself in front of the broker consistently," says Hawkins. "We have a person who markets out to the broker on a consistent basis for top-of-mind awareness."

"It requires solid relationships and a lot of follow-up," says Lindsey. It is also important to track and measure results.

If your lead-generation strategy is not paying off, you may need to look inward, says Little. "If you are an existing franchisor working with brokers, and your sales team is good, you have a good profitable business model, available territory, and an investment level that is under $150,000 and you are not seeing deals," he says, "one of those four things is flawed."

To keep their relationship productive, franchisors must present their brokers with a strong franchise profile and continual communication. Roberts suggests sending your brokers e-newsletters, articles about successful franchisee launches. "There is nothing better than seeing a story about an ex-pharmaceutical sales rep who just bought a printing franchise and is using his business-to-business skills to build and grow the brand. It is a good way to visualize some of those different matches," he says.

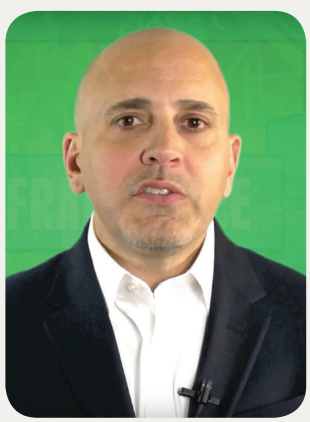
No matter how established your brand is, franchisors say it's smart to maintain connections with their brokers and consultants for resales as the brand matures. In the end, a solid franchise-broker partnership is about relationships and mutual trust.

"Over time you get a sense for which brokers are doing a good job, says Little. "There are some who just play the game and send as many candidates as they can, and some are going to make it and some are not. But there are others that send candidates over, and when you see their name you know that there is a good chance it is going to close." ■

NEW FINANCIAL RULE MAY AFFECT BROKERS

While it's still too early to determine the exact impact on franchise brokers of the updated revenue recognition accounting rule, compensation changes could be coming. ASC 606, the joint rule issued by the Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB), redefines when and how most franchisors must recognize initial franchise fees on their balance sheet from when they are received and stretch them out over the life of the franchise agreement. (See page 25 for more details.)

For example, if an initial franchise fee is $10,000 for a 10-year franchise agreement, revenue must now be recognized as $1,000 per year for 10 years. The same holds for multi-unit development: franchisors will no longer recognize all initial franchise fees as revenue when the first location opens its doors, but rather when each location opens.



Charles Internicola

"Effectively, what this new regulation is doing is potentially reducing the equity balance of the franchisor," says franchise attorney Charles Internicola, managing partner and founder of The Internicola Law Firm.

The new revenue recognition standards take effect this year for large, publicly traded companies, and in 2019 for private companies. The FASB has clarified that multiple pre-opening performance obligations, such as site guidance and training provided to help new franchisees launch, can be recognized as revenue when the services are provided.

Whether or not franchisors will attempt to spread out the fees owed to brokers and consultants over the term of the franchise agreement, there already is talk of pushback from the broker community if they do. This could negatively affect franchisor-broker relationships, but it's still too early to tell and both sides have an interest in working it out so the deals—and the commissions—continue to flow.

Don Daszkowski, founder of the International Franchise Professionals Group, doesn't believe that franchise consultants will or should be affected by the new accounting regulations. "Franchise consultants' commissions are based on a percentage of the franchise fee, but these commissions should be looked at as marketing dollars to the franchisor," he says.

For example, he says, "If a franchisor spends $15,000 in marketing dollars to a franchise portal to recruit a new franchisee, they cannot ask the franchise portal to amortize their marketing spend over a 10-year period. A consultant's commissions should be treated the same way."

"This is very much something that is a wait-and-see to see how this progresses," says Internicola. "State regulators haven't modified any of their requirements based on these new accounting recognition policies, so we don't know if we can get movement from the states. This is definitely a fluid situation."

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Entrepreneur

BY EDDY GOLDBERG

Starting Small

Frandev firms help emerging brands grow

More than 300 new franchise concepts have appeared each year for the past six years, according to FRANdata. That's almost one per day (see page 51). Most fail to make it off the ground for a multitude of reasons, the most common being lack of sufficient funding.

Many of these startups are what might be called phantom brands: they file an FDD and are never heard from again. In a 10-year study of startup and emerging brands (see next page), Franchise Grade stated: "What we found was that a preponderance of new franchise brands had difficulty growing during the early stages of their launch and some stopped franchising several years thereafter." Further, its "most striking" finding was that 3 in 10 (30.6 percent) franchises that started 4 years ago had zero or 1 location.

While most new concepts never make it, hope springs eternal in the heart of the entrepreneur—which is partly the reason for the growth of franchise development ("frandev") firms.

For those starting from scratch, these companies provide services that can include determining if their concept is suitable for franchising, building a model for the business, helping the founders write the FDD, generating leads, qualifying prospects, and training and coaching the fledgling franchise on everything from how to publicize their brand to attract prospects and how to build an infrastructure to support their hoped-for growth.

For emerging brands, frandev firms can offer more advanced services to help them accelerate their system growth. Note: There is no one-size-fits-all definition for what constitutes an "emerging" brand. One popular number is 100 or more units, but how do you compare 100 sandwich shops with 100 hotels? "There's nothing magical about getting to 100," says FRANdata CEO Darrell Johnson.

