PEOPLE ■ INVESTMENT INSIGHTS ■ CUSTOMERS COUNT

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2011 MULTI-UNIT FRANCHISING CONFERENCE
APRIL 27-29, 2011 ■ LAS VEGAS

Multi-Unit Franchisee

ISSUE II 2011

LEADERS OF THE BRANDS

Multi-concept stars shine

Jeff Orlando
Wingstop, Schlotzsky's and Cinnabon

■ **MB50**
Top 50 multi-concept operators by size and brand

■ **FAB FAVES**
Industry insiders dish on franchise trends

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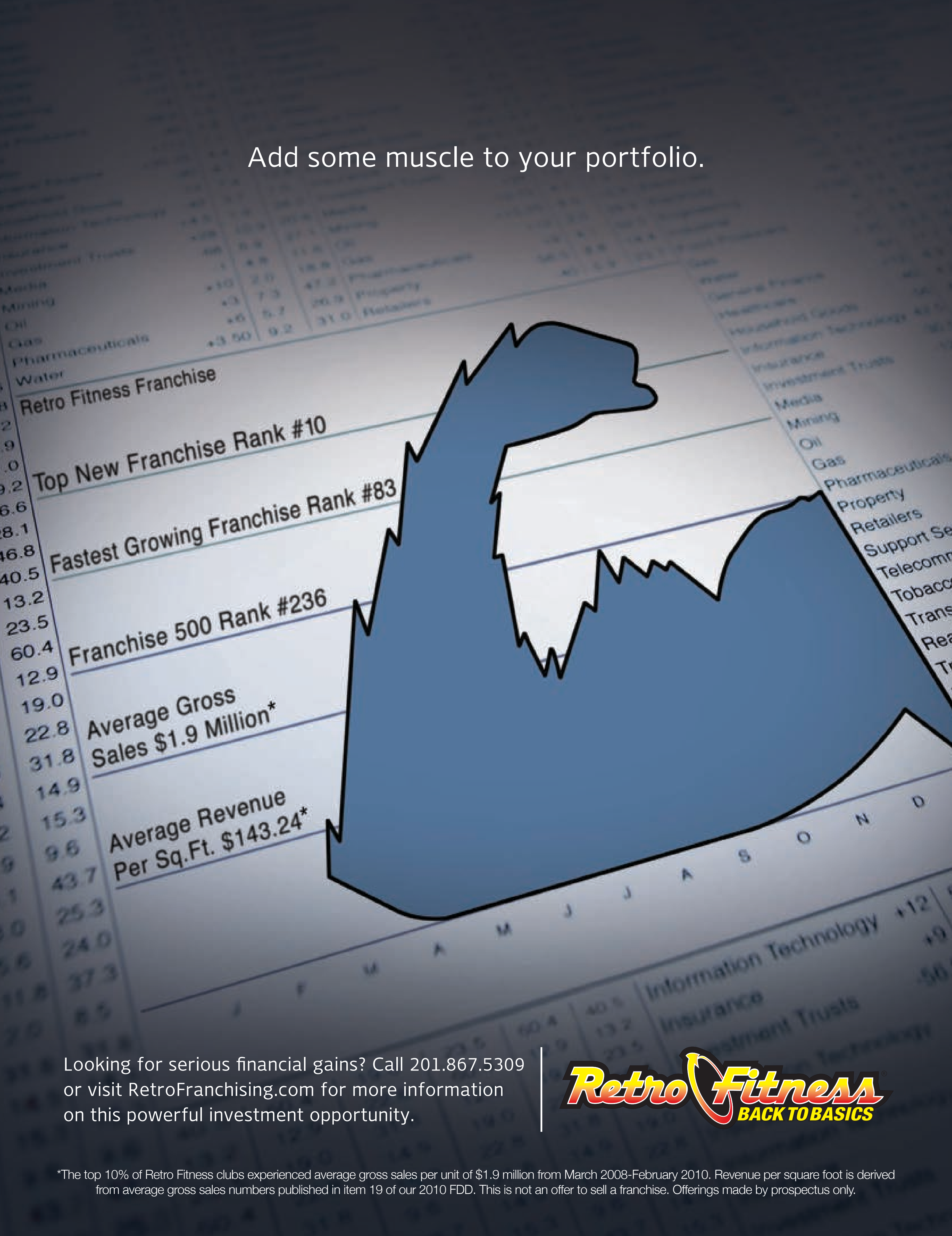
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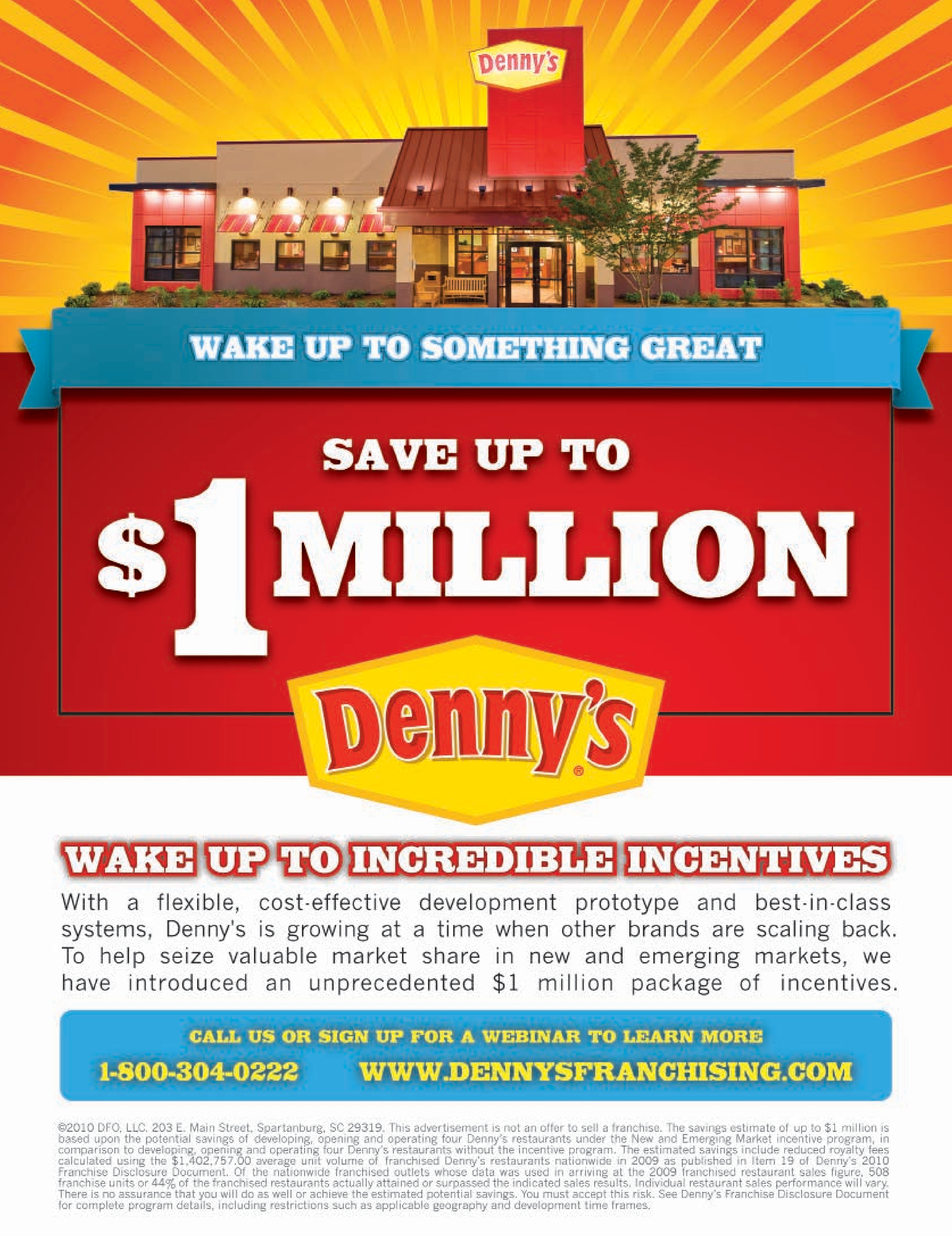
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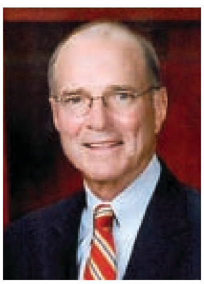
BY CHARLES SMITHGALL

Plan To Attend and Plan To Win

My Dad once said, "Son, no matter how good an opportunity you miss, there will always be another one, even better than the one you missed. Just make sure that you operate well, keep your eyes open, and keep a lot of cash." That philosophy served him well for 93 years. (Mom's going to be 100 April 1, but that's another story.)



There are opportunities galore today in the franchising business, possibly more than there have ever been. There are eager franchisors with fantastic brands in under-served markets. There are successful franchisees who just want to cash out. There are many successful concepts that can be franchised. And, believe it or not, there is a lot of money available to finance proven operators. (We are currently being courted by several large banks.)

It is a wonderful time to invest in a franchise business or to grow an existing business by: 1) acquiring other franchisees, 2) launching a new brand, or 3) simply opening more units of your existing brand.

The ideal place to explore all of these options is at the upcoming Multi-Unit Franchising Conference coming soon at a Las Vegas near you. The conference is being held at the fabulous Venetian Hotel April 27–29, and I can promise you that it's going to be the largest and best ever.

I am honored to be this year's Conference Chair, but I can assure you that I'm there to learn just like everyone else. Many of my fellow Aaron's franchisees have already signed up because they are hungry for ideas on how to improve their existing operations, as well as exploring new concepts. They are going to hear words of wisdom from keynote speakers J. Patrick Doyle, President and CEO of Domino's Pizza, and Sean Tuohy, an ultra-successful multi-unit franchisee and NBA broadcaster whose life story inspired the movie "The Blind Side."

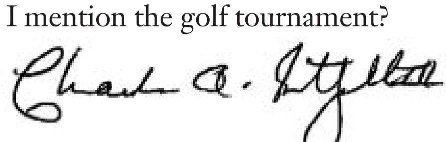
They are going to hear Jim Sullivan, well-known author of the book *Multi-Unit Leadership*, talk about great ideas for successfully managing multiple units. They are going to hear Gary Walstrom, founder of Culture Index, the best system we've ever come across for testing the behavioral characteristics of potential general manager candidates. These are a few highlights of a program loaded with talent.

In addition, you will be rubbing elbows and attending cocktail receptions with some of the best and brightest franchisees in America. Beyond the formal program, the Exhibit Hall will have numerous successful franchisors touting new concepts, and companies showcasing tools and services designed to improve your business.

Several franchisees have asked me "What can I expect to get out of the Multi-Unit Franchising Conference?" My answer is always the same. "What do you expect to put into it?" I always plan what I am going to try to accomplish at the conference. I want to meet as many successful franchisees and franchisors as I can, attend as many sessions as I can with subjects pertinent to my business, and I am always on the lookout for those one or two ideas that make my investment in the conference worth it. And it's amazing, but every year I find them—and that's what keeps me coming back. Whether you think you can, or you think you can't, you are right either way.

In summary, the Franchise Update Media Group puts on one heck of a show, and I can assure you that you won't be disappointed.

P.S.—Did I mention the golf tournament?



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Conferences

10th Multi-Unit Franchising Conference

A decade young and it just keeps getting better! Franchise Update Media Group's annual Multi-Unit Franchising Conference is rolling back into the city of high stakes, Las Vegas. Make plans now to attend the conference on April 27–29, 2011 at The Venetian Las Vegas. Expect the best in the industry to be front and center at this year's event. The sessions will be packed, the Expo Hall buzzing, and the discussions lively at the key event of the year for the multi-unit franchising business.

For a look back on the 2010 conference (including the presentations) and a peek ahead to this spring's agenda, speakers, and registration information, visit **www.multiunitfranchising conference.com/.**

WHAT'S NEXT
2011 MULTI-UNIT FRANCHISING CONFERENCE
April 27-29, 2011 - The Venetian, Las Vegas
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Big Dreams

Indianapolis native Greg Willman and his friend Phil Salsbery were corporate types who didn't know anything about restaurant franchising. But that didn't stop them from signing on the dotted line in 1998.

"We dove right in," says Willman. "It was either the smartest or the dumbest thing we ever did—it almost put us under. We were small with no restaurant experience, but it ended up working out well and those stores all continue to do well."

Willman, who believes in "sweating the details every day," says there is no deep, dark secret to their success. "We're not inventing anything or doing anything overly sophisticated—we're serving food. We're a meat-and-potatoes, blocking-and-tackling kind of organization," he says. "We try to be brilliant at the basics every day in every store so that guests have a great experience. We pay a lot of attention to doing that." **www.franchiseupdate-digital.com/franchisee/2011iss1#pg34/.**

Rankings

Check out our annual rankings of top franchisees and their multi-unit brands and find out "who's on first." **www.mufranchisee.com/rankings/.**

Press Office

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BY KERRY PIPES

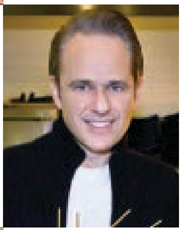
Expansion-Minded!

Multi-brand franchising continues to gain

MULTI-UNIT FRANCHISING IS ONE thing. Multi-concept franchising is something else entirely. Nevertheless, it's a place—and a choice—that many franchisees love, and where they excel. These determined operators look for growth opportunities and potential across several concepts, sometimes in wildly different sectors. The multi-concept franchising model offers power in numbers (units, brands, territory, and income potential), as well as the security of spreading risk across different concepts in a diversified portfolio.

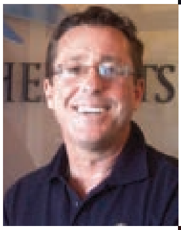
Success in this realm requires an experienced operator with a sophisticated approach to make all the pieces work together smoothly. It demands skilled, knowledgeable professionals and team members who can operate under varying system requirements, market conditions, and consumer demands. It's not for everyone, but those who do it, and do it well, say the benefits far outweigh the risks.

This year we've updated our fourth annual "Multi-Brand 50" list with thanks to FRANdata for their latest numbers on multi-brand franchising. We've also created a list of the MB50's 25 favorite brands. Restaurant brands, of course, continue to dominate at this level. Some of the most popular this year are Pizza Hut, KFC, Taco Bell, Burger King, and Hardee's. The list begins on page 44.



Six faces of success

Big numbers are important as a sign of success, but more interesting are the human beings behind those numbers. Each year we go in search of fresh faces to share their personal experiences and struggles on the road to their present success.



This year we tell the stories of six multi-concept operators in fields from food to technology to hotels. Their stories are unique—two are immigrants who built new lives in the U.S.—and we hope you enjoy reading each one. Here's a sample of what you'll find in the pages ahead:

- **Andy Lanz** went straight from the University of Wisconsin into the world of franchising. He's combined concepts to cater to varied tastes—sub sandwiches, pizza, bagels, and ice cream. His stores are grouped together near where he lives in Wisconsin and marketed as co-branded units, which helps keep a handle on fixed costs.
- **Glenn Miller** came across the pond from the U.K. in 1996 as a consultant to a small group of distressed Arby's units in Illinois, applying his skills as a British Chartered Accountant to turn the units around. The States suited him and he relocated with his family. Today he operates 18 Arby's and 4 McAlister's delis with another about to open.
- **Jeff Orlando** knows sandwiches and wings. He has a Schlotzsky's in a shopping center near his home in Central Texas, and a Wingstop just three doors down. This year he'll open another Schlotzsky's, co-branded with a Cinnabon, and continue to serve the troops going in and out of nearby Fort Hood.
- **Pierre Panos,** a South African immigrant who moved to Atlanta with his family to escape the escalating violence in his home country, has made his way in the U.S. thanks to his skills in real estate and as a restaurateur. In addition to franchising (41 Papa John's), he has developed his own "fast fine" dining concept, Fresh To Order, which he's now franchising.
- **Randy Merrill** is an Army veteran and athlete who found his way into a fitness-related professional career that's taken him all the way from Atlanta to Los Angeles and back again. Today he operates franchises for Massage Heights, Cartridge World, and 14 units of a non-franchised tanning salon concept, Solar Dimensions.
- **Rick Huffman** has been developing shopping centers, hotels, apartment complexes, and affordable housing for two decades. Now add four Value Place extended-stay locations, 2 Hampton Inns, and a Hilton Convention Center, Hilton Promenade and a Hilton Garden Inn. Oh yes, he and his partners also developed the hugely successful $400 million Branson Landing mixed-use project in Missouri.

Now how's that for a mix of multi-concept franchisees?

BY JOHN CARROLL

Developer Extraordinaire

Measuring success by profits, not revenue

For more than 20 years Rick Huffman and his two partners—Sam Catanese and Marc Williams—have been building things. They've developed shopping centers, hotels, apartment complexes, a large stock of affordable housing units, and Branson Landing, a $400 million mixed-use project in Branson, Mo.

Now, they're building a hotel franchise as well. The trio's portfolio includes Hampton Inn and Hilton properties along with four Value Place locations—an extended-stay concept that has continued to thrive in a down economy by promising hotel convenience and apartment essentials.

"It just made a lot of sense," says Huffman. "If we could build something of apartment grade, at the bottom of the extended-stay market from an affordability/price point, we thought the model would be good." Fine-tuning their business strategy, Huffman and his partners have been focusing on areas with military bases, like Ft. Leonard Wood in Missouri and Junction City in Kansas, minutes from Fort Riley.

"The military has a lot of travel and a lot of extended stay involved with it," says Huffman. "There are a lot of moving parts around a military base. The first Value Place we built was in Junction City, a huge military area with a lot of travel and a lot of construction going on. Construction workers also use extended stay places, and it worked quite well."

Huffman feels right at home doing this kind of development work. The 53-year-old helped put himself through college working construction, "pounding nails and bidding a little plumbing and doing a little electrical work." So when it's time to break ground on a new Value Place, he knows how to bring a project like that in on time and on budget.

"I spend a tremendous amount of time reading reports and keeping in tune with our projects," says Huffman. "My biggest strength has always been in the development side. I've kept in tune with construction and costs and means and methods."

He's also kept in touch with his own values, which he likes to see reflected in the people who work for his company. "If I find people who are family-oriented and honest and can admit their faults, those are pretty strong core values," he says. "That's what makes everything work."

Like so many others involved in real estate development, Huffman has felt the chill winds of the economic downturn. But if you stick to your values and recruit a good team of people who share them, he says, you can get through anything. It also hasn't hurt that the sour economy has cut labor and land costs to the bone, trimming the cost of building a Value Place to less than $4 million.

To get ahead in Huffman's company, there are some ground rules, though. Being on time for meetings is essential for a manager who keeps Vince Lombardi time: "If you're five minutes early, you're late." And despite every new advance in technology, Huffman still believes that the best way to communicate with anyone is face to face. It's all part of a down-to-earth game plan that depends on keeping things simple and straightforward.

"There's nothing special," he says

Huffman still believes that the best way to communicate with anyone is face to face.

NAME: Rick Huffman
TITLE: CEO
COMPANY: HCW LLC
NO. OF UNITS: 4 Value Places, 2 Hampton Inns, and a Hilton Convention Center, Hilton Promenade, and Hilton Garden Inn
AGE: 53
FAMILY: Married 29 years, 5 kids
YEARS IN CURRENT POSITION: 20
YEARS IN FRANCHISING: 18

PERSONAL

Key accomplishments: As a company we have developed more than 5,000 multi-family and condo units, and recently we won first place in the world for a project that we did in Branson, Missouri: Branson Landing. It's a 2 million-square-foot project with two Hilton Hotels, 500,000 square feet of shopping, and 200 condos. We opened it in 2006 and won the International Council of Shopping Centers' best project for the world. We still own and manage it.

Biggest mistake: I don't think we've really made any mistakes in the franchise area as a company. We went into the single-family housing market in 2005 and that was a mistake. The timing was horrible.

Smartest mistake: Branson Landing. When we started that project we had a lot of reservations. It was $400 million total and now that we've completed it, that's turned out to be a good decision.

How do you spend a typical day? I have a home in Phoenix and in Branson. My partner Sam lives down the road from me in Phoenix. We've been looking at this market out here since it's been so distressed. We believe this market will rebound. We'll also continue to look for the smaller communities for franchising, where the cost of land is reasonable. The Value Places cost under $4.5 million, and you can do that in smaller, mid-tier markets. It's a good time to buy land right now, and we're out there looking.

Work week: I like to get up in the morning and take a walk. We own a lot of different companies and different partnership interests. Most of my day is looking for new deals and managing the partnerships. I'm sitting in front of the computer 5 to 6 hours a day and financing is a huge part of the business. If you don't have good financing, it just doesn't work. I think financing has loosened up a little for businesses, with new lines of credit, inventory loans. But the federal government has kept its thumb on real estate loans.

Favorite fun activities: I walk, golf. We have a houseboat on a lake nearby that we enjoy, and we spend time at sporting activities with our kids.

Exercise/workout: Not really.

Favorite stuff/tech toys: I'm a little bit tech-challenged. I do pretty well with my computer, and my wife has an iPad and she loves it. I'm not a tech guy. With technology you can sometimes screw up business. I like to meet people, shake hands, and talk face to face.

What are you reading? I just started a new book, *The One Thing You Need to Know… About Great Managing, Great Leading, and Sustained Individual Success*, by Marcus Buckingham.

Do you have a favorite quote or advice you give? Not really. I guess people who know me know I'm a little bit of a stickler on time. I'm on Lombardi time: If you're five minutes early, you're late.

Best advice you ever got: My very first boss, when I was 21 years old, noticed that I would hang out with all my buddies and we were all broke, like everyone is when they're 21. He took me down to a very influential restaurant and set up a charge account for me. He said if you want to make money, you've got to surround yourself with the right individuals.

Formative influences/events: The thing that influenced me the most was having five kids. I realized I had better work my ass off and that's what I've done. They've all attended college, are successful, and scattered around the country now. Family is the most important thing.

How do you balance life and work? It's easier nowadays since the banks aren't lending money, so I can't do as many projects. I'd like to be busier. Having good people around you helps, and we do we have great people in our company.

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MANAGEMENT

Business philosophy: We're doing a lot more third-party management and have been phasing out of day-to-day management activities. I'm the youngest of the three partners (they are 65 and 61), and we're all kind of wanting to maybe not burn the candle at both ends any more.
Would you say you are in the franchising, real estate, or customer service business? Why? It's customer service. If you don't have great customer service and a good product you won't survive. Consumers are being a lot more conscious about how they're spending dollars but still demanding the same service.
What gets you out of bed in the morning? I just enjoy life and getting up, and I love working. Work is probably the most fun that I have and that motivates me. I also enjoy spending time with my wife every day—that's more important.
What's your passion in business? I guess I'm a driver. I'm not a patient person with details.
Management method or style: I just look at the big picture. I don't like to micromanage. I like for the people around me to tell me in 30 words or less what's going on, because there are so many things we do.
Greatest challenge: The greatest challenge today is making sure that you're picking the right locations and making sure you don't over-leverage yourself.
How close are you to operations? Very.
Have you changed your marketing strategy in response to the economy? How? Yes we have. We have eliminated a lot of print material and are using more Internet. We also are having our sales reps follow up more with the consumer.
How do others describe you? Probably they'd say not too serious, but a workaholic.
How do you hire and fire? I usually don't. Our management team does that.
How do you train and retain? That's the management team and they do a great job.
How do you deal with problem employees? As I said, the management team is in charge of that.

about his success. "I think it's just getting up every morning, looking for deals, treating people like human beings, just being honest. A friend of mine once said that we spend a tremendous amount of money trying to keep the dishonest from taking our money. But at the end of the day there's only that one percent of people who are bad who will steal from you. Don't worry about that one percent, because they're going to hell and you're not." MUF

> "We're a small company, a pat on the back is important."

