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2011 MULTI-UNIT FRANCHISING CONFERENCE

CONFERENCE SHATTERS RECORDS!

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Multi-Unit Franchisee

ISSUE III 2011

2011 MVP Awards

TRIPLE CROWN WINNERS TELL HOW THEY DO IT

Greg Thomas
Great Clips and
Smoothie King

■ **CAPITAL HILL**
Bridging the lender-borrower gap

■ **COMPLEMENTARY, MY DEAR**
Additional brands can diversify your portfolio

■ **MU50**
Top 50 multi-unit brands


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ISSUE III, 2011

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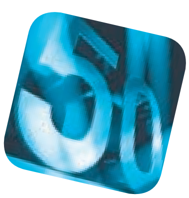
Most Valuable Franchisees 10

This year's MVP winners—Gary and Sally Myers, Greg Thomas, John Scharnweber, Zane Tankel, Doc Cohen, and Kevin Hatton—are team and brand heroes.

BY JOHN CARROLL and DEBBIE SELINSKY



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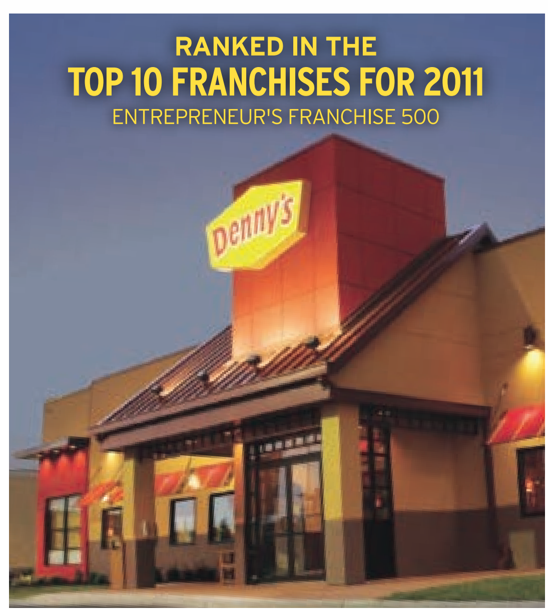

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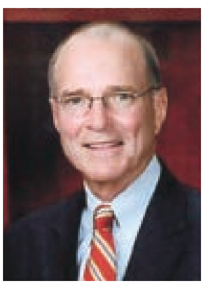
BY CHARLES SMITHGALL

Planning Works—Try It!

The 2011 Multi-Unit Franchising Conference held in Las Vegas April 27–29 is now in our rearview mirror and what did we learn?

Our theme for the conference was "Plan Tomorrow Today," and the fabulous team at Franchise Update Media Group did just that. At the planning session in Atlanta in September 2010,



we set a goal to produce the largest and most successful Multi-Unit Franchising Conference in the 10-year history of the event. And guess what? Planning works.

The program was highlighted by masterful keynote speakers. In the opening keynote, Domino's Pizza CEO J. Patrick Doyle recounted one of the greatest reinventions ever in the food industry. The next morning futurist Jim Carroll told us why innovators will rule the future, and what we can do about it. Then multi-unit franchisee and NBA broadcaster Sean Tuohy, immortalized by the movie "The Blind Side," told us his inspiring story firsthand.

On every level, the conference was masterfully executed. From the sold-out golf tournament and banquet on Tuesday to the final Friday morning session with customer service expert John DiJulius, the conference was a smash success.

I had the chance to discuss the value of the conference with many of my fellow franchisees both during and afterward, and I am convinced that, to a person, they all felt they had gotten their money's worth by attending. At the end of each conference, I return to Atlanta optimistic that I can have a positive impact on our Aaron's store operation, armed with the new information to which I have been exposed.

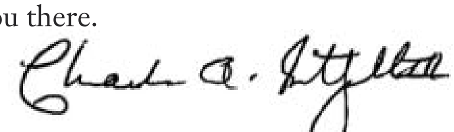
As Mick Jagger once said, "There is nothing left to prove in rock'n'roll." In other words, there are no new ideas—we're just recycling old ones, and that's okay. As long as they work, there is no pride of authorship here. It's all in the packaging and the presentation. Often we hear the same old idea expressed in a different way, and we finally get it.

For me, the Exhibit Hall gave me two new ideas for unit improvement. The first was in the invoice consolidation and payment area, and the second was in the real estate area. And what a host of new brands are there just waiting for new franchisees in order to expand!

Throughout the conference, the staff of Franchise Update Media Group was everywhere, ensuring that everything ran smoothly. What's really encouraging for me is that this conference is only going to improve—and that is good news for all of us.

Whether you are a multi-unit franchisee, as I am, just trying every way you can to improve your business, an actively growing franchisor desiring face time with potential quality new franchisees, or a vendor marketing your products and services to franchisees and franchisors, make a note that the 2012 Multi-Unit Franchising Conference will take place April 24–26 at the Mirage Hotel in Las Vegas. Don't miss it!

I'll see you there.



Charles Smithgall
Chair
2011 Multi-Unit Franchising Conference

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Conferences

10th Multi-Unit Franchising Conference

Franchise Update Media Group's annual Multi-Unit Franchising Conference just celebrated its 10th anniversary with the largest, most successful conference in its history. The Venetian Las Vegas played host to more than 900 franchise industry movers and shakers this past April. Plans are already under way for next year's event which promises to up the ante once again, April 24–26 at The Mirage in Las Vegas. For a look back on the 2011 conference (including the presentations) and a peek ahead to next spring's conference, visit **www.multiunitfranchisingconference.com/**.

Online

Multi-Unit Community

Check out our new community-based **mufranchisee.com** website. Your exclusive look into the world of multi-unit franchising. Your one-stop online shop to find:

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Now you can have everyday access to *Multi-Unit Franchisee* magazine on your computer, at home, or at work. This free online edition is feature-packed and fully searchable, printable, and downloadable. Look for the Online Edition link on **mufranchisee.com/.**

Changing Tastes

Jeff Orlando, who operates Wingstop and Schlotzsky's franchises, remembers his first franchise experience 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, as he anticipated this year's Super Bowl Sunday, the busiest day of the year for his store. "Wings and sports just go together." They sure do. **www.franchiseupdate-digital.com/franchisee/2011iss2/#pg32**

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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Franchise Update Media Group's *2011Annual Franchise Development Report* and *Grow to Greatness* book by Steve Olson offer invaluable tips for franchise sales success and unit growth in tough economic times. Visit **www.franchiseupdate.com/afdr/** and **www.franchiseupdate.com/growtogreatness/** for ordering information.

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BY KERRY PIPES

Recognizing and rewarding success

AS WE LIKE TO SAY HERE, NUMBERS TELL ONLY ONE PART OF THE story. The individual franchisees who create those numbers flesh them out, give them character, make them come alive. That's why we profile successful multi-unit operators each issue. Once again, we have benefited from the generosity of half a dozen multi-unit franchisees who have taken time from their busy lives to provide a window into how they live and work. By the way, all were recognized as 2011 MVP Award winners at the Multi-Unit Franchising Conference this April.

• **Gary and Sally Myers** are one husband and wife team who know how to succeed in business and in life. After more than 27 years as Sizzler franchisees and 34 years of marriage the couple is still growing and loving every minute of it.

• **Greg Thomas** simply can't sit still. The self-professed ADHD multi-unit franchisee always has his mind on his business and community, pondering ways to pour more of himself into both. He likes to buy distressed units and turn them around and now operates 13 Great Clips and 2 Smoothie Kings. Thomas also led a highly successful branding initiative for Great Clips that continues to pick up speed.

• **John Scharnweber** was raised in the restaurant business. In college, he studied hotel, motel, and restaurant management before turning back to the restaurant business. Being in the right place at the right time led him to become a franchisee, and today he oversees top-performing units for three Ground Rounds and four Denny's.

• **Zane Tankel** has taken Applebee's to the Big Apple and been wildly successful. He says one of his critical roles as a manager is to be a cheerleader for his employees. He's doing just that for his 35 Applebee's locations spread around the New York City metro area.

• **Doc Cohen** has a sweet tooth for business—or at least a business for customers with a sweet tooth! Fifteen years ago, Cohen left his pharmacy and law degrees behind to become a franchisee. Today he operates more than two dozen units for Great American Cookies, Pretzelmaker, TCBY, and Coffee Beanery and in 2011 became the first franchisee inducted into the IFA's Hall of Fame.

• **Kevin Hatton** went from EMT to franchisee and back again… sort of. The South Carolina native keeps actively involved in Charleston, where he operates five Firehouse Subs shops. And because of his dedication to the community, he found himself talking to Anderson Cooper on CNN after equipment he'd purchased for a local fire department helped save a man's life.

For more about these spectacular multi-unit MVPs… read on!

Multi-Unit Franchisee 2011 MVP

BY DEBBIE SELINSKY

Married with Sizzlers

Persistence, consistency, hard work, and faith

AS MULTI-UNIT FRANCHISEES WITH 24 SIZZLER RESTAURANTS, Gary and Sally Myers spend a lot of time together at work, where he is president and CEO of their Temecula, Calif.-based company, and she is vice president of marketing.

And after working together for more than 25 years and being married nearly 34, the energetic couple still jokes about the "sizzling" romance they started in high school. Gary, a business major, proposed three times during their college years—the final time in front of her fellow cheerleaders at Pepperdine University. Sally, who majored in marketing and communications, accepted as soon as they graduated. "Let's just say I'm known as persistent and consistent," he says.

Gary, who put himself through school by moving up through the ranks of the Market Basket grocery store chain, had benefited for years from the tutelage of his father-in-law, Jack Williams, a veteran Sizzler franchisee. When Williams offered him a position as director of training with his company,

NAME: Gary Myers, president/CEO; Sally Myers, vice president of marketing

COMPANY: BMW Management

NO. OF UNITS: 24 Sizzlers; 1 Richie's Real American Diner

AGE: Both 55

FAMILY: Three children: Bryce works for us in real estate development and lease negotiations and is married to Heather with one child and another on the way; Britney Neffendorf, a married teacher with two children and husband Jimmy, who does our Sizzler building maintenance; and our youngest, Brenna, who works in catering in the hospitality industry.

YEARS IN FRANCHISING: 27½

YEARS IN CURRENT POSITION: 27½

And being married nearly 34 years, the energetic couple still jokes about the "sizzling" romance they started in high school.

Multi-Unit Franchisee

2011 MVP AWARD WINNER

You were recognized for demonstrating outstanding performance and innovation in growing your organization and brands. Tell us what you did. We believe it was because of our commitment to make the Sizzler brand better than it has ever been—to make it the new-generation Sizzler with our remodels and revamped food items over the past four years. Our commitment to brand is illustrated in many ways, including our local store marketing programs, community giving, and student recognition organization. We are also committed to our people—our most important investment.

As a multi-unit franchisee, how have you raised the bar within your organization? BMW has set the bar high by going beyond what others will do and spend in their Sizzler concept. Our focus is on character, integrity, and service, building relationships and making a difference when and where it matters. We will never put a lid on our box. We think outside the box and teach and expect our team to grow and keep their lids lifted too.

What innovations have you created and used to build your company?There are many innovations related to our new-generation Sizzlers. At the new salad bar, which is stocked with fresh food from the inside, the Greek, Asian, Caesar, and spinach salads will be tossed and made fresh before guests' eyes and displayed in colorful bowls. The new POS terminal ordering counters are no longer boring straight line countertops but contemporary elliptical pods. Some of our new BMW Sizzler designs incorporate an open kitchen similar to that of Houston's Restaurant. We want our guests to be engaged in every fresh aspect of our food, service, and facility. Our new look incorporates lifestyle pictures with a positive and active American theme, elliptical booths, and new playfully designed furniture. The outside has also undergone a transformation and we've come up with delicious new food products. All this has worked together to attract new guests, improve frequency of visits, drive incremental sales, and improve the Sizzler concept.

What core values do you feel led you to win this award? Our core values focus on knowing who we are in Jesus Christ. That means we value people over position and power. We value teaching others best practices and emphasizing honesty, humility, passion, and responsibility as the keys to growth and success. Success to us is investing in the lives of people and watching them grow their gifts and talents and becoming strong contributors to the organization. At the same time, we're committed to attracting and maintaining loyal guests, being the very best at what we do, offering superior products and services, and improving our brand.

Forbco Management, he accepted and set out to learn more about franchising and restaurants. Sally turned her hand to developing marketing and advertising programs for the company.

The couple, who worked for Forbco for six years after their marriage and through the opening of 36 units in Southern California, don't believe they could have had a better teacher. "He's so passionate about his work and such a talented entrepreneur," Gary says. "He taught me all about what to do and what not to do in the restaurant business: how to formulate a company, take care of your people, and hire a great attorney, accountant, and banker. And he's really been a leader among Sizzler franchisees."

By the early 1980s, the couple, who'd found to their delight that they enjoyed working together, were ready to start their own company. They became partners with John Burk, a general contractor who'd built some of the Forbco Sizzlers, and with Williams, who would operate as a silent partner, forming BMW Management Inc. "I talked to the president of Sizzler USA and he approved our five-store, five-year development agreement," says Gary.

Their idea was to take Sizzlers to areas that really needed restaurants. In 1983, they opened their first in Temecula, Calif., where they would move one year later. "We had lines out the door. There were cowboys coming out of the hills on horses, so we had to have a tie-up for the horses," Gary recalls. "People there just fell in love with Sizzler but they got tired of standing in line. One regular customer said, 'If you'll build another one in Moreno Valley, I'll give you the property and $750,000 for the building.' It turns out that the property he offered was exactly where I wanted to build." BMW opened that location in 1985.

2011 *Multi-Unit Franchisee* magazine MVP Award winners, the couple currently are revamping their 24 Sizzlers into what they call the "new-generation Sizzler." Though their three children are now grown, family, complete with grandchildren, is still a priority with the busy couple.

"Juggling is something we still do. It's not easy and there were times we had to sacrifice our own sleep and interests to maintain a positive, loving, thriving family and to be there for the business and staff," says Sally, who points to the family camping vacations as a highlight of every year. "But it's all been worth it. We are very blessed." MUF

PERSONAL

Key accomplishments: Gary: Leading and operating a first-class organization with dedicated and loyal people, keeping a family culture throughout our organization even as we've grown larger, and continuing to grow and succeed during economic recessions. More recently, BMW Management has produced the greatest change to the Sizzler concept through building and remodeling restaurants. The Murrieta and Oceanside Sizzlers are the newest remodeled units to feature our innovative design elements along with some of the new food offerings on our menu. Sally: I created Sizzler's local store marketing program, banquet and catering services and store opening festivities, and founded the Student of the Month, Inc., a nonprofit organization to recognize college-bound high school seniors for demonstrating character, perseverance, and concern for their community. My most important accomplishment has been supporting my husband and his passion to have a company that is built upon a culture of integrity, hard work, service, and a warm, caring atmosphere.

Biggest mistake: Allowing others to talk us into making significant positive changes in our company later than sooner.

Smartest mistake: Running out of employment applications at our very first location twice, missing the same person and leaving him standing in the middle of the Sizzler parking lot in Temecula all by himself. It was Ken Jay, who became the director of operations for the company and has been with us since the beginning.

How do you spend a typical day? Gary: There really is not a typical day in my life. If there is anything typical it is the attitude of being flexible and being of support to my staff in continuing to maintain and improve our business. Priorities include catching up on sales numbers and analyzing other critical reports from the previous day or week, sending feedback to guests and the troops, meeting with various department heads, visiting as many of our restaurants as possible, and meeting with vendors and others, usually at one of the restaurants. Sally: I rise early, pray, exercise, and walk, hit the BlackBerry or laptop, spend the day in and out of the office based on what projects are under way, and meet with community or city leaders or with management and operation supervisors.

Work week: 24/7 or whatever is required.

Favorite fun activities: Family gatherings and vacations.

Exercise/workout: Sally: I enjoy walking five to eight miles at least five days a week. Gary: I get in a few sit-ups and push-ups once in a while, or I take a long, fast walk with my wife.

Favorite tech toys: Our BlackBerrys and laptops.

What are you reading? We always go back to our John Maxwell Leadership books.

Do you have a favorite quote/advice? Gary: How you set your sail determines your course in life, not the forces of nature. Sally: Character protects your talent (John Maxwell).

Best advice you ever got: Gary: Surround yourself with winners and give them your vision every day. Listen, listen, and listen. Sally: My best advice comes from the Bible. God gives each one of us special gifts and talents to develop and use for His glory by serving others around us.

Formative influences/events: Gary: I was largely formed by my dad's discipline and organization and my mother's unconditional love and encouragement. Running cross-country was the hardest thing I've ever done, and it gave me a sense that I could do anything in the future. Working for my father-in-law Jack Williams taught me how to operate a successful company and how to lead an organization. I'm still amazed how small my feet are when looking at the shoes he wears. Sally: I learned the importance of family at an early age from my mother, a stay-at-home mom, and my father, a successful businessman who worked long hours. My mother was the glue that held the family together, and my father introduced us to business experiences at an early age. All that set the stage for me to work happily alongside my husband and to fulfill our passions of hospitality, innovation, and serving others.

How do you balance life and work? Gary: I spend most of my time at work, so my wife gives our family the balance we need at home. Sally: Even though we're now empty nesters, this is still a challenge. Our work and our family are 24/7 priorities. The key to balance is being flexible—otherwise life falls apart.

MANAGEMENT

Business philosophy: We tailor our products, advertising, operations, and attitude to meet the needs of our guests on every visit. Our prime objective is to continually improve and never to swerve from guest service, employee growth, market share, and the success of the people who work with us.

Are you in the franchising, real estate, or customer service business? Why? We are a franchisee of Sizzler and a licensee of Richie's Real American Diner. We have some real estate investments, but mostly we are in the customer service, people-pleasing business. All three are critical to staying alive in today's economy.

What gets you out of bed in the morning? The thought of accomplishing our goals and adding value to the company and others motivates us every day.

What's your passion in business? Serving others, watching our staff engaged in serving and pleasing our guests and watching them grow.

Management method or style: We have a "speed of the boss is the speed of the team" mentality, with a people-first, employee-second culture that keeps a Godly family spirit alive. We teach, encourage, and focus on the mission.

Greatest challenge: To see and catch a vision for the future and to continue to work diligently and passionately with Sizzler USA to energize the brand.

How close are you to operations? Gary: I am very close to operations—it's my passion and my strength.

Have you changed your marketing strategy in response to the economy? How? Sally: Yes. We have experimented with many new strategies from our advertising to our menu pricing, menu mix, and new product development. Not all of our communities share the same advertising plan or are part of a TV market. We look at each market and determine the best, most powerful, and economical approach to reach our demographics. We have worked with Sizzler USA to determine the best Value Menu for our guests that pairs a popular grill item with the Endless Salad Bar or pairs a popular lunch entrée with a beverage. We also were the first Sizzler franchisee to add the calorie counts to our menus before the menu labeling law requirement. The most dramatic and aggressive commitment BMW has invested in is the new generation/new vision remodels in our California communities. We're showing our guests that Sizzler isn't just going to hunker down during the recession. In fact, the new Sizzler is now a lifestyle restaurant serving great food to guests of all ages in a new building with a new energetic, fresh, and interactive interior. We're moving fast and furious to change all of our Sizzler locations into the new-generation Sizzler.

Personality: Gary: God-fearing and bold with a love of people and a big heart. Sally: Passionate, happy, honest, fun, and a Type-A personality.

How do others describe you? Sally: Caring, fun, social, organized. Gary: Two words that always come back to me from others are persistent and consistent.

How do you hire and fire? In addition to having a hire-slow, fire-fast mentality, we give our management applicants time to share, talk, and interview with our multi-unit managers. We look for people with initiative and a positive attitude that fits our company profile. Having only three individuals out of 1,200 employed in our company who can give the okay to activate a career change or termination of employment takes the emotion out of any situation and gives us the opportunity to investigate the issues. Before taking any action, we look at ourselves first to see if there is anything we could have done differently to obtain a more positive outcome.

How do you train and retain? We have learned over and over again that training is a continuous process. We have a complete training program for our management team and employees.

How do you deal with problem employees? We engage the right people to coach all involved toward a win-win situation. Our goal is to always have you as our friend, even if you cannot work for us. And we certainly want you back as our guest.

BOTTOM LINE

Annual revenue: $52 million

2011 goals: $60 million

Growth meter: How do you measure your growth? By guest count growth, sales growth, profit growth, and people growth.

Vision meter: Where do you want to be in 5 years? 10 years? Gary: I hope I'll be the same person with much more experience and knowledge. I want to continue to add value to others and lead or influence the leadership in a positive way. We may shrink or grow our business, but we plan to continue to improve upon our success and to always strive to encourage our people to be the best in the world.

How has the most recent economic cycle affected you, your employees, and your customers? It has activated our talent and initiated the search for what will make the biggest difference in connecting with our employees and guests. Instead of just hunkering down and getting through these times, we have engaged our talents and hard work through training and upgrading our food offerings with over-the-top remodels that differentiate Sizzler from the past and its current competitors.