One approach to determining what constitutes an emerging brand is a term he calls recurring revenue self-sufficiency. This is a franchise brand's ability to support its franchisees as promised through income from royalties and corporate locations (if any)—without having to sell additional franchises. In other words, it may have nothing to do with the number of franchised locations in a system.

East Coast Wings + Grill, for example, has been around for more than 20 years and has just 34 units. Yet it is a mature system that had average unit EBIDTA of 19.1 percent, average unit net sales of $1,688,354, and a 2.33-to-1 return on first year sales to investment in 2016. One huge reason is the brand's relentless focus on unit-level profitability (see page 48).

> "Everybody has a story to tell. Our job is to discover those stories and pick the right time to tell them."

Mike Misetic

"New franchise startups are not yet emerging brands," noted Steve Olson in the Franchise Grade report. Olson, author of the best-selling book, *Grow to Greatness: How To Build a World-Class Franchise System—Faster*, is CEO of Olson & Associates and a franchise consultant who works with emerging and established franchise brands.

Olson, who collaborated on the Franchise Grade study, offered these four pieces of advice in the report:

1) Is your brand "franchisable"? Does it possess the attributes to grow rather than being a fad? Is it truly scalable?

2) Does your business have a minimum five operating locations and show profitability?

3) Recognize that it can take several years of growth for you as the franchisor to realize substantial returns on your investment.

4) Once you launch a franchise company you'll be living in the franchise business, not in the business you built.

New brands matter

Franchise Elevator PR, a spinoff from Fishman Public Relations, is a frandev firm that works exclusively with emerging brands. The company, says Managing Partner Mike Misetic, helps these smaller franchises drive growth by providing them with PR services that are more affordable than at a larger PR firm, and, he adds, those brands don't yet need all the services a larger PR firm provides.

Also, he says, it's more interesting to work directly with the entrepreneurs and founders and see their concept grow.

"Franchising is an industry of emerging brands," he says.

This thought is echoed by Robert Cresanti, CEO of the IFA, in the Franchise Grade study, where he said that emerging brands "will continue to fuel sustainable growth, competition, and innovation, all of which are essential in addressing and resolving concerns and challenges facing the business model."

Ed Teixeira, COO of Franchise Grade and author of the report, wrote: "Since 70 percent of franchises have 100 or less units, emerging franchises account for a critical component of the franchise industry."

Misetic's clients, which include ZIPS Dry Cleaners, Oxi Fresh Carpet Cleaning, CREAM, and Coyote Ugly, have prospered from his company's services, which range from PR for franchise lead generation, consumer brand awareness, and grand openings to media training to help founders learn to tell their brand's story more effectively to speed growth. "Everybody has a story to tell, but when is the right time to tell it?" he says. "They're busy working on the business. Our job is to discover those stories and pick the right time to tell it."

He also holds events, especially for food brands, where he invites social media "influencers" to sample the offerings and post their (hopefully ecstatically positive) opinions and photos online.

Collaborating for success

Misetic says he sometimes collaborates with other frandev firms. One is MSA Worldwide, which works with both new and established franchisors, providing services as varied as designing and developing franchise systems for newbies to high-level strategic planning for some of the world's largest franchise brands. For instance, MSA sent Misetic a new client that needed PR help.

He also works with frandev company RainTree, which currently works with about 20 brands, "half of them emerging and half more established," says CEO Brent Dowling. RainTree recently began working with Jamba Juice on lead development to "re-energize" the 27-year-old brand to bring in new franchisees to add to its more than 800 locations worldwide (see page 28). Other clients include British Swim School, Kono Pizza, Anago Cleaning Systems, and Teriyaki Madness.

As a kind of one-stop outsourced development shop, "Our role is to create the marketing material, generate the leads, turn them into prospects, close the deal, and get confirmation from the potential franchisee that they're ready," says Dowling. "Then the franchisor decides if they'll accept them." They'll even handle the signing for some brands, though others prefer to do it themselves, he says.

Brent Dowling

Before accepting a new brand as a client, says Dowling, RainTree has three basic criteria:

1) Does it have the infrastructure to support the leads his company will bring in? If not, "that kills it for us," he says. "It's important they understand what it means to grow a franchise."

2) Is the concept well differentiated from what already exists? A perfect example is new client Urban Float, which hopes to popularize the benefits of sensory deprivation flotation tanks as a way to reduce stress and pain and increase mental and emotional health.

3) Does the company have an appetite for growth? "We're not like frandev firms that demand retainers or a percentage of royalties. We take a chunk of the franchise fee, so we need to do a certain amount of deals to stay in the black," he says. That's usually around 10 or more, with some companies seeking up to 100 deals a year.

"We're trying to create high-growth franchisors, and like them to focus on and support the new franchisees 100 percent. So we take care of everything," Dowling says. "It's cool when they're emerging, because every franchisee is a big deal."

Advice from the pros

In 2017, Franchise Grade published a two-part report called "The State of Emerging Franchise Systems: Challenges and Opportunities." Part one presented an overview of startup and emerging franchises (defined here as up 100 locations) over a 10-year period, beginning in 2007, with suggestions on how to meet specific challenges. Part two provided additional data, including commentary and advice from franchisors and frandev experts.

One key reason for the study, according to the report: "Emerging franchise systems account for many investment opportunities for prospective franchisees. Finding ways to support and accelerate the growth of these franchises will help achieve higher overall franchise industry growth."