BOTTOM LINE

Annual revenue: I couldn't tell you.
2011 goals: To complete all the construction projects and make sure they're open on time. We're working on a very large project in the Phoenix area and that's a goal of mine.
Growth meter: How do you measure your growth? Profits. Not revenue. I don't care about revenue.
Vision meter: Where do you want to be in 5 years? 10 years? I would like to be maintaining the same pace I am today, continuing to do business deals, continuing to grow, maybe to work a little less.
How has the most recent economic cycle affected you, your employees, your customers? Are you experiencing economic growth/recovery in your market? We've reduced staff by 25 percent, reduced costs by 40 percent. We took a look at ourselves and realized that there are some things out there we don't need. We looked under every rock to find a dollar, and I would say we're a much better company now having gone through this.
What did you change/do differently during the recent tough economic times that you plan to continue doing into the future? Business in America has learned how to do more with less people. I'm not looking at hiring anybody soon. We can do the same work with less people. And I learned to be more conservative, even in my personal life, making sure I don't lose what I've worked so hard for. Through this recession my net worth has gone down about 40 percent.
How do you forecast for your business during trying times? Can you even forecast at all? No. Not until we know we can borrow money. I think it's too difficult to forecast. You have to take one day at a time.
Where do you find capital for expansion? We've used smaller banks, where it has been easier to find capital. What works for Value Place is $3.5 million, so that does make the Value Place model more attractive for developers. If you put equity in, then you can go to a community bank. But for any sizable projects ($8 million, $10 million, $100 million), financing for new construction is nonexistent.
Is capital getting easier to access? Why/why not? A little, not much.
Have you used private equity, local banks, national banks, other institutions? Why/why not? Community banks, over the last six or seven months. They're willing to lend more than the larger banks, although they have their restraints.
What kind of exit strategy do you have in place for your business? I don't have one. My exit strategy is to continue what I do. I have one son in the business. I'm hoping he'll step up to the plate and take some of the business.
What kinds of things are you doing to take care of your employees? Treat them great. The best way is to tell them when they accomplish things. Obviously we make sure they're compensated, but they like to be recognized and told they're doing a great job. We're a small company, a pat on the back is important.
How are you handling rising employee costs (payroll, healthcare, etc.)? Health care is the biggest problem. The rest of payroll costs we can handle fine. But health care is an unknown. It goes up every year. Until Congress decides to get along with each other, I have no idea where we're going.
How do you reward/recognize top-performing employees? We are too small to single out one person. We try to reward everyone as a team.
How is social media affecting your business operations? We are using social media in our marketing, but have not felt the effects of it yet. It's still a learning process for us.

BY JOHN CARROLL

One-Stop Shoperator

Young multi-brand zee mixes concepts to expand locally

ANDY LANZ GOT STARTED IN FRANchising right out of the University of Wisconsin in Madison. With the help of his parents, the newly minted economics graduate purchased a Cousins Subs franchise in nearby Verona. Then he added a Figaro's Italian Pizza franchise as well as a Chocolate Shoppe Ice Cream operation, and put them all together inside his first 2,500-square-foot store.

By combining concepts, he could cater to more than one taste or time, and was able to build steady traffic throughout the day. It just made sense, he says. Grouping franchises also helped his customers, giving them gourmet sandwiches and pizza for lunch and dinner and ice cream in the afternoon—an idea that worked well in the little town just outside of Madison.

"Verona is one of the fastest-growing communities in the area," says Lanz, "and I felt a little less competition than other places in the area." Soon after, he started to branch out into other locations.

Now Lanz owns five Cousins, two Chocolate Shoppes, one Big Apple Bagels, and a Figaro's. Most of these brands are grouped together as co-branded locations, which also helps him cut back on his fixed costs.

Choosing the right concepts to mix

together took some research, says the young multi-concept operator, who was able to get a fast start on Cousins, a brand he knew well as a customer. "Cousins was always my favorite sandwich shop," he says. "That's how I got started looking at it." After that he began surfing the Internet in search of complementary brands, tracked down the Chocolate Shoppe and just kept going.

But the real key to his success, he says, has been his ability to attract a good group of employees to prepare and serve the food. After all, he says, "The restaurant business is really more about the people than the food." Just about anybody can make a good sandwich, but if you want customers to keep coming back day after day, you need to have friendly, likable people behind the counters. To do that, he budgets extra time to get to know the people who are applying to work, probing them to find out more about what makes them tick to get a better idea of how they will handle customer relations on the front lines.

"Part of hiring is just having a feel for people," says Lanz, "finding out who will be outgoing and talk to your guests, and who's reasonably hard-working." By taking more time for job interviews, he's been able to reduce his remedial work with problem employees to a minimum.

Lanz just doesn't talk the customer service talk. He helps set the pace, and provides an example by making sure he's in one of his stores every lunchtime, serving food and talking it up with employees and customers.

Nights and weekends you can often find him at a local event, but he isn't just out to have fun. A real go-getter, Lanz doesn't wait for the business to come to him. He goes after the market wherever he can find it, specializing in marketing his food favorites at events in the area. It's a lucrative sideline, he says, which

> "The restaurant business is really more about the people than the food."

NAME: Andy Lanz
TITLE: Owner
COMPANY: Lanz Restaurants LLC
NO. OF UNITS: 5 Cousins Subs, 2 Chocolate Shoppe Ice Cream, 1 Big Apple Bagels, 1 Figaro's Italian Pizza
AGE: 29
FAMILY: Nope.
YEARS IN CURRENT POSITION: 6.5
YEARS IN FRANCHISING: 6.5

PERSONAL

Key accomplishments: Going from one store to four stores in six and a half years has probably been my biggest accomplishment.
Biggest mistake: I've made a lot of mistakes. At certain points I've been a little too optimistic and grown too fast.
How do you spend a typical day? I usually visit at least a couple of the stores. I work lunch in one of the stores. I do quite a bit of paperwork every day. Bookkeeping and setting up marketing, that kind of stuff. I'd rather be on the floor, working with customers.
Work week: I do a lot of special events. This year we have over 50 special events scheduled. And it covers everything: the state hockey tournament, fairs, firework displays. I work with a local entertainment center and we donate a percentage of sales back. We sell subs and ice cream at the events.
Favorite fun activities: I love to go to Badger games, both football and hockey. And I have pet turtles.
Exercise/workout: I probably don't work out nearly as much as I should.
Favorite stuff/tech toys: I'm not really big into that, but I couldn't live without my BlackBerry.
What are you reading? I read the news about half an hour a day.
Do you have a favorite quote or advice you give? Adversity builds character.
Best advice you ever got: Laugh at your mistakes, but don't repeat them.
Formative influences/events: My parents have had a great deal of influence on my life. My Dad owned an insurance agency for 25 years and my parents had a large self-storage business when I was growing up, so I think that's definitely where I got my drive to invest and build a business.
How do you balance life and work? I spend a lot of time with my business. At first I was much worse at it than I am now. I definitely learned to force myself not to work and do fun things too.

> "This year we have over 50 special events scheduled. And it covers everything: the state hockey tournament, fairs, firework displays. I work with a local entertainment center and we donate a percentage of sales back. We sell subs and ice cream at the events."

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MANAGEMENT

Business philosophy: In the restaurant business the most important thing you can do is have the best people, the friendliest people that you can find. Anybody can make a sub, but doing it in a way that builds relationships is always the hard part.

Would you say you are in the franchising, real estate, or customer service business? Why? Definitely the customer service business. I bought a franchise, but taking care of customers is really the core of everything.

What gets you out of bed in the morning? I like to make little improvements every day. If you make your business just a little better every day, over the long term it makes a huge difference.

What's your passion in business? A lot of this goes back to people. I love my regular customers and getting to know the people.

Management method or style: I'm a younger guy and I'm pretty relaxed. I think most of my employees have a good idea of what I expect and I make it very clear. Aside from that, I tell my guys to have fun.

How close are you to operations? I have four stores. I get to an average of a couple a day and I usually work lunch in one of the stores each day. So I'll be in each of my stores at lunch once a week, on average.

Have you changed your marketing strategy in response to the economy? How? We have done more discounts and specials than in the past. However, great food and great service are still the best ways to retain loyal guests.

How do others describe you? I'd like to think that other people think of me as a nice guy, but my employees know I have high expectations.

How do you hire and fire? Firing? I don't do very much of that at all. Usually if you hire the right people you never have to fire them. As far as hiring goes, I use a couple of tools. The most important is a structured interview. I ask a lot of hard questions that get them to open up. More than just "Tell me about yourself."

How do you train and retain? I make sure that people start out with clear expectations. And the franchisors provide a lot of that as well.

How do you deal with problem employees? I guess all people are different. It depends on the person. Of course I don't have a lot of problem employees, but when I do we just like to make sure they understand what the expectations are and why they aren't meeting them. If we can help them, great. If we can't, we part ways. Most things can be worked through.

has helped him weather the economic downturn in his region. And he plans to keep on building up that end of the business in the year ahead.

"This year we have over 50 special events scheduled," he says. That way he can build his revenue without adding to his fixed costs. And he stays focused on making daily, incremental steps forward. For Lanz, winning at franchising takes long-term commitment, and he's all in for the long haul. MUF

I like to make little improvements every day.

BOTTOM LINE

Annual revenue: I prefer not to say.

2011 goals: My biggest goals are to grow my event business and grow sales overall. We've had a couple of tough years, like everybody, but I think things are starting to look up a little bit. We'd like to see things turn around.

Growth meter: How do you measure your growth? I measure everything, maybe too much. As far as growth, I'd say same store sales is what we want to see grow.

Vision meter: Where do you want to be in 5 years? 10 years? I would imagine still running my restaurants. I imagine that I will have grown in some ways, store-wise. I guess I'm a one-thing-at-a-time guy and now I'm focused on growing the restaurants I have.

How has the most recent economic cycle affected you, your employees, your customers? Obviously it's been tough on everyone. Our customers are a lot more cost-conscious than ever before and so are we. We pay attention to our bills more closely than ever.

Are you experiencing economic growth/recovery in your market? I think things are starting to look up and we've come through it. It could have been a lot worse.

What did you change/do differently during the recent tough economic times that you plan to continue doing into the future? Before the downturn I was used to having consistent sales growth. It was easy to let the little things go because rising sales fixes all problems. Over the last few years we've been very careful about every cost. I make sure we're getting a competitive deal from every vendor and I think in the long term that will be beneficial.

How do you forecast for your business during trying times? Can you even forecast at all? It's tough. No one knows what will happen in the next two years, or three or four or five. My goal this year is to have some kind of growth.

Where do you find capital for expansion? To be honest I haven't looked in a couple of years.

Is capital getting easier to access? Why/why not? That's obviously a little tougher.

Have you used private equity, local banks, national banks, other institutions? Why/why not? We've used local banks mostly.

What kind of exit strategy do you have in place for your business? At this point I don't really have one. It's not a great time to leave a business and I don't think it will happen anytime soon.

What kinds of things are you doing to take care of your employees? We have incentive programs. Our corporate office mystery shops, where they send people in to buy subs, find out if the service is good, is the restaurant clean. If an employee gets 100 percent, they get a $100 bonus. That happens pretty often, and managers have a bonus system in place as well.

How are you handling rising employee costs (payroll, healthcare, etc.)? I don't know if there's a lot we can do to handle that, other than to make sure our restaurants are running as efficiently as possible.

How do you reward/recognize top-performing employees? The bonuses are the most formal thing I do. A lot of it is making sure your employees know they're appreciated.

How is social media affecting your business operations? Social media has not had an effect on my business at this point.

BY DEBBIE SELINSKY

If the Brand Fits...

Fitness industry entrepreneur seeks diversification

As a young man, Army veteran and athlete Randy Merrill followed his natural interests into training and coaching at some of the nation's top fitness chains. The Atlanta native became one of the top producers for American Fitness Centers (later bought out by Bally Total Fitness) and then helped expand Australian Body Works, now known as LA Fitness, from five to 12 locations in the Atlanta market.

"Australian Body Works had a great product but no one strong in sales," Merrill says. "I remedied that, increasing the cash flow from $20,000 to $60,000 a month per store. By the time I left 18 months later, we had nine stores up and running in the Atlanta area."

After a stint in the Los Angeles fitness scene, Merrill returned home at the age of 29 to live in his father's basement and reexamine his goals. "A fellow approached me about buying his tanning salon for very little money. My younger brother lent me $5,000 and that was the beginning. Within a short period, I had three Super Bodies Tanning stores in the Atlanta area," he says.

By 1996, Merrill had joined forces with Alex Royter, whose strengths include daily operations. The result is Solar Dimensions, a chain of 14 upscale tanning salons in the Greater Atlanta area. While the salons were doing well enough, Merrill saw business fall for the first time, in 2008 during the economic downturn. "It's not really a growth business anymore," he says, adding that he takes pride in the

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fact that his businesses have always made money.

Merrill says that in the tanning business there is a constant need to reinvent the wheel. "You have to look at what your competitors are doing and tailor your training on a regular basis. Basically, you have to do everything yourself that you can get with franchising," he says.

He became a franchisee for the first time in 1995 with a Planet Smoothie location (later sold), and in 2010 took on a Cartridge World unit with a family member. Merrill says he was interested in finding a franchise that would allow him to grow at a faster pace.

"After having seen my father, at the age of 57, lose his rental business, I had become rather conservative in terms of risk and growth. My father came from the Depression Era, so he was afraid to borrow money to invest in his business. By the time he lost the business, I'd been doing his books for years, and that resonated with me, so early on I tended to only grow as I could pay for things," he says. "On the other hand, my partner seemed to go too far the other way. He borrowed for everything. Now I see that there's a happy medium, and I'm not so risk-averse. I don't have to pay cash for everything." Fortunately, he adds, he's been able to both self-fund and borrow from local banks.

As the tanning industry was affected by the economy (he takes issue with the 10 percent tax the new health care plan contains) and increasing health warnings about skin cancer, Merrill became fascinated by the massage industry, which was beginning to boom. "I liked the idea of using my skill set—helping people become healthier—and Atlanta was very under-served in this arena," he says.

In 2007, while conducting due diligence on the leading massage franchises, he spent some time watching franchisee Tom Gustoff in action at the Massage Heights location in nearby Sandy Springs. "I was impressed by the infrastructure and the business model, which is membership-based. A lot of the companies were simply selling massages with no commitment on the part of the individual customer. I knew that wouldn't work." Massage Heights offers clients a luxury massage experience in a day spa setting for a reasonable monthly fee. "With 25 million more Americans each year getting a massage than a decade ago, the room for growth is limitless," Merrill says.

By the time he went to a discovery day at Massage Heights in San Antonio, he felt he'd found the right fit. He joined the growing company, which has been franchising since 2004 and now has 70 locations open and 110 more signed. In addition to working with Gustoff at the Sandy Springs location, the partners' second area location is slated to open

NAME: Randy Merrill
TITLE: President
COMPANY: Merrill Co.
NO. OF UNITS: 14 Solar Dimensions (not a franchise), 1 Massage Heights (another set to open this spring), 1 Cartridge World
AGE: 49
FAMILY: Wife Mary, son Cole, 5, and new baby due in April
YEARS IN FRANCHISING: 15
YEARS IN CURRENT POSITION: 15 (21 as a business owner)

PERSONAL

Key accomplishments: Building successful businesses while having plenty of quality family time.
Biggest mistake: Not growing fast enough.
Smartest mistake: Not growing fast enough.
How do you spend a typical day? Coaching, guiding, and helping.
Work week: With a new store, it's 50 hours a week for 30 days. Then it's less, maybe 5 to 10 hours a week.
Favorite fun activities: Working out, family time.
Exercise/workout: I work out at least once a day. I ride the recumbent bike for one hour and I lift weights. It keeps the endorphins going and my mind fired up.
Favorite tech toys: Wii
What are you reading? *Freakonomics* by Steven Levitt and Stephen Dubner.
Do you have a favorite quote/advice? Have a clear mind, an open heart, and willing hands.
Best advice you ever got: Be bold and courageous. When you look back at your life, you will regret the things you did not do rather than the ones you did.
Formative influences/events: My father losing his business after many years.
How do you balance life and work? My first commitment is to family. A strong family makes for a successful professional life. It also makes me a kinder, gentler kind of manager and helps us grow as an organization.

MANAGEMENT

Business philosophy: Be the best you can be, be a leader.
Are you in the franchising, real estate, or customer service business? Why? Service, service, service—that's what it's all about.
What gets you out of bed in the morning? Life, baby!
What's your passion in business? To help others succeed.
Management method or style: Coach up! Lead, follow, or get the hell out of the way.
Greatest challenge: Being too intense.
How close are you to operations? Not very, on a daily basis. I'm more in big picture mode.
Have you changed your marketing strategy in response to the economy? How? No.
Personality: Intense, passionate, and kind.
How do others describe you? The same.
How do you hire and fire? Hire on attitude and fire on accountability.
How do you train and retain? Train and retain on accountability.
How do you deal with problem employees? Coach 'em up.

in the heart of the affluent Buckhead neighborhood this spring. Leases are being negotiated for the third and fourth Massage Heights, and Merrill has signed a contract for at least 15 units over the next five years. If that goes well, he might consider doing the same in other states.

"I'm nearly 50 years old now, so I've got to go as fast as I reasonably can," he says. "I have more experience now, and I'm really excited about what Massage Heights is doing. Things are looking good."

At the same time, he and his wife Mary, an executive with Coca-Cola, have a five-year-old son and a new baby due this spring. "We live near my son's school, and I'm more interested in walking him home from school than in spending all my time working. I've already got more than I ever thought I'd have as a young man, so my family is more of a driving force for me now. When I was young and gung-ho and worked all the time, I didn't really understand people with kids who didn't want to do that too. Now I get it, and it's made me a more compassionate employer," he says.

"I'm nearly 50 years old now, so I've got to go as fast as I reasonably can."

Having learned a lot from his experiences as a business owner and multi-unit, multi-brand franchisee, Merrill suggests that young would-be franchisees go to work in the industry for a year before committing time and money to a unit. "At the end of that time, you'll make a wiser decision," he says.

He also believes a strong mentor can prove invaluable to a new franchisee. "Tony de Leede, an Australian fellow who ended up selling Australian Body Works to LA Fitness for $27 million, served that role for me. I tried to be like Tony in business—but as a nicer guy," he jokes. "Now I'm reinvigorated by helping people with their health and working with a company that has great legs and is going to be growing for a lot of years." MUF

BOTTOM LINE

Annual revenue: $4.5 million
2011 goals: $5 million in revenues
Growth meter: How do you measure your growth? Bottom line.
Vision meter: Where do you want to be in 5 years? 10 years? In 4 years, I'd like to have 20 Massage Heights units. In 10 years, I'd like to be done.
How has the most recent economic cycle affected you, your employees, your customers? Cartridge World has been strong, but tanning is down.
Are you experiencing economic growth/recovery in your market? Absolutely.
What did you change or do differently in this economy that you plan to continue doing? Staying tight.
How do you forecast for your business in this economy? We're just driving for growth through service, service, service.
Where do you find capital for expansion? By living below our means and through loans.
Is capital getting easier to access? Why/why not? Yes, things are looking better, though some banks still won't lend to startups.
Have you used private equity, local banks, national banks, other institutions? Why/why not? Yes, we've used our own money as well as money from banks.
What kind of exit strategy do you have in place? We have great managers and are building great P&Ls for a potential sale.
What are you doing to take care of your employees? Offering benefits and an awesome work environment.
How are you handling rising employee costs (payroll, healthcare, etc.)? My goal is to always make more money and take care of it that way. If we stay focused on what we're doing and make money monthly, we can take care of these costs ourselves.
How do you reward/recognize top-performing employees? With recognition and dollars.
How is social media affecting your business operations? Not sure yet.

BY JOHN CARROLL

British Brothers Take Illinois, Virginia

"I don't quite understand why people eat what they eat in the U.S."

Glenn Miller's first look at the franchising business came in the early 1990s, when the British Chartered Accountant's brother, an attorney, wound up with six Arby's in Central Illinois. It didn't take a rocket scientist to see some of the problems that needed fixing.

"It was wrongly structured," recalls Miller, who says two loans had been taken out that charged 15 percent and 13 percent, and the debt payments were dragging down the operation.

"It took about two years," he says. "The loan was paid off and we refinanced with a local bank when I came on board three years down the line." The local Busey Bank was able to restructure the debt, and in 1996 Miller left the U.K. and made the trip to the U.S., where he gradually took

MANAGEMENT

Business philosophy: We tend to run our company with the ideals of our Scottish socialist father, who believed in a fair day's work for a fair day's pay. No prejudice, no bias. Our obligation is to our employees, who take care of our guests.

Would you say you are in the franchising, real estate, or customer service business? Why? We are in the customer service business. I think you can use a lot of the educational skills you've learned in formal education and deploy them running something better than anyone else. Our motto is to hold ourselves to a higher standard. Hopefully we have an open-door policy.

What gets you out of bed in the morning? Competing. We want to build a better mousetrap.

What's your passion in business? My passion is being the best husband and father possible.

Management method or style: Integrity and honesty.

Greatest challenge: I don't quite understand why people eat what they eat in the U.S. I wasn't raised in this culture. I don't understand the appeal. I have no natural affinity for some of the things we sell.

How close are you to operations? I think I've got a lot closer in the last three years and I enjoy it. It just means you want more and more control. Franchisees are always disappointed with franchisors. You think you know how to run the franchise better than the franchisor. That's a source of frustration. When it's your money on the line, you have to have a lot of faith, particularly now that Arby's has been thrown on the block.

Have you changed your marketing strategy in response to the economy? How? The economy has driven complacency out of our attitudes towards our guest. Our four walls marketing must emphasize what is important to the guest: great food, well served in a comfortable environment.

How do others describe you? (He laughs.) I would think "odd," because of my accent. I talk about politics too much.

How do you hire and fire? I'll hire and fire the director of operations. I will have some opinions on internal promotes. I do inspect all of the formal appraisals that the area directors do for the general managers. We want to make sure the language is the same for all employees.

How do you train and retain? In terms of training, there's seven weeks training in McAlister's and six weeks training in Arby's. In Arby's the director of operations assigns mentors to newer general managers who they can rely on. We meet as frequently as we can with our managers in Virginia. Retention, I think, goes directly to the culture. This is a small company, still growing, financially secure, and we like to have fun. If you want to be a general manager, we provide the mechanism to get you there.

How do you deal with problem employees? Our policy and procedures manual is pretty strict. If there's no call, no show, you get written up. The second time you're dismissed. We also do a newsletter once a quarter. And employees can raise concerns and complaints to the director of human resources.

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"I was in Richmond, Virginia, and went into a local Jason's Deli one day and said, 'Blimey, this place is packed!'"

over the operational end of the business and later turned his thoughts to expanding it.

"I came on to do some consulting at the end of '96 and got into it more deeply in '97. We knew what we needed to do by the end of '97, and I took over the running of it in '98." And there was more work to be done.

"When I came on board in '96, I started with a five-year analysis with expenses and revenue," says Miller, the managing partner. "We were advertising free food. Plot number one: Let's stop advertising free food. The gals who ran the company said that

was what Arby's wants us to do. I said to have faith in the product and earnings started moving up."

Once the existing operations had been restructured, Miller turned his attention to growth. "My first act when I took over was to sign a five-store development agreement with Arby's. We added three more in the September of the same year and then two more after that. We built it to 18 stores. That took eight years."

By the time 2007 rolled around, Miller and his brother had reached the end of their development agreement with Arby's, as well as the end of

PERSONAL

Key accomplishments: Bringing the discipline of a London blue-chip firm to a funny industry like franchising. You take a lower-risk business like franchising and then you make the capital work hard. For most mom-and-pops, if they made money they would spend it and not reinvest it. I'm doing the things you learn in Citibank and Deloitte and applying it to franchising. It's all about following your numbers and keeping your ratios in line. It's not about making money; it's about making the right money, to improve the quality of earnings.

Biggest mistake: Probably listening too much to people without operational market knowledge. If I made mistakes, it was making some hiring decisions that we had to fix later. Remote management is very difficult.

Smartest mistake: Never made a smart mistake, only dumb ones.

How do you spend a typical day? We're constantly refining what we do—whether that entails replacing the central accounting system or improving our bench. I look for any systemic issues arising from guest feedback and how we respond to feedback from our guests or our employees. I discuss the relative success of LTOs or new products and personnel issues with area directors. With opening new stores and replacing and remodeling stores in Illinois there are a lot of calls to architects, GCs, and kitchen and décor suppliers. We talk a lot about our people and processes and how well we are positioned to meet future need.

Work week: We have started using GoToMeeting at least once a week. I find that we can cover a lot of preliminary work before quarterly meetings in Illinois and in Virginia. If I'm going to Illinois I try to time it for an anniversary with one of the long-term employees and visit the stores. I sit on the Franchise Advisory Committee for McAlister's and some subcommittee working groups. GoToMeeting is becoming more widely used by McAlister's and helps eliminate some business trips. We are close with our management teams and invariably entertain sometime in a visit. Last year my schedule included 14 business trips. You never get away from the business. It's always at the back of your mind, but I'm lucky to be able to choose the time to work hard and then ease off.

Favorite fun activities: Skiing once or twice a year. My brother and I tend to go golfing in Scotland once a year. And I have a sailboat for weekends.

Exercise/workout: Oh, heck, you've got to do that. I go to a local gym three days a week for an hour and a half—45 minutes weights, 45 minutes cardio.

Favorite stuff/tech toys: I'm an Apple man. I have the Mac Air and my G5 and iPhone. I don't need the iPad, but the Mac Air is the best product on the market.

What are you reading? I relax by reading novels and they tend to be whodunits. Usually authors of Celtic or Scandinavian noir and also Walter Mosley and Elmore Leonard to improve my understanding of parts of the U.S. Then I listen to podcasts of the *Economist,* BBC4's Analysis, and NPR's Fresh Air and Car Talk.

Do you have a favorite quote or advice you give? My father's favorite: If at first you don't succeed, try, and try again. (Robert the Bruce, King of Scots, 1306–1329)

Best advice you ever got: One of my bosses told me to learn how to say no. You have got to learn how to delegate, and if you can delegate you'll be promoted. Otherwise you get burned out.