Are you experiencing economic growth/recovery in your market? We have seen three to four years of growth during the economic downturn and are now seeing even more growth as we continue with our remodels and new Sizzler concept.

What did you change or do differently in this economy that you plan to continue doing? We are continuing on our successful remodeling program and new unit openings.

How do you forecast for your business in this economy? We're focused on acquiring 5 to 10 percent increases on same-store sales this year and into 2012.

Where do you find capital for expansion? We have formed a relationship with GE Capital Finance for future remodels and new unit expansion. We're also working with other local banks that are breaking loose from the no-lending era and have shared their interest in lending to our growth vehicles.

Is capital getting easier to access? Why/why not? Yes, it is for us, because our company has demonstrated through our continued success during the recession that we're set up for growth.

Have you used private equity, local banks, national banks, other institutions? Why/why not? We have never used private equity, but we have used the rest.

What kind of exit strategy do you have in place? No exit strategy—we're in it for the long term.

What are you doing to take care of your employees? We have continually trained and retrained our employees, and they can count on receiving a paycheck on time even during the worst of times. We provide the tools for all to grow and succeed within our company. And if they leave us, they take with them our standards of operation and integrity.

How are you handling rising employee costs (payroll, healthcare, etc.)? We are finding ways to keep our costs in line by having the best people in the industry looking out for our needs and protecting our bottom line, while delivering the best benefits the company can afford.

How do you reward/recognize top-performing employees? We give our management team profit-sharing bonuses that rise or fall depending on their managed results.

BY JOHN CARROLL

PHOTOGRAPHY: BRADLEY HARRISON

Life's Short, Grow Fast

Turning distress into success—at 99 mph!

By his own description, Greg Thomas is ADHD. Sitting down to read a book, watching professional sporting events, or lounging on a beach doesn't really interest him. For Thomas, life should be lived in accordance with a very simple motto: Life's short. Grow fast.

And he has. Over the past decade, Thomas has gathered up 13 Great Clips and 2 Smoothie Kings in his multi-unit franchise operation. He attributes much of his success to an ability to get into a distressed location and make it profitable.

"The decade after college, I was in corporate America, vice president of a large women's apparel manufacturing company,"

NAME: Greg Thomas
TITLE: President
COMPANY: Baci Fashions, Parkside Ventures
NO. OF UNITS: 13 Great Clips, 2 Smoothie Kings
AGE: 46
FAMILY: I have a great family. My wife of 25 years, Linda, who puts up with me, and two sons, Avery, 12, and Kyle, 13.
YEARS IN CURRENT POSITION: 10
YEARS IN FRANCHISING: 10

"We put on a great event that raised awareness for our brand and helped the Atlanta market become one of the fastest-growing in the entire country."

he says. "Life was pretty good. And every winter, a group of 10 of us guys would go to Lake Tahoe to gamble and ski. I enjoyed my vacations, but found it difficult to relax because I was always getting phone calls, putting out fires."

On those trips, Thomas says, "I was fairly envious of one of my friends. I'd be on top of a ski slope getting phone calls and putting out fires while Grant would be relaxed, enjoying his vacation. So I asked him, 'What exactly do you do for a living?' He said something about owning some hair salons and concluded with 'I don't work weekends.'" (For a profile of Grant Simon, see www.mufranchisee.com/article/467/.)

"The next year we went skiing and, again, I'm getting phone calls and putting out fires. And Grant looks at me and says, "I don't work on Fridays either." I was jealous, and a bit

Multi-Unit Franchisee

2011 MVP AWARD WINNER

You were recognized for demonstrating outstanding performance and innovation in growing your organization and brands. Tell us what you did. In 2009 many Great Clips franchisees were dissatisfied with our #38 NASCAR sponsorship. We knew the car was getting brand exposure, but we weren't seeing measurable results at the store level. Plus, we felt that attendance at the races, especially in the Atlanta market, was fading, and nowhere near its potential. I came up with this out-of-the-box idea to "leverage" our NASCAR investment by creating a three-way partnership between the track (Atlanta Motor Speedway), Great Clips, and the franchisees (the co-op). After pitching the idea, I was shocked to learn that all parties were willing to give it a try. This is what we did: 1) got Great Clips to pay for the naming rights to the Great Clips 300; in return they would get national exposure on TV, radio, print, and the Internet; 2) got Atlanta Motor Speedway to offer some exclusive Great Clips-designed ticket promotions; and 3) got the franchisees (the Atlanta co-op plus about 100 Great Clips stores in surrounding states) to agree to invest part of their ad budgets into cross-promoting the race.

Our goal was not only to increase attendance, but also to build brand awareness and to give our customers and our employees something memorable, something that would help differentiate Great Clips from our competitors. Each week we'd get on a conference call with the franchisor, our co-op's marketing committee, and our ad agency and talk about how to market the race. We came up with a great ticket promotion, radio ads, TV ads, social media, billboards, and other novel marketing ideas. And we got all the franchisees, their stores, and their employees to work together to push our messaging one customer at a time, something a hair salon is in a unique position to do. And instead of talking about the high-profile drivers, we talked about the event itself. We educated the customer that going to a NASCAR race was more than just watching a car go around in a circle 200 times. Attending the race was an entire day of affordable fun for the whole family: kids get in free, free parking, coolers of beer allowed, etc.

By getting everyone involved, from the stylists to the owners, we put together a phenomenally successful campaign. Instead of being just another sponsor and following the traditional template that hundreds of companies before us had tried, we became a true partner to NASCAR. And in doing so, everybody won: NASCAR gained more fans, Great Clips gained more customers, and the franchisor now has some of the most supportive and motivated franchisees imaginable. This event was a huge morale builder. Just over a year ago, most franchisees in our market were clamoring for Great Clips to drop NASCAR. Today, most are supportive of it.

As a multi-unit franchisee, how have you raised the bar within your organization? 1) We put together the highest-attended Nationwide Series race in Atlanta Motor Speedway history, increasing attendance from 30K to more than 70K, in a bad economy no less. 2) We increased our co-op's participation rate to 97 percent; almost every franchisee in the market comes to and participates in our monthly co-op meetings. 3) We got our stylists engaged in our marketing efforts with their customers and with the community, which really boosted employee morale. 4) Best of all, we put on a great event that raised awareness for our brand and helped the Atlanta market become one of the fastest-growing in the entire country. The U.S. economy might be in a recession, but you wouldn't know it by looking at our numbers.

What innovations have you created and used to build your company? We held our co-op meeting at Atlanta Motor Speedway and took all the franchisees around the track at 120 mph. We got 200 Great Clips stores and 1,500 stylists to all push a message of not only being a great hair salon, but to also associate our brand with affordable family fun and a wholesome image. Our name recognition has skyrocketed. We got more than 1,000 of our stylists and franchisees to come to the race (most of whom had never been to a NASCAR race before), and we outfitted our employees in Great Clips 300 apparel. To make the event more appealing, we had Song of Atlanta, (a large ladies choir with a member who's the mother of a very large Great Clips franchisee) sing the National Anthem; did a media event at Andretti Speedway in which our race team sent down two of its top NASCAR drivers to race go-karts against a bunch of 12-year-old kids; invited an entire battalion of recently returning U.S. Army soldiers and veterans to the race; and had 9-year-old Jack, our Children's Miracle Network survivor, be Grand Marshal and announce, "Gentlemen, start your engines!"

What core values do you feel led you to win this award? Teamwork and respect. We got the franchisor, the franchisees, and our employees to all work together. We got everyone rowing together in the same direction at the same time. Personally, I'm not a big NASCAR fan, but I love what it helped do for our brand. We'll be trying a lot more out-of-the-box marketing ideas for this year's race. And with any luck, this year's race will be even bigger.

Jack in the box®

OPPORTUNITY

Description

Jack in the Box Inc. (JACK) is offering a unique opportunity to franchise with one of the most popular brands in the quick-serve restaurant ("QSR") industry. The company's emphasis on operational efficiency and franchisee-focused value innovation has led JACK to become one of the most respected and sought after brands in the industry. The company is looking to establish relationships with select multi-unit franchise operators of non-competitive brands and engage chain restaurant executives and professionals with financial partners to franchise partial or whole markets. The long-term goal is to increase franchise ownership in the system to approximately 70-80%.

CURRENT MARKETS

Refranchise Markets

Acquire existing company restaurants

Baton Rouge (18), Beaumont (19), Charlotte (23), Greenville/Spartanburg (11), Nashville (14)

Corporate Seed Markets

Acquire existing company restaurants and further develop the market

Cincinnati, Denver (11), Indianapolis, Kansas City (3), Oklahoma City (4), Tulsa (2)

Development Markets

Champaign, Columbia, Little Rock, Louisville

Rankings & Awards

- 10 Effies (1995-2010)
- IAFP's Black Pearl Award (2004)
- NRN's Menu Masters Award (2007)
- NRN's Golden Chain Award (2007)
- NRN's Technology Innovation Award (2007)
- USA Today's Top 50 Franchises for Minorities (2009-2010)
- QSR Applied Technology Award for Local Restaurant Marketing (2010)
- Linda Lang ranked #3 CEO (2010)
- Ranked #5 Out of 300 Top Franchises by All Business.com (2010)

Fast Facts

Founded In: 1951 in San Diego, CA

Franchising Since: 1982

Total Franchise & Company Operated Units: Over 2,200 restaurants in 19 states

Multi-Unit Franchisee Operated Units: 61%

Executive Briefing and Exchange

Attend a regional event to learn more about franchising existing company restaurants and further developing these new markets.

June 15 - Denver (11)
June 16 - Kansas City (3)
August 23 - Indianapolis
August 25 - Oklahoma City/Tulsa (6)

Register at:
www.jackinthebox.com/franchising/ebe

Grant Kreutzer
Director of Franchise Licensing and Recruitment
858-571-4091 *(office)*
grant.kreutzer@jackinthebox.com
www.jackinthebox.com/franchise

Menu

Making Fast Food Easy to Love

Jack in the Box makes fast food favorites delicious and craveable, fast and friendly, and easy and affordable. With the assemble-to-order program, "we don't make it 'til you order it®", so product freshness and quality is enhanced, allowing guests to customize their order.

We offer a broad selection of distinctive, innovative products targeted at the adult fast-food customer seeking plenty of variety.

- Jack's Spicy Chicken
- Real Ice Cream Shakes
- Jumbo Jack®
- Sourdough Jack®
- Bacon Ultimate Cheeseburger
- Tacos
- Breakfast Jack®
- Seasoned Curly Fries
- Chicken Club Salad
- Chocolate Overload Cake
- Real Fruit Smoothies
- Chicken Teriyaki Bowl

And now a few words about Franchising from our CEO:

"Do it."

Qualifications

Operator has a min. 5 years multi-unit franchise/restaurant management experience; min. liquidity of $750,000; min. net worth of $1,500,000; ability to acquire/develop at least 5 restaurants; operator is a 25% equity partner; operator resides in the desired market; real estate development experience; passion for restaurant industry; dedication to excellence in operations; understanding of the local culture; active community involvement; and skills to effectively create and manage an organization.

"The difference between being rich and being poor is just one or two decisions, and I know what it's like to be on both ends of the spectrum."

pissed off. So on the flight back to Atlanta I kept thinking 'If this guy can make a living owning hair salons, well, he's no smarter than I am, so I need to get into that racket.' A few months later I bought my first Great Clips."

Thomas and Simon now are partners on some stores. That works well, says Thomas, who sees himself as the action-oriented half of a team complemented by Simon's more methodical, detail-oriented approach.

Thomas's approach to growing his business is pretty simple. He buys stores on the cheap, fixes the operations, and then advertises aggressively. "As a franchisee, it's my job to get customers in the door the first time, and then it's my employees' job to earn their repeat business," he says.

When it comes to hiring, Thomas insists his locations be run by a richly diverse group of people. His goal: hire good people of all demographics, gain their respect by treating them with respect, and then motivate them. "Every one of my employees is smarter or better than me in some way, shape, or form," says Thomas. "I might be the boss, but in no way am I 'better' than them."

It hasn't always been easy for this now-successful franchisee, not by a long shot. Starting with almost no money, Thomas got into franchising by borrowing from the banks. And by his own admission, he

PERSONAL

Key accomplishments: I buy "distressed" stores. I buy crap and turn it into money. I'm ADHD and I enjoy turnarounds. I'm also president of Great Clip's Atlanta co-op, which is the top performing co-op in the country. Besides having 97 percent participation and zero franchisee failures in 5 years, we're also one of Great Clip's fastest-growing large markets in the country, based on increase of AUV. I also helped establish Smoothie King's Atlanta co-op in 2010. In 2008 and 2009, Atlanta was their worst-performing market in the country. But by getting franchisees to work together (rather than trying to put each other out of business), in 2010 Atlanta was Smoothie King's fastest-growing market in the country (up 10.1 percent).

Biggest mistake: Opening an apparel business just before 9/11.

Smartest mistake: Buying my first few stores without really knowing what the hell I was doing, without doing my due diligence, without reading the fine print.

How do you spend a typical day? Analyzing each store's numbers. And by pointing to the moon and then trying to motivate my staff/team to get there.

Work week: 6 a.m. to 6 p.m. weekdays plus 10 hours on the weekend. I love what I do. It's kind of like a sport.

Favorite fun activities: Being involved in my kid's sporting events. Watching "Shark Tank" with my kids. Exercising. I don't read books, watch much network TV, go to professional sporting events or concerts, or sit on the beach. That stuff bores me.

Exercise/workout: Weights, exercise, sprint triathlons, tennis.

Favorite stuff/tech toys: iPhone, iPad.

What are you reading? Though I don't read novels, I read tons of Internet articles about business, competition, and politics.

Do you have a favorite quote or advice you give? "Life's short. Grow fast."

Best advice you ever got: "Be careful… debt service can kill you." (from my friend, Grant Simon).

Formative influences/events: At 39 years old I found myself working for a bottled water company. I was driving a delivery truck, wearing a silly uniform with bow tie, and delivering 5-gallon bottled water to homes and offices. It was a humbling (if not humiliating) experience for someone who was VP of a large women's apparel manufacturing company for the previous 10 years. But I did what I had to do to keep from going broke and losing my house. The owner of that company was arrogant, an "elitist" in every sense of the word. On several occasions, I heard him refer to his delivery staff as "a bunch of knuckle-dragging morons." That was kind of a Leona Helmsley moment for me. The difference between being rich and being poor is just one or two decisions, and I know what it's like to be on both ends of the spectrum. So I try to run my business the opposite of how that former boss would do it. I respect all my employees.

In 2007, I had 5 stores and things were starting to look decent for me (though I still didn't have much cash flow). Then I got invited to the Multi-Unit Franchising Conference with all these heavy hitters like Charles Smithgall and Gary Grace. I honestly felt like a tick turd around all the huge franchisees with 30-plus stores. But after having a few beers and getting to know some of them, I realized they really weren't that much different from me—except they were rich. So I left that conference thinking, Hell, if they can do it, I can do it. That conference completely changed my perspective.

How do you balance life and work? Thank god for the iPhone.

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red mango
YOGURT & SMOOTHIES

100 stores and growing!

was probably highly overleveraged for several years leading right into the recession. He's had to work hard to keep the bills paid, and doesn't mind in the least to say that sometimes that took some skillful juggling—at least until this year.

Today he's pretty much debt-free, has built some cash flow, and things are much better. But he's still going full speed ahead with new ventures, both in business and in life. That's the Thomas way. He wouldn't have it any other.

MANAGEMENT

Business philosophy: I talk with my employees about where they want to go, where they want to be in five years, and what it will take to achieve that. I realize that many of my employees want to be Indians, not Chiefs, and that's fine. Regardless, I give them all the numbers. I share everything. The more they know about making money, the better they'll run my business. And if someday my best employees leave and start their own business, that's great.

Would you say you are in the franchising, real estate, or customer service business? Why? I'm in the people business. Great service and operations are the backbone. Also, I'm very respectful of my customers' time. Whether it's haircuts, smoothies, or carwashes, no one likes to wait.

What gets you out of bed in the morning? Last year, the stress of knowing whether or not my checking account went negative. This year, having to get my kids on the bus.

What's your passion in business? To chart my own course. To be different. To be out of the box and try things that others would never even contemplate.

Management method or style: I believe strongly in diversity. While some men might like a store filled with bombshell blondes, I think that's bad for business. I want someone black, someone white, gay, straight, Hispanic, Asian, Persian, young, old, fat, and skinny. No matter what the brand or business, I want my stores to be reflective of the market they're serving. Diversity just makes good business sense.

Greatest challenge: Up until 2011 my biggest challenge was simply juggling money to keep from bouncing any checks. Yes, I swapped money from one business to the other. I robbed from Peter to pay Paul. For years, my stores "had to" grow at 20 percent just for me to be able to make the debt service. Fortunately they did, and then some. As of today, most all my debts have either matured or been paid off early. And now that I don't have those headaches, I'm not too stressed.

How close are you to operations? Very. I issue paychecks weekly. And with each check they get a newsletter. One side of that newsletter is stories, guidance, concerns, incentives, upcoming events, etc. The other side is the store rankings. I share everything. And I sort it from best to worst. Everyone knows where they stand, and stores and employees who are lagging tend to get fixed or fired rather quickly. No one likes to see their name at the bottom of the list in any category.

How do others describe you? Lots of energy, 99 mph.

How do you hire and fire? We hire quickly (sometimes on the spot). Why? Because the very best applicants land a job in one day. If we don't hire them on the spot, a competitor will. So we have to be a quick judge of character. Oh, and we fire just as quickly: 90 percent of all our firings take place the first week. But if they make it past that, they stay on for a long time. We have very, very low turnover. I think it's my job to keep the employees motivated and productive. We pay "above par," but keeping employees takes more than just money. It takes mutual respect, motivation, etc.

How do you train and retain? Being that I don't know how to cut hair, make a smoothie, or wax a car, I leave training to my GMs.

How do you deal with problem employees? We fire them as quickly as possible. And then we help them get a job with our competitors.

BOTTOM LINE

Annual revenue: $3 million plus

Corporate structure: Although I own some of the stores myself (solely), I also own some stores with my neighbor, Grant Simon. He and I are pretty much opposites. I like sales, operations, and dreaming, and he likes the administrative and legal side of things. Most partnerships fail, but ours seems to work great. Our first venture was to buy the largest carwash in the state (Auto Indulgence). Then we bought a bunch of distressed Great Clips. Then we started buying distressed Smoothie Kings. And now we're looking at other distressed opportunities. We've got a great track record, so why not. Grant and I have an interesting partnership. We have our own separate home offices, and we work pretty independently. But every Monday night for the past six years, we go to the gym to lift weights, and then we go to Taco Mac to drink beer and discuss business. That's our weekly board meeting. They even have a plaque on the wall with our name on it (which is an embarrassment to the wife and kids). All of our business decisions are discussed and vetted at the gym and at the bar.

2011 goals: I really don't have any specific goals. We just try to grow each and every store, and when they've peaked perhaps it's time to sell that store. I don't like owning anything that's moving backwards.

Growth meter: How do you measure your growth? In average unit volume; same-store sales versus the year before.

Vision meter: Where do you want to be in 5 years? 10 years? I'm actually in shock at where I am today. And as long as this ride keeps going up, I'm just happy to be on board. But no matter what, I never want to crash. I never want to work for someone else, ever.

How has the most recent economic cycle affected you, your employees, your customers? Are you experiencing economic growth/recovery in your market? The terrible economy is actually good for my business. I'm a bottom-feeder, and the worse things get, the more opportunity I have. Plus, the absence of money in the lending market actually puts me in a much stronger position. There are tons of opportunities out there, but few have the expertise and resources to buy them, and that's enabling us to get some great deals. But even if I'm not buying more stores, the bad economy doesn't have to hurt my business. We can grow in almost any economy. All we have to do is have the best operations and we'll steal market share from our competitors.

What did you change/do differently during the recent tough economic times that you plan to continue doing into the future? Focusing on "distressed" stores.

How do you forecast for your business during trying times? Can you even forecast at all? Most of my stores grow at such a fast rate that it's tough to gauge, compare, and forecast.

Where do you find capital for expansion? From 2001 to 2008 I was very highly leveraged (most would say I was over-leveraged). But banks were literally throwing money at me. I had almost no income. I was actually below the poverty level from 2005 to 2008, but banks continued to lend to me. Fortunately, today I'm virtually debt-free—and I can't get a loan.

Is capital getting easier to access? Why/why not? In 2010, I honestly went into every major bank in Atlanta (Regions, SunTrust, Fifth Third, Wells Fargo, Bank of America, etc.) and said the same thing: I have a high net worth, profitable stores, a perfect credit rating, almost no debt, and I'd like to borrow $100K to open a store. But I got turned down at every single one. Few even asked me for my financials, and those that did said they're not interested because my multiple stores and businesses would be impossible to approve based on the new underwriting requirements.