So in the spirit of supporting that growth, we present advice from the report for new franchisors from two more frandev veterans.

• Lori Kiser, CEO of The Decide Group

1) Work out the bugs by operating 3–10 profitable locations in multiple markets.

2) Expand locally then regionally building a strong presence in markets close to headquarters (where you have a lot of support in place) before expanding nationally.

3) Understand that when you become a franchisor, you are operating two businesses—the actual operating business and then a franchise system.

4) Hire experts in both categories.

Kiser offers one more piece of advice worth repeating: "Undercapitalization is the biggest challenge for most startup businesses and emerging franchisors are no different."

• Gary Occhiogrosso, Managing Partner, Franchise Growth Solutions

1) Have a written strategic development plan.

2) Find franchisees with the same core values as the franchisor.

3) Be properly financed to fund the plan.

4) Focus on unit economics to ensure successful franchisees and great validation.

5) Create a strong digital presence, using SEO and SEM to drive interested parties to the franchise website.

6) Build a company store in a new market and sell it once the market is penetrated.

7) Review and if necessary improve the results of the business model.

8) Seek professional coaching from people who have "been there, done that." ■

GROWING YOUR SYSTEM

Challenge the pros

"DO YOU WORK WITH FRANCHISE BROKERS AND CONSULTANTS? WHY/WHY NOT? WHAT HAS YOUR EXPERIENCE BEEN?"

Tom Monaghan
Chief Development Officer
Philly Pretzel Factory

I have been working with franchise brokers and consultants since they arrived on the scene more than 30 years ago. They have been a major catalyst for the growth of the entire franchise industry, and of course the brands I have been honored to help grow.

Franchise brokers and consultants are a true extension of our franchise development team. They have sourced, educated, and advocated for some of our best franchise owners. As the franchisor, we put in a lot of work to educate the franchise brokers and consultants on the ideal candidate profile for our brand.

We also invest in building productive relationships with the individual franchise brokers and consultants and their networks.

"We put in a lot of work to educate the franchise brokers and consultants on the ideal candidate profile for our brand."

Understanding our ideal profile, combined with strong communication between all parties, clearly accelerates the franchise award process and creates great results.

There is no doubt that franchise brokers and consultants have led to increasing the initial franchise fees across virtually the entire industry. Yet it appears to have had little impact on candidates' ability to afford the right franchise concept. The use of franchise brokers and consultants requires a significant investment of time and money. However, I believe that franchise brokers and consultants should be a part of every franchise company's new franchisee recruitment strategy. As the caliber and roster of franchise brokers and consultants grows, we at Philly Pretzel Factory are excited to work with them to recruit more great "Pretzel Mayors" to build our brand.

Richard Leveille
Vice President of Franchise Development
Floor Coverings International

I believe in using franchise brokers to drive quality referrals. This has been part of Floor Coverings International for many years. Having done it many ways, when developing our strategy several years ago, we could not overlook the fact that our experience of the cost of a traditional lead generation program versus a broker strategy netted a similar result. In fact, the results of a strong broker strategy seemed to lean a bit more positive.

Today we generally end up with 80 percent of our franchisees through broker referrals from the major networks. The interesting dynamic is that the role of the franchise development representative changes quite a bit. The job now requires that the representative be responsible for their own lead generation, as a relationship based on trust and integrity must be developed between the broker and company representative.

A good concept is a must, but brokers simply will not refer their precious candidates to a representative who they don't trust can lead them through a respectful sales process and ultimately award the franchise, earning them a referral commission. Yes, it's a bit of a love-hate relationship as the fees are high, but executed effectively this approach can drive very high-quality candidates.

"It's a love-hate relationship as the fees are high, but executed effectively this approach can drive very high-quality candidates."

Floor Coverings International is a very solid business but is often overlooked as its "curb appeal" might not be as strong as a branded product with more consumer appeal. Brokers, with their consultative process and client trust, can explain with firsthand knowledge how "sexy" a business like ours can be, therefore filling the sales funnel with the right candidates. It's definitely working as our growth is strong! ■