Formative influences/events: I got a terrific put-down at age 16. I was a conceited prig who failed almost all of my exams. I have never forgotten that lesson in humility.

How do you balance life and work? I have such a fantastic life and wife and family. It's easy. I love working with our people and it couldn't be better right now. Technology enables life and work to blend together.

"What I would like to see is a much brighter economic future. I'd like to see the uncertainty go away."

their growth opportunities for Central Illinois. By then they had already started looking around to see how the second act of their franchising saga should begin.

"We needed to go to the next stage," he says. That entailed trips to inspect Asian fusion concepts, chicken operations, and more.

"We went through quite a number of other franchises we were considering," says Miller. "I was in Richmond, Virginia, and went into a local Jason's Deli one day and said, 'Blimey, this place is packed!' I found out that McAlister's was available in Virginia, and that was a very healthy option. We went to a day of discovery at McAlister's, liked the food, and said we would go for this. The majority of Virginia was open so we signed up."

Now the plan is to open up at least 15 more stores in their territory in the state, with a potential to expand to a total of 30 to 35 locations. Along the way, Miller can take time to see how a possible third act of his U.S. franchising career might play out. MUF

NAME: Glenn Miller
TITLE: Managing partner
COMPANY: Miller Group LLC
NO. OF UNITS: 4 McAlister's Delis in Virginia with a fifth opening this spring; 18 Arby's in Central Illinois
AGE: 58
FAMILY: Wife and three children
YEARS IN CURRENT POSITION: 15
YEARS IN FRANCHISING: 15

BOTTOM LINE

Annual revenue: On a full-year basis, $5 million for McAlister's; $14 million in Arby's Illinois.
2011 goals: To open the new store in Short Pump, Virginia. We think it's going to be successful. We'll be settling new employees into our corporate culture and then we'll look for new locations. In Illinois, we've got to replace one of our stores, and receive handover on August 1. Keep trying to increase our bench strength.
Growth meter: How do you measure your growth? We are poised for some very positive changes in the McAlister's lineup this year. In Arby's we don't know where the recent change will take us. Thinking positively, if Arby's has a new management direction and a new menu, we could see positive comps on both brands.
Vision meter: Where do you want to be in 5 years? 10 years? Play a bit more golf and probably take a time share in Scotland. I have no intention of retiring and going slow. What I would like to see is a much brighter economic future. I'd like to see the uncertainty go away. And we plan to open more stores in Virginia and remodel our Arby's stores in Illinois.
How has the most recent economic cycle affected you, your employees, your customers? We've taken care of our employees. We kept our pay increases, paid bonuses, and we've seen a reduction in traffic. We've had poor leadership in Arby's. We had to give up our 401(k) because government requirements were too expensive to comply with.
Are you experiencing economic growth/recovery in your market? We're going to get a bounce in Arby's and a bounce now in Virginia. Last year we had the 100-year snowstorms in Virginia, and that didn't help. Now everybody is being a lot more positive.
What did you change/do differently during the recent tough economic times that you plan to continue doing into the future? People are working harder for less money, which is just the state of the nation.
How do you forecast for your business during trying times? Can you even forecast at all? It's not the economy, it's the food. We're in the food game and the quicker we can have better food, food people want to eat and can afford, we'll see recovery.
Where do you find capital for expansion? I don't see us needing more capital for expansion for some time. We don't carry a whole lot of debt.
Is capital getting easier to access? Why/why not? No, not really. The federal government has tightened down on bank lending contrary to what is said publicly.
Have you used private equity, local banks, national banks, other institutions? Why/why not? We've stuck with Busey Bank for 15 years and we don't go anywhere else.
What kind of exit strategy do you have in place for your business? My brother is happy that he and I are looking at 15 more years. Other than that, I don't particularly want to exit. One option is to eventually create a board of employees and they will run the company.
What kinds of things are you doing to take care of your employees? Now our directors of operations are looking at individuals and saying, How are you growing a specific part of the business? What are you doing for the local store? How deeply are you getting into the local community? We want you to change your behavior. Smile more and do more, and I think that will be more effective.
How are you handling rising employee costs (payroll, healthcare, etc.)? Waiting for the federal government to establish the rules—much uncertainty.
How do you reward/recognize top-performing employees? Top employees could earn 10 to 15 percent of their pay from bonuses.
How is social media affecting your business operations? Investment in social media needs to be permanent and sustained to ensure quality. We have yet to determine the appropriate level of commitment necessary to support a launch. When we do it, we will do it right.

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BY DEBBIE SELINSKY

Home-Based

Keeping it local in a Texas military town

For years, Jeff Orlando has read with fascination the articles in franchise and business magazines about super-successful entrepreneurs. "It's amazing to read about these guys who have 87 Burger Kings and 92 Wendy's units and these unbelievable homes and lifestyles," says the Killeen, Tex., resident. However, he adds, it's also nice to read about "regular guys like me," who choose to define their success in a different way.

Orlando, with one Wingstop and one Schlotzsky's, says he admires the hard work and smarts it took for these operators to become so large, but he doesn't really want 92 units—maybe 12 close to home. "I want to build my success here in this community and I'm spending many hours doing that. I don't really want to spend so

much time traveling to units far from home," he says.

His Schlotzsky's is in a shopping center near his home in Killeen, an hour north of Austin. His Wingstop is three doors down in the same shopping center. The two brands (both under the Roark umbrella) work very well together, he says, because Schlotzsky's is a 70 percent daytime business, and Wingstop is a 70 percent evening business. He plans to open another Schlotzsky's co-branded with a Cinnabon (another Roark brand) later this year in Harker Heights, three miles down the road.

Orlando, a self-described "Air Force brat" and youngest of four brothers, believes he has the best of both worlds. His first franchise experience—he and his brother opened a pizza place that lasted about 18 months when they were young—came in 1999 when he opened the 10th store in the then-new Wingstop brand.

"Everybody told me I was crazy," he recalls. "When we were growing up, nobody wanted the wing—everybody wanted the drumstick. We threw the wings away." Obviously, things have changed, he says, pointing to Super Bowl Sunday, the busiest day of the year for his store. "Wings and sports just go together."

"I love the product and the way the company is set up, the way founder Antonio Swad designed the packaging. It's just meticulous, perfect."

NAME: Jeff Orlando
TITLE: Owner
COMPANY: Wingstop & Schlotzsky's franchises
NO. OF UNITS: 1 Wingstop, 1 Schlotzsky's (opening a Schlotzsky's/Cinnabon in 2011)
AGE: 47
FAMILY: Married, no children; this year we are going to have one and adopt one.
YEARS IN FRANCHISING: 12
YEARS IN CURRENT POSITION: 12

Orlando, who worked 10 years as a manager for Blockbuster and other video stores, says he signed on with Wingstop because he loves the simplicity of the concept. "I love the product and the way the company is set up, the way founder Antonio Swad designed the packaging. It's just meticulous, perfect. I also really liked the man behind the vision, and I had a lot of confidence in him. Some people have great concepts but they can't execute them. Wingstop just felt right to me," he says.

He opened a Wingstop in College Station and then one in Austin, following the Wingstop philosophy of locating units in shopping centers with video or grocery stores because people go there several times a week. His mother died unexpectedly the same day he opened the Austin store, and Orlando decided to sell the stores in outlying areas and bring another business home to Killeen. "My stores were 100 miles apart, and I was already tired of the travel. Plus, it's a struggle to find the right employees to leave those businesses with," he says.

In the process of doing his due diligence, Orlando learned that Schlotzsky's had been purchased out of bankruptcy by Bobby Cox, a major

PERSONAL

Key accomplishments: Starting my own business.
Biggest mistake: Not starting a family sooner.
Smartest mistake: When I opened Wingstop 12 years ago everyone thought wings were a fad and said it wouldn't work.
How do you spend a typical day? First, I drink my coffee and read the paper. I make projections on the day's sales using previous years' sales and trends for each manager. I'm on the phone a lot and stay busy running errands, doing maintenance, etc.
Work week: My work week is seven days. Sometimes I feel like I'm always thinking about it, and I'm physically in the stores nearly every day, even working shifts with employees and filling in when needed.
Favorite fun activities: Golf. I need to start playing again.
Exercise/workout: Three days a week with a trainer.
Favorite tech toys: None. You know how some people are high-tech and some are low-tech? I'm more like no-tech.
What are you reading? Mostly newspapers and business magazines. I miss reading books, though. I'm actually thinking about the Nook or the Kindle. It would be so easy not to have to go to the bookstore anymore, and I could always have lots to read with me at all times.
Do you have a favorite quote/advice? Organize, simplify, delegate, and verify.
Best advice you ever got: Go with what you know, don't worry about what anyone else thinks.
Formative influences/events: My Dad. He is my hero.
How do you balance life and work? I am actually out of balance—too much about work. That's where family will come in now. We would like to have a baby and adopt one a little older. Since I'm "old," this would give us a head start.

"In the next few weeks, 14,000 troops are due to deploy, and for the first time, there are none coming back for six or seven more months. So it could be a tough summer."

Blockbuster franchisee in Texas. "I had a whole new feeling of confidence in Schlotzsky's, the deli with the funny name and the serious sandwich," he says. "Bobby understood the value of the chain, that it had a great product and great name recognition and just needed fixing."

About the same time, he heard the 27-year Schlotzsky's franchisee in his shopping center wanted to retire. He bought that unit and hasn't looked back. "It's worked out great. Our biggest advantage is that both my units are in the same shopping center, so if I have a problem at one, I just walk down the sidewalk and get help. I can work both the stores."

As he works on plans to open the new Schlotzsky's/Cinnabon, Orlando is mindful of the constant challenge

of owning and operating restaurants in a military town. "Here in Killeen, we have Fort Hood Army base, which is the world's largest military base. What that means, business-wise, is that we're hurt when soldiers are deployed, because they go in huge numbers, not just a few here or a few there. For example, in the next few weeks, 14,000 troops are due to deploy, and for the first time, there are none coming back for six or seven more months. So it could be a tough summer," he says.

2011 is an important year in Orlando's life for other reasons. He and his wife are hoping to have a baby and adopt a small child. "I'll be honest—my life is out of balance. I need to make time for family. That's just something I don't want to miss out on," he says. "I'm 47 and making decent money, and it's

MANAGEMENT

Business philosophy: Keep moving forward.

Are you in the franchising, real estate, or customer service business? Why? Customer service. No matter what you sell, you're in the customer service business. I keep a quote from Howard Schultz of Starbucks next to my desk: "We are not in the coffee business serving people, we are in the people business serving coffee."

What gets you out of bed in the morning? Smell of coffee.

What's your passion in business? My customers. I love being in the stores and talking to people.

Management method or style: Hands-on and direct. If I like what you're doing, I'll tell you. If I don't like what you're doing, I'll tell you that too.

Greatest challenge: Being in a military town, we have to balance the constant deployment of troops to the Middle East. When they leave, it hurts, and when they come back, everyone is busy. The troop levels are always fluctuating with deployments, soldiers in the field, gone for training, etc.

How close are you to operations? Right in the middle. If I'm not there, I talk to the managers in the stores about every two hours to check on sales.

Have you changed your marketing strategy in response to the economy? How? We are consistent at advertising constantly, mostly TV but trying new things.

Personality: Business-like, community-oriented, hard-working.

How do others describe you? Always moving fast, like George Jefferson. I can do anything in the store faster than all these young guys.

How do you hire and fire? We interview and make a decision to hire based on previous work history. We have a good core set of employees at each store who have been with me for years. It's always the fringe that keep coming and going.

How do you train and retain? Training is done at the store level, and we are very tough on newbies. If they can't cut it after a day or two, there is no use wasting any more time. We get them out and get a new one in who wants to work.

How do you deal with problem employees? I believe everyone deserves a fair shake, a get-out-of-jail-free card, if you will. After that it's just time to go.

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"I joke with my wife that, at my age, at least we'll get the best parking spaces at our kids' high school graduation."

time to spend time building a family. I joke with my wife that, at my age, at least we'll get the best parking spaces at our kids' high school graduation."

Orlando, who says he's learned a lot from his failures as well as his successes, often talks with his mentor, Charles Loflin (see www.mufranchisee.com/article/749/), about the continued challenges of running restaurants in a tight economy. "My best advice is do your homework. Running your own business is getting tougher all the time. Twelve or 15 years ago, if you were a marginal operator, you could make money. These days, with the cost of food, labor, and energy, you have to be a shrewd operator to make it."

BOTTOM LINE

Annual revenue: $2.05 million

2011 goals: Build another store of each brand in the market—4 stores, $4 million a year.

Growth meter: How do you measure your growth? Overlapping last year's sales and profit. Sales should always be up, even if it's just a little. If your sales are down a little but your profit is flat or up, you're still okay.

Vision meter: Where do you want to be in 5 years? 10 years? A lot of people dream of answering this with "retired," but I'll probably always work. I need to stay busy—it's my character. When I'm 80, I'll probably be a greeter at Wal-Mart, just so I have a reason to get up and get out.

How has the most recent economic cycle affected you, your employees, your customers? It has definitely changed the ballgame: $3 a gallon for gas, higher prices on almost everything, people out of work. You have to be one of the places that customers really want to go often. Because of the economy, people have quit going to a lot of places, and I don't want mine to be one of them. It all comes down to customer service.

Are you experiencing economic growth/recovery in your market? We have been very fortunate all these years with the military base being the engine that drives our economy here. We haven't felt the impact of the economy as much as other cities and states.

What did you change or do differently in this economy that you plan to continue doing? I reevaluated all our contracts and services to save money. Electricity, trash, chemicals, pest control, credit card fees, anything I could think of. I would rather cut anything but service and quality. We switched our electrical contracts, which happen to be at the lowest electricity costs in decades. On just two stores we will save about $14,000 in energy costs this year. That's huge.

How do you forecast for your business in this economy? By using last year's sales and current trending for the last couple of weeks. It's just guessing, but it's amazing how the spikes in your business occur on the same days from year to year. If you don't look at last year's numbers and try to forecast upcoming days, you could leave your store understaffed, and then you will lose customers from longer waits and poor service. We have enough problems facing us with the economy, you don't want to give your customers any reason to not come back. It's really hard to get customers these days and really easy to lose them. Our biggest challenge coming up is going to be commodity prices. All forecasts point to higher food costs for the next couple of years.

Where do you find capital for expansion? Primarily self-funded.

Is capital getting easier to access? Why/why not? Yes, because I'm established in the community and have a good relationship with a local bank.

Have you used private equity, local banks, national banks, other institutions? Why/why not? In the past, I've mostly used national banks because the relationship between the franchise and lending institutions is sometimes already established. Now I have a good relationship with a local bank.

What kind of exit strategy do you have in place? Nothing. I just want to build a nice little company that can support me till I'm ready, and that will be appealing enough for someone else to want it when I'm through.

What are you doing to take care of your employees? We have a family atmosphere. Everyone knows everyone's families and kids. We try to do company things together. It's just a nice environment. It makes you feel good when people say, "This is the best job I've ever had" or "I'm never leaving." You know it's not always true, but it's nice to know, even for a moment, that they feel part of the family.

How are you handling rising employee costs (payroll, healthcare, etc.)? That's been our biggest hurdle lately. The last minimum wage increase cost about $30,000. Unemployment rates in Texas nearly tripled last year to replenish the dwindling fund. It's going to be really tough in the future. If we keep raising prices to offset every cost increase, we will price ourselves out of the market.

How do you reward/recognize top-performing employees? We have a bonus structure for managers, assistant managers, and shift leaders. Also, anytime we get a 95 or better on a mystery shop everyone on that shift gets $20.

How is social media affecting your business operations? Being a low-tech guy, I never thought it would come to this. But recently we did a gift card promo online through the local paper and I was amazed at the response we got. We sold 250 gift cards in three days. We have also been the test market on a texting campaign for discounts and brand awareness. Even though I am "old school," I think the future is in some form of other media. Television has always given us the biggest bang for our buck, but I think that's going to taper off.

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BY DEBBIE SELINSKY

Coming to America

South African native builds a new life in Atlanta

Pierre Panos, a South African native of Greek descent, leaves little to chance.

When the violence in his country became too dangerous in the early 1990s, Panos—a former Coopers & Lybrand accountant who'd followed his father into the restaurant and real estate industries—wanted to emigrate to a country where he and his family could be safe and settle for good.

"Think of what my parents had gone through to get to a new world. They'd chosen South Africa because there was a great economic boom in the 1970s with gold, but because of the crime and violence, we had to leave," says Panos. "We wanted to go

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"If you win an argument with a customer, you always lose. Just don't do it."

someplace where we'd never have to leave again."

The young restaurateur went about finding that place deliberately and methodically. He eliminated different countries for a variety of reasons, including their business and political climate, opportunities, and even the weather. In the end, the only country that fit the bill was the United States.

After researching schools, crime, growth, and weather (his wife Alexandra hates the cold) at the U.S. Embassy, the couple narrowed their choice to 25 cities. "At the time, Delta offered a $300 pass that enabled us to fly anywhere in the States during a full month. We visited all 25, then narrowed it down to 10 and visited those twice, and then visited the final three cities once more

PERSONAL

Key accomplishments: Raising, with my beautiful wife, three accomplished, loving children in America. Emigrating from South Africa in 1994 with very little cash and building my first company, Stoney River Legendary Steaks, within six years, to a point where it was sold to publicly traded O'Charley's. Growing my new company to around 50 stores within the past 9 years across three brands and being in the position to double it over the next four or five years.

Biggest mistake: There have been a lot, but none comes to mind right now.

Smartest mistake: Selling an upscale steakhouse concept in May 2000 just before the tech crash when I really wanted to grow it.

How do you spend a typical day? Wake up at 6 a.m. and work out till 6:30, shower, drive the kids to school. I'm in the office by 8:30. I focus on the three big things in the morning that will drive our business forward before getting into email response mode and other distractions. Then there are lunch store visits or business lunches and meetings the rest of the day. I wrap up with email just before I leave.

Work week: Monday to Friday 8:30 a.m. to 6:30 p.m., but my phone is always on, even on the weekends.

Favorite fun activities: Working out with my son, snow skiing, and traveling in Europe with my wife and children.

Exercise/workout: Five days a week (30 minutes every morning during the week). Cross-training activities always keep the workout fresh.

Favorite tech toys: iPhone, Kindle.

What are you reading? I read almost every trade magazine electronically delivered. The rest I get on my Kindle, like *Fortune, Forbes,* and *Forbes Life.* My current fiction choice is *Little Face* by Sophie Hannah, and nonfiction is the George W. Bush autobiography *Decision Points.*

Do you have a favorite quote/advice? Get into what you truly love, stay in it until you become the best at it, and that's when you make a lot of money.

Best advice you ever got: If you win an argument with a customer, you always lose. Just don't do it.

Formative influences/events: The work ethic learned from working in my Dad's restaurant when I was young.

How do you balance life and work? I am very diligent and superfocused at work and accept very few distractions, although I always answer phone calls from my wife and kids. When I get home at night, I go to my home theater with a glass of wine, put on some relaxing music and chill for about 20 minutes. This relaxes me so that I can be the best dad and husband I can be when the family has dinner and through the evening before the kids go to bed.

In 1993, the Panos family settled in Atlanta. "Atlanta has been an incredible town for us. It's a vibrant city, great for business."

before our final selection."

In 1993, the Panos family settled in Atlanta. Panos says the decision turned out to be exactly the right one. "Atlanta has been an incredible town for us. It's a vibrant city, great for business. Hartsfield International Airport is the largest in the world, so we can get anywhere quickly, which makes it great for expanding our business," he says.

Panos set out to build a thriving business in the same way he'd approached finding his new home. Having sold the fine dining restaurant he owned with his brother in South Africa, he interviewed five different business brokers because he "didn't want to work for anyone." Through the South African broker he selected, he met David Rowe, a U.S. real estate developer who had opened a restaurant, the Brookwood Grill, to fill a vacancy in one of his shopping centers.

The restaurant, which he says was similar to the Houston's chain, was struggling. The broker thought Panos, with his restaurant and accounting background, would be perfect to fix things. "Rowe wanted me to use my numbers background to make it more profitable. That's what I did," he says, and eventually became a partner in

NAME: Pierre Panos

TITLE: Founder, CEO

COMPANY: QS America

NO. OF UNITS: 41 Papa John's Pizza; 6 Fresh To Order, 1 Brookwood Grill

AGE: 46

FAMILY: Wife Alexandra, son Alexander, 15, daughters, Helena, 11, and Nastassja, 5

YEARS IN FRANCHISING: 10

YEARS IN CURRENT POSITION: 15

MANAGEMENT

Business philosophy: Always strive to see a deal from the other person's perspective—go for the win/win. Always have your moral compass on hand when making key decisions, or you may just go for the money instead of doing the right thing.

Are you in the franchising, real estate, or customer service business? Why? Customer service. Everything is about people in this world where almost every business is commoditizing very quickly, so your only true differentiator is your people and culture. The rest can be copied.

What gets you out of bed in the morning? I love what I do and I really like our office environment. My office building is a one-minute drive from my house, which makes it really easy to get out of bed and to work.

What's your passion in business? I love creating and growing things to a certain size. When the creativity stops because it is becoming a larger machine, I always hand it over to one of my top guys to execute from that point onward. I know when it's time to get out of the way and I have a super-talented top management team who are all very vested partners in the different businesses and who have all been with me for a long time (10 to 16 years).

Management method or style: Find, train, and retain the best people, offer the right incentives with a clear line of sight to those incentives, and then get out of the way and let them do their jobs. I am out there as much as I can be trying to enculturate our people during as many conversations as I can and letting them understand that, without our guests, we have no reason to exist as a company. We are extremely guest-focused, some may say to a fault.

Greatest challenge: Ideating and growing new concepts from scratch, knowing what new concept the market needs at that specific point in time.

How close are you to operations? Very. I get summarized dashboards showing the different businesses from all angles in number and graph format daily. I visit some of our Atlanta stores at least twice a week and am in direct contact with my direct reports daily.

Have you changed your marketing strategy in response to the economy? How? We have never been heavily into advertising except for our Papa John's business. However, even that business is trending more toward the social media platforms. We were very early adopters of social media, even when a lot of people thought it was just a fad. This is paying off for us at a time when most concepts are lagging in this discipline.

Personality: Type A, but slightly introverted. I make the effort when needed, but I really prefer to be at home with my family rather than out in a crowd.

How do others describe you? Intense, firm but fair. I do what I say I will do when I say that I will get it done.

How do you hire and fire? I don't do much of that anymore as all our top people have been with me so long. However, I coach them if they are having trouble with a decision or terminating someone to ask two questions: 1) Knowing what you know about this person now, would you hire them again?; and 2) Has this person brought anything to the table that has added value to the business or that we didn't think about ourselves? If the answer to both is no, move them on humanely. If the answer to either one is yes, they are perhaps salvageable, so work with them for a limited time and let them know they are on probation. We don't want anyone who is ever let go to be surprised when this happens.

How do you train and retain? Each concept has its own training guidelines and systems. I will just say that the better we hire and retain, the less we have to train, and that's our goal.

How do you deal with problem employees? I don't have any as I only work intimately with four direct reports, and they have all been with me for many years. Our top guys take care of the rest.

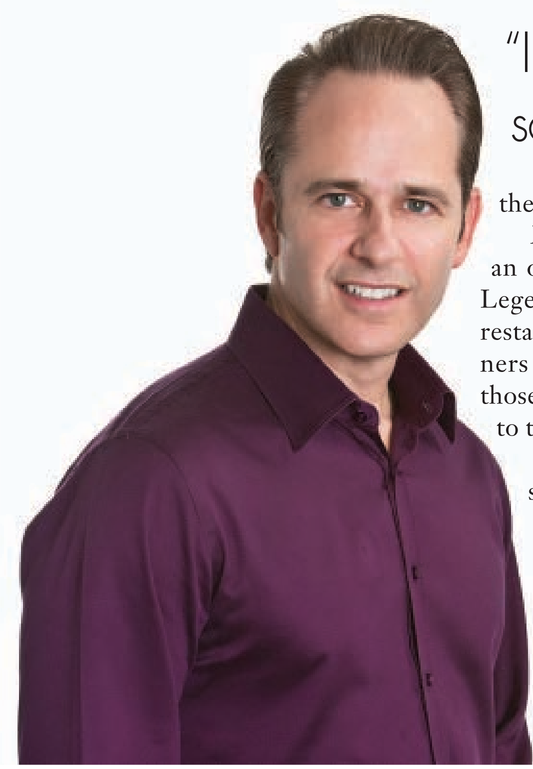
"We bought our first units in Chattanooga, and then in North Georgia. Ten years later, we are one of their top five franchisees, with stores in four states."