Worth mentioning: In 2010 I went into a car dealership with cash to buy a fancy car, a car I definitely didn't need. The dealership owner said, "Only a fool would pay cash in these economic times." I told him the banks wouldn't give me a loan. And he said "B.S., I can get you a loan in five minutes." And sure enough, within 5 minutes I had a 3.9 percent car loan. So I can get a loan to buy a car I don't need, but I can't get a loan that would create jobs.

Have you used private equity, local banks, national banks, other institutions? Why/why not? To get me through from 2008 to 2010, I used whatever I could get, and that included maxing out my credit cards on occasion.

What kind of exit strategy do you have in place for your business? None, but I would like to devise a plan whereby my employees might buy a store or two from me, and I might even be willing to finance them.

What kinds of things are you doing to take care of your employees? I issue paychecks weekly. I take each store to a nice dinner every time they break a record (in $1K increments). I often take the entire market to an event or bowling or something. I have a "big carrot" and "little carrot" award for managers if they hit certain sales increases (1-year lease of a convertible Mustang, plasma TV, etc.).

How are you handling rising employee costs (payroll, healthcare, etc.)? I think the new healthcare law sucks. It's costing me so much from an administrative standpoint that I've actually flipped how I do benefits for some markets and stores. For example, I tell my Florida employees to go and get their own health insurance (from eHealthInsurance.com or from Costco), and I'll simply reimburse them a set dollar amount. So instead of being pretax, it's taxed, but on the flip side, I don't have to deal with the headaches. Plus, the employees get to maintain control over their own healthcare needs (which is good because I don't think their private health issues should be their employer's concern).

How do you reward/recognize top-performing employees? With plenty of attention and recognition.

"We can grow in almost any economy. All we have to do is have the best operations and we'll steal market share from our competitors."

BY JOHN CARROLL

Ground Round Bound

All the little things he does pays off big

John Scharnweber grew up in the restaurant business, starting at the bottom as a dishwasher and busboy growing up in Minneapolis. He went on to major in hotel, motel, and restaurant management at junior college, eventually breaking into good jobs managing restaurants. These days, he oversees the operation of seven top-performing franchise locations in the Dakotas.

Scharnweber's big break came after he had risen to the top job as general manager at a Ground Round restaurant in Bismarck, N.D. The partners at the restaurant were looking at opening a different kind of restaurant franchise. They selected Denny's and brought

Multi-Unit Franchisee

2011 MVP AWARD WINNER

You were recognized for demonstrating outstanding performance and innovation in growing your organization and brands. Tell us what you did. I don't know, I'm not a great backslapper. I don't tell everyone how great I am, or how great our company is. I do know that we have three Ground Round franchises and four Denny's restaurants. On the Ground Round side we do have the number-one grossing restaurant in the company: our location in Bismarck is number one, our Fargo restaurant is number two, and we have two others in the top six. We also train a lot of the managers that go through the system.

As a multi-unit franchisee, how have you raised the bar within your organization? I think we have a good philosophy. We have great managers and great employees, and that is the truth. We try as a group to interview anybody that walks in the door. We don't ever want to miss a great employee or a great manager. I think on the Ground Round side we did a good job of promoting our concepts, the restaurant, and the bar: the restaurant is more for family and kids, and in the bar we have lounge drink specials, sports on TV (NBA, NFL, and so on). We promote nights we do happy hours and we do drink specials. We promote it as if it's a separate bar.

What innovations have you created and used to build your company? In the late '80s, early '90s, we did a few things before anybody else. We did 2-for-1 burgers every Tuesday. That's a half-pound—buy one get one free. That idea, Pizza-Pizza, caught our ear. It's been a huge success. We have a Long Island Tea night every Wednesday night. There's a quick lunch menu, a smaller-size menu with lighter portions. In '88, well before everybody else had done it, we did Margarita Monday in the lounge, with a free taco bar. We do a very good job of promoting the bar side, the special days like Halloween, St. Patrick's Day, the night before Thanksgiving. We go all out. On the restaurant side there's New Year's Day, Valentine's Day, and more, when we will do specials like everybody else.

What core values do you feel led you to win this award? Lou Holtz, a coach at Arkansas and Notre Dame, said in a video there are three things you need to always do: Do things right, do your best, and always follow the Golden Rule. As a group we're very "Please and thank you" oriented. We always give back to the community: the Red Cross, Special Olympics. Ever since 9/11 our restaurants have picked a fire department or police department to go and give some food to. And we sponsor local teams.

"I don't think any of us are healthy if all we do is work. At the end of the day I want us to work hard, but also to spend time with our families and take vacation time so there is balance in our lives."

Scharnweber in on the deal. "It helps to have success in your first couple of ventures," he says.

The winning streak continued as the group added more Denny's and Ground Round locations in the region. Today, the franchise group may not be the biggest in terms of number of locations, but it's one of the very best, with top performers in two different concepts in the Dakotas. And he's done it in a market that may not look overly rich to anyone who doesn't understand it like he does.

For Scharnweber, doing well means hiring great people and paying attention to all of the smallest details. And that means every day, starting from his 4 a.m. wake time. That kind of commitment means interviewing everyone who comes in the door, in the hopes of capturing that one, special individual who can help make a restaurant into a top performer. The same approach applies to managing costs. If you watch all the details like a hawk, he says, you can gain much better control over how much money drops to the bottom line.

NAME: John Scharnweber
TITLE: COO, part owner
COMPANY: Classic Restaurants
NO. OF UNITS: 3 Ground Rounds, 4 Denny's
AGE: 54
FAMILY: Married (and two dogs)
YEARS IN CURRENT POSITION: 20
YEARS IN FRANCHISING: 25

"You make sure your back doors are locked, pay more attention to all the little things, like vendor billing," he says. "You turn the gas down lower at night. Double check how you count steaks, chicken, ribs. Do more food counts. Add security cameras, pay attention to everything. Do we really need a logo on the cocktail napkins? Do you need to put matches in the ashtrays?"

That may not seem like a lot, but it's a practical approach that adds up, and which has put him at the very top of the Ground Round performers. Also, he says, not all the best marketing ideas need to be original. If an idea like offering two pizzas for the price of one works in the pizza business, doing it with burgers can be a great way to pack a location on a slow weekday night. Customers love it.

It's no surprise that the unassuming Scharnweber turns to a down-to-earth football coach for inspiration on how to work with others. "Do things right, do your best, and always follow the Golden Rule," he says, citing the legendary Lou Holtz.

Work hard, stay focused, and never abandon your bedrock beliefs, says Scharnweber, and you just might surprise yourself with just how well you can do in this business. MUF

PERSONAL

Key accomplishments: Being a multiple winner of the Restaurant-of-the-Year award.
Biggest mistake: I try to look past those.
How do you spend a typical day? The day starts at about 4 a.m. I'll feed the dogs and do a 40-minute workout. I'm usually in the office by six. I have two regional people, one for Ground Round and one that does Denny's. I oversee the whole company, including marketing, human resources, menus, you name it.
Work week: I don't necessarily have a routine, other than making sure I speak with each location. It varies according to the week. I'm on the boards of the National Restaurant Association, the North Dakota Hospitality Association, and the Ground Round Franchisee Board. And I meet with suppliers.
Favorite fun activities: I like to play golf and watch sports.
Exercise/workout: Just ride the elliptical most every day. I also lift small weights. It's nothing to brag about.
Favorite stuff/tech toys: All the usual, a computer, a BlackBerry. I'm not an iPadder.
What are you reading? I just read Vince Flynn's *American Assassin.* I also like to read Nelson DeMille and Dan Brown.
Do you have a favorite quote or advice you give? Manage the little things. I'm a very "Please and thank you" kind of person.
Best advice you ever got: In my early days in the restaurant business I wasn't chosen for the position I wanted. My father told me, "Don't pout about it. Work harder so you're chosen next time." Don't pout about what you didn't get. Make sure you're working as hard as you can so you'll be chosen next time.
Formative influences/events: I was around for the Kennedy assassination, the walk on the moon, but I don't know that there was necessarily a formative influence other than the fact that I was very active in sports: baseball, hockey, football. It did make me very competitive.
How do you balance life and work? I don't want our managers working 70 to 80 hours a week. I don't think any of us are healthy if all we do is work. At the end of the day I want us to work hard, but also to spend time with our families and take vacation time so there is balance in our lives. If managers are working 6 or 7 days a week, I tell them that they don't necessarily have to be a workaholic to be successful.

MANAGEMENT

Business philosophy: Put a premium on hiring great people. Everything is secondary to that. We interview everyone because without great employees there's no company.

Would you say you are in the franchising, real estate, or customer service business? Why? I'd say customer service. Whether we have the Ground Round name or Denny's name or John's Restaurant, what makes us tick when the doors open is making sure people are happy. Good food and good service.

What gets you out of bed in the morning? It's in my blood now. You want to get up and get the day going. And I want to take care of my small family, my wife and two dogs.

What's your passion in business? Passion for me is doing the best I can so when someone else says they've been at a Ground Round or Denny's they had a great experience. We do the very best we can so that when I see somebody outside the restaurant they'll tell me it was absolutely awesome. We try to be as close to perfect as we can every day.

Management method or style: Very organized. Plan ahead. Fair but firm.

Greatest challenge: I can think of instances when we lost managers or employees to a competitor. Right now it's the economy. North and South Dakota don't get the highs and lows, but whether it's food, fuel, or healthcare costs, I'd say the economy, and sometimes government.

How close are you to operations? I used to oversee all the restaurants. I've learned that you can work 80 hours a week and not do the job, that with two people you can if you're focused. I work with regional directors, they work with managers. And I'm pretty close to all the employees.

How do others describe you? I would say organized, polite, competitive. My personality is very competitive.

How do you hire and fire? I still do most of the manager hiring. I hire the regional managers. The day-to-day stuff, the general managers do that.

How do you train and retain? We have trainers in each location. We do have two training stores. There's a Ground Round training store, where we train most of the managers. And we have trainer meetings once a year in Bismarck. We train our trainers.

How do you deal with problem employees? It's basically verbal, written, termination. You don't really see it unless you're there day to day. In a restaurant there's just a variety of problems: drugs, problems waking up, drinking, school problems. And sometimes they're just not good employees; late, lazy, or they just don't understand. The GMs deal with that daily. Our employees are 16 to 24 on average. Each situation is unique.

"What makes us tick is making sure people are happy. Good food and good service."

BOTTOM LINE

Annual revenue: $15 million to $20 million

2011 goals: A 3 percent increase in sales and profit.

Growth meter: How do you measure your growth? With the profit-and-loss statement.

Vision meter: Where do you want to be in 5 years? 10 years? We want to have at least 10 restaurants, hopefully more.

How has the most recent economic cycle affected you, your employees, your customers? North and South Dakota are in the middle of the country. There are no peaks or valleys. The economy in our bigger cities was hit a little harder than others, but the economy in general has been pretty good. More concerning for me is that costs have been going up. You can't continue to raise prices and raise prices, so you end up eating some of the cost. Then the more cost you eat, the less expansion you do as you work to stay afloat.

Are you experiencing economic growth/recovery in your market? As of today North Dakota is doing pretty well. There's a big oil boom in the state. Unemployment is 3 percent, one of the lowest in the country. One challenge we have (in addition to the price increases) is finding good help, good managers, and good employees.

What did you change/do differently during the recent tough economic times that you plan to continue doing into the future? I can't give you all the particulars. Labor costs have been difficult, so we've gotten more efficient over the last three or four years.

How do you forecast for your business during trying times? Can you even forecast at all? We forecast every year and month.

Where do you find capital for expansion? We use a local bank. We've been fortunate to be fairly successful. That's where we do most of our business. It's never been easy, but it hasn't stopped us from growing.

Is capital getting easier to access? Why/why not? I would say it's the same for us.

Have you used private equity, local banks, national banks, other institutions? Why/why not? Other than the local bank, we don't use anyone else.

What kind of exit strategy do you have in place for your business? We own most of our properties. I don't think we did that with an idea of exit strategy, but I don't think we're looking to sell or get out of the business.

What kinds of things are you doing to take care of your employees? Every four months we choose three employees at each location as a Hospitality Hero. They get cash and are recognized with their name on plaques. We also give them pins for years of service. As they get up to 20 years, they get cash as well. We do a Silver Spatula contest where employees can suggest food entrees. We choose a couple of winners. Employees get cash if they make it to the finals. Managers bring two items to the home location and employees get credit on the menu if their entry is chosen for the menu.

How are you handling rising employee costs (payroll, healthcare, etc.)? It's trained us all to manage our labor costs as tightly as we possibly can. We project every day and every week.

How do you reward/recognize top-performing employees? Definitely our Hospitality Heroes. All our managers also have an opportunity to get a quarterly bonus. There's a target they have to hit. If they do they get a bonus.

BY JOHN CARROLL

The Big Applebee

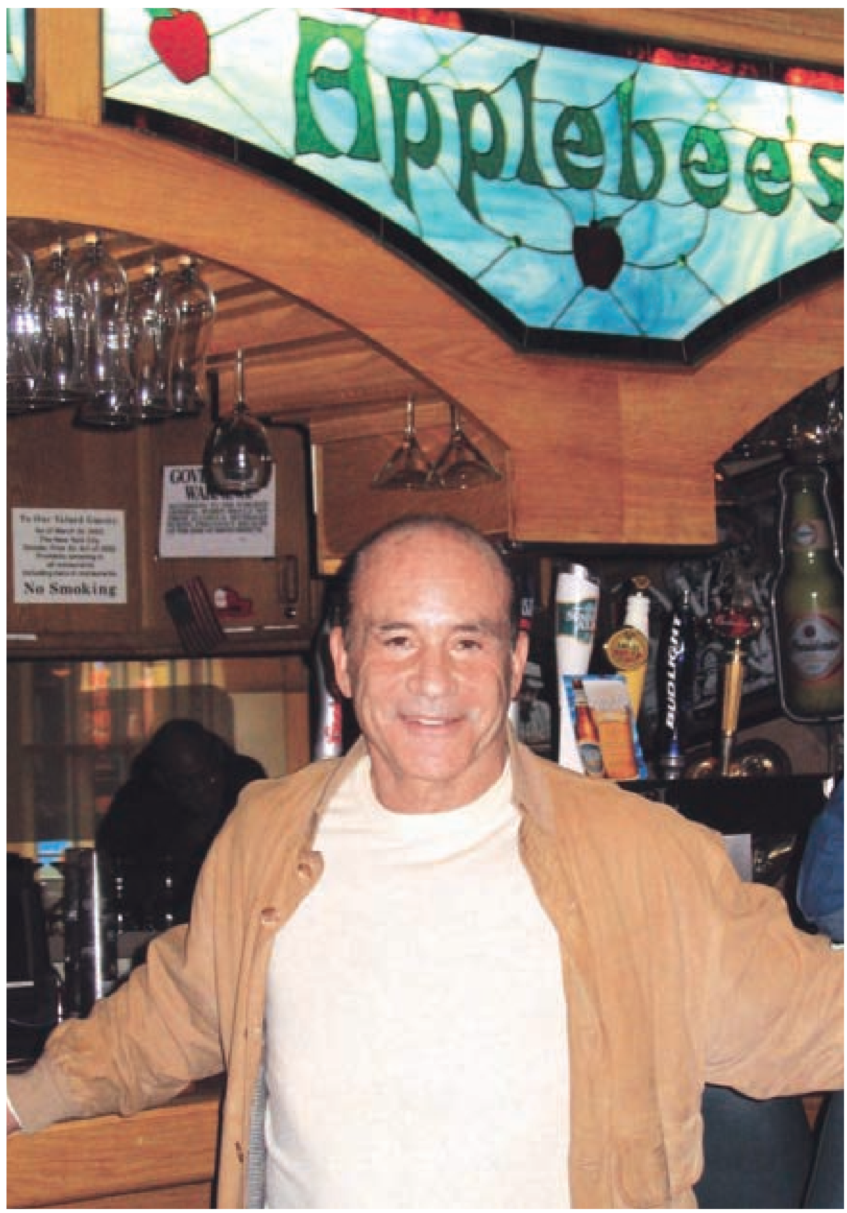
"My biggest role is being a cheerleader"

Zane Tankel doesn't think of himself as a bleeding heart. He's been repeatedly recognized for his ability to build a hefty bottom line. But he also isn't afraid to show how much he cares about the thousands of people who work in his 35 Applebee's locations scattered around the Big Apple and its suburbs.

Over the past 15 years, Tankel's franchisee group, Apple-Metro, has created one of the most generous bonus systems in franchising. GMs and kitchen managers in his organization are given a car after they've put in 18 months. They also get a cell phone and free service. There are bonuses for top players, even free movie tickets for the hourly employees who get special recognition for guest services. More than 100 managers and wives or significant others qualify for the company's regular cruises to Bermuda. And no day would be complete unless he stopped by a few of his restaurants in his never-ending pursuit of employees who deserve some face-to-face praise.

"My biggest role is being a cheer-

NAME: Zane Tankel
TITLE: Chairman and CEO
COMPANY: Apple-Metro
NO. OF UNITS: 35 Applebee's
AGE: 68
FAMILY: Wife and two daughters
YEARS IN CURRENT POSITION: 15
YEARS IN FRANCHISING: 15



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Tankel attributes all of his success to the people who make up his extended family of restaurant employees—from the best GM to the last person hired to wash dishes.

leader," Tankel says as he steers his car to one of his restaurants in Queens, where employees are in store for some personal praise from the boss after winning a decorating contest for Cinco de Mayo. "I pat people on the back."

It's that kind of hands-on management that has helped Tankel survive and thrive in some of the toughest neighborhoods in the U.S. Places like Bedford-Stuyvesant, the South Bronx, and Harlem. He took a restaurant franchise designed for the suburbs and medium-sized towns and built the franchisors' first two-story location on Times Square, where it quickly turned into a stellar success and a model for similar locations to follow.

But he attributes all of his success to the people who make up his extended family of restaurant employees—from the best GM to the last person hired to wash dishes. And the 68-year-old won't rest until everyone in the group feels the same commitment and enthusiasm he brings to the game every day of the week.

"It's all social," says the CEO. "It's about being a family. Being a team. And we're a team of about 3,000. Bed-Stuy has a 50 percent unemployment rate. We hired a couple of hundred people there. In the last three locations we opened in urban neighborhoods, we had over

continued on page 34

Multi-Unit Franchisee

2011 MVP AWARD WINNER

You were recognized for demonstrating outstanding performance and innovation in growing your organization and brands. Tell us what you did. Over the last two years we've been recognized as Franchise of the Year for the entire system worldwide. They've never done that back-to-back for the same franchisee. Applebee's is the best concept in terms of what is going on in the world, and we're the best of the best. We help with a tremendous amount of local neighbor events: cancer walks, sponsor concerts, and so on. We go into urban neighborhoods. We have one location in Bedford-Stuyvesant, one in the South Bronx, and we're the only one opened in Harlem. These are under-served communities. We have a duty to do that. Applebee's tagline is "America's Favorite Neighbor." We can't be that if we don't go into every neighborhood. I don't want to say we're bleeding hearts, but I don't believe there's a conflict between making money and doing good.

As a multi-unit franchisee, how have you raised the bar within your organization? We spent a lot of time and effort and money on training and educating our people. That's what it's all about. I always say it's all about respect. When we start our training, we start by saying "All we ask from everybody in this room is respect. Respect us as long as we respect you. You're going to learn a lot of things that are going to be good for your life; people skills, how to say thank you and you're welcome. And none of those words are curse words. We're going to teach you some people skills."

What innovations have you created and used to build your company? Every kitchen manager and general manager in our restaurant gets a car after staying with us just 18 months. We started from scratch 15 years ago. I recognized early on that the key to multi-unit franchising is keeping your teams together. Turnover is such a huge factor. With every new management team or general manager you start all over again. Every new boss has a different set of priorities. It doesn't just change the general manager, it changes the whole complexion of a restaurant. The same thing with a new kitchen manager: everybody has to figure him out, so the turnover is humongous. If we could have people stay with us just 18 months, it means they like us as much as we like them.

I used to be in graphic arts, printing. You got a car, that's the way it went. And I thought that would be a good way to keep managers. They also get a cell phone. It's their cell phone and they get a couple thousand minutes a month for free. And it's not so I can call them at midnight. The minutes and phones are free. Every 18 months we also take all the general managers and kitchen managers, along with their wives, husbands, and significant others, on a cruise. We've been doing this for 10 years. The ship leaves New York and goes to Bermuda. We eat together, breakfast together. It's a real bonding experience.

So what about the rest of the folks? If the general manager is a really good guy, everybody else is happy. The trickle-down theory happens. When you have a happy GM, that's viral. As far as other managers, we have a minimum of five managers: bar manager, assistant kitchen manager, service manager. And bigger restaurants have more. The other managers don't resent these guys going on a cruise or getting a car. They want those jobs. So we also have a pretty good bench. They're not going to look to go somewhere else. They want to get promoted.

What core values do you feel led you to win this award? It's all about retaining your people and making them feel like they're really, really part of it. You might have good retention, but it doesn't mean that they're happy campers.