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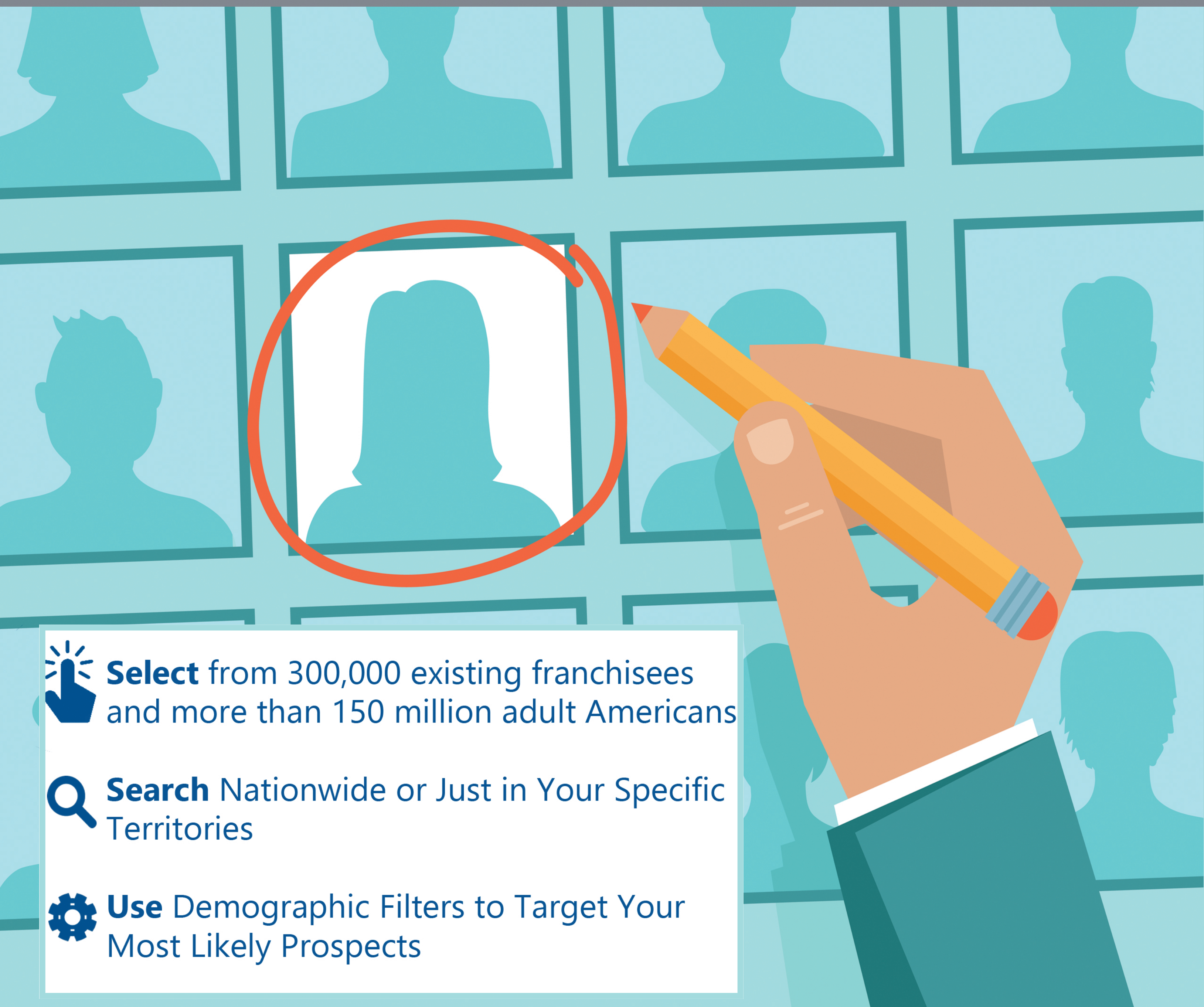

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System growth

Measuring Success

New system digs deep into unit performance

BY SAM BALLAS

The increase in opportunities to make data-driven decisions is changing the way Americans do business. With the influx of data, algorithms, and measuring systems, the days of intuition and gut decision-making are gone. In this new wave of technological resources, businesses are given the opportunity to maximize their business strategies and understand operations like never before. At East Coast Wings + Grill, we recognized the immense potential this information has to offer and came up with the concept to create our own, unique measuring system.

> We recognize the immense potential information has to offer and came up with a concept to create our own, unique measuring system.

System development

From the beginning, being average was not an option for us. We knew we wanted to offer an elite product and experience for our consumers, but would need technology of the future to do so. With limited technology readily available, we decided to develop our own, zeroed in on our own style of operating. To give our business the competitive edge we'd imagined from the start, we began to conceptualize a proprietary measuring system, unique solely to our brand.

Our vision was to create a two-phase index, based on our key performance indicators (KPIs) and benchmarks, to produce an algorithm specific to our brand. Gathering information such as customer-based surveys, ticket times, ticket lifts, unit-level engagement, and product consumption, we used these numerical values to create a proprietary algorithm used by both our corporate team and our franchise owners. Over the course of the past five years, we have tested, corrected, and implemented the unit-level measuring system into East Coast Wings + Grill locations across the United States, changing the way our business is run on a daily basis.

System benefits

Through the use of our specific benchmarks and KPIs, the measuring system is able to identify franchise performance, waving "flags" to indicate whether a franchise is thriving or declining. This allows us to identify issues almost immediately and make changes accordingly to divert major problems. Additionally, we are able to learn key practices from high-performing units and study their tactics to promote success for our other franchisees. This is profitable not only to the corporation, but also to the individual franchisees, who are now able to monitor the health of their business on a daily basis. This has resulted in an increase in our productivity and a steady decline of negligible problems.

Next steps

For any emerging business today, effectively utilizing and growing with technology is key for success. Our unit index measuring system is an essential tool to ensure no trajectories are missed. The knowledge and accuracy of the system allows East Coast Wings + Grill to remain a fierce competitor and increase customer loyalty by providing them with updated, outstanding service.

As the measuring system continues to evolve, we have begun brainstorming plans for the next phase of the system. Phase two will incorporate the use of third-party sourcing data to produce a more universal chain-restaurant measuring system. Such data could include trends, unit-level economic data, and operational culture in a specific location, allowing us to forecast performance in new proposed markets with existing franchisees. Ultimately, this would proactively calculate whether a franchise unit would thrive or perish before development planning even begins.

Advice to other brands

Just as we have been, companies today are looking for ways to utilize new information and technologies, and perhaps even are trying to create their own measuring system to support their growth. Although we are unable to disclose further specifics of our system, there are still ways companies can maximize efforts to get the most out of their data.