BOTTOM LINE

Annual revenue: We are a private company, so I prefer not to say.
2011 goals: Sign five multi-store franchisees for f2o with a combined committed store count of 15 units, grow our Papa John's business by 20 percent, and buy some distressed commercial real estate.
Growth meter: How do you measure your growth? Smart, profitable growth is our mantra. We won't grow just to get to a certain number of stores. All our stores are profitable and we want to keep it that way.
Vision meter: Where do you want to be in 5 years? 10 years? I don't plan on retiring. I already tried that for a year when I sold Stoney River. I will always be involved in the two businesses that I really like—real estate and restaurants—as long as I can make a difference. I do plan on scaling down the hours that I commit to the businesses within 5 years to focus more time on giving something back. I am not sure yet what form that will take, but I will have worked it out by then.
How has the most recent economic cycle affected you, your employees, your customers? We have been blessed to be more profitable every year during the past three years than the preceding year even during the downturn, and the start of 2011 looks to be following that trend. Our guests are being more selective where they eat, and I feel that this has helped us throughout our brands, spanning quick serve fast casual and finer dining. We have a great value proposition: people trust that they will get more than they are paying for, and this always drives business, especially when guests are looking for perceived value.
Are you experiencing economic growth/recovery in your market? We never really felt the downturn, but since the economy has recovered slightly our stores are all performing well above industry averages.
What did you change or do differently in this economy that you plan to continue doing? I've been a little more paranoid than usual since I realize that things can change quickly.
How do you forecast for your business in this economy? Carefully. As mentioned, we are not a public company so we don't have to grow at any specific rate. We only want profitable growth in store count, and our business revenue stream is pretty predictable.
Where do you find capital for expansion? Internally with some bank financing. Our 14-year bankers have continued to lend to us during this downturn.
Is capital getting easier to access? Why/why not? Yes, absolutely. Whereas only our bank was willing to finance initially, we are seeing a lot more activity come back into the market. That being said, the lenders are being extremely picky in whom they work with and the reporting requirements are very different in this new economy.
Have you used private equity, local banks, national banks, other institutions? Why/why not? Yes, local banks. We've used none of the others since we haven't needed them, and I don't want venture partners in my business at this stage unless it is part of an exit or partial exit.
What kind of exit strategy do you have in place? We have one, including a very detailed succession plan if I wasn't around for some reason. I'll leave it at that. The guys who really run the company in any event are my partner David Steenekamp, who runs our Papa John's business, and managing partners Jesse Gideon and Matt Fairley, who run f2o and Brookwood Grill, respectively. I could never do this (and wouldn't want to) without these guys. They are the best at what they do in the industry. I would put them up against any team out there and want to give them all credit because of this.
What are you doing to take care of your employees? Other than the profit-based bonus programs, we are very consistent with our people. They always know what to expect from us, and this certainty is much appreciated in these uncertain times. This has resulted in our turnover rate in the top ranks of our company being almost zero, and less than half the industry average for our hourly employees.

"We are very consistent with our people. They always know what to expect from us, and this certainty is much appreciated in these uncertain times. This has resulted in our turnover rate in the top ranks of our company being almost zero."

How are you handling rising employee costs (payroll, healthcare, etc.)? Our people just need to produce more with the unemployment rate out there. Bumping prices slightly also helps and cutting in any area that does not affect the guest is paramount.
How do you reward/recognize top-performing employees? Our people are paid on a percentage of the store profits, from a manager to a GM to area supervisors to district managers, so everyone is aligned. We obviously have safeguard components in our bonus program that prevent them managing the business down just to have great short-term profits. Public recognition of a job well done also always works.
How is social media affecting your business operations? Since we were very early adopters, it is benefiting us more than our competitors. We have grown with it as guests have started using it. And operationally, we have incorporated it into our culture of responding to guest issues and marketing to them seamlessly. You can't sweep anything under the carpet with social media. Everything gets out there and you have to be very responsive. We like that, it fits exceedingly well with how customer-centric and customer-focused we are on guest satisfaction.



"I wanted to get out of fine dining and into something with smaller units and less risk."

the restaurant.

Meanwhile, Panos came up with an original concept, Stoney River Legendary Steaks, opening two local restaurants. Six years later, the partners sold the local restaurants and those under development in Chicago to the publicly owned O'Charley's.

Panos was then looking to diversify. "Even when we were growing Stoney River, I wanted to get out of fine dining and get into something with smaller units and less risk that we could grow more rapidly than big units that could cost $3 million if you made a mistake," he says.

Panos teamed up with brother-in-law David Steenekamp, to do something on a larger scale with a strong national brand. Papa John's Pizza fit the bill, he says. "We bought our first units in Chattanooga, and then in North Georgia. Ten years later, we are one of their top five franchisees, with stores in four states."

In 2011, Panos, founder and CEO of QS America, and his partner have 41 Papa John's, as well as the fine dining Brookwood Grill. But their U.S. success story, which they attribute in no small measure to their early adoption of social media, doesn't end there.

Always looking ahead, Panos developed Fresh To Order (f2o for short), a pioneering "fast fine" dining concept.

Always looking ahead, Panos developed Fresh To Order (f2o for short), a pioneering "fast fine" dining concept.

"I've been in the fine dining realm for a long time and have always felt there had to be a way to take fine quality food and service and bring it down in a sense to offer a quality meal for under $10 in under 10 minutes," he says. "We knew there was a huge market out there for what we're offering."

In 2006, Panos partnered with his long-time executive chef Jesse Gideon to open the first f2o, which features American fusion salads, sandwiches, and entrees such as Almond Rosemary-Crusted Chicken Skewers with Crunchy Asian Slaw, in Atlanta. Daily lines out the door led them to open five more, including one in Chattanooga. In 2010, they began awarding franchises for the popular new brand.

"One of the main reasons we wanted to be great franchisees was so we could be the best franchisor. Franchisees like us because they see we've run our own units. We know the pain they've gone through, and franchisees do go through pain. It's hard, if you do it right," Panos says. "Because we've been through it, it's easier to be a sympathetic guide for our franchisees. And you've got to be sympathetic, because franchisees are not your employees. They're independent business people, and you have to treat them with respect."

f2o has already signed two groups serving Hartsfield International and another in Dallas/Fort Worth International Airport and the surrounding area. Projections call for signing at least five multi-unit franchisees in 2011 to open a combined 15 to 20 stores within three years. By 2015, Panos expects f2o to have 50 locations open nationwide and another 50 in various stages of development.

"We're in a position now, thank God, to double our size in the next four or five years, because we've been aggressive in paying down our debt and we have access to capital for significant growth," he says. "We never grow for growth's sake. All our stores are profitable." MUF

2011 MULTI-BRAND 50 (BY UNITS)

1	**AAFES**	**766**
	BURGER KING	207
	CHARLEY'S GRILLED SUBS/WHOLLY COW	98
	SUBWAY	76
	POPEYES LOUISIANA KITCHEN	69
	TACO BELL	61
	BASKIN-ROBBINS	51
	MANCHU WOK	34
	CINNABON	28
	PIZZA HUT	28
	BLIMPIE	15
	CHURCH'S CHICKEN	15
	EINSTEIN BROS. BAGELS	14
	GODFATHER'S PIZZA	13
	TACO JOHN'S	13
	CAPTAIN D'S SEAFOOD KITCHEN	10
	SEATTLE'S BEST COFFEE	10
	A&W RESTAURANTS	8
	WINGSTREET	5
	DUNKIN' DONUTS	3
	GREEK ODYSSEY CAFÉ	3
	NOAH'S BAGELS	2
	ARBY'S	1
	JOHNNY ROCKETS	1
	MANHATTAN BAGELS	1
2	**ARAMARK**	**687**
	CHICK-FIL-A	82
	SUBWAY	73
	AFC SUSHI	72
	EINSTEIN BROS. BAGELS/NOAH'S BAGELS	68
	QUIZNOS	52
	FRESHENS	45
	JUMP! ASIAN EXPRESS	37
	QUIZNOS COOLERS	29
	PIZZA HUT EXPRESS	25
	PAPA JOHN'S PIZZA	20
	DUNKIN' DONUTS	16
	BURGER KING	14
	TACO BELL EXPRESS	14
	JUMP! ASIAN EXPRESS	13
	JAMBA JUICE	12
	PANDA ASIAN EXPRESS	11
	PAPA JOHN'S PIZZA (DELIVERY)	11
	SBARRO	11
	CHILI'S TOO	8
	EXTREME PITA	8
	KFC EXPRESS	8
	SUSHIC SUSHI	7
	MOE'S SOUTHWEST GRILL	6
	POPEYE'S LOUISIANA CHICKEN	5
	BLIMPIE'S	4
	BEN & JERRY'S	3
	KRISPY KREME	3
	POLLO TROPICAL	3
	COSÌ	2
	DOMINO'S PIZZA	2
	EINSTEIN BROS. BAGELS/NOAH'S BAGELS (EXPRESS)	2
	MCALISTER'S	2
	WAHOO'S FISH TACOS	2
	ZIA JUICE	2
	A&W RESTAURANTS	1
	BACKYARD BBQ	1
	BEEF'O'BRADY'S	1
	BURGER KING WHOPPER BAR	1
	CAMILLE'S SIDEWALK CAFÉ	1
	CHEEBURGER CHEEBURGER	1
	DENNY'S	1
	IHOP	1
	LONG JOHN SILVER'S	1
	NATHAN'S FAMOUS	1
	NOBLE ROMAN'S/TUSCANO'S ITALIAN STYLE SUBS	1
	PETRO'S CHILI & CHIPS	1
	RAISING CANE'S	1
	TACO CABANA	1
	WENDY'S	1
3	**TARGET CORP.***	**676**
	PIZZA HUT	632
	TACO BELL	41
	CENTURY 21	1
	H&R BLOCK	1
	HELP-U-SELL REAL ESTATE	1
4	**HESS CORP.**	**559**
	DUNKIN' DONUTS	261
	BLIMPIE	151
	GODFATHER'S PIZZA	143
	QUIZNOS	4
5	**HMSHOST**	**404**
	BURGER KING	103
	CINNABON	52
	QUIZNOS	51
	SBARRO	46
	CHILI'S TOO	44
	WOLFGANG PUCK	37
	PIZZA HUT	35
	TIM HORTON'S	35
	GREAT AMERICAN BAGEL	32
	CALIFORNIA PIZZA KITCHEN (ASAP)	26
	NATHAN'S FAMOUS	23
	BRIOCHE DOREE CAFÉ & BAKERY	22
	ROY ROGERS	19
	CARVEL	16
	POPEYES LOUISIANA CHICKEN	16
	TCBY	15
	FAMOUS FAMIGLIA	12
	KFC	12
	GREAT STEAK & POTATO	11
	JOHNNY ROCKETS	10
	GORDON BIERSCH	9
	PHILLIPS FAMOUS SEAFOOD	7
	DUNKIN' DONUTS	6
	A&W RESTAURANTS	5
	COLD STONE CREAMERY	5
	MANCHU WOK	5
	WENDY'S	5
	BALDUCCI	4
	DICK CLARK'S BANDSTAND	4
	EINSTEIN BROS. BAGELS	4
	JODY MARONI'S	4
	T.G.I. FRIDAY'S	4
	AU BON PAIN	3
	BAJA FRESH	3
	CHICK-FIL-A	3
	MAX & ERMA'S	3
	ON THE BORDER	3
	PINKBERRY	3
	UNO'S PIZZA	3
	YEUNG'S LOTUS EXPRESS	3
	CARRABBA'S	2
	DICKEY'S BBQ	2
	HÄAGEN-DAZS	2
	HARRY'S TAP ROOM	2
	LA SALSA	2
	MACARONI GRILL	2
	OUTBACK STEAKHOUSE	2
	RANCH ONE	2
	RUBY'S DINETTE	2
	SUBWAY	2
	TACO BELL	2
	BLIMPIE'S	1
	BRUEGGER'S BAGELS	1
	CHOPHOUSE	1
	DAIRY QUEEN	1
	DAMON'S	1
	HOULIHAN'S	1
	GALLAGHER'S	1
	KRISPY KREME	1
	QDOBA MEXICAN GRILL	1
	ROCK BOTTOM	1
	ROSARIO'S MEXICAN CAFÉ	1
	TONY ROMA'S	1
6	**ADF COMPANIES**	**357**
	PIZZA HUT	331
	WINGSTREET	17
	TACO BELL	7
	BENNIGAN'S	2
7	**BODDIE-NOELL ENTERPRISES**	**346**
	HARDEE'S	337
	MOE'S SOUTHWEST GRILL	9
8	**HARMAN MANAGEMENT CORP.**	**330**
	KFC (incl. A&W, Taco Bell, Pizza Hut co-branded units)	
9	**KAZI FOODS**	**314**
	KFC	240
	BURGER KING	28
	TACO BELL	19
	A&W RESTAURANTS	9
	LONG JOHN SILVER'S SEAFOOD	9
	PIZZA HUT	9
10	**BRIDGEMAN FOODS INC.**	**283**
	WENDY'S	162
	CHILI'S	121
11	**STRATEGIC RESTAURANTS ACQUISITION CORP.**	**280**
	BURGER KING	264
	T.G.I. FRIDAY'S	16
12	**FUGATE ENTERPRISES**	**266**
	PIZZA HUT	193
	TACO BELL	69
	BLOCKBUSTER VIDEO	3
	WINGSTREET	1
13	**UNITED STATES BEEF CORP.**	**265**
	ARBY'S	260
	TACO BUENO	5
14	**SODEXO**	**259**
	PIZZA HUT	74
	CHICK-FIL-A	40
	EINSTEIN BROS. BAGELS	39
	BURGER KING	22
	TACO BELL	17
	QUIZNOS	13
	KFC	9
	A&W RESTAURANTS	7
	BLIMPIE	6
	GODFATHER'S PIZZA	5
	SBARRO	5
	LA SALSA	4
	SUBWAY	4
	KRYSTAL	2
	LITTLE CAESARS PIZZA	2
	THE CURRITO/WRAP	2
	BOLOCO	1
	CARL'S JR.	1
	DICKEY'S BARBECUE PIT	1
	HOT STUFF FOOD XPRESS	1
	HOT STUFF FOODS	1
	ROUND TABLE PIZZA	1
	SMOOTHIE KING	1
	WOW CAFE & WINGERY	1
15	**PILOT TRAVEL CENTERS LLC**	**257**
	SUBWAY	131
	WENDY'S	43
	ARBY'S	42
	HOT STUFF FOOD XPRESS	14
	TACO BELL	11
	DAIRY QUEEN	9
	PIZZA HUT	5
	KFC	2
16	**LOVES TRAVEL STOPS & COUNTRY STORES**	**248**
	SUBWAY	123
	CHESTER'S	44
	ARBY'S	41
	GODFATHER'S PIZZA	15
	HARDEE'S	13
	CARL'S JR.	8
	A&W RESTAURANTS	8
	DAIRY QUEEN	2
	BASKIN-ROBBINS	1
	TACO BELL	1
17	**KFC CORP.**	**234**
	TACO BELL	147
	PIZZA HUT	87
18	**MUY BRANDS LLC**	**225**
	PIZZA HUT	151
	LONG JOHN SILVER'S SEAFOOD	30
	LONG JOHN SILVER'S/A&W	18
	TACO BELL	10
	KFC	6
	KFC/TACO BELL	4
	KFC/LONG JOHN SILVER'S	3
	PIZZA HUT/WINGSTREET	3
19	**BORDER FOODS COMPANIES**	**211**
	TACO BELL	102
	PIZZA HUT	80
	WINGSTREET	10
	KFC	7
	SONIC DRIVE-IN	7
	LONG JOHN SILVER'S SEAFOOD	5
19	**JIB MANAGEMENT**	**211**
	JACK IN THE BOX	185
	DENNY'S	26
21	**CG MANAGEMENT**	**206**
	POPEYES LOUISIANA KITCHEN	75
	BURGER KING	44
	CICI'S	40
	GOLDEN CORRAL	37
	DENNY'S	5
	T-MOBILE	5
22	**COMPASS GROUP USA INC.**	**192**
	CHICK-FIL-A	42
	SUBWAY	28
	PAPA JOHN'S PIZZA	25
	QUIZNOS	20

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	EINSTEIN BROS. BAGELS	16
	PIZZA HUT	16
	SALSARITA'S FRESH CANTINA	13
	BLIMPIE	11
	SBARRO	11
	AU BON PAIN	10
	TACO BELL	10
	O'NATURALS	9
	WENDY'S	7
	CARIBOU COFFEE	6
	JAMBA JUICE	6
	KFC	6
	NAKED PEAR CAFÉ	5
	BURGER KING	4
	CHICK-N-GRILL	4
	DUNKIN' DONUTS	4
	NOBLE ROMAN'S/TUSCANO'S ITALIAN STYLE SUBS	4
	TIM HORTON'S	4
	PANDA EXPRESS	3
	PEET'S COFFEE	3
	PIZZA FUSION	3
	A&W RESTAURANTS	2
	BEN & JERRY'S	2
	CALIFORNIA PIZZA KITCHEN	2
	COMMUNITY COFFEE	2
	FAMOUS FAMIGLIA	2
	JUICEBLENDZ	2
	PAPA GINO'S PIZZA	2
	RED MANGO	2
	UNO DUE GO	2
	ARGO TEA	1
	ATOMIC WINGS	1
	AUNTIE ANNE'S	1
	BACK YARD BURGERS	1
	CHEEBURGER CHEEBURGER	1
	COLD STONE CREAMERY	1
	D'ANGELO'S SUBS	1
	DENNY'S ALL NIGHTER	1
	GODFATHER'S PIZZA	1
	HÄAGEN-DAZS	1
	JERRY'S SUBS & PIZZA	1
	MANCHU WOK	1
	NATHAN'S FAMOUS	1
	SECOND CUP COFFEE	1
	YOGURTLAND	1
	WOW WINGERY	1
23	**JRN INC.**	**188**
	KFC	173
	TACO BELL	8
	LONG JOHN SILVER'S SEAFOOD	4
	A&W RESTAURANTS	1
	LA QUINTA INN/LA QUINTA INN & SUITES	1
	PIZZA HUT	1
24	**THE PANTRY INC.**	**186**
	SUBWAY	140
	DAIRY QUEEN	11
	CHURCH'S CHICKEN	10
	QUIZNOS	9
	HARDEE'S	7
	KRYSTAL	5
	HOT STUFF FOODS	2
	BOJANGLES'	1
	CHEVRON U.S.A.	1
25	**INTERFOODS OF AMERICA**	**184**
	POPEYES LOUISIANA CHICKEN	165
	BURGER KING	19
26	**PALO ALTO INC.**	**169**
	PIZZA HUT	89
	TACO BELL	51
	KFC	22
	WINGSTREET	4
	LONG JOHN SILVER'S SEAFOOD	3
27	**AMERICAN RESTAURANT PARTNERS LP**	**167**
	PIZZA HUT	135
	LONG JOHN SILVER'S SEAFOOD	20
	KFC	10
	WINGSTREET	2
28	**QUALITY DINING INC.**	**162**
	BURGER KING	114
	CHILI'S	48
29	**BR ASSOCIATES INC.**	**158**
	LONG JOHN SILVER'S SEAFOOD	113
	WENDY'S	31
	DENNY'S	14
30	**TRAVELCENTERS OF AMERICA**	**158**
	POPEYES LOUISIANA KITCHEN	40
	SUBWAY	36
	PIZZA HUT	31
	TACO BELL	25
	DAYS INN	6
	ARBY'S	4
	QUIZNOS	3
	RODEWAY INNS	3
	HOWARD JOHNSON PLAZA HOTELS, HOTELS & LODGES	2
	KNIGHTS INN	2
	SBARRO	2
	A&W RESTAURANTS	1
	BLIMPIE	1
	CINNABON	1
	TACO TIME	1
31	**V&J HOLDINGS INC.**	**153**
	PIZZA HUT	64
	BURGER KING	36
	AUNTIE ANNE'S	32
	COFFEE BEANERY	15
	HÄAGEN-DAZS	6
32	**COVELLI ENTERPRISES**	**148**
	PANERA BREAD	145
	O'CHARLEYS	3
33	**VALENTI MANAGEMENT LLC**	**129**
	WENDY'S	119
	CHILI'S	10
34	**DESERT DE ORO FOODS**	**117**
	TACO BELL	68
	PIZZA HUT	40
	TACO BELL/LONG JOHN SILVER'S	6
	TACO BELL/PIZZA HUT	2
	TACO BELL/KFC	1
35	**THE BRIAD GROUP**	**111**
	T.G.I. FRIDAY'S/FRIDAY'S GRILL	68
	WENDY'S	43
36	**CIRCLE K STORES**	**110**
	HOT STUFF FOOD XPRESS	52
	SUBWAY	22
	BLIMPIE	17
	HOT STUFF FOODS	5
	QUIZNOS	5
	NOBLE ROMAN'S/TUSCANO'S ITALIAN STYLE SUBS	4
	CHESTER'S	2
	CHURCH'S CHICKEN	1
	DUNKIN' DONUTS	1
	PANCHERO'S	1
37	**THE TWINS GROUP**	**105**
	PIZZA HUT	64
	TACO BELL	39
	KFC	2
38	**DALAND CORP./WILLIAM WALSH**	**103**
	PIZZA HUT	95
	WINGSTREET	8
39	**JAN CO CENTRAL INC.**	**101**
	BURGER KING	98
	POPEYES LOUISIANA KITCHEN	2
	KRISPY KREME	1
40	**BERGEN ENTERPRISES**	**95**
	PIZZA HUT	93
	SONIC DRIVE-IN	2
40	**THOMAS & KING INC.**	**95**
	APPLEBEE'S NEIGHBORHOOD GRILL & BAR	89
	JOHNNY CARINO'S ITALIAN	6
42	**DOHERTY ENTERPRISES INC.**	**90**
	APPLEBEE'S	60
	PANERA BREAD	25
	CHEVYS FRESH MEX	3
	JOHNNY CARINO'S ITALIAN	1
	EL POLLO LOCO	1
43	**W2005/FARGO HOTELS REALTY LP**	**90**
	FAIRFIELD INN/INN & SUITES	36
	RESIDENCE INN BY MARRIOTT	26
	COMFORT INN, SUITES, AND HOTELS	13
	COURTYARD BY MARRIOTT	12
	SLEEP INN	2
	COUNTRY INNS & SUITES BY CARLSON	1
44	**MORGANS FOODS INC.**	**89**
	KFC	69
	KFC/TACO BELL	10
	TACO BELL	5
	PIZZA HUT	4
	TACO BELL/PIZZA HUT EXPRESS	3
	KFC/A&W RESTAURANTS	1
	KFC/PIZZA HUT EXPRESS	1
45	**BURGER BUSTERS INC.**	**87**
	TACO BELL	67
	TACO BELL/PIZZA HUT EXPRESS	11
	TROPICAL SMOOTHIE	5
	TACO BELL/KFC	3
46	**CHRIS & NATHAN SERRANO**	**81**
	SUPERCUTS	73
	COST CUTTERS	4
	PRO-CUTS	4
46	**NORTHWEST RESTAURANTS**	**81**
	KFC	35
	KFC/A&W/LONG JOHN SILVER'S/TACO BELL/PIZZA HUT	28
	TACO BELL	18
48	**RESTAURANT MANAGEMENT GROUP LLC**	**80**
	HARDEE'S	42
	LITTLE CAESARS PIZZA	38
49	**D&D FOOD MANAGEMENT**	**73**
	KFC	45
	KFC/A&W	19
	KFC/TACO BELL	4
	KFC/LONG JOHN SILVER'S	3
	KFC/PIZZA HUT	2
50	**ENN LEASING COMPANY INC.**	**65**
	HAMPTON INNS/INNS & SUITES	34
	HOMEWOOD SUITES BY HILTON	9
	RESIDENCE INN BY MARRIOTT	9
	COURTYARD BY MARRIOTT	5
	SPRINGHILL SUITES	3
	HILTON GARDEN INN	2
	COMFORT INN, SUITES, AND HOTELS	1
	EMBASSY SUITES HOTELS	1
	HILTON INNS	1

***NOTE:** Brands operating inside Target stores are not owned by Target.

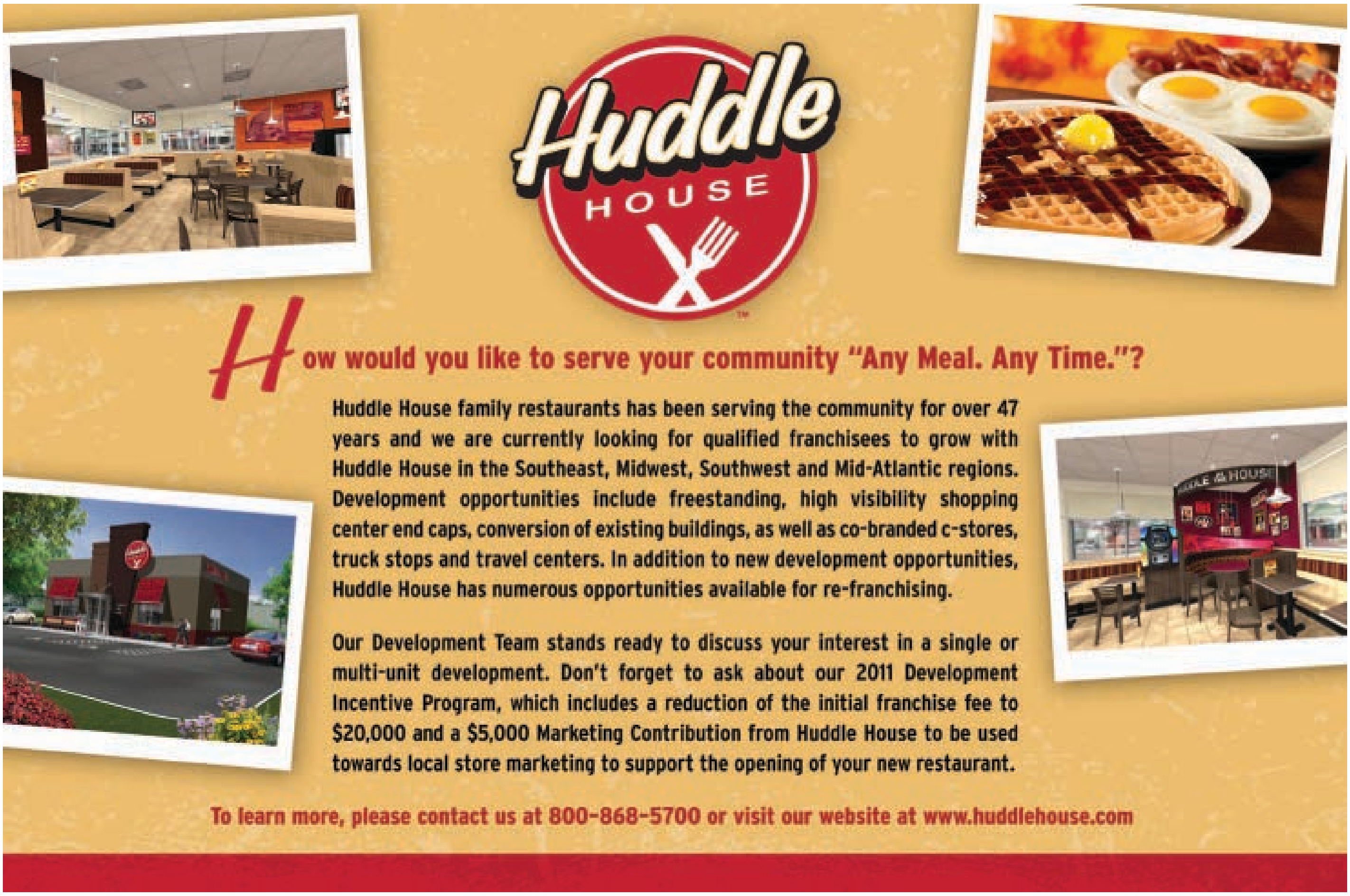
SOURCE: FRANDATA, FRANCHISE UPDATE MEDIA GROUP

Methodology: All companies in this year's Multi-Brand 50 list were contacted by phone or email to update their data from last year; others were updated from the company's own websites and from third-party sources. Despite repeated attempts, several companies that appeared on last year's MB50 list did not respond by our deadline. Rather than omit them, we used their data from last year's list. If your multi-unit franchise company is not included here, or if your numbers and/or concepts need updating or correcting, please contact us at editorial@franchiseupdatemedia.com.