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PERSONAL

Key accomplishments: We opened the first New York City Applebee's in Times Square on 42nd Street, the crossroads of the world. Applebee's is traditionally a suburban place. You park your car in the back. We put one smack in the heart of Manhattan. Two stories. It was unheard of. Now it's the largest Applebee's in the world, with 20,000 guests a week.

Biggest mistake: I guess trying to branch out. At one point we had four different concepts. That diluted our focus.

Smartest mistake: The 42nd Street location, without a doubt. We're now planning a three-story restaurant in midtown Manhattan and we have two more deals in the offing.

How do you spend a typical day? I don't have a typical day. But generally I get up at 6:30 to 7:30 a.m. and work out—unless I have an early morning meeting between 7:00 and 9:00 a.m., which is generally two or three times per week. I do martial arts, weight training, ride my bike. Between 9 and 9:30, I get on the computer, read all my emails (I get several hundred a day) and figure out which ones I need to answer before noon. Then the rest of the day and into night up until 11 or 12, I spend visiting our restaurants. I wear jeans and a shirt. I don't dress to impress people. I dress like our folks dress. I stick to one neighborhood. If I go to Queens I'll just visit restaurants in Queens, and we have six. I'm headed to Queens now in fact. We ran a contest for decorating the restaurant for Cinco de Mayo and this one restaurant won the contest. I want to congratulate them.

Work week: There is one day, Tuesday, when we meet in the office. We have an agenda, there's a steering committee I chair. We are all partners: Roy Raeburn (with whom I founded Apple-Metro), who's in charge of remodels and maintaining restaurants, is president; Miguel Fernandez, COO, runs day-to-day operations; and Frank Venice, who I've been working with in various businesses for 34 years, is CFO.

Favorite fun activities: Everything I just told you. I love it all.

Exercise/workout: I'm a cyclist, and I enjoy martial arts. I spar one or two days a week. And I love to travel. I'm able to travel a fair amount.

Favorite stuff/tech toys: I have them all: two phones, a BlackBerry, and an iPad.

What are you reading? I'm reading a few books right now. I'm reading one by Ahmed Rashid on the Taliban and *Descent into Chaos,* about Pakistan, also by Rashid.

Do you have a favorite quote or advice you give? I have a lot them. "There are none so blind as those who will not see."

Best advice you ever got: To have a friend you must be a friend.

Formative influences/events: The Young Presidents' Organization had a big impact on me. I was able to interface with people and I traveled the world. It sucked you in. I also went to the Wharton School of Business. That also had a big influence on my life. And, of course, my wife, who tends to give me balance and keeps me grounded.

How do you balance life and work? I don't need to balance them. You can't separate them. They're really one. It's who I am.

MANAGEMENT

Business philosophy: You have to be the best at what you do, and you have to understand that to be your best you have to look after and respect your people.

Would you say you are in the franchising, real estate, or customer service business? Why? We're in the people business. We have internal and external customers. It's all about people, whether they're internal or come in as a guest. I can't order someone to be nice. We want it to be part of your personality.

What gets you out of bed in the morning? I absolutely love seeing our people grow. We go into neighborhoods where people don't go in, and we hire people who might not be considered productive citizens. And I watch them grow into managers and GMs and it's an absolute thrill. I'm talking about gang bangers who over 5 years go from dreadlocks to short dreads, from being covered in tattoos to covering up the tattoos with long-sleeve shirts.

What's your passion in business? Winning!

Management method or style: I think I'm very much a motivator.

Greatest challenge: Continuing to grow good people. That's what it is all the time. I don't want to make it sound like Pollyanna. We don't win all the time. Our challenge is to get people who want to become a manager great, not just good.

How close are you to operations? Very close.

Personality: Type A times two.

How do others describe you? You should ask Miguel Fernandez, our COO, and the person I interface with most. (We did):

Fernandez: This is my opinion and the general consensus of people who know Zane. Zane is a great visionary in the business world. But not just with numbers. He's a visionary of concepts. He's sensitive to caring about people. Most CEOs are conservative, pragmatic thinkers. Zane is the opposite. He's a risk-taker. He works on a whole different wavelength than anybody else and sees things that I don't see and other people don't see. His thinking is never around how much money we make. The money is usually a byproduct. That's way down the scale of priorities. It's about the brand. And how do we improve our people's lives? That is 99.9 percent of the time the foundation around his thinking process.

How do you hire and fire? We have a full-time recruiter who just interviews people all day long. When she thinks someone fits our profile, and we're pretty particular, our director of human resources and the area director interview them. Firing is up to the GM. He's the only one that can fire people with the approval of the area director.

How do you train and retain? We have a very elaborate and extensive training program lasting three months. Then every year we hold "Spring Training" for all managers, broken into groups of approximately 30 people. It lasts an entire day.

How do you deal with problem employees? We do not have a procedure. We put one in and I threw it out. Everyone is different. We had progressive discipline for a short while. For certain people it works and for others it doesn't. I don't think you can put people in a slot. It's all done case-by-case now.

What may look like overgenerous perks and bonuses is really just good business.

5,000 people apply for 150 to 200 jobs. It gives you a sense of what's going on in these neighborhoods. We're happy that a mother and her family can come in and have a price-friendly meal."

"I won't say we're philanthropists," says Tankel. "We bring sit-down table service restaurants to communities that others don't or won't serve. And our metrics on food, liquor, and labor lead the whole Applebee's system."

One other metric that he likes to discuss is Apple-Metro's low employee turnover rate in a business where people typically come and go on a daily basis. Every time a manager leaves his Applebee's family, there's a costly new round of recruitment and training in store. So he's quick to tell you that what may look like overgenerous perks and bonuses is really just good business. To earn the car and the phone and the cruise takes commitment and a winning attitude, and is how you make a large organization into a top performer.

"It's all about retaining your people and making them feel like they're really, really part of it," says Tankel. "You might have good retention, but it doesn't mean that they're happy campers." MUF

For more on Tankel's earlier days in franchising and outdoor exploits (including climbing Mt. Everest) see his 2005 profile at www.mufranchisee.com/article/113/.)

BOTTOM LINE

Annual revenue: $140 million

2011 goals: We're going to build a few more big restaurants with the capacity to beat 42nd Street and continue to get better as we go. We're not getting there at $140 million. The goals are to refine, get better. You have to be like a ball club and practice every day. Why? There is no there, there. You need to continue to practice and refine. You need to be on top of your game.

Growth meter: How do you measure your growth? Sales is certainly one way.

Vision meter: Where do you want to be in 5 years? 10 years? I really can't tell you I have a defined goal. I'm physically fit and I love what I'm doing. I want to keep doing it as long as I can. I think about it. But I don't see anything more than what I'm doing. I tell people I have my dream job.

How has the most recent economic cycle affected you, your employees, your customers? Are you experiencing economic growth/recovery in your market? We've grown through it all. We've just grown more. In '07 we had no idea of the depth or breadth of the downturn at that time. But what we said was that while we're in this downturn there will be tremendous opportunities. There's great real estate that we couldn't have touched in New York City. In the past, if there was a great site, the owners wanted a million dollars for it. Now you can also get things built for great prices—there's a 30 percent unemployment rate in construction. Now we can find great staff, which was an issue. So there was tremendous opportunity. We just had to take our time, go into it, and in '08, '09, and '10, we built a dozen restaurants.

What did you change/do differently during the recent tough economic times that you plan to continue doing into the future? We just used the downturn to make people more aware of how fortunate we are, and in turn how fortunate they are. We have to give people a compelling reason to come into our restaurants. They can spend their hard-earned money anywhere. We don't want to give them discounts. We used the downturn to educate our people and get them on point, and will continue to do so.

How do you forecast for your business during trying times? Can you even forecast at all? We've been very good with forecasts. We do budgets every year. The general manager does theirs and it goes to the area director for approval. He signs off and they go to the director of operations, and he signs off. And then they are forwarded on to the finance department. We want to make sure there are no softballs being lobbed over the plate. We throw them back if you didn't stretch—and if there's too much stretch we also throw them back. Every week our computer program gives us theoretical and actual costs. We're pretty much right on between the actual and theoretical.

Where do you find capital for expansion? We've been very fortunate with our metrics and numbers. There's a lot of money out there. The issue is creditworthiness. Banks are dying to give money to creditworthy people. We refinanced just a year ago.

Is capital getting easier to access? Why/why not? From what I read and what I hear, no, it's not. But by my own experience, it was never difficult. It was difficult 15 years ago, when I was in printing.

Have you used private equity, local banks, national banks, other institutions? Why/why not? National banks.

What kind of exit strategy do you have in place for your business? I don't have one.

What kinds of things are you doing to take care of your employees? The list goes on and on. We hand out bonuses every month at our restaurants, based on the metrics they hit. We have a bunch of metrics: top line, turnover, bottom line, food, liquor, labor; all have a percentage attached to the bonus. Thirty days after the period is closed, we give out bonuses. That's for all managers. For hourlies, when a guest sends in a compliment we send them a letter and we give them two movie tickets. You make people better by working on their positives.

How are you handling rising employee costs (payroll, healthcare, etc.)? The biggest thing no one looks at is turnover and we work real hard at minimizing turnover, even the hourly positions. In our company we spend a week on the floor following a new server. What does that cost you? It's millions of dollars but not hard dollars. A manager is training for three months. You hire a guy for $55,000 and a quarter of that, $14,000 in the first year, is just training. For 10 managers it's $140,000, just in rehiring and retraining. And then if they're not productive right away, there's another transition.

How do you reward/recognize top-performing employees? Area developers get a piece of their restaurants. They have a desire, passion, and incentive to succeed.

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BY DEBBIE SELINSKY

Just Desserts!

Modern-day Renaissance man strives for perfection

Americans' love affair with big, chewy cookies was just taking off in the late 1970s when Lawrence "Doc" Cohen exited the retail pharmaceutical industry after 15 years to open his first Great American Cookies store in Lafayette, La. Nearly two decades and 35 units in seven states later, the Baltimore native sold his company, Deblan Corp., to Mrs. Fields Famous Brands. But he didn't retire from the cookie business, which he describes as having "great resilience." Far from it.

By 2002, Cohen had reacquired the Houston market for Great American Cookies and today is one of the brand's top franchisees, with 18 stores in the Houston area. And as president and CEO of LJC Management, he also owns multiple Pretzelmaker, TCBY, and Coffee Beanery units.

Cohen, who holds both pharmacy and law degrees from the University of Georgia, has never rested on his laurels. He was founding president of Great American Cookie's Franchise Advisory Council and a founding member of the Independent Association of Great American Cookie Franchisees. In 1993, he became one of the first franchisees to join the IFA when it opened membership to franchisees.

"I figured this was an opportunity to learn about the other side of franchising," he says. "Getting involved with the IFA was beneficial to me and helped put me in a position to give something back and share what I know. I learned that the relationship between the franchisor

NAME: Lawrence "Doc" Cohen
TITLE: President and CEO
COMPANY: LJC Management Inc.
NO. OF UNITS: 26 locations (some co-branded): 18 Great American Cookies, 11 PretzelMaker, 3 TCBY, 1 Coffee Beanery
AGE: 71
YEARS IN FRANCHISING: 31
YEARS IN CURRENT POSITION: 31

Multi-Unit Franchisee

2011 MVP AWARD WINNER

You were recognized for demonstrating outstanding performance and innovation in growing your organization and brands. Tell us what you did. I built an organization of people and they built our company. We have always tried to be the very best at what we do while sharing our ideas with our fellow franchisees. We also know that we learn every day by listening to the others in our system.

As a multi-unit franchisee, how have you raised the bar within your organization? We never settle for "good enough" because as everyone knows, it never is.

What innovations have you created and used to build your company? I don't know if it was an innovation, but in our company we have a "We" mentality. We work together, share our successes, and strive to correct our failures.

What core values do you feel led you to win this award? People make it happen. Place the highest value on people because, no matter how much talent, drive, and desire a leader might have, if you can't sell it to your team it won't happen.

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"The relationship between the franchisor and the franchisee is really a sort of partnership; one can't be successful unless the other succeeds as well."

and the franchisee is really a sort of partnership; one can't be successful unless the other succeeds as well."

Cohen also was the first franchisee to earn the IFA Educational Foundation's CFE designation, and the second to assume the chairmanship of the IFA Board of Directors.

Cohen (whose nickname originated during his pharmacy school days) made history again earlier this year when he became the first franchisee inducted into the IFA's Hall of Fame. The award, presented to Cohen at the IFA's annual convention, recognizes individuals who have contributed to the advancement of the IFA and the franchising community.

"The experience was quite humbling. I just shook my head and wondered how I got my picture hanging next to those folks [Dave Thomas, Ray Kroc, Fred DeLuca, and Col. Harland Sanders]," he says. "The truth is that you rarely achieve anything by yourself. You always have help along the way. That's why it's important to remember that the same people you met on the way up are the same ones you'll encounter on the way down."

On the heels of his 2011 *Multi-Unit Franchisee* magazine MVP Award and being named the first recipient of the Great American Cookies Hall of Fame Award, Cohen is taking a brief vacation in France, where he plans to drink fine wines and visit vineyards and wineries. A modern-day Renaissance man, Cohen, a philanthropist who lives in an elegant 8,000-square-foot home in Tomball, Texas, is an oenophile, a serious cook, and an art collector. Although he has considered buying a vineyard and winery, he doesn't want his beloved hobby to be tainted by "work."

As for business, he has no plans to retire and is considering taking on additional brands. "I'd like to see our company with 100 stores someday," he says.

Whatever brands he may add, Cohen also plans to stay close to his cookie roots. "I've seen frozen yogurt, popcorn, and other products come and go, but cookies continue to pop. You can just buy one and walk around eating it. It's not messy and it's not expensive. Americans have a real love affair with cookies." MUF

PERSONAL

Key accomplishments: Being the first-ever franchisee inducted into the IFA's Hall of Fame (2011), the first-ever franchisee to earn the designation of Certified Franchise Executive from the IFA's Educational Foundation, the second franchisee in history to assume the chairmanship of the IFA Board of Directors, the first recipient of the Great American Cookies Hall of Fame Award (2011), a recipient of the *Multi-Unit Franchisee* magazine MVP Award (2011)

Biggest mistake: Selling the company in 1998.

Smartest mistake: Selling the company in 1998.

How do you spend a typical day? Every day is different. None are typical.

Work week: Monday through Saturday, although I've been trying lately to take Saturdays off.

Favorite fun activities: Cooking, collecting wine, and visiting wine country.

Exercise/workout: Who has time?

Favorite tech toys: All of them, although currently my iPad.

What are you reading? Tom Clancy's *Dead or Alive* and *Decision Points* by George W. Bush

Do you have a favorite quote/advice? Do the right thing!

Best advice you ever got: The people you meet on the way up are the same people you meet on the way down.

Formative influences/events: So many people have influenced me. Going back to my retail days, two brothers owned the drugstore chain I started with years ago in Savannah, Georgia. The younger brother, Mark Hacken, who is now retired and living in California, taught me the meaning of integrity, honesty and treating people fairly. He treated every salesperson who showed up with respect, even if he had no intention of buying from them. That's where I learned about meeting the same people on the way up as you meet on the way down. My mother also was a great influence. She taught me to appreciate the arts and the finer things in life—even when we couldn't afford them. She taught me that you get what you pay for.

How do you balance life and work? It all seems to work out.

MANAGEMENT

Business philosophy: The person at the top of our organizational chart is the customer.

Are you in the franchising, real estate, or customer service business? Why? All of these, but it's really all about the customer.

What gets you out of bed in the morning? Usually the alarm clock.

What's your passion in business? Creating the perfect customer experience.

Management method or style: Surrounding myself with people smarter than I am.

Greatest challenge: Finding those smart people.

How close are you to operations? Very.

Have you changed your marketing strategy in response to the economy? How? No. We just try to be better at what we are doing.

Personality: I try not to take myself too seriously. I work hard and I love my work.

How do others describe you? As a perfectionist.

How do you hire and fire? Carefully, especially with firing.

How do you train and retain? By challenging people to be the best at what they do.

How do you deal with problem employees? Every situation is unique so we deal with each accordingly.

Multi-Unit Franchisee 2011 MVP

BOTTOM LINE

Annual revenue: Prefer not to answer.
2011 goals: To return to a growth mode.
Growth meter: How do you measure your growth? We look at year-over-year sales and bottom-line improvement.
Vision meter: Where do you want to be in 5 years? Napa, California. **10 years?** Bordeaux, France.
How has the most recent economic cycle affected you, your employees, your customers? It has been very tough on everyone. We have all had to do more with less and still provide the perfect customer experience. We've devoted lots of long hours and been dedicated to being the best.
Are you experiencing economic growth/recovery in your market? Yes, sales have been very strong this year.
What did you change or do differently in this economy that you plan to continue doing? We are watching costs much more closely.
How do you forecast for your business in this economy? Right now we have moved from month to month to a quarterly forecast.
Where do you find capital for expansion? Have not looked.
Is capital getting easier to access? Why/why not? No. Lenders are still gun-shy of the regulators. There is still much uncertainty. Until the unemployment situation improves dramatically, I think we continue down a bumpy road.
Have you used private equity, local banks, national banks, other institutions? Why/why not? We have a long and good relationship with a national bank. We are too small to attract private equity.
What kind of exit strategy do you have in place? I am going to work until the very end.
What are you doing to take care of your employees? We are still providing the same benefits that we were providing before the crash. We have always tried to be there for our associates.
How are you handling rising employee costs (payroll, healthcare, etc.)? At the moment, we are absorbing those costs. This may change when we learn the real cost of the new federal healthcare requirements.
How do you reward/recognize top-performing employees? Trips, time off, prizes, award ceremonies, and when appropriate, bonuses.

BY DEBBIE SELINSKY

Fired Up!

Former EMT combines subs with service

KEVIN HATTON IS HONEST ENOUGH TO ADMIT THAT WHEN HE became an EMT at age 18, he came to the job with no noble or lofty motives. "My reason for becoming an EMT was that I would be able to drive fast and run lights and sirens," says the 39-year-old husband and father. "But I fell in love with it and worked for the Georgetown County, [South Carolina] EMS before they even had 911 service."

The son of a Methodist minister and a family of restaurant owners, Hatton, who spent 12 years as an EMT, also spent time washing dishes, waiting tables, and learning about the restaurant business. "Once the restaurant business gets into your blood, it's there—you never really get out of it," he says.

Flash forward to 2011 and the *Multi-Unit Franchisee* magazine MVP

NAME: Kevin Hatton
TITLE: Owner
COMPANY: Second Alarm Restaurant Group
NO. OF UNITS: 5 Firehouse Subs
AGE: 39
FAMILY: Wife and two boys, ages 5 and 7
YEARS IN FRANCHISING: 9
YEARS IN CURRENT POSITION: 9

Multi-Unit Franchisee

2011 MVP AWARD WINNER

You were recognized for demonstrating outstanding performance and innovation in growing your organization and brands. Tell us what you did. I increased sales during a recession by improving some customer service processes and committing to a full-time dining room attendant whose job is to make sure customers are happy and the dining room clean during peak times. We doubled up on radio advertising and focused on marketing that is heavily devoted to local store marketing and grassroots pavement pounding. We met 100 new business owners every week and, where the city allowed, had banner wavers on the streets. We've also been able to expand during the recession by opening our fifth store. But I think what has really set us apart has been our work with the Public Safety Foundation started by Firehouse Subs founders Robin and Chris Sorensen. We've been selling the five-gallon buckets our pickles come in for a $2 donation each, instead of throwing them away. One hundred percent of the proceeds goes directly to fire departments and EMTs for the equipment they need. Last year, Firehouse Subs raised more than $1 million with this program. Then, in 2007, we had a huge fire in Charleston that claimed the lives of nine firefighters, which was at the time the largest loss of life in a single incident since 9/11. I really felt that we needed to step up and help. We opened up our store as a resting place and a command center during the fire, which went on for days. But in the aftermath, the big question was what will the families of these nine fathers and providers do? I went to the foundation and asked if we could place donation boxes in the stores, and they said they would match whatever we got. They couldn't believe how much we raised. Their contribution ended up being the largest single donation ever given by the foundation.

As a multi-unit franchisee, how have you raised the bar within your organization? Tough question, since we already have some awesome operators in our system. We've raised the bar with our commitment to the marketing plan without exception and have weekly meetings to review numbers along with all other aspects of the business. I also have devoted a large amount of time to the Public Safety Foundation, culminating in the largest single donation in its history. One such donation, originating in my Mount Pleasant location resulted in the equipment being used to save a life and gaining the attention of CNN's Anderson Cooper. Like I said, we have many great operators and corporate support that makes all this possible.

What innovations have you created and used to build your company? We developed a spreadsheet that combines many reports from different systems to give an accurate picture of where we stand on sales, food, labor, trans count, catering, etc. This spreadsheet is then shared with the management team at our weekly meetings. Developing a process to assist in training new employees has also helped with the retention of better team members.

What core values do you feel led you to win the MVP Award? Our work ethic and commitment to the brand and the foundation.

Hatton has gained a reputation for helping out in the community whenever needed.