To ensure success in this effort, it is vital to measure everything that can possibly affect your business. We recognize the importance of understanding which numbers are moving the needle, affecting KPIs, and shaping benchmarks. These small details can make all the difference between a thriving and failing business.

Additionally, business leaders should always have the humility and modesty to know when to hire a third-party professional to interpret their company's data. Having a well-equipped team to support profit-driven endeavors is a crucial aspect of running a business. It can change the way the business operates and the successes it experiences. ■

Sam Ballas is CEO of East Coast Wings + Grill, which has 34 units up and running and 9 more expected to open in 2018.

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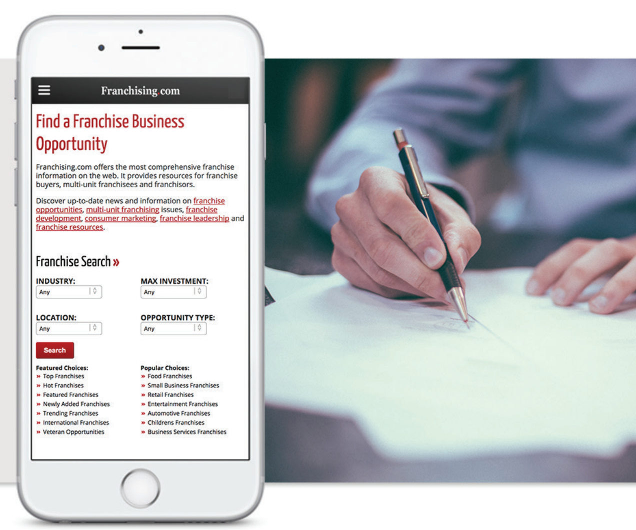

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C.L.A.S.P. Your Prospects!

Mastering the qualification process

BY GARY MICHELS

The ability to better qualify your future franchisees clearly will pay huge dividends, both in your recruitment budget and your future royalty stream. And, in the long term, it will contribute to overall system growth.

There's a saying that goes something like this: "If you don't prepare, you probably don't deserve to win, and probably won't." For example, starting pitchers in professional baseball throw every fourth or fifth day, but they are not sitting idle in between. They are preparing for their next start by studying charts, watching film, working with trainers and coaches, and getting advice from their teammates on how to pitch their next game.

The same applies to "pitching" a franchise concept to an interested prospect. An average sales rep will show up without all the knowledge—or skills—they need to properly question, find the need, and determine if there is a match. The average sales person who doesn't qualify also wastes time on people who are not good fits with their brand. Average sales people never truly understand the needs and wants of a prospect, and spend too much time with people who are not qualified, or not enough time properly qualifying people who could become amazing franchisees.

To fully understand where a prospect stands before you start presenting your opportunity, let's look at a simple technique we call C.L.A.S.P. Once you have set an appointment for that initial phone call or first meeting, why waste the opportunity by jumping right into your presentation before you learn about the prospect's needs and goals, hopes and fears?

- **C = Current.** Start by asking questions about what they are currently doing, and what they have done in the past regarding your brand or industry. This could be anywhere between 3 and 10 questions asked in different ways, depending on the prospect.
- **L = Like.** Ask them about things they like about what they have done in the past or are currently doing. Make sure to say, "What else?" Prospects are usually eager to talk about what they like, and you can use that to determine if their likes and goals match up with your brand opportunity. Once you hear them out, then start with what you can offer them.

> The prospects you present to will leave with a positive impression of you (trust) and your brand (remedy).

- **A = Alter.** Ask them what they would like to change and do differently. What are some things that don't seem to be working in their life that they think your brand can alter? Hint: Spend less time here than you do with "Like" as you don't want to be perceived as pushy. If you don't know their pain, their need, and their why, it's almost as if you haven't earned the right to present a remedy!
- **S = Signer.** Who is the decision-maker? A critical question to ask at this point is: "Besides yourself, who else will be involved in the decision-making process?" The prospect might be eager to take the next step, but when they go home their spouse or funding partner pours cold water on the idea. Determine early on who the other key people are in the decision and bring them into the process early.
- **P = Paint a picture of how easy and enjoyable it will be once they have decided to proceed.** Outline the next steps in the process so they know what to expect, and when. This is where strong franchisee validation comes in, as your current franchisees can share stories and testimonials of why they are very happy with what your brand has to offer.

Don't forget the basics

Other sales basics to keep in mind as you proceed through the qualification process include the following:

1) Build rapport by using names. Use names of people you both know, both know of, or people who are similar to them. This creates rapport and, most important, *trust*. People like to do business with people they like and trust.

2) Create a "buying atmosphere." People love to buy, but hate to be sold. High-pressure sales techniques do not work in franchising, which is a long-term relationship, not a one-time transaction. And it's usually a life-changing decision for the prospect. By keeping the pressure off, prospects certainly will be more open to listening to your presentation.

3) Answer objections before they come up. Weaving in the answers to objections you are likely to get often prevents them from ever happening. For example, if you know you are going to get a procrastination objection, you could say something like, "The only request I have for you is when we are done here, if you could give me a yes or a no at the end about whether you want to proceed to the next step, that would be very much appreciated. Does that sound fair?" Unless it's clearly a mismatch, they usually will want to explore further and say yes.