TOP 25 BRANDS OF THE 2011 MULTI-BRAND 50

		UNITS
1	**PIZZA HUT***	**2,284**
2	**BURGER KING**	**954**
3	**TACO BELL***	**818**
4	**KFC***	**721**
5	**SUBWAY**	**635**
6	**WENDY'S**	**411**
7	**HARDEE'S**	**399**
8	**ARBY'S**	**398**
9	**POPEYES LOUISIANA KITCHEN**	**372**
10	**DUNKIN' DONUTS**	**291**
11	**CHILI'S/CHILI'S TOO**	**231**
12	**BLIMPIE**	**206**
13	**LONG JOHN SILVER'S SEAFOOD***	**203**
14	**QUIZNOS**	**186**
15	**JACK IN THE BOX**	**185**
16	**GODFATHER'S PIZZA**	**177**
17	**PANERA BREAD**	**170**
18	**CHICK-FIL-A**	**167**
19	**APPLEBEE'S NEIGHBORHOOD GRILL & BAR**	**149**
20	**EINSTEIN BROS. BAGELS/NOAH'S BAGELS**	**145**
21	**CHARLEY'S GRILLED SUBS/WHOLLY COW**	**98**
22	**T.G.I. FRIDAY'S**	**88**
23	**CINNABON**	**83**
24	**HOT STUFF FOODS/FOOD EXPRESS**	**75**
25	**SBARRO**	**75**

*Co-branded concepts from Yum Brands, so totals may be inflated.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the Deal Maker

BY KERRY PIPES

PLAYING *Favorites*

Experts shed light on current franchise trends

The Great Recession has shifted the thinking and behavior of consumers, forcing franchise brands to respond with changes of their own as they try to keep up with the new normal. Indeed, no discussion of franchise trends in 2011 and multi-unit operators' favorite brands can begin without a nod to the recent economic turmoil and its residual short- and long-term effects.

"There's no question that coming out of the recent recession, lower price-point brands are more popular right now with consumers," says Darrell Johnson, FRANdata president and CEO. "The other big trend we're seeing is growth in brands that cater to personal needs, like healthcare."

With the economy now breathing deeply and exhibiting signs of a sustained recovery, this is a good time to take inventory of the current franchising marketplace as it begins to turn back upward. Which sectors, concepts, and brands are maintaining position—or better yet, gaining? Where do you want to be in the next 12 to 24 months, and beyond? Which brands in which sectors are more likely to help you achieve your strategic and growth goals? What consumer and market trends are affecting consumer behavior, and how can you respond?

We turned to a bevy of industry researchers and analysts who track, measure, and assess franchise trends, sectors, and brands, as well as consumer behavior. Key growth areas these experts have identified—including the country's aging population, which is creating the demand for health care-related services—include sectors related to technology, childcare, food franchising, and more.

"Consumers are very sensitive to risk right now."

—Peter Rose

Peter Rose

The value proposition

In today's market, the dollar reigns for consumers. Consider food franchising. "Value has become the name of the game for food consumers during the past year or so," says Johnson. "Consumers are still going out to eat, but they're trading down, say to fast food, and looking for lower price points."

Peter Rose, senior vice president and director, western region at The Futures Company, agrees. "Consumers are very sensitive to risk right now. There's a desire to minimize their exposure to it wherever they can." Rose, whose company conducts consumer attitude and behavior research and publishes the results in its *Yankelovich Monitor*, says that when it comes to eating out, consumers "don't mind trying something new, but they want to know something about the brand and order from a menu that provides choice, but not at the expense of value."

"There's no question that consumers have by and large traded down from, say, steak to burgers," says Darren Tristano, executive vice president of Technomic, a research company that tracks the food industry.

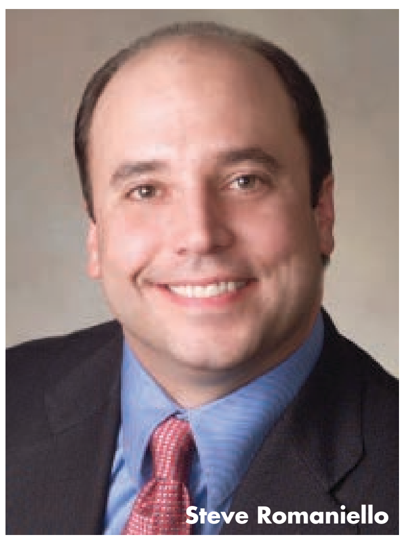
"Customers are dining out less and being more conservative when they spend," agrees Steve Romaniello, managing director of Roark Capital Group, the Atlanta-based private equity firm invested in 19 different franchise brands, and always on the lookout for more. "Perhaps more importantly, I think this could be the start of a longer-term trend that consumers are becoming more selective in their spending and more aware of value." Essentially, he says, "Consumers want value, consistency, and quality, and they want franchise brands that scream this."

This value-based shift has affected most other franchise sectors as well. As you might expect, demand has waned for the less "essential" franchise concepts (travel, pet services), which have taken a hit as consumers have been forced to tighten their belts. However, basic services (home repair, maintenance, cleaning) are poised for growth and will likely be strong players in the new economy.

Here's the skinny. Service, value, consistency, and quality are recurring themes for most consumers these days and should be at the core of the franchise brands you operate or are considering. Following, gleaned from our discussions with industry and business experts, are some key areas and opportunities to consider adding to your "favorites" list as you look ahead to an improving economy.

"This could be the start of a longer-term trend that consumers are becoming more selective in their spending and more aware of value."

—Steve Romaniello



Steve Romaniello

Health and senior care

Health care for an aging population has been on the radar screen for years now. The trend has far-reaching effects. There are some 40 million senior citizens in the U.S. right now, a figure estimated to double in the next two decades as Baby Boomers age. That's creating a huge opportunity, only some of which can be filled by the numerous franchise brands that have arisen to serve this growing, relatively affluent population.

"There are a couple of different sectors we're examining for opportunities right now," says Romaniello, "and healthcare and wellness is definitely on that list."

"People want to monitor their health more closely than ever," says Rose. "They desire to be tuned into their own wellness, and many have a do-it-yourself mentality about their health." He says franchise brands that cater to the mental and physical health of the aging population are great opportunities for operators seeking to expand.

Eric Stites is president and CEO of Franchise Business Review, a market research firm that measures franchisee satisfaction. "Senior care has been on the hot list for the last five years now and this need will remain for many years to come," he says. It's why, he says, senior care franchises including Right At Home, Home Instead, BrightStar, and Synergy Homecare are all good models that should remain in demand.

Research indicates that today's seniors seek to remain in their homes as long as possible. Further, says Stites, senior care franchises offer a relatively low cost of entry, low overhead, and can offer high revenue potential—although, he cautions, it's a labor-intensive, often 24/7 business. However, real estate expenses are generally not a part of the equation when considering a health care-related brand, he says. "These concepts can often be operated without having to purchase land or real estate."

Food

People have to eat, like to eat out, and continue to spend on takeout food when pressed for time. And even if they trade down or go out less often, food will always be a part of the foundation of franchising. Pizza, better burgers, and wings should remain strong franchise concepts, says Tristano. He also says that brands requiring or allowing a smaller space (500 to 3,200 square feet) are great low-cost entry points.

Tristano says better burger concepts, such as Five Guys Burgers and Fries, Smashmouth Burgers & Pizza, and Mooyah Burgers & Fries, offer a step down from pricier restaurants, but a step up from fast food burgers. "Better burger concepts are successful right now because they have a narrowed menu focus. They just stick to burgers, a premium focus, and quality products," he says.

Pizza, says Tristano, a perennial franchise staple because of its steady consumer demand, offers franchisees "a lower cost of capital investment compared with full-service and larger units." Wings, he says, also remain in high demand. "The segment is experiencing growth based on flavor profiles and great takeout opportunity." Some traditional casual dining is struggling, he says, in part because of years of over-expansion: "too many options in upscale casual dining (above) and fast casual (below)," he says.

Stites says food franchising remains a good business for many, but points out that it tends to be complex and expensive to get into. "Some of the brands that have gotten high franchisee satisfaction scores in our surveys are Auntie Anne's, Papa Murphy's, Brueggers Bagels, and Einstein Bros."

Romaniello says when Roark considers investing in food franchises today, the company is looking in the "fast casual" sector with its eye on "environment, food quality, value, and brands that allow consumers to customize or build their own." He says today's health-conscious consumers are also a factor because they are looking for fresh and healthy food alternatives.

"Better burger concepts are successful right now because they have a narrowed menu focus. They just stick to burgers, a premium focus, and quality products."

—Darren Tristano


Darren Tristano

Children

Franchise concepts that cater to the needs of children have become quite popular, industry watchers agree. Dual-income family demands continue to squeeze parents for time, yet they still want to provide opportunities for their kids. As a result, we've seen an influx of franchise concepts that provide basic childcare, educational, and youth sports and fitness opportunities.

Stites says working parents today are desperate for help in caring for and educating their children. "More and more schools have cut back on their recreation programs and facilities, making children's services even more in demand," he says, adding that franchise brands such as Mathnasium, JumpBunch, and TGA Premier Junior Golf are solid performers in this sector.

"The education sector is an area we certainly have our eye on," says Romaniello.

Home improvement and services

Coming out of the Great Recession, many people are happy to stay put in the old homestead. Maybe just a new coat of paint here, or a minor remodel there, and all is well. That's why franchise brands that provide home improvement services, painting, electrical, plumbing, etc., should be another sector for sustained franchise growth. Says Johnson, "Home services is a sector that should be strong. More people are saying, 'Let's just keep the old house and fix her up a bit.'"

Commercial cleaning

Based only on the numbers of new units opened during the past year in this sector, commercial cleaning franchises are, well, cleaning up. Seven of the top 10 fastest-growing brands on the most recent *Entrepreneur* magazine's Fastest-Growing Franchise list are in the commercial cleaning business. It's a sector worth investigating (see page 52).

Other trends

In addition to the economic and demographic changes discussed above, franchise brands also should be sensitive to the underlying social and cultural trends that are driving change across all market sectors and the brands that compete in them.

• **Technology.** Advances in technology keep marching on—a good thing, since these developments generally help save time and increase efficiencies. Nowhere is this more evident than in brands that cater to consumers' technology needs.

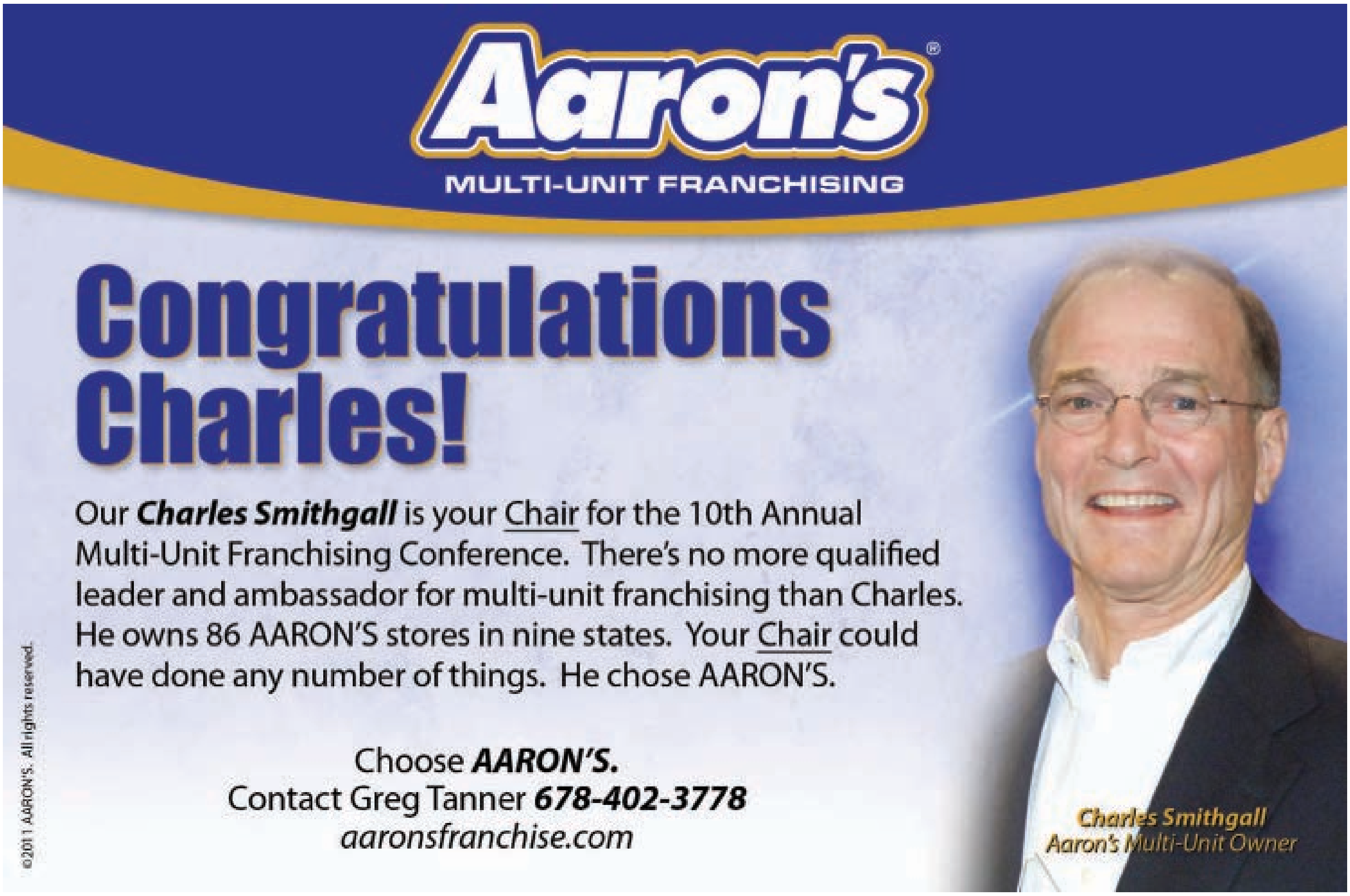
Romaniello says Batteries Plus is an example of a brand in a perfect position for sustained growth. "With the proliferation of electronics and gadgets that are battery-driven, this place is a one-stop shop for consumers," he says. Other concepts fill similar niches, such as Cartridge World and CMIT Solutions. Technology-based and computer-related repairing, training, and consulting should remain strong for years to come.

Beyond brands that deliver technology solutions are those that make effective use of technology to deliver other kinds of products and services.

"Gen X and Y are tech-savvy, and they want to be served and do business with companies that can meet them on those terms," says Stites. "Look at how smartphones have changed the way people do business, and we still are just on the edge of how brands can use social media tools to benefit their business." Brands actively using technology effectively include Tasti-D-Lite, Jack in the Box, and BrightStar, he says.

Tristano agrees that brands incorporating technology effectively gain an edge. "Takeout and delivery are becoming more prevalent with online ordering and technology-enabled marketing, coupons, ordering, and locations on most phone apps," he says. Look for brands that are technology leaders, or that use it to help expand their brand.

• **Conversions.** This increasingly popular method of growing a brand's unit count allows independent business owners to hitch their wagon to a franchise system, with the result that everyone benefits. The business owner gains instant brand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Eric Stites

"More and more schools have cut back on their recreation programs and facilities, making children's services even more in demand." —Eric Stites

recognition, marketing support, and buying power, and the franchisor gains an instant royalty stream from an experienced operator with a customer base.

Typically, conversions are easier to finance than new units because of their existing revenue stream and the brand recognition and proven model of the franchisor. Some of the trendsetters in this segment have been Gold's Gym, 7-Eleven, Checkers/Rally's, Maaco, and Meineke.

• **Mobile food.** Perhaps it was only a matter of time before our fast-paced, on-the-go culture began demanding that food join them. That's just what Rose has been seeing in the Los Angeles area. "The popularity of mobile food trucks has just exploded out here," he says. "I think this is just another function of our mobile culture. I think franchisors and franchisees should be asking themselves, 'Am I everywhere I need to be?'" He says social media tools are a great way for these mobile-based services to let their customers know where they are any time of day.

This mobile trend can also alleviate the need for real estate and other significant brick-and-mortar costs. Watch for more mobile food concepts like Sauca, out of Washington, D.C., and ZooHoo's Eatery in Vermont.

• **Co-branding.** Be it in the same facility or next door, co-branding is a smart strategy and should remain effective in the years ahead. Tristano says this strategy can be a smart decision because it spreads risk and provides additional marketing and day-part opportunities. "You can save rent, among other things, when you couple a sandwich shop like Subway with a dessert destination like Cinnabon."

• **Green is here to stay.** Though not new, green/organic/recycling-based franchising initiatives are likely to remain solid and continue to grow. There's a strong cultural demand for environmentally friendly products and services. Subway, a favorite franchise on numerous lists for years now, has begun serving salads in partially recycled salad bowls, and uses redistribution centers that bundle the supplies franchisees need more efficiently so full truckloads can deliver them.

When You're Hot You're Hot

Here's a look at the top 10 brands in *Entrepreneur* magazine's 2011 Fastest-Growing Franchise rankings (based on the number of new franchise units added in the U.S. and Canada from 2009 to 2010).

	Startup Costs
1 Stratus Building Solutions	
Commercial cleaning	$3,450 – $57,750
2 Jan–Pro Franchising International	
Commercial cleaning	$3,145 – $50,405
3 Subway	
Subs and salads	$84,300 – $258,300
4 CleanNet USA	
Commercial cleaning	$6,655 – $92,950
5 Anago Cleaning Systems	
Commercial cleaning	$8,543 – $65,406
6 Pizza Hut	
Pizza, pasta, wings	$302,000 – $2,149,000
7 Liberty Tax Service	
Individual & online tax prep	$56,800 – $69,900
8 Vanguard Cleaning Systems	
Commercial cleaning	$8,200 – $38,100
9 Bonus Building Care	
Commercial cleaning	$9,020 – $41,919
10 System4	
Commercial cleaning	$5,460 – $37,750

SOURCE: *ENTREPRENEUR* MAGAZINE

Tracking the Future

Jim Carroll keeps his finger on the pulse of the world around him, particularly its future. He is, after all, a futurist who identifies business and cultural trends ranging from technology and business model changes to innovation, global challenges, and growth. Carroll's client list includes Northrop Grumman, Visa, Rockwell Collins, Lincoln Financial, and the Walt Disney Corp.

In advance of his April 28 keynote speech at the Multi-Unit Franchising Conference, we asked Carroll for his take on the fast-evolving consumer, technology, and franchise business environment. He outlined five key areas for multi-unit franchisees considering new brands to add to their organization's portfolio.

1) Paying attention. Consumers today face more stimuli competing for their attention than at any previous time in history—computers, the Internet, cell phones, video games, etc. Carroll says today's interactive world demands franchisees be engaged in all media. "Marketers must work harder than ever to capture the attention of the consumer and make a connection. Brands must keep up with the pace of consumer change in order to stay relevant," he says.

2) Changing family dynamics. There's a new definition of family in the United States and it's no longer nuclear. Successful franchise brands must respond to today's changed marketplace. "Hyper-nicheing is the new brand reality as the market becomes more specialized and fragmented. Marketers can no longer rely on preconceived segmentation strategies, but rather need to think differently about who they are trying to reach and how to reach them."

3) Under the influence. Celebrities and peers are influencing consumers more than ever in this age of social networking, and are looked to increasingly for advice and brand recommendations. "Social networks are the new brand influencers, and marketers must find ways to connect with consumers who are highly influential in their peer groups."

4) Shifting behavior. Socioeconomic shifts are affecting consumer behavior as tastes and preferences continue to evolve. "Faster-paced preference change is the new reality, and brands must be nimble to keep up with consumer demand."

5) Rapid deployment. New products and innovation are being brought to market ever more rapidly, often with the help of "crowd-sourcing" from their customers. Brands, products, and services must keep up or be left in the dust. "Time to market and corporate agility are the new capabilities to focus on," says Carroll.

Making your move

Multi-unit franchisees eager to pull the trigger on expansion and growth are likely in a good position to do so, the experts agree. Many have the capital to structure the financial ends of the deals, and they usually have the infrastructure to run a larger operation.

If they can self-fund, their options are a little more open, says Stites. Otherwise, "It's still a little tough to get money out there, which can explain why many new and established franchisees are looking for lower-investment franchise opportunities." If they don't have the capital needed to build new units or acquire additional units, many are considering a private equity partner (see page 56).

Beyond looking for brands that offer consumers good value, says Tristano, "Look for a concept that's not well-established in your area or territory." He says franchisees should be looking for strong sales performance by sector, "and, more importantly, unit growth that will indicate niche opportunity in smaller sectors like better burgers, fast-casual Italian, and bakery-cafe."

"It's still a little tough to get money out there, which can explain why many new and established franchisees are looking for lower-investment franchise opportunities."

—Eric Stites

Rose says that today's consumers want open, honest communications, and he emphasizes the importance of transparency. "Take Domino's, for example," he says. "They've used their latest marketing efforts to show consumers exactly what they're doing. What you see is what you get. Look for brands that have this appeal."

Says Stites, "When you're considering other brands, you want to know how the existing franchisees are doing and how the franchisor treats the existing franchisees." Is there a cooperative and supportive culture among the franchisor and its franchisees? Critcal food for thought, he says.

It's important to keep your finger on the pulse of trends through trade publications, industry and financial news sources, and demographics experts, says Tristano. But as Stites reminds us, "It's just as important to find something you enjoy doing, that you're passionate about." MUF

BY EDDY GOLDBERG

Is Private Equity Right for You?

FAQs for multi-unit operators seeking capital in 2011

You might not know it from reading the news, but there's a lot of money out there looking for a good home, and high-performing multi-unit franchise companies have become targets for private equity investors. Estimates of available private equity peg the pent-up funds at about $500 billion, more than enough pie for most multi-unit franchisees to get a slice—if they have what it take to appeal to investors.