Award winner owns five Firehouse Subs restaurants in the Charleston, S.C., area and lives a life that combines both of his passions: helping others and working in the food business.

Hatton, a native of Greenville, S.C., became involved with Firehouse Subs when he saw how hard his retired minister/father was working at the franchise he opened in Georgetown in the late 1990s. "He was working harder than I wanted to see him working, so I quit working at a seafood buffet in Myrtle Beach and came on board. Together we grew two other Firehouse Subs in Myrtle Beach and I became a franchisee with another Myrtle Beach location," says Hatton.

With a goal of opening 8 to 10 Firehouse Subs, he decided to leave the crowded Myrtle Beach market and move

Favorite quote? "When good leaders speak, people listen. When great leaders speak, armies move."

PERSONAL

Key accomplishments: Opening stores even during a recession, my work with the Public Safety Foundation, and having a management team with each member having an average of over seven years with the company.
Biggest mistake: Opening units in locations that were not good locations.
Smartest mistake: Not knowing that I could fail.
How do you spend a typical day? Analyzing sales numbers, setting schedules, dealing with catering orders, accounting, working with crew during the lunch rush, meeting with managers and staff to identify needs, trying to fulfill said needs, going over any goals and achievements, setting new goals, coaching staff, marketing, and reading and responding to email. I finish the day by looking over the day's sales.
Work week: Often seven days a week, somewhere between 55 and 80 hours, even though I do try to take one day off and spend it with my family.
Favorite fun activities: Anything to do with the water—boating, fishing, skiing (water and snow), diving—and playing baseball and football with my boys.
Exercise/workout: Walk/jog at least two miles a day. I try to jog as much of it as I can.
Favorite tech toys: My iPhone.
What are you reading? *How Funny* by Dave Ramsey.
Do you have a favorite quote/advice? "No excuses!!" It's from the book *No Excuses: The True Story of a Congenital Amputee Who Became a Champion in Wrestling and in Life* by Kyle Maynard. I also like: "When good leaders speak, people listen. When great leaders speak, armies move"; and "I have never learned anything while I was speaking."
Best advice you ever got: The Golden Rule. Treat people as you would like to be treated. Go the extra mile.
Formative influences/events: Past bosses, my experiences as an EMT/firefighter.
How do you balance life and work? Not very well, but I try when I'm spending quality time with my family to leave work behind.

MANAGEMENT

Business philosophy: Positive mental attitude (PMA). Go the extra mile. Do what is not expected.
Are you in the franchising, real estate, or customer service business? Why? Franchising… I know my strong points and my limitations. I found a brand that truly fits me both professionally and personally. I don't think I could have come up with the ideas on my own.
What gets you out of bed in the morning? My alarm clock, plus I love what I do. I love making people happy and meeting new people. I love to talk to people. I love showing people that Firehouse makes the best subs and has the best culture anywhere. I love the smile that wasn't there when they came in. That tells me we just made their day. And it's easy to make someone's day—just give them a great experience. Go above what is expected. Go the extra mile.
What's your passion in business? Not only do I want to be wealthy financially, but also personally and emotionally. I want to make a difference in our employees' and our customers' lives and in our community. I don't want just to run a good sandwich shop. I want to touch lives, and if we make a few great subs along the way, then great. If it's true that you judge a person's success by the number of people that show up to their funeral, I want the line to go around the block.
Management method or style: I lead by service. I try to serve my employees as much as they serve our customers.
Greatest challenge: Transitioning from one or two units to four, five, and beyond while still keeping my management style.
How close are you to operations? Daily.
Have you changed your marketing strategy in response to the economy? How? Wow, did I! I doubled my required marketing contributions and launched an aggressive radio campaign. I also went grassroots, and my management team and I went door to door with goodie bags to tell people about Firehouse and to form a personal relationship with those businesses.
Personality: I think that I'm a hybrid. There isn't one that describes me. Sometimes I'm very laid back and just go with the flow. Other times, I'm on fire, going 100 miles an hour.
How do others describe you? Hopefully as a nice guy.
How do you hire and fire? Hire slowly and fire quickly. I look for people with the same work ethic and desire to please as I have, not necessarily the same mindset and ideology because that can bring fresh perspectives. You have to fire with compassion because these people are possible customers and ambassadors of your company even though they have been let go.
How do you train and retain? Constantly, to keep our crew engaged.
How do you deal with problem employees? I try to retrain and also find out what the true issues are. There are two things that cause people to fail to perform or conform to your company's standards: either lack of knowledge or lack of desire.

to Charleston, which had no Firehouse Subs. The city, which is recovering well from the recession, has been good for his business and his family, and Hatton has gained a reputation for helping out in the community whenever needed. His work with Firehouse Subs' Public Safety Foundation, founded by franchisors and former firefighters Chris and Robin Sorensen, has set him apart and continued the close relationship between the restaurants and public servants.

A highlight of his career occurred when a piece of equipment purchased by Firehouse Subs for the Mount Pleasant, S.C., fire department was credited with saving the life of a local man. The inspirational story caught the eye of Anderson Cooper of CNN, who sent a reporter to do a story on it. "Here we were actually making a huge impact on this man's life. That's more important to me than anything else we could do," says Hatton.

BOTTOM LINE

Annual revenue: Prefer not to say.
2011 goals: Continue with the success that we have had with both the stores and the Public Safety Foundation, identify a new location in the Charleston area, and implement better training procedures to handle the added volume of business.
Growth meter: How do you measure your growth? Transaction counts and sales.
Vision meter: Where do you want to be in 5 years? 10 years? Five more stores in 5 years, and in 10 years, 10 more. But still working with Firehouse and the Public Safety Foundation.
How has the most recent economic cycle affected you, your employees, your customers? It has taught me to be frugal. Our employees appreciate having a job and being able to provide for their families. Customers have had to find ways to pay the bills, and when they come to eat they expect great value and demand better service.
Are you experiencing economic growth/recovery in your market? Recovery.
What did you change or do differently in this economy that you plan to continue doing? We changed our marketing strategy and tactics and our emphasis on service. We plan to continue on this track.
How do you forecast for your business in this economy? Take current trends and apply them to last year's numbers.
Where do you find capital for expansion? Certainly not the banks. I have done SBAs and they are just as tight as a bank now. So I look for private investors.
Is capital getting easier to access? Why/why not? No. The money is out there but lenders are just shell-shocked. They want to make every effort to determine that you are a sound investment. The past serves as a good reason for them to be this way.
Have you used private equity, local banks, national banks, other institutions? Why/why not? All of the above. You have to be creative in ways to look for capital.
What kind of exit strategy do you have in place? I have a great life insurance policy.
What are you doing to take care of your employees? I feel that I listen to their needs and try to give them the support they need to succeed.
How are you handling rising employee costs (payroll, healthcare, etc.)? We have had to raise prices but only as a last resort. We have become frugal in our spending and had to cut some things, like Christmas parties.
How do you reward/recognize top-performing employees? Public recognition, small bonuses, movie tickets, free subs.


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The 2011 Multi-Unit 50

Ranking the most multi-friendly brands

BY PAUL WILBUR

It's been said that the more things change, the more they stay the same. You'll notice that most of the same brands have returned to this year's Multi-Unit 50 lists. What has changed, however, is their rankings, as well as their percentages of multi-unit owners.

The differences from last year's MU50 rankings may reflect the challenges in the economy and the lending environment franchisees have been facing for the past few years. Certainly many units, regardless of ownership, have struggled; closures and resales have been on the rise. Despite scarce credit, multi-unit franchisees have been more likely than start-ups to receive financing to open new units. That's why franchisors have been targeting multi-unit franchisees for new unit sales by offering attractive incentives. Franchise systems with a high percentage of multi-unit franchisees have been more stable and have weathered the storm better than others.

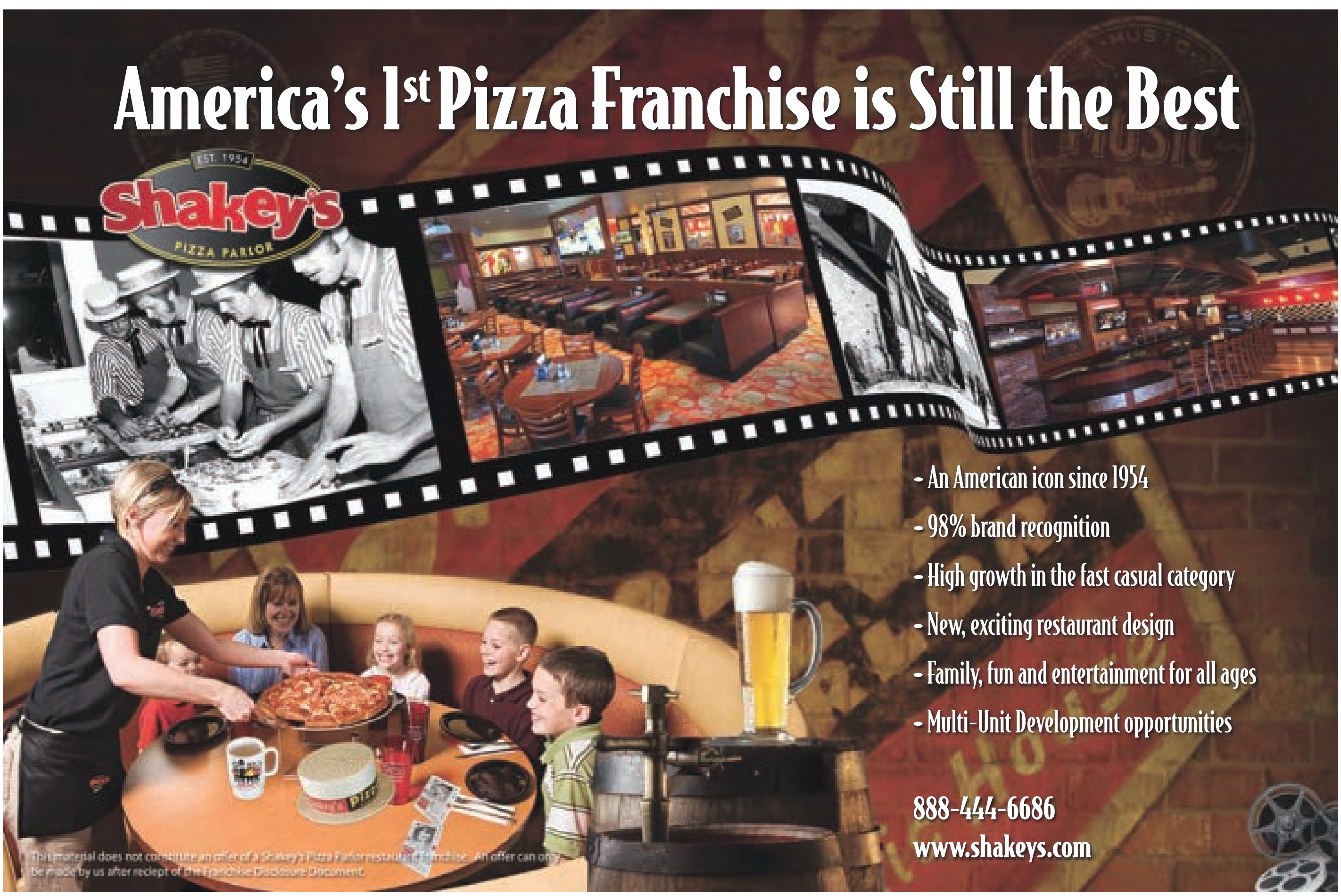
This trend is likely to continue. As we gradually come out of this economic hole, business will pick up, but with many of the weakest units culled from the system. Multi-unit franchisees with the best-performing units will be in a position to continue to grow most rapidly in the months and years ahead. And lenders (not a group known for their rapid readjustments) will remain conservative, preferring to make loans to multi-unit franchisees who can show years of success, as opposed to start-ups with no track record. MUF

Paul Wilbur *is chief operating officer at FRANdata, which supplied the data for this year's MU50 rankings.*

Top 50 Brands by Number of Multi-Unit Franchisees

RANK	BRAND	MULTI-UNIT FRANCHISEES	TOTAL FRANCHISEES	% OF MULTI-UNIT FRANCHISEES
1	SUBWAY	4,005	8,255	48.52%
2	MCDONALD'S	2,147	2,635	81.48%
3	SOUTHERN TSUNAMI	798	1,560	51.15%
4	DUNKIN' DONUTS	784	1,407	55.72%
5	BURGER KING	710	1,301	54.57%
6	THE UPS STORE	670	3,510	19.09%
7	DOMINO'S PIZZA	653	1,175	55.57%
8	QUIZNOS	545	2,798	19.48%
9	GREAT CLIPS	447	747	59.84%
10	TACO BELL	446	816	54.66%
11	LITTLE CAESARS PIZZA	440	530	83.02%
12	VISION SOURCE	439	2,318	18.94%
13	ACE HARDWARE	420	2,880	14.58%
14	DAIRY QUEEN	413	2,230	18.52%
15	KFC	408	698	58.45%
16	WENDY'S	372	515	72.23%
17	PAPA JOHN'S PIZZA	318	376	84.57%
18	HEALTH MART PHARMACIES	309	1,980	15.61%
19	FANTASTIC SAMS	287	775	37.03%
20	SONIC DRIVE-IN	262	556	47.12%
21	PIZZA HUT	260	425	61.18%
22	COUNTRY INNS & SUITES BY CARLSON	251	433	57.97%
23	ARBY'S	250	422	59.24%
24	MIDAS	217	525	41.33%
25	PAPA MURPHY'S	213	465	45.81%
26	JIMMY JOHN'S	211	622	33.92%
27	LITTLE GYM CENTERS	209	288	72.57%
27	SNAP FITNESS	209	636	32.86%
29	COLD STONE CREAMERY	206	862	23.90%
30	MASSAGE ENVY	197	481	40.96%
31	GNC LIVE WELL	193	547	35.28%
32	BASKIN-ROBBINS ICE CREAM	192	785	24.46%
33	SPORT CLIPS	190	323	58.82%
34	LONG JOHN SILVER'S SEAFOOD	181	265	68.30%
35	KUMON CENTER	180	1,117	16.11%
36	ANYTIME FITNESS	179	968	18.49%
37	POPEYES LOUISIANA KITCHEN	175	541	32.35%
38	SUPER 8 MOTELS	168	1,744	9.63%
39	JIFFY LUBE	165	346	47.69%
40	MIRACLE EAR	155	189	82.01%
41	SYLVAN LEARNING CENTER	154	487	31.62%
41	ZAXBY'S	154	295	52.20%
43	FIREHOUSE SUBS	151	229	65.94%
44	DENNY'S	146	476	30.67%
45	CHICK-FIL-A	145	1,118	12.97%
45	COMFORT INN, SUITES, AND HOTELS	145	1,944	7.46%
45	HUNTINGTON LEARNING CENTERS	145	253	57.31%
48	FIVE GUYS BURGERS	144	229	62.88%
49	HOT STUFF FOODS	135	599	22.54%
50	DAYS INN	132	1,650	8.00%

Source: FRANdata



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The 2011 Multi-Unit 50

Top 50 Brands by Percentage of Multi-Unit Franchisees

RANK	BRAND	MULTI-UNIT FRANCHISEES	SINGLE-UNIT FRANCHISEES	TOTAL FRANCHISEES	% OF MULTI-UNIT FRANCHISEES
1	PANERA/SLB BAKERY/CAFE	45	0	45	100.00%
1	APPLEBEE'S	45	0	45	100.00%
3	CHILI'S	21	2	23	91.30%
4	MCALISTER'S DELI	42	5	47	89.36%
5	BACK YARD BURGERS	41	5	46	89.13%
6	LABOR FINDERS	23	3	26	88.46%
7	BOJANGLES'	69	11	80	86.25%
8	PAPA JOHN'S PIZZA	318	58	376	84.57%
9	BRUEGGER'S	26	5	31	83.87%
10	LITTLE CAESARS PIZZA	440	90	530	83.02%
11	MIRACLE EAR	155	34	189	82.01%
12	MCDONALD'S	2,147	488	2,635	81.48%
13	SUPERCUTS	110	31	141	78.01%
14	RALLY'S	31	9	40	77.50%
15	CHECKERS DRIVE-IN	88	26	114	77.19%
16	PASSPORT HEALTH	39	12	51	76.47%
17	CAPTAIN D'S	68	22	90	75.56%
18	ACE SUSHI	79	27	106	74.53%
19	PALM BEACH TAN	17	6	23	73.91%
20	EXPRESS OIL CHANGE	38	14	52	73.08%
21	LITTLE GYM CENTERS	209	79	288	72.57%
22	WENDY'S	372	143	515	72.23%
23	JACK IN THE BOX	126	49	175	72.00%
24	CARL'S JR.	65	27	92	70.65%
25	VALVOLINE INSTANT OIL CHANGE	54	25	79	68.35%
26	LONG JOHN SILVER'S SEAFOOD	181	84	265	68.30%
27	COST CUTTERS	59	29	88	67.05%
28	FIREHOUSE SUBS	151	78	229	65.94%
29	Z PIZZA	45	25	70	64.29%
30	AARON'S SALES & LEASE	80	46	126	63.49%
31	FIVE GUYS BURGERS	144	85	229	62.88%
32	PIZZA HUT	260	165	425	61.18%
33	HARDEE'S	76	50	126	60.32%
34	GREAT CLIPS	447	300	747	59.84%
35	GODFATHER'S PIZZA	121	83	204	59.31%
36	ARBY'S	250	172	422	59.24%
37	SPORT CLIPS	190	133	323	58.82%
38	KFC	408	290	698	58.45%
39	COUNTRY INNS & SUITES BY CARLSON	251	182	433	57.97%
40	HOOTERS	23	17	40	57.50%
41	HUNTINGTON LEARNING CENTERS	145	108	253	57.31%
42	KRISPY KREME DOUGHNUTS	27	21	48	56.25%
43	DUNKIN' DONUTS	784	623	1,407	55.72%
44	DOMINO'S PIZZA	653	522	1,175	55.57%
45	PET SUPPLIES PLUS	41	34	75	54.67%
46	TACO BELL	446	370	816	54.66%
47	BURGER KING	710	591	1,301	54.57%
48	PENN STATION SUBS	36	30	66	54.55%
49	ZAXBY'S	154	141	295	52.20%
50	GOLFTEC	26	24	50	52.00%

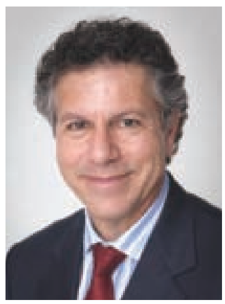
Source: FRANdata

BY EDDY GOLDBERG

Capital Ideas

BRIDGING THE LENDER-BORROWER GAP

Access to capital has been a bane to franchise growth for nearly three years. Much of the blame has been placed on lenders, who have been notoriously gun-shy since the September 2008 financial debacle. Stricter underwriting policies, the result of increased regulatory oversight, bankers say, is to blame. Of course, that's not the whole story. Other obstacles are involved, many of which can be eliminated by franchisees—but not without help from their franchisors.



Randy Schultz

That's one of the major takeaways from the IFA Small Business Lending Summit in April, which brought together about 200 bankers/lenders, franchisees/franchisors, and government regulators/officials seeking to improve the lending environment for franchisees.

While it shouldn't come as news to any savvy franchisee seeking capital, bankers at the event repeatedly spoke about a communication gap between the lending community and the applicants who approach them. Bankers said they want to lend and have capital available. Franchisees said, "There's no money out there." Now there's a gap. We followed up with several of the panelists to ask them what multi-unit franchisees should know before approaching a lender.

"I think the most successful franchise systems are those that regularly engage with the financial community to ascertain what they are looking for in providing capital to their systems," says Randy Schultz, managing director of the restaurant group at Regions Financial. For example, he says, Taco Bell or Wendy's will routinely reach out to capital providers and lenders with updates on how the system is performing—and, he adds, they also try to understand the universe of financial providers that support their systems.

Mark Edwards

He encourages franchisors "to proactively advise their franchisees on how to best approach the financial community." (One vehicle is the FAC.) The better brands, he says, do this. "It's in the franchisor's best interest," says Schultz. "That's why they're getting a royalty of 4 to 6 percent."

For Ron Feldman, CEO of Franchise America Finance (FAF), one big takeaway from the event is that "Franchisors have to communicate better. Have resources in your organization to help franchisees get credit. Franchisors used to say 'Go get your own money.' That dog doesn't hunt any more."

Mark Edwards, senior vice president and senior loan administrator for BB&T, commercial credit administration, says, "When we talk to a franchisor about our bank working with them and their franchisees, we talk primarily about what their expansion plans are, what their concept is, and what process they follow to choose franchisees. This will tell us a lot about what they're looking for."

First, says Edwards, "We want to have a relationship with franchisors—a clear relationship, not direct or depository, necessarily—and how it affects the individual franchisee in their particular concept. Second, he says, "The franchisee is our direct borrower and direct relationship. Our approach at BB&T is to have a local community bank relationship with each borrower."