If you were to visit your local bookstore and search for a book on qualification, you would be hard pressed to find one. However, if you take these simple principles I have shared and truly master the qualification process, you will put yourself in the very top echelon of sales people. You will save time and use your resources more efficiently. And, most important, the prospects you are fortunate enough to present to, whether they move forward or not, will leave with a positive impression of you (trust) and your brand (remedy). They might even tell their friends. And who doesn't want that? ■

Gary Michels is a co-founder of Southwestern Consulting. For a complimentary Business Action Plan, email him at gmichels@southwesternconsulting.com or call 408-888-4848.

Market trends

Year of the Multi-Unit?

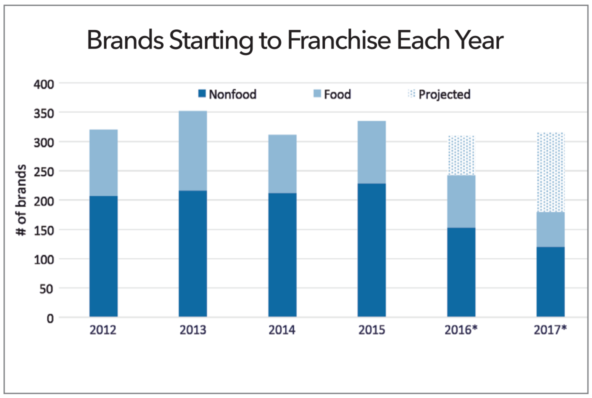
Economic trends will boost their growth

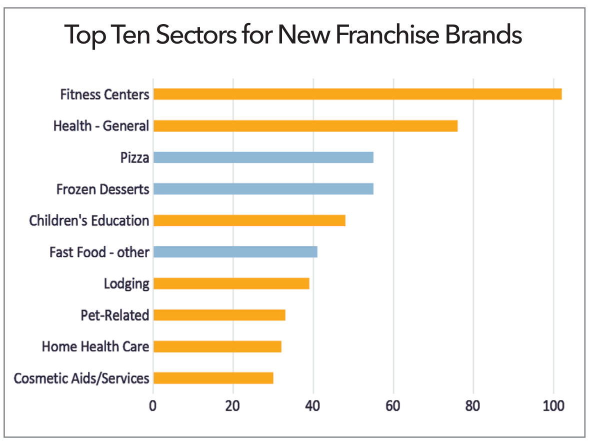
BY DARRELL JOHNSON

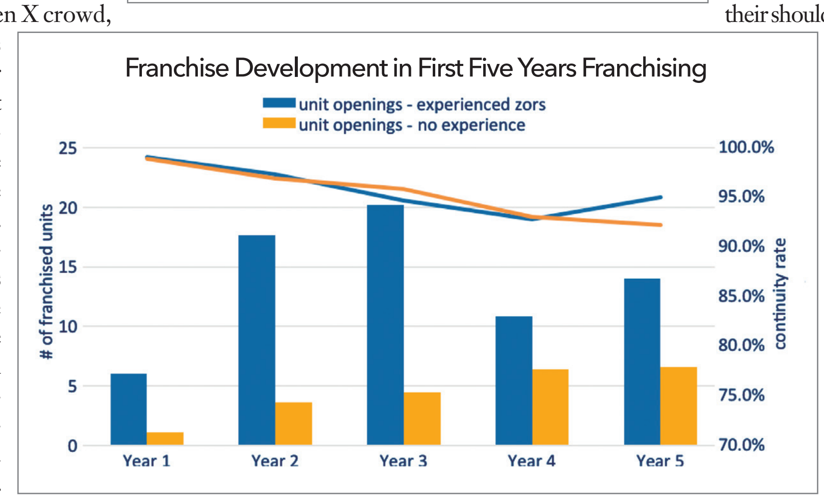
What do the economic tea leaves tell us is going on below the surface in franchising? Let's start by following the money. Where is franchise money being invested? At the brand level, FRANdata identifies and verifies more than 300 new entries per year. The majority, roughly two-thirds, are in sectors outside the food industry.

The biggest concentrations of new franchise brands involve health and related fitness sectors. A more generic evaluation of the commonality of these sectors is that they mostly involve services aimed at the individual.

This leads us to the all-important question: *Why* is money going there? The demographic answer is that it appears Millennials are having their long-anticipated spending impact, and that money is focused primarily on self. In effect, we have demand in a barbell fashion, with Millennials on one end and Boomers on the other. The Gen X crowd, with about a third less population than either of the other two, just doesn't seem to matter as much—despite being in their prime spending years now. The message on sector/brand targeting is pretty clear: a la Willie Sutton, go where the money is. Since it's in the hands of Millennials and Boomers, follow their trends and you have your answer.







MUFs in the driver's seat

Finally, we have the question of what it means for multi-unit operators. That is really a franchise business model evolution question. So far this has been the century of multi-unit franchisees. They're the darlings of franchise development officers. For established brands it has meant less training and lower performance risk. For emerging brands it has meant even more: brand validation.

Now the economy is handing them another positive: full employment. While many operators struggle with rising employee costs, full employment also is reducing the number of prospective new franchisees. That pool expands more slowly and even declines during periods of sustained economic expansion. With more job opportunities and rising wages for skilled labor, fewer people are enticed by the entrepreneurial spirit that drives the prospective franchisee pool.