Developments in the mergers and acquisition universe, along with the growth in large multi-unit organizations and a stabilizing economy in 2011, have combined to produce what experts predict will be a favorable environment for franchise sellers with the right stuff: a strong national brand; a positive cash flow for the trailing 12 months; an infrastructure able to leverage the investment; and an organization large enough to make the deal worthwhile in terms of the costs and time involved for both buyers and sellers during the due diligence/courtship process, which can take six months to a year or more. Real estate assets are a big plus as well. (For more on the 2011 M&A outlook, see page 90.)

Even as the economy writhes its way toward recovery, however, getting your hands on the money—and your mind around the ramifications of taking on a private investor partner—is another story. Yes, interest in high-performing franchisee organizations by private equity firms is rising, but is this a good option for multi-unit operators in need of capital? Is the cost of money—an active partner, accountability, loss of autonomy to investors that typically seek a controlling interest—worth it to a franchise operator used to calling their own shots?

We asked a dozen players—franchisees, attorneys, and deal-makers of various stripes—to tell us what multi-unit franchisees should know about the current state of the private equity market, the pros and cons of taking on a private investor partner, and the tradeoffs involved. The answer, of course, is, "It depends." The financial terms of the deal are an obvious critical consideration, but more important, say many, is the relationship between the operator and the investment company. Is there an alignment of goals? Can an independent-minded operator get along with an active board during a partnership that can span five years or more?

How will a capital infusion help achieve a franchise company's goals over the short, medium, and long term? Is it needed for expansion within a territory or brand? Strategic acquisitions? An initial step toward an exit in 5 or 10 years? Or, for food and lodging brands, a way to pay for expensive remodeling obligations?

For most private equity players, the goal is to find a reasonably safe, high-return vehicle for investors to park their money in for a limited time and make a profitable exit. Following the end of the high-flying M&A years of 2005–2007 (see graph, page 57), many investors were disappointed by their returns in recent years, and are still fairly cautious about doling out funds—except to those with a positive cash flow and a track record of success backed by solid management practices. Balancing their investors' demands to find opportunities for their pent-up capital, private equity firms are climbing back on the bull in 2011, wary of waiting too long or seeing valuations rise.

On the franchisee side, the stagnant market of the past 3 years has created a backlog of franchisees seeking to sell their business, whether to exit or to make a profit and take a second bite at the apple. These operators have spent the slow years cleaning up their act, trimming costs, shedding fat, and making operations as efficient as possible—in other words, priming their organization for a sale when the economy recovered. Their time is now, say experts. Multiples are rising, but not to the excessive levels of the boom years, making the current environment a potential win-win opportunity for both sellers and buyers.

A growing understanding on both sides of the buy-sell equation—private equity "getting it" about franchisees, and operators educating themselves about the private equity market—combined with the "perfect storm" of pent-up capital seeking investments and operators seeking capital for growth as the economy tilts upward for the first time since 2008—looks to make 2011 an exciting year in the multi-unit franchising arena. Here, in FAQ form, is what our ad hoc panel of experts has to say about the year ahead for multi-unit franchisees considering taking on a private equity partner, or simply selling out and heading for their favorite fishing hole, golf course, or new venture.

Dennis Monroe

Cheryl Carner

What is private equity?

Private equity is a "hodgepodge," says Harry Loyle, managing director of Cybeck Capital Partners, and it comes in all shapes and sizes. The simple definition, he says, is "private money that involves equity transactions, but under that there all kinds of opportunities."

"Private equity comes in a myriad of forms, fashions, and has different criteria important to them," says David Stiles, senior vice president at Trinity Capital, which recently served as financial advisor to multi-unit firm Breads of the World in its sale of 20 Panera Bread restaurants in Ohio to Covelli Enterprises. "There are private equity interests out there to match whatever you require." And it can take on lots of different forms, depending on the agenda of the multi-unit franchisee.

In terms of scale, most franchisee deals are small potatoes in the private equity world. From the $1 million or less that Cybeck provides (see page 62), it's not uncommon to see private equity deals in the hundreds of millions and well into the billions. And franchisee companies have been involved in larger deals over the years. The largest now in the news would involve Goldman Sachs's GS Capital Partners buying Apple American Group from Weston Presidio Capital for what likely will be several hundred million dollars if the deal closes. Apple American owns and operates about 270 Applebee's and reported sales of $665 million in 2010.

What are the upsides?

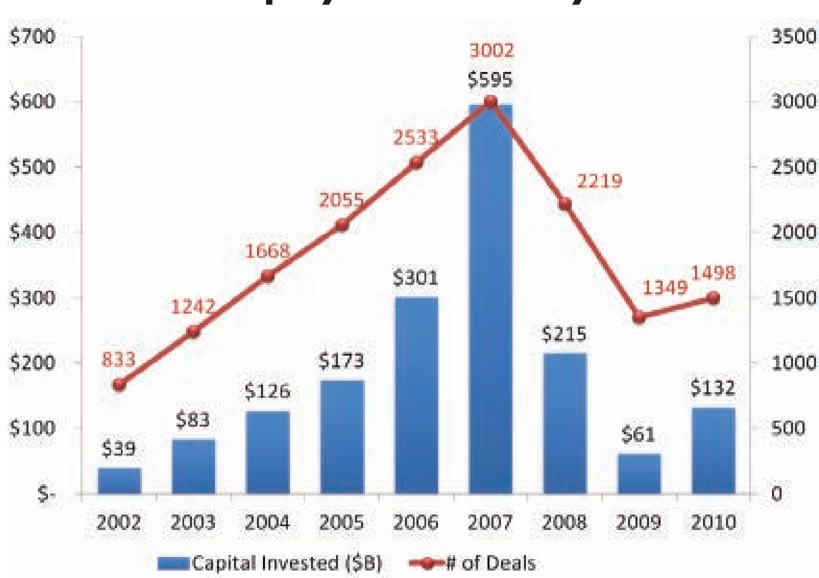
Private equity is a tool that can be used for many reasons: exit/succession, partial exit, strategic acquisitions, to meet a development schedule, remodeling, or as the answer to a distressed operator's prayers. For the right operator at the right time, it can bring many advantages.

"You get people who understand professional management and in many cases are finance experts who will work with your CFO to use capital efficiently," says Dennis Monroe, cofounder and chair of law firm Monroe Moxness Berg. "In many cases these are smart people, so their management input is good."

"Private equity firms generally are smart, sophisticated, knowledgeable, and tend to bring with them operating partners," says Cheryl Carner, who joined GE Capital, Franchise Finance as senior vice president, private equity originations in June 2010. "A private equity firm has better access to capital—their own, and the ability to get debt—to grow and remodel more easily than a smaller, individual investor." And, for the franchisee, she adds, "Where a private equity firm is making an investment on other people's behalf and is accountable to other investors, it sets the bar even higher."

"Efficiencies of scale with a private equity group equals access to greater resources, professional or legal advice, synergies, IT, and shared services across different businesses or restaurant companies," says Rick Ormsby, a partner at NDA Inc., an investment bank-

U.S. Private Equity Deal Flow by Year



SOURCE: PITCHBOOK, ANNUAL PRIVATE EQUITY BREAKDOWN 2011 ing firm in Lousville focused on buying and selling restaurants for franchise companies with up to 200 units, valued from about $5 million up to $35 million.

A capital infusion brings not only money, expertise, and new beneficial relationships, but also a freedom that allows franchisees to concentrate on what they do best: growing their business. It can also add an element of professionalism, such as accounting, that might help save tax dollars, suggests Monroe.

"Too often, management gets involved in things that don't drive profitability," says Kevin Burke, managing director at Trinity Capital. "Private equity firms are generally led by very bright people who can tinker with and improve an organization's efficiency. They can take a lot of financial pressure off, and bring in a very skilled board of directors," enabling the franchisee to "intensify their focus and drive profitability."

"A private equity partnership brings a team of analysts, attorneys, real estate experts at levels beyond our capabilities, agrees Aziz Hashim, president and CEO of National Restaurant Development, which operates about 50 units, including Popeyes, Checkers/Rally's, and Subway. "They are larger firms with more talent and more people."

On the money side, he agrees that partnering with a private equity firm "brings a huge balance sheet. You have a lot of capital, can do what you like, and don't have to run around to banks," he says. "It's a huge advantage in having the financial backing, especially in today's financially challenged time."

What are the downsides?

On the other hand (and there always is one when money is involved), the price of money may be too high for independent-minded business owners. "Maintaining control is something the operators are comfortable with. They're used to being their own boss and operating with unfettered discretion," says Riley Legason, a partner at Davis Wright Tremaine, which typically represents the operators in restaurant brands that are taking on investments.

Partnering with private equity represents a "change in philosophy," says Hashim. "In that model, the management team—me—is an employee per se of the private equity company. There's something antithetical about that and the entrepreneur, where I'm the owner and make my own decisions."

Since he became a franchisee, says Hashim, "I never had to report to anyone, or do a presentation. I could have a really bad year, lose money,

Rick Ormsby

Kevin Burke

Aziz Hashim

Riley Legason

and that's my problem. If it's someone else's money, that's not necessarily bad," he says, but it is profoundly different from being your own master. For now, he's choosing to expand without bringing on a private equity partner.

Two other factors could also be a problem for the seller. While private equity investors are generally smart, sophisticated business people, that could turn into a problem when reasonable minds differ on strategy or tactics. "They may think they know more than they know and interfere" with a successful operation, cautions Monroe. "They want to be involved, with monthly calls, updates, and detailed financial information."

There's also a change of psychology and environment that comes with taking on a partner, especially one with the purse strings and its own set of expertise and expectations (as well as investors they must answer to about ROI). "You may be giving up economic control," says Rod Guinn, industry coverage leader for restaurants at FocalPoint Partners, which advises operators seeking to bring in fresh capital. "But if it's a really smart partner and you've done a good job in choosing them, you won't give up operating control. However, if your business starts to slip off plan by a certain amount, you'll have to sit down and account for what you're doing."

There also could be timing issues, with franchise agreements and development schedules running up against the requirements of the funders. "A private equity firm generally has a pretty set investment horizon, generally about 5 years and a couple additional to harvest investments," says Carner. "They're not going to be involved in the system for 20 years. They make money by selling companies, not keeping them."

Why now?

As noted above, the timing is right for both sellers and buyers. "I get calls all the time, looking to invest in the franchisee side," says Monroe. "Part of it is that there's so much demand, pent-up capital, and at some given point they have to deploy it."

"The market is incredibly robust, with more supply than demand, more dollars chasing loans," says Carner. This creates a favorable environment for both the borrower and the private equity firm, as well as the lenders and deal-makers. "Last year was a very active year for us following a very quiet 2008 and 2009. We saw the rebound in M&A activity and a willingness of buyers to buy and sellers to sell."

So, is it a good time to sell? "Yes, I would say so," she says, "but it depends on franchisee performance and the sector they're in."

"Traditionally, private equity groups were just interested in franchisors," says Burt Yarkin, managing director of the San Francisco branch of The McLean Group, a private investment firm. Yarkin was CEO of Cartridge World in 2007 when the company was purchased by a private equity fund. "These days there are so many private equity firms with so much money out there, so they're willing to move up to large multi-unit franchisee firms."

Burt Yarkin

As Yarkin sees it, "There is going to be a lot of activity for the next couple of years. The money that's out there is not going to find a home very quickly." If someone is thinking of selling, he says, the next two years will be an opportune time.

Historically, private equity interest in franchising has been mostly on the franchisor side (although a number of players have invested in large franchisee organizations). One reason is a lack of understanding or appreciation of the franchise model. Another is simply size: most of the multi-unit organizations a decade ago simply weren't big enough to attract investor interest. However, as investors' understanding of franchising grew, so did multiples, which made deals less attractive to investors seeking a high return on their investment.

Today's lower multiples for franchisee companies following the peak years of 2005 to 2007 are another factor driving M&A activity in 2011. "With multiples down, there really is an opportunity for upsides, because multiples will come back," says Monroe. "They're not terribly low, but they are low enough for some upward movement." When multiples got too high, private equity investors found it difficult, if not impossible, to justify investing in high-performing franchise firms.

The real key for private equity, says Monroe, is to find a good operator with real estate rights and the capacity to grow, so they can leverage their investment for a good return, and sell. Monroe notes that most of the private equity firms that invested in franchising did so in the early 2000s, so exits should be starting to appear now.

How important is the relationship?

The relationship is the most important element of a private equity transaction, says Legason (see sidebar, page 60). After all, seller and investor are going to be partnered closely for years. "Is the group a good fit in terms of how the relationship will potentially play out? That piece is often very difficult to ascertain. Everything sounds good going into it." When performance is less than expected or growth is slower, especially because of unforeseen challenges, how well will the parties work together under pressure?

"The key thing is the relationship," agrees Monroe. "Do they really understand the operator? Are they patient, don't micromanage, and let you do what you do best? The franchisee has to be able to control the operating decisions. Most private equity groups agree with that." In fact, it's why they were interested in the franchisee in the first place.

"Private equity has kind of a mind of their own," says Stiles. "Their vision of what they want for the private equity company could conflict with the vision of the franchise company."

Thus it's critically important for both parties to "fully vet any opportunity, do due diligence as much as they possibly can," says Legason. "The more the parties get to know each other and understand their respective goals, the better. It's rare to see a deal go quickly."

What are your goals?

Just as private equity comes in many shapes and sizes, so do the ways it's deployed. What is the motivation of the opera-

Two Critical Factors

Riley Legason is a partner at the law firm Davis Wright Tremaine and leads the firm's national restaurant industry practice group. "Our firm typically represents the operators in restaurant brands that are taking on investments," he says. "We help them when somebody wants to invest in them and guide them through the process."

Although his focus is on restaurants, he says that for any multi-unit franchisee organization considering taking on equity partners for growth (as opposed to an exit or sale), a successful private equity deal comes down to two core issues:

1) Is the investment fair in terms of the pricing? That is, is the amount of money the private equity group invests for the percentage they get reasonable, or are there better alternatives for the franchisee group? The answer to these questions, he says, varies from group to group, but the issue the franchisee group always wrestles with is: Is this the best option in terms of our growth plan?

Related issues include: What does the investment look like on the payback schedule? Are there certain preferences attached to the percentages that will make it difficult for the business operator to continue to exist as they have in the past, i.e., depending on the terms, the investor group will get a certain amount of capital paid back before the operators do. Sometimes this makes great sense, sometimes it doesn't, he says.

2) Is the relationship moving forward a good fit? Perhaps even a bigger—and more important—issue operators wrestle with, he says, is the relationship with the people who have invested in them. In other words, can you play well with others, or do you need to maintain your autonomy and remain in charge?

"The partner will have a vested interest in being sure their investment is put to good use," says Legason. Whether they have a majority or minority interest, equity investors are not inclined to be silent partners, he says. "They'll want membership on the board and to weigh in on important decisions. When you have someone new at the table voting on the decisions, many operators are not accustomed to that; some are comfortable and have done it before, others are not."

Life after the deal

When a business is making money, everyone is incredibly happy, says Legason. When it fails to meet expectations, "That's where things can get pretty complicated when you have a number of people with authority at the table."

As an attorney advising restaurant operators seeking private capital, Legason has been involved in deals that later turned out good, bad, and ugly. "We've seen a number of investments that have worked out very well," he says. "We've also seen the other side of the spectrum."

When it works (the good): "We've seen some very good outcomes with some clients. There's a group invested in one of our clients that has management in place that really connects with our client and their industry. They've played a very valuable role—mentorship, strategic, and advisory."

When it doesn't (the bad): "Often clients have agreed to terms that in hindsight don't seem so fair economically. It felt like a great fit moving in, but when they get down to working together the relationships do not work out so well. The investor wants to wield more influence, there are differences in strategy—it exhausts both sides and makes the experience of being in business less enjoyable."

When it really doesn't (the ugly): Assuming the business is still viable, he says, the deal often ends with a buyout, with one party staying or both moving on. "Like in marriage, divorce is never easy, and never inexpensive. The damage has been done, and it's not always easy to recover. Sometimes another group will want to step in and take over from the investor," he says. Sometimes it's too late, so do your diligence.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Choose Your Partner Well

In July 2009, John Ikirt signed on as a ComforCare Senior Services franchisee in Dayton, Ohio. He did it with the advice and funding of a private investment company with a unique approach: investing for the long term as a 50/50 partner, rather than the typical 80/20 deal with an exit written in stone some 5 to 7 years later.

Ikirt approached Harry Loyle, managing director of Cybeck Capital Partners in Dayton. "Banks weren't really lending money unless you had collateral, and this is a service industry so Harry was an option."

Ikirt, who spent 16 years in sales management with Johnson & Johnson, saw the homecare business as a good fit after he left J&J voluntarily. "On the pharma side, there was lot of right-sizing and downsizing going on, I traveled a lot, which just got old, and I always wanted to be my own boss and business owner."

As it turned out, Ikirt already knew Loyle through networking, and was spared the time, uncertainty, and due diligence of searching for a private source of funding to start his business. "If you do seek outside help like I did, interview people so you find somebody who's a good match and who understands what you're trying to accomplish," says Ikirt. "I think it's important to interview different people. I didn't have to do that, I was very fortunate, and we were a good fit for each other."

And in terms of the operations, being a 50 percent stakeholder, says Ikirt, "I still have control." But beyond that is the relationship. "The nice thing is that it's not just I can find capital if I need it, but I have somebody who has really extensive business experience," says Ikirt. "I think it's a unique relationship. I don't know that if the bank gave me money I'd have that."

> "I have an MBA, but there's nothing like having a partner who's living in the real world."
>
> —John Ikirt

Cybeck, says Loyle, is a boutique private equity firm specializing in operating partnerships. Besides putting money into the deal, Cybeck provides management consulting, financial expertise, even coaching. "We play in a very small end of the market," he says. But with the credit crunch, "We're getting more calls than we can handle." Traditional banking relationships are not working, he says, and small businesses no longer have access to capital.

"Because I have a good relationship with Harry and Cybeck, if I need money to cover payroll, I can draw that," says Ikirt, adding that operators should at least consider private equity as a source for growth capital "in these times when banks aren't lending. I'm also not so sure if the banks were lending that I wouldn't consider an equity partner."

Use your equity wisely

Since one of the most challenging decisions an entrepreneur has in their lifetime is capital construction (what kind, what terms, when), Loyle says he has a "little speech" he gives to potential clients. "You must be sure you're expending that equity at the right point in your development. If you can accomplish your goals and aspirations without private equity, don't do it; don't spend your valuable currency and interject another person into your company."

The biggest point in any private equity transaction, says Loyle, is to "understand that equity is your most valuable currency. So do your due diligence and be sure the partner you're choosing is consistent with your values and aspirations."

In a typical private equity transaction, he says, the private equity firm picks up 80 percent and the franchisee keeps 20 percent. "Our transactions are 50/50 equity, we structure a true partnership," says Loyle. "Because of that, we spend a lot more time understanding the individual than the transaction."

For Loyle, it's all about who you are partnering with. "You have to be very comfortable that you have mutual values and culture." If you do, he says, "Twenty percent of a $100 million company is better than 100 percent of a $1 million company." Bringing in an equity partner, he says, "is not inherently bad, but it is inherently challenging." One of the most successful deals he's done took a company from $200,000 in revenue to $15 million in 5 years.

For Ikirt and Loyle, the partnership seems to be working well, with the business growing from $400,000 when he started to $600,000. And, says Ikirt, "I think it can be much more."

Ikirt says he's already thinking about expanding into other areas, and that's where Cybeck and Loyle will come in again. "Even if it's a franchise or some kind of startup business you're getting into, there's a lot of trial and error. With Harry, he's been there before. It takes some of the pain out of some of the growth we've gone through, and he also paints a picture of where you're going in the future," says Ikirt. "I have an MBA, but there's nothing like having a partner who's living in the real world."

tor? To expand through the acquisition of new units or territories? Fulfill their development schedule when banks aren't lending? Have capital available when an opportunity arises? Remodel or upgrade their units (an expensive proposition if a significant number of their restaurants or hotels are due for a facelift)? Make the first step toward the exit through a deal that requires the operator to stay on for a number of transitional years? Family succession? Or simply to sell the company and retire?

In some deals, says Stiles, operators can do partial cash-outs and stay on as they phase themselves out. "If they want to take some chips off the table in terms of a distribution, some private equity firms are okay with that." Is it time to put the kids through that Ivy League college? Finally buy that vacation home by the lake? Travel with your spouse, now that the kids have moved out? The shape of the deal really depends on the stage of your business and your goals over time.

"For the next few years in our business lifecycle, what is the trajectory? Do we want to supercharge or put it on steroids? Do we give up control, majority ownership, as the price to pay to play in the big leagues?" Hashim asks. As for whether or not to take on a private equity partner to achieve his goals, "It's a business decision for me, the emotional part is not critical to me. I have not written it off by any means. I continually review our business plan."

Are you big enough?

The answer to this depends on the size of the fund, its focus (restaurants, service, B2B), the time horizon on their capital, and, often, personalities. Opinions vary on how big a franchise company has to be for a private equity deal. Here are some thoughts from the experts.

With the cost of due diligence (time, energy, money), private equity firms often need revenues of $10 million, $20 million, or $30 million to make the deal worthwhile, says Loyle. "We always had some pretty large multi-unit operators out there but nobody understood it. Now they do."

"Franchisee deals are very small for these guys," says Hashim, and the opportunity costs of getting in bed with franchisees are a factor. "They can place $200 million deals at the drop of a hat. You have to get to a point where it makes sense for them to entertain smaller deals."

Most private equity deals on the operator side have been in the $3 million to $15 million range, says Monroe. "In most cases it's been smaller players looking to hook up with significant operators."

Private equity firms won't buy something with 5 units, they want large transactions in good brands that they can scale, sales in the $30 million to $50 million range, and/or an EBIDTA of at least $4 million to $5 million a year, says Yarkin. "Generally, they're looking for a decent-sized transaction. If they're a billion-dollar fund, they won't look at a million- or two million-dollar deal."

"There is a slowly increasing number of private equity shops that will look for multi-unit franchisees rather than the franchisor; or will look for multi-unit franchisees alongside a franchisor," says Guinn. He says investors generally set two conditions:

1) Cash flow. "A few will look at multi-unit franchisees who have $5 million in annual cash flow, but more will look at $10 million and up."

2) The brand(s). "Every investor I've spoken with who has looked at multi-unit franchisees has limited the concepts they would look at to the 'tier 1' national concepts, for example, a cluster of Taco Bells or Pizza Huts," he says. "The reason is pretty logical because these private equity investors *never* intend to own the business forever and want to be able to turn it around in four to five years after they work what they think is their magic."

What about the franchisor?

The last (or possibly first) piece of the puzzle in a private equity deal is the franchisor. Examining your franchise agreement and the FDD is essential. Obstacles to a deal might include the time horizon, personal guarantees, noncompetes, and approval of transfers.

"We counsel our clients that before even engaging with private equity, they understand what their FDD says about it," says Ormsby. For example, if a 50-unit Denny's operator is approached by a private equity firm with a fund that's in year four of seven, and the operator's FDD says any private equity has to be in for five years, no deal is possible without flexibility on the part of the franchisor.

The franchisor also might balk over the issue of personal guarantees. For example, if the operator is obligated for $5 million in personal guarantees, says Ormsby, "The franchisor has to understand how that payment will be guaranteed. The operator may be obligated to guarantee it, but with a private equity firm, it's not the same."

"The franchisors are learning that dealing with a private equity investor, a substantial institutionalized investor, limited partners, and hundreds of millions of dollars, is very different from dealing with an owner-operator," says Carner. However, she says, the issue of personal guarantees is not insurmountable. "We have heard franchisors have recognized that fact, that it doesn't make sense, and see the sense of having professional investors involved in their system."

"Normally most franchisors can work through that, particularly if the operator is on the hook," agrees Monroe.

"A lot of franchisees aren't paying royalties on time now, and are struggling with hard-set remodeling dates. Some operators can't borrow the money to do it, so how do you handle it contractually?" says Ormsby. When a private equity deal can help solve that problem and keep the units operating, that's a plus for the franchisor and the brand. "Franchisors are having to learn how to accommodate private equity firms," says Ormsby. MUF

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Cheng Cohen provides general business and litigation services to clients in the franchise industry. With decades of experience in program formation, disclosure and regulatory compliance, domestic and international development, and global dispute resolution, Cheng Cohen is uniquely positioned to partner with its franchise clients for the entire life-cycle of the system.

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312 243 1717
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Choice Hotels International, Inc. franchises more than 6,000 hotels, representing more than 490,000 rooms, in the United States and more than 35 other countries and territories. The company's Comfort Inn, Comfort Suites, Quality, Sleep Inn, Clarion, Cambria Suites, MainStay Suites, Suburban Extended Stay Hotel, Econo Lodge and Rodeway Inn brands and Ascend Collection membership program serve guests worldwide.

Charles Gilbert • Director, Emerging Markets
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10750 Columbia Pike
Silver Spring, MD 20901
866 383 4309
www.choicehotelsfranchise.com

Church's Chicken is an international Brand with over $1 Billion in sales that serves 3 million customers per week. Founded in 1952, Church's offers freshly cooked, quality fried chicken and other specialties at value prices. The brand offers multi-unit development options and is designed for low overhead and high profitability.