Ron Feldman

Think inside the box

Bankers and lenders want to make loans and to feel comfortable about the risk involved, says Schultz. That comfort level requires confidence in the franchisee, the brand, and in being able to defend their loan portfolio in today's harsh light of regulatory oversight. For that, they need data.

"What's missing in a lot of situations is not understanding what the bank's box is and what data is available," says Schultz. Good data, he says, is a predictor of probable success or failure.

Banks today, says Edwards, will look at the track record franchisees have with their current locations. "This will essentially entail a review of their performance from a revenue standpoint, but particularly from a cash flow point of view—and their ability to take on additional debt." For example, if requesting capital for a piece of equipment to enhance or upgrade a current location, will it be additive to revenues and increase cash flow?

Franchisors, for their part, he says, should be as open as possible with lenders about their plans, realistic about expansion (where, how fast), the direction of their business, and about introducing new concepts that may require a franchisee to add equipment or price differently and affect how that individual franchisee operates.

Says Schultz, "Establish a collaborative partnership with the franchisor. Go to them and ask, 'What are you doing? Who are the people who understand the business? Are you leveraging FRANdata?" (See page 52.) This is particularly important for smaller, emerging franchise systems, he says. "That's where you have the biggest issues. Can you give us good data on why this brand is going to be successful?"

"Banks want to see historical, profitable tax returns—2010, not 2009—and positive same-store sales," says Feldman. Banks today are afraid to lend because of the regulators, he says.

One approach to improving the lending environment is Franchise America Finance (FAF), a collaboration between Siegel Capital Group and The Bancorp Bank. "What we wanted to create was a custom SBA lending program for franchise companies," says Feldman. FAF is looking to work with 30 brands initially (they were up to 19 when we spoke), with less than 70 percent in food and hospitality.

The goal, he says, is to work with franchise brands to "come up with a credit box that works for the bank and the franchisor, so that growth becomes predictable for the brand." That way, he says, "When you bring in a prospect you know they qualify before they even go to the bank."

When approaching a lender, says Feldman, "Performance matters, and showing that on your P&Ls and tax returns is more important than ever." Don't bury expenses, he cautions, and if you have several units, break out your P&Ls for each, don't combine them. "Show the banks that making your loan is a no-brainer from a cash-flow standpoint." When it comes to securing capital these days, "It's a lot about the financial package. You get one shot."

Survivors wanted!

While banks ask for projections, says Feldman, they also look back at the past 12 to 24 months. "If you're looking to grow and add another unit, they want to see that you held the bottom-line margin. Banks won't lend you money on a story."

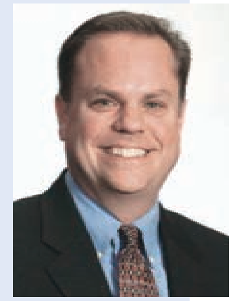
"We may put more weight on someone who has weathered the economic downturn, who is bruised but not broken," agrees Edwards. "If they've survived the past three years, they're likely to survive going forward. That's a testament to their management ability."

Even some multi-unit operators with profitable organizations are experiencing some downturn in the values of their real estate, he says, which puts them in a position where they would not qualify for a conventional loan. In those cases, the SBA could tip the scale in favor of the loan. "We use the SBA to assist in some lending situations," says Edwards. "We primarily look at that as a credit enhancement for the borrower who needs a longer amortization than we would offer on a conventional loan, or who needs more collateral."

"Right now there is money for small business lending, just not in the terms the market is comfortable embracing," says Feldman. Borrowers today have to pony up more equity, perhaps their house—something many are unwilling to do. Fran-

Q&A with GE Capital

Todd Jones, managing director of brand management and business development at GE Capital, Franchise Finance, participated in a panel discussion on the challenges facing franchising at the IFA's Small Business Lending Summit in April. In a follow-up interview, we asked him to elaborate on some of his comments.


Todd Jones

What should multi-unit franchisees know about today's lending environment? Franchisees should know that capital is available, but lenders are more selective than they were before the financial crisis. Not only will lenders analyze the franchisee's financial health and operating performance to determine creditworthiness, but also the brand's overall performance and capitalization. To expedite the process, franchisees should have their financial statements available and be prepared to discuss their business plan, their capital needs, and operating performance with their lender.

How can they enlist the help of their franchisor to obtain capital for growth, remodeling, acquisitions, or other expansion? Franchisees can encourage their franchisors to build relationships with a variety of lenders to help make more capital available. The more that a lender understands about the brand's strategy, its growth plans, its franchisee and site selection processes, and its overall positioning with consumers, the better.

What did you mean when you said, "My customers, technically, are the brands themselves"? My brand management team builds strategic relationships with executives in development, marketing, operations, and the C-suite at the franchisors to help support our originators in their efforts to provide capital to franchisees.

You said the key is: "What is the value proposition to the consumer?" Please explain. This means how well the brand meets the needs of its target consumers (e.g., is the brand delivering value, convenience, quality, taste, image, etc.). This is an important element of a lender's evaluation of the attractiveness of a brand.

You said that you look at same-store sales and how the franchisee has responded to reduced spending. In addition to assessing same-store sales trends, we also review the operational adjustments franchisees made to be more efficient in managing food and labor costs, as well as trimming other operating expenses. This analysis helps us determine the franchisee's effectiveness in preserving profitability margins in the face of declines in traffic and sales.

You also mentioned the business/operating model being profitable for the franchisees. After factoring in development costs, occupancy expenses, franchise fees, advertising expenses, food and labor costs, and other operating expenses, we evaluate the profitability of the business and the franchisee's ability to repay its obligations based on the cash flows generated by the business.

chisees, he says, were used to financing 80 to 90 percent. Today, he says, it's 55 to 70 percent, and franchisees either don't have the cash or don't want to put up their house.

On the bankers' side, says Edwards, "We take a very serious approach to our fiduciary responsibility to the borrower. We need to ensure they are capable of repaying their debt. A single bad loan is an event for us and can be a financial disaster for the individual."

"Franchisees really need to dig deep and do their due diligence on unit economics," says Feldman. "Unit economics will determine if you get the money."

Ask a banker!

Still in doubt about what to do next? Call a banker, suggests Schultz. "The financing community is pretty approachable," he says, if you come in with an approach of "Here's what I'm trying to do. Can you give me some suggestions on who I should speak to?"

"Most people in this business will tend to have a 10- to 15-minute conversation and tell you who else to talk to. We know what each other is looking for," says Schultz. Tell your story about why it's a good investment. Ask what the lender is looking for, what they invest in, what are their criteria. "My view," he says, "is 'I can't help, but try these three or four guys; or don't call these three.'" Two questions you should never ask: "How much can you lend me?" and "What's your rate?" MUF

Bank Credit Reports

Want a bank loan? Learn to speak "bank"! A franchisee's chance of getting a bank loan increases if they include a Bank Credit Report (BCR) in their application package, according to a survey released by FRANdata this spring. (Disclosure: FRANdata prepares and sells these reports.)

According to FRANdata, a BCR provides an independent analysis of the performance of a franchise brand with the aim of both introducing and validating the brand to a regional or community lender who may not be familiar with franchising, or with a particular brand. These reports follow standard bank underwriting topics and use established banking terminology to provide a detailed analysis of a brand, including brand strength, financial and operational risks of the franchisor, franchise system and unit performance, SBA lending outcomes, and comparative sector performance.

"With the main franchise loan activity increasingly coming from the community and regional banks, franchise brands are having to do all they can to assist franchisees in finding financing," says FRANdata CEO (and former bank executive) Darrell Johnson. "The successful loan applicant recognizes that credit departments at these lenders have less experience with franchises at a time when banks are more risk-averse."

BY TRACY STATON

Well-Coordinated

Balance your portfolio with complementary brands

THE INSPIRATION FOR RANDY ELIAS'S expansion into a new franchise concept came from a restaurant he'd been frequenting for years. In a prosperous area of Atlanta, a Mexican eatery called Jalisco sat next door to a Baskin-Robbins ice cream shop. With the help of customers looking for something sweet after a spicy meal, that Baskin-Robbins location was the number-one shop in that company, says Elias.

"Scott Paton, my business partner, and I saw the success with those two restaurants, and we modeled our business plan after that," says Elias. Good plan: today the two operate a very successful Moe's Southwest Grill in the Atlanta area, consistently coming in among the top 5 percent of the franchisor's 70 locations in the area. When a space opened up a few doors down from that restaurant, they decided it was time to expand. "We had to come up with the right concept," says Elias.

That concept turned out to be Menchie's, a frozen yogurt shop franchise based in Los Angeles. Given that his Moe's location was very family-oriented, the fact that Menchie's caters to the 5- to 15-year-old crowd was ideal. Already, some three months after opening, Elias says the spot has become the local malt shop. "That's who we're serving anyway," he says. "We had a strong dinner concept in Moe's and now a very strong dessert concept with Menchie's."

Like Elias and Paton, franchisees across the country are finding that expansion doesn't have to mean opening more locations of their existing concepts. Sometimes, the best chance for growth comes with a complementary brand. That new business might capitalize on current customer traffic, as Elias's does.

Mike Blass

Or it could broaden the product mix, offering clients more choices. That's what Mike Blass has achieved with his new Miracle Method franchise. The bath fixture resurfacing business adds an entirely new line to Blass's existing construction company in Lima, Ohio. "For me, the refinishing business made a lot of sense, because it gave my customers a different set of options at a different price point," says Blass. "It gave me as a business owner an opportunity to more effectively solve problems. And they feed each other. If I go in to do a Miracle Method job, that will lead to a construction job down the line."

Adding a new type of franchise can also be a financial diversification strategy, as Steve Reimer's new Einstein Bros. Bagels business has proven to be. Already a multi-unit hotel franchisee, with two Marriott brands and one Hilton flag, Reimer decided to get into food service partly because the investment wasn't nearly as capital-intensive as building another hotel.

"It's a very big capital expense to build a hotel," says Reimer. "It's a long-term real estate play. With a restaurant, you're in leased space, and you just have the build-out and FF&E. It's a cash-flow business, where hotels are more of a long-term hold."

For Dev and Sunita Sagar, branching out from their Denny's restaurant into Baja Fresh and Jack in the Box allowed them to cover different segments of the restaurant business in Northern California: 24-hour family dining, fast casual, and QSR. The mixed bag of concepts reduces risk, Dev figures. But by keeping all the businesses under the food-service umbrella, operations are simplified.

"Customer service is customer service," says Sunita. "The food is different, the POS system is different, but the skills are the same. You offer good food and good service in a clean environment. It's all about using the basic skills."

For Cary Albert, adding Cinnabon franchises to his Schlotzsky's shops in North Texas didn't just require the same basic skills—it required the same staff, the same space, the same utilities, and the same overhead—all of which brings in new customers and drives residual sales. "It's bringing an added value into the brand," says Albert, who now has five Schlotzsky's and five Cinnabon franchises, with three more dual-brand locations under development and another seven planned. "The only additional overhead is the cost of the product."

Albert has seen Cinnabon sales grow to between 5 percent and 8 percent of each location's take. With store sales that range from $1 million to $1.6 million, that's not insignificant. "Worst case, that's $50,000 a year you wouldn't have," he says, "plus the additional sales you're getting at Schlotzsky's, like soda sales. It's definitely added value."

Financing!

When seeking funds for a new, complementary brand, franchisees can point to the success of their existing businesses as proof of their management acumen. For instance, Elias's Menchie's addition was funded by private lenders. After financing Moe's with commercial loans, he was able to attract that private funding because of his consistent growth and strong P&L history with Moe's.

The Sagars' first location, a Denny's in the San Francisco Bay area, was financed out of their own savings, with the help of local community banks. Sunita had 17 to 18 years of experience in food service by then, and Dev had a successful computer-support business to his credit. "They knew they could trust us, providing the financing," says Dev.

Since then, the Sagars have tapped community banks for their various expansions. It's part of Sunita's philosophy of commitment to the local community. "We believe in getting involved, and that includes community banks," she says. "We have gotten funding from a lot of community banks."

Regional banks backed Reimer's hotel locations, but the Einstein Bros. expansion is an all-equity proposition; he and his partner are funding that themselves. Adding a third hotel to his stable, however, was a different story. The project was ready to go in 2008, but that's when, as Reimer says, "the whole world changed."

Sunita and Dev Sagar

Reimer's previous financiers weren't interested in another hotel, so he went to several different banks. Some weren't interested in the project at all, while others wanted a major equity investment from Reimer. "Ultimately U.S. Bank financed it," he says. "I had to put more equity in it than I planned on, but less than what some others had quoted."

SBA 504 loans have helped Albert with his rapid Schlotzsky's/Cinnabon expansion. After developing one new store (slated to open in September) with a conventional loan from J.P. Morgan, Albert was able to put another three into the works, thanks to new SBA legislation from Congress.

"They raised the limit to $5.5 million, which gave me another $3.5 million more to work with," he says. "Each store is $1.2 million to $1.5 million, with the SBA guarantee at 40 percent of that. So with the new limit, I can develop four or five more units using SBA money." Plus, the SBA requires only 10 percent down, he says, compared with 20 percent to 25 percent with conventional lending. "That keeps more capital in my coffers," he says. "It lets me expand more rapidly."

Blass has borrowed heavily to fund both his construction business and the Miracle Method franchise. "We've financed quite a bit in both businesses, because I'm confident that, given a little bit of time, it will be worth it," he says. "But I've got a lot of debt. At a conference recently, we heard what other entrepreneurs' credit scores were, and that helped. I thought it was just me."

One thing that's helped Blass with budgeting is the fact that he has a pension from his previous career in government. "I don't have to have a salary at this point," he says. "That gives me the ability to reinvest my cheapest form of capital, which is my time."

Synergy!

Having a successful first business to build on helps not only financially, but operationally as well. One of the advantages of operating three different concepts, the Sagars have found, is that they can apply good ideas from one franchisor in operating their other businesses. "Each brand, each franchise, has its own systems," says Sunita. "We can choose the best and apply it to them all."

For instance, Baja Fresh has well-established fund-raising and catering methods, Sunita says. The franchisees work with community organizations, schools, sports teams, and the like on fund-raising events. The organizations drive traffic into the restaurants, and then reap 20 percent of the proceeds. It makes sense for the Sagars' Denny's and

Well-Coordinated

Jack in the Box locations to do the same.

"That's the kind of community involvement I would like to have with all of my stores," says Sunita. "Getting involved in the community lets them know about us and helps us to increase sales. I believe strongly in getting involved."

There are opportunities for the Sagars to share more than good ideas. Their operation is large enough to warrant a full-time financial staff to deal with all three brand operations. Accounts receivable, accounts payable, human resources, customer service, and other back-office functions are all handled out of their Fremont, Calif., headquarters.

Management training comes out of Fremont as well, another synergy offered by operating several concepts. Cross-training managers ensures that the businesses always have backup in place. It also helps to retain employees by grooming them to move up as opportunities arise. "We do look into promotion or opportunity for growth within the organization first," says Sunita.

Cross-training is an important part of Reimer's hotel strategy, too. All three of his hotels, which he operates in partnership with his brother, are located in the same block of downtown Grand Junction, Colo. Employees are trained on all the computer systems so that, if one hotel is busier, employees can be shifted from another property to help handle the extra traffic. Cross-training also makes it easier to fill in for employees who are sick or on vacation. Plus, there's one administrative office for all three hotels, so they can share maintenance and sales staff when necessary. "We've seen a lot of cost savings in that respect," says Reimer.

Blass figured that, after adding Miracle Method, he could hire a full-time bookkeeper for all his companies, but that didn't work out: he decided that he didn't want to risk putting all his financial information into the hands of one person. "Now, I use my accountant's office for the construction company's books, and the next step is to meet with the accountant to hand over Miracle Method's books," he says. "Actually, they can do it cheaper, and if something were to go awry, they're licensed, and they have something to lose if I had to go after them."

However, Blass does have a single administrative office that serves as a base for all his companies, including the remodeling business and Miracle Method. He's in the process of opening a combination showroom and shop for Miracle Method, and he maintains another shop for Blass Residential Services. Eventually, he'd like to combine them all. "The goal is to someday, hopefully in the not-too-distant future, combine into one facility and operate under one roof," he says. "That would offer a lot of leverage and synergy to capitalize on."

His centralized administrative office allows Blass to share costs across the businesses, basics such as sharing one photocopier, costs on office supplies, and so on. "Also, I have some ability to shift costs to maximize my tax strategy," he says. "And Miracle Method, as a franchisor with 125 offices, has negotiated some trade discounts with major suppliers. Once I have that relationship, I have the option of asking for the discount for my construction company."

Another way Blass has found to double up is with payroll costs. All of his employees are technically on the construction company's payroll. Miracle Method then leases its employees from Blass Construction. That way, he has to pay for only one payroll package. "I do the same thing with vehicles," he says.

Next up: advertising. Blass is exploring ways to combine advertising for Miracle Method and Blass Residential. "We're looking at paying a rate for one company to get coverage for both," he says.

Complement!

These diversified franchisees have some words of caution for entrepreneurs considering similar moves. Choosing the right franchise is paramount. "Number one, you have to understand that the operative words are complementary, strategic," says Blass. "So you stick with what you know, and make sure that whatever franchise you're looking at doing, it will allow you to leverage the resources of your existing business."

Elias seconds that notion. There's no point in taking on a second franchise if it doesn't somehow fit with your current business, he says, as the Menchie's dessert niche does with his Moe's. "If you're selling dinner at one franchise, you might want a lunch business," says Elias. "If you have a lunch business, you might want a coffee shop next door."

It's key, of course, to do your homework on a prospective franchisor, says Dev Sagar. "Understand what their expectations are, how people view the brand, what kind of systems they have, how much they'll support multi-unit growth," he says. "It's like a marriage: You need to understand what a partner will provide you, what compromises you will have to make, and how you can achieve your goals in the environment that you share."

Sunita points out that the analysis can't stop with franchisors. Entrepreneurs must look carefully at themselves, too. "Multi-concept is not for everybody," she says. "You need to look at your personal strengths, at your business's current infrastructure, to see whether you can do it."

Reimer agrees that adding a complementary franchise is a big decision, but with retail space in plentiful supply, now is a good time to take the leap. "There's a lot of empty space in retail centers, so you can make a much better deal on vacant space with landlords. It's a good time if you have a concept that will work in your market."

In fact, Reimer is mulling another addition to his growing business. His latest hotel, a Springhill Suites by Marriott, has a 2,000-square-foot storefront. He's thinking about opening a coffee franchise there. "It would be a recognizable coffee franchise, with a door leading from the coffee space into the hotel, as well as storefront doors for customers from the downtown area."

Reimer figures the coffee business would be an amenity not only for the new hotel, but also for the city's downtown. And if it works out as planned, it would also be an amenity to his portfolio of complementary franchise brands. MUF

WHAT'S NEXT 2011 MULTI-UNIT FRANCHISING CONFERENCE

Planning FOR TOMORROW

Multi-Unit Franchising Conference shatters records

BY KERRY PIPES

MULTI-UNIT FRANCHISING CONFERENCE, MY HOW you've grown!

More than 900 franchisees, franchisors, suppliers, and franchise executives gathered in April for what has grown into *the* pivotal franchise event of the year for multi-unit operators. This year's numbers set a new record for the 10-year-old annual event.

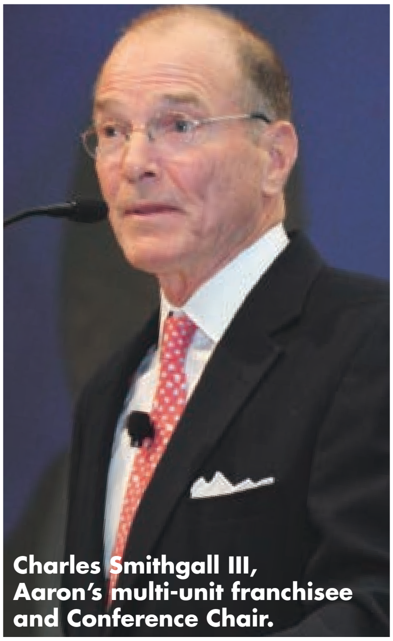
The conference, held at The Venetian Las Vegas from April 27–29, once again offered a unique opportunity for multi-unit operators to participate in cutting-edge sessions and seminars—while still allowing time to hear dynamic keynote speakers and plenty of opportunities to network with fellow operators. The educational tracks have continued to evolve and now cover franchising fundamentals such as employee recruiting and managing unit performance, as well as emerging trends and developing technology in areas such as financing growth and social media marketing.

THE 10TH ANNUAL MULTI-UNIT FRANCHISING CONFERENCE

Charles Smithgall III, the 2011 conference chair, proclaimed in his opening address, "The quality of this conference just continues to grow every year, and I know I wouldn't miss it." As a veteran attendee of this annual event, he said, "People ask me 'What should I expect to get out of attending this conference?' and I always say, 'It depends on what you put in.' If you bring the right attitude it can be tremendously valuable." And, says Smithgall, he can't wait to get home and apply the new ideas he's learned from other franchisees.