The result is that they have the pick of the 300-plus new brand litter. The even better news is we're seeing a trend with new brands being more prepared, which means faster growth, greater market awareness, and a litany of functional efficiencies like technology and advertising.

Multi-unit operators continue to grow their influence in franchising. Importantly, that puts more responsibility for the health of the business model in their hands. Picking the right sectors and the best brands in those sectors is falling more and more on their shoulders. Multi-unit franchisees will substantially influence emerging franchisor winners and losers. The next few years may indeed become the Multi-Unit Golden Period. ■

Darrell Johnson is 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.

GROWING YOUR SYSTEM

International

China Primer

Tips from one who's been there, done that

BY BILL EDWARDS

When I first went to China in late 1982 there were no foreign brands operating in the country, and everyone wore Mao jackets and rode a bicycle. The term "middle-class consumer" did not apply. People shopped at government-owned stores and street vendors. The GDP per person was about US$1,000. Thirty-five years later the picture has changed.

Today, China has 160 cities with a population of more than 1 million, with the top 41 cities accounting for 50 percent of the country's GDP. In 2016, Shanghai and the two adjacent provinces, Jiangsu and Zhejiang, had a combined annual GDP of US$4.4 trillion—the same as Italy and Mexico combined. China has the largest middle class on Earth, with more than 225 million households in this category—and by 2020, China should see its number of millionaires soar to 2.3 million.

U.S. brands in China

As Chinese consumers earn more discretionary income, they want the quality, brand, convenience, and service associated with Western brands. They often buy goods and services at stores, restaurants, and service establishments that are franchises, thus many U.S. franchises help fill the needs of China's fast-growing middle class. This group is largely a young, upwardly mobile, and aspirational two-income family demographic with one child and considerable discretionary income.

Today there are 5,299 KFCs, 2,200 McDonald's, 1,500 Pizza Huts, 590 Dairy Queens, 500 Subways, 170 Papa John's, and 105 Baskin-Robbins in China. And the GDP per capita is US$8,000. More than 12 million new cars are sold in China every year.

The first McDonald's in China opened in Beijing in 1991. The company built, owned, and operated all of its restaurants in China until last year when McDonald's sold its locations in China and Hong Kong to franchisees.

Yum! Brands spun off its China operations into Yum China Holdings, which is the exclusive licensee of Yum! Brands in China, which includes KFC, Taco Bell, and Pizza Hut. With more than 7,300 restaurants, Yum China generated sales of more than $8 billion, and its loyalty program has more than 127 million members.

Pizza Hut in China is more of a full-service Italian restaurant than in other countries. All the food chains that are successful in China had to localize. In Pizza Hut China, you don't eat one type of food at a meal, you eat many different dishes.

Starbucks has changed the country's thousands-of-years-old tea culture. There currently are about 2,000 Starbucks outlets across 100 Chinese cities. In shopping malls, office towers, and near tourist attractions, an empty Starbucks is hard to find. In the more developed, so-called first-tier cities, it's not unusual for a big department store to have more than one Starbucks in it, and they're all packed.

White Castle opened two stores in Shanghai in 2017. In addition to its beef hamburgers, the menu includes a meatless spicy tofu burger made from mapo tofu, a Sichuanese classic, as well as a cherry duck slider made with smoked duck drenched in a cherry sauce.

Dunkin' Donuts first tried to break into China in 1994. By the late 1990s, Dunkin's franchises had pulled out. Now they are back in Beijing, Shenyang, and Shanghai and hope to open more than 1,400 stores in China over the next two decades.

Online, mobile, and social

China's 2017 online retail sales approached $1 trillion, with the country's Singles Day shopping carnival in December totaling US$38.26 billion. Eighty-five percent of China's middle-income consumers have shopped online.

In China's big cities, people seldom carry cash. Mobile payments are booming, with total transaction value topping US$5.5 trillion in 2016, triple the previous year, according to Beijing-based iResearch. By comparison, the U.S. mobile payments market increased by 39 percent to $112 billion last year, according to Forrester.

There is no Facebook and no Google in China. They have WeChat and Alibaba. WeChat, a Chinese multi-purpose and social media portal with 980 million monthly active users, allows brands to send messages directly to users who follow them—a seemingly ideal tool for marketing and sales, since the brands maintain control of the sales process. Users buy directly from their online shops without leaving the app.

Alibaba is an e-commerce, retail, and technology conglomerate that provides consumer-to-consumer, business-to-consumer, and business-to-business sales services through web portals, as well as electronic payment services, shopping search engines, and data-centric cloud computing services. Alibaba is the world's largest and most valuable retailer since April 2016, after it surpassed Walmart in 2015.

Thinking about China?

Numerous opportunities exist for foreign franchise brands to enter China today. In addition to food and beverage brands, we are starting to see service franchises such as Right At Home and Home Instead Senior Care enter the country.

The following are the four very important major legal requirements for a foreign franchisor to franchise into China, according to Shelley Spandorf, an international licensing lawyer in Davis Wright Tremaine's Los Angeles office.

continued on page 55

GROWING YOUR SYSTEM

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1) The U.S. brand must have registered its trademark in China.

2) The franchisor must satisfy the "2 + 1" requirement: either the entity that will award franchises in China or its subsidiary must have owned and operated at least two units under the franchise brand for at least one year. These units may be located outside of China.