Patricia Perry • Sr. Manager Franchise Sales & Development
pperry@churchs.com
980 Hammond Drive, Suite 1100
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770 512 3943
www.churchsfranchise.com

CiCi's Pizza, started in Plano, Texas in 1985, is as a family-oriented restaurant with a fresh, hot pizza, pasta, salad and dessert buffet featuring up to 20 varieties of pizza made with fresh ingredients for $4.99. CiCi's has more than 600 restaurants in 35 states.

Bruce Evans • VP of Franchise Sales
bevans@cicispizza.com
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972 745 4200
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DQ Development
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877 374 7792
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Founded in 1961, Del Taco, the Lake Forest, California-based company operates or franchises more than 510 restaurants in 16 states. Del Taco offers a full range of made-to-order Mexican items such as tacos, burritos, quesadillas and American favorites including cooked-to-order burgers, fries and shakes.

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David Wagner • Chief Marketing Officer
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Cleveland, OH 44143
216 839 1430
www.thedijuliusgroup.com

Founded in 1960, Domino's Pizza is the recognized world leader in pizza delivery. Domino's operates a network of 9,169 franchised and Company-owned stores in the United States and over 60 international markets. In June 2010, Pizza Today, the leading publication of the pizza industry, named Domino's its "Chain of the Year".

Michael Mettler • Manager, Franchise Recruiting & Sales
mike.mettler@dominos.com
30 Frank Lloyd Wright Drive
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Jamie Davis • Executive Director of Business Development/PizzAmbassador
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Pam Gore • Franchisee Recruitment Manager
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Faegre & Benson's franchise lawyers have helped hundreds of emerging and market-leading franchisors launch, grow, protect and evolve successful systems in a wide range of industries. Few law firms approach franchising with the same passion and attitude with a focus on results. From initial franchise structuring to international expansion, we work creatively with franchisors to develop solutions tailored to each franchisor's individual needs.

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Jacksonville, FL 32257
904 886 8300 x.239
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Bradenton, FL 34202
941 907 9800
www.firstwatch.com

Fish Consulting is a national PR and marketing agency that specializes in helping franchise companies achieve their business goals. Whether you're looking to recruit new franchisees, drive traffic, build brand awareness or manage a crisis, Fish has the experience to help. We're proud to serve some of the industry's leading franchises including Dunkin' Donuts, Baskin-Robbins, Edible Arrangements, Jiffy Lube and Sylvan Learning, to name a few.

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FisherZucker is a business law firm with a national practice dedicated exclusively to franchising, trademark and business matters. Our lawyers have extensive experience in litigation and pre-litigation counseling, negotiating and documenting transactions, resolving disputes and regulatory compliance. FisherZucker attorneys are recognized experts on earnings claims, multi-unit and multi-brand franchising.

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Ron Parikh • Chief Marketing Officer
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Annette Bagwell • Franchise Sales & Legal Assistant
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Raleigh, NC 27626
800 231 4602
www.goldencorralfranchise.com

Golden Krust Caribbean Bakery & Grill

Golden Krust Caribbean Bakery & Grill ("Golden Krust"), a privately held corporation, is a manufacturer and distributor of Caribbean style food products and franchisor of Caribbean Restaurants. With more than 120 locations, in restaurant and kiosk formats, and designed for low capital investment, Golden Krust gives you all the training, brand recognition advertising and operational support you need.

Omar Hawthorne • Franchise Development
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Great Clips, Inc. was established in 1982 in Minneapolis. Today, Great Clips has nearly 3,000 salons throughout the United States and Canada, making it the world's largest salon brand. No appointments are needed, and salons are open nights and weekends. For more information, or to find a location near you, visit www.greatclips.com.

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Brian Ognian • Vice President, Franchise Development
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Jack in the box

Approximately 61 percent of our restaurants are franchise operated. Our long-term goal is to increase franchise ownership to 70-80 percent by the end of fiscal year 2013. This will be accomplished through continued refranchising and development in new contiguous markets in the western, northwestern, mountain, central, midwest and southeast states.

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Jamba Juice.

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Brian Sommers • Franchise Development
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1381 W. Sunset Rd. #100
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888 582 0550
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Lenny's Sub Shop

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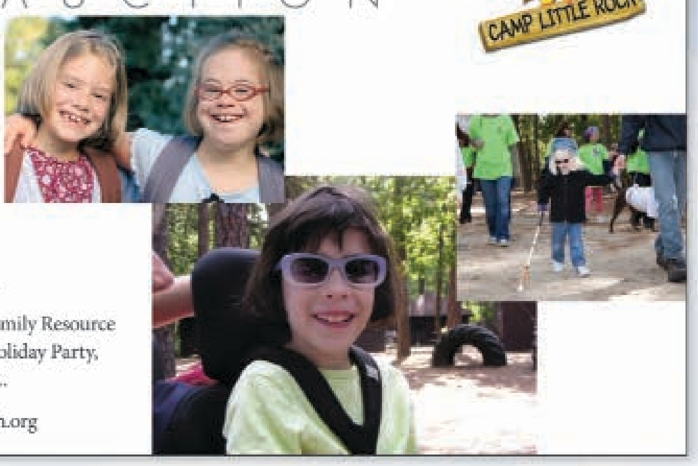

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For more information, visit: www.tlrf.org, or www.blindnessawarenessmonth.org

BY DAVID ELLIS

Is Your Data Secure?

One misstep can hand a hacker a master key to your network

In case you haven't heard, franchises hold a place of honor in the world of data thieves. In fact, chains are the favorite target of hackers trying to steal payment card information. The most recent figures from Visa indicate that up to 97 percent of data compromises are suffered by smaller merchants and "specifically franchisees"—particularly those in the restaurant, clothing, sporting goods, and hotel industries.

The reason so many attacks are mounted against franchise operations is simple: a hacker who can penetrate one franchisee's computer systems can frequently infiltrate the entire network with little extra effort. Having this kind of "master key" to a larger enterprise is far more efficient—and lucrative—than trying to attack scores of smaller companies that have fewer cards to pilfer, as well as disparate security systems to break and enter.

Franchise systems at risk

A 2008 security breach at a major hotel chain illustrates the payoff for a franchise system breach. In that case, after hackers penetrated one hotel's computer system, they were able to access information from more than three dozen other properties through the chain's computer network. Not only were guest names, card numbers, and expiration dates theirs for the taking, but so was the magnetic stripe data that made the information even more valuable on the black market because it provided the ability to replicate the physical credit card for each stolen data set.

This franchisee-first attack is a common scenario. Frequently, the first successful breach occurs at a franchise location and then spreads to the corporate network. Visa is so concerned about the number of attacks directed at franchises that it has created special rules to address the franchise environment. Recently, for example, Visa expanded its security requirements to include the integrators and value-added resellers (VARs) who supply payment-processing hardware and related services to franchisors and franchisees.

For these corporate franchise servicers, as well as franchisors and their franchisees, compliance with the Payment Card Industry Data Security Standard (PCI DSS) is not only the best defense against card fraud, it is also mandatory. Adhering to PCI controls and processes will help plug the security holes that allow criminals to pocket your customers' card data—or even your own.

Cracking the code

For a determined hacker, there are multiple roads to successfully bypassing a merchant's perimeter security. Attacks can be launched against the organization's computer network, point-of-sale (POS) software, or the POS terminals themselves. Within each of these categories, data thieves can exploit a variety of security weaknesses.

In the first six months of 2010, for example, four attacks out of 10 involved unauthorized users gaining remote access to computer systems because of issues such as lack of adequate password protection. In a franchise business, that kind of problem typically is related to the remote management applications used to disseminate business downloads, conduct sales polls, and/or manage inventory within a particular franchise community.

Nonexistent or improperly configured firewalls (the equivalent of leaving a store physically unlocked after business hours) and unencrypted credit card data stored by the organization are other danger zones. So are oversights such as a failure to segregate day-to-day business and Internet traffic from payment data (leaving the entire network open to an attacker once they're in the door), and a failure to replace the vendor-supplied default passwords that come with POS systems and other network devices with complex, individualized passwords.

The PCI cure

The PCI DSS prescribes detailed safeguards in each of these areas and many more, providing a road map for keeping card data off-limits to interlopers. The rules require merchants to follow procedures such as:

- Configuring firewalls to deny all traffic from untrusted networks and hosts, blocking a key entry point that cyber-criminals use to access payment systems.
- Using two means of identification to authenticate remote users to the network—including a device such as a token, smart card, or biometric—to prevent hackers from using a password alone to gain network access.
- Changing vendor-supplied default settings on firewalls and other network devices to eliminate easily guessed passwords such as "1234" and "admin."
- Encrypting transmission of cardholder data across public networks, so that any intercepted data cannot be interpreted.
- Using and regularly updating antivirus software or programs to minimize the risk that malicious software that can extract card data (like keyloggers that record each keystroke) will be installed on servers and other vulnerable systems.

Visa guidance

While full compliance with the PCI DSS list of requirements should be a cornerstone of your compromise prevention strategy, Visa has also recommended a variety of other policies and procedures to thwart data theft—including strategies that are specific to franchises.

For one thing, Visa requires merchants to use third-party payment application software that is compliant with the Payment Application Data Security Standard (PA-DSS) created by the PCI Security Standards Council as a complement to PCI DSS. To meet PA-DSS requirements, payment applications must adhere to a list of protections, including a prohibition against storing full magnetic stripe, PIN, or other sensitive authentication data. (A list of approved POS payment applications is at www.pcisecuritystandards.org/security_standards/vpa/.)

On the franchise front, in June 2010, Visa issued the corporate franchise servicer rules mentioned above to cover card payment processors and other network service providers that previously had escaped PCI DSS oversight. The new rules not only require PCI DSS compliance by the service providers themselves, but also make acquirers responsible for ensuring compliance with these and other regulations. Fulfilling these new mandates presents a number of challenges, including determining the identity of the service providers used by franchisees.

In addition, Visa has advised franchisors to adopt other protective measures, such as amending franchisee contracts to include having a data security policy consistent with PCI DSS, and expanding training programs to incorporate data security and PCI DSS rules.

Be sure you're not the next company grabbing headlines for letting customer cardholder data slip through your fingers.

Help is available

With franchises in the crosshairs of data thieves and the risk that a data breach will lead to regulatory fines as well as reputation damage, it is essential for franchise organizations to be aggressive in ensuring data security. Your PCI vendor can help you sort through the requirements as well as perform an external vulnerability assessment scan that can identify security weaknesses in your systems and procedures that may be exploited by hackers to pilfer customers' cardholder data.

Be sure you're not the next company grabbing headlines for letting customer cardholder data slip through your fingers. MUF

David Ellis *is a Certified Information Systems Security Professional and Director of Forensics Investigations for SecurityMetrics, a leading provider of PCI DSS security solutions, based in Orem, Utah. Contact him at info@securitymetrics.com or 801-724-9600.*

BY DALE WILLERTON

Whose Broker Is It Anyway?

Beware of agents working for two masters

One of my greatest concerns is agents who are supposedly working for the tenant while accepting a commission from the landlord. I have hesitated writing this article for months lest it be considered an attack on real estate salespeople or agents. Nothing could be further from the truth. If it weren't for real estate agents and brokers, landlords would have half-empty buildings. My purpose here is to enlighten franchise tenants, open some eyes, and let you decide for yourself about this important issue.

Before 1993, I was a shopping mall manager and before that a typical leasing agent, so I know what I'm talking about. Real estate agents are deal-driven, not detail-driven. Whether you pay rent at $24 or $26 per square foot matters less to many agents than whether the deal actually gets done. After all, they are only paid if a lease agreement is signed and the deal closes.

> "In leasing, franchise tenants don't get what they deserve, they get what they negotiate!"

Recently, a real estate agent insisted that my client, the tenant, sign a dual agency agreement (which basically states that the agent is representing both the landlord and the tenant simultaneously). Now I don't know about you, but to me serving two masters seems nearly impossible considering that we're all human. When two people go to court over a disagreement, the plaintiff and defendant would never agree to share a lawyer. What if the defendant agreed to pay the entire attorney's fee? No plaintiff would justify this as a reasonable cost-saving measure. So why would a tenant take advice from the landlord's listing agent (or any agent) just because it's free? But many of them do, and the results are often less than complimentary.

When a multi-unit franchisee comes to me for consulting they will often say something like, "My agent says this is a really good location" or "My agent thinks the rental rate is quite reasonable." My first response is to ask why they refer to the agent as "my agent." Sometimes the response is, "Well the landlord has his real estate agent and I have mine." So I ask, "Well, who is paying them?" Ultimately, the landlord is still paying a commission; it is simply being split by both agents.

Franchise tenants need to know and differentiate between the two types of agents. First, there is the "inside agent," who is the one with their name on the For Lease sign. Second, there is the "outside agent," who may show you various properties. Should the outside agent secure a signed lease deal, they will split the landlord's commission with the inside agent. Landlords love this situation because they can try to control both agents' paydays.

I remember one franchisee who approached me after I spoke at the Multi-Unit Franchising Conference in Las Vegas. He told me about his franchisor's "broker referral program," where the franchisor matched up the franchisee with a broker located in his city. This gave the franchisee a false sense of security since he believed the broker was being taken care of by the franchisor. In fact, even brokers working in this manner, who are still being paid by the landlord, may try to please the landlord more than the tenant.

Let me pause right here and say that, in many opinions, people who work on commission are salespeople—they are *not* advisors. If you want to weigh your options and maximize your bargaining position, use a lease consultant who is receiving a fee only from you, the tenant. This is the defining point.

Recently, a client in Toronto told me about a supposed lease consultant who wanted to represent the tenant and still pick up a commission from the landlord (this, of course, is even worse). Beware of wolves in sheep's clothing.

You may have heard the term "tenant rep." This is a common handle agents take on when doing site selection for a franchise tenant. So if the agent is being paid a commission by the landlord, are they really "repping" you, the tenant? You decide.

Real estate laws state that the tenant is entitled to know if the broker is being paid a commission, and how much. All you have to do is ask. In most cases the agent's commission will be 5 to 6 percent of the base or minimum rent (not operating costs). So if you are leasing 3,000 square feet (times) $28 per square foot (times) 5 years (times) 6 percent (.06), the commission would be $25,200. If you're not inclined to take the advice of a car salesman who makes a $200 commission selling you a car, how much more guarded should you be when the commission is many thousands of dollars? In some cases, the agent's commission is a flat fee, but typically it is still being paid by the landlord.

Also, don't be afraid to take charge of the leasing process. The tenant is the customer, and any landlord should be happy that you are considering leasing space in their property. There is nothing wrong with negotiating aggressively. In leasing, franchise tenants don't get what they deserve, they get what they negotiate! MUF

Dale Willerton *is The Lease Coach and a Senior Commercial Lease Consultant who works exclusively for tenants. He is a professional speaker and author of* Negotiate Your Franchise Lease or Renewal. *Need help with your new lease or renewal? Contact him at 800-738-9202 or dalewillerton@theleasecoach.com.*

Finance

BY STEVE LEFEVER

Understanding Bankers

Basic rules to boost your odds of getting a loan

Back in 1981, with the prime borrowing rate at an all-time high of 21 percent, most bank customers felt that those cameras they have in banks to photograph robbers should, in all fairness, be pointed at the "real" crooks: the lending officers. At such rates most companies found it difficult (if not impossible) to borrow money. Actually, it wasn't so hard to borrow money—it's just that no one could repay it.

Those days of exorbitant interest rates are gone now, at least for the time being. In fact, interest rates are at all-time lows. However, the problems of finding capital and repaying loans remain, and many business owners have feelings of animosity and bitterness toward banks and bankers as a result of their bad experiences. For just a moment, let's redefine the Golden Rule: Those who have the gold, make the rules.

How we got here

Let's also take a look at the recent past. The economic firestorm of the past three years has changed the credit landscape going forward. First, let's look at the primary components of the recent financial meltdown: 1) a lax regulatory environment creating conditions for abuse, 2) substandard credit policies and documentation, 3) economic over-optimism, and 4) borrowers' lack of financial acumen.

In the bank regulatory arena, lax enforcement has been replaced by an overly restrictive review process applied in an arbitrary manner that is actually hindering the recovery. Banks are scrambling to refocus on credit training and loan documentation.

Finally, there's the issue of the lack of financial acumen on the part of business owners and managers. For decades, everyone has known, and accepted, the classic profile: Most business owners know how to make it and sell it, while the financial side of the business remains somewhat of a mystery. This folklore profile will no longer cut it in today's overzealous documentation environment. Business owners will be expected to "up their game" with regard to financial acumen and business performance.

Keep in mind that borrowing and lending represent two sides of the same coin. No business relationship works out unless you have a win-win situation. This includes banking. In fact, most bad experiences and loan rejections are the result of poor communication and lack of education: the banker's lack of education about your business, and your lack of education about the bank's procedures, policies, and constraints.

This mutual lack of education breeds misunderstanding, mistrust, and frustration. Ted Frost, in his book *Where Have All the Woolly Mammoths Gone?* puts it this way: "I've often thought if I could collect all the nation's bankers in a big gunny sack out in the middle of the ocean, that I would jump overboard with the sack and sacrifice myself just to rid the world of them."

Know thy banker

It doesn't need to be that way. Let us share some thoughts from the perspective of someone who's been both a banker and a business owner. Since it usually aids in understanding to view any situation through the other person's eyes, let's examine where your banker is coming from.

The best way for banks (and bankers) to be successful is to lend money to businesses that pay them back. But 80 percent of all businesses fail. So bankers tend to be *very* cautious because they have a 4 out of 5 chance of guessing wrong—and that 80 percent statistic was in good times.

> The best way for banks to be successful is to lend money to businesses that pay them back. But 80 percent of all businesses fail. So bankers tend to be *very* cautious because they have a 4 out of 5 chance of guessing wrong.

To make matters worse, most business owners don't understand leverage or why more debt equals more risk… *and* they tend to overstate their optimism and understate their need for capital… *and* they're usually undercapitalized and overextended… *and* they rarely have accurate, timely information. But they do have an almost religious belief that things will be all right if they can just get the funds they need to "get over the hump." (Sound familiar?)

Of course, borrowing is a two-way street. It's not just a case of business owners needing bankers; bankers need their business customers just as much. For banks, their deposits are liabilities (as in "demand deposit" accounts). Banks don't make any money until they make a loan. Find a banker who's never made a bad loan and we'll show you a bad banker. On the other hand, show us a banker who's made too many bad loans and we'll show you someone who now has a different career. (The classic advice story for young bankers who want to be successful is: "Make good loans." How do you know if a loan is good or not? "Experience." How do you get experience? "Bad loans.")

One of the things many bankers also discover is that the way to get ahead is not by doing good things, but rather by *not doing* bad things. Thus, the easiest thing to say is "No." Bankers can become skeptics, so it becomes the business owner's job to give them a reason to say "Yes."

What you can do

With these realities in mind, let's examine some of the things you can do to strengthen your banking relationship and increase your "bankability." Banks generally evaluate your loan request using the "five C's" of credit:

• **Character**: You must be trustworthy and have a good name; otherwise how good the deal is won't matter.

• **Capital:** Don't look for 100 percent financing; expect to invest some funds yourself (skin in the game).

• **Collateral:** What assets are available as a secondary source of repayment (just in case)?

• **Capacity:** You must understand your company's ability to absorb and repay debt (financial skills).

• **Conditions:** What are the general economic conditions, and in what ways will they affect your industry and your company (shaky recovery)?

Since the bank really depends almost entirely on you, the more you look like you know what you're doing, the better off you are. Coupling this knowledge with an understanding of the way banks operate can create a winning combination in getting what *you* need at the bank.

To test whether or not you're adequately prepared, always ask yourself the following five questions, the ones most bankers want answered before they'll lend anybody anything:

1. How much do you need?
2. What will you do with it?
3. When will you pay it back?
4. How will you pay it back (i.e., what will make cash flow)?
5. What if something goes wrong?

If you can answer all of these questions, you're ready.

Then keep in mind the old Boy Scout motto: Be prepared. And be mindful of the advice from a senior credit manager at one of the larger Midwest banks: 1) keep in mind that borrowing is a privilege, not a right, and 2) know your numbers or stay home! MUF

Steve LeFever *is chair of Business Resource Services (BRS), where he guides business networks from "Profit Mystery" to "Profit Mastery." For more than 10 years, franchisors and franchisees have improved their financial performance by following the BRS Profit Mastery process: financial training, performance benchmarking, and accountability/bankability modeling. Contact BRS at 800-488-3520 x14 or lefever@brs-seattle.com.*

BY CAROL CLARK

Entitlement De-Programs

Teach your children wisely

A financial legacy can provide an incomparable "leg up" to offspring—if they are adequately prepared. However, inelegant handling of the training stage can create generations of enmity, or breed unmotivated individuals with an entitlement attitude. A family business (especially if some offspring participate in day-to-day operations while others do not) presents even more complexity, particularly in the area of "fairness." Following are a few things to think about as you grapple with starting the preparation process.

• **Unveil your own financial management beliefs—the sooner the better.** In the frenzied intersection of building a business and raising a family, it can be overwhelming to take time out to discuss the emotionally laden subject of "money" with your heirs. Entrepreneurs are by their very nature used to being in complete control and often reluctant to discuss details, yet it doesn't take a four-hour discussion of the family balance sheet for you to open the dialogue. Start small, by teaching key values such as "Spend less than you earn" and the importance of giving back to the community. Explain how you first pay yourself by funding your retirement account off the top. Explain how you use automatic payments to fund charitable donations. Let them know that what comes in as "gross income" for the business isn't play money, but is invested in plant, equipment, advertising, etc., and pays taxes (which helps put people to work, builds infrastructure, and fuels the economy).

• **Delay talking about your financial balances.** While it is best to start demonstrating your money philosophy early, most advisors agree that you should be very careful regarding how soon you reveal "real dollars." Children understand very early where they are in the social strata relative to their peers. To the extent that privilege discourages children from finding their own purpose and reason for being, it can be an overwhelming burden and a disservice that lasts a lifetime.

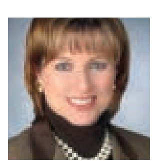
According to many advisors, any significant amounts gifted to a child before age 25 can seriously impede that child's personal search for a meaningful livelihood. Some advisors recommend waiting until children are in their 40s or 50s before giving them direct access to significant unearned wealth. Part of the answer lies in what children are taught about the role that money plays in their lives during their formative years. Children must learn the responsibilities attendant to affluence, not just be left to revel in the privileges.

• **Encourage your children to find their own passion and purpose.** In her book *Children of Paradise*, Lee Hausner repeatedly stresses the importance of giving children the ability to develop wide-ranging competencies. For children growing up in affluent households, this can be especially difficult. As Hausner puts it, "Many wealthy parents lead lives that place them in strong supervisorial roles… Eliminating, or significantly diminishing, this 'take charge' orientation when parenting is not easy. But parents who assume the responsibility for making all the important decisions without input from their children are actively encouraging dependency rather than helping them develop competency."

• **The tough love school of intergenerational wealth transfer.** Parents need to be aware of the emotional messages sent by funding their children. If a parent steps in with financial aid every time the child's credit card is overextended or cell phone bill is too large, the messages the child receives are that "Struggle is bad," or worse, "You are not responsible enough to get yourself out of jams." Come to a child's aid too often, and an entitlement mentality may become firmly established. However, not all parental expenditures are bad. For example, paying for post-secondary education is a legitimate way to help children prepare for independent and productive careers of their own. But each time you pull out the checkbook, think carefully about the message you are sending your child. Your children can inherit your assets, but not your wisdom. Personal wisdom is attained by overcoming obstacles and struggling to reach goals.

• **What does "fair" look like?** Some affluent couples are intent that equal dollar amounts flow to each child and their family. Indeed, many professionals argue that this approach ensures future family harmony. Alternately, some grandparents want each child to be treated equally and each grandchild to be treated equally—which means that the family of a child with a larger brood receives more of the parent's wealth then the family of a sibling with fewer or no children. Either approach is valid; how well either works depends on the family's unique dynamics. The more parents and grandparents communicate to the children and grandchildren about what their perspectives are and why, the fewer intra-family resentments there will be.

Though the issues surrounding wealth transfer planning are emotionally charged, they are not insurmountable obstacles. With thought and careful planning, affluent parents have an incredible opportunity to pass a lasting legacy—both financial and emotional—to the generations in their wake.