While in-the-trenches education, discussion, and open dialogue are always priorities, prominent guest speakers also play an important role at the conference. This year featured Domino's Pizza CEO J. Patrick Doyle, futurist Jim Carroll, and Sean Touhy, the real-life father from the blockbuster movie, *The Blind Side*. Each offered fresh and inspiring insights from completely different perspectives.

This year's event got off to a swinging start on Tuesday with a scramble-style golf tournament that provided ample



Charles Smithgall III, Aaron's multi-unit franchisee and Conference Chair.

opportunity for driving, putting, and networking. The weather was perfect and the Bali Hai Golf Club beautiful for both golf and the 19th hole banquet where prizes were awarded for the best scores, longest drive, and closest to the pin.

Day 1: Shop talk, keynote, and more

The conference officially kicked off Wednesday morning with concurrent sessions related to choosing brands and growing one's business. Panelists shared their experiences and perspectives and fielded questions from the audience toward the end of each session. A heavy schedule of concurrent sessions filled the morning, most centered on management and growth-oriented themes. Several sessions were repeated during the conference, allowing attendees more chances to catch the ones they wanted.

964 TOTAL ATTENDEES

180 TOTAL EXHIBITORS

OVER 300 FRANCHISEE ORGANIZATIONS ATTENDED THE CONFERENCE

One such session was "Best Practices for Benchmarking Unit Performance." Steve LeFever (financial consultant and chair of Business Resource Services), along with multi-unit operators Grant Norrid (Jack in the Box, Denny's, Marco's Pizza) and Don Fowler (Jiffy Lube), discussed ways to improve the financial performance of franchise units by emphasizing the need to keep tabs on profitability and unit-level metrics. The consistent message here was that making managers financially literate is key to enhancing the bottom line.

The first keynote speaker was Domino's CEO J. Patrick Doyle, who told the story of the pizza brand's amazing turnaround over the past 18 months. He acknowledged the brand's fall from grace and described how Domino's took a highly risky gamble in openly admitting their quality had suffered. The strategy under his leadership has been to address the issue straight on.

"We knew something had to be different and quality was the answer," he told attendees, and described how the brand spent two years working on its products before introducing the dynamic marketing campaign that, in effect, said, "Hey, we're listening to you and responding to your criticism." It was a risky move, said Doyle, and it's paid off: the brand's sales have increased in every quarter since the campaign was launched in 2009. "Honesty, transparency, and listening to your customers" are fundamentals in business today, he said. "It's a new world out there."

More sessions followed in the afternoon before the Exhibit Hall opened for the first of its three designated time slots. Multi-unit franchisees, franchisors, suppliers, and executives capitalized on opportunities to meet one another and discuss opportunities and deals, how they were faring with new brands, and the intricacies of managing multiple brands within a single franchisee organization. Franchisees looking for new brands took advantage of the opportunity to kick the tires on dozens of brands and products throughout the conference.

Day 2: In the thick of things

The second day of the conference opened

WHAT'S NEXT 2011 MULTI-UNIT FRANCHISING CONFERENCE

Glenn Mueller, Domino's Pizza multi-unit franchisee.

Ron Millard, partner, Redstone Capital Partners.

with economist and FRANdata President Darrell Johnson presenting his annual report on the state of franchising and the economy to a fully packed general session.

In a data-filled presentation, Johnson dug into the nuts and bolts of issues including the rising cost of capital, U.S. demographic shifts, sector trends, and unit performance. He said there would be "an uneven but steady climb out of the downturn" the economy has been in that would continue over the next 3 to 5 years.

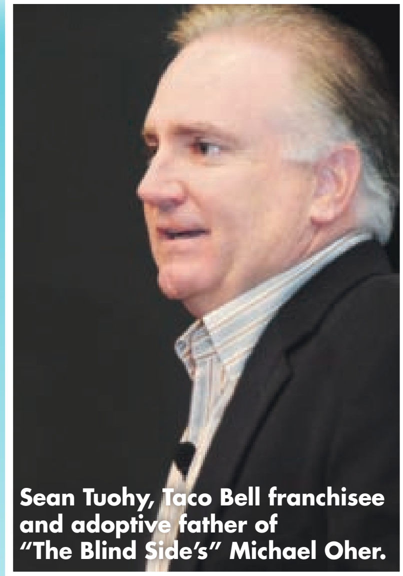
He acknowledged there has been a "farewell to cheap capital," but also said that "domestic opportunities still exist." A trend of "mass customization" is also taking hold, he said, driven by changing demographics skewing younger and older generations, with the younger group demanding products and services that are "more unique and customizable." On a positive note, he said a franchising boom driven by the health-related and specialty food sectors makes franchising a great place to be.

OVER 5000 FRANCHISE UNITS WERE REPRESENTED AT THE CONFERENCE

In keeping with this year's theme, "Plan Tomorrow Today," futurist Jim Carroll followed with a dynamic presentation of trends likely to affect franchising in the coming years, including the accelerating penetration of mobile devices, 24-hour access to information, the increasing speed at which consumers move, and the generational shift now taking place.

One example of his thought-provoking observations: "65 percent of kids in elementary school today will work in a job or career that doesn't yet exist." How do plan for that? He

WHAT'S NEXT 2011 MULTI-UNIT FRANCHISING CONFERENCE



Sean Tuohy, Taco Bell franchisee and adoptive father of "The Blind Side's" Michael Oher.

John DiJulius, keynote speaker, consultant, and author.

The Exhibit Hall provided plenty of one-on-one opportunities.

said a particular challenge for franchising is, "How do you reconcile the need for speed with the need for structure?"

Winners in tomorrow's world, he said, must be willing to "make bold moves, despite economic uncertainty" and "focus on new challenges and opportunities." His takeaway message was to see future trends as opportunities, and that to survive and be successful amidst all of them, brands must adapt and innovate to keep up.

The final keynoter of the day was Sean Tuohy, the real-life father from the Hollywood movie *The Blind Side*. The movie tells the story of how Tuohy's family adopted Michael Oher off the rough-and-tumble streets of Memphis and how, with Oher's talent and the family's love and support, the teen went on to become a top NFL lineman for the Baltimore Ravens. This was an uplifting and motivational talk from the word go.

OVER 90,000 FRANCHISE EMPLOYEES WERE REPRESENTED AT THE CONFERENCE

Tuohy, a multi-unit Taco Bell franchisee, anchored his talk around two words: "turn around." He told spellbound attendees that was what his wife said to him when they first saw 16-year-old Michael Oher. "Michael was walking in shorts and a t-shirt in the snow and I was going to pass him by. She looked at me and said, 'Turn around.'" He did, and many lives changed forever. "We hadn't planned it," said Tuohy, "but we stopped for one person, we loved him, and we were willing to try to make a difference in just one life."

Tuohy encouraged franchisees to do the same, imploring them to look more closely at their employees and other people in their

WHAT'S NEXT 2011 MULTI-UNIT FRANCHISING CONFERENCE

Steve Caldeira, IFA president and CEO.

J. Patrick Doyle, Domino's Pizza president and CEO.

lives that they may not see. "How many other great people do you have on your teams who might be just like Michael?" he challenged the audience.

Following lunch and networking in the Exhibit Hall, educational sessions fired back up in the afternoon. This day was anchored around four topical tracks: social media and consumer marketing, finance, real estate, and human resources.

Much of the social media track sessions dealt with topics such as the shifts in brand and customer dynamics, and how social media and Web 2.0 are dictating how brands are perceived today, and where consumers get information about them. Jason Falls, a consultant and founder of Social Media Explorer, led a session called "Marketing and Consumer Engagement" where he explained that "one-way marketing isn't kosher any more." As Falls reminded attendees, "Social media is like a cocktail party. It's conversational and you earn your way into the discussion and avoid the heavy sales approach."

OVER $4 BILLION IN ANNUAL SYSTEMWIDE REVENUE WAS REPRESENTED AT THE CONFERENCE

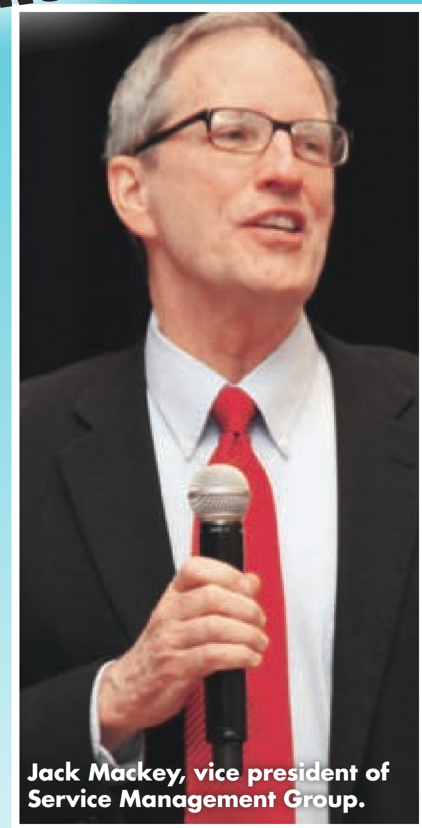
A cocktail reception in the Exhibit Hall capped off a busy and informative day.

Day 3: Customer service

The final morning of the conference featured a single in-depth presentation from customer

WHAT'S NEXT

2011 MULTI-UNIT FRANCHISING CONFERENCE



Jack Mackey, vice president of Service Management Group.

Rocco Fiorentino, president Swiss Farms Stores.

Golfers preparing to tee it up at the Bali Hai Golf Club.

service expert and consultant John DiJulius, titled, "What's the Secret? Providing World-Class Customer Experience." DiJulius, who has penned two best-selling books on customer service and worked with companies including Panera, Seattle's Best Coffee, and Chick-fil-A, also operates four of his own John Roberts Spa salons.

His presentation was based on his own "10 Commandments of World-Class Service," which he developed through his own experience and observing other organizations. The commandments included having what he called "non-negotiable experiential standards." Said DiJulius, "You need to create benchmarks your people absolutely must meet during every customer contact." He also explained a concept he called "secret service systems" and emphasized the importance of personalizing service and anticipating individual customer needs by capturing and understanding customer intelligence.

70% OF FRANCHISEES WERE LOOKING TO ADD BRANDS TO THEIR PORTFOLIOS

FRANCHISEES REPRESENTED FOOD, RETAIL, AND SERVICE BRANDS

Plans already are well under way for next year's Multi-Unit Franchising Conference, which once again will be held in Las Vegas, this time at The Mirage. Dates are April 24–26, 2012. See www.multi-unitfranchisingconference.com for updates, as well as for presentations and a review of this year's event. MUF

Multi-Unit Franchisee 2011 MVP

2011 MVP Awards

Multi-Unit Franchisee magazine's annual MVP (Most Valuable Player) Awards, presented at the Multi-Unit Franchising Conference this past April in Las Vegas, honor franchisees who have demonstrated outstanding performance in building their businesses, growing their brands, and serving their communities.

Therese Thilgen, CEO of Franchise Update Media Group, introduced each winner and presented them with their awards during a general session at the conference. Said Thilgen, "We congratulate these dynamic franchisees who inspire others with their vision, leadership, and achievements."

All winners are extensively involved in giving back to their communities, as well as in providing innovations that have helped build the franchise system, as well as their own organizations. The 2011 MVPs are:

• **Lawrence "Doc" Cohen,** founder and CEO of Cookie & Associates. He operates 18 Great American Cookies, 11 Pretzelmakers, 3 TCBYs, and 1 Coffee Beanery.

• **Kevin Hatton,** owner of the Second Alarm Restaurant Group. He is a franchisee of Firehouse Subs with 5 units.

• **Gary and Sally Myers,** owners of BMW Management. The couple operate 24 Sizzlers and 1 Richie's Real American Diner.

• **John Scharnweber,** COO of Classic Restaurants. He operates 3 Ground Rounds and 4 Denny's.

• **Zane Tankel,** CEO of Apple-Metro. He operates 35 Applebee's stores in the New York City area.

• **Greg Thomas,** president of Baci Fashions and Parkside Ventures. He oversees 13 Great Clips and 2 Smoothie Kings.

Security

BY DAVID ELLIS

Keeping Hackers Out

Simple steps for safeguarding customer data

Network systems attackers, as well as less-dangerous (though still nefarious) hackers, never rest in their ongoing quest to compromise franchise computer systems and capture a share of the billion-dollar bounty of stolen credit card data. When the final 2010 figures are tallied, the FBI expects that organized crime worldwide will net more illicit money from Internet fraud than from illegal narcotics trafficking.

Attackers' methodologies continue to evolve and grow more sophisticated. Franchisees must do likewise to stay a step ahead and protect customers' personal information and their own hard-earned business reputations, indeed their very livelihoods.

Some quick definitions: "Attackers" break into franchise computer systems with specific criminal intent to steal and defraud, whereas "hackers" often do so for the challenge, the notoriety, or the thrill of the chase. Hackers can inflict costly system damage and inconvenience, as serious as system shutdowns, but this can pale in comparison to the damage from system attackers. An attacker's intrusion, if undetected, can inflict irreparable damage to franchise operations.

Their current "best practice" and number-one method to gain access to a franchise system (and ultimately to customer credit card data) is to compromise a vulnerable remote access application, such as one that allows owners and managers to log into a work computer from home or elsewhere.

Attackers increasingly target franchises that use remote access because, if they are successful, it allows them to completely bypass firewalls. The foremost vulnerability with remote access is not the tool itself, but rather how the remote access is configured. Merely requiring a user name and password allows an attacker to enter your network by breaking only a single level of security, and there are a plethora of available tools to help him. His job is made even easier when system administrators choose weak passwords (like "password"). Once he's gained network access, the attacker has the "keys to the kingdom," and is free to install a suite of malware designed to harvest customer credit card data and export it to his system.

Once inside a franchise network, attackers employ a variety of tools. Keyloggers, originally created for such legitimate purposes as helping employers and parents track workers' or children's correspondence and Internet usage, are a perfect attacker tool, used to capture all keystrokes and credit cards as they are swiped at a terminal. Antivirus software developers only recently began to flag keyloggers as potentially malicious, so the attackers' honeymoon with keyloggers may be nearing its end.

Not so with another of their favorites, memory scrapers (or memory dumpers). These pose grave danger not only because they typically go undetected by antivirus programs, but also because they can capture customer credit card data *before* it reaches the encrypting protection of a secure credit card payment application.

How to avoid the high costs of lax security

Apart from inconveniencing and potentially damaging customers' credit (not to mention business reputations and goodwill), the consequences of insufficient or lax system security also hit franchisees squarely in the pocketbook.

For starters, Payment Card Industry (PCI) forensic investigations into suspected breaches average around $15,000 per franchise location. Credit card companies may hold merchants responsible beginning at $5,000 per location breached, and card issuers similarly seek reimbursement. In one instance, a small restaurant franchisee was charged $110,000 in reimbursement for fraud costs. Add to these the not-so-"soft" costs of damaged reputations from media reports stemming from consumer complaints, and the impact on franchises can be staggering, even fatal.

While there is no "silver bullet" that insulates a franchise from all attacks, adherence to the mandatory Payment Card Industry Data Security Standard (PCI DSS) is the best place to start. Strict compliance with this framework will help plug security holes that allow criminals to pocket your customers' card data. A good place to begin is by examining the security of your remote access. Remote access should always require "two-factor authentication." In addition to a user name and password, two-factor authentication requires an additional step, such as physically calling a manager onsite to be granted remote system access. This is among the best "second factors." Another good second factor could require matching of Media Access Control (MAC) addresses between the remote and onsite systems.

Another simple, yet important security tip is to close Virtual Private Network (VPN) tunnels when they're not in use. Attackers can try to hack into the VPN only when it is open, so reduce their potential window by closing the VPN when not in use.

The use of wireless technology for payment applications presents another possible vulnerability that just isn't worth the risk. Even wireless encryption that is considered secure by today's standards may be compromised tomorrow.

These suggestions are far from a security panacea, they are simple starting points. Franchises do what they do best: operate their business. They're usually not IT security experts, but IT security must be on their radar. Being PCI DSS–compliant and taking relatively simple steps can go a long way toward successfully fending off Internet attackers. MUF

David Ellis, *CISSP, QSA, PFI, is director of forensic investigations for SecurityMetrics, a leading provider of Payment Card Industry Data Security Standard security solutions. Contact him at 801-724-9600 or visit www.securitymetrics.com.*

BY STEVE LEFEVER

Expansion Analysis

Sales are only half the answer

GROWTH: THE ALL-AMERICAN MEASURE OF SUCCESS. BUT what kind of growth? And how do you measure growth in relation to success? For too many businesses, intelligent and well-intended owners settle for sales volume alone as the primary indicator of achievement.

Don't get me wrong, sales are important. I'm not trying to appear un-American or anything, but my premise here is that often growth—or expansion—occurs without an effective analysis or understanding of the underlying costs.

For most businesses, growth means expanding existing facilities or opening additional outlets. However, expansion costs money and the analysis has two aspects: financial and marketing. Financial answers the question: "What do we need?" Marketing answers the question: "What will we get?"

Financial answers the question: "What do we need?" Marketing answers the question: "What will we get?"

Here's an example from the folks who are best at this: the Golden Arches. Do they know their costs? Down to the last McCrumb. Suppose they are looking at a new location. By knowing accurately their fixed and variable costs, they can calculate a break-even sales volume level. Where do they find this accurate cost information for the new store? They have thousands of existing outlets to use as models, so by knowing how much they need to invest and their target ROI they can calculate the required profit. Then, considering the target profit as "fixed"—the cost of money—they can easily calculate the required sales to cover the costs and supply the necessary profits. Okay, halfway there.

Simultaneously, the marketing folks are conducting a demographic survey, researching and analyzing the target market area. By projecting most likely customer volume and knowing the average customer spend they can accurately predict sales ("What will we get?"). Now it's complete.

Next, the marketing and finance people meet and put the puzzle together. If what you will get is greater than what you need, it's a "go." The other way around, and it's a "no-go." I leave it to you to assess how often they're right. However, I make the following observation: such an analysis is not possible unless you know your costs.

Facts:

Variable cost (%)	=	60%
Fixed costs	=	$250,000
Target profit	=	$200,000

Formula: $$\text{Required sales} = \frac{\text{Fixed costs + Target profit}}{100\% - \text{Variable cost }\%}$$

Calculation:

$$\frac{\$450{,}000}{100\% - 60\%} = \frac{\$450{,}000}{.4} = \$1{,}125{,}000 \text{ required sales}$$

Working the numbers

Several years ago, one of my clients came to me ready to expand. He had four stores and was opening a fifth. Naturally, I asked him: "What are your fixed costs?" His answer: "I don't have the foggiest idea. How can I find out?" My suggestion, of course, was to look at his other four stores. He told me annual fixed costs were $220,000. Knowing this client, I applied Murphy's Law and arrived at a figure of $250,000.

Next, I asked him what his variable cost percentage was. Same answer. Naturally, you find the variable cost percentage the same way. He told me his variable costs were 60 percent of sales.

Now all I needed to know was how much he would need to invest and his required ROI. He planned to invest $1 million and his required ROI was 20 percent. Therefore, of course, he needed to make $200,000 per year. I've diagramed the financial analysis (above).

What this says in words is: With a variable cost percentage of 60 percent, my client must achieve sales of $1,125,000 to cover fixed costs and produce the target profit. His comment to me: "That sounds okay, but can I do it?"

My answer: "How should I know? I'm just a finance guy!" To do the other half of the analysis (the marketing part) required additional effort. So I dispatched myself to the small town he'd targeted for expansion and reviewed the market. My competitor analysis is outlined at left.

Competitor 1	$ 650,000
Competitor 2	550,000
Competitor 3	500,000
Sales going out of town	500,000
Total market	**$2,200,000**

As I saw it, my client needed a 50 percent market share. What's the likelihood of getting that in a small market where he's unknown and all three competitors are both known and well-established? About the same as the proverbial snowball!

Do it yourself

Who can use this expansion analysis process? Anyone—and for any kind of growth, be it expanding existing facilities or opening new ones. A sales analysis is only half the story. An accurate knowledge of your costs and how they behave is really "the rest of the story." Further, expansion is not the only story. The analysis works just as well in the decision to sell locations—

> A sales analysis is only half the story. An accurate knowledge of your costs and how they behave is really "the rest of the story."

"degrowth," you might say.

Admittedly, the process isn't perfect, and the risks are several: only doing half the analysis, being wrong anyway, and not evaluating whether the growth is accomplished at the expense of increasing levels of debt. Nevertheless, the process is better than proceeding blindly. Indeed, sometimes it's most useful in predicting what *won't* work, rather than what will. Always keep this in mind: sales alone are not an adequate predictor; don't go after volume for volume's sake.

My client's decision? "Well," he said, "I'll admit that the sales volume and market share projections make this look pretty risky, but I'm not worried… because I can borrow all the money!" My response? I offered him a huge discount for immediate cash payment of our bill. 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

Time for a Simpler Approach

Investing insights for the 21st century

As we've seen in high-definition in the past few months, the factors that must be accounted for while structuring financial affairs are much more complicated than ever before.