3) The franchisor must provide the prospective franchisee with a disclosure document at least 30 days before the franchisee executes the franchise agreement. The content is fairly comparable to the U.S. FDD.

4) Within 15 days of signing its first franchising agreement in China, a franchisor must file as a franchisor with the Ministry of Commerce (MOFCOM). Within the first quarter of each year, the franchisor must file an annual report with MOFCOM noting the number of new franchise agreements signed and operating.

Some challenges

While there are many opportunities for U.S. brands seeking to grow in China, obstacles remain.

1) Local Chinese brands are growing in sophistication. Foreign franchises must be able to show they are unique and not just more of what is already in China.

2) Intellectual property protection is uneven. The Chinese government is enforcing trademarks more than in the past, but there are still rip-offs operating.

3) Local managers often lack strong management and business skills. A foreign franchise must have a very strong training program at multiple levels to ensure that the Chinese staff can fully deliver the brand experience to consumers.

4) China has many markets. China is a very large country with diverse business cultures and even different languages. It is not common to award the entire country to one company that may not have local experience in another region of the country. ■

William Edwards is CEO of Edwards Global Services (EGS). He first went to China in 1983 while working for a major U.S. oil and gas company. He has lived in both Mainland China and Hong Kong. From 1990–1992, he was the master licensee of AlphaGraphics in China. Subsequently he has helped several U.S. franchise brands enter China, and his company maintains an office in Beijing. Contact him at bedwards@edwardsglobal.com or 949-224-3896.

It's closing time

Quarterly Checkup

As Q1 winds down, how is 2018 tracking?

BY ART COLEY

With the end of the 2018 first quarter approaching, now is the time to pause to see where things stand with recruitment versus the 2018 plan and goals. Completing the recruitment metric review included with this column will be a good place to start, followed by the steps below. The quarterly-end review isn't complicated and doesn't require a lot of hours. And like just about everything in life, there is always a first step.

Step 1: Get crystal clear on the current state. Whether you're the CEO, CFO, VP of development managing a team of 15, or a one-person department wearing all the development hats, you need to know the real picture of where things currently are—the metrics that point to what's happening with lead generation, appointment setting, discovery process, discovery days, signings, budget, team, and more.

Step 2: Identify and verify the gaps. By looking at the data and key areas, you'll be able to spot some challenges and opportunities very quickly, even if you're new to recruitment. What's not working? Where is the trouble showing up? Make a list of these findings.

> You need to know the real picture–what's happening with lead generation, appointment setting, discovery process, and more.

Step 3: Clarify the root cause. A big mistake we all make too often is identifying and treating *symptoms* instead of the *root cause* of a problem or challenge. Imagine a doctor jumping too quickly to a diagnosis and prescription without doing the proper analysis and running the required tests. You wouldn't be happy about the doc moving forward with open heart surgery when what you really needed was day surgery on a muscle in your shoulder. To make sure you are treating the root cause, you may need to reflect on a challenge a bit longer, reach out to others, and/or have a subject matter expert lift the hood for a look to confirm your conclusion or offer another diagnosis.

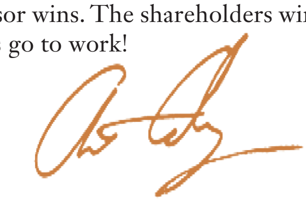
Step 4: Document the solution(s). Create a *one-page action plan* for the next 90 days based on how to address the root cause(s). Keep it simple. Recruitment is not complicated. It is hard work. It does require daily and weekly discipline to consistently perform the winning best practices and achieve brand goals… but it doesn't require any of us to be rocket scientists.

Step 5: Implement the one-page action plan. Take action! I like "action" over "talk" every day of the week and twice on Sunday. We can attend all the seminars, conferences, webinars, and other industry events, gather up all the knowledge and best practices until the cows come home… but in the end what counts the most is going to work and improving the performance.

Step 6: Repeat. Every 90 days go back through this exercise.

As a franchise executive and leader, our job is to create the desired outcome the franchise brand needs. A massive component of getting the brand's future right is recruiting the best-quality new franchisees and getting them on their way to building a top-performing franchise unit. The franchisee wins. The franchisor wins. The shareholders win.

Let's go to work!



Recruitment Metric Review

	2017 (actual)		Q1 2018 (actual)		2018 Targets	
	Total	%	Total	%	Total	%
Inquiries		100%		100%		100%
Initial Contacts (Made / Reach Rate)		%		%		%
Initial Call (Kept)		%		%		%
Application Completed		%		%		%
Discovery Day Attendee		%		%		%
Approved to Franchise		%		%		%
Return Award Letter		%		%		%
Agreements Signed		%		%		%
Ratios:						
Inquiries / Initial Call						
Initial Call / Application						
Application / Discovery Day Attendee						
Initial Call / Agreement						
Investment / Agreement	$		$		$	
Revenue / Agreement	$		$		$	

Note: To learn more about conducting a Recruitment Metric Review for your brand contact info@cgifranchise.com.

Art Coley is CEO of CGI, a recruitment and onboarding firm dedicated to helping franchise brands maximize their recruitment and development efforts. Contact him at 254-239-5411 or acoley@cgifranchise.com.

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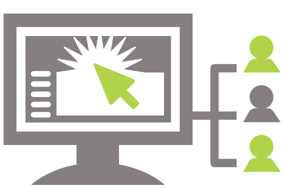

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