Carol M. Clark, *CFA, is a partner and investment principal of Lowry Hill, a private asset management firm that provides proprietary investment management and financial services to families, individuals, and foundations with wealth greater than $10 million. The firm manages approximately $6 billion in assets for nearly 300 families and more than 60 foundations from offices in Chicago, Minneapolis, Naples, and Scottsdale. She welcomes questions and comments at cclark@lowryhill.com.*

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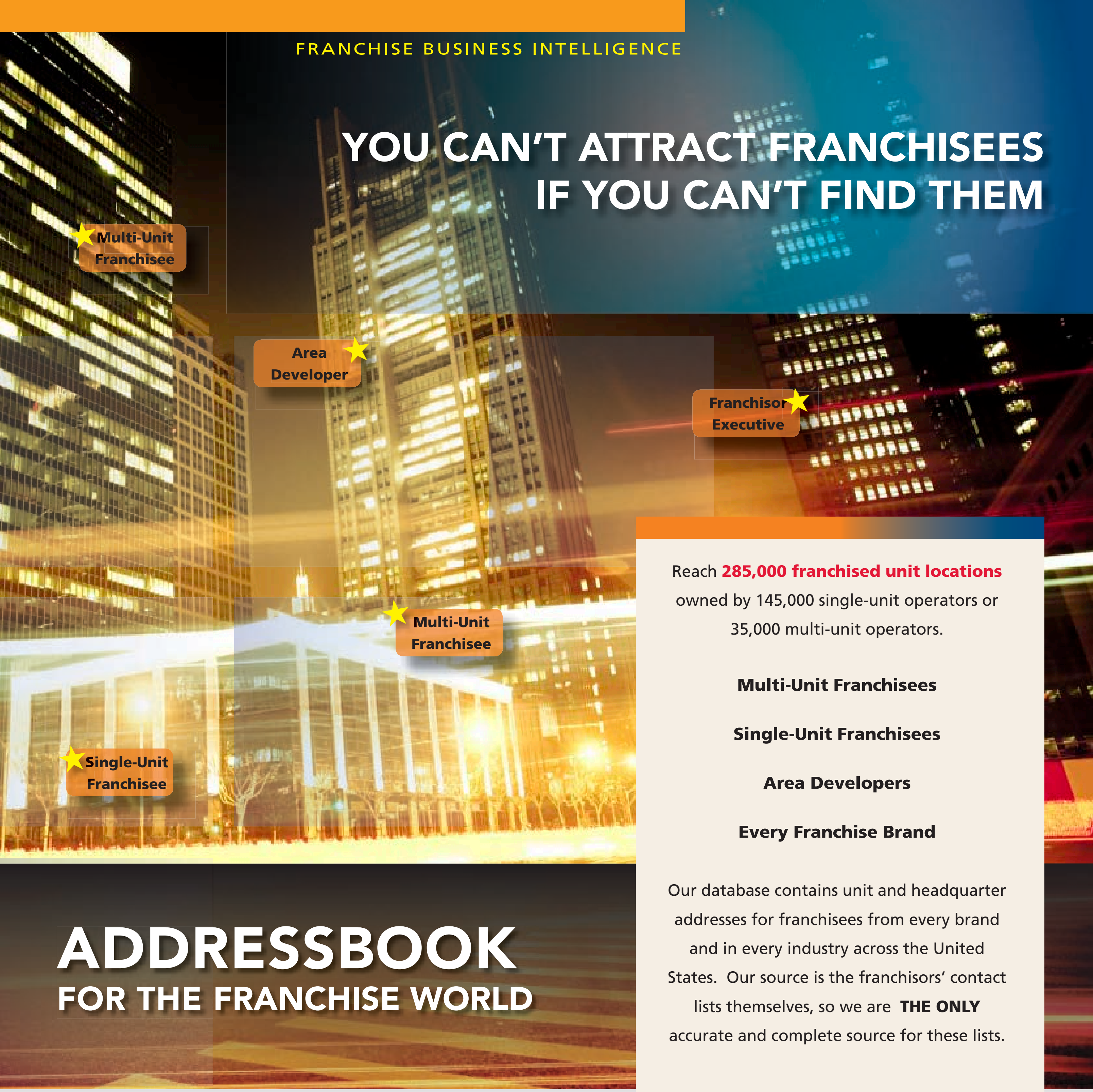

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Customers Count

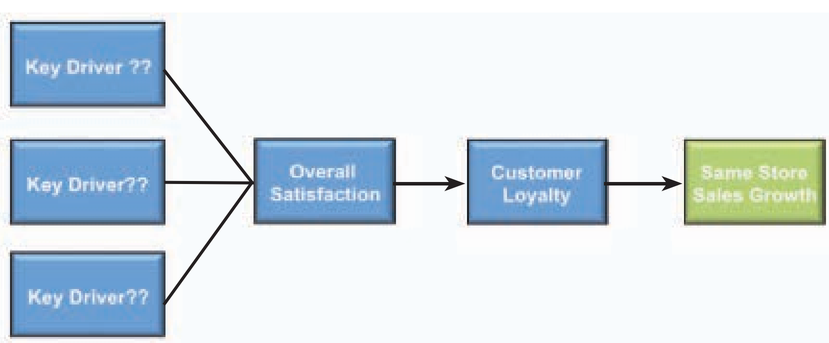
BY JACK MACKEY

Creating Loyalists

Nurturing existing customers must be a key strategic goal for franchise organizations

UNTIL YOUR ORGANIZATION FIGures out how to drive higher sales and profits at existing stores, adding new units is very risky. The only time McDonald's got in real trouble came when they focused on growing sales by adding new units while neglecting to grow same store sales.

The source of sales—customers—can be a tricky, fickle bunch. They say they like the way you treated them and the service they received, but then they go across the street and spend their money with your competitors. If only franchisees could figure out how to transform customers who visit once or twice into customers who are loyal! Customers who return again and again are by far the most profitable.



Without an ever-increasing stream of loyal regulars, franchisees find themselves anxiously looking at the franchisor's marketing calendar as the answer to generating the traffic needed to survive. But rarely will the "Five Dollar Footlong" come along and deliver a double-digit bump in sales for franchisees.

Marketing and innovation are crucial elements in driving traffic. But gaining customer awareness and customer trial is just the beginning of growth. Without sustained same store sales growth, multi-unit operators are on very shaky ground.

Ron Shaich, founder of Panera, sets an even higher bar for multi-unit leaders than same store sales growth. He recently wrote, "Earnings growth and real value creation occur only when a company is able to generate same store profit expansion over multiple years and add high return on investment, or ROI, to new units."

There are only three ways to grow profitable sales in existing units: 1) get current customers to increase their frequency; 2) get them to leave more gross profit dollars behind on each visit; or 3) get more new customers. The surest way to grow is to do all three at the same time.

Based on 100 million customer experience metrics in the SMG Benchmark Database, there is no doubt that loyal customers 1) visit more often, 2) spend more at full price, and 3) spread the positive word of mouth that causes new customers to try you. The insight here is that same store sales and profits are built on the shoulders of loyal customers.

This is why customer loyalty is such a big deal and must be a key strategic goal. Multi-unit franchisees must be relentless and consistent in nurturing existing customers. Successful franchise organizations survey their customers and provide franchisees with customer satisfaction and loyalty metrics for each of their locations. Multi-unit operators should use these metrics to keep their organizations focused on expanding sales and profits by increasing customer loyalty at existing locations. Proving you can do that is key to expanding the number of units you can successfully manage.

In *The Rise of Analytic Performance Management*, Thomas Davenport cites a compelling example of the correlation between customer loyalty and same store sales growth for multi-unit operators: Hilton Hotels concluded from 5 years of data at 42 hotels that a 5 percent improvement in customer retention (customers who say they are "likely to return to Hilton") would result in a 1.1 percent increase in annual revenues the following year at a typical property. Marriott found similar results.

Davenport shows a number of statistical models that link nonfinancial variables (like customer loyalty) to business results. For example, the cause-and-effect between customer loyalty (retention) and sales is well-established. The obvious question for executives is: What causes customer loyalty?

In the basic business model (see graphic), the only way to make this model actionable is to discover which elements of the customer experience are the key drivers of customer loyalty. This can present a barrier to management because many franchise companies do not have the analytical skills to confidently create a predictive model. Davenport surveyed more than 4,000 companies of all types and found that most companies (64 percent) do not analyze the quantitative relationships between indicators of business performance, such as customer satisfaction and loyalty compared to sales and profits.

To be fair, it isn't easy to consider, or control for, all possible variables that might affect financial performance: customer satisfaction, employee attitudes and behaviors, marketing capability, level of innovation, etc. But there are franchise firms that have developed service models that allow statements such as, "With all other performance drivers held constant, an x-point rise in customer satisfaction yields a y-point increase in same store sales growth." If your franchisor hasn't provided you with this type of analytical support, ask for it. MUF

SMG Vice President **Jack Mackey** *helps multi-unit operators improve customer loyalty and drive growth. To request "Connecting with Customers Beyond the Survey," contact him at 816-448-4556 or jmackey@smg.com.*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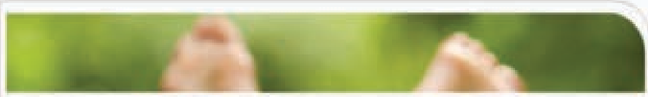


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BY DEAN ZUCCARELLO

M&A Activity: 2011 Outlook

Avoid obstacles as the climate slowly improves

Many restaurant operators and dealmakers are hoping for a return to the pre-2008 environment, when multiples were robust, liquidity was flowing, equity was prolific, and debt capital was plentiful.

We have seen a respectable improvement in restaurant company performance, capital availability, and M&A activity in the past six months, and we expect a recovery in deal transactions. We have seen some market players revert to what we'll refer to as the "new normal," in which buyers and sellers recalibrate valuation expectations and deal structures to reach the closing table. This caution has arisen from the difficult economy, and may be a factor for some time. However, we sense that the M&A market is recovering in lockstep with the general economy and expect 2011 and beyond to be increasingly healthy and active in terms of the deal environment.

While the selling process has never been easy with middle market transactions, owners and entrepreneurs must be especially strategic, educated, and prepared when going to market in today's still somewhat uncertain environment. Obstacles to successful deal completion in 2011 include:

• **Political risk and costs.** While we may have seen the worst from Washington and state governments in terms of more regulation, uncertain tax legislation, and mandates on new government initiatives (e.g., healthcare), reversing government programs in a divided political environment is at best difficult and uncertain. In short, sellers must be prepared to address the costs associated with these programs and defend their impact on future expenses and cash flow. Buyers generally assume the worst and project higher costs in evaluating acquisition opportunities.

• **Credit and lending markets.** The credit markets tightened dramatically in 2008–2010, while underperforming loans spiked and chief credit officers at financial institutions experienced days that will long remain in their memories. While financing activity is returning and lenders recognize they're in the business of providing credit, the process is slow, tedious, and littered with landmines. Equity requirements are higher and have not reverted to pre-2008 levels, and borrowers must be prepared to address any deviation in company financial performance. Borrowers cannot expect lenders to ignore uneven financial results and should have a backup plan when applying for credit. In most cases, borrowers and buyers should engage multiple lenders to underwrite transactions, even at the risk of paying higher up-front fees to avoid a change in advance rate, pricing, or credit structure.

We sense that the M&A market is recovering in lockstep with the general economy and expect 2011 and beyond to be increasingly healthy and active in terms of the deal environment.

• **Operating results.** Valuation integrity is based on the seller's ability to drive positive company results during what is typically a protracted deal process, and sellers must focus on maintaining positive operating trends throughout. With transactions taking longer to close, operators must keep their eye on managing costs, growing sales, and ensuring that the company's performance is sustainable. While the natural instinct for an entrepreneurial seller or middle market CEO is to micromanage the deal process, sellers are advised to focus on company operating performance and allow transaction professionals to navigate the often-changing dynamics of the deal process. The most difficult assignment for any M&A professional is to maintain deal pricing in a declining operating environment.

• **Plan and over-communicate.** Sellers and borrowers sometimes delay negative news until later in the process. This strategy might work in a robust deal environment, where buyers look for reasons to make a transaction happen. In challenging times the reverse occurs, and negative developments often result in deals falling apart over a perceived lack of trust between buyer and seller, without even a chance to attempt to renegotiate. If bad news surfaces, disclose and manage the situation proactively. Burying or hiding questionable information will not suffice today. Plan the transaction process, anticipate negative developments, and manage the communication and disclosure. Remember, in almost every case, the information will come out eventually.

• **Understand the realities of buyer psychology.** Buyers in today's marketplace are more opportunistic than at any time in recent memory. Well-capitalized buyers often are convinced that sellers have to sell and will attempt to re-trade, restructure, and renegotiate based on any unforeseen or expected development. If margins contract, sales drop temporarily, or the underlying brand or concept has a tough comparison or weak promotion, be prepared for the demand of a price adjustment. Buyers will use any tool to take advantage of a short-term correction. Be prepared, know your limits, and have a backup plan in place. Many deals need to die before they eventually close.

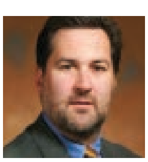
• **Most sellers don't have to sell.** Most value buyers remain unconvinced of this fact, and many opportunistic buyers think they can steal good deals in the current environment. The realities of the marketplace are that few "distressed" deals get done. In actuality, many bankrupt companies sell for higher prices than anticipated, unless the performance has deteriorated to the point where the company has questionable life as a going concern. Buyers should be diligent but realistic, and focus more on how they can logically improve the cash flow of the business than on buying for the lowest possible valuation. If buyers are too aggressive on deal pricing, sellers simply will go away and resurface when conditions improve.

M&A slowly recovering

The second half of 2010 witnessed a significant improvement in terms of deal activity, and we expect 2011 and beyond to improve on that momentum. While the environment has yet to reach pre-2008 levels of deal activity and buyer interest, Cypress is observing the rumblings and positioning among the industry players, evidence of their renewed and heightened interest in M&A transactions. The level of scrutiny in deal due diligence remains high, as private equity firms and some underleveraged strategic buyers become more active, but we have no doubt that the players are getting ready for the game.

Sure, there is some caution in the air, but that is to be expected based on the stress the finance world has endured, and that caution is likely to continue for some time. As a result, it is more important than ever to properly position yourself to realize success.

Whether you're a buyer, a seller, or a borrower, keep these factors in mind to increase the odds of a successful conclusion to your transaction. We may not experience pre-2008 deal activity in the very near term, but Cypress believes that the M&A industry will become more robust as the general economy continues its recovery. MUF



Dean Zuccarello, *CEO and founder of The Cypress Group, has more than 25 years of financial and transactional experience in mergers, acquisitions, divestitures, strategic planning, and financing in the restaurant industry. The Cypress Group is a privately owned investment bank and advisory services firm focused exclusively on the multi-unit and franchise industry for more than 17 years. Contact him at 303-680-4141 or dzuccarello@cypressgroup.biz.*

BY MEL KLEIMAN

Checking Your References

How to get useful responses from former employers

In the course of my speaking and consulting engagements, I've found that many franchisees have given up even trying to get meaningful references on promising job applicants. From the frustrating experiences recounted to me by others and my own company's policy, I know that most employers will report only dates of employment and the starting and ending wage or salary figures.

The information clampdown is the understandable, but misguided, response to the number of lawsuits filed—and won—by former employees who went to court to dispute what they believed were unfair, unfavorable references.

To complicate matters, the turbulent economy has made it possible for dishonest people to list defunct companies as former employers, as well as to create a job title and range of responsibilities that lead you to believe you've found just the person you've been looking for.

A pre-employment screening company in Colorado reports that one in 10 job applicants they screened had a criminal record. The fact that this company ran approximately 800,000 background checks last year makes that number even scarier. They also found one in three applicants misrepresented themselves on an employment application, and one in four provided false educational or credential records.

If you're not getting references, those numbers give you an idea of the kind of risk you're taking. When you rely only on information provided by the applicant, you're at risk for everything from hiring a dishonest person to a costly negligent hiring lawsuit. The only good news here is that if you at least try to get references and someone withholds unfavorable information, it will probably reduce your liability should anything untoward happen. (Just be certain to document your conversations and keep these records.) While this is a good defensive strategy, it's better yet to get the information you need to make a sound hiring decision. And it can be done.

Steps you can take

First, if it's not already a part of your employment application form, get **written authorization** from all applicants to check their references and run a background check (whether you actually do so or not). This release helps hold you and everyone who provides information harmless and free of any liability that could result from the process. (For a sample form, register at www.kleimanhr.com and visit the "Members" page.)

Then, when you conduct the interview, position the applicant to tell you the truth. Job seekers are inclined to put things in their very best light on their resumes, on your application form, and in person. However, there is a specific positioning technique that gets people to tell you what you need to know. It was discovered during the early use of lie detector technology for pre-employment testing when administrators found they would get more admissions pre-polygraph when they carefully positioned people to tell them the truth by saying, "We expect you to be honest. If you aren't completely honest and it shows up on the lie detector exam you'll be taking later, we cannot hire you."

We owe it to our employees and the publics we serve to hire decent, ethical, safety-conscious employees.

Because people have a propensity to meet our expectations, we can use this technique to our advantage when conducting interviews—without hooking anyone up to a lie detector.

Job applicants show up for interviews well prepared to tell you exactly what they think you want to hear. However, if you tell them at the beginning of the interview that you expect the truth, you change their mindset.

Position applicants to tell you the truth by saying something like: "I'm going to be very open and honest with you about the job and our company, and I hope you're going to be open and honest with me about yourself. It doesn't matter if you've ever resigned, been fired, or had difficulty with a former employer. As long as you tell me about it, we can take it under consideration. But if you don't tell me, and we find out about it when we do your background check and look into your history, I can't hire you. Do you understand what it is I want?"

Then wait for the applicant to say something like, "Of course, you want the truth." Once you get this acknowledgement, you'll find applicants much more forthcoming. Approximately 90 percent will be more honest than they planned to be. Ten percent may still omit information or lie, but this approach gets most applicants to tell you what they really weren't planning to: the unvarnished truth.

There's also a simple tool you can add to your hiring process that will get you the references you need, as well as help managers to do a better job of interviewing. A **reference verification form** includes the release from liability discussed earlier and requests basic information about each relevant former job and employer. A separate form is completed for each of the applicant's last three jobs or the last five years of work. For each job, applicants are asked to rate themselves as they think their previous supervisors would on job performance measures such as initiative, dependability, productivity, effort, cooperation, and overall performance. (A copy of this form can also be found on the Members page at www.kleimanhr.com.)

When you're ready to do the reference check, you simply fax or email the completed form to the reference with a notation that you'll be calling to discuss the information. When the reference sees you have provided the applicant's release in writing, as well as the applicant's self-rating, you'll find you get a great deal more cooperation.

Experience shows that employers get useful responses and reliable answers more than 90 percent of the time when they use this tool. The technique is effective because you're asking references only to confirm the applicant's self-ratings—not to divulge information.

Additional strategies

If you still meet with resistance when using the form to check references, try these strategies:

- **Have the applicant do the legwork.** Ask the applicant to call and tell the reference you'll be calling, and that they'd appreciate it if the reference would cooperate. The applicant's follow-through (or lack of it) will tell you a lot about their viability as an employee.
- **Try, try again.** If you call the applicant's former department and are referred to human resources, try the department again later. You may get more information if a different person answers the phone.
- **Have someone else try.** Sometimes it's difficult to establish rapport with a reference. Someone else may be able to get more information.
- **Speak with a former co-worker.** You may get a more willing response from the applicant's previous co-workers than from their former supervisor. (It's also possible you may obtain valuable leads on other potential job candidates. After all, if the applicant you're checking on was unhappy enough to leave, chances are someone else may be too.)
- **Appeal to the person; don't think of them as just a "reference."** If you have established a good rapport with the person on the phone, but they will not give you any information, you could try this approach: "I understand you may not want to discuss this, but if you could, what would you tell me?" It may sound too simple, but it does work occasionally.

Whatever you do, don't give up or pass on getting reference information. If you don't get any cooperation and then hire the person, document your inability to get meaningful references and keep the records in the employee's file.

Also, take a moment to consider your own policy on references. As employers, we owe it to our employees and the publics we serve to hire decent, ethical, safety-conscious employees. One of the only ways to do this is by sharing information with one another about former employees.

When you hire new people, ask them to sign a release that, should they leave, allows you to give references when asked. If every employer would adopt this procedure, negligent hiring lawsuits would soon be only a footnote in law school texts. MUF

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BY DARRELL JOHNSON

Beyond the FDD

Multi-unit operators need more to make investment decisions

With the stock market on a run at the start of 2011, I began thinking about the similarities of how stock investors and franchisees choose an investment.

Prospective franchisees with no previous franchise experience seem to act a lot like retail stock investors, relying on news articles and other information gleaned from magazines, newspapers, and the Internet. Stock investors see ads (and variously disguised versions of ads, like infomercials and many press releases). They get calls from brokers who have plenty of suggestions. Some even get regulatory documents on targeted companies. They often buy on rumor or suggestions from a trusted advisor. That sounds a lot like the process prospective franchisees go through.

Sophisticated stock investors may do some of the same things retail stock investors do, but they perform much more extensive research on a prospective investment. They review analyst reports on a company, as well as regulatory documents, and they may speak with customers and competitors. They do this in large part because they know the questions to ask. And not only do they understand the information they are reviewing, they also know the limitations of that information as the basis of an investment decision.

What about multi-unit franchisees? When it comes to deciding whether to add another unit of a brand, they clearly emulate the sophisticated stock investor (the parallel being a further investment in the same company they've previously invested in). On the surface, the comparison also applies equally well when a multi-unit operator is considering investing in another brand. When some performance attribute catches a multi-unit operator's eye, they usually do a bit of preliminary homework. But it's at this point the comparison begins to diverge—and for the wrong reasons.

Better information needed

The sophisticated stock picker has access to more information, such as analyst reports on companies and their competitors, than their multi-unit counterpart. To get a handle on future performance, the sophisticated stock picker looks at a company's historical performance (the assumption being that history is a good predictor of future performance), at industry statistics, and at a company's current strategy and how that relates to its competitiveness. The management team's track record also is a common area of focus. Terms that often are used include return on investment/capital equity/earnings, same-store sales, unit expansion and unit closures, capital expenditures, unit and chain cash flow, and earnings per share. They can track specific metrics about a public company, and can do so on a quarterly basis.

The multi-unit investor has access to regulatory documents as well, but how useful is the regulatory information for making investment decisions? Are the other sources and types of information comparable to what the sophisticated stock investor has available?

A 10(k) and an FDD have some content similarities (e.g., both have audited statements and descriptions of management). However, a 10(k) relates directly to the company the sophisticated investor is considering investing in—whereas an FDD intertwines information about the franchise system with information about the company that controls the system that the multi-unit operator is considering investing in. Thus, an FDD's value as a guide to evaluating a franchise *unit* investment is far less than its value as a guide to evaluating the company that controls the system.

Over the years, the FDD has been seriously misused and misinterpreted regarding system performance. In my opinion, prospective franchisees, the media, lenders, and all sorts of experts have tried to infer some system performance attributes and investment potential from many sections, most notably Item 19 and Item 20. From a potential investment standpoint, the information contained in an FDD simply tells a small portion of the story, particularly as it relates to system performance. Combined with the absence of the quarterly reports publicly traded companies are required to issue, an FDD's usefulness to the multi-unit operator's investment decision process is rather limited.

Unfortunately, other sources of information for the multi-unit investor aren't there either. There are no independent analysts reporting on a franchise brand's performance (unless, of course, the brand is a public company). Even more challenging is that there are no common metrics for comparing franchise brands (although the hospitality industry does come closest). Therein lies the point of my comments: Multi-unit operators have the power to define the performance metrics systems should strive to achieve. And if you ask for it with a loud enough voice, franchisors will produce it because they want you in their systems.

What is it that would allow you to evaluate the appeal of a franchise brand in the same way the sophisticated stock investor evaluates companies? Perhaps that is a good topic for the upcoming Multi-Unit Franchising Conference, if not as a session topic then certainly as a hall topic. MUF

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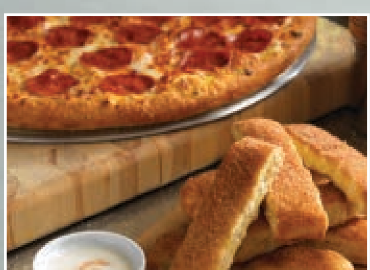

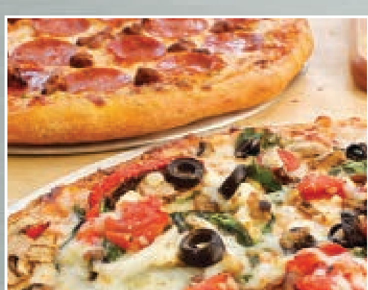

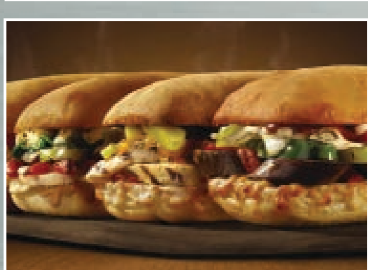

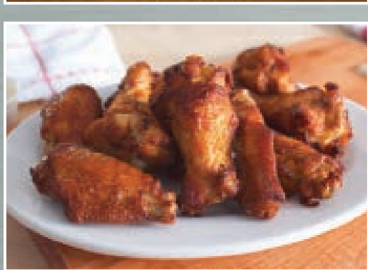

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