The 1980s and 1990s were great times to be an investor. Interest rates were falling dramatically, instigating a huge and lasting bull market in fixed-income investments. Credit became easy to obtain and even our tax policies encouraged consumerism. Investors were pouring into the markets with the advent of 401(k) plans and IRAs. Companies were going public at record rates, resulting in a lot of new and interesting "stuff" to look at for possible investment and creating liquidity for scores of aging Baby Boomers. Regulations for many industries were easing, and the growth of all sorts of investment vehicles (e.g., mutual funds, exchange-traded funds, private equity) was skyrocketing. Globalization took hold, especially after the fall of the Berlin Wall, and capitalism began to more rapidly spread around the world.

According to data from the Investment Company Institute (ICI) and the SEC, the percentage of the population that owned publicly held stocks rose from about 5 percent in 1980 to nearly 50 percent in 2000. Particularly in the latter half of the 1990s, participation was arguably fueled by abnormally high stock market returns. For example, the 5-year annualized rate of increase in the S&P 500 index between 1995 and 2000 was 29 percent!

It was a simpler time at the outset, with fewer investment choices and a slower pace of activity. In 1980, there were a mere 564 mutual funds, and average daily trading volume on the New York Stock Exchange (NYSE) was 45 million shares, according to ICI. Total mutual fund assets amounted to $135 billion. There were no IRA, 401(k), or hedge fund assets. (The former hadn't even been legislated into existence, and the latter were too nascent to count.) Personal computers hadn't been invented, so security analysis took a much simpler form: heavy on the use of pencil, paper, slide rule, reading of SEC filings, and one-on-one conversations with management and suppliers. Moreover, there was no ability to crank out reams of comparative analysis at the push of a button. No email, no Google, no stock screens. Any sort of "quantitative" analysis was an arduous and time-consuming endeavor.

By 2000, there were more than 8,000 mutual funds, and average daily NYSE volume topped a *billion* shares a day (ICI). Average holding periods dropped from three-plus years to barely a year. As one money manager quipped, people went from "owning stocks to renting them." And now? We have 24/7 access to more investment and financial news than we can possibly absorb—with most of it available for free. The same holds for analytical tools.

Given all the money expended on brilliant people and high-powered technology in the intervening years, I've often wondered why overall returns haven't improved. Perhaps it's because:

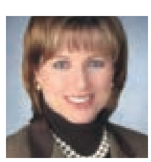
1. People still pull the "levers," and people are prone to all sorts of behavioral idiosyncrasies—especially when stressed and confronted with unpredictable situations.

2. Investors have gotten away from the basics of sound investment policy. Rather than analyzing the merits of specific investments, excessive time often appears to be placed trying to outmaneuver other investors. Many essentially view the investment process as buying lottery tickets rather than pieces of companies.

3. The more creative Wall Street gets in "synthetic" products and complicated management structures, the more middle people there are to take a bite out of the potential profit available, if any.

4. Nervous investment trigger fingers are exacerbated by 24/7 news flow across multiple channels. Brain scientists have illustrated that when confronted with tons of information, we either shut down and don't want to make any decisions, or we try to respond to all of it by tweaking "this or that" in a knee-jerk fashion. More often than not, the common state is swinging wildly from one extreme to the other, basically reverting *through* the mean, not *to* it, on the way to the other extreme.

Today, we are left with a seemingly more complicated world, even if we have the ability to slice and dice its risks into more finely digestible pieces. In addition, there are more market participants influencing daily trading: sovereign wealth funds, governments pursuing self-indulgent policies, emerging trade blocks, more citizens stepping toward democracy, and capital markets. Given the knowledge that the more choices we are confronted with, the more likely we are to do nothing, what's an investor to *do?* At the risk of sounding overly simplistic, perhaps it's time to re-sync our expectations and revert to some time-tested asset allocation and analysis basics.



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 $5.2 billion in assets for nearly 300 families and 57 foundations from offices in Chicago, Minneapolis, Naples, and Scottsdale. She welcomes questions and comments at cclark@lowryhill.com*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BY JACK MACKEY

Take Action—and Measure It!

Benchmarking key performance areas drives profitability

"How am I doing?"

That's a great question! In fact, none of us can get better without knowing how we are doing in key performance areas. For multi-unit franchisees, who are "managers of managers," it is crucial to focus your teams on the vital few things that matter most and are under the control of your managers. Reporting these key metrics gets people to pay attention to what's important. Done correctly, measurements answer the question for each store manager: "How am I doing?"

Measurement is more than information

An inspiring example comes from Broadbase, Inc., which operates 34 locations and was named "Operator of the Year" at the 2010 Jiffy Lube International franchise convention. Broadbase CEO Don Fowler says his company's remarkable sales growth, from $12 million to $31 million over the past three years, comes in part from highly motivating performance reporting systems.

At the Multi-Unit Franchising Conference in April, John Platt, CFO of Broadbase, put it this way: "The old saying is that you can't manage what you can't measure. And you sure can't improve what you don't measure. That's why we track and report sales, transaction counts, and profitability." Reporting on these numbers—and especially the trends on these key metrics—is a powerful way to improve performance where it is vital to your success as a multi-unit franchisee.

One of the surest ways to accelerate improvement is to report key metrics more quickly—to shorten the feedback loop from action/effort to results. Real-time reporting is ideal. Daily reporting is a minimum. Each day your unit managers start working, they should know how they performed yesterday. They should know where they are week-to-date and year-to-date.

Platt also believes in the power of benchmarking to foster competition among unit operators. Every day he deliberately reports every store manager's results to *all* store managers and the entire system. "When you see that you are number 34 out of our 34 stores, that will drive you crazy if you have any kind of competitive spirit," he says. In fact, for every manager who is not in the top 50 percent—who is not above average—that daily reporting is painful. And it stays painful until the situation changes. This type of benchmarking is a powerful management tool for multi-unit franchisees to motivate managers to perform better where it matters most.

When you can generate healthy competition to deliver on service standards, you'll get the kind of concrete operational improvement that drives sales, transaction counts, and profitability.

Of course, it's not easy to improve sales, transaction counts, and profitability. After all, those numbers cannot be directly improved. They are outcomes of other actions.

To manage better, focus on better metrics

What are those actions that drive sales, transaction counts, and profitability? If you can go that one level deeper, you can focus your unit managers on better metrics. Better metrics are more clearly actionable by the store manager and employees. For multi-unit franchisees who are managing unit managers, these "one level deeper" metrics are most heavily focused on operations and customer satisfaction.

For example, in the automotive aftermarket business, there are service standards that apply to customers. For example, there may be system-wide standards such as: *warm greeting, listen to understand, recommend solution, thank customer, and invite customer to take a survey.*

Franchisors have usually spent considerable time and money to prove through statistical analysis that when these service standards are performed, two things happen. First, average sale amount goes up as the number of service standards performed goes up. Second, as the number of service standards performed goes up, the customer's *overall satisfaction, intent to return, and intent to recommend* also go up. So when service standards are performed, the current sale amount goes up and future sales from each customer go up.

On the customer satisfaction survey, customers are simply asked: Did you receive a warm greeting? Yes or no. Did the associate listen to understand your issues? Yes or no. And so on, until each service standard has been measured either yes or no. How does this knowledge become actionable? The number that is reported for each unit shows how often—as a percentage—each standard was performed. It is rarely 100 percent on even one standard. There is always clear room for improvement.

These metrics on service standards should also be benchmarked across all units. When you can generate healthy competition to deliver on service standards, you'll get the kind of concrete operational improvement that drives sales, transaction counts, and profitability.

Your franchisor is almost certainly collecting data on service standards from customers. Are you using it to manage better? 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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** *Inc.* magazine, 500 issue, 8/2010

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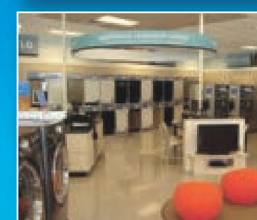

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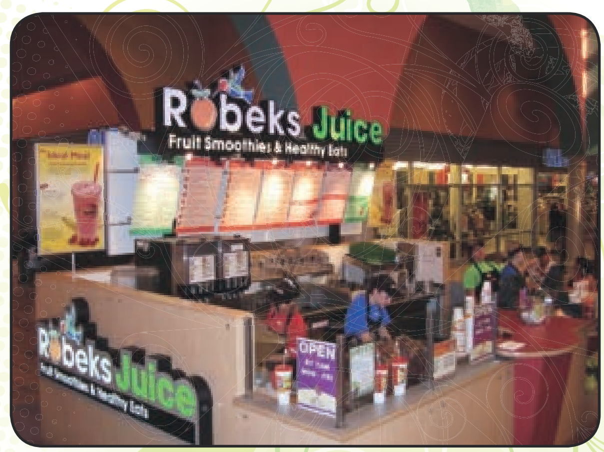

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BY MEL KLEIMAN

New Tricks for this "Old Dog"

My favorite takeaways from the Multi-Unit Franchising Conference

Because of my 25-plus years devoted to best-practice hiring techniques, I may be thought of as an "old dog" by some, but that doesn't mean I can't learn any new tricks, and I picked up a few at the recent Multi-Unit Franchising Conference in Las Vegas.

At an HR roundtable session, we polled those in attendance about the hiring techniques that are working best for this diverse group of multi-unit franchise holders. Our objective was to tap into what James Surowiecki described in his book *The Wisdom of Crowds*. Some of the learning also came out of the HR track presentations on pre-employment testing by Cultural Index and automation of the hiring process by SnagAJob.com. While much of what was shared simply confirmed what I already teach, some new information was put forward that I'll happily add to my repertoire. My favorite takeaways:

1. The convenience of mediocrity trumps the inconvenience of change. It's not the dishonest or irresponsible people who keep our organizations from excelling. No, we're smart enough to fire those losers fast. It's the mediocre people who keep us from building winning teams that outperform the competition. Too many employers put up with mediocre performers rather than replace them, mainly because they don't have any bench strength. There's no one available to take the mediocre employee's place, get in the game, and play to win.

There are two simple solutions to this problem. The first is to recruit and interview religiously to build a database of high-quality applicants you can call when needed. The second is to hire overqualified people for entry-level jobs and promote them.

Of course, it's important to exhaust all remedies that might improve a mediocre player's performance (additional training, performance reviews, warnings, etc.). But, if these measures fail, it will come as no surprise to this person when you hand them a pink slip.

2. The best source of new employees is referrals. Even with the advent of the Internet, job boards, online applications, and social media tools, it's a fact that employee referrals still deliver the best new hires. That's why practically every employer has an employee referral reward program. The problem is that few do it right.

The biggest mistake is to delay the reward until the new hire has been on board 60, 90, or even 120 days. This is nonsense. Good behavior needs to be reinforced immediately to encourage more of the same. Does the job board or recruiter agree to bill you only if your new hire stays for a set number of days? Why penalize your employees when they do you this huge favor? Give the reward the day the new person starts.

The second biggest mistake is adding a monetary reward to the referrer's paycheck or having a merchandise reward delivered to their home. These awards should be made in front of as many people as possible. It's the best way to turn every employee in your company into a top-notch recruiter.

3. Testing is the best predictor of success on the job. Many of the roundtable participants are enjoying improved hiring success rates and lower employee turnover since adding testing to the pre-employment screening process. They are using testing as another interview and told us that once someone is hired, the test results help them do a better job of managing that person.

The interest in automated hourly employee application tracking and hiring processes is way up. Both SnagAJob and the JobApp Network are adding to their client rosters because franchisees find these systems make it much easier for applicants to get into their systems. They also save management time, help build needed bench strength, and minimize bad hiring decisions and employee turnover.

4. Most hiring decisions are based on gut instinct. While the use of testing is on the increase, most still "wing it" rather than use best practice tools to conduct interviews. Very few use a structured interview question set, and not many have had any substantive training in interview techniques. When asked how they go about hiring, many say: "We look for people who fit our culture," and then freely admit they first tell applicants all about the job, company culture, and the kind of people who best fit before asking any questions. Only the dullest applicants then have any trouble telling interviewers exactly what it is they want to hear!

5. Keep raising the bar. Two organizations that were already using testing kicked it up a notch for even better results. Both added SnagAJob to the mix. Even though the system they had was working, they continued to look for better ways to get things done. Now turnover is down and productivity is up for both. Even if you're happy with what you have, it's wise to look for ways to get even better.

6. The #1 way people try to find new hires is "posting and praying." At the unit level, a person gets hired if they walk in just when they're needed. (No matter that the person may not be a good fit.) At the multi-unit level, most promote from within. (The only problem is these employees are promoted without training and are often left to sink or swim.)

There are only three pools of new recruits to fish in. Active job seekers are about 18 percent of the pool; this is where most fish. Sixty percent are working and not looking, but, if offered something better, would take the bait. The remaining 22 percent are totally satisfied with their situation and not looking to change it. Most of the best talent is in the 60 percent not looking, but few employers tap into this source. They just post and pray instead.

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BY DEAN ZUCCARELLO

Greed Is Good—*Not!*

Strive for a fair balance in transactions

Gordon Gekko, the main character in the 1987 blockbuster film *Wall Street*, quickly became a popular cultural icon of unrestrained greed. The "Greed is good" phrase comes from his address at a stockholder meeting:

> "…*greed—for lack of a better word—is good. Greed is right. Greed works. Greed clarifies, cuts through, and captures the essence of the evolutionary spirit. Greed, in all of its forms—greed for life, for money, for love, knowledge—has marked the upward surge of mankind…*"

• **Is greed really good?** Philosophically, that evolutionary spirit Gekko refers to is not greed, but rather the concept of self-interest. Enlightened self-interest contemplates helping others achieve their goals or providing benefits to society as a means to advancing one's own position. Greed, on the other hand, is simply the destructive addiction to accumulation. The short-term spoils brought on by greed are often fleeting, while the benefits from enlightened self-interest more often endure.

What does this have to do with the deal world? A lot, as it turns out. Greed often gets in the way of attaining the goal of consummating a transaction. Why? Because the greedy party will continue to push for more and more, until they become so unreasonable that the other party just walks away. The self-interested party, on the other hand, knows how to drive a good deal, but knows when to say when.

• **Negotiation as a sport.** Most people in the business and deal world love to negotiate. In fact, we seem to be a universe of negotiators. But what happens when winning the negotiation becomes more important than achieving the original goal of closing the deal? At what point does it become too much?

There seems to be a disturbing trend gaining momentum whereby if you don't "get one over" on the other party, you haven't done a good deal. Has the notion of "win-win" become a thing of the past? A fair deal in which both parties compromise just does not seem to be good enough anymore for some participants. But if this mindset takes hold and becomes the new normal, how can anyone realistically expect to complete a transaction? This is a very dangerous path to go down in terms of transaction success, and in terms of the impact on the social fabric of our global business environment and how reasonable business people conduct themselves.

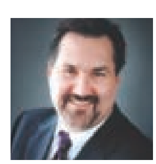
The short-term spoils brought on by greed are often fleeting, while the benefits from enlightened self-interest more often endure.

• **How did we get here?** People have been negotiating since the beginning of time. But why has it become so contentious lately? It may be that the painful recession has left us with a void of optimism, and parties to a deal may try to overcompensate for the negative environment. Many buyers believe that any seller today must be desperate. The reality, though, is that many sellers are *not* desperate at all. The result is that fewer transactions are consummated, and more parties walk away from the table disappointed and regretful. In addition, some buyers who weathered the recession very well have allowed themselves to be charmed by the "golden rule"—the notion that since they have the gold, they make the rules. Once again, we see sellers exiting the negotiation process fairly quickly when golden-rulers are on the other side. Anecdotes of these "one-sided" deal negotiations make their way back to potential sellers, who want nothing to do with that process. This results in fewer viable businesses on the market and a potential backlog of transactions.

• **Greed puts the deal at risk.** It is healthy to be aggressive—that's enlightened self-interest. But don't risk the deal with greed. Successful negotiations focus on achieving an objective, not on trying to take advantage of the other side, or scoring more negotiating points. The best dealmakers know when they've pushed enough. They have an innate sense of the other party's position and when they have reached the limit. And they remain focused on the ultimate goal. All too often, if negotiations get overly contentious, emotions take over and the deal becomes difficult, if not impossible, to resurrect.

• **Prioritize your focus.** In addition to focusing on self-interest rather than greed, it is important to focus on the truly important deal issues, and not the trivial stuff. Some deal negotiations fail as parties focus on issues that are simply immaterial to a successful transaction. Successful negotiations center on the critical factors necessary to protect and ensure long-term success for both parties. Trivial issues can become a distraction, create unnecessary negotiations and deal fatigue, and may contribute to a failed deal process.

• **Conclusion.** Success in transactions, as in business in general, is driven by a healthy dose of self-interest. But if you truly want success, check your greed at the door. You'll accomplish more of your goals, build goodwill, and create more value in the long run. MUF



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BY DARRELL JOHNSON

Ten-Year Bets

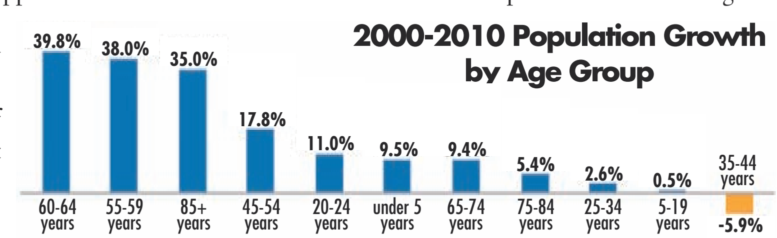
Factoring in today's ongoing trends

Forecasting is a tricky business, involving equal amounts of data crunching, interpreting economic and general news events, common sense, and guessing. Like the weather, the shorter term the economic forecast, the more likely it will be close to reality.

Unfortunately, multi-unit operators must make investment decisions that have consequences for the next decade or more. We are only modestly affected by near-term economic events, so I will put greater emphasis on the last two forecasting factors—common sense and guessing—to see what some of the most influential trends might be for the next decade.

Let's start with the cost of capital. We have been in a cyclical 30-year decline. While access to capital is perhaps the biggest issue confronting unit expansion and acquisition today, the cost of capital is a relatively minor factor in budgeting and ROI decisions. Simply put, capital is cheap and has been for some time. I wouldn't count on that being the case for much longer because of globalization.

Money is a fungible commodity and will flow to the most attractive risk-adjusted opportunities. Over the next decade the most attractive investment options, relatively speaking, will be in the developing countries of the world. It is there that the demand for capital will be greatest and the willingness to pay for it the highest. These are some of the same countries that have been major buyers of our government's rapidly growing levels of debt. As these countries switch from being net exporters of capital to being net importers, the cost of our capital will rise.



Of course, Congress's unwillingness to address the long-term structural issues that are raising our government's demand for capital to dangerous levels will also cause long-term rates to rise. That was the real message behind S&P's downgrade shot across the bow in April. Also putting upward pressure on interest rates will be the $1.4 trillion of mortgage-backed securities that mature by the end of 2014, with another $1 trillion by the end of 2018.

Mass customization is a trend that represents both a threat and an opportunity for franchising. A hundred years ago you could buy a car in your choice of black. Fifty years ago you could buy a car with three option packages. Today you can have a car made to your customized specifications. Customization will become the norm in the next decade, driven by Generation Now. The threat to franchising is that much of the franchise model is built around doing the same thing, the same way, each time. The opportunity is to successfully execute on the 1970s Burger King ads with the tagline, "Have it your way." It's doable—it just needs to be a major focus.

Two major demographic changes are coming in the next decade. Asian and Hispanic minorities are the fastest-growing race categories in the U.S. Hispanics are now the largest minority, not only nationwide but also in 191 metropolitan areas, up from 159 in 2000.

Further, we now have a barbell-shaped age demographic, with the fastest-growing concentrations in the over-55 and under-19 categories. While this represents a more difficult challenge for marketers of products that span generations (because the messaging needs to be so different for each), it creates significant opportunities for brands focusing on one side of the barbell because the two age extremes are very large.

The trends noted here are influencing how franchising is being conducted. Here are some of the changes I've observed during the past decade:

1) a greater emphasis on specialty sectors for both food and non-food, likely anticipating the previously described demographic trends;

2) the number of new franchise brands has dramatically increased since 2000;

3) specialty foods, fruit drinks, and three ethnic restaurant sectors represented the fastest-growing food sectors; and

4) of the service sectors with the fastest growth in franchise brands, three of the top four were in the healthcare and fitness categories.

Also, there has been consistent downward pressure on initial investment levels for existing brands. Although this likely has been the result of the economic downturn, it is a good thing to have under way as the cost of capital begins to rise in coming years.

Despite all the attention given to developing countries, the U.S. will continue to be the largest economy and dominant power in the world until at least 2020. For the next decade it also will be the second-highest contributor to global growth after China. The trends I've outlined will influence the future direction of franchising and the opportunities for multi-unit operators, and they are already well under way. Be mindful of the capital, customization, and demographic trends that will influence future consumer buying patterns as you prepare to make those 10-year bets. MUF